



TIF Management

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TIF Management: Top 10 Dos & Don'ts

Keep everything

Don't comingle funds

Adopt interfund loan resolution before spending anything in TIF District

Document all Admin Costs (including staff time)

Document qualified costs, get copies of invoices from Developer

Keep executed copies of Developer Agreement & TIF Note

Document costs paid for projects outside TIF District

Monitor TIF budget to actual expenditures annually

Keep track of important TIF Dates

Understand implications of paying off in-district obligations

Information Certified by the County Auditor

District

- Frozen tax rate
- Fiscal disparities election (if applicable)
- Total original net tax capacity
- Certification request date on County records
- Prior planned Improvements
- County TIF District number

Parcel

- Parcel number list
- Original net tax capacity and market value
- M.S. 469.177 Subd. 1(a) requires certification within 30 days of receipt of request for certification

Common Certification Problems

- Parcels listed in plan don't match legal descriptions
 - ✓ Recommend PID number, if available
 - ✓ Need legal description if re-platting or partial PIN(s)
- Parcel list includes inactive & active parcels
 - ✓ May be an issue of timing or platting
- Parcel list doesn't match map
- Incomplete documentation received by County to verify County's checklist items

Key Administration Dates

- TIF Plan Approval by City Council
- Request for Certification
- County Auditor Certification
- First Receipt of Increment
- Expiration or Decertification



TIF Management: A Two-Step Process

Master District File



Annual District Calendar



Master District File

#1 rule in tax increment:

Never throw away records!



OSA guidance is to retain records for 10 years after the decertification or expiration of a TIF District.

TIF Management: Two Files & Two Calendars

Master District File

- TIF plan & district certification
- 4-Year knockdown provision
- Executed developer agreement & TIF note
- Documented costs
- Interfund loan resolution(s)
- Bond schedules

Annual TIF District File

- Frozen values & net tax capacity
- Current values & net tax capacity
- Annual expenditures
 - ✓ Admin and Capital costs
- Annual TIF Note Payments
 - ✓ Copies of check(s) and payment schedule(s)

Store documents in any convenient format.

Master District File: Basic Information

- One page summary
 - ✓ TIF District profile
 - ✓ Name & type of district
 - ✓ Significant dates
 - ✓ Certification information
 - ✓ Obligation information.

TIF District Profile

District Name _____
Project Area _____
District Type _____

Date Approved _____
Date Certification Requested _____
Date Certified _____
Date 1st Increment Received _____

District Duration in Plan _____
Estimated Decertification Year _____

Original Net Tax Capacity _____
Original Local Tax Rate _____
Limit on Pooling _____

District Subject to Fiscal Disparities? Yes No

Amendments: *Type* *Date* *Resolution #*

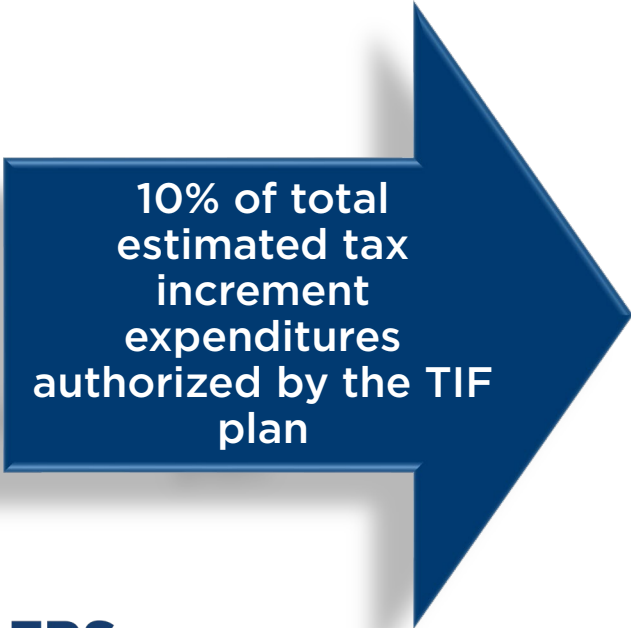
Notes / Comments

Master District File: TIF Budget

- Budget information
 - ✓ Document all revenues & expenditures
 - ✓ Document all costs inside & outside TIF District
 - Pooling requirements
 - ✓ Review budget periodically, modify as needed
 - Recommend annually
 - Don't exceed budgeted expenditures
 - Important step due to excess increment calculations & spend-down requirements

Master District File: Administrative Allotment

In districts for which certification was requested after July 31, 2001, it's the lesser of:



10% of total
estimated tax
increment
expenditures
authorized by the TIF
plan

-OR-



10% of total tax
increment

Master District File: Administrative Allotment

In districts for which certification was requested after June 30, 1982 & August 1, 2001, it's the lesser of:



10% of total
estimated tax
increment
expenditures
authorized by the TIF
plan

-OR-



10% of total tax
increment
expenditures for the
project

Master District File: Interfund Loan Resolutions

- Within 60 days of making any expenditure you want reimbursed with TIF
 - ✓ Includes administrative expenses incurred to establish TIF district
 - ✓ Follow-up with written terms and rates, if not specified in resolution
 - ✓ Monitor cash balances throughout the year. **Don't go negative!**

Master District File: Interfund Loan Resolutions

They are “insurance policies” against negative cash balances!

Just because you are authorized to spend up to a specific dollar amount doesn't mean you have to use it...



Master District File: Developer Agreements

Front End: Spells out terms Developer & City will follow to complete the project. Examples include...

Completion of
qualifying
activity
(Developer)

Reimbursement
of qualifying
costs (City)

TIF note terms

Time of
completion

Parcels included

May include job
& wage goals,
housing income
limits

Master District File: TIF Notes

Back End: Note executed once terms of Developer Agreement are satisfied...

- Documentation of qualified costs received
 - ✓ Keep copies of paid invoices
- Final note amount determined
 - ✓ May be < maximum amount in Developer Agreement
- Starts the clock to calculate interest
- Approved by TIF Authority
 - ✓ Recognized as a legal obligation

Master District File: 4-Year “Knockdown” Rule

Each parcel MUST have qualifying activity within 4 years of County Certification date...

Evidence must be submitted to County Auditor by 2/1 in 5th year



In accordance with TIF plan



Timing of qualifying activity with parcel divisions, new plat



No qualifying activity = parcel excluded from TIF calculation

Master District File: 4-Year “Knockdown” Rule

Qualifying activity includes:



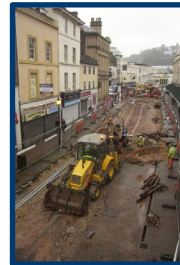
Demolition



Rehabilitation



Renovation



**Other site preparation
(e.g. street improvements)
Excludes utilities**

Master District File: 4-Year “Knockdown” Rule

If qualifying activity occurs on a “knocked down” parcel...

- Responsibility of City/Authority
- New base value at time of request
- Notify County Auditor as soon as qualifying activity occurs
 - ✓ If after buildout, base value will be too high
 - ✓ Loss of tax increment
- Check with County Auditor for reinstatement requirements

Master District File: 5-Year Rule

Post 1990 TIF Districts: Must have one of these obligations within 5 years of certification (M.S. 469.1763, Subd. 3)

Revenues paid to a third party

Bonds issued & sold to 3rd party

- Includes refundings

Binding contracts with 3rd party & revenues spent under contractual obligation

- Uncommon
- Example: Agreement with contractor stating activity to be paid with TIF revenue

Activity costs paid within 5 years & contract reimburses a party

- Interfund loan if City/Authority makes expenditures
- Standard PAYGO contract or interfund loan

Master District File: 5-Year Rule

Post 1990 TIF Districts:

Consequence of not meeting one of the requirements is that the money is deemed spent outside the district, even if it is spent within.

Pooling expenses are segregated on annual TIF reports.



The 5-year rule is intertwined with pooling provisions.

Pooling Outside the District

Can pool 20% (economic development, renewal & renovation) to 25% (redevelopment) outside TIF District

Must be spent within Project Area

Can be spent in any other TIF District or in no district

Spending **MUST** comply with all rules applicable to source district

This means pooled increment from a redevelopment district must meet “4j” rules and pooled increment from an economic development district must be used for other manufacturing and warehouse projects or public infrastructure that supports these uses.

Master District File: 6-Year Rule

Use of Revenues
For Decertification

Minnesota Statutes
Section 31 (469.1763 Subd. 4)

In each year beginning in the sixth year following certification of the district, if the “in-district” percentage exceeds the costs spent on in-district obligations, the difference between the in-district percentage of TIF and in-district expenditures must be used to pay or defease or set aside to pay bonds and contracts that met the 5-Year Rule, or for housing

- A consequence of the 5-year rule
- Generally, not an issue for single-use districts where municipality provides 90% of TIF
- Can present challenges for larger redevelopment districts with multiple parcels being developed & no TIF pledged

Master District File: 6-Year Rule

What must be paid beginning in year 6:

Outstanding bonds
issued in first 5 years

Contracts executed
within first 5 years
where costs were spent
within 5 years

Credit enhanced bonds
(rarely used)

Amount provided by
TIF plan to pay for
housing activities
(housing district or
10% extra pooling rule)

Master District File: 6-Year Rule

Use of Revenues
For Decertification

Minnesota Statutes
Section 31 (469.1763 Subd. 4)

The district must be decertified and the pledge of tax increment discharged when the outstanding bonds have been defeased and sufficient money has been set aside to pay (based on the increment to be collected through the end of the calendar year) the following amounts:

- Bonds & contracts that met 5-Year Rule
- Amount specified in TIF plan for additional housing, if housing district
- Additional expenditures permitted by TIF plan when authority elects to pool for tax credit-eligible/owner-occupied affordable housing (including up to 10% extra)

Overall District File: 6-Year Rule

After all the initial “first 5 year” bonds and contracts are paid, you must decertify the district unless:

It's a housing district & affordability covenant still in place

Authority elected extra 10% pooling for housing

- Even if district must be decertified, balances may still be spent within TIF plan & pooling limits
- To ensure ability to use extra 10% on housing, you must confirm TIF plan authorizes before you decertify

Overall District File: Decertification

Expired district: Two ways to do it...

1. County monitors: Automatic decertification at expiration
 2. City monitors: Requests decertification
- OSA “Confirmation of Decertified TIF District Form”
 - Outstanding obligations due to delinquent taxes
 - ✓ Excludes PAYGO
 - ✓ Notify County that obligations would go unpaid without delinquent taxes

Overall District File: Decertification

Early Decertification:

Shorter duration specified in TIF plan



No outstanding obligations



Sufficient funds on hand



Requested through resolution



Include date of decertification



Annual District File: Calendar

January

- Determine PAYGO payment due February 1st

February

- Make bond payments
- Verify & make PAYGO payments
- Pay 2nd half interfund loans

March

- Complete business subsidy reporting
- https://mn.gov/deed/assets/mbaf-fillable_tcm1045-132596.pdf

Annual District File: Calendar

June

- Make any June bond payments

July

- Complete OSA annual TIF reporting
- Make bond payments
- Verify & make PAYGO payments
- Pay 1st half interfund loans

August

- Publish annual disclosure

Annual District File: Calendar

September

- Review budget for compliance with TIF plan, modify as needed

December

- Make December bond payments
- Verify funds for February are escrowed
- Make final accounting entries
- Request compliance documentation for economic development & housing districts, business subsidy reporting

Annual District File: Administrative Costs

- Document & archive
 - ✓ Annual invoices
 - ✓ Staff time
- Pay yourself first
 - ✓ Pay as you incur costs
 - ✓ Interfund loan resolution MUST be adopted no later than 60 days after funds are transferred, advanced or spent if insufficient fund balances
 - ✓ Don't segregate somewhere else

Annual District File: Tax Settlement Oddities

Base rate excess increment

- NOT increment
- Occurs when current tax rate exceeds frozen tax rate
- Difference is distributed to County, City & School District
- Included in tax statement on “Tax Increment” line

TIF revenue exceeds costs authorized by TIF plan

- Excess increment
- Calculated on page 17 of OSA’s annual TIF reporting form
- May result in returning tax increment to County

Increment returned to County for other reasons

- NOT increment
- Closing fund, pooling calculations
- Distributed to County, City & School District

3 types of “Excess” increment

Annual District File: Tax Settlement Oddities

Sooo....what do we DO with “excess” increment when we see it on our tax settlement?

“Excess” Tax Increment is NOT Tax Increment

If you see this on your tax settlement, you can put it in ANY fund except your Tax Increment Fund(s)



Annual District File: Tax Settlement Oddities

Tax Court Petitions & TIF:

Property owner contests valuation, tax court reduces market value:

- Petitions can take years to resolve
- If settled, County pays refund out of TIF in next tax settlement
- Could result in negative tax settlement amount for TIF District

Potential Issues:

- Overpayment of PAYGO Note(s)
- TIF District is now decertified & fund closed
- Negative Cash balance in TIF fund
- Pending petitions should be provided by County Attorney

Annual District File: PAYGO Notes

- Payment schedules may vary according to:
 - ✓ Date interest begins to accrue, if at all
 - Many TIF notes = simple, non-compounding interest
 - ✓ Final payment dates
 - Track principal & interest amounts paid
 - Know outstanding balance, don't overpay
 - ✓ Payment priorities ahead of PAYGO note
 - If City bonds are issued in conjunction, development agreement will state priority pledge of TIF

Annual District File: PAYGO Notes

- Don't use tax statement to determine TIF revenue
 - ✓ Use actual TIF received with tax settlement
 - ✓ Presents challenges if only a few parcels inside district included in TIF note.
 - ✓ County calculates TIF as a whole, not by parcel
- Make sure all parcels paid taxes, verify amounts
 - ✓ Review semi-annually before TIF payment is made
- Check market values against Minimum Assessment Agreement, if applicable
 - ✓ Assessors don't always catch
 - ✓ Inform County when values are off

Annual District File: PAYGO Notes

- May be in default of Development Agreement
 - ✓ Remedy may be to withhold all or portion of TIF payment until rectified
- Multiple notes
 - ✓ Calculate PAYGO amount on a by-parcel basis
 - ✓ Tie all obligations back to a single value generated by District
 - ✓ Non-performance by one development can negatively impact others

Annual District File: Housing Income Limits

- Rental vs. owner-occupied
 - ✓ Annual for rental projects
 - 20/50 or 40/60
 - ✓ 1st buyer on owner-occupied
 - 95% of units at either 100% AMI (2 or less persons) or 115% AMI of AMI (3 or more)
- City or Authority must monitor
 - ✓ 3rd party reports

Annual District File: Housing Income Limits

- Require annual certification of compliance
 - ✓ Rental projects = same documentation submitted to MHFA if a tax credit initiative
- Future audit may require documentation
- Statutory non-compliance impacts (return TIF)

Annual District File: TIF Reporting

- TIF Plans: Due to Department of Revenue & OSA within 60 of filing for certification with County
 - ✓ Plan Collection Form “PCN” for new districts, “PCM” for modified
- Annual reports for each district due August 1st
 - ✓ Finance & Community Development staff collaborate to ensure reports match intended uses
 - ✓ Failure to submit may lead to withholding of increment
- Pooled debt reports due for each outstanding pooled bond August 1st
- SAFES Authorization form, if reports completed by consultant

Modifying a TIF Plan: Full Modification

Reasons for Full Modification:

Increasing geographic boundaries of TIF District within 5 years

Determination to capitalize interest

Increasing bond indebtedness (bonds, PAYGO notes, interfund loans)

Increasing portion of captured net tax capacity to be retained (removing “negative drag” parcels from District)

Increasing project costs, including admin. (rising interest costs doesn't trigger full modification)

Expanding or reducing Project Area

Designating additional parcels for acquisition
(look closely at original designations)

**Public hearing & notification process required,
same as creating new TIF District**

Modifying a TIF Plan: Minor Modification (Admin)

- Any case where full modification not required
 - ✓ Change in authorized uses within overall budget
 - Interest not interchangeable with capital costs
 - ✓ Removing parcels
 - Current tax capacity > original tax capacity
 - ✓ Pooling for affordable housing (extra 10%)
 - As long as within budget
 - ✓ Accomplished by resolution

**Both modification types must be filed with
County, Department of Revenue & OSA**

Modifying a TIF Plan:

Temporary Spending Authority: New for 2021

Allows TIF authorities to designate unobligated TIF through 12/31/22 and transfer to another account

Construction must begin before 12/31/25 & be expended by 12/31/25

Unspent TIF has to go back to “giving” districts and if decertified, returned to County for redistribution

Modifying a TIF Plan:

Temporary Spending Authority: Requirements

- Must account for any 2nd half 2022 payments due in 2023
- Must adopt a spending plan
- Any unspent dollars to be returned to TIF fund(s)
 - ✓ Any allocation between funds acceptable, amounts cannot exceed initial transfer out
 - ✓ If source district decertifies before 12/31/25, unspent increments redistributed to taxing authorities
- May have TIF reporting requirements! Stay tuned for further OSA guidance

Let's Talk!



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