



Tax Increment Financing in Duluth

Introduction

Duluth has used Tax increment financing (TIF) as a public finance tool to initiate community improvements since the 1970s. Large-scale mixed-use and commercial projects such as Cirrus's manufacturing campus, our Medical District, and Bluestone Commons, would not have been possible without the use of TIF. However, TIF still remains a mystery to some. Keep reading to learn more about what exactly TIF is, and how Duluth uses TIF to leverage private investment that delivers long-term benefits to our community.

What is Tax Increment Financing (TIF)?

Tax increment financing (TIF) is a financial tool, authorized by State law, that cities use to facilitate development that otherwise would not be financially possible. The use of TIF allows for job creation, affordable housing, or redevelopment of blighted or contaminated sites.

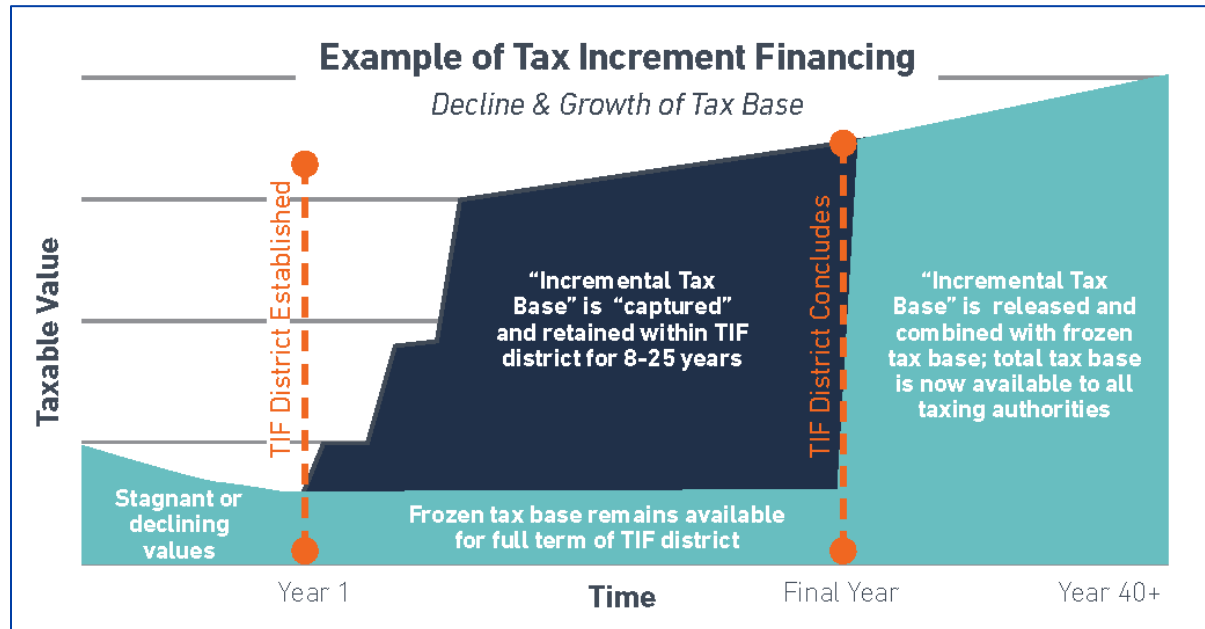
However, for the project to utilize tax increment, specific requirements must be satisfied in what is referred to as the "but-for" test: "But for" the use of public financing through tax increment, the new development or project would not be built and private investment would not be leveraged. Creating a TIF district freezes properties whose values are on a downward trend, with the ultimate goal of increasing the city's overall tax base.

The creation of TIF Districts, and the use of TIF, are governed by Minnesota State Law. TIF Law ([Minnesota Statutes, Sections 469.174 to 469.179](#)) is complex and has changed over the years and continues to change. This law gives the power to establish TIF districts to an "authority." An Authority (as defined in Minnesota Statutes, Section 469.174, Subd.2) has the power to create and administer TIF districts and plans. Authorities include municipalities, economic development authorities (EDA), housing and redevelopment authorities (HRA), and port authorities.

How does TIF work?

When a TIF District is created, a “base” valuation of the property in that area is established. The tax revenue from this base value remains with all taxing authorities. Increases in the assessed value above the established base over the life of the District are called the “increment.” Those incremental property tax increases are temporarily captured.

These monies are retained within a TIF District account and used to pay debt or other financial obligations that were necessary to complete the development project. It is important to note that only certain development costs qualify for repayment through retained TIF funding. When the obligations are satisfied, the TIF District is closed (or decertified). The new incremental value that had been captured is released and combined with the base value. This total taxable value is then made fully available to the local taxing authorities.



This graphic illustrates how TIF works over the span of the district and beyond.

Source: City of Edina, MN; <https://www.edinamn.gov/>

Types of TIF districts

Below is a table breaking down the types of TIF districts in Minnesota. In the state, the most commonly used types of districts are Redevelopment and Housing – which also happen to be the most commonly used types in Duluth.

District type	Goal	Maximum Term	Establishment Requirements
Redevelopment	Clean up blighted sites & remove substandard buildings	25 years from receipt of first increment (26 years total)	<ul style="list-style-type: none"> 70% of district must be covered by: <ul style="list-style-type: none"> Buildings Streets Utilities Paved or gravel parking lots Or other similar structures More than 50% of buildings must be considered “structurally substandard”
Renovation & Renewal	Clean up blighted sites & remove substandard buildings	15 years from receipt of first increment (16 years total)	<ul style="list-style-type: none"> 70% of district must be covered by: <ul style="list-style-type: none"> Buildings Streets Utilities Paved or gravel parking lots Or other similar structures More than 20% of buildings must be considered “structurally substandard”
Housing	Create rental or owner-occupied housing for low-to-moderate income households	25 years from receipt of first increment (26 years total)	<p>Rental:</p> <ul style="list-style-type: none"> 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 <p>Owner-occupied:</p> <ul style="list-style-type: none"> 95% of housing units must be sold initially to buyers with incomes at or below: 100% of the 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

Economic Development	Create tax base & new jobs	8 years from receipt of first increment (9 years total)	<p>If establishing a building, 85% or more of the building must be used for:</p> <ul style="list-style-type: none"> • Manufacturing, production, warehousing, storage, and/or distribution of tangible personal property • Research & development • Telemarketing • Tourism facilities • Space necessary for above activities <p>If used for workforce housing, the following requirements must be met:</p> <ul style="list-style-type: none"> • 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
Soils	Remediation of land	20 years from receipt of first increment (21 years total)	<ul style="list-style-type: none"> • 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

Source: Minnesota House Research Department; <https://www.house.mn.gov/hrd/issinfo/tif/dist.aspx>

An overview of TIF in Duluth

The City of Duluth strives to use TIF to leverage private investment that delivers long-term benefits to our community. In Duluth, 3.38% of net tax capacity will be captured with TIF in 2024. For reference, redeveloping communities like Duluth see between 4% and 10% captured with TIF, while some similarly sized communities see more than 10%.

How is TIF used in Duluth?

- Provide funding for public improvements without increasing the tax levy
- Generate jobs and increase manufacturing
- Deliver affordably priced housing not provided by the private market
- Redevelop sites in a way that increases the tax base and delivers public improvements and benefits that would not otherwise be provided by the private market
- Attract investment that grows the local economy and enhances the community



What is TIF used for in Duluth?

In our community, TIF is used for: blight mitigation or elimination, infrastructure improvements, public amenities, job creation, and increased housing.

Current TIF Districts in Duluth

Below is a table outlining the active TIF districts in Duluth, MN – along with the district type, anticipated term, and the enacting authority.

District Number and Title	District Type	Anticipated Term	TIF Authority
TIF District 21: Garfield Bus Center	Redevelopment	12/31/2027	Duluth Economic Development Authority
TIF District 22: First Street Medical Facility	Redevelopment	12/31/2030	Duluth Economic Development Authority
TIF District 23: Fifth Street Development	Housing	12/31/2032	Duluth Housing and Redevelopment Authority
TIF District 25: Bluestone Commons	Redevelopment	12/31/2040	Duluth Economic Development Authority
TIF District 26: Duluth Corporate Towers (maurices)	Redevelopment	12/31/2042	City of Duluth
TIF District 27: Pier B Development	Redevelopment	12/31/2042	Duluth Economic Development Authority
TIF District 28: Harbor Bay Development	Redevelopment	12/31/2032	Duluth Economic Development Authority
TIF District 29: Kenwood Village	Redevelopment	12/31/2038	Duluth Economic Development Authority
TIF District 31: Voyageur Lakewalk	Redevelopment	12/31/2048	Duluth Economic Development Authority
TIF District 32: Board of Trade	Housing	12/31/2047	Duluth Housing and Redevelopment Authority
TIF District 34: Historic Central High School	Redevelopment	12/31/2048	Duluth Economic Development Authority
TIF District 35: St. Louis County Jail	Redevelopment	12/31/2049	Duluth Economic Development Authority

This chart includes districts that were generating increment as of 12/31/2023.