



# From Concept to Creation

Tax Increment Financing 101

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# Many Methods to Encourage Development

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**Area Studies**  
(City's intent,  
grants)

**Clarify Entitlement  
and Subsidy  
Process**  
(certainty)

**Entitlement  
Changes**  
(e.g., less parking)

**Borrowing at  
Lower Interest**  
(HIA or special  
assessments)

**Grants**  
(internal or  
external)

**Tax Increment  
Financing**  
(TIF)

# Why Consider Providing Financial Assistance?

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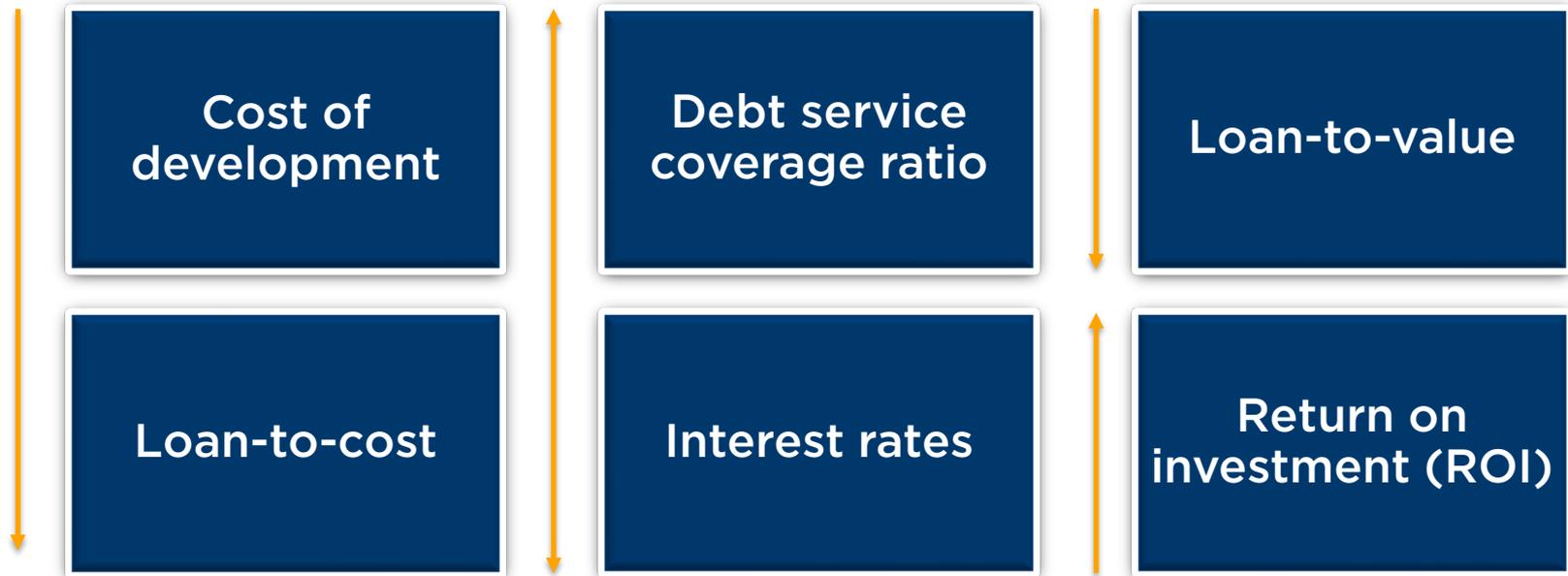
## Fill a Financing Gap

- Encourage development that normally wouldn't occur without assistance (“but for”)
- To do what the market won't do on its own
- Only ‘nudge’ markets, can't create markets

# How does Financial Assistance help?

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## Proforma Review



# Financial Assistance via TIF

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TIF can be used to...

Create or  
retain **jobs**

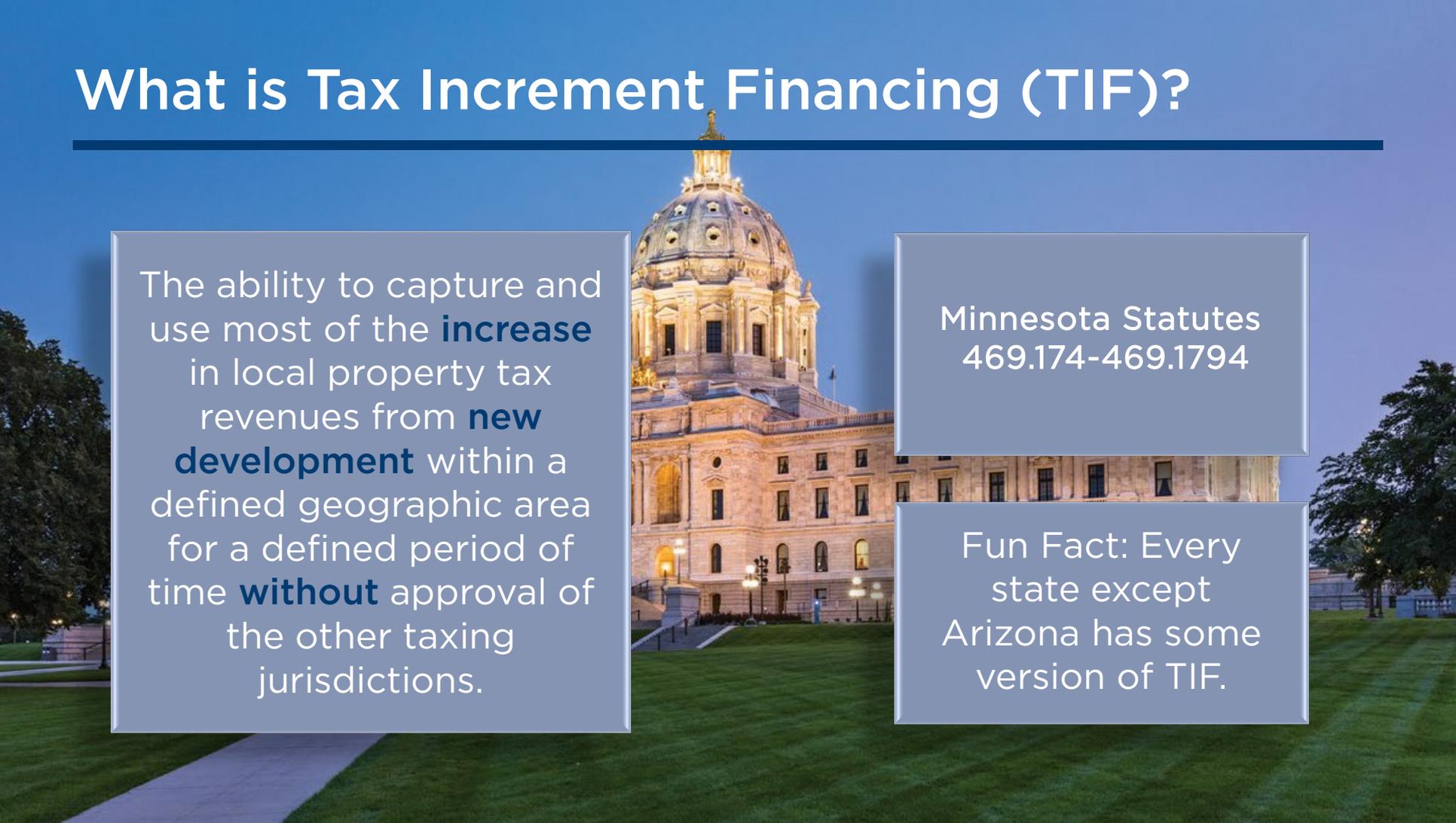
Redevelop  
**blighted**  
areas

Remediate  
**polluted**  
sites

Construct  
affordable  
**housing**

Increase or  
diversify **tax**  
**base**

# What is Tax Increment Financing (TIF)?



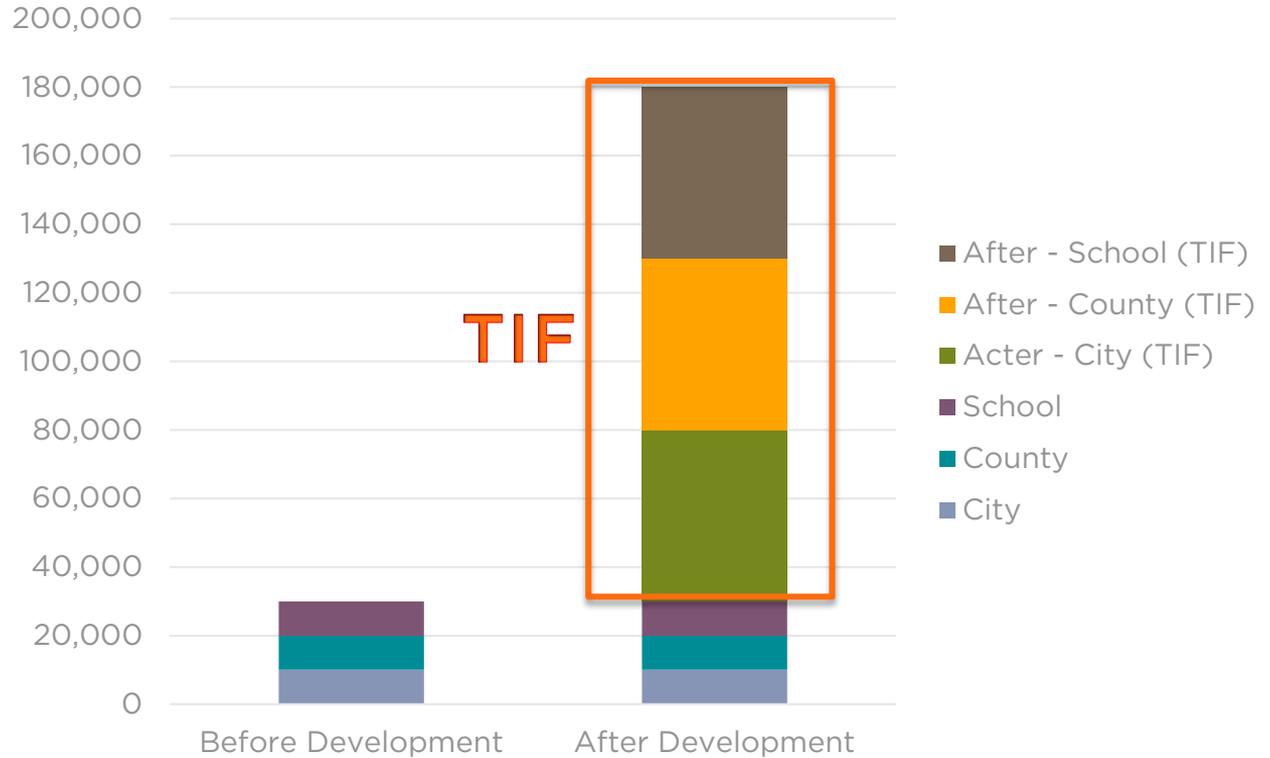
The ability to capture and use most of the **increase** in local property tax revenues from **new development** within a defined geographic area for a defined period of time **without** approval of the other taxing jurisdictions.

Minnesota Statutes  
469.174-469.1794

Fun Fact: Every state except Arizona has some version of TIF.

# What is TIF? (Residential Example)

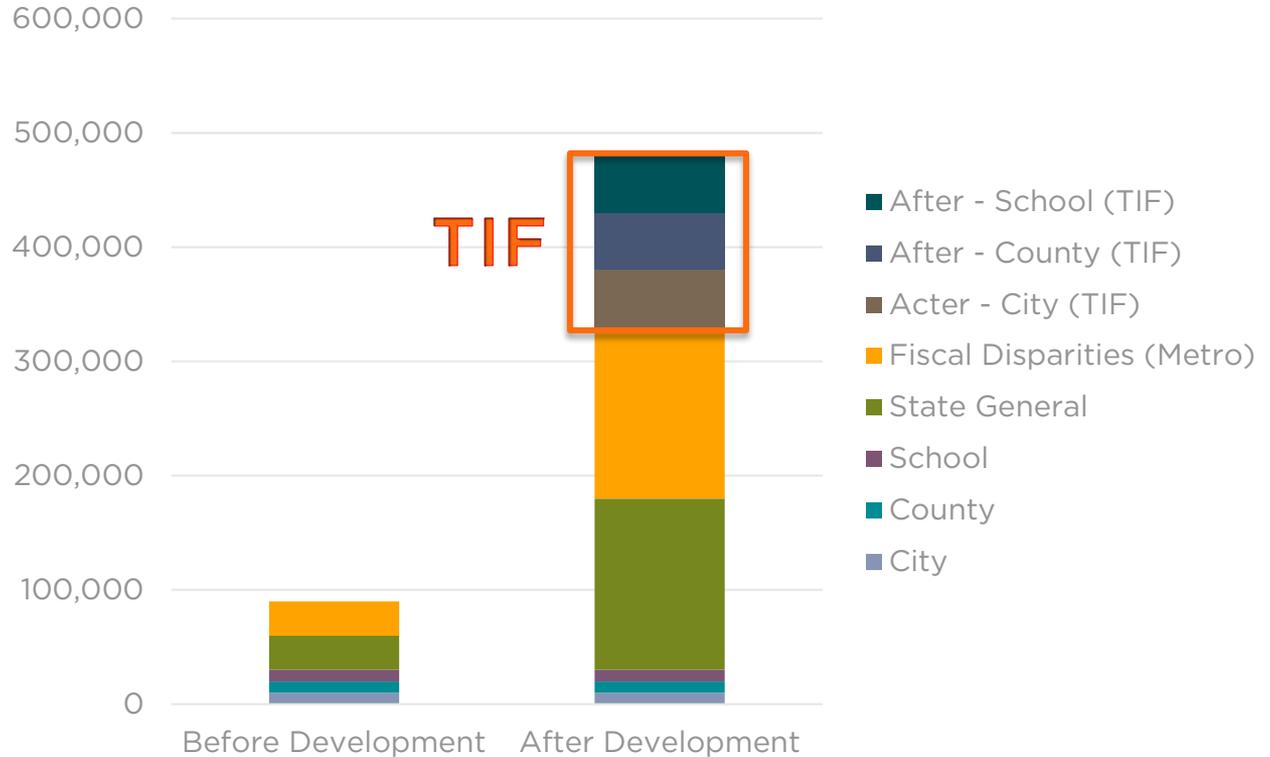
- Market Value
- Property Taxes
- Tax Capacity  
(Frozen Tax Rate)



School, County, and City Taxes shown; smaller taxing jurisdictions not shown for clarity.

# What is TIF? (Commercial Example)

- Market Value
- Property Taxes
- Tax Capacity  
(Frozen Tax Rate)



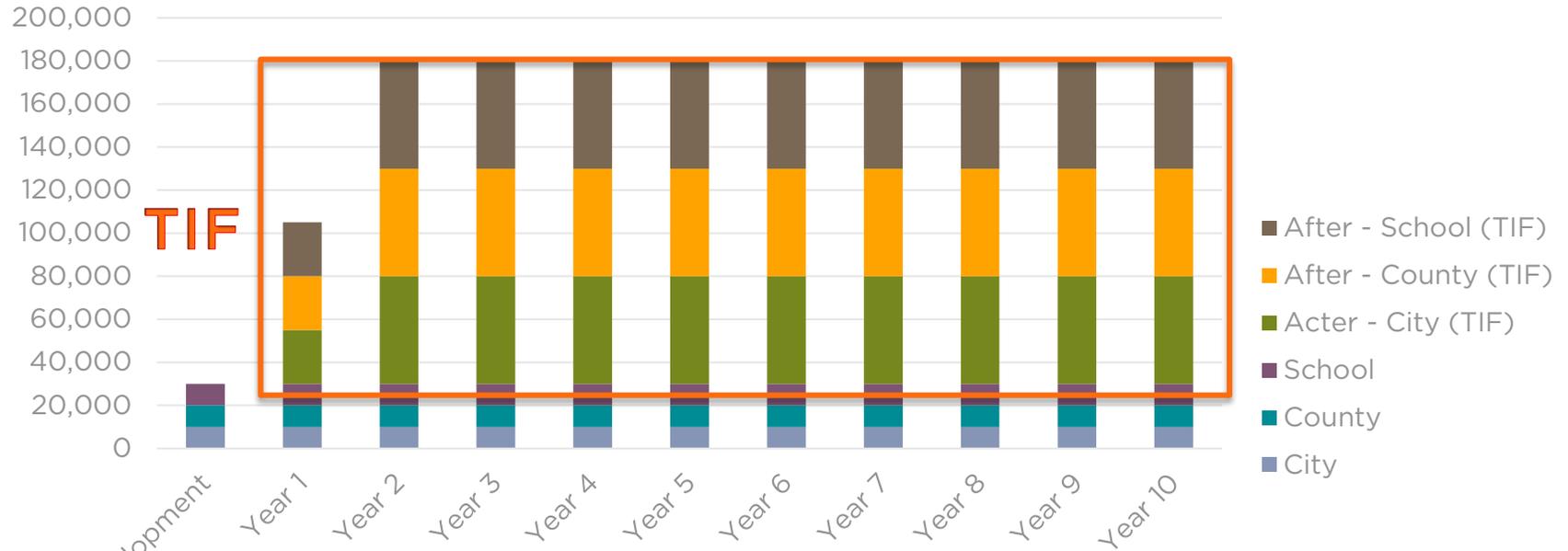
School, County, and City Taxes shown; smaller taxing jurisdictions not shown for clarity

# What is Excluded from TIF?

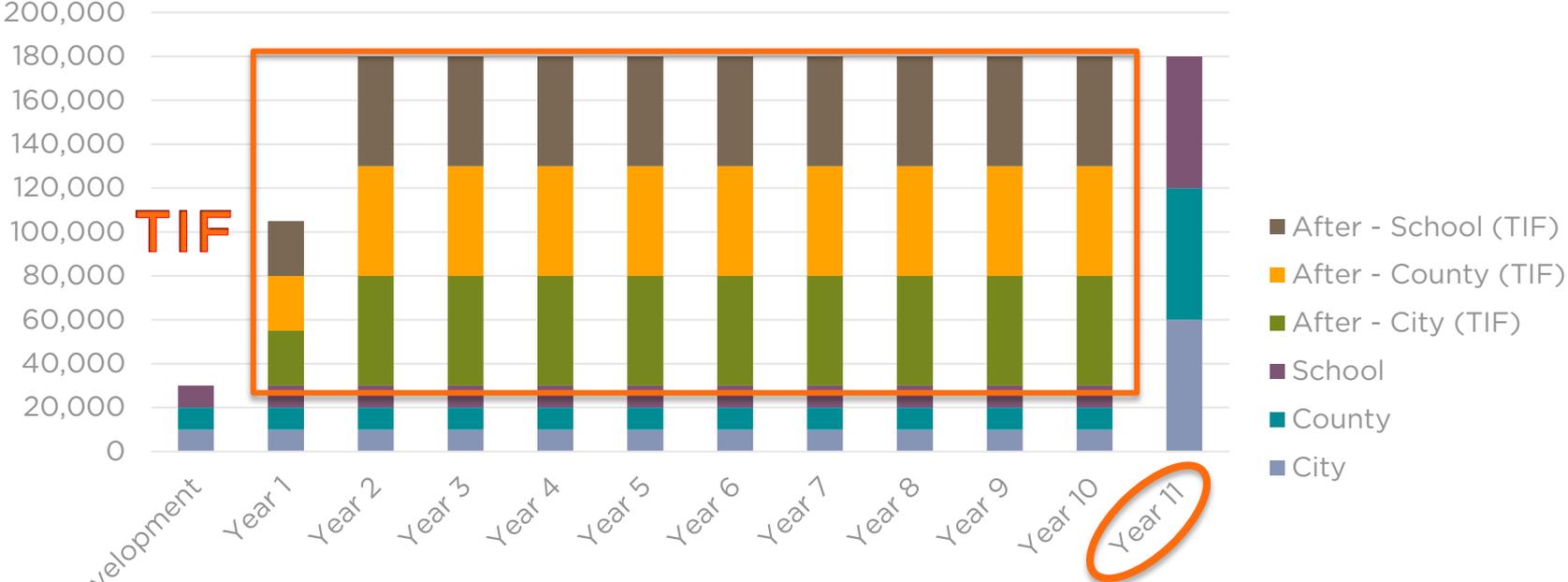
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- Base Value
- State-wide Taxes
- Market Referendum Taxes
- Fiscal Disparities Adjustment
  - ✓ Can be excluded or included depending upon City selection
  - ✓ Best practice is to exclude

# TIF: 10-Year Residential Example



# Decertification: Taxes, Tax Capacity Back to Normal



# Types of TIF Districts

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- Redevelopment
- Renovation & Renewal
- Housing
- Economic Development
- Soils

Fun Fact: Some states get TIF from sales taxes as opposed to property taxes

# Redevelopment TIF Districts

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- **Goal**
  - ✓ Clean up blighted sites & remove substandard buildings
- **Maximum Term**
  - ✓ 25 years from receipt of first increment (26 years total)
- **Establishment Requirements**
  - ✓ Coverage test
  - ✓ Blighted building test
  - ✓ Reasonable distribution

# Redevelopment Districts: Coverage Test

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- 70% of parcels must be occupied by:
  - ✓ Buildings
  - ✓ Streets
  - ✓ Utilities
  - ✓ Paved or gravel parking lots
  - ✓ ...or other similar structures
- Parcel must be 15% covered to be considered “occupied”

# Redevelopment Districts: Coverage Test - PASS

Parcel #	Site Area (Sq. Ft.)	Site Coverage (Sq. Ft.)	Coverage of Improvements (%)	Coverage Quantity (Sq. Ft.)
1	30,000	20,000	66.7%	30,000
2	200,000	150,000	75.0%	200,000
3	140,000	20,000	14.3%	0
4	850,000	150,000	17.6%	850,000
5	400,000	200,000	50.0%	400,000
6	120,000	15,000	12.5%	0
7	50,000	30,000	60.0%	50,000
8	55,000	8,000	14.5%	0
9	10,000	0	0.0%	0
10	100,000	0	0.0%	0
<b>TOTALS</b>	<b>1,955,000</b>			<b>1,530,000</b>
<b>Total Percent of Coverage (&gt;70%)</b>				<b>78.3%</b>

# Redevelopment Districts: Coverage Test - FAIL

Parcel #	Site Area (Sq. Ft.)	Site Coverage (Sq. Ft.)	Coverage of Improvements (%)	Coverage Quantity (Sq. Ft.)
1	30,000	20,000	66.7%	30,000
2	200,000	150,000	75.0%	200,000
3	140,000	40,000	28.6%	140,000
4	850,000	150,000	17.6%	850,000
5	400,000	15,000	3.8%	0
6	120,000	15,000	12.5%	0
7	50,000	30,000	60.0%	50,000
8	55,000	10,000	18.2%	55,000
9	10,000	0	0.0%	0
10	100,000	0	0.0%	0
<b>TOTALS</b>	<b>1,955,000</b>			<b>1,325,000</b>
<b>Total Percent of Coverage (&gt;70%)</b>				<b>67.8%</b>

# Redevelopment Districts: Blighted Building Test

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**More** than 50% of buildings must be “**structurally substandard.**”

- ✓ Defined as containing defects in structural elements or combination of deficiencies in essential utilities & facilities
- ✓ Cost to bring building into compliance with today’s building code must be **more than** 15% of the cost to construct a new structure of same type & square footage
- ✓ Consultant typically utilized, some do this internally

**Fun Fact: The definition of “Structurally Substandard” is the same for Renewal and Renovation Districts**

# Redevelopment Districts: Blighted Building Test

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Interior inspection is required **unless**...

1. City cannot gain access to property after best efforts to gain permission from owner.

**-AND-**

2. There's enough evidence to support reasonable conclusion that property is structurally substandard (i.e. exterior inspection, review of property records & building permits).

Remember, just because a building is structurally substandard **does not** mean it's uninhabitable or hazardous to occupants.

# Redevelopment Districts: Blighted Building Test

## PASS Example:

Parcel #	No. of Buildings	Building Replacement Cost	15% of Replacement Cost		Building Code Deficiencies	No. of Buildings Exceeding 15%	No. of Substandard Buildings
1	1	1,500,000	225,000	<	600,000	1	1
2	1	2,000,000	300,000	<	650,000	1	1
3	1	800,000	120,000	<	450,000	1	1
4	1	3,500,000	525,000	<	800,000	1	1
5	1	900,000	135,000	>	25,000	0	0
6	1	1,600,000	240,000	>	100,000	0	0
7	1	600,000	90,000	<	100,000	1	1
8	1	7,000,000	1,050,000	>	20,000	0	0
9	0	-	-		-	-	-
10	0	-	-		-	-	-
<b>TOTALS</b>	<b>8</b>						<b>5</b>

Percent of Buildings Structurally Substandard ("More" than 50%)

62.5%

# Redevelopment Districts: Blighted Building Test

## FAIL Example:

Parcel #	No. of Buildings	Building Replacement Cost	15% of Replacement Cost		Building Code Deficiencies	No. of Buildings Exceeding 15%	No. of Substandard Buildings
1	1	1,500,000	225,000	<	600,000	1	1
2	1	2,000,000	300,000	<	650,000	1	1
3	1	800,000	120,000	<	450,000	1	1
4	1	3,500,000	525,000	>	350,000	0	0
5	1	900,000	135,000	>	25,000	0	0
6	1	1,600,000	240,000	>	100,000	0	0
7	1	600,000	90,000	<	100,000	1	1
8	1	7,000,000	1,050,000	>	20,000	0	0
9	0	-	-		-	-	-
10	0	-	-		-	-	-
<b>TOTALS</b>	<b>8</b>						<b>4</b>
<b>Percent of Buildings Structurally Substandard ("More" than 50%)</b>						<b>50.0%</b>	

# Redevelopment Districts: Blighted Building Test

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## Scenarios:

Scenario	No. of Buildings	No. of Substandard Buildings	% of Buildings Structurally Substandard	Meets Blight Test?
1	1	0	0%	No
2	1	1	100%	Yes
3	2	1	50%	No
4	2	2	100%	Yes
5	3	1	33%	No
6	3	2	67%	Yes
7	3	3	100%	Yes

# Redevelopment Districts: Reasonable Distribution

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# Redevelopment Districts: Unreasonable Distribution

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# Renewal & Renovation TIF Districts

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- **Goal**
  - ✓ Clean up blighted sites & remove substandard buildings
- **Maximum Term**
  - ✓ 15 years from receipt of first increment (16 years total)
- **Establishment Requirements**
  - ✓ Coverage test
  - ✓ Blighted building test
  - ✓ Reasonable distribution

# Renewal & Renovation Districts: Coverage Test

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- 70% of parcels must be occupied by:
  - ✓ Buildings
  - ✓ Streets
  - ✓ Utilities
  - ✓ Paved or gravel parking lots
  - ✓ ...or other similar structures
- Parcel must be 15% covered to be considered “occupied”

Fun Fact: As of 2022 there were only 27 Renewal and Renovation districts.

# Renewal & Renovation Districts: Coverage Test

## PASS Example:

Parcel #	Site Area (Sq. Ft.)	Site Coverage (Sq. Ft.)	Coverage of Improvements (%)	Coverage Quantity (Sq. Ft.)
1	30,000	20,000	66.7%	30,000
2	200,000	150,000	75.0%	200,000
3	140,000	30,000	21.4%	140,000
4	850,000	150,000	17.6%	850,000
5	400,000	200,000	50.0%	400,000
6	120,000	15,000	12.5%	0
7	50,000	30,000	60.0%	50,000
8	55,000	8,000	14.5%	0
9	10,000	-	0.0%	0
10	100,000	-	0.0%	0
<b>TOTALS</b>	<b>1,955,000</b>			<b>1,670,000</b>
<b>Total Percent of Coverage (&gt;70%)</b>				<b>85.4%</b>

# Renewal & Renovation Districts: Coverage Test

## FAIL Example:

Parcel #	Site Area (Sq. Ft.)	Site Coverage (Sq. Ft.)	Coverage of Improvements (%)	Coverage Quantity (Sq. Ft.)
1	30,000	20,000	66.7%	30,000
2	200,000	150,000	75.0%	200,000
3	140,000	20,000	14.3%	0
4	850,000	100,000	11.8%	0
5	400,000	15,000	3.8%	0
6	120,000	15,000	12.5%	0
7	50,000	30,000	60.0%	50,000
8	55,000	10,000	18.2%	55,000
9	10,000	-	0.0%	0
10	100,000	-	0.0%	0
<b>TOTALS</b>	<b>1,955,000</b>			<b>335,000</b>
<b>Total Percent of Coverage (&gt;70%)</b>				<b>17.1%</b>

# Renewal & Renovation Districts: Blighted Building Test – Structurally Substandard

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**20%** or more of buildings must be “**structurally substandard.**”

- ✓ Defined as containing defects in structural elements or combination of deficiencies in essential utilities & facilities
- ✓ Cost to bring building into compliance with today’s building code must be **more than** 15% of the cost to construct a new structure of same type & square footage
- ✓ Consultant typically utilized, some do this internally

Fun Fact: The definition of “Structurally Substandard” is the same for Redevelopment Districts

# Renewal & Renovation Districts: Blighted Building Test – Substantial Renovation

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- 30% of all other buildings must require substantial renovation or clearance to “remove existing conditions” defined as:

Inadequate street layout

Incompatible uses or land use relationships

Overcrowding of buildings on property

Excessive dwelling unit density

Obsolete buildings not suitable for improvement or conversion

Other hazards to community health, safety & well-being

# Renewal & Renovation Districts: Blighted Building Test

## FAIL Example:

Parcel #	No. of Buildings	Building Replacement Cost	15% of Replacement Cost		Building Code Deficiencies	No. of Buildings Exceeding 15%	No. of Substandard Buildings	No. of Obsolete Buildings
1	1	1,500,000	225,000	>	200,000	0	0	0
2	1	2,000,000	300,000	>	250,000	0	0	1
3	1	800,000	120,000	<	450,000	1	1	0
4	1	3,500,000	525,000	>	500,000	0	0	1
5	1	900,000	135,000	>	25,000	0	0	1
6	1	1,600,000	240,000	>	100,000	0	0	1
7	1	600,000	90,000	>	75,000	0	0	0
8	1	7,000,000	1,050,000	>	20,000	0	0	0
9	0	-	-		-	0	0	0
10	0	-	-		-	0	0	0
<b>TOTALS</b>	<b>8</b>						<b>1</b>	<b>4</b>
<b>Percent of Buildings Structurally Substandard (&gt;20%)</b>							<b>12.5%</b>	
<b>Percent of Buildings Requiring clearance to remove existing conditions (&gt;30%)</b>								<b>50.0%</b>

# Renewal & Renovation Districts: Blighted Building Test

## PASS Example:

Parcel #	No. of Buildings	Building Replacement Cost	15% of Replacement Cost		Building Code Deficiencies	No. of Buildings Exceeding 15%	No. of Substandard Buildings	No. of Obsolete Buildings
1	1	1,500,000	225,000	<	600,000	1	1	0
2	1	2,000,000	300,000	<	650,000	1	1	0
3	1	800,000	120,000	<	450,000	1	1	0
4	1	3,500,000	525,000	<	800,000	1	1	0
5	1	900,000	135,000	>	25,000	0	0	1
6	1	1,600,000	240,000	>	100,000	0	0	1
7	1	600,000	90,000	<	100,000	1	1	0
8	1	7,000,000	1,050,000	>	20,000	0	0	1
9	0	-	-		-	0	0	0
10	0	-	-		-	0	0	0
<b>TOTALS</b>	<b>8</b>						<b>5</b>	<b>3</b>

Percent of Buildings Structurally Substandard (>20%) **62.5%**  
 Percent of Buildings Requiring clearance to remove existing conditions (>30%) **37.5%**

# Renewal & Renovation Districts: Blighted Building Test

## Scenarios:

Scenario	No. of Buildings	No. of Substandard Buildings	% of Buildings Structurally Substandard	No. of Obsolete Buildings	% of Buildings Obsolete	Meets Blight Test?
1	1	0	0%	0	0%	No
2	1	0	0%	1	100%	No
3	1	1	100%	0	0%	Yes
4	2	0	0%	1	50%	No
5	2	1	50%	0	0%	Yes
6	2	1	50%	1	50%	Yes
7	3	1	33%	0	0%	No
8	3	1	33%	1	33%	Yes
9	3	0	0%	3	100%	No

# Renewal & Renovation: Blighted Building Test

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Interior inspection is required **unless**...

1. City cannot gain access to property after best efforts to gain permission from owner.

**-AND-**

2. There's enough evidence to support reasonable conclusion that property is structurally substandard (i.e. exterior inspection, review of property records & building permits).

Remember, just because a building is structurally substandard **does not** mean it's uninhabitable or hazardous to occupants.

# Renewal & Renovation Districts: Reasonable Distribution

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# Renewal & Renovation Districts: Unreasonable Distribution

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# Redevelopment vs. Renewal & Renovation

	Renewal and Renovation	Redevelopment
Coverage Test	70%	70%
Occupied Parcel	15%	15%
<b>Blighted Building Test (Structurally Substandard)</b>	30%	50%
Buildings Require <b>Substantial Renovation</b> *	20%	
Distribution of Parcels	Reasonable	Reasobable
Use of Funds	Correct Conditions	Correct Conditions
Duration of District	15/16	25/26

\* or clearance

# Housing TIF Districts

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- **Goal**
  - ✓ Create rental or owner-occupied housing for low- to moderate-income households
- **Maximum Term**
  - ✓ 25 years from receipt of first increment (26 years total)
- **Establishment Requirements**
  - ✓ Rental
  - ✓ Owner-occupied
  - ✓ Commercial restriction

*Each has very specific parameters!*

# Housing Districts: Establishment Requirements

## Rental:

- 20% of units must be reserved for tenants with incomes at or below 50% of area median income (AMI)
- OR-
- 40% of units must be reserved for tenants with incomes at or below 60% of the area median income

## Owner-Occupied:

- 95% of housing units must be sold initially to buyers with incomes at or below:
  - 100% of greater of 1) Family AMI or 2) state median income for families of three or less
  - 115% of the greater of 1) Family AMI or 2) state median income for families of three or more

## Commercial Restriction:

- No more than 20% of the square footage of buildings in district may consist of commercial, retail, or other nonresidential use

# Housing Districts: Rental Income Limits

## Income Limits by Household Size

	1	2	3	4	5	6	7	8
50%	43,500	49,700	55,900	62,100	67,100	72,050	77,050	82,000
60%	52,200	59,640	67,080	74,520	80,520	86,460	92,460	98,400

## Maximum Gross Rents by Bedroom Size

	Studio	1	2	3	4	5	6
50%	1,087	1,165	1,397	1,615	1,801	1,988	2,173
60%	1,305	1,398	1,677	1,938	2,161	2,385	2,608

Example data is for a general metro suburb. Income and rent maximums are derived by the United States Department of Housing and Urban Development on an annual basis typically in April.

# Housing Districts: Owner-Occupied Income Limits

## Area Median Family Income

	1	2	3	4	5	6	7	8
100%	86,950	99,400						
115%			128,550	142,830	154,300	165,700	177,150	188,550

## State Median Family Income

	1	2	3	4	5	6	7	8
100%	78,300	89,450						
115%			115,750	128,570	138,900	149,150	159,450	169,750

Example data is for a general metro area community. Area Median Family Income and State Median Income are derived by the United States Department of Housing and Urban Development on an annual basis typically in April.

# Economic Development TIF Districts

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- **Goal**

- ✓ Create tax base & new jobs

- **Maximum Term**

- ✓ 8 years from receipt of first increment (9 years total)

- **Establishment Requirements**

- ✓ Building use
- ✓ Workforce housing

*Each has very  
specific  
parameters!*

# Economic Development Districts: Establishment Requirements

## 85% or more of building used for...

- Manufacturing, production, warehousing, storage, and/or distribution of tangible personal property
- Research & development
- Telemarketing
- Tourism facilities
- Space necessary for above activities

## A workforce housing project if...

- City is located outside of metropolitan area
- Average vacancy rate for rental housing is 3% or less for last 2 years
- One business located in city or within 15 miles of city that employs a minimum of 20 full-time equivalent employees provides written statement indicating lack of available rental housing

**Fun Fact:** There were 290 Economic Development districts as of 2022.

**Bonus Fun Fact:** The County and Schools get to approve workforce housing Economic Development TIF Districts.

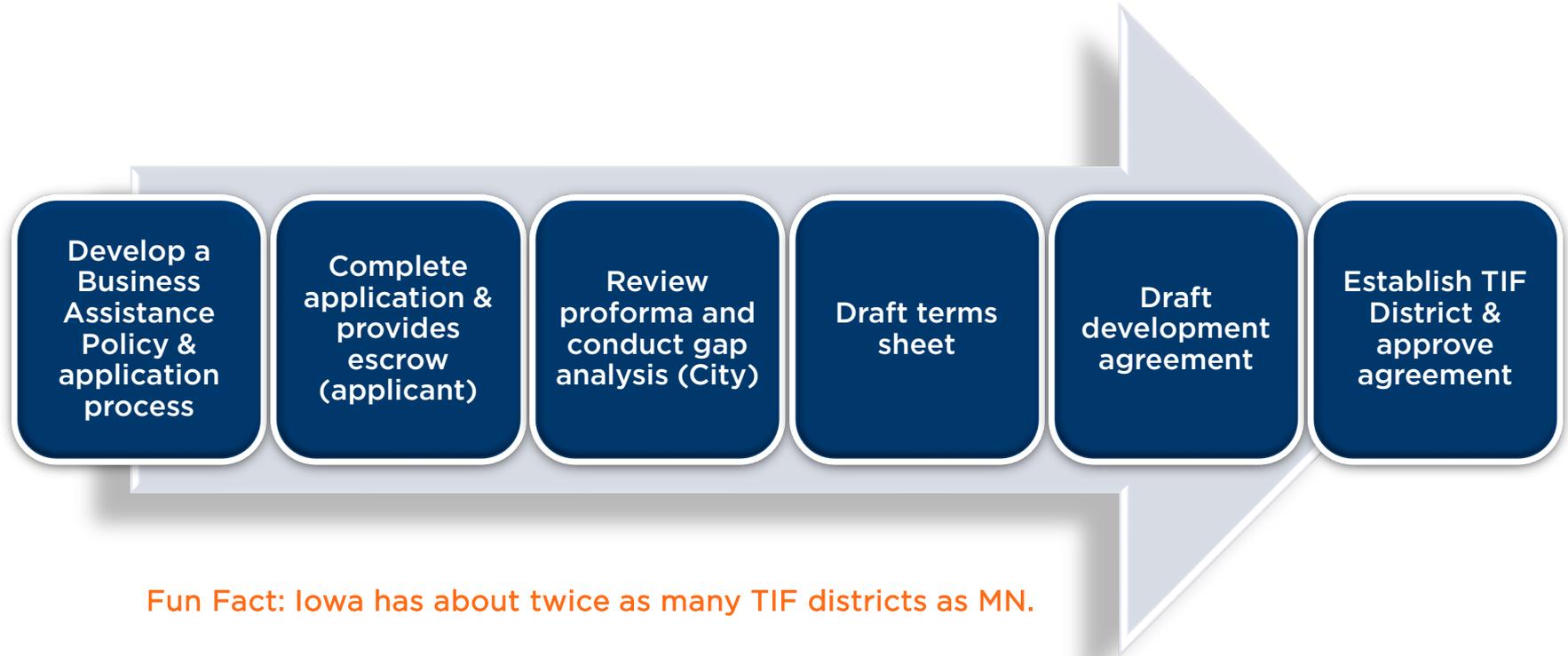
# Soils TIF Districts

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- **Goal**
  - ✓ Remediation of land
- **Maximum Term**
  - ✓ 20 years from receipt of first increment (21 years total)
- **Establishment Requirements**
  - ✓ Presence of hazardous substances, pollution or contaminants
  - ✓ Response Action Plan (RAP) approved by MPCA
  - ✓ Estimated cost of proposed removal/remedial action exceeds fair market value of land before development -OR- \$2 per square foot of parcel's area

# TIF: Subsidy Process

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Fun Fact: Iowa has about twice as many TIF districts as MN.

# Process to Establish a TIF District

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Gather project information, values, tax rates



Draft documents, resolutions & notices



Hearing notice publication at least 10 days prior to hearing



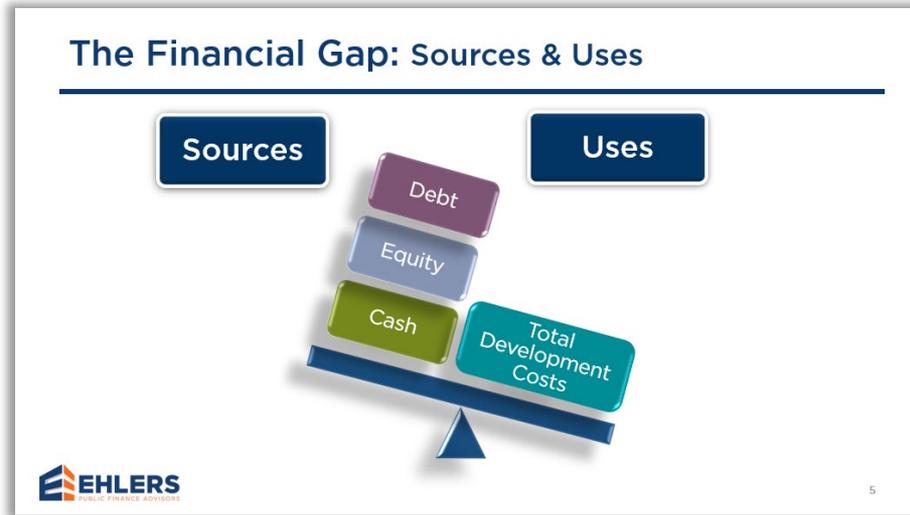
Council holds public hearing & considers resolution to establish assistance

Fun Fact: See other Ehlers' TIF 201 session for more on this process.

# Tax Increment Financing: Want to Learn More?

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Check out our Virtual TIF & Tax Abatement Session!



<https://youtu.be/2K7REIJTNBs>



# Download the Presentation

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# Your Presenters

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# TIF Building Blocks

