

CITY OF MINNEAPOLIS

Tax Increment Financing Overview



Minneapolis
City of Lakes

Ways & Means Committee

August 11, 2014

Tax Increment Financing

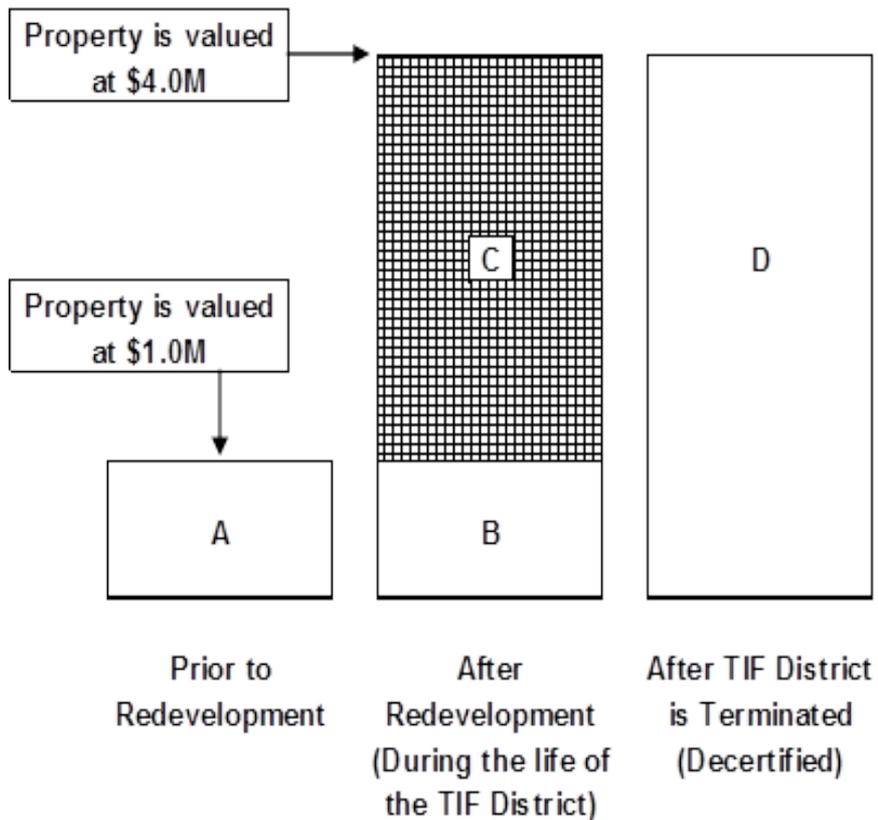
- Development finance tool
- Often used to provide public financial assistance to private development
- Utilized in 49 states in the U.S.
- First authorized in 1947 in MN; first district created in 1969 in Robbinsdale; first Minneapolis district in 1971
- Use is governed by the “TIF Act”
(MN Statutes, Sections 469.174-469.1799)
- Available to cities and counties in Minnesota
- Concept is relatively simple
- Rules, requirements & restrictions are very complicated
- Annual compliance reporting to the State Auditor’s Office

Tax Increment Financing (continued)

- This tool captures most of the property taxes on the increased value resulting from new development within a specific geographic area (the “TIF district”)
- Five (5) different basic types of TIF districts
- Each type - different purpose & qualification requirements
- Maximum duration of TIF districts varies by type (9-26 yrs.)
- TIF district must be located within a geographic area known as a “project” or “project area”
(i.e. redevelopment project, city dev. district, other)
- Development must meet a “but-for” test
- County and school district have no veto powers
- Tax increment must be spent on “TIF eligible” costs

Concept of Tax Increment Financing

A Simple Example



- A** Property taxes on \$1.0M of estimated market value (EMV) are distributed to all applicable taxing jurisdictions.
- B** Property taxes on the first \$1.0M of EMV continue to be distributed to all applicable taxing jurisdictions.
- C** Most of the property taxes on the \$3.0M of "incremental" EMV are distributed to the TIF authority (City Finance). These taxes are referred to as "tax increment". Some of the property taxes on this value are distributed to the applicable taxing jurisdictions.
- D** Property taxes on \$4.0M of EMV are distributed to all applicable taxing jurisdictions.

The “But-For” Test

- Statutory “But-For” Test (part 1 of 2)
If not “but-for” public assistance, the development or redevelopment would not reasonably be expected to occur within the foreseeable future.
- Minneapolis “But-For” Test (part 1 of 2)
If not “but-for” the use of tax increment financing assistance, the development or redevelopment would not reasonably be expected to occur within the foreseeable future.
- Part 2 of Test examines what will likely be developed on the site without tax increment financing assistance.

Types of TIF Districts

- 1) Redevelopment – primary purpose is to eliminate blighted conditions on previously developed sites
- 2) Housing – requires development of low-to-moderate income rental or ownership housing
- 3) Economic Development – used primarily to assist manufacturing, warehousing, distribution, and R&D
- 4) Renewal and Renovation – similar to redevelopment, but more focused on inappropriate & obsolete land uses
- 5) Soils Condition – assist with removal or remediation of hazardous substances, pollutants or contaminants
- 6) Other (special legislation)

Typical TIF Eligible Costs

- Land/building acquisition or writedown
- Demolition
- Environmental/geotechnical
- Public improvements (utilities, roads, sidewalks, etc.)
- Site improvements (clearance, earthwork, etc.)
- Building rehabilitation / historic preservation
- Low/moderate income housing
- Parking facilities (lots and ramps)
- TIF administrative costs
- Paying debt (principal & interest) for any of the above

Where Can Tax Increment Be Spent?

- For TIF districts established on or after May 1, 1990:
 - 100% of TI spent within the project (project area)
 - 75%-80% of TI must be spent within TIF district
 - Exception: 25% of TI may be spent for qualified low income housing anywhere within the City (must be authorized by the Council in the TIF plan)
 - Maximum 10% for administrative purposes
- For older TIF districts established before May 1, 1990:
 - 100% of TI spent within the project (project area)
 - No minimum % must be spent within TIF district
 - Maximum 10% for administrative purposes

Financing Alternatives

Financial assistance is typically needed during construction. How can a future stream of annual tax increment collections provide this assistance?

- Pay-as-you-go TIF revenue note is issued to the developer
 - Most common alternative used in Minneapolis
 - Developer finances the TIF assistance by obtaining a “TIF loan” (or equivalent) from a lender
 - Loan proceeds used to pay for TIF eligible costs
 - City pays noteholder 90% of tax increment collected until note is paid off (or TIF district terminates)
 - Noteholder uses tax increment to pay TIF loan
- TI Bonds are issued by the City (currently used infrequently)

Establishing a TIF District (partial list)

- Process dictated by the TIF Act and City ordinance
- Developer submits completed TIF application
- Project Analysis Authorization (PAA) from City Council
- 45-day notification to city planning commission, county, school district, neighborhood groups, etc.
- Review by City Planning Commission
- Public hearing conducted by CD&RS Committee
- Review by Ways & Means Committee
- Approval by City Council
- Mayor's signature & publication in Finance & Commerce
- TIF district certification request sent to Hennepin County
- Filing requirements with the MN Commissioner of Revenue and State Auditor

City Council Role

- Approve Tax Increment Policy and amendments
- Authorize staff analysis of projects requesting TIF assistance
- Approve TIF Plans and creation of TIF districts
- Approve redevelopment contract terms
- Approve appropriations for TIF administrative costs
- Approve sale of TIF revenue notes and bonds
- Approve modifications to TIF Plans
- Receive and file annual TIF disclosure reports

TIF Districts in Minnesota

<u>Type of TIF District</u>	<u>Active as of 12/31/12</u>	
1) Redevelopment	866	49%
2) Housing	546	31%
3) Economic Development	299	17%
4) Renewal & Renovation	29	2%
5) Soils Condition	15	1%
6) Other	29	2%
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Total (a)	1,784	100%

(a) Excludes hazardous substance subdistricts (28).

Source: Tax Increment Financing Legislative Report (For the Year Ended 12/31/12)
Office of the State Auditor

TIF Districts in Minneapolis

<u>Type of TIF District</u>	<u>Maximum Duration (yrs. of TI)</u>	<u>Active as of 7/1/14</u>	
1) Redevelopment	26	48	61%
2) Housing	26	29	37%
3) Economic Development	9	0	0%
4) Renewal & Renovation	16	1	1%
5) Soils Condition	21	1	1%
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Total (a)		79	100%

(a) Excludes hazardous substance subdistricts (3).

Partial List of Projects Receiving TIF Assistance in the Last 15 Years

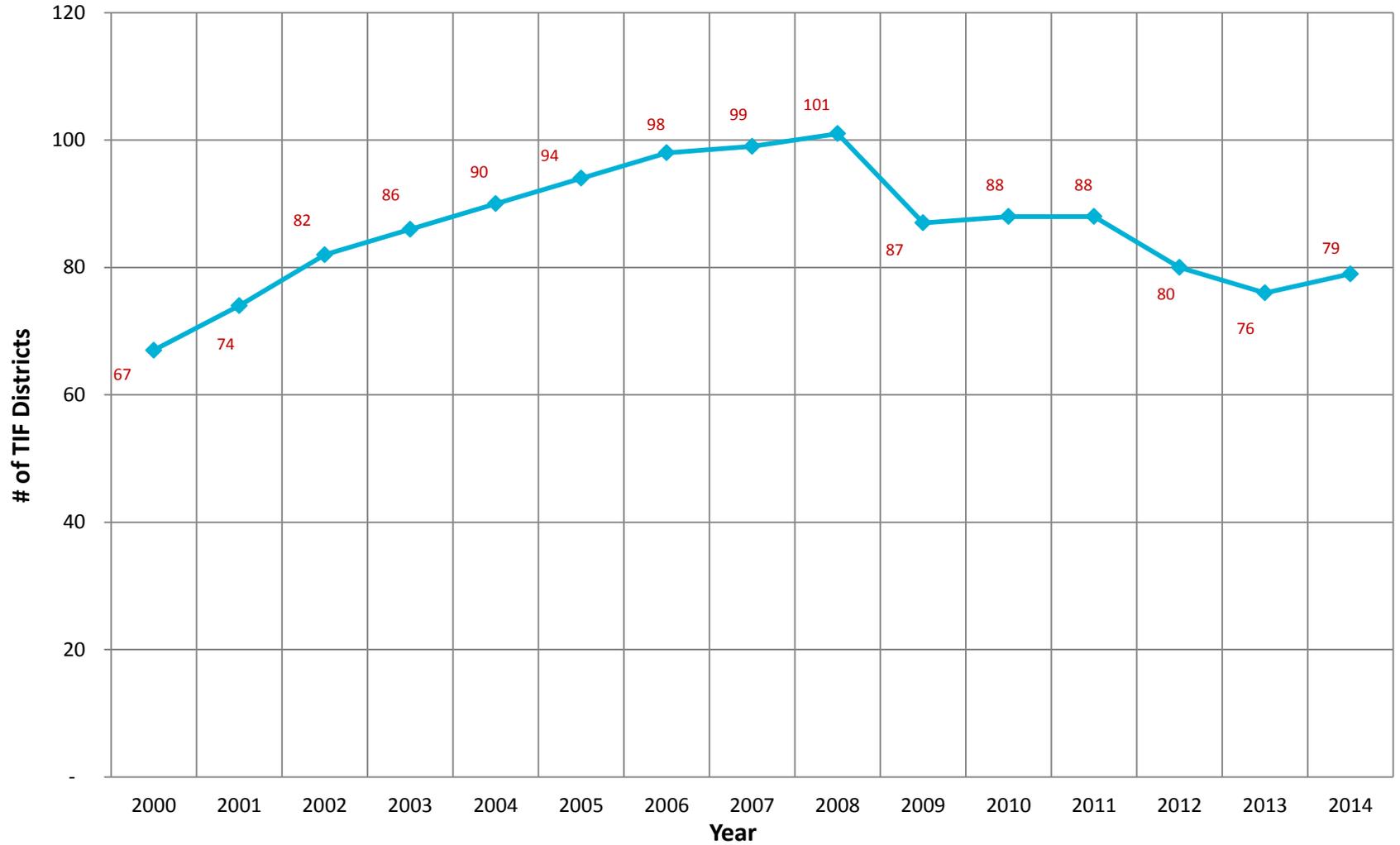
Commercial

- Historic Milwaukee Depot
- Grain Belt Brew House
- Former Federal Reserve
- Block E
- Ivy Tower
- Midtown Exchange
- Humboldt Industrial Park
- Coloplast
- DC Group

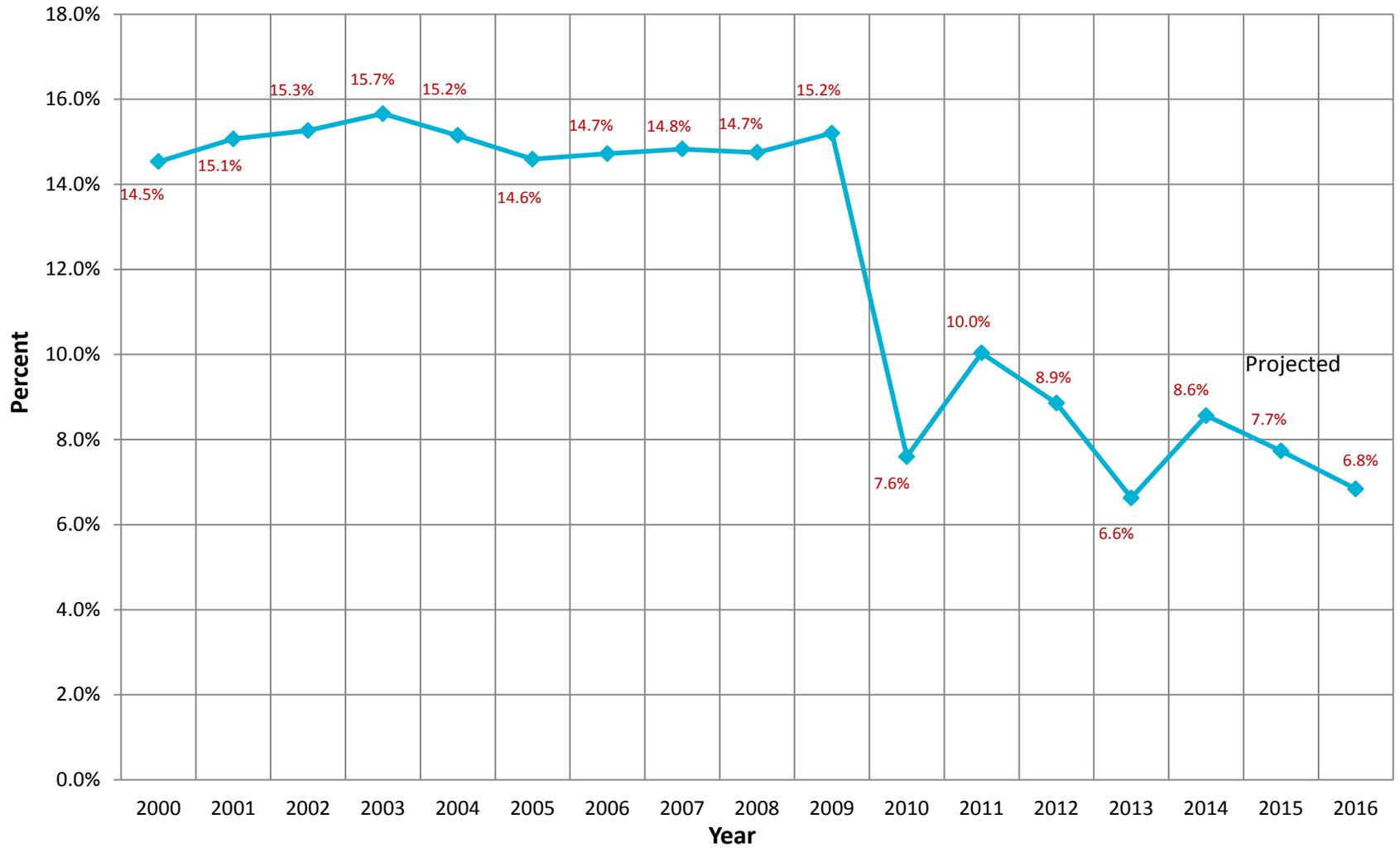
Housing

- Grant Park
- Heritage Park
- Village at St. Anthony Falls
- St. Anthony Mills Apts.
- Van Cleve Apartments
- Jourdain & Wellstone Apts.
- Longfellow Station
- Dunwoody Apartments
- Five15 (Currie Park)

Number of Active TIF Districts in Minneapolis



Percent of Minneapolis Tax Base in TIF Districts





CITY OF MINNEAPOLIS

Tax Increment Financing Overview

Additional information available at MN House Research

<http://www.house.leg.state.mn.us/hrd/issinfo/tifmain.aspx?src=21>

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Enterprise Financial Management & Budget Division
Development Finance Section

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