Briefing on TIFs, Discretionary Formula, Opt Outs, and Bonds

Prepared for the Comprehensive Property Tax Task Force

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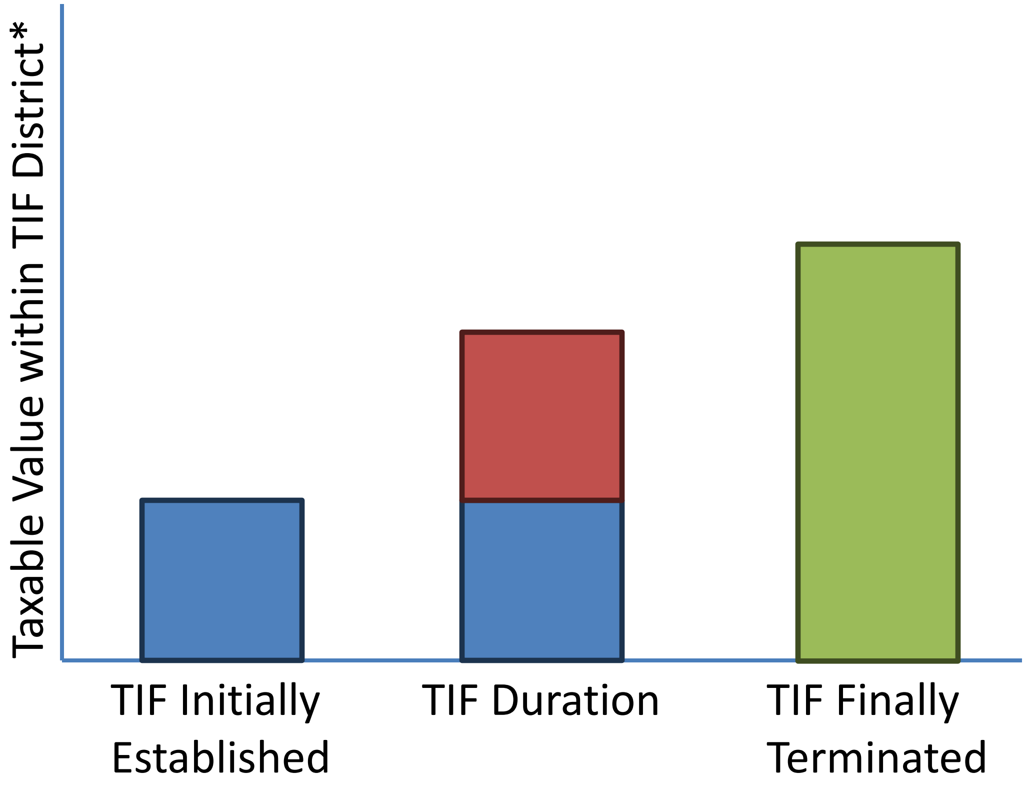
South Dakota Legislature
Legislative Research Council

Tax Increment Financing Districts — SDCL 11-9

Counties and **municipalities** are authorized to establish a TIF district.

- Define the boundaries and project plans
  - All taxable real property within TIF boundary are included in the TIF district.
  - At least 25% of the geographic area must be “blighted”, or 50% of the geographic area must, as a result of the TIF, contribute to commercial, industrial, agricultural, or natural resource output.
  - The sum of all TIF districts’ base amounts may not exceed 10% of the assessed value of the county/municipality.
  - Project plans include “project costs”, methods of financing, and public works and improvements.
- Secures and services any financing for “project costs”
  - Municipal bonds, tax increment bonds, tax increment funds, or other funds of the city/county
  - Payment of all project costs and obligations of the city/county terminates the TIF district
- Complete the public works and improvements

Tax Increment Financing Districts — SDCL 11-9



Blue: **Tax increment base**

the mill levies applied to this segment is treated as ordinary property tax revenue and distributed to all taxing districts

Red: **Tax increment valuation**

the mill levies applied to this segment are distributed to the city or county to pay the project costs for the public works or improvements^

Green: **Taxable value for all taxing districts**

property in the TIF district is treated the same as all other taxable property, and the mill levies applied to this segment are distributed to all taxing districts

*Property within TIF district is assessed just like all other property to determine its taxable value.

^ Gen/spec education mill levies aren't applied to industrial, economic development, or affordable housing TIF increment valuations.

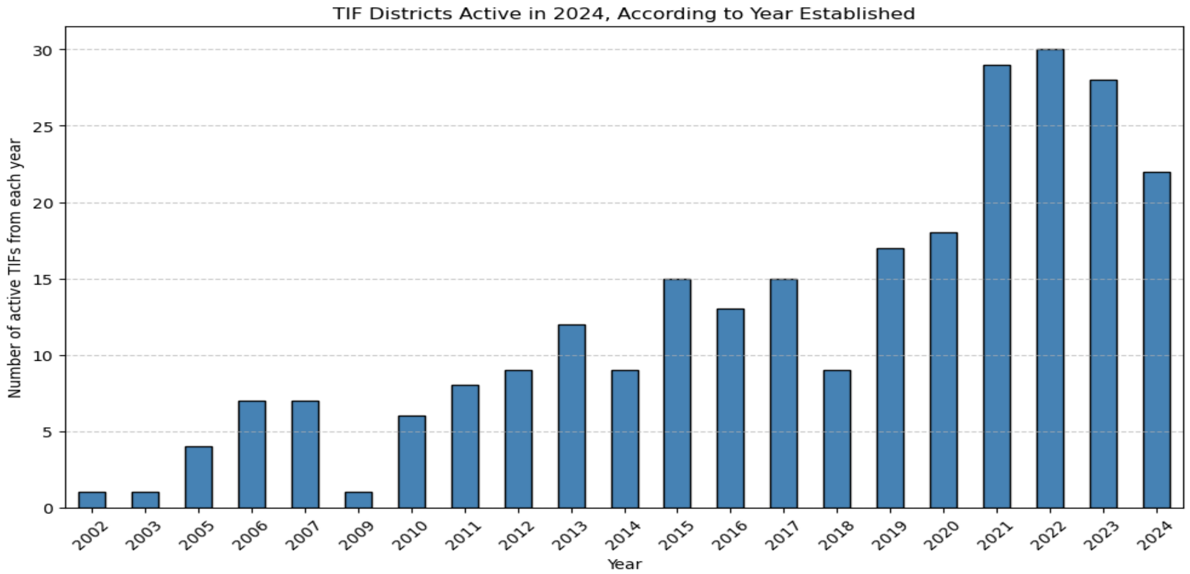
Tax Increment Financing Districts — SDCL 11-9

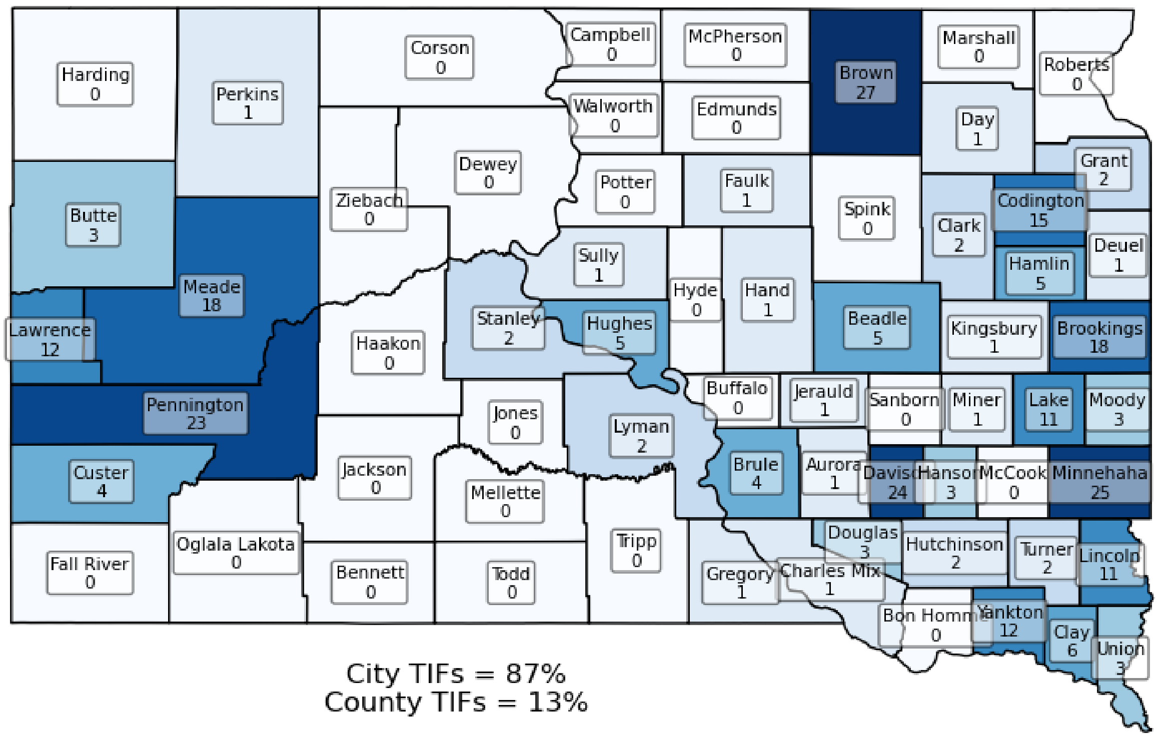
State Summary, 2024

	Project Costs	Jobs Created	TIF Base	TIF Increment
Affordable Housing	$ 198,788,997	335	$ 51,728,497	$ 81,008,539
Economic	$ 1,064,814,460	8,269	$ 429,996,260	$ 2,365,143,384
Industrial	$ 222,392,739	2,630	$ 21,137,856	$ 145,490,998
Local	$ 86,367,735	146	$ 32,321,604	$ 295,187,604
Average per TIF	$ 5,955,924	43	$ 2,027,213	$ 10,934,964
Total	$ 1,572,363,931	11,380	$ 535,184,217	$ 2,886,830,525

Active TIFs

	2020	2021	2022	2023	2024
# of TIFS	199	216	232	246	264
% Growth from Prior Year	N/A	8.5%	7.4%	6.0%	7.3%





City TIFs = 87%
County TIFs = 13%

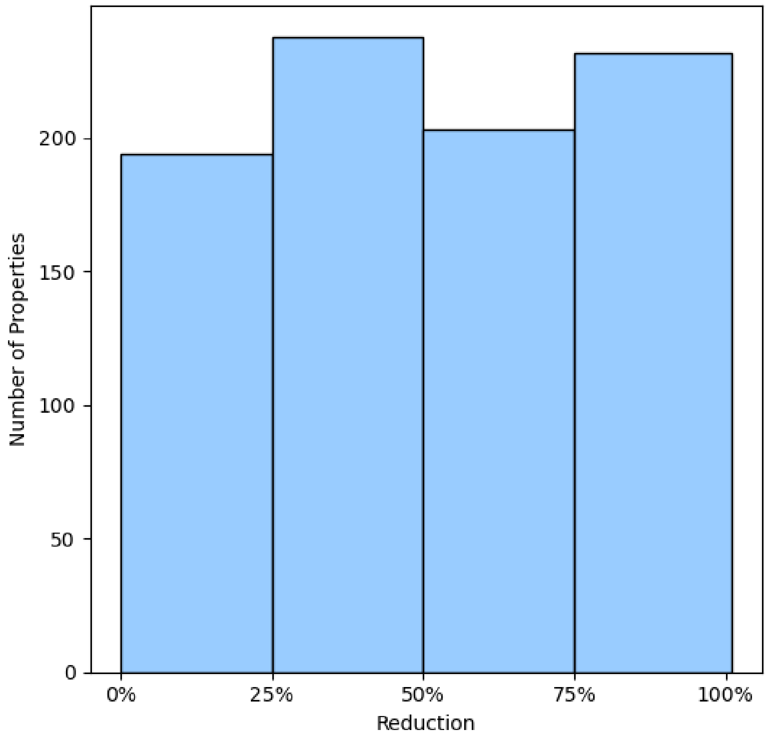
Discretionary Formula — SDCL 10-6

Counties, municipalities, and business improvement districts are authorized to apply a discretionary formula to a structure.

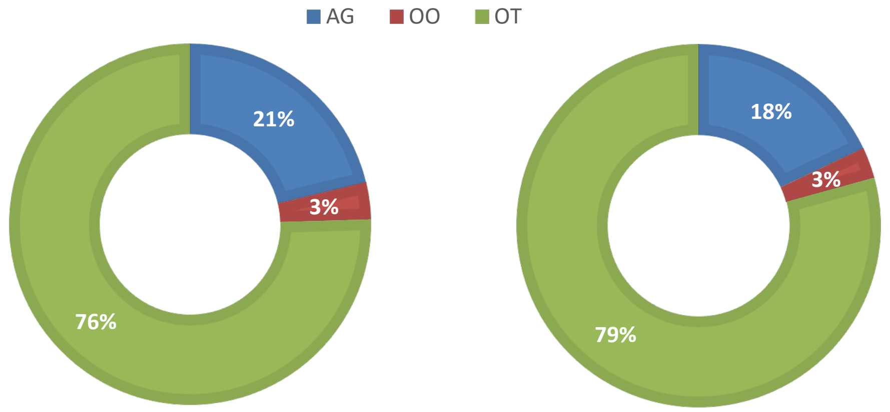
- The duration of the tax relief under the discretionary formula may be up to 5 or 6 years, depending on property type.
  - If a property type is subject to the discretionary formula, all qualifying properties must be granted the same discretionary formula
- Structure is assessed in the usual manner to determine its full and true value
  - Taxable value of the property is reduced according to a graduated schedule, so that after the discretionary period, the property is being taxed according to the entire assessed value of the property.
  - For nonresidential property types, the county may determine the amount of reduction granted to property under the discretionary formula.
  - For residential property types, the statute provides maximum amount of reduction granted to property under the discretionary formula. 25-25-50-50-75-75-100

Discretionary Formula — SDCL 10-6

State Summary, 2025	Value Subject to Formula	Exempted Value under Formula
AG	$ 287,695,216	$ 152,271,738
OO	$ 44,195,151	$ 23,287,621
OT	$ 1,020,624,621	$ 671,203,268
Total	$ 1,352,514,988	$ 846,762,627



DISCRETIONARY FORMULA ACCORDING TO PROPERTY TYPE, 2025



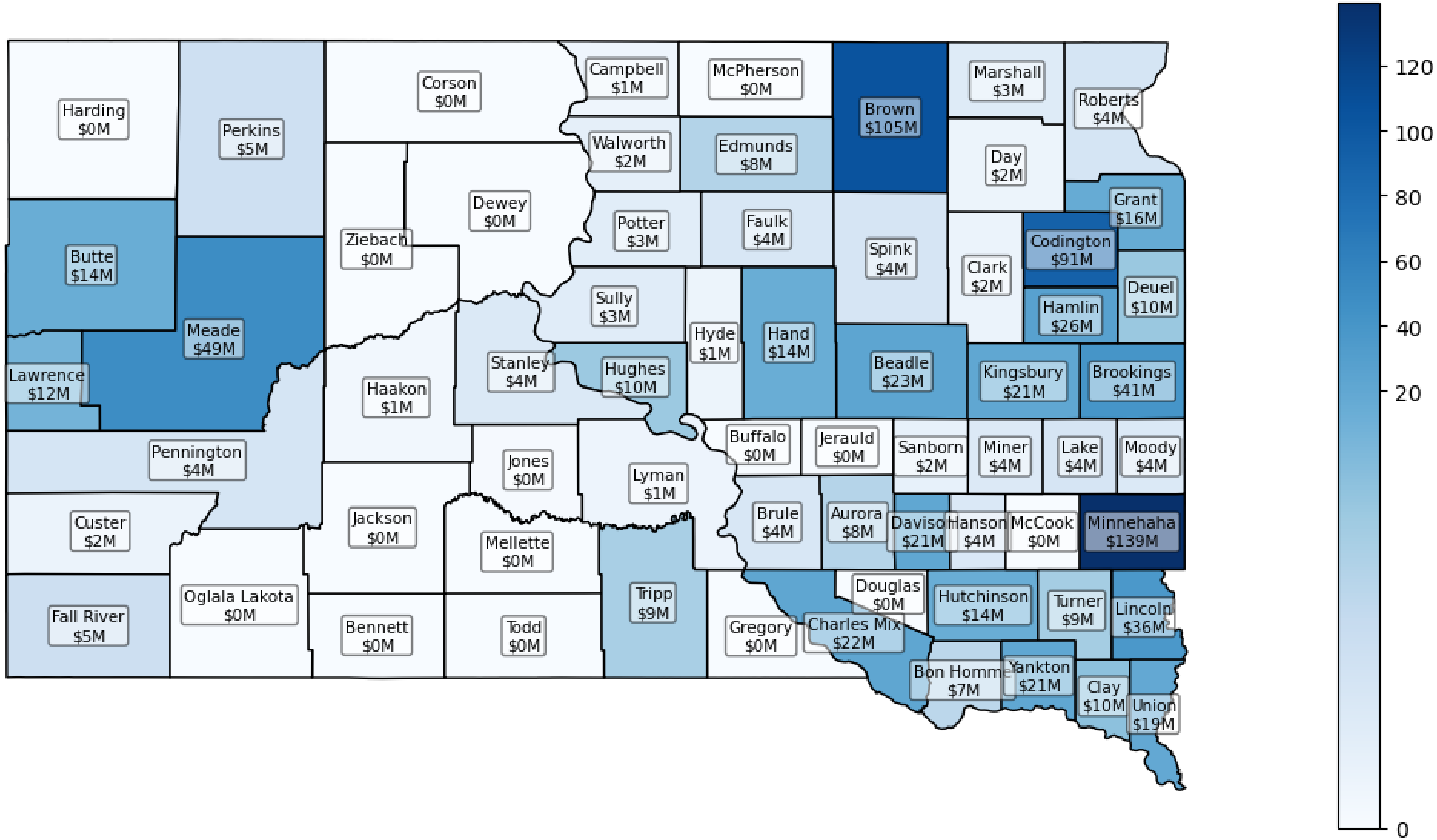
Value Subject to Formula: $1,352,514,988

Exempted Value under Formula: $846,762,627

By Property Type	# of Properties	Avg Value of Property	Avg Value of Exemption
AG	465	$ 618,699	$ 327,466
OO	90	$ 491,057	$ 258,751
OT	430	$ 2,373,546	$ 1,560,938

Discretionary Formula — SDCL 10-6

Reduction in Assessed Value
from the Discretionary Formula — 2025
In Millions



Excess Tax Levy (Opt Out)

<u>Counties, Municipalities, Townships, Fire districts, Ambulance Districts, etc.</u>

Limit on the total amount of taxes imposed within a district in a year

- Limitation set forth in § 10-13-35. Prior to enactment of SB 216

$$MaxPropTax_{year\ 2} = PropTax_{year\ 1} + IndexFactor + Growth_{w/TIF,Disc} + Bonds$$

- Limitation set forth in § 10-13-35. After enactment of SB 216

$$MaxPropTax_{year\ 2} = PropTax_{year\ 1} + IndexFactor + Growth_{\leq 3\%} + TIFexpire + Discretionary + Bonds$$

- Districts may opt out of this limitation, at which point the district is constrained to their respective maximum mill levies. (§ 10-13-36)

<u>School District General Fund</u>

- Three different maximum mill levies for agricultural ($1.125), owner-occupied ($2.518), and nonagricultural property ($5.211) (§ 10-12-42)
- Districts may opt out of this limitation (§ 10-12-43)

<u>School District Capital Outlay</u>

- Limitation on the total amount of taxes imposed for this purpose, set at $3,400 per student in 2022, and increases annually by index factor
- Limitation on the total amount of taxes imposed for this purpose, set forth in § 13-16-7 (see formulae in red above)
- Districts may opt out of the per-student maximum and the limitation in § 13-16-7, at which point the district is constrained to the maximum mill levy of $3.00 per $1,000 of taxable real property value.

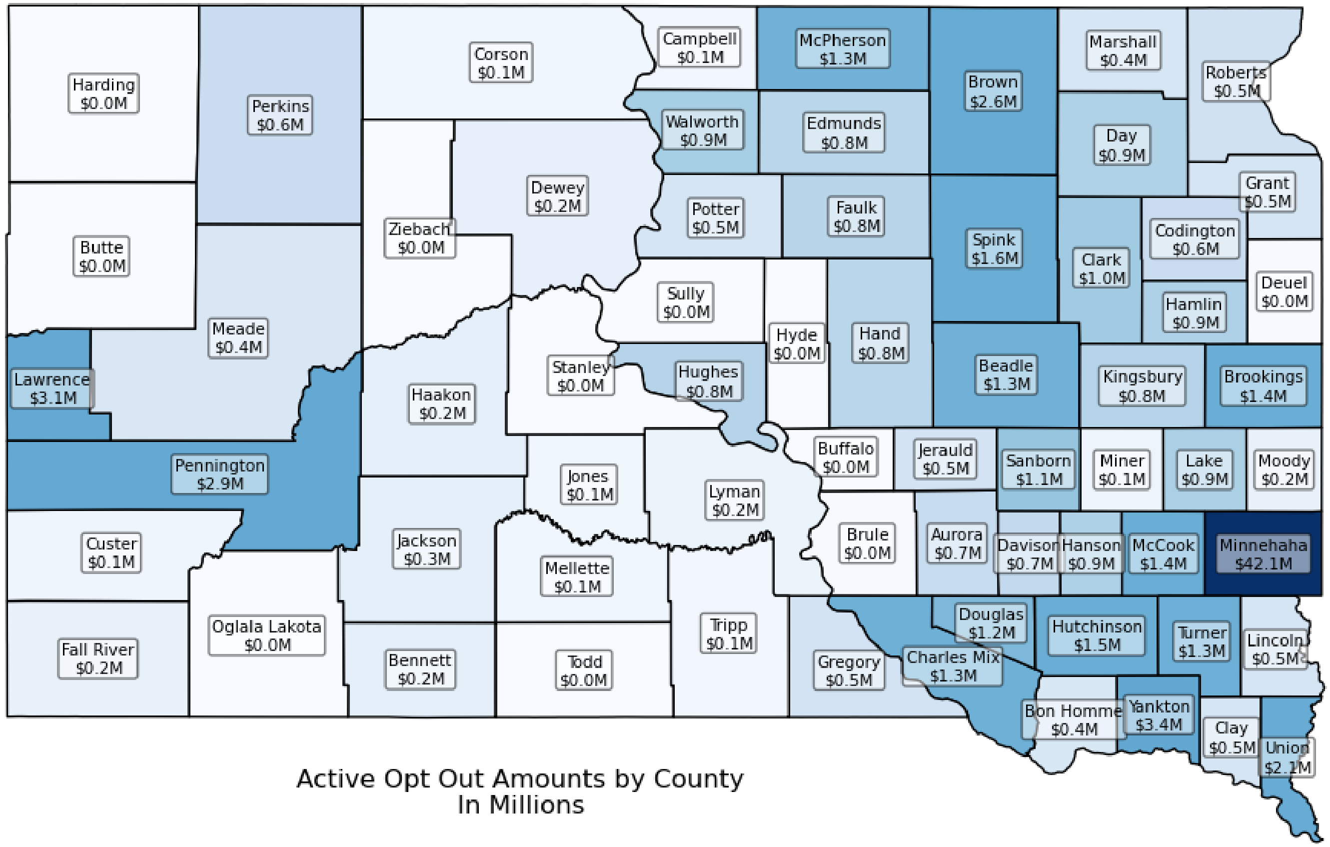
<u>Opt outs are passed by resolution of the governing body of the district, stating the amount and the number of years the opt out is active</u>

- The opt is referred to a vote only if a petition to refer the matter to a vote is signed by 5% of the district is submitted within 20 days of the passage of the resolution.
- If referred to a vote, a simple majority is needed to approve the opt out.

Excess Tax Levy (Opt Out)

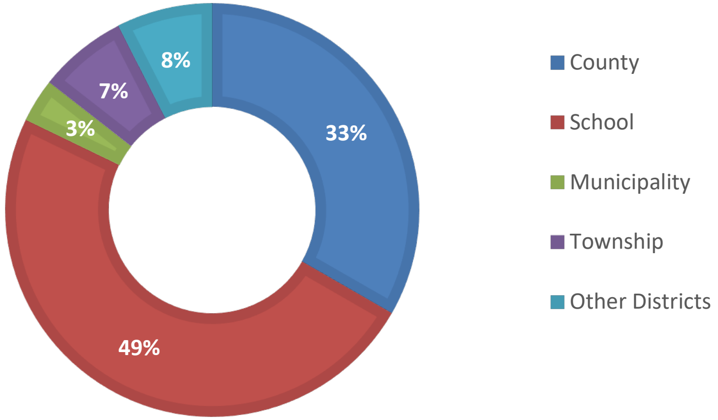
State Summary

	Total	County	School	Municipality	Township	Other Districts
Amount Sum	$ 88,501,700	$ 29,482,345	$ 43,252,000	$ 3,031,272	$ 6,122,933	$ 6,613,150
# of Opt Outs	808	33	79	32	554	110
Average Amount	$ 109,532	$ 893,404	$ 547,494	$ 94,727	$ 11,052	$ 60,120

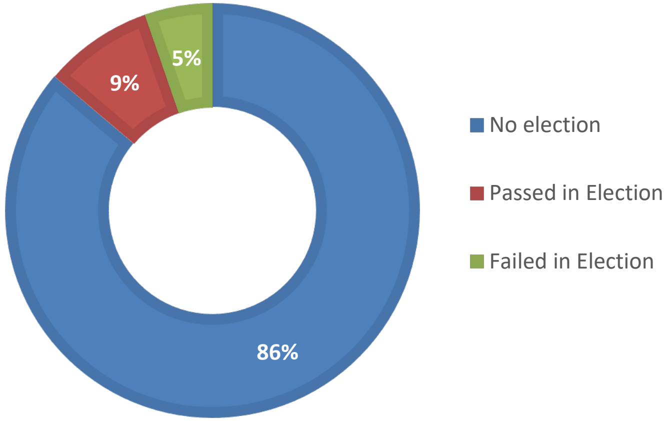


Active Opt Out Amounts by County
In Millions

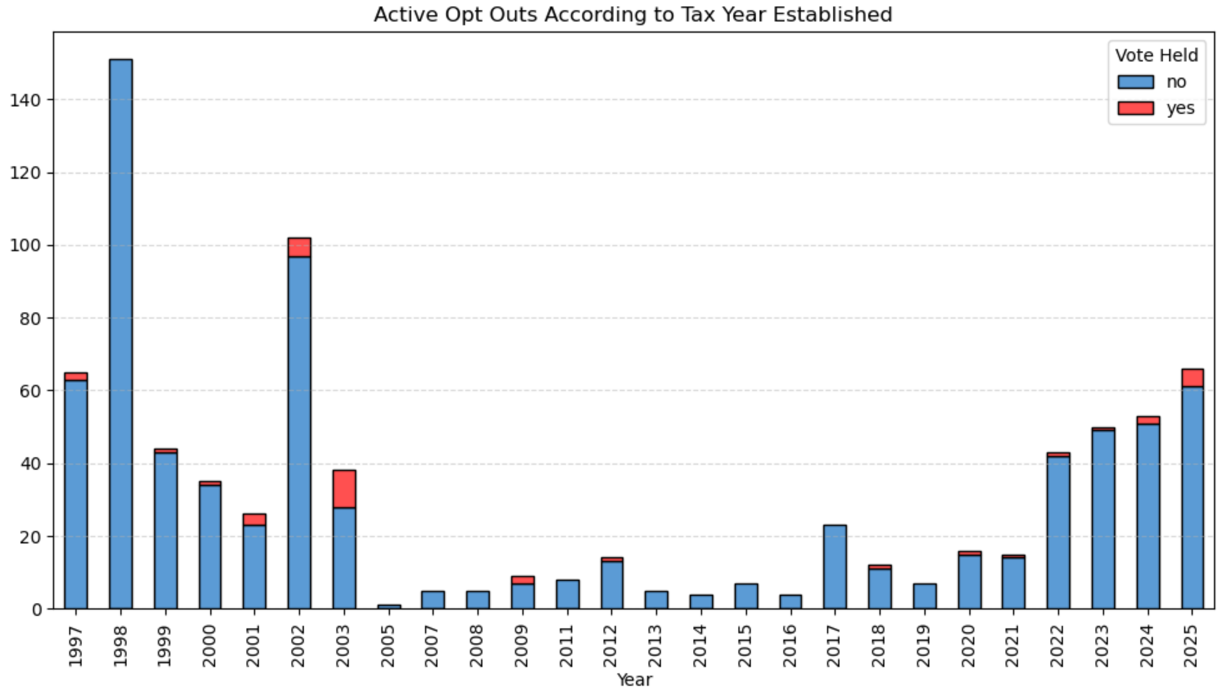
ACTIVE OPT OUT AMOUNTS BY DISTRICT TYPE

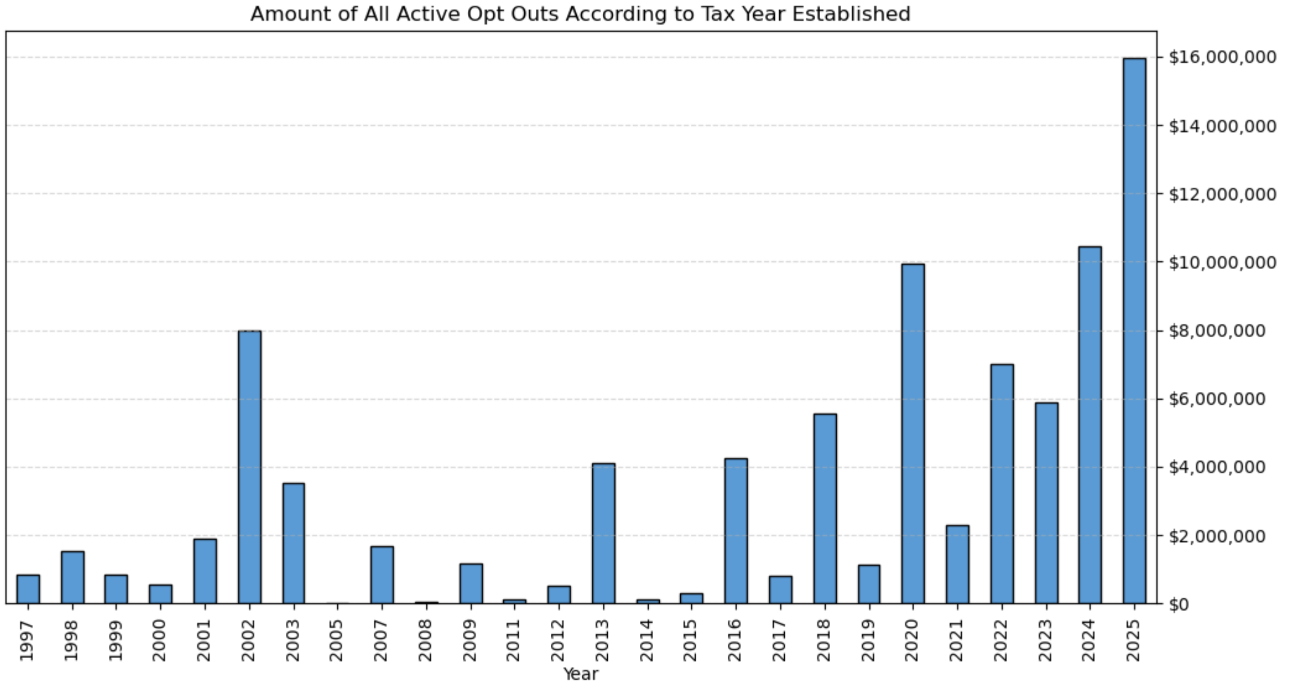


OPT OUT ELECTION DATA
ALL OPT OUTS SINCE 2002



Excess Tax Levy (Opt Out)





Property Tax Bonds

- Counties, municipalities, school districts, and townships may issue bonds, financed by property tax levies.
- Generally, bonds are approved and sold pursuant to SDCL chapter 6-8B. Chapter 6-8B requires that bonds must be approved via election, where at least 60% of the voters approve of the bonds (§ 6-6B-2). However, other provisions modify the election requirements for different taxing district types. Modifications of the election requirements are:

<u>COUNTY</u>	-Bonds require a simple majority of voter approval at an election (§ 7-24-2)
<u>MUNICIPALITY</u>	-Bonds do not require approval by election (§ 9-25-12)
<u>SCHOOL DISTRICT</u>	-Bonds may not be voted on in an election (§ 13-19-1)
	-Capital outlay certificates may not be voted on in an election (§ 13-16-6.2)

- Bonds are issued, and an additional tax levy is imposed to pay the interest and principal payments of the bonds/certificates.
- Tax levies are applied uniformly across all taxable property just as all other county/municipality/township levies.

Bonds

County Bonds (Pay 2024)	8 Total Counties Imposing Bond Property Tax Levies					
	Total	Average	Lowest	Lowest County	Highest	Highest County
Bond Taxes Imposed	$ 16,114,086	$ 2,014,261	$ 254,830	Hanson	$ 7,865,530	Minnehaha
Taxable Value	$ 45,613,397,028	$ 5,701,674,629	$ 750,122,900	Hanson	$ 23,751,271,128	Minnehaha
Mill Levy	N/A	0.514	0.133	Brookings	1.822	Clay

- Brookings
- Clay
- Faulk
- Hanson
- Lincoln
- Minnehaha
- Roberts
- Yankton

School District Bonds (FY 2023)	Oustanding Balance	Principal Paid FY23	Interest and Fees Paid FY23	Original Amount Issued
General	$ 840,394,160	$ 26,323,415	$ 26,201,105	$ 936,464,075
Capital Outlay	$ 608,429,233	$ 54,382,737	$ 17,785,252	$ 832,356,535
Total	$ 1,448,823,393	$ 80,706,152	$ 43,986,357	$ 1,768,820,610