

TIF Redevelopment Districts

How does TIF help redevelop real estate in blighted areas?

The classic use of tax increment financing (TIF) is to foster redevelopment of “blighted” areas—i.e., areas with rundown, dilapidated, or obsolete buildings and structures. The increase in property taxes that results from redevelopment (the “increment”) is used to help finance redevelopment costs, such as land assembly and removal of blighted structures.

In Minnesota, TIF was initially promoted principally for redevelopment. (It has since grown to be used in the state for housing, economic development, and general infrastructure finance.) According to the 2015 Tax Increment Financing Report of the State Auditor, there were more active TIF redevelopment districts (846) than any other type, about 49 percent of all TIF districts (1,732) in 2013. Of these redevelopment districts, 468 or 55 percent are in Greater Minnesota and 378 or 45 percent are in the seven-county Twin Cities metropolitan area.

What areas can be designated as redevelopment TIF districts?

Minnesota law allows redevelopment districts to be designated in areas that qualify under one of the following criteria:

- Meet a statutory “blight test”
- Are vacant or underused railyards
- Contain vacant or underused tank farms with a capacity of at least one million gallons
- Are qualified disaster areas

What areas qualify as “blighted”?

To qualify under the blight test:

- 70 percent of the area of the district must be occupied by buildings, streets, utilities, or other improvements, and
- More than 50 percent of the buildings must be structurally substandard.

Buildings are substandard if they have sufficient defects or other problems to justify substantial renovation or clearance, in the judgment of the authority. The authority must determine this after conducting an interior inspection of the property, unless the property owner refuses to permit an inspection.

The authority cannot find a building is substandard if it is in compliance with the building code for new buildings or could be brought into compliance for less than 15 percent of the cost of constructing a similar new building. Meeting this 15 percent test, however, does not itself qualify the building as substandard.

May districts be noncontiguous?

TIF districts generally may consist of separate, noncontiguous areas. However, each separate noncontiguous area of a redevelopment district must individually

meet one of the qualifying tests as: blighted, a railyard, a tank farm, or a qualified disaster area.

What are qualified disaster areas?

To be a qualified disaster area, an area must meet three tests:

- 70 percent of the parcels must be occupied by buildings, streets, utilities, or other improvements
- The area was declared a disaster area under federal or state law within 18 months before creation of the district
- 50 percent or more of the buildings suffered substantial damage as a result of the disaster

For a qualified disaster area district, the original net tax capacity (i.e., the base value used to calculate increments) is the land value. The most recent assessment will generally include the full value of the buildings (i.e., it would not reflect the damage caused by the disaster). Absent a “write-down” of the original value to the land value, reconstruction following a disaster would not generate much or any increment, since it would largely restore the preexisting value.

What are permitted uses of increments for redevelopment districts?

The law requires 90 percent of the increments from a redevelopment district to be spent for blight correction—i.e., to fix the conditions that allowed designation of the district. The statute lists the following as qualifying expenditures:

- Site acquisition of blighted sites or sites requiring pollution cleanup
- Acquisition of an adjacent parcel or parcels to assemble a site large enough to redevelop
- Cleanup of hazardous substances, pollution, or contaminants
- Site preparation, such as clearing the land and installation of utilities, roads, sidewalks
- Providing parking facilities for the site

The law explicitly provides that this is not an exhaustive list. Administrative expenses of the authority that are allocated to these activities also meet the 90 percent test.

For more information: Contact legislative analyst Joel Michael at joel.michael@house.mn. Also see the House Research short subject [Tax Increment Financing](#), June 2014 or the [Tax Increment Financing Primer](#), available at <http://www.house.leg.state.mn.us/hrd/issinfo/tifmain.aspx?src=21>.

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