

Excerpt From
Presentation



“Diamond in the Rough” TIF and Tax Abatement 1

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What is TIF?

Defined within Minnesota Statutes 469.174 – 469.1794

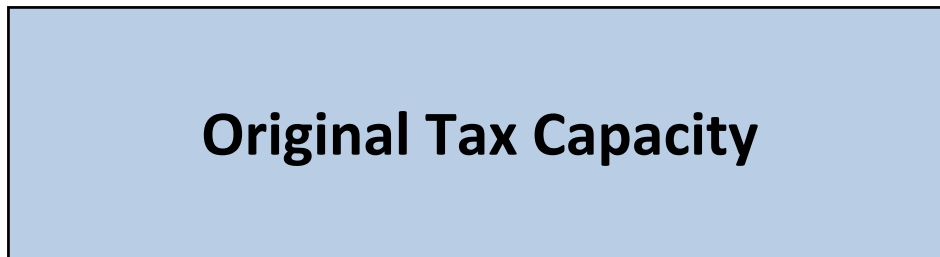
Working definition of Tax Increment Financing (TIF):

The ability to capture and use most of the increased local property tax revenues from new development within a defined geographic area for a defined period of time without approval of the other taxing jurisdictions.



Building Blocks of TIF

There is a starting property value in the TIF District when it is created (also called “base value”)



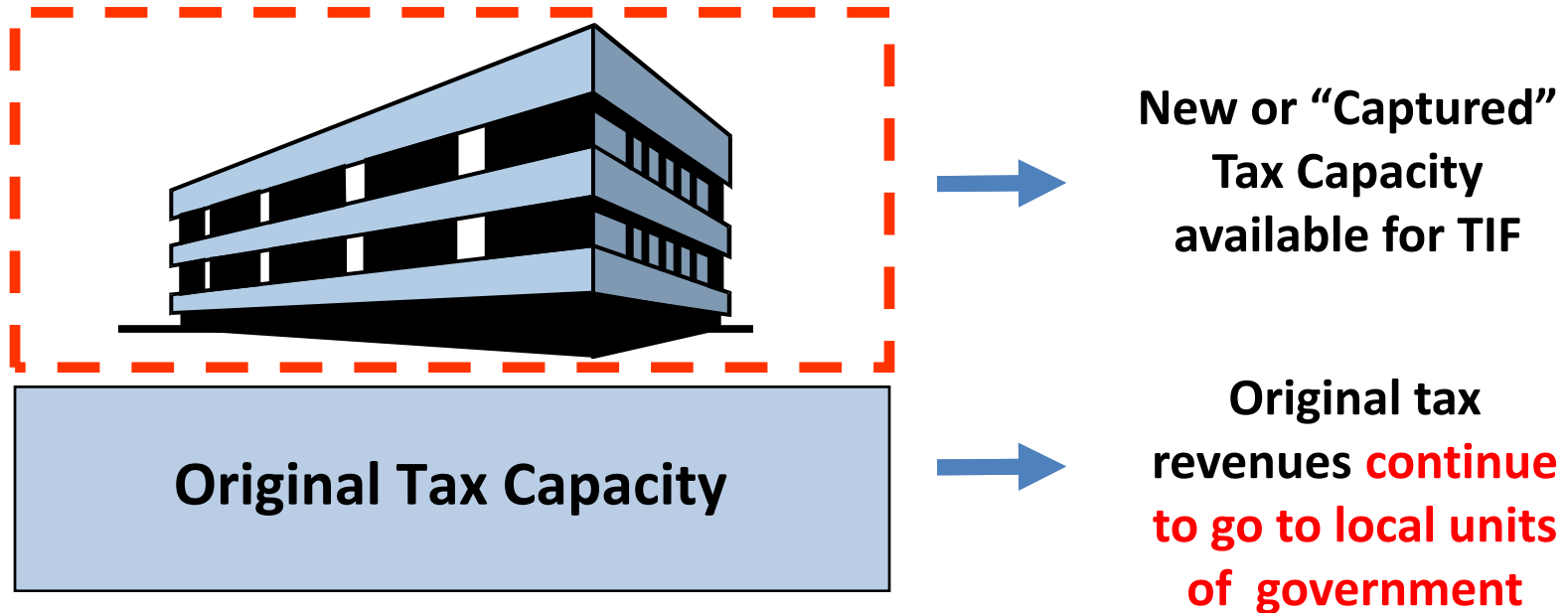
Tax revenues
currently funding
local units of
government



Building Blocks of TIF

Development Occurs = New Tax Capacity

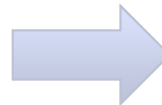
TIF District can “capture” the increased value from the new development



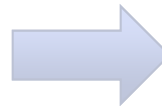
$$\text{TIF} = \text{Captured Tax Capacity} \times \text{Tax Rate}$$



Example: TIF Calculation for Commercial Use



Before Redevelopment	
Assessed Value	\$100,000
Current Property Taxes	
Total Property Taxes	\$2,875
City	\$400
County	\$300
School District	\$350
Other	\$50
Total Local Taxes	\$1,100
State Property Taxes	\$650
Fiscal Disparities Taxes	\$750
Market Value Taxes	\$375

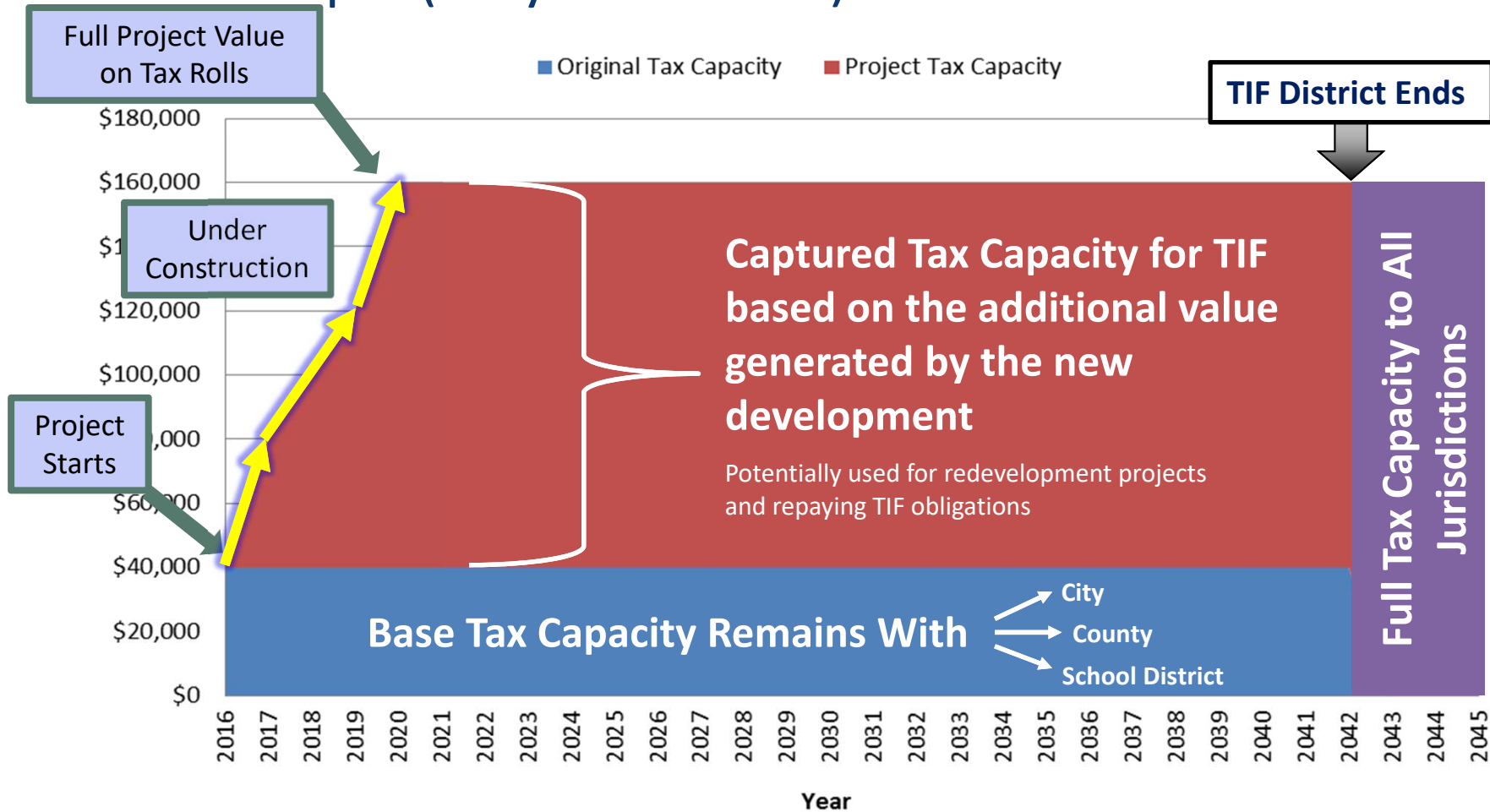


After Redevelopment	
New Assessed Value	\$1,000,000
New Property Taxes & TIF	
New Property Taxes	\$40,000
Less: Original Local Taxes	(\$1,625)
Less: New State Property Taxes	(\$9,500)
Less: New FD Taxes	(\$9,800)
Less: New Market Value Taxes	(\$4,100)
<i>Deductions from TIF:</i>	<i>(\$25,025)</i>
Annual Gross Potential TIF	\$14,975
Less: State Auditor Fee	(\$54)
Less: City Admin	(\$1,500)
Potential Net Annual TIF	\$13,421
% of Total Property Taxes	34%

Deductions



TIF Example (26-year District)





Tax Increment Financing Basics

TIF is only generated after a development adds value to a property

The project must still pay property taxes; TIF is not an exemption from paying property taxes

After a project is complete and the property is paying property taxes, the TIF portion can be paid to the development and/or retained by the public entity to reimburse qualified costs (the “TIF Obligation”)



TIF District Approval

Can be established by City, EDA, HRA or County

Requires adopting a TIF Plan and Project Area Plan

- Set forth policy objectives

- Define the geography

- Define the period of time

- Provide maximum budget authority for TIF revenues and expenditures

Must have approval of elected officials following public hearing

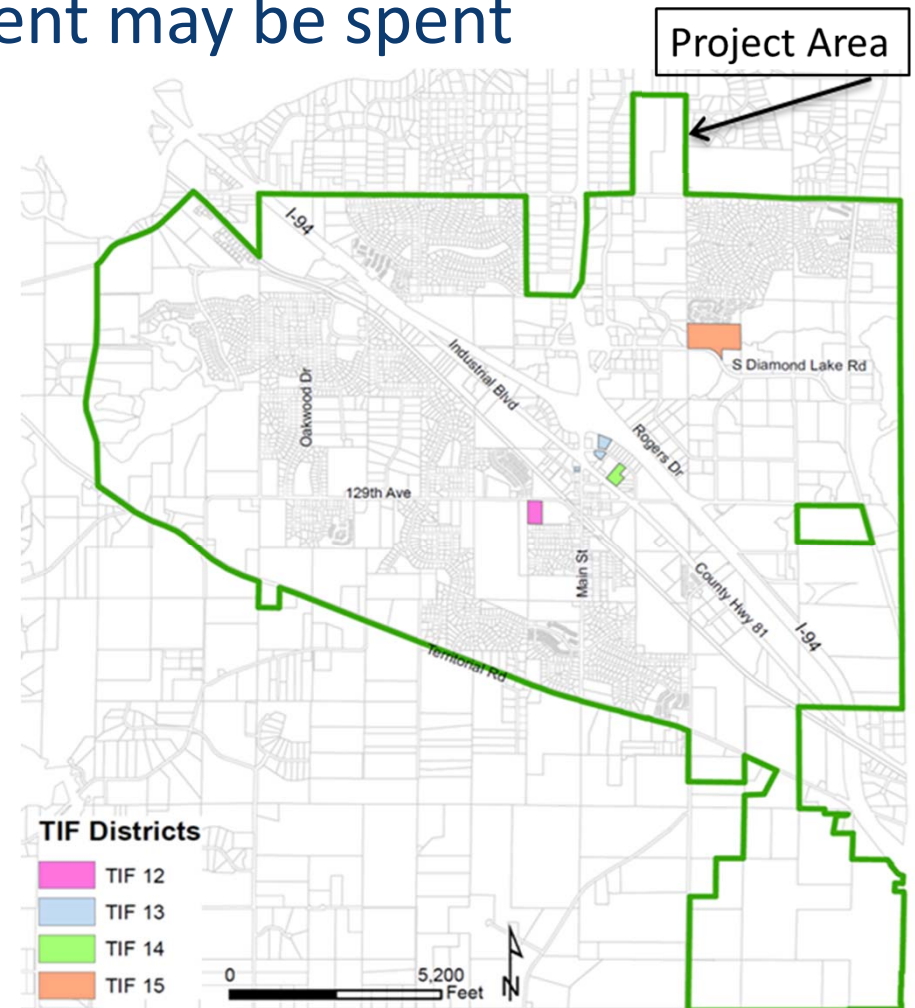


Project Area: Where increment may be spent

TIF Districts must be located in a Project Area or Development District

Multiple TIF Districts can be within a Project Area

Increment can be spent outside a TIF District, but within Project Area (aka “pooling”)



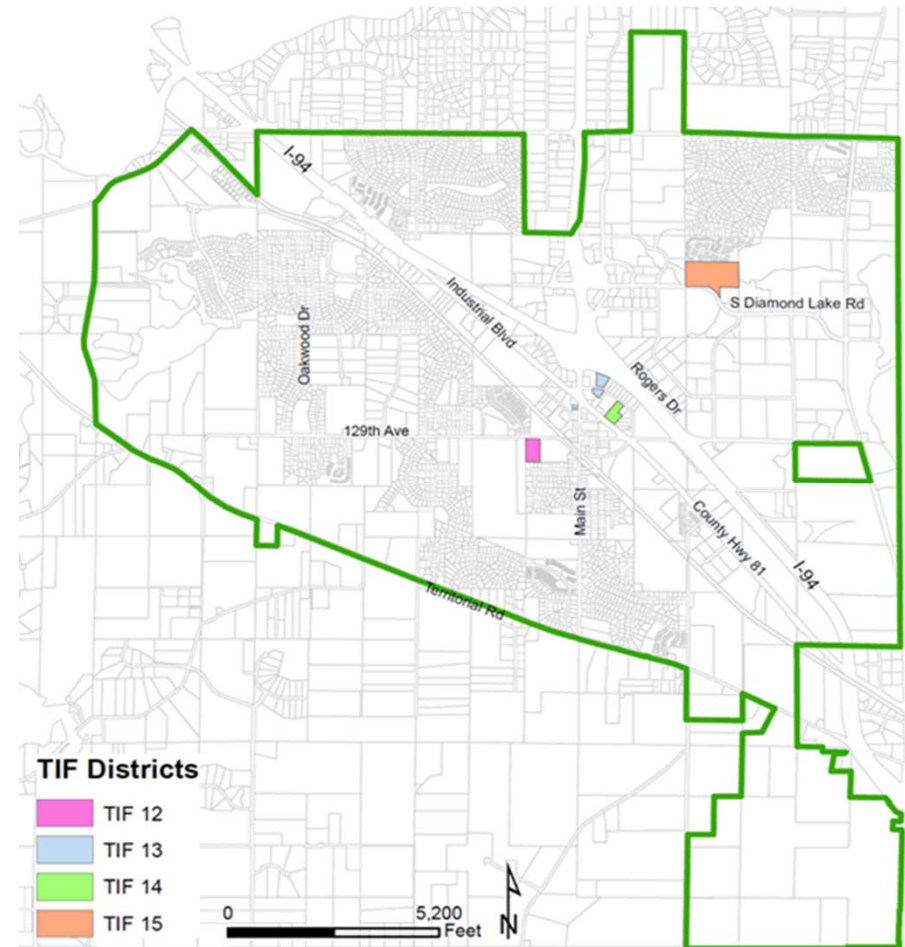


TIF District: Where increment is collected

Defines parcels whose increased value will be captured

Parcels do not have to be contiguous, but usually are

Must meet criteria in State law for type of District being established





Types of TIF Districts

Redo substandard / obsolete buildings

- Redevelopment TIF District

- Renovation and Renewal TIF District

Remediate contamination

- Soils TIF District

- Hazardous Substance Subdistrict

Make housing affordable

- Housing TIF District

Job and tax base creation

- Economic Development TIF District



How Can Increment Be Spent?

Must meet policy objectives established within the TIF Plan

Must be in TIF Plan Budget





How Can Increment Be Spent?

Must be costs associated with new development:

Land Acquisition

Demolition and Relocation

Site improvements

Utilities, Streets, Sidewalks

Environmental Clean-up

Parking

Buildings

Administration



“But For” Test

The development is only possible but for the use of tax increment (Elected body must make this finding)

Recommend analysis and documentation that the proposed project would not go forward without tax increment assistance.

- Reasons:
- Fiduciary responsibility
 - Document compliance with State Law
 - City policy
 - Public review by other taxing jurisdictions
 - Legal attack
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