

# TIF Division Newsletter



## Cost of Project in a TIF Plan

Staff members at the Office of the State Auditor have been busy reviewing newly-arriving TIF plans. The quality of TIF plans has improved over recent years. Authorities are to be commended.

Some of the TIF plans, however, contain language that causes concern. The language states, in essence, that the authority reserves the right to adjust any of the project costs listed or to incorporate additional eligible items as long as the total estimated public cost is not increased. The problem is that this language often follows a listing of project costs and bond principal and interest costs that are totaled together. Cost of the project includes acquisition of development property, demolition, clean-up of hazardous materials, site preparation, installation of utilities, engineering and architectural services and administration. Cost of the project does not include estimated bond principal and interest costs.<sup>1</sup> Adding project costs and bond principal and interest costs together gives an illusion that project costs are greater than they actually are.

The Minnesota Attorney General's position has been that line-item project costs listed in the TIF plan are estimates of the cost of proposed development activity to be financed with tax increment. When development activity occurs, the actual project costs will be somewhat different from the estimates. As long as the total cost of the project, including administrative costs, to be paid or financed with tax increment from the district does not increase, actual costs of individual project elements can vary from the cost of project estimates within the TIF plan. The authority may legally exceed the total estimated cost of the project, including administrative costs, that are paid with tax increment only by modifying the TIF plan.<sup>2</sup>

In its review of TIF plans and TIF reporting forms, the Office of the State Auditor records the authorized total project costs, excluding any estimated principal and interest costs. If an authority does not break out project costs from principal and interest costs, the authority will be contacted and asked to do so. In addition, the Office of the State Auditor will contact the authority for verification that the TIF plan has been modified upon notice and after the discussion, public hearing, and findings required for approval of the original plan if an authority spends tax increment revenues for project costs in excess of the total amount authorized by the original plan.

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<sup>1</sup> Minn. Stat. § 469.175, subd. 1(a) (5) (i) and (ii) (Supp. 2009). The amended statute is clear as to what is included in the cost of the project. Administrative expenses are included. Interest is not included. Interest as a financing cost is an independent phrase disconnected from the cost of the project by a comma and "and".

<sup>2</sup> Minn. Stat. § 469.175, subd. 4 (b).