

ACCOUNTING INTERPRETATION NO. 16

Subject: Accounting for Tax Incremental Districts

This interpretation is intended to provide uniform guidance for the accounting of transactions related to Tax Incremental (Financing) Districts that may be established in accordance with SDCL 11-9.

As a way to finance the cost of certain improvements in areas of municipalities designated to be slums or blighted areas, Tax Incremental Districts may be created by resolution of the governing board. Tax Incremental Districts are accounted for within the regular fund structure of the county that creates them.

Tax Incremental Districts derive their name from the dedication of increased tax revenues generated by (capital) improvements made to alleviate slums and/or blighted areas, in accordance with a District Improvement Plan. The improvements increase both the property values and the taxable values of the real property within the district. Improvements in the District may be financed by available General Funds of the County, or by the issuance of bonds under SDCL 9-44, 9-54, or 11-9. Tax Increment Financing Bonds are usually issued to finance the necessary improvements, although notes may also be issued, and available General Funds of the county may be used as well. The increased revenues are dedicated to retire this debt or to repay the General Fund.

The exact life of a District will vary, depending on the method of financing; however, a Tax Increment District has a maximum life of 20 years after the last expenditure identified in the District Improvement Plan has been made, or until all bonds or notes issued pursuant to SDCL 11-9-35 have matured. During its life, the additional tax revenues resulting from the increased taxable value of the property within the District shall be paid by the County Treasurer to the county that created the District. These "Tax Increment Revenues" must be segregated from the other revenues of the county, and may be used only to retire monetary obligations incurred for project costs of the District, or for recovering costs financed by available General Funds. During the life of the District, the taxable value of the property within the District that may be taxed by other taxing subdivisions of the State is limited to the tax incremental base valuation (the value of the property prior to the creation of the Tax Increment District).

Upon creation of its first Tax Incremental District, the county should establish a Capital Projects Fund to account for the construction of the planned improvements. The name given the first such fund should be "Tax Incremental District No. 1 Capital Project Fund." This fund will have a relatively short life. Proceeds from the issuance of debt issued to finance the improvements shall be credited to this fund. Additionally, statute allows the governing body of the county to make appropriations to this Fund. Moneys in this Fund may only be used to pay project costs. Any cash balance remaining in this Fund after all improvement costs have been paid shall reimburse the General Fund or shall be transferred to a related Debt Service Fund. Subsequently created Districts shall be numbered consecutively, and separate funds should be established for each District.

All tax increment revenues generated by the District shall be credited to a Debt Service Fund. The life of this fund will coincide with the life of the District. Moneys in this fund may only be used to retire the indebtedness incurred to finance the cost of the improvements. The Debt Service Fund should be named "Tax Incremental District No. 1 Debt Service Fund," with subsequently created funds consecutively numbered.

Statute authorizes the governing body to make appropriations to the District Capital Projects Fund. Generally, such appropriations would result in transfers from the General Fund to the Tax Incremental District Capital Projects Fund.

If bonds or notes are issued, the liability should be recorded in the General Long-Term Liability Accounts. Near the end of the life of the debt issue, the outstanding balance may be reported in the related Debt Service Fund, but only if resources have been accumulated in an amount sufficient to meet the final debt service payment(s), consistent with the definition of a current liability for governmental fund types. Tax Incremental District Bonds or Notes are counted as debt for the purposes of calculating the constitutional debt limit.

Any moneys remaining in the Debt Service Fund upon termination of the District shall be used to reimburse the county (General Fund) for any voluntary contributions to the fund, and the balance distributed "to the treasurer of each municipality, school district, other tax-levying county or to the General Fund of the county in such amounts as belong to each respectively." We believe this means that any remaining balance in the Tax Incremental District Debt Service Fund should be apportioned in the same manner as property taxes.

Indebtedness created by tax incremental bonds issued by municipalities pursuant to act authorizing such bonds is a "debt" of municipality under section of State Constitution placing certain limitations on such debts, and thus, tax incremental bonds are subject to such constitutional limitations. Const. Art. 13 § 4; SDCL 11-9-1 et seq. *Meierhenry v. City of Huron*, 1984, 354 N.W.2d 171.