



From Concept to Creation

Tax Increment Financing 101

Your Presenter



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Why Engage in Economic Development?

Job Creation

Tax Base Growth
& Diversification

Redevelopment

Neighborhood
Preservation

Develop
Infrastructure

Improve Housing
Availability &
Choice

Pollution Control
or Cleanup

Quality of Life

Why Might TIF Be Necessary?

Site or Market Conditions Limit Feasibility

- Private developers have market-based return on investment (ROI) expectations
- Lenders & equity providers have limitations and requirements
- City goals may be incompatible with what the market wants to build

Why Might TIF Be Necessary?

Public Financing Fills a Gap

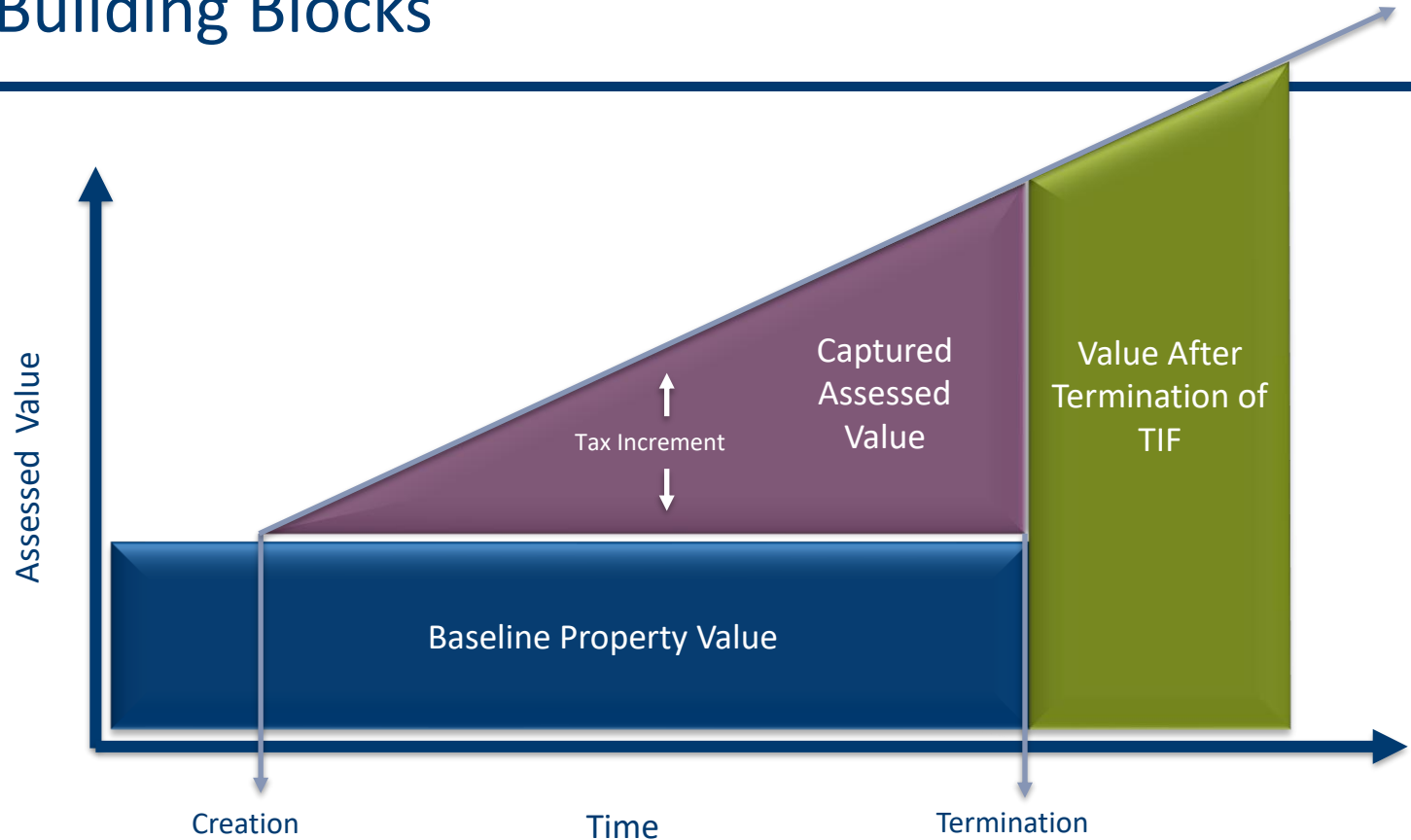
- Helps projects move forward that otherwise would not under current market conditions
- May provide up front, or over time
- Goal: Positive cashflow & reasonable ROI to incent private investment

What is Tax Increment Financing (TIF)?

Minnesota Statutes
469.174-469.1794

1. The ability to capture and use most of the **increase** in property tax revenues from **new development**
2. Within a defined **geographic area**
3. For a defined **period of time**
4. **Without approval** of the other taxing jurisdictions

TIF Building Blocks



What is Excluded from TIF?

- 1 Base Value
- 2 State-wide Taxes
- 3 Market Referendum Taxes



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HOW DO YOU CALCULATE TIF?

Original Tax Capacity

- All properties have a value today that is funding local units of government **“base value”**
- This portion still goes to each taxing jurisdiction

Base Value x Tax Classification = Original Tax Capacity

Original Tax Capacity = 7,838

Captured Tax Capacity

Total Tax Capacity = 90,338



Development Value

Original Tax Capacity = 7,838



Base Value

Captured Tax Capacity = 82,500



Increased Value

Tax Increment

Total Tax Capacity = 90,338
- Original Tax Capacity = 7,838

“Captured” Tax Capacity = 82,500
x Tax Rate = 153.410%
Annual TIF = **\$126,563**



TIF 101

WHAT IS THE “BUT-FOR” TEST?

But For Test

Minnesota Statutes
Requirement

New Market Value	=	27,430,000
Current Market Value	=	<u>2,144,000</u>
Difference	=	25,286,000

Present Value of Tax Increment	=	5,052,813
Value Likely to occur without TIF is less than	=	20,233,187

Protecting Local Resources

- Only want to provide the minimum level of public assistance to make a project financially feasible
 - ✓ Commonly referred to as the “but for” test
- Review developer’s application & financial information to establish appropriate level of public assistance
- Should be able to demonstrate to elected officials and community members that this standard has been met

Pro Forma Analysis

Compare developer's numbers against industry standards

- Land acquisition
- Construction Costs
- Developer Fee
- Debt Assumptions
- Return on Investment

Ensure development components accounted for correctly

- Revenues
- Expenditures
- Debt service



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HOW DO YOU MONETIZE TAX INCREMENT?

Forms of Financing

PAYGO

- Most common
- Least expensive
- Developer may or may not monetize for capital stack

Revenue Bond

- Developer monetizes through underwriter
- City issues tax-exempt or taxable bonds

GO Bond

- Least common
- Only leveraged when there's a major issue to address



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WHAT TYPES OF TIF DISTRICTS ARE THERE?

Common Types of TIF Districts

TIF District	Term Length
Redevelopment	26 Years
Renewal & Renovation	16 Years
Housing	26 Years
Economic Development	9 Years

Note: Each type of TIF District has its own requirements & limits

Redevelopment TIF Districts

- **Goal**
 - ✓ Clean up blighted sites & remove substandard buildings
- **Maximum Term**
 - ✓ 25 years from receipt of first increment (26 years total)
- **Establishment Requirements**
 - ✓ Coverage test
 - ✓ Blighted building test (substandard)
 - ✓ Reasonable distribution

Renewal & Renovation TIF Districts

- Goal
 - ✓ Clean up blighted sites & remove substandard buildings
- Maximum Term
 - ✓ 15 years from receipt of first increment (16 years total)
- Establishment Requirements
 - ✓ Coverage test
 - ✓ Blighted building tests (substandard and obsolete)
 - ✓ Reasonable distribution

Redevelopment vs. Renewal & Renovation

	Redevelopment	Renewal & Renovation
Coverage Test	70%	70%
Occupied Parcels	15%	15%
Blighted Building Test (Structurally Substandard)	More than 50%	20%
Buildings Require Substantial Renovation/Clearance	N/A	30%
Distribution of Parcels	Reasonable	Reasonable
Duration of District	26	16

Housing TIF Districts

- Goal
 - ✓ Create rental or owner-occupied housing for low- to moderate-income households
- Maximum Term
 - ✓ 25 years from receipt of first increment (26 years total)
- Establishment Requirements
 - ✓ Rental
 - ✓ Owner-occupied
 - ✓ Commercial restriction

Each has very specific parameters!

Housing Districts: Establishment Requirements

Rental:

- 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

Owner-Occupied:

- 95% of housing units must be sold initially to buyers with incomes at or below:
 - 100% of greater of 1) Family AMI or 2) state median income for families of two or less
 - 115% of the greater of 1) Family AMI or 2) state median income for families of three or more

Commercial Restriction:

- No more than 20% of the square footage of buildings in district may consist of commercial, retail, or other nonresidential use

Economic Development TIF Districts

- Goal
 - ✓ Create tax base & new jobs
- Maximum Term
 - ✓ 8 years from receipt of first increment (9 years total)
- Establishment Requirements
 - ✓ Building use
 - ✓ Workforce housing
 - ✓ Commercial – Small Cities

Each has very specific parameters!

Economic Development Districts: Establishment Requirements

85% or more of building used for...

- Manufacturing, production, warehousing, storage, and/or distribution of tangible personal property
- Research & development
- Telemarketing
- Tourism facilities
- Space necessary for above activities

Workforce Housing

- City located outside of metropolitan area
- Average vacancy rate is 3% or less in last 2 years
- Written statement from one business within 15 miles employs a minimum of 20 FTE employees indicating lack of available housing
- School and County approval
- Ends in 2027

Commercial

- Small City is...
 - Population of 5,000 or less
 - Located 5 miles or more from a city in MN with a population of 10,000 or more
- Up to 15K SF (1st Floor)
 - Office
 - Retail
 - Restaurant



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HOW DO YOU CREATE A TIF DISTRICT?

TIF: Subsidy Process



Draft TIF Plan

Statutory authority

Statement of objectives

Prepare budget

Assess departmental fiscal impact

Create a map of the district

But-for qualification

Notices



Notice to County
Commissioner 30 days
prior to hearing notice
publication



TIF Plan with fiscal
impacts to County &
School Districts 30 days
prior to public hearing



Hearing notice
publication at least 10
days prior to hearing

Public Hearing

- Council holds public hearing, considers resolution to adopt TIF plan
 - ✓ Type of district
 - ✓ But-for finding (pro forma analysis)
 - ✓ District conforms to general development plan
 - ✓ Plan affords maximum opportunity for city's development needs



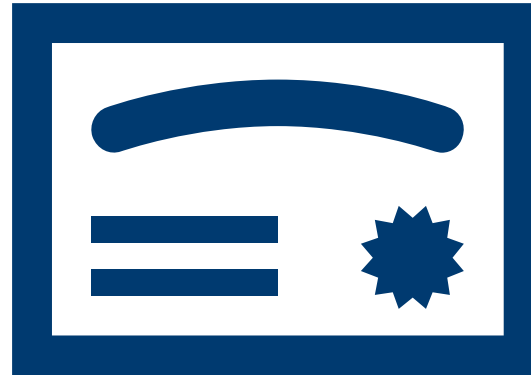


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WHAT HAPPENS AFTER A TIF DISTRICT IS CREATED?

Certification

- Inform the County, OSA & Department of Revenue that a new district has been created
- Provide resolutions, hearing notices, agreements & other items documenting actions
- Certifications need to be submitted by June 30th to preserve the current tax rate



Qualified Costs Documentation

- TIF may only be spent on qualified costs
- Costs must be verified & documented
 - ✓ Documented costs must be at least as much as the principal amount of the obligations being issued
 - ✓ Documentation includes invoices for work performed & evidence of payment for that work

Tax Increment Collection

- Counties calculate and send increment to Cities
- Payments are made **semi-annually**
 - ✓ June tax settlement
 - ✓ December tax settlement
 - ✓ Possible corrections with January clean-up settlement
- If property taxes aren't paid, **increment won't be generated**



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