



Tax Increment Financing City of St. Francis

Nick Anhut – Ehlers

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Tax Increment Financing

- Goals for Tonight's TIF Discussion:
 - Provide overview of Tax Increment Financing
 - Demonstrate that this project has a financial gap
 - Provide look ahead for considerations and next steps

Why Invest in Development?

- Primary Objectives:
 - Grow tax base
 - Helps maintain and expand services and amenities
 - Housing diversification and life-cycle options
 - Attract and maintain residents; well-rounded and resilient through economic cycles
 - Attract spillover investment in business and workforce development
- Additional:
 - Enhance city appearance / desirability (your “brand”)
 - Development of public infrastructure
 - Increase stability and address public safety
 - Sustainability

MN Property Tax Fundamentals

- Local Levies are independently determined as part of annual budget process
 - Spread out upon the tax base of each jurisdiction measured by tax capacity
- Tax Capacity = Property's Assessed Value x Class Rate (determined by legislature)

Assessed Value		Class Rate		Tax Capacity
7,740,000	x	Rental (1.25%)	=	\$96,750

- Local Tax Rate = Adopted Levies / Net Tax Capacity* of jurisdiction's entire tax base
- Sum of Local Tax Rates x a Property's Tax Capacity = the parcel's property taxes
- Adding New Development = levies are spread over a larger pie
 - ✓ Results in lower tax shares for existing taxpayers

* Certain levies (school operating referenda) applied against property value only

What Is Tax Increment Financing?

- Financing tool designed specifically to encourage certain types of development not reasonably expected to occur without public assistance
- Intended to solve a financial gap in project funding
 - Generally created through a combination of:
 - High Costs particular to a site or development type, and/or
 - Limited market revenues to substantiate private investment
- “But For” the use of public funds, the project is not expected solely through private investment in the reasonably foreseeable future

What Is Tax Increment Financing?

- Creates a revenue stream once a property is developed that a municipality can use to help finance development costs
- Captures a portion of local property taxes created by the taxable value of newly developed property
 - “Base Value” remains as part of general tax base
 - Taxable value prior to development continues to fund local needs
 - Does not capture state and fiscal disparities taxes
 - Payable by commercial properties only
 - Does not capture taxes derived from certain school levies
 - New value helps shoulder School Operating Referenda levies

What Is Tax Increment Financing?

- TIF captures new tax capacity created by development within a defined area
- Segregates local taxes attributed to this new tax capacity for use in financing eligible project costs for a limited period of time
- Methods of Financing:

Pay-go

- Most common
- Limits risk to City
- City agrees to make TIF Available for project
- Developer uses pledge to obtain private funding

Revenue Bond

- Monetize future increment through underwriter
- City issues tax-exempt or taxable bonds
 - After construction & paying taxes, or
 - Up-front

GO Bond

- Less common; most risk
- Leveraged when there's a major issue to address or cost-effective
- Example: fund public infrastructure supporting development

Types of TIF Districts

Purpose	Assistance	Max Term
Replace Substandard or Obsolete Buildings	Redevelopment TIF Renovation & Renewal TIF	26 16
Affordable Housing	Housing TIF Econ Dev. – Workforce Housing TIF	26 9
Job & Tax Base Creation	Econ. Dev. – TIF	9
Environmental Clean-up	Soils TIF District Hazardous Substance Subdistrict	16 TBD

Housing TIF District

- To use TIF, a qualifying rental building must meet defined affordability requirements based on published Area Median Income (AMI) for location, either:
 - 20% of units set aside for households at or below 50% AMI, or
 - 40% of units set aside for those at or below 60% AMI
- Area Median Incomes are determined at the metro level and updated each year

Metro Rental Housing Income Limits by Household Size

	1	2	3	4	5	6	7	8
30%	27,810	31,800	35,760	39,720	42,900	46,080	49,260	52,440
40%	37,080	42,400	47,680	52,960	57,200	61,440	65,680	69,920
50%	46,350	53,000	59,600	66,200	71,500	76,800	82,100	87,400
60%	55,620	63,600	71,520	79,440	85,800	92,160	98,520	104,880
70%	64,890	74,200	83,440	92,680	100,100	107,520	114,940	122,360
80%	74,160	84,800	95,360	105,920	114,400	122,880	131,360	139,840

TIF - General Public Process

- ✓ Developer submits concept and land use requests
- Formal notices provided to County and School District
 - Request for comment, but no formal considerations
- Planning Commission review of TIF Plan
 - Provide City Council written opinion whether the assisted project's proposed land use is consistent with City's general plans for development and redevelopment as a whole
- City Public Hearing on establishment of TIF District
 - Council considers a resolution to establish a new TIF District and approve its Tax Increment Financing Plan

Tax Increment Financing Plan

- Regulatory document to memorialize the purpose, type, duration, uses of funds and findings for the TIF District
 - Filed with State Auditor and County
 - Purpose: Development of St. Francis Apartments
 - Location identified by PIDs and/or property legal description
 - Duration: Up to 26 years as qualification are met
 - TIF Plan Budget:
 - Forecast of incremental tax revenue and other associated sources
 - Authorized Uses for eligible TIF Expenses
 - Types of Financing (Paygo, Bonds, Interfund Loan repayment)
 - Sets maximum for Housing, Administrative and/or Interest Costs

Tax Increment Financing – But For Finding

- Council opinion based on reasonable determination
 - Memorialized in TIF Resolution considered after holding the Public Hearing
- Ehlers best practice:
 - Provide financial analysis comparing proposed project to reasonable market and financing assumptions
 - Developer's projections versus industry standards for a comparable project
 - Understand specific limitations to obtaining private funding for the project

Tax Increment Financing – But For Finding

- \$24.24 million Project Development Budget
 - \$202,000 per unit cost estimate
 - Includes \$938,500 in municipal development fees (park dedication and SAC/WAC)
- Understand limitations to private funding: must provide Return on Investment
 - Net Operating Income (NOI) must support mortgage payments as well as returns necessary for equity investment
- Apartment Rent and operating expense must provide 120% debt service coverage
 - Leverages an estimated mortgage amount of \$14.5 million
- > \$9 million in equity needed for remaining cost
 - Project cashflow analysis indicates only 2.4% potential return on investment
 - Short of 7-8% necessary to attract any investment
- Initial analysis suggests approximately \$3 million funding gap
 - Paygo TIF can unlock additional debt proceeds and equity investment

TIF District Analysis

- TIF District: property converted from tax-exempt to residential use
 - Developed site pays property taxes just like any other like development

Annual Property Tax and Tax Increment Calculation		
	<u>Upon Project Stabilization</u>	<u>Notes</u>
Assessor's Value Estimate:	\$21,000,000	+ 20,775,900 (93x) increase
Total Property Taxes:	\$282,340	+ 282,340 (site currently exempt)
Market Value-based Levies	(14,973)	New funding for School Operating Referenda
Base Tax Capacity Taxes	(2,853)	New funding for Local Jurisdictions
Annual Gross Tax Increment:	\$264,514	
Less: State Auditor Fee (0.36%)	(952)	Fixed by statute
Tax Increment to City TIF Fund:	\$263,561	

- *Projected Tax Increment revenue can fill the preliminary Gap*

Tax Increment Financing – But For Finding

- Preliminary Analysis:

Estimated Project Sources and Uses			
<u>Sources:</u>	<u>Amount</u>	<u>% of Total</u>	<u>Notes</u>
Private Mortgage	14,528,000	60.0%	Estimate @ 120% Coverage
Private Equity	6,100,000	25.2%	Estimate
Deferred Developer Fee Equity	500,000	2.1%	50% of Total Fee
TIF Note	3,100,000	12.8%	Estimate

- TIF Note pledge allows developer to leverage additional debt proceeds to offset the amount of investor equity required
- Projected initial equity returns increase from 2.4% to 5%
- Remaining return target obtained from value engineering, project cost reductions, and / or operating income growth

Other Considerations

- New local housing product
 - Diversification of housing stock attracts growth and reinvestment
 - Affordable workforce option
- Converts tax-exempt property to a taxable use
 - ✓ 2.8% increase to City's tax base
 - Initially, \$18,000 offset to local annual tax burden (currently \$0)
 - Majority of existing taxpayer benefit deferred until TIF expires
- Provides \$938,500 in development fees to City (utility funds)
 - ✓ Adds new utility users (4% increase to equivalent units)
 - ✓ \$115,000 to 135,000 in additional annual utility fund revenue

Potential Agreement – Summary of Terms

- Typical developer requirements:
 - Developer acquires and develops the site under conditions imposed by land use approvals
 - Responsible for obtaining all private funding to be used for the project
 - Commencement and completion deadlines
 - Provide final cost certification upon completion
 - Manage and operate 120-unit apartment building
 - Certify affordable unit compliance, property in good standing and timely payment of taxes as conditions for annual TIF Note payment
- Typical City/EDA requirements
 - ✓ Convey property
 - ✓ Establish and Certify the TIF District
 - ✓ Issue Paygo TIF Note sized to gap amount to reimburse developer's verified actual housing expenditures
 - Note payable only from a designated % of increment verified after receipt of taxes
 - accrues interest and payable up to a set principal amount and term
 - ✓ Annual Financial Reporting to Office of State Auditor

Let's Talk!

