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Tax Increment Financing (TIF)

The purpose of this Tax Fact is to provide general guidelines and information on how Tax Increment Financing districts impact cities, counties, schools, and taxpayers in South Dakota. It is not intended to answer all questions that may arise. The information contained in this fact sheet is current as of the date of publication.

July 2022

Tax Increment Financing

Tax Increment Financing, or TIF, is a tool to help local governments improve and further develop their communities.

- Municipalities and counties can capture additional tax revenue to make the improvements they need.
- This provides incentives to attract businesses or help existing businesses expand, without tapping into general funds.

TIF is a way to finance infrastructure improvements in a defined geographic area. This area is known as a tax increment financing district, or TIF district.

- A TIF district can be created by either a municipality or by a county.

A tax increment is the difference between the amount of property tax revenue generated before a TIF district is created and the amount of property tax revenue generated after.

The property in a TIF district is valued in the same manner as any other property. The property in a TIF district is taxed in the same manner as any other property.

Examples of TIF projects include:

- General public infrastructure improvements
 - ⇒ Streets
 - ⇒ Sewer
 - ⇒ Water
- Redevelopment of buildings
- Cleaning up polluted areas
- Providing infrastructure to develop a site for new industrial or commercial use
- Improving historic and downtown business districts

How Does a Tax Increment Financing (TIF) District Work?

Once a TIF district is created, special bonds or private financing are used to pay for qualified improvements.

- Costs to be financed must be "public" in nature. This means the project must have public ownership, or if privately owned, there must be some public use or benefit.
- The cost of these improvements varies based upon the project being proposed.

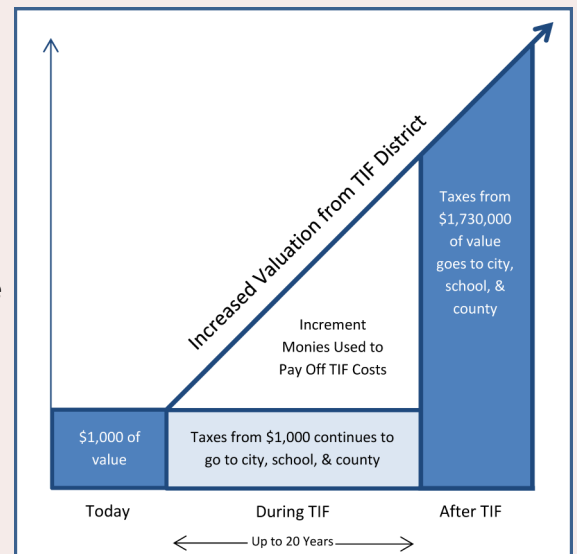
The project costs are paid from the money generated by the tax increment, or the difference between the amount of the property tax revenue before the TIF district is created and the tax revenue generated after.

- The county, school district, and municipality will continue to receive the same tax revenue they received prior to the creation of the TIF district.
- After the project costs are paid off, the county, school district, and municipality will begin sharing the total property tax revenue.

Example:

A parcel of bare land is valued today at \$1,000. Once the TIF project is completed the property is expected to have a value of \$1,730,000.

- **During the life of the TIF:**
 - ⇒ The county, school district, and municipality will continue to receive the taxes upon the base value of \$1,000.
 - ⇒ The tax revenue created due to the increased value of the property as it develops goes towards payment of the project costs.
- **After the TIF is paid off:**
 - The property tax revenue from the entire value of \$1,730,000 will be divided up among the taxing entities.



Steps to Establish a TIF District

The specific procedures for creating a TIF district are outlined in [SDCL Ch. 11-9](#). The following is a brief summary of the process. Counties and municipalities should consult legal counsel throughout the process of creating a TIF district.

Preliminary Steps:

- The planning commission for the county or municipality is required to hold a hearing on the necessity of the TIF district. ([SDCL 11-9-3](#))
- Notice of the hearing must be published between 10-30 days before the hearing. The planning commission must also mail the notice to all taxing districts authorized to levy taxes on property within the proposed boundaries of the TIF district. ([SDCL 11-9-3](#))
- If the planning commission decides the TIF district is needed, the commission must make their recommendations to the county or municipality, including the proposed boundaries of the district. ([SDCL 11-9-4](#))

County or Municipality Approval:

- The county or municipality receives the recommendations from the planning commission. The county or municipality then considers whether to approve the recommendations.
- Local authorities then request the Department of Revenue make a preliminary classification determination prior to the TIF district approval by the county or municipality. For more information on the classification process, see [Tax Increment Financing Guidelines for Local Governments](#).
- If the recommendations of the planning commission are accepted, the county or municipality must adopt a resolution officially creating the TIF district. The resolution will include: the name, the legal boundary description, and the project plan for public improvements of the TIF district. ([SDCL 11-9-5](#))
 - ⇒ The resolution must also include the following ([SDCL 11-9-8](#)):
 - (1) Not less than twenty-five percent, by area, of the real property within the district is a blighted area or not less than fifty percent, by area, of the real property within the district will stimulate and develop the general economic welfare and prosperity of the state through the promotion and advancement of industrial, commercial, manufacturing, agricultural, or natural resources; and
 - (2) The improvement of the area is likely to enhance significantly the value of substantially all of the other real property in the district.

Steps to Establish a TIF District (cont.)

Certification of Base Value:

- The municipal finance officer or county auditor must submit a written request to the Department of Revenue to certify the base value of the TIF district. ([SDCL 11-9-20](#))
 - ⇒ The base value of a TIF district is the assessed value of all property within the district boundaries at the time the district is created. The Department of Revenue calculates the base value using the valuations that were last certified by the department as of the date the request to determine the base value is received. ([SDCL 11-9-20](#))
- A municipality or county should submit the request to certify the base value as soon as possible after the creation of the TIF district. The request must include all related information to the district (resolution, project plan, and certification request form).
 - ⇒ The application must include a detailed parcel list of all legal descriptions, property ownership, and valuation, as provided by the county director of equalization.

Once the municipality or county receives the base value from the department, they may then begin incurring project costs to do the infrastructure improvements. ([SDCL 11-9-33](#))

- If bonds are issued, they can not be issued for an amount more than the total project costs. ([SDCL 11-9-35](#))
- The bonds can not mature more than twenty years from the date of issuance. ([SDCL 11-9-35](#))

TIF Classification Types

TIF district classification is a vital component of the TIF process. The purpose of classification is to determine how the increment value generated within the TIF district is treated in the state-aid to education formula. The below chart outlines the three TIF classifications, some examples of projects within those classifications, and the classification's impact on the state-aid to education formula.

Type	Classification Definition	Example Projects	Impact on State-aid to Education Formula
Local	Local classification is the default classification. Unless the TIF district meets the definition of an Industrial, Economic Development, or Affordable Housing TIF district, it is a Local TIF district. <ul style="list-style-type: none"> The projects usually benefit the local government instead of having a regional or statewide benefit. 	<ul style="list-style-type: none"> Public infrastructure improvements for housing that does not meet the Affordable Housing 	<ul style="list-style-type: none"> Included in local effort <ul style="list-style-type: none"> The county auditor is required to impose an additional school levy on all real property within any impacted school district to hold the district(s) harmless.
Industrial	Industrial classification includes an area where activities are recognized as industrial by zoning authorities. (SDCL 13-13-10.2) <ul style="list-style-type: none"> Including any factory or business whose primary business is the manufacturing or assembly of goods, the processing of raw materials, and the wholesale of products for resale. 	<ul style="list-style-type: none"> Animal processing plant Ethanol plant 	<ul style="list-style-type: none"> Not included as local effort in the state aid calculation Exempt from imposing an additional school levy on all real property within the district (SDCL 13-13-10.9)
Economic Development	Economic development classification includes any area where there is or will be one or more businesses engaged in any activity defined as commercial or industrial by the governing body that has zoning authority over the land contained within the TIF district. (SDCL 13-13-10.2)	<ul style="list-style-type: none"> Public infrastructure improvements for commercial or retail development 	<ul style="list-style-type: none"> Not included as local effort in the state aid calculation Exempt from imposing an additional school levy on all real property within the district (SDCL 13-13-10.9)
Affordable Housing	Affordable Housing classification includes an area where: <ol style="list-style-type: none"> The original selling price of any house in the district will be at or below the first-time homebuyer purchase price limit being used by the South Dakota Housing Development Authority as of the date the house is sold; OR The monthly rental rate of all multifamily housing units in the district will be at or below the calculated rent for the state's eighty percent area median income as of the date the district is created, for a minimum of five years following the date of first occupancy. <p>For more information on the Affordable Housing criteria, call the South Dakota Housing Development Authority at 605-773-3181.</p>	<ul style="list-style-type: none"> Housing development infrastructure improvements Housing development Workforce housing 	<ul style="list-style-type: none"> Not included as local effort in the state aid calculation Exempt from imposing an additional school levy on all real property within the district (SDCL 13-13-10.9)

Tax Increment Financing (TIF) FAQ's

Who monitors the TIF process?

- Counties and municipalities oversee the progress of the TIF district.

Can TIF districts be changed?

- Yes. A TIF district project plan can be changed within the first five years for unanticipated costs or scope of work changes. Boundaries cannot be changed.

When does a TIF district terminate?

- A TIF district can exist for up to 20 years under [SDCL 11-9-25](#). Any TIF district may be terminated earlier if all financial obligations are paid off and the county or municipal board passes a resolution to dissolve the TIF district.

Will my property taxes increase due to a TIF district?

- If the TIF district is classified as Local, there may be a small additional levy added to your school levy. If the TIF district is classified as Industrial, Economic Development, or Affordable Housing, no additional levy will be applied. Contact the municipality or county to confirm the impact of a TIF district on your property taxes.

Will the TIF affect school funding?

- No. The State of South Dakota uses a formula to calculate the amount of general funding distributed to a school district each year. A portion of the money going into the formula is funded by taxes collected by the state, and a portion is funded by local property taxes. The formula is designed to hold the school district harmless when a TIF district is created.

Who controls TIF funds and makes the project payments?

- The counties collect TIF revenue through the property tax process, and any taxes paid on the increment value are deposited to the TIF fund associated with the TIF project. All project costs are paid out of this fund by the county or municipality who created the TIF district.

Will my tax dollars be used to make TIF project payments?

- Only taxes paid by properties within the TIF district boundaries will be used to pay the project costs.

What are the opportunities for public input?

- During the process of establishing a TIF district, there are many opportunities for public participation. There are opportunities for input during both the planning commission hearings and the city council/county commission meetings.
- If a TIF district receives city council/county commission approval, the public can bring the decision to a public vote.

What is an allowable project cost?

- Expenses that may be included as an allowable project cost include capital costs, including the actual costs of the construction, financing costs, real property assembly, professional fees, administrative costs, costs associated with relocation, organizational costs and payments and grants made, at the discretion of the governing body. Eligible project costs can only include those costs associated with public infrastructure. They cannot include costs associated with the building of homes or businesses. For additional information, click [SDCL 11-9-15](#) to read the South Dakota law that defines the allowable expenses.

Contact Us

If you have any questions, please contact the **South Dakota Department of Revenue**.

Call toll-free: 1-800-829-9188

Property Tax Division Email: proptaxin@state.sd.us

Website: <https://dor.sd.gov/>

Mailing address and office location: South Dakota Department of Revenue
445 East Capitol Ave
Pierre, SD 57501