

51st Annual DLA Government Audit Workshop 2025

Rod Fortin

Director of Local Gov't Assistance

Department of Legislative Audit

300 S. Sycamore Avenue, Suite 102

Sioux Falls, SD 57110-1323

ph. (605) 367-5810

rod.fortin@state.sd.us

DLA website: www.legislativeaudit.sd.gov

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Tax Increment Financing

□ Resources:

■ Department of Revenue

- <https://dor.sd.gov/government/county-auditors/>
 - [TIF Guidelines \(PDF\)](#)
 - [Tax Increment Financing \(TIF\) Tax Fact \(PDF\)](#)
 - [Tax Increment Financing District Establishment Submission Form](#)
 - [SDCL Chapter 11-9](#)

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Tax Increment Financing

□ Resources:

■ Department of Revenue

- [Tax Increment Financing Annual Report \(PDF\)](#) details project descriptions, valuation information, and timeline for each TIF district.

■ See next slide

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Tax Increment Financing

Section 3: Active TIF Districts (Continued)

TIF by Governing body (Click on the entity to go directly to its section)

Cities				Counties	
A	E	M	V	B	J
Aberdeen	Elkton	Madison	Vermillion	Brown	Jerauld
Alexandria	F	Milbank	Volga	Brookings	L
B	Flandreau	Mitchell	W	Brule	Lake
Belle Fourche	Fort Pierre	N	Watertown	C	Lincoln
Beresford	G	North Sioux City	Whitewood	Clark	Lyman
Box Elder	Garretson	P	Y	D	M
Brandon	Gregory	Parkston	Yankton	Davison	Meade
Brookings	H	Plankinton		Douglas	Minnehaha
Bryant	Harrisburg	Platte		F	P
C	Hartford	Piedmont		Faulk	Pennington
Chamberlain	Hermosa	Pierre		H	S
Clark	Hill City	R		Hamlin	Sully
Clear Lake	Howard	Rapid City		Hand	T
Colman	Huron	S		Hughes	Turner
Corsica	K	Sioux Falls		Hutchinson	Y
Crooks	Kennebec	Spearfish			Yankton
Custer	Kimball	Sturgis			
D	L	Summerset			
Deadwood	Lake Norden	T			
Dell Rapids	Lake Preston	Tea			
	Lemmon				

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Definitions

Tax Increment Financing District (TIF or TID)

- A tool for local government (county or city) to capture tax revenue to finance infrastructure improvements

Base Value

- Assessed value of the property within the TIF district as of the date of creation, as most recently certified by the department as of the date the request is received

Increment

- Difference between the value or taxes generated prior to TIF creation and the value or taxes generated each year after creation



TIF Project Examples

- General public infrastructure improvements
 - **Streets, sewer, water, water reservoirs**
- Redevelopment of buildings
 - **Motels, convention centers, housing developments, technical institutes, senior living**
- Provide infrastructure to develop sites for new industrial or commercial use
 - **Warehouses, distribution centers, automotive parts stores,**
- Improving historic business districts
 - **Downtown business districts, housing**

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.

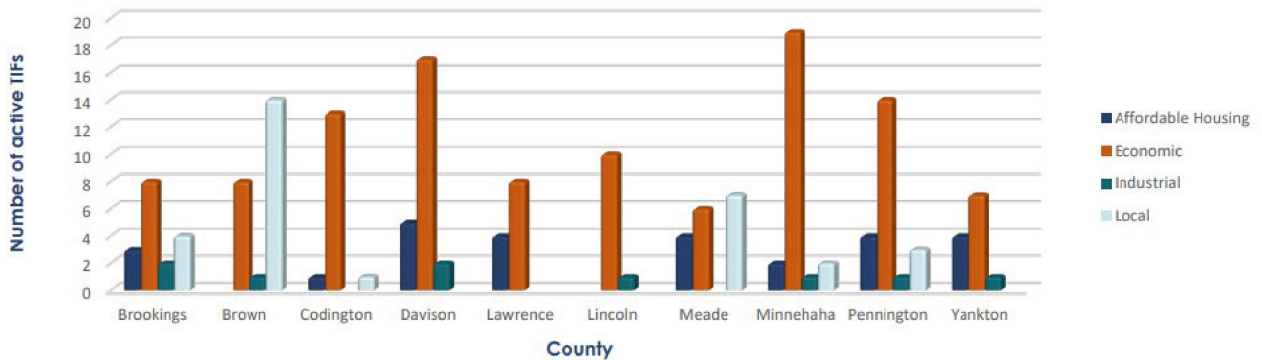
Financing

Governing body secures special financing to pay for project costs
OR

The developer secures financing to pay project costs

This will dictate what type of Fund will be used to account for TIF.

Top 10 Counties

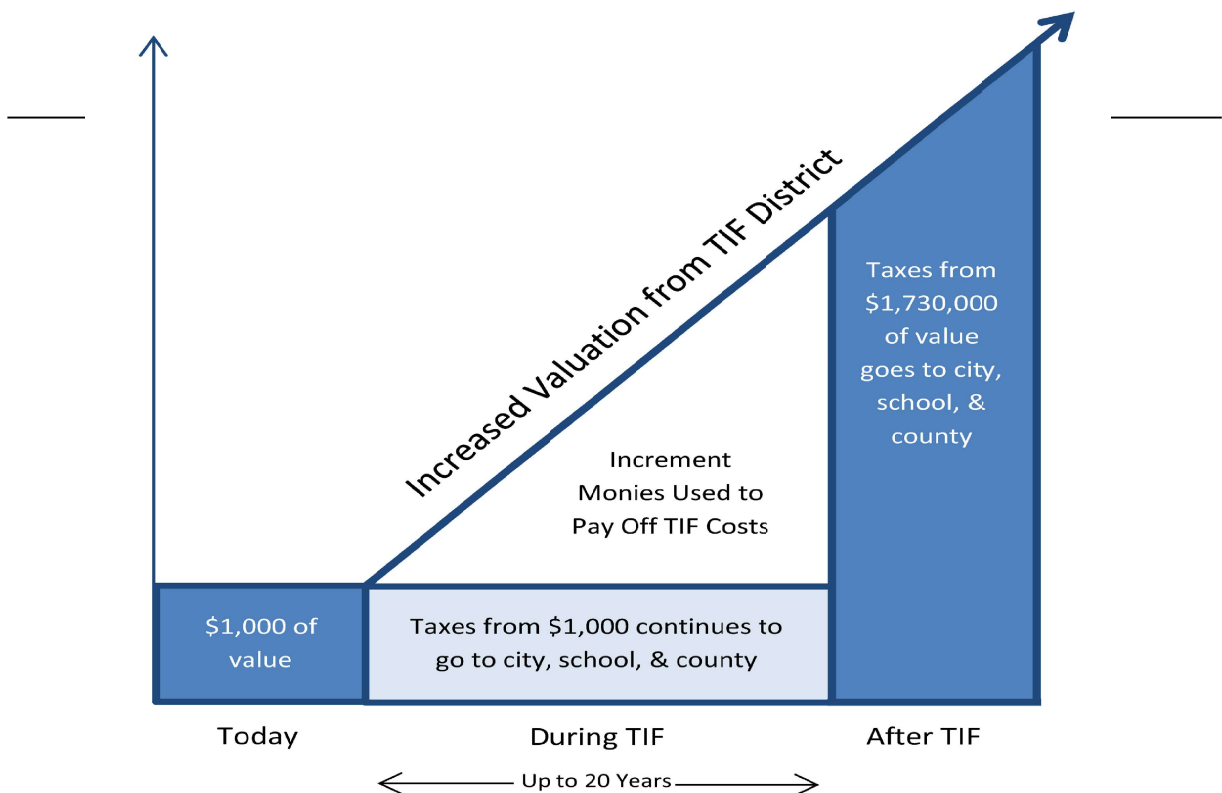


261 Active TIFs in South Dakota
44 Counties have active TIF's

How a TIF works

- County, schools, and municipalities will continue to receive the same tax dollars as before creation of the district
- Financing payments come from taxes generated by the Increment
 - Only taxes generated on properties within the boundaries of the district are used to pay project costs

Cannot last longer than 20 years



Establishing a TIF—Preliminary Steps

- ❑ Planning commission for the for the governing entity must hold a hearing on the necessity of the TIF
- ❑ Notice of hearing must be published between 10-30 days prior to said hearing
- ❑ Planning commission must make recommendations to the governing entity including the proposed boundaries of the TIF District.

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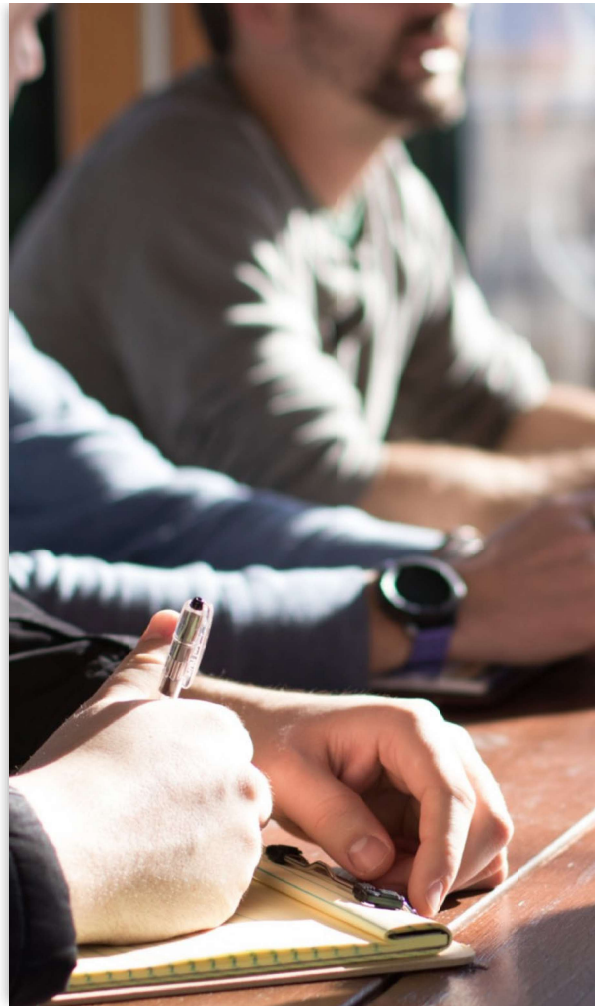
TIF Project Plan (SDCL 11-9-13)

- ❑ The kind, number, and location of all proposed public works or improvements
- ❑ An economic feasibility study:
- ❑ A statement regarding the impact upon all taxing entities in the TIF district; and
- ❑ A description of the financing for the proposed project

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PROJECT COSTS

- **Capital costs** - including public works, demolition, alteration, remodel or reconstruction of existing building or structure
- **Financing costs** – including interest
- **Real Property** – including acquisition of real or personal property
- **Professional fees** – architectural, engineering, legal
- **Imputed administrative costs**- administrative costs including reasonable charges from a municipality
- **Relocation costs**
- **Organizational costs** – environmental impact, cost of informing the public
- **Payments and grants**, at the discretion of governing body, necessary for the creation of a district (No payment or grant may be used for any residential structure)



Governing Entity Approval

- Must consider approval of the planning commission recommendations and project plan
- Must adopt a resolution creating the TIF district
 - Must include the legal description of the boundaries, official creation date, and name for identification purposes
- Must request a preliminary classification from DOR
 - Submission form, copy of the resolution, map of the district, including a detailed parcel list, property ownership, valuation of the property, and proposed project plan

Process Overview



- ❑ **Governing Body passes Resolution creating TIF**
- ❑ **Clerk sends Preliminary Classification form to DOR**
- ❑ **Must include Resolution, a map of boundaries including a detailed parcel list, ownership and valuation, and proposed project plan**
- ❑ **DOR reviews and sends back Classification letter to Governing Body**
- ❑ **DOR sends letter to DOE requesting property record cards**
- ❑ **DOR certifies base valuation**

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TIF Classification

4 types of TIF classification

- Local
- Industrial
- Economic Development
- Affordable Housing

Determines how the increment value will be treated in the State-Aid to Education formula

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 	<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 <ul style="list-style-type: none"> 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 <ul style="list-style-type: none"> 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 <ul style="list-style-type: none"> Exempt from imposing an additional school levy on all real property within the district (SDCL 13-13-10.9)

3 | July 2022 | South Dakota Department of Revenue | Tax Increment Financing (TIF)

Tax Increment Fund

- **SDCL 11-9-31 requires the tax increment to be deposited in *special* fund.**
 - **Note** this does not necessarily say Special Revenue Fund. Rather or not a Special Revenue Fund or a Debt Service Fund is used would depend on the details outlined in the TIF Plan.

Dissolving a TIF

- ❑ Time lapses OR all project costs have been paid whichever comes first.
- ❑ Governing Body that created the TIF passes a resolution.
 - Letter sent to DOR and County
- ❑ Director of Equalization will remove TIF in system
 - Increment value will be entered as new growth for all taxing entities

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Frequently Asked Questions

Who monitors the TIF process?

- The Governing Body oversees the progress of the TIF district.

Who controls TIF funds and makes the project payments?

- The counties collect TIF revenue through the property tax process
- Taxes paid on the increment value are deposited into a TIF fund associated with the TIF project.

Municipality creating the TIF is the “TIF Police”

Tax Increment Financing

- ❑ Auditor *may* not be the “TIF Police” however auditors need to be aware of TIFs established by their clients.
 - ❑ Compliance Issues
 - ❑ Financial Reporting

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Case Study #1

In 2021 and 2022, the County received back from the City related to excess taxes for TIF #3 and TIF #4. The County, in accordance with state statute, to affected taxing entities, [REDACTED] County, [REDACTED] City, [REDACTED] School District, and [REDACTED] Development District.

However, during the time period of 2019, 2020 and 2021, the County and City continued to levy an additional tax levy on the taxpayers of the [REDACTED] School District in accordance with SDCL 10-102-44 (1). This resulted in excess taxes related to TIF #3 of approximately \$333,000 and TIF #4 of approximately \$137,000 for a total of approximately \$469,000.

Effect:

The additional levies associated with TIF #3 and TIF #4 caused all real property within the [REDACTED] School District to be assessed approximately \$470,000 in additional property taxes.

Cause:

The County continued to levy additional property taxes on [REDACTED] School District taxpayers after the debt obligations set forth in the TIF plans were satisfied.

Recommendation:

2. We recommend the County, in conjunction with the Cities, develop internal control procedures to monitor the levy requirements for each Tax Increment Financing District.

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Case Study #2

				DEBT SERVICE FUND						
Capital Projects Fund				Contributions	Tax Increment			Debt Service Fund	Cummulative	Principal
				From Developer	Revenue	Total Revenue	debt (P&I)	Difference	Fund Balance	Outstanding
2007	\$ 220,238.91	loan from SD Housing	Received and spent all of it.	2007						\$ 220,238.91
2008				2008	\$ -	\$ -	\$ -	\$ -	\$ -	
2009				2009	\$ 16,505.89	\$ 5,341.43	\$ 21,847.32	\$ 21,847.32	\$ -	\$ 209,603.72
2010				2010	\$ 14,934.62	\$ 6,912.70	\$ 21,847.32	\$ 21,847.32	\$ -	\$ -
2011				2011	\$ 9,512.77	\$ 12,334.55	\$ 21,847.32	\$ 21,847.32	\$ -	\$ 185,127.13
2012				2012	\$ 6,979.34	\$ 14,867.98	\$ 21,847.32	\$ 21,847.32	\$ -	\$ -
2013				2013	\$ 6,339.38	\$ 15,307.94	\$ 21,647.32	\$ 21,647.32	\$ -	\$ 158,220.09
2014				2014	\$ 5,967.90	\$ 15,849.26	\$ 21,817.16	\$ 21,847.32	\$ (30.16)	\$ (30.16)
2015				2015	\$ 8,094.82	\$ 13,818.81	\$ 21,913.63	\$ 21,847.32	\$ 66.31	\$ 128,641.28
2016				2016	\$ 5,737.92	\$ 16,073.25	\$ 21,811.17	\$ 21,847.32	\$ (36.15)	\$ (0.00)
2017				2017	\$ 3,022.89	\$ 18,824.43	\$ 21,847.32	\$ 21,847.32	\$ -	\$ 96,125.38
2018				2018	\$ 3,317.50	\$ 18,529.82	\$ 21,847.32	\$ 21,847.32	\$ -	\$ (0.00)
2019				2019		\$ 17,103.03	\$ 17,103.03	\$ 21,847.32	\$ (4,744.29)	\$ (4,744.29)
2020				2020		\$ 22,342.42	\$ 22,342.42	\$ 21,847.32	\$ 495.10	\$ (4,249.19)
2021				2021		\$ 20,624.77	\$ 20,624.77	\$ 21,847.32	\$ (1,222.55)	\$ (5,471.74)
2022				2022		\$ 17,795.67	\$ 17,795.67	\$ 21,847.32	\$ (4,051.65)	\$ (9,523.39)
2023				2023		\$ 28,633.29	\$ 28,633.29	\$ 25,615.84	\$ 3,017.45	\$ (6,505.94)
2024				2024				\$ -	\$ (6,505.94)	
					\$ 80,413.03	\$ 244,359.35	\$ 324,772.38	\$ 331,278.32	\$ (6,505.94)	

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Governmental Funds 101

- ❑ At the inception of fund accounting, individual funds most often corresponded to separate bank accounts (checkbook accounting)
- ❑ Advances in treasury management and financial management systems have reduced or eliminated the need for multiple bank accounts
- ❑ Today's Funds may exist only as data sets within the government's information system.

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Governmental Funds 101

- Third principle of governmental accounting and financial reporting for state and local governments (Number of Funds) states that:
 - Governmental units should establish and maintain those funds required by law and sound financial administration. ONLY the MINIMUM number of funds consistent with legal and operating requirements should be established, however, because unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

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Governmental Funds 101

- The number of funds necessary for *accounting* purposes (high level of detail) may be greater than the number of funds needed for *financial reporting* purposes:
 - Consider combining numerous smaller debt service “funds” into a single fund
 - Consider combining numerous smaller debt service “funds” into a single fund

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Governmental Funds 101

- Governmental Funds—used to account for activities primarily supported by taxes, grants, and similar revenue sources.
 - General Fund
 - Special Revenue Fund
 - Capital Projects Fund
 - Debt Service Fund
 - Permanent Funds

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General Fund

- Main operating fund used to account for and report all financial resources not accounted for and reported in another fund
 - Fund used by **default**
 - To account for and report all financial resources not accounted for and reported in another fund.

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Special Revenue Fund

- Used to account for and report the *proceeds of a specific revenue sources* that are restricted or committed to *expenditure* of specified purposes other than debt service or capital projects

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Special Revenue Fund

- Two criteria must be met before a special revenue fund is used.
 - Expenditures for specified purpose
 - Proceeds of specific revenue sources
- A limitation on *how* resources may be spent is not enough, by itself, to justify the use of the special revenue fund. Must have resources derived from one or more specific *revenue* sources.

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Special Revenue Fund

- ❑ A surplus in the GF, for instance, is not a revenue source; therefore, a city council's decision to commit a portion of such a surplus to road repair would *not* be sufficient to justify the use of a special revenue fund.
 - Transfers in are not a revenue source
- ❑ Frequently legally required. Otherwise, the use is permitted rather than mandated for financial reporting purposes. (Grants)

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Capital Projects Funds

- ❑ Used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition and construction of capital facilities and other capital assets.

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Capital Projects Funds

- ❑ Often used to avoid “spikes” in operating expenditures during peak period of major construction
- ❑ *Not* to be used for routine capital outlays, which are reported instead by function.
 - Side note--I only use “capital outlay” expenditure function in a capital projects fund and *not* in other governmental funds (budget and report within functions)
- ❑ Used primarily for major projects and acquisitions (new city hall, etc.)
- ❑ Used for capital acquisitions or construction financed by borrowed or contributed resources.

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Capital Projects Funds

- ❑ Use is frequently required by debt covenants, grant contracts, law or regulation. Otherwise, the use is permitted rather than mandated for financial reporting purposes.
 - Valuable management tool for multi-year projects

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Debt Service Fund

- Used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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Debt Service Fund

- Essential purpose is to account for *accumulations of resources*.
 - Absent such an accumulation (lease), it is common to account for debt service in the GF rather than a separate debt service fund.
- Frequently legally mandated.
- Required whenever “financial resources...are being accumulated for principal and interest maturing in future years”.

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Debt Service Fund

- ❑ Otherwise, the use is permitted rather than mandated for financial reporting purposes.
- ❑ The use of a debt service fund would not be appropriate for debt reported as a liability in a proprietary fund.

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Permanent Funds

- ❑ Used to account for and report resources that are restricted to the extent that *only earnings* and *not principal*, may be used for purpose that support the reporting government's programs---that is, for the benefit of the government or its citizenry
 - Examples---perpetual care of cemetery, provide art programs in school, scholarships

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Permanent Funds

- ❑ Endowment-like arrangements for the benefit of outside parties (individuals, private organizations, other governments) are properly reported in the fiduciary category as private-purpose trust funds.
- ❑ Use of permanent funds normally is obligatory for financial reporting purposes.

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Case Study #1

	General Fund	Second Penny Sales Tax Fund	Liquor, Lodging, & Dining Sales Tax Fund	Total Governmental Funds
ASSETS:				
Cash and Cash Equivalents	1,429,901.05	1,644,863.57	7,402.30	3,082,166.92
Taxes Receivable--Delinquent	6,180.97			6,180.97
Special Assessments Receivable--Current		1,276.39		1,276.39
Due from State & County Governments	37,972.88	25,909.44	2,170.65	66,052.97
Interest Receivable	21.15	16.44		37.59
Inventory of Stores Purchased for Resale	14,092.71			14,092.71
Prepaid Expenses	4,336.09			4,336.09
TOTAL ASSETS	1,492,504.85	1,672,065.84	9,572.95	3,174,143.64
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	39,960.04	117,507.53		157,467.57
Accrued Wages Payable	5,347.97			5,347.97
Accrued Taxes Payable	21,173.54			21,173.54
Total Liabilities	66,481.55	117,507.53	0.00	183,989.08
Deferred Inflows of Resources:				
Unavailable Revenue - Property Taxes	6,180.97			6,180.97
Unavailable Revenue - Special Assessments		1,276.39		1,276.39
Total Deferred Inflows of Resources	6,180.97	1,276.39	0.00	7,457.36
Fund Balances:				
Nonspendable - Inventory	14,092.71			14,092.71
Nonspendable - Prepaids	4,336.09			4,336.09
Restricted - Facilities and Promoting the City			9,572.95	9,572.95
Committed - Capital Replacements	526,436.61	1,553,281.92		2,079,718.53
Unassigned	874,976.92			874,976.92
Total Fund Balances	1,419,842.33	1,553,281.92	9,572.95	2,982,697.20
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	1,492,504.85	1,672,065.84	9,572.95	3,174,143.64

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Case Study #2

		General	Capital Projects
		Fund	Fund
	ASSETS:		
101	Cash and Cash Equivalents	2,779,534.00	(1,712,232.00)
106	Cash with Fiscal Agent		
151	Investments		
107.1	Restricted Cash and Cash Equivalents	1,376,741.00	
107.2	Restricted Investments		
	TOTAL ASSETS	4,156,275.00	(1,712,232.00)
	FUND BALANCES: (See Note ____)		
263	Nonspendable		
264	Restricted	1,376,741.00	
265	Committed		
266	Assigned		
267	Unassigned	2,779,534.00	(1,712,232.00)
	TOTAL FUND BALANCES	4,156,275.00	(1,712,232.00)
The notes to the financial statements are an integral part of this statement.			

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Compliance and Other Matters

- ❑ Is financial accountability and transparency important?
 - Do we have findings if an entity is late in presenting, publishing, and filing annual reports?
 - Are audits done in a timely manner?
 - Are audit reports available on websites?
 - Are minutes and any required financial information published on a timely basis?
 - Are budgets properly published?

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Compliance and Other Matters

- Are budget forms used by entities consistent with those prescribed in DLA Accounting Manuals?
- What do the original and final budgets approved and adopted by our clients tell us about their budget management practices?