Available Revenue Sources for CPED Programs

In its efforts to grow a sustainable City, CPED administers a wide array of programs and services that provide assistance and funding in the areas of community and economic development. Most program restrictions are dependent on the sources of revenue allocated to those programs.

	Revenue Sources Available to CPED					
	(1)	(2)	(3)	(4)	(5)	(6)
	Tax Increment	Tax Abatement	Conduit Financing	Grants	Development Account	Special Levy
Statutory Limitations						
Federal			X	X		
State	X	X	X	X		X
Metropolitan				X		
County				X		
Policy Limitations						
City	X	X	X	X	X	X
County		X		X		
Metropolitan				X		
State				X		
Federal				X		

Limitations of Revenue Sources Available to CPED

(1) Tax Increment Limitations

Tax Increment (TI) revenue limitations are both **statutory** and **policy**.

Statutory Limitations: The process for the establishment of TI districts and the use of revenue generated from those districts is determined by State statute. Projects financed with TI must provide a public purpose, such as redeveloping blighted areas, constructing low- and moderate- income housing, providing employment opportunities or improving the tax base.

In order for the City to use TI revenue to fund a redevelopment project, it must be found that “but for” the assistance provided through the TI revenue, the project would not be expected to occur in the reasonably foreseeable future. TI revenue may be collected from a district only for a specific time period and used only for specific activities, depending on the type of TI district, and must be used solely to pay project and administrative costs related to the development and the district.

Policy Limitations: The use of TI within the City is guided by its Tax Increment Policy, which outlines the City’s development objectives and the process used by the City to analyze and evaluate TI proposals.

Tax Increment is **not a discretionary source of funding** for CPED Programs and is generally limited to benefit the specific project being implemented.

(2) Tax Abatement Limitations

Tax Abatement revenue limitations are both **statutory** and **policy**.

Statutory Limitations: The process for the implementation and use of Tax Abatement is outlined in State statute. Statutory limitations on Tax Abatement are less restrictive than those for Tax Increment. Permitted uses of abatements include, but are not necessarily limited to: general economic development (i.e., increasing the tax base and creating jobs,) construction of public facilities or infrastructure, redevelopment of blighted areas, or deferring or phasing in a large (over 50 percent) property tax increase.

In order to use Tax Abatement, a City must find that the public benefit exceeds the cost of the abatement. The City, County and School District individually make the decision on whether to abate their portion of the property tax for a project and the maximum length of the abatement is based on the number of jurisdictions participating. Abatement has a direct financial impact on a School District; therefore participation is usually limited to the City and County.

While not a true abatement of taxes, the property tax generated may be used to either pay debt service on bonds, reimburse costs associated with a project or paid back directly to the taxpayer. The total amount of property taxes abated cannot exceed 10 percent of the City's net tax capacity. For taxes payable in 2010, this would equate to a maximum tax abatement within the City of $43,141,541. The Tax Abatement levy is not subject to levy limits.

Policy Limitations: Both the City and Hennepin County have adopted policies relating to Tax Abatement. The City's policies limit the use to (1) designated historic properties and the substantial rehabilitation of those properties and (2) properties that had previously been located within a pre-79 Tax Increment District and the revenue will be used to fund public infrastructure.

Hennepin County's Tax Abatement policy limits the use of tax abatement to brownfields remediation and environmental cleanup, affordable rental housing, County community works, underdeveloped County owned property, transit oriented development along transit corridors and property with historic preservation designation. Except for the development of County owned property, the total tax abatement the County will provide to a specific project is limited to $3,000,000.

Tax Abatement is **not a discretionary source of funding** for CPED Programs.

Under State statute, this **source is less limited** than Tax Increment in the types of projects and activities that may be funded, **but is more limited** than Tax Increment as a result of City and County policies. The City, with the County's participation, has used Tax Abatement to pay development costs related to the Downtown East LRT Station. Currently there are no Tax Abatement projects within the City.

(3) Conduit Financing Limitations

The City may issue tax-exempt or taxable revenue bonds on behalf of private borrowers to provide lower interest rates on long-term financing. This conduit debt may be issued on behalf of for- and non-profit entities and used to finance industrial, commercial and medical facilities, multifamily rental housing, and nursing homes. Activities that may be funded from bond proceeds include land acquisition, construction of a new facility, additions to an existing facility, the purchase and renovation of existing structures and the purchase of production equipment.

Conduit financing limitations are both **statutory** and **policy**.

Statutory Limitations: Statutory limitations are imposed on conduit financings at both the federal and State levels and generally determine what types of entities may receive conduit financing, the general terms of the debt and how bond proceeds may be used. These federal and State limitations dictate the tax status of interest earnings for bondholders purchasing this type of debt. The public approval process is determined by federal and State statute and takes about 90 days.

State statutes are the first threshold of statutory limitations. Projects financed with conduit debt must meet one of numerous definitions of a "project" under State statutes. Next, the criteria set out in federal statutes must be met in order for interest earnings on the debt to be exempt from federal tax.

Policy Limitations: The City does not have a written policy with respect to conduit financings. The City Council, after a public hearing, must make a policy decision to approve the issuance of the debt.

Conduit financings are **not a discretionary source of funding** for CPED Programs.

CPED charges an administrative fee in conjunction with issuing certain conduit debt. These **bond fees are used as a discretionary funding source for various housing and business development programs**, including: business development fund loan program, 2% revolving loan program for businesses, work capital guaranty program, capital acquisition loan program, alternative business financing program, business association assistance, affordable housing trust fund and senior housing policy.

The following table shows the level of administrative fees generated in recent years from CPED's housing and economic development bond programs:

Year	Housing	Economic Development
2010 (through August)	753,673	1,403,644
2009	1,115,819	2,646,634
2008	1,036,171	2,098,680
2007	2,725,076	3,220,820
2006	1,001,015	2,910,933

(4) Grants

The City applies for grant funding from various entities, including the federal, state, metropolitan and county governments as well as private organizations, or, in some instances, acts as a conduit between grantors and private entities.

Each grantor sets out the limitations for each of its individual grant programs, either through policy or statute.

<u>Grants are **not a discretionary source of funding** for CPED Programs</u>.

While some grants finance programmatic activities of the City, based on criteria provided by the grantor (i.e., community development block grants from the federal government.) Other grants finance specific project activities. In many instances grant revenues are provided to reimburse all or a portion of project costs.

Revenues generated from grants are typically considered program income and fund ongoing program activities that were initially financed from the grant.

(5) Development Account

The Development Account represents revenues that are generated from development activities of CPED that are not considered program income or by statute are not tax increment. These revenues may include land sale proceeds, lease revenues, parking revenues and revenue sharing mechanisms and are not restricted in their use.

Through 2009, Development Account revenues generated from the City's Common Project were dedicated by City ordinance to fund the Neighborhood Revitalization Program. As of December 31, 2009, that pledge of revenue is no longer is place and Development Account revenues are now available for CPED's discretionary development activities.

Statutory Limitations: There are **no statutory limitations** on the use of Development Account revenue, except those general limitations on the use of public funds.

Policy Limitations: During the current year, Development Account revenues are identified for allocation through the budget process for the following year. The **policy limitation on Development Account revenues** is based on recommendations made by CPED on how those revenues should be allocated and the final approval of those allocations by the City Council through its adopted budget for the subsequent year. Development Account revenues have been used to fund both project and administrative costs of various development programs.

Development Account revenues **are the most discretionary source of funding** for CPED Programs.

The level of funding from Development Account sources totaled $6.7 million in 2010 and is projected at $7.215 million in 2011. The 5-Year Plan shows projected revenues in future years.

(6) Chapter 595 Special Levy

Minnesota Laws, 1980, Chapter 595, provides authority to the City to levy a special tax of up to 3 mills for any economic development, housing or redevelopment purpose for which the City may levy a tax. This levy is outside levy limits.

Current estimates indicate the maximum 3 mill levy would generate property tax revenues in the range of $35 to $40 million.

Statutory Limitations: Revenue generated from the special levy is limited by State statute to finance any economic development, housing or redevelopment purpose. There is no limitation as to whether costs paid from the levy are limited to project versus administrative costs. Many cities throughout the State use their special levy authority to pay their administrative costs relating to planning and development.

Policy Limitations: The City Council makes a policy decision whether to enact a special levy. This decision is included as part of the annual budget process.

<u>The Chapter 595 Special Levy is **a discretionary source of funding** for CPED Programs, although somewhat more limited than Development Account Revenue.</u>

In 2002 and 2003 the City authorized a Special Levy each year in the amount of $4,000,000 for development purposes.

REFERENCE MATERIALS

AVAILABLE REVENUE SOURCES FOR CPED PROGRAMS

POLICIES

Minneapolis Tax Increment Policy

Minneapolis Tax Abatement Policy (Historic Properties)

Minneapolis Tax Abatement Policy (Infrastructure)

Hennepin County Tax Abatement Policy (Redevelopment or Development Purpose)

SUMMARIES

Tax Increment Financing

Property Tax Abatements for Economic Development

Minneapolis
City of Lakes

Minneapolis Tax Increment Policy

I. Purpose of Policy

This Tax Increment Policy has been approved by the Minneapolis City Council for the following purposes:

- to guide staff in forming recommendations regarding the use of tax increment financing and negotiating contract terms with developers;
- to provide a framework within which the City Council and Mayor can evaluate and compare proposed uses of tax increment financing; and
- to inform the public of the City's position on the use of tax increment financing and the process through which decisions regarding the use of the tool are made.

This policy supersedes the Tax Increment Policy approved by the Minneapolis City Council on March 22, 2002 and revised on January 1, 2004, and earlier versions of said policy. This policy is effective as of April 1, 2005.

II. Development Objectives

The City uses tax increment financing to accomplish these major objectives:

A. Expand the Minneapolis economy to create more living-wage jobs, with an emphasis on providing job opportunities for the unemployed and underemployed.

B. Attract and expand new and existing services, developments and employers in order to position Minneapolis and the region to compete in the economy of the 21st century.

C. Increase the city's property tax base and maintain its diversity. Clean contaminated land to provide sites for uses that achieve City redevelopment objectives.

D. Provide an array of housing choices that meet the needs of current residents and attract new residents to the city, with an emphasis on providing affordable housing.

E. Eliminate blighting influences throughout the city.

F. Support neighborhood retail services, commercial corridors and employment hubs.

G. Support redevelopment efforts that enhance and preserve unique urban features and amenities, including downtown, the riverfront and historic structures.

III. <u>General Guidelines in the Use of Tax Increment Financing</u>

A. The City of Minneapolis will comply with all requirements of the Minnesota Tax Increment Financing Act, as amended. The City will undertake a rigorous analysis to ensure that the proposed project satisfies the "but for" test embodied within the Tax Increment Financing Act.

B. The City of Minneapolis will use tax increment financing only when a clearly identified city development objective is served and only to the degree necessary to accomplish that development objective.

C. Tax increment financing will only be used in cases where the City has the financial capacity to provide the needed public assistance, the Council deems it fiscally prudent to provide such assistance and the developer can clearly demonstrate that the development will be able to meet its financial and public purpose commitments.

D. The City of Minneapolis will recapture the public subsidy to the maximum extent feasible after allowing the developer a reasonable return.

E. Alternatives, such as "pay as you go" financing and reimbursing front-end public redevelopment costs with tax increment revenues, are preferable to bond financing and are to be considered and used when appropriate. The City will not issue general obligation tax increment bonds except when all net bond proceeds are used to directly pay public costs or refinance debt that was previously issued to pay for such costs, and the taxable development that will generate the tax increment used to pay all or a portion of the debt service on the bonds is either fully constructed and assessed by the City Assessor or is underway and subject to the terms and conditions of a development agreement with the City.

F. Only those public improvements and public redevelopment costs directly associated with or needed to service the proposed development plan or project should be financed through tax increment.

G. The City will analyze each potential new tax increment financing district and recommend whether it should be included in or excluded from the fiscal disparity contribution. The impact of the fiscal disparity election on the City's general tax base will be analyzed using the methodology prescribed by the Minnesota Department of Revenue and will be reported to the City Council in a manner understandable to the general public prior to approval of the proposed use of tax increment financing.

H. As part of the annual budget process, the City will identify tax increment revenues deemed to be excess tax increment and will make related recommendations for decertification of parcels or districts and report on the total value of captured tax capacity expressed in both dollars and as a percentage of total tax capacity.

IV. Economic Analysis and Risk Assessment Process

A. Proposed uses of tax increment financing will be subject to rigorous economic analysis and risk assessment. City Finance Department staff will be responsible for overseeing the analysis and assessment process. Consultants will be used to complete needed analysis and assessment as appropriate.

B. The analysis and assessment of all proposed uses of tax increment financing will address the following questions as part of the standard format for reports to the City Council:

- What is the public purpose of the financial assistance to the project?
- Why is there a financial need for public investment and/or subsidy?
- What is the total cost of the project?
- What is the appropriate level of public participation?
- What are the risks associated with the project?
- What are the alternative plans for managing the risk?
- How does the proposed project finance plan compare with previously approved comparable projects?
- What is the project's impact on other publicly financed projects?

C. The results of the economic analysis and risk assessment will be presented to the City Council at the time of the request for approval of the proposed use of tax increment financing. The report will identify any elements of the proposed project that are not in conformance with this Tax Increment Policy.

D. Projects with an anticipated term of increment collection greater than 15 years or projects with tax increment principal in excess of $10 million will be subject to a more extensive analysis, including appropriate market analysis and review by City Finance Department staff.

V. Evaluation Criteria

The following items will be taken into consideration in the evaluation of any development proposal requesting tax increment assistance.

A. Need For Public Assistance – In all cases, it is required that the need for public assistance be demonstrated and documented by the developer to the satisfaction of the City Finance Department. All such documentation, including development budgets, cash flow projections, market studies and other financial and market information, must be submitted by the developer along with an application for public financial assistance. If the request is based on financial gap considerations, the developer will demonstrate the profitability and feasibility of the project (i.e. gross profit, cash flow before taxes, cash-on-cash return, IRR, etc.), both with and without public assistance.

B. Amount of Public Assistance versus Private Investment - All development proposals should seek to maximize the amount of private investment per dollar of public assistance. Public assistance as a percentage of total development costs will be determined for each project (or discrete portion of a project receiving a subsidy) and compared to other development projects or subprojects of similar scope and magnitude whenever possible.

C. Term of Public Assistance –The term of the public assistance shall be kept to a minimum. The proposed term of any public assistance shall be fully documented and explained to the City Council.

D. Development Benefits and Costs – The direct and indirect benefits of the development proposal shall be determined and quantified to the degree possible. Benefits shall include, but are not limited to, employment benefits (number of jobs retained or created, percentage of jobs held by City residents, wage and salary information, etc.), tax base benefits (estimated market value of new development, new property taxes generated, etc.), housing benefits (number of new rental or ownership units, number of affordable units, etc.), and other benefits relating to transportation, parking, blight remediation, environmental cleanup and historic preservation.

Costs of the development proposal to the City shall also be identified to the degree possible. Such costs shall include, but are not limited to, additional required infrastructure, required local contributions by the City, and the impact on the City's General Fund of the fiscal disparity contribution election if tax increment financing is used. The timeframe used for these cost estimates should equal the timeframe of the project finance plan and should separately identify any projected recapture of public subsidy.

E. Recapture of Public Subsidy – It is the City's goal to recapture all, or a portion, of the public subsidy provided to the extent practical. Methods of recapture shall include, but are not limited to, long-term ground leases, subordinated loans, sale and/or refinancing provisions, and equity participation.

City of Minneapolis Policy for the Use of Tax Abatement for Historic Properties

I. Purpose of Policy

This tax Abatement Policy identifies the circumstances in which the City of Minneapolis will use Tax Abatement to support the substantial rehabilitation of historic properties.

II. Background and General Requirements

Pursuant to Minnesota Statutes Sections 469.1812 to 469.1815, the City of Minneapolis is authorized to grant abatement of all or a portion of the City property tax amount on specified tax parcels. The City of Minneapolis may abate taxes only after holding a public hearing and adopting an abatement resolution that stipulates the specific terms of the abatement agreement and the nature and extent of the public benefits that the City expects to result from the abatement.

The City Council must find that the expected benefits to the City of the proposed abatement agreement at least equal the costs to the City of the proposed agreement. The City Council must also find that the abatement is in the public interest because it will facilitate at least one of the following objectives:

1. Increase or preserve tax base;
2. Provide employment opportunities in the City of Minneapolis;
3. Provide or help acquire or construct public facilities;
4. Help redevelop or renew blighted areas;
5. Help provide access to services for residents of the City of Minneapolis;
6. Finance or improve public infrastructure; or
7. Phase in a property tax increase on the parcel resulting from an increase of 50 percent or more in one year on the estimated market value of the parcel, other than increase attributable to the improvement of the parcel.

III. Restrictive Use of the Abatement Tool for Historic Properties by the City of Minneapolis

The City of Minneapolis will limit the use of Tax Abatement under this policy to a more restrictive range of uses than authorized by the State Legislature.

1. Taxes may be abated only for properties with Historic Preservation designation.
2. Taxes may be abated only to support the substantial rehabilitation of the property.

IV. Evaluation Criteria

The following criteria will be considered in the evaluation of any proposal to use tax abatement for historic properties:

1. The extent to which the proposed use of tax abatement is consistent with the City goals, development priorities, Comprehensive Plan and zoning codes.
2. The extent of the direct and indirect public benefits and costs generated by the tax abatement and redevelopment shall be determined and quantified to the degree possible.
3. The extent to which other government jurisdictions support the project, including but not limited to participation in the public abatement agreement.
4. The extent to which other public assistance is being provided to the project.

Approved by City Council
August 11, 2000

Note: This policy is included for discussion purposes only. The policy has effectively expired, due to restrictions contained in sections III.3 and III.4.

City of Minneapolis Policy for the Limited Use of Tax Abatements To Fund Public Infrastructure Costs

I. Purpose of Policy

This Tax Abatement Policy identifies limited circumstances in which the City of Minneapolis will use Tax Abatement to fund public infrastructure necessary to achieve development objectives of the City.

II. Background and General Requirements

Pursuant to Minnesota Statutes Sections 469.1812 to 469.1815, the City of Minneapolis is authorized to grant abatement of all or a portion of the City property tax amount on specified tax parcels. The City of Minneapolis may abate taxes only after holding a public hearing and adopting an abatement resolution that stipulates the specific terms of the abatement agreement and the nature and extent of the public benefits that the City expects to result from the abatement.

The City Council must find that the expected benefits to the City of the proposed abatement agreement at least equal the costs to the City of the proposed agreement. The City Council must also find that the abatement is in the public interest because it will facilitate at least one of the following objectives:

1. Increase or preserve tax base;
2. Provide employment opportunities in the City of Minneapolis;
3. Provide or help acquire or construct public facilities;
4. Help redevelop or renew blighted areas;
5. Help provide access to services for residents of the City of Minneapolis; or
6. Finance or improve public infrastructure.

III. Restrictive Use of the Abatement Tool by the City of Minneapolis

The City of Minneapolis will limit the use of Tax Abatement under this policy to a more restrictive range of uses than authorized by the State Legislature.

1. Tax abatement will be used solely to fund public infrastructure necessary to achieve significant development objectives of the City. Public infrastructure may include roads, public utilities, public amenities, public parking facilities, public facilities, and the acquisition of land needed for public infrastructure.

2. Taxes will be abated only for public abatement agreements in which the abated taxes are retained by the City of Minneapolis or transferred to other authorized political subdivisions participating in the abatement agreement to pay for public infrastructure costs. Abatement is an effective tool for funding public infrastructure costs only if there is at least one other political subdivision participating in the public abatement agreement.

3. Taxes will be abated only for properties that are being decertified from established "pre-1979" tax increment financing districts. The abated taxes will include only tax revenues that otherwise could have been captured as tax increment over the full duration of the "pre-1979" Tax Increment District. A fiscal analysis will be performed showing the impact of the abatement on the City's general tax base.

4. The term of the abatement will end no later than August 1, 2009, which is the duration limit for pre-1979 Tax Increment Districts.

IV. Evaluation Criteria

The following criteria will be considered in the evaluation of any proposal to use tax abatement to fund public infrastructure costs.

1. The extent to which the proposed use of tax abatement to fund public infrastructure to support major development objectives is consistent with City goals, City and MCDA development priorities, the City's comprehensive plan and zoning code, and the MCDA strategic plan.

2. The extent of the direct and indirect public benefits and costs generated by the tax abatement and public infrastructure investment shall be determined and quantified to the degree possible.

3. The extent to which other local government jurisdictions support the project, including but not limited to participation in the public abatement agreement.

4. The extent to which other public assistance is being provided to the project.

REVISED HENNEPIN COUNTY POLICY ON TAX ABATEMENTS

For REDEVELOPMENT or DEVELOPMENT PURPOSE
Hennepin County Resolution 01-812R1
Adopted 11/27/01

Background. Subject to certain restrictions and limitations, the Hennepin County Board is authorized by Minnesota Statutes Sections 469.1812 to 469.1815 to grant abatement of the county tax levy attributable to land, existing buildings, and/or new construction, or defer the payment of the taxes and abate the interest and penalty that otherwise would apply. The County has adopted the following policy, which is consistent with statutory criteria.

Statutory Criteria for Abatement. In determining whether or not the County Board should approve a tax abatement for a specific project for economic development purposes, the County Board must find:

1. The benefits of the proposed abatement agreement to at least equal the costs to the County of the proposed agreement or intends the abatement to phase in a property tax increase, as provided **<u>in clause (b) (7);</u>** and

2. The abatement action is in the public interest because it will:
   (a) Increase or preserve tax base;
   (b) Provide new employment opportunities in Hennepin County;
   (c) Provide or help acquire or construct public facilities;
   (d) Help redevelop or renew blighted areas;
   (e) Help provide access to services to residents of Hennepin County;
   (f) Finance or provide public infrastructure; or
   (g) Phase in a property tax increase on the parcel resulting from an increase of 50 percent or more in one year of the estimated market value of the parcel, other than increase attributable to improvement of the parcel.

Hennepin County Criteria for Abatement. In addition, the County Board will consider the following in making its determination:

1. The extent to which the public interest is served by providing benefits as listed above;
2. The extent to which the new employment opportunities provide benefits and livable wages for employees;
3. The extent to which the project increases county costs for road construction, traffic control, law enforcement, human services and other budgetary items;
4. The extent that other local governments support the project, including but not limited to tax abatement on the subject property;
5. The extent to which other public assistance is provided to the project. State law prohibits tax abatement under this authority if the property is located in a tax increment financing district.
6. The nature and type of the new development;
7. The extent to which the project will increase or preserve the county tax base, and how;
8. The extent to which the affected city has utilized tax increment financing for previous redevelopment and development projects;
9. The extent to which the Application for Abatement demonstrates that the project is not financially feasible "but for" the tax abatement subsidy requested.

Restrictive Abatement Application. Although the abatement authority granted by the legislature is very broad, the Hennepin County Board will approve abatements only on a restrictive basis per this policy. Accordingly, the County Board will limit tax abatement to the following types of projects:

1. Brownfields remediation and environmental cleanup. For this purpose, the term "brownfields" is defined as abandoned, idled or under-used industrial or commercial facilities where expansion or redevelopment is complicated by real or perceived environmental contamination.
2. Affordable rental housing for persons and families of low income. To be considered for tax abatement, the rental housing project must meet all of the requirements for a low-income housing credit under section 142(d) of the Internal Revenue Code, regardless of whether the project actually receives a housing credit.
3. County community works within boundaries designated by the County Board.
4. Underdeveloped Hennepin County owned properties.
5. Transit oriented development along transit corridors.
6. Properties with Historic Preservation designation.

Abatement Process. A written application on forms provided by Hennepin County should be submitted directly to the Director of the Department of Taxpayer Services, according to the County's process, to request approval of tax abatement of the county levy. The application shall address the Statutory and Hennepin County Criteria for Abatement specified in this Policy and shall include the following:

1. General description of the project, including size and type of building, business type and expected use.
2. A map or site plan showing the boundary of the project and the property identification number(s) of the parcels subject to abatement.
3. Statements identifying the public benefits of the proposal, including estimated increase in property value and tax capacity attributable to new construction and the nature and extent of new jobs to be created.
4. Statements responding, to the extent applicable, to the Hennepin County criteria established above.
5. The total amount of tax abatement requested, the estimated amount and duration of the annual abatement payments and the commencement date.
6. An Application Form for Abatement for Development or Redevelopment may be requested from the Taxpayer Services Department, A-600 Government Center, Minneapolis, MN 55487-0060, phone 612-348-5076. Taxpayer Services Department staff will work with the applicant to ensure that the application contains all the information required for processing.
7. The Taxpayer Services Department will review the application for compliance with County policy, seek additional information if necessary, and issue a review to County Administration. The review will indicate whether or not the application is consistent with Minnesota Law and Hennepin County policy.
8. If the application is consistent with requirements, Administration will forward the report to the Board of Commissioners and direct Taxpayer Services staff to prepare a Request for Board Action to set a date for a public hearing as required by statute.
9. Taxpayer Services staff will also prepare a Request for Board Action for consideration of Board approval of the abatement. The entire process will take from sixty to ninety days.

10. If the application is not consistent with statutory or County requirements or if abatement funds are not available, the review will be filed with County Administration and a denial letter will be sent to the applicant and copied to Board members. Any exception to County policy will require County Board approval.
11. When a notice is received from a city or school district that states that Hennepin County participation is being requested only for purposes of statutory compliance, but that the County's participation is not desired, County Administration will forward the Taxpayer Services Department review of the notice to the Board of Commissioners for their information; no action required.
12. Upon approval of an Abatement for Development, the Taxpayer Services Department will project the amount of the abatement for each year, track the property tax paid and abatement distributed and the duration of each Abatement for Development. The Department will also ensure that no parcel for which an Abatement for Development has been granted may receive tax increment for any year in which the Abatement is effective. Upon conclusion of the Abatement for Development, the Department will close the file and ensure that no abatement be granted for a period of eight years for any portion of a parcel to which an earlier abatement applied.

Limitation on Abatement. Statutory abatement authority limits total Hennepin County tax abatement to five percent of its current tax levy. The Hennepin County Board hereby imposes a more restrictive limitation so that the total amount of approved tax abatements in any year shall not exceed one percent of the county tax levy for that year. In addition, the County Board will limit the total tax abatement for a specific parcel or associated parcels to a maximum of $3,000,000 for the full term of the abatement. This per parcel limitation shall not be applicable to county-owned properties.

Current or delinquent property tax on an abatement parcel, for a tax payable year subject to an Abatement, will be distributed by Hennepin County Taxpayer Services Department to the governmental entity administering the Abatement for Development during the settlement period in which the tax payment is received. In order to be deemed abatable, delinquent tax must be paid no later than the last property tax due date subject to the Hennepin County resolution authorizing the abatement.

The Hennepin County Office of Budget and Finance will annually levy for all tax abatement for development projected for the following budget year. The amount of Hennepin County's share of property tax distributed in any tax payable year, in accordance with any Hennepin County Abatement for Development resolution, will not exceed the amount of such property tax actually paid, nor will the amount distributed exceed the amount levied for that project by the Office of Budget and Finance.

<u>Bonds. Although the county may issue bonds to fund the approved abatement, the county declines to issue bonds for this purpose unless the bonds relate to county initiated projects.</u>

Joel Michael

Updated: December 2009

Tax Increment Financing

What is TIF?

Tax increment financing (TIF) uses the increased property taxes that a new real estate development generates to finance costs of the development. In Minnesota, TIF is used for two basic purposes:

- To induce or cause a development or redevelopment that otherwise would not occur—e.g., to convince a developer to build an office building, retail, industrial, or housing development that otherwise would not be constructed. To do so, the increased property taxes are used to pay for costs (e.g., land acquisition or site preparation) that the developer would normally pay.
- To finance public infrastructure (streets, sewer, water, or parking facilities) that are related to the development. In some cases, the developer would be required to pay for this infrastructure through special assessments or other charges. In other cases, all taxpayers would pay through general city taxes.

How does TIF work?

When a new TIF district is created, the county auditor certifies (1) the current net tax capacity (i.e., property tax base) of the TIF district and (2) the local property tax rates. As the net tax capacity of the district increases, the property taxes (i.e., the "tax increment") paid by this increase in value is dedicated and paid to the development authority. The tax increment is limited to the tax derived from the certified tax rate. Increases in value that generate increment may be caused by construction of the development or by general inflation in property values. The authority uses the increment to pay qualifying costs (e.g., land acquisition, site preparation, and public infrastructure) that it has incurred for the TIF project.

How is TIF used to pay "upfront" development costs?

There is a mismatch between when most TIF costs must be paid—at the beginning of a development—and when increments are received—after the development is built and begins paying higher property taxes. Three basic financing techniques are used to finance these upfront costs:

- **Bonds.** The authority or municipality (city or county) may issue its bonds to pay these upfront costs and use increment to pay the bonds back. Often, extra bonds are issued to pay interest on the bonds ("capitalizing" interest) until increments begin to be received.
- **Interfund loans.** In some cases, the authority may advance money from its own funds (e.g., a development fund or sewer and water fund) and use the increments to reimburse the fund.
- **Pay-as-you-go financing.** The developer may pay the costs with its own funds. The increments, then, are used to reimburse the developer for these costs. This type of developer financing is often called "pay-as-you-go" or "pay-go" financing.

What governmental units can use TIF? Minnesota authorizes development authorities to use TIF. These authorities are primarily housing and redevelopment authorities (HRAs), economic development authorities (EDAs), port authorities, and cities. In addition, the "municipality" (usually the city) in which the district is located must approve the TIF plan and some key TIF decisions. TIF uses the property taxes imposed by all types of local governments. But the school district and county, the two other major entities imposing property taxes, are generally limited to providing comments to the development authority and city on proposed uses of TIF. The state-imposed tax on commercial-industrial and seasonal-recreational properties is not captured by TIF.

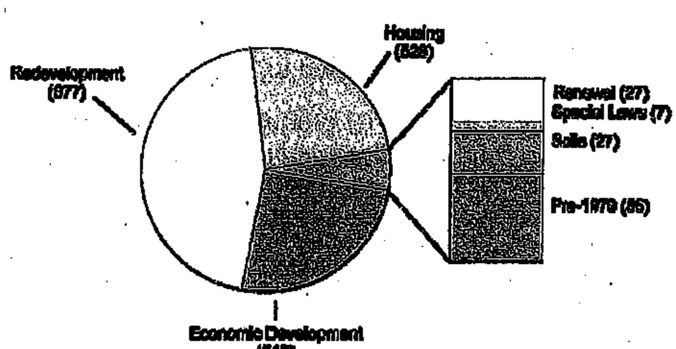
What is the but-for test? Before an authority may create a TIF district, it and the city must make "but-for" findings that (1) the development would not occur without TIF assistance and (2) that the market value of the TIF development will be higher (after subtracting the value of the TIF assistance) than what would occur on the site, if TIF were not used.

What types of TIF districts may be created? Minnesota allows several different types of TIF districts. The legal restrictions on how long increments may be collected, the sites that qualify, and the purposes for which increments may be used vary with the type of district.

District type	Use of Increment	Maximum duration
Redevelopment	Redevelop blighted areas	25 years
Renewal and renovation	Redevelop areas with obsolete uses, not meeting blight test	15 years
Economic development	Encourage manufacturing and other footloose industries	8 years
Housing	Assist low- and moderate-income housing	25 years
Soils	Clean up contaminated sites	20 years

How many TIF districts exist? According to the 2007 report of the Office of State Auditor (OSA), there were 2,180 active TIF districts in 2006. The graph shows the relative shares by type of district for the 2,169 districts for which reports were filed with OSA.

TIF Districts by Type in 2006
(2,169 districts)



Source: 2007 Report of the State Auditor

For more information: Contact legislative analyst Joel Michael at 651-296-5057. Also see the se Research web site for more information on TIF at www.house.mn/hrd/issinfo/tifmain.htm.

Joel Michael and Karen Baker

Updated: October 2009

Property Tax Abatements for Economic Development

What is economic development property tax abatement?

Minnesota law authorizes political subdivisions to grant property tax abatements for economic development (e.g., to encourage a business to locate or expand at a location or to redevelop an area). Minn. Stat. §§ 469.1813-469.1816. Abatements may be either permanent forgiveness or temporary deferral of property tax. Abatements can serve similar purposes to tax increment financing (TIF), a widely used development tool. The legislature enacted the abatement law in 1997 to provide an alternative to TIF and to supplement it.

These economic development tax abatements should be distinguished from property tax abatements that are granted by the county board primarily to correct errors (e.g., to reduce the assessor's market value or to change the classification). Minn. Stat. § 375.192.

For what purposes may abatements be used?

The law allows abatements to be used for a broad range of projects and purposes, if the political subdivision finds that public benefits exceed the costs. Permitted uses of abatements include the following:

- General economic development, such as increasing the tax base or the number of jobs in the area
- Construction of public facilities or infrastructure (e.g., streets and roads)
- Redevelopment of blighted areas
- Providing access to services for residents (e.g., housing or retail would be common examples)
- Deferring or phasing in a large (over 50 percent) property tax increase
- Stabilizing the tax base resulting from the updated utility valuation administrative rules
- Providing relief for businesses with estimated market value of $250,000 or less who have disrupted access due to public transportation projects

Which local governments can grant abatements?

Counties, cities, towns, and school districts may grant abatements of the taxes they impose. The governing body grants an abatement by resolution. For towns, action at the town meeting is not required. Taxes imposed by special taxing districts (e.g., watersheds or regional agencies) cannot be abated. Similarly, the state general property tax (on commercial/industrial and seasonal-recreational properties) cannot be abated. In the Twin Cities metropolitan area and on the Iron Range, the fiscal disparities tax cannot be explicitly abated. However, a political subdivision may increase its abatement amount to reflect the amount of the tax imposed under fiscal disparities. The abatement does not directly enter into the fiscal disparities calculations.

How long does an abatement apply?

The political subdivision sets the length of the abatement. State law limits the duration to 15 years. The maximum term is extended to 20 years if only two of the three political subdivisions (city/town, county, and school district) grant an abatement.

What is the limitation on abatements?

The total amount of property taxes abated may not exceed (1) 10 percent of the net tax capacity of the political subdivision or (2) $200,000, whichever is greater.

How do the mechanics of abatement work?

The abatement resolution, approved by the political subdivision, specifies the duration and the amount of property taxes that will be abated. The political subdivision has considerable flexibility in setting the terms of the abatement; for example, it may set the abatement as a percentage of tax payable, a dollar amount, tax attributable to a portion of the parcel's market value, or something else. The local government adds the abatement to its property tax levy for the year. (The abatement levy is not subject to levy limits.) The owner pays property tax on a parcel and the political subdivision uses the payments as provided by the abatement resolution. For example, the abatement may be used to pay bonds or be given back to the property owner.

May abatements be used to pay bonds?

The abatement law authorizes the issuance of bonds to be paid back with the abatements. For example, bonds could be issued to construct public improvements or to pay for a site for a business. As the property owners pay the abated taxes, they are directed to pay off the bonds. These bonds can be general obligation bonds or revenue bonds. The abatement bond provisions parallel those in the TIF law: the abatement bonds are not subject to referendum approval and are excluded from debt limits.

How do abatements compare with TIF?

The legislature designed the abatement law to provide an alternative to and as a supplement to TIF. The two programs can be used for similar purposes and both rely upon property tax funding. Both programs have very similar bonding powers. However, abatement and TIF differ in many important respects. Some of these differences include the following:

- TIF can be used for longer durations (up to 25 years in some cases) than abatements (typically 15 years)
- TIF requires approval only by the municipality (usually the city) to capture all local property taxes, while abatement requires each city/town, county, and school to approve to capture its taxes
- TIF use is subject to many more legal restrictions than abatement. These include a blight test for redevelopment districts, but-for findings, limits on what increments may be spent on, and so forth. Abatement is more flexible.

How widely has abatement been used?

The abatement law does not require reporting of abatements to the state. Property tax levy data reported to the Department of Revenue for property taxes payable in 2009 shows 60 cities provided abatements of $6.7 million of taxes and 29 counties provided $2.5 million in abatements. These amounts do not include abatements by cities with populations under 2,500 and school districts.

For more information: Contact legislative analyst Joel Michael at 651-296-5057 or Karen Baker at 651-296-8959. Also see the House Research publication *Tax Increment Financing*, January 2008.

Minneapolis
City of Lakes

MEMORANDUM
Finance Department
Development Finance Division

October 2010

Use of Tax Increment Financing in Minneapolis, 2004 - 2009

- The City of Minneapolis has used tax increment financing (TIF) to finance development and redevelopment activity since the early 1970s, when it became available as a source of local funding to augment diminishing federal funding.

- The City's use of TIF is governed by the State TIF Act. Decisions regarding the use of TIF are also guided by the Minneapolis Tax Increment Policy, which was initially approved by the City Council in the 1980s and was most recently revised in 2005.

- At the end of 2009, there were 86 active TIF districts in Minneapolis. Fifty-seven are redevelopment TIF districts, 23 are housing TIF districts, and the remaining six are other types of TIF districts, including those established under special legislation.

- Thirty-eight former Minneapolis TIF districts have been decertified. Eleven additional districts will reach their maximum duration under the TIF Act within the next five years, and will be terminated.

- From 2004 through 2009, the annual number of TIF districts established in Minneapolis has ranged between one and six districts per year (3.5 per year on average). A total of 21 districts were approved by the City Council during this period. This excludes Housing Replacement Districts and the Consolidated Redevelopment TIF District, due to their unique natures.

- Table 1 displays key characteristics of 18 Minneapolis TIF districts established from 2004 to 2009. Three districts are not listed because no development occurred or no TIF debt obligation was issued for those districts.

- Within the 18 districts described in Table 1, 83 percent of the developments assisted with TIF have been rental or ownership housing projects.

- While the projected length of the 18 TIF districts ranges from 10 to 26 years, 78 percent of these districts have a projected length of 26 years of increment collection. There has not been a significant trend upward or downward in the length of districts established since 2004.

- Since 2004, all of the 18 TIF districts listed in Table 1 have provided financial assistance to the respective developments through the City's issuance of a TIF pay-go note rather than with City-issued bonds.

- For districts established since 2004, the percent of total development costs (TDC) paid with tax increment has ranged from 4 to 11 percent, with an average of 6 percent. The percent of TDC paid with all public sources ranged from 9 to 38 percent.

- For taxes payable in 2010, 7.6 percent of the city's net tax capacity is captured in TIF districts. Prior to the 2009 decertification of the 15 pre-1979 TIF districts, 15.2 percent of the city's net tax capacity was captured. Projections indicate that the percentage will increase to 10.9 percent in 2011, due to the certification of the new Consolidated Redevelopment TIF District in 2010.

- Table 2 shows the percentage of Minneapolis' total tax capacity captured in TIF districts since 2004, with projections through 2015. Table 3 shows the percentages of total tax capacity captured in TIF districts from 2004 to 2010 for Minnesota cities with population greater than 50,000 and over $1 million in TIF tax capacity.

Summary of Minneapolis TIF Districts Established Since 2004

Table 1

Year	TIF #	TIF District Name	Type of Development	Projected Length of District (a)	TIF Obligation Issued	TIF Assistance (b)	Total Public Sources (including TIF) (c)	Total Private Sources (c)	Total Development Cost (TDC) (c)	Percent TIF to TDC	Percent Total Public to TDC	Outcomes
2009	159	Longfellow Station	Comml/Hsg (Rental)	26	TBD	TBD	TBD	TBD	TBD	TBD	TBD	Proposed: 196 rental units (40 affordable); 10,000 sq. ft. comml
2009	155	Nokomis Sr. Assisted Living	Housing (rental)	26	Pay-Go note	$ 728,200	$ 1,814,000	$ 13,699,800	$ 15,513,800	5%	12%	77 units (16 affordable)
						$ 728,200	**$ 1,814,000**	**$ 13,699,800**	**$ 15,513,800**	**5%**	**12%**	
2008	154	Coloplast	Commercial	26	Pay-Go note	$ 2,935,000	$ 4,379,500	$ 44,065,000	$ 48,444,500	6%	9%	90,000 sq. ft. of new office/production
						$ 2,935,000	**$ 4,379,500**	**$ 44,065,000**	**$ 48,444,500**	**6%**	**9%**	
2007	153	Van Cleve Apartments West	Housing (rental)	26	Pay-Go note	$ 595,000	$ 3,121,642	$ 8,299,585	$ 11,421,227	5%	27%	50 units (50 affordable)
2007	152	Van Cleve Apartments East	Housing (rental)	26	Pay-Go note	$ 415,000	$ 2,188,496	$ 5,282,057	$ 7,470,553	6%	29%	35 units (35 affordable)
2007	151	Van Cleve Redevelopment	Housing (owner)	26	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD units (5 affordable)
2007	150	Wellstone	Housing (rental)/Comml	26	Pay-Go note	$ 647,000	$ 2,034,164	$ 11,037,931	$ 13,072,095	5%	16%	62 units (25 affordable)
						$ 1,657,000	**$ 7,344,302**	**$ 24,619,573**	**$ 31,963,875**	**5%**	**23%**	
2006	148	Humboldt Idustrial Park	Commercial	10	Pay-Go note	$ 500,000	$ 1,150,000	$ 8,317,360	$ 9,467,360	5%	12%	125,000 sq. ft. of new office/warehouse
2006	147	Washington Court Apartments	Housing (rental)	26	Pay-Go note	$ 300,000	$ 1,596,305	$ 6,508,463	$ 8,104,768	4%	20%	38 units (8 affordable)
2006	145	Central Avenue Lofts	Housing (rental/owner)	26	Pay-Go note	$ 1,000,000	$ 1,757,500	$ 12,026,045	$ 13,783,545	7%	13%	66 units (53 affordable)
						$ 1,800,000	**$ 4,503,805**	**$ 26,851,868**	**$ 31,355,673**	**6%**	**14%**	
2005	142	St. Anthony Mills Apartments	Housing (rental)	26	Pay-Go note	$ 742,000	$ 5,332,115	$ 9,802,079	$ 15,134,194	5%	35%	93 units (48 affordable)
2005	141	Ripley Gardens	Housing (rental/owner)	26	Pay-Go note	$ 692,100	$ 3,671,700	$ 9,375,287	$ 13,046,987	5%	28%	52 units (26 affordable)
						$ 1,434,100	**$ 9,003,815**	**$ 19,177,366**	**$ 28,181,181**	**5%**	**32%**	
2004	144	Hiawatha Commons	Housing (rental)	15	Pay-Go note	$ 708,481	$ 3,988,846	$ 8,596,421	$ 12,585,267	6%	32%	80 units (64 affordable)
2004	140	Jourdain Housing	Housing (rental)	26	Pay-Go note	$ 583,000	$ 2,460,682	$ 7,082,000	$ 9,542,682	6%	26%	41 units (24 affordable)
2004	139	St. Anne's Senior Housing	Housing (rental)	20	Pay-Go note	$ 475,000	$ 2,344,963	$ 10,613,037	$ 12,958,000	4%	18%	59 units (59 affordable)
2004	136	Marshall River Run	Housing (owner/rental)	26	Pay-Go note	$ 1,331,000	$ 2,989,047	$ 9,470,000	$ 12,459,047	11%	24%	85 unit (74 affordable)
2004	135	Antiques Minnesota	Commercial	18	Pay-Go note	$ 408,000	$ 908,000	$ 3,352,000	$ 4,260,000	10%	21%	119 jobs
2004	134	Many Rivers West	Housing (rental)	26	Pay-Go note	$ 337,000	$ 2,238,375	$ 3,730,625	$ 5,969,000	6%	38%	28 units (28 affordable)
						$ 3,842,481	**$ 14,929,913**	**$ 42,844,083**	**$ 57,773,996**	**7%**	**26%**	
						$ 12,396,781	**$ 41,975,335**	**$ 171,257,690**	**$ 213,233,025**	**6%**	**20%**	

(a) Represents the original projected number of years of tax increment collection required to retire all TIF obligations of the district, or the statutory limit for the type of district.

(b) Source: Minneapolis Finance Department, Development Finance Division

(c) Source: Minneapolis Community Planning & Economic Development Department and Tax Increment Financing Plans

TBD = To be determined

Excludes Housing Replacement Districts (138, 149,156, 157, 158) and the Consolidated Redevelopment TIF District (160, 161) due to their unique natures. Excludes Clare Apartments (137), Park Avenue East (143) and Village in Phillips, Phase 2 (146) TIF Districts because no development occurred or no TIF obligation was issued.

Table 2

Historical % of City Tax Base in TIF Districts

	Taxes Payable	Total City Gross Tax Capacity	Captured TC in TIF Districts	% of Total City NTC
projected	2015	$ 443,463,794	$ 31,293,846	7.06%
projected	2014	$ 430,754,304	$ 32,842,765	7.62%
projected	2013	$ 424,095,650	$ 34,412,403	8.11%
projected	2012	$ 426,463,023	$ 45,887,651	10.76%
projected	2011	$ 439,181,081	$ 48,027,183	10.94%
	2010	$ 469,492,521	$ 35,671,594	7.60%
	2009	$ 482,224,534	$ 73,308,233	15.20%
	2008	$ 476,003,270	$ 70,210,276	14.75%
	2007	$ 435,584,275	$ 64,601,171	14.83%
	2006	$ 386,078,398	$ 56,836,388	14.72%
	2005	$ 340,112,825	$ 49,625,899	14.59%
	2004	$ 310,267,571	$ 47,011,477	15.15%

Use of TIF in Minnesota Cities with Population Greater than 50,000 and Over $1 Million in TIF Tax Capacity Taxes Payable 2004 – 2010

- The table below shows the percentage of total tax capacity captured in Minneapolis tax increment financing (TIF) districts in recent years, in relation to other Minnesota cities. Neither state law nor city policy limits the percentage of tax capacity that may be captured in TIF districts.

- Fifteen Minnesota cities had a population over 50,000 and over $1 million in tax capacity captured in TIF districts during 2004 through 2010.

- The percentage of tax capacity captured in Minneapolis TIF districts was relatively stable during from 2004 through 2009. Overall among the 15 cities, the average captured percentage decreased slightly all but one year.

- The more dramatic decrease from 2009 to 2010 in Minneapolis was due to the expiration of 15 pre-1979 TIF districts on August 1, 2009. The expiration of two pre-1979 districts in Duluth contributed to that city's significant decrease, as well as the overall decrease for all 15 cities.

- It is expected that the percentage of tax capacity in Minneapolis TIF districts will increase to 10.9 percent for taxes payable 2011, due to the certification of the new Consolidated Redevelopment TIF District.

Percent of Total Tax Capacity Captured in TIF Districts

	Payable 2004	Payable 2005	Payable 2006	Payable 2007	Payable 2008	Payable 2009	Payable 2010
Brooklyn Park	13.5	12.7	11.9	12.3	10.4	10.8	11.8
St. Paul	9.3	8.8	8.1	9.0	9.9	9.3	9.6
Minneapolis	**15.2**	**14.6**	**14.7**	**14.8**	**14.8**	**15.2**	**7.6**
Burnsville	6.3	6.7	6.1	6.6	7.1	7.2	7.3
Bloomington	5.9	6.0	6.3	6.5	7.2	6.5	5.9
Coon Rapids	5.3	4.6	4.3	4.3	4.4	4.0	4.0
Blaine	5.1	4.9	4.9	4.8	4.8	4.7	3.4
Duluth	13.2	13.5	10.7	11.3	9.2	9.4	3.1
Lakeville	4.1	3.8	3.5	3.4	3.3	3.1	3.1
Eden Prairie	1.9	2.3	2.3	2.4	2.5	2.6	2.7
Maple Grove	3.5	2.8	2.7	3.5	3.4	3.3	2.4
St. Cloud	4.8	4.8	4.7	4.5	4.3	2.9	2.3
Rochester	4.5	1.4	1.3	1.3	1.5	1.5	1.7
Minnetonka	4.4	4.1	4.2	2.9	1.7	1.6	1.6
Plymouth	0.6	0.6	0.7	0.8	1.0	1.2	.9
Average	**6.5**	**6.1**	**5.8**	**5.9**	**5.7**	**5.6**	**4.5**

Source: Minnesota Department of Revenue

Projected New Levy Capacity from Tax Increment District Decertifications: Next Five Years

Year of Decert / Effective	TIF Dist #	District	Actual Pay 2010 Captured TC	Pay 2010 CTC Contri.	Pay 2010 CTC Non-Contri.	Total Pay 2010 CTC After 32% Fiscal Disparities	Projected New Levy Capacity after Fiscal Disparities
2010/ 2011	34	110 Grant	387,787	-	387,787	387,787	**226,344**
2011/ 2012	31	Nokomis Homes	227,546	227,546	-	154,731	**90,314**
2012/ 2013	62	Conservatory	3,134,650	3,134,650	-	2,131,562	1,244,150
	63	Convention Hotel/Retail	7,472,784	7,472,784	-	5,081,493	2,965,966
	78	SEMI Phase IV	165,520	165,520	-	112,554	65,695
			10,772,954	10,772,954	-	7,325,609	**4,275,811**
2013/ 2014	33	20th & Central	83,050	23,236	59,814	75,615	44,135
	39	Block 33	19,255	-	19,255	19,255	11,239
	38	LaSalle Plaza	1,633,038	1,539,442	93,596	1,140,417	665,638
	41	NBA Arena (2009 value)	770,881	788,029	-	535,860	312,771
			2,506,224	2,350,706	172,666	1,771,146	**1,033,782**
2014/ 2015	36	Chicago Lake	167,592	167,592	-	113,963	66,518
	40	IDS Data Center	2,871,510	2,871,510	-	1,952,627	1,139,709
			3,039,102	3,039,102	-	2,066,589	**1,206,227**
		Total	16,933,613	16,390,308	560,453	11,705,862	**6,832,478**
Tax Rate Estimated at 58.3680%				97%	3%		

2009 Taxable Assessed Value and Property Tax Levy of Selected Cities

City	Total Taxable Assessed Value (thousands)	Total Property Tax Levy (thousands)	% of Development Budget Supported by General Fund
Austin	$76,752,008	$307,929	34
Portland	42,358,279	397,822	8
Indianapolis	41,366,446	181,262	4
Minneapolis	38,118,294	245,003	4
Oakland	30,848,496	165,235	11
St. Paul	22,802,913	87,143	4
Denver	12,012,343	254,135	19
Kansas City	7,387,564	104,702	6
Buffalo	6,132,108	128,689	21
Cincinnati	5,934,612	65,402	34

Source: 2009 Comprehensive Annual Financial Reports (CAFRs)

Community and Economic Development
Budgets and Staff Levels of Selected Cities

City	Population (7/1/2009) *	Square Miles	Budget (millions)	Budget Breakdown			Expenditure per Capita	FTEs	% of dept budget supported by General Fund	Major Revenue Source	Cost per FTE
				Personnel		Non-personnel					
Cincinnati	333,013	77	37.3	11.6	31%	25.7	$112	150	34% [1]	Federal Grants (38%)	$77,382
Austin	786,382	272	56.3		0% **		$72	423	34%	General Fund (34%)	$0
Buffalo	282,233	42	36.9	11.3	31%	25.6	$131	149	21%	Federal Grants (79%)	$75,655
Denver ***	610,345	155	100.0	35.2	35%	64.8	$164	467	19% [2]	Federal, State & Local Grants (81%)	$75,381
Oakland	409,184	78	61.6	31.0	50%	30.6	$151	452	11% [3]	Fees (43%)	$68,591
Portland	566,141	145	314.0		0% **		$555	598	8% [4]	TIF (59%)	$0
Kansas City	482,299	316	55.6	13.0	23%	42.6	$115	188	6% [5]	TIF (53%)	$69,175
Minneapolis	385,542	59	86.7	12.1	14%	74.6	$225	135	4%	TIF (56%)	$89,630
St. Paul	281,262	56	82.2	5.3	6%	76.9	$292	75	4%	Grants (32%)	$70,667
Indianapolis ***	807,584	368	73.9	6.1	8%	67.8	$76	102	4%	Federal & State Grants (95%)	$59,888

* Source: US Census Bureau

** Not available

*** Consolidated City-County

Minneapolis General Fund primarily includes Property Tax, and Local Government Aid (LGA). The following cities include additional components not captured in Minneapolis General Fund.

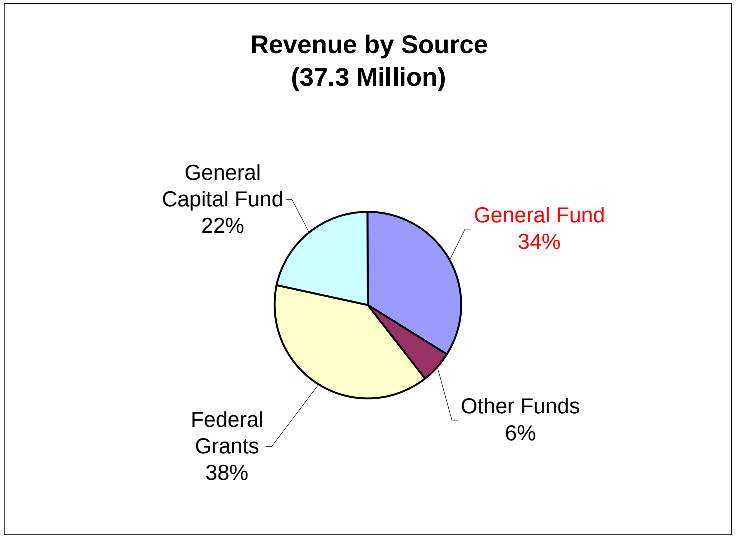
1. Cincinnati: includes income tax. A portion of the city's income tax is dedicated for capital projects. A few positions are performance based and paid out of capital resources derived for their work on capital projects.
2. Denver: General Fund (GF) revenue includes Facilities Development Admission Tax, Lodgers Tax, Motor Vehicle Ownership Tax, Occupational Privilege Tax, Telephone Tax, and Special Assessments
3. Oakland: includes voter approved special tax
4. Portland: includes Lodging taxes
5. Kansas City: includes income tax

Note: Budget and FTE information presented in this table represents Minneapolis staff's interpretation of the cities' budget documents and Comprehensive Annual Financial Reports.

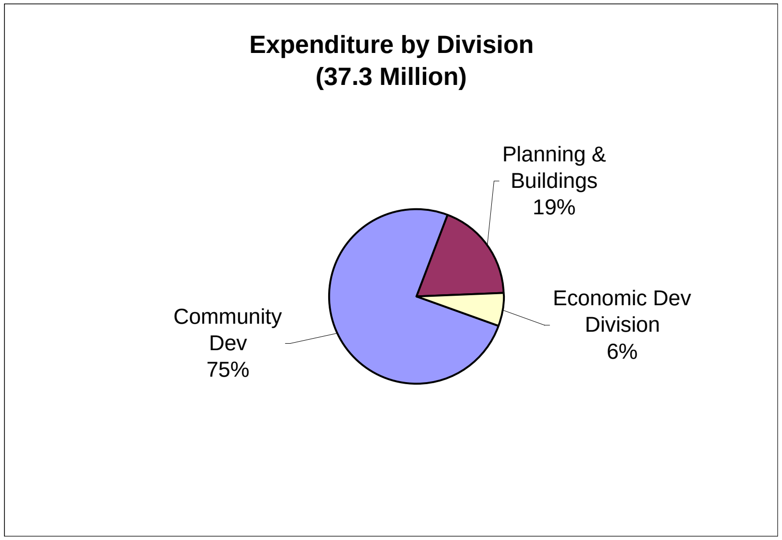
CINCINNATI

Community Development
Planning & Buildings
Economic Dev Division (under City Manager)

REVENUES



EXPENDITURES



STAFF

Community Development	72
Planning & Buildings	71
Economic Development Division	7
	150

Population (2009): 333,013
Size Rank: 57

Revenue

Souce	Amount
General Fund	12.6
Other Funds	2.1
Federal Grants	14.6
General Capital Fund	8.0
Total	**37.3**

Expenditure

Divisions	Amount
Community Dev	28.1
Planning & Buildings	6.9
Economic Dev Division	2.3
Total	**37.3**

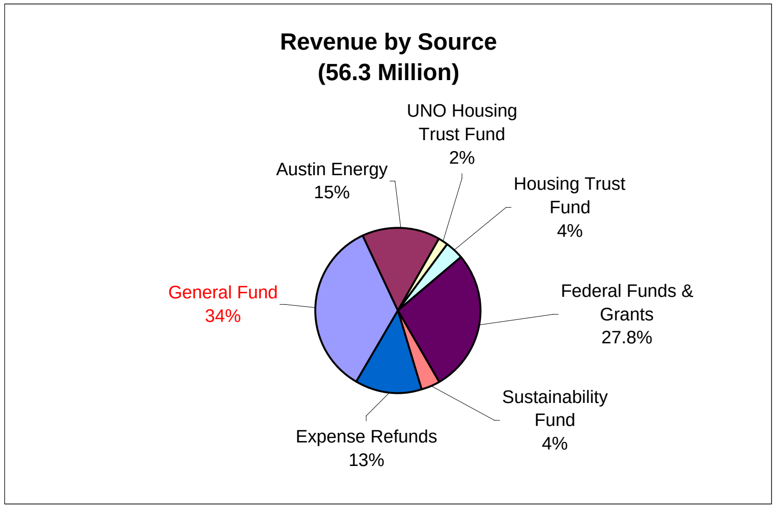
AUSTIN

Planning and Development

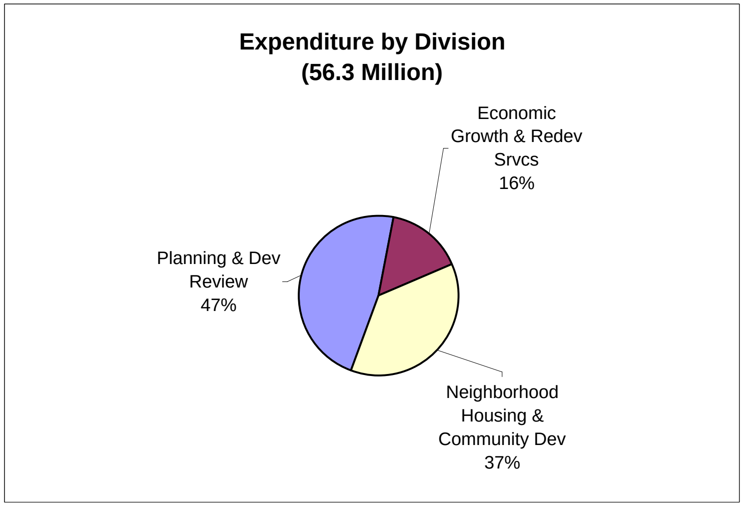
Economic Growth and Redevelopment

Neighborhood Housing and Community Development

REVENUES



EXPENDITURES



STAFF

Planning & Development Review	311
Economic Growth & Redevelopment Srvcs	46
Neighborhood Housing & Community Dev	67
	423

Population (2009): 786,382
Size Rank: 15

Revenue

Source	Amount
General Fund	19.57
Austin Energy	8.6
UNO Housing Trust Fund	1.165
Housing Trust Fund	1.976
Federal Funds & Grants	15.67
Sustainability Fund	2.06
Expense Refunds	7.3
Total	**56.3**

Expenditure

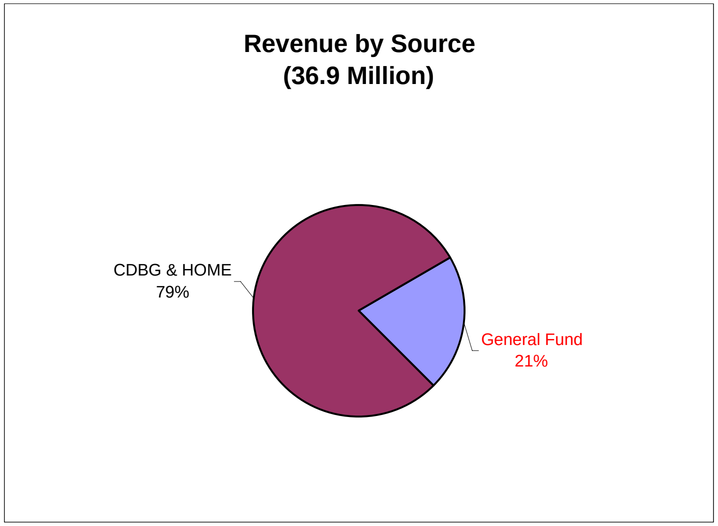
Divisions	Amount
Planning & Dev Review	26.7
Economic Growth & Redev Srvcs	8.8
Neighborhood Housing & Community Dev	20.8
Total	**56.3**

BUFFALO

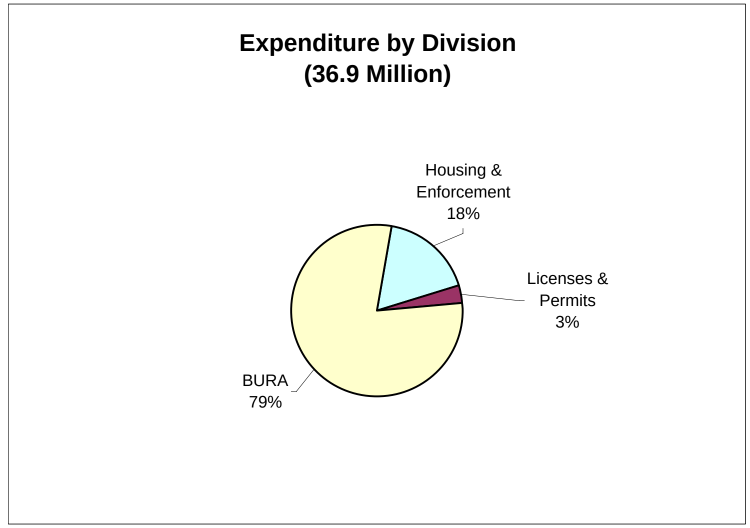
Economic Development, Permits and Inspection Services

Buffalo Urban Renewal Agency (BURA)

REVENUES



EXPENDITURES



STAFF

Housing & Enforcement	77
Licenses & Permits	17
BURA	55
	149

Population (2009): 282,233
Size Rank: 62

Revenue

Source	Amount
General Fund	7.665
CDBG & HOME	29.23
Total	**36.9**

Expenditure

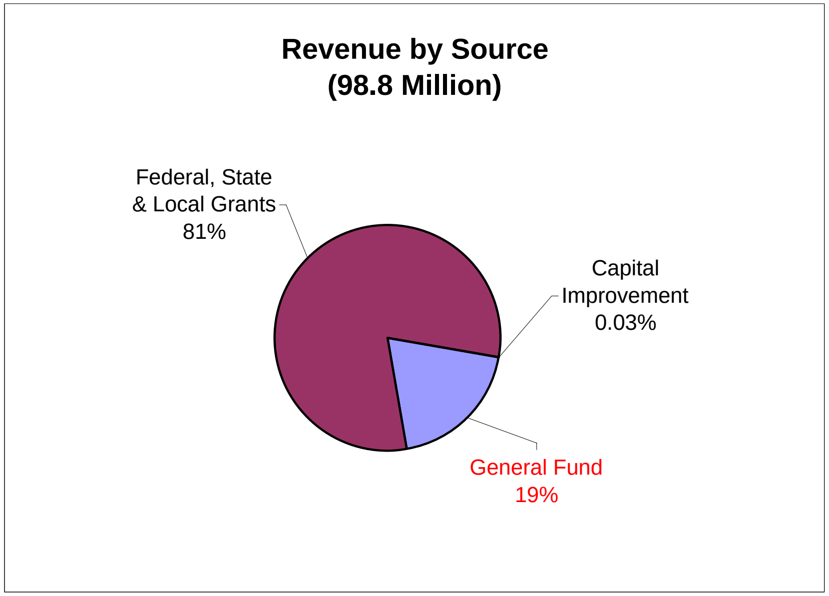
Divisions	Amount
Housing & Enforcement	6.50
Licenses & Permits	1.16
BURA	29.23
Total	**36.9**

DENVER

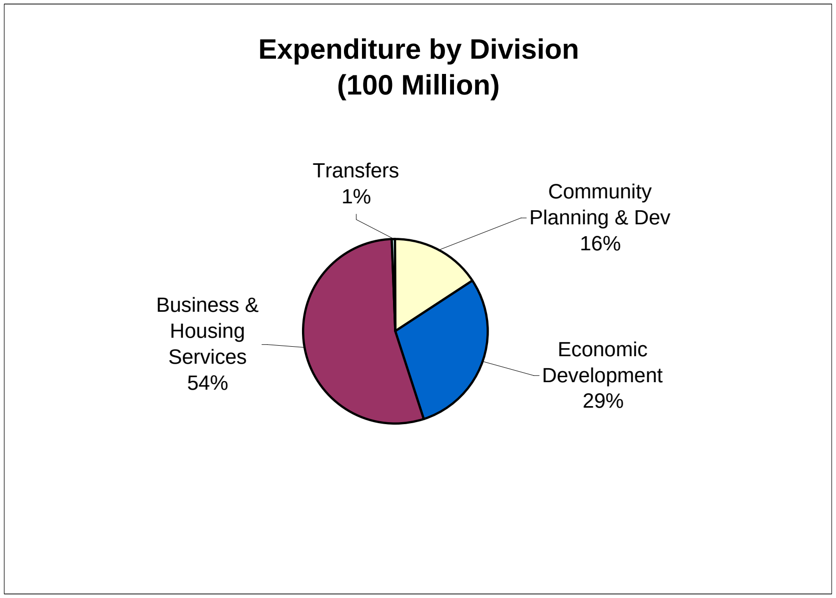
Community Planning and Development

Economic Development

REVENUES



EXPENDITURES



STAFF

Community Planning & Development	177
Office of Economic Development	290
	467

Population (2009): 610,345
Size Rank: 24

Revenue

Source	Amount
General Fund	19.2
Federal, State & Local Grants	79.6
Capital Improvement	0.03
Total	**98.8**

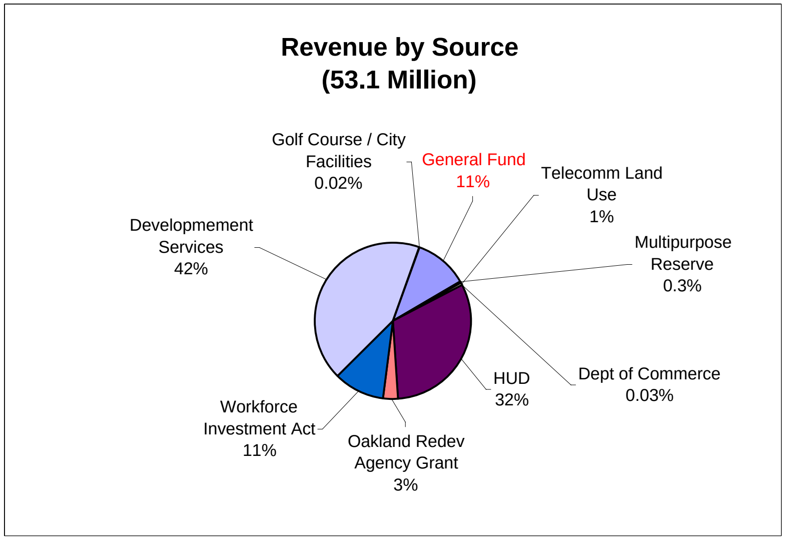
Expenditures

Divisions	Amount
Community Planning & Dev	16.0
Economic Development	29.0
Business & Housing Services	54.4
Transfers	0.66
Total	**100.0**

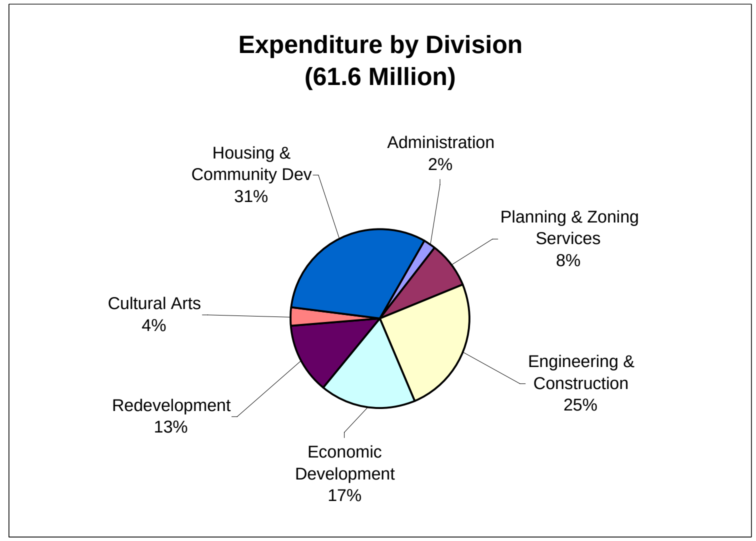
OAKLAND

Community & Economic Development Agency (CEDA)

REVENUES



EXPENDITURES



STAFF

Administration	29
Housing & Community Dev	52
Economic Development	26
Planning & Zoning Services	40
Development Services	101
Engineering & Construction	139
Redevelopment	65
	452

Population (2009):	409,184
Size Rank:	44

Revenue

Souce	Amount
General Fund	5.8
Multipurpose Reserve	0.1
Telecomm Land Use	0.3
Dept of Commerce	0.02
HUD	16.7
Oakland Redev Agency Grar	1.5
Workforce Investment Act	5.7
Developement Services	22.8
Golf Course / City Facilities	0.01
Total	**53.1**

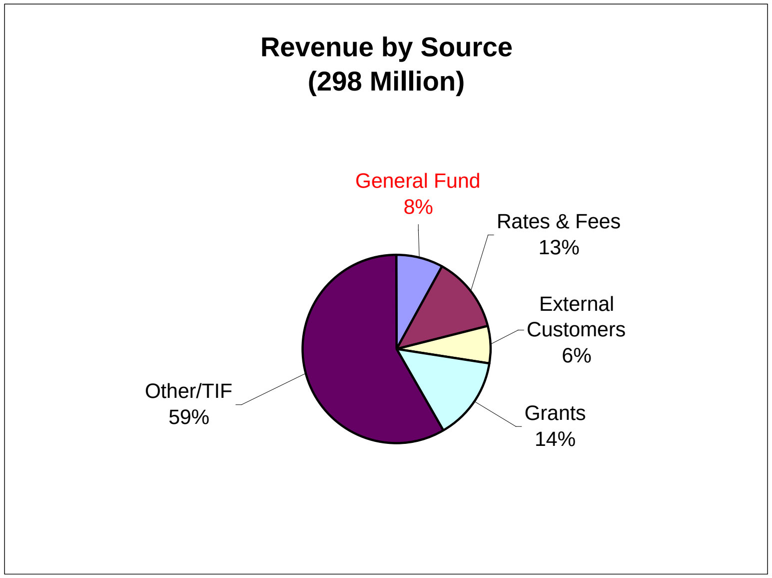
Expenditure

Division	Amount
Administration	1.3
Planning & Zoning Services	5.1
Engineering & Construction	15.2
Economic Development	10.6
Redevelopment	7.8
Cultural Arts	2.2
Housing & Community Dev	19.3
Total	**61.6**

PORTLAND

Bureau of Planning & Sustainability
Bureau of Development Services
Portland Development Commission
Housing Bureau

REVENUES



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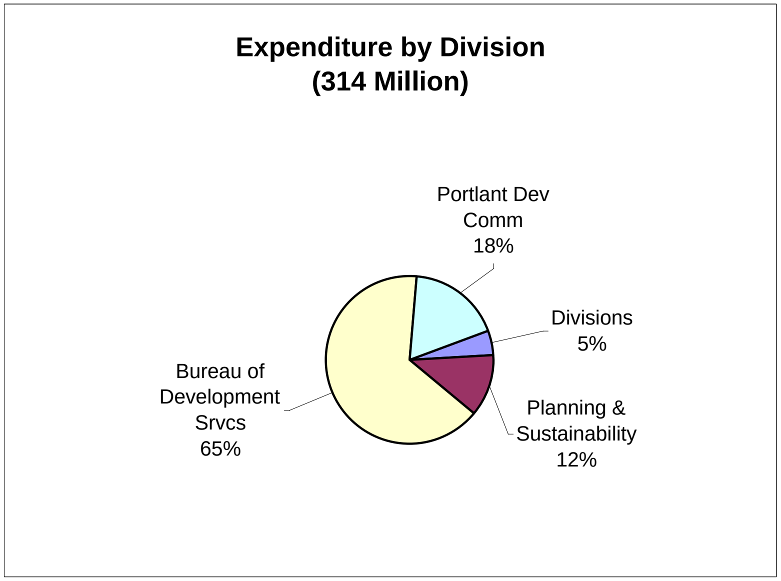


STAFF

Planning & Sustainability	87
Bureau of Development Services	267
Portland Dev Comm	212
Housing Bureau	32
	598

Population (2009):	566,141
Size Rank:	30

Revenue

Source	Amount
General Fund	24.1
Rates & Fees	39.0
External Customers	18.4
Grants	42.5
Other/TIF	173.7
Total	**297.7**

Expenditure

Divisions	Amount
Planning & Sustainability	15.0
Bureau of Development Srvcs	37.5
Portlant Dev Comm	204.7
Housing Bureau	57.0
Total	**314.2**

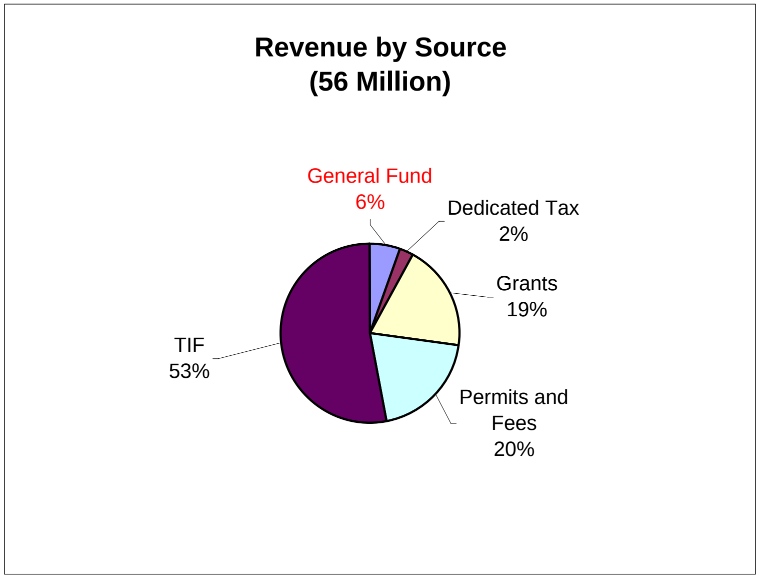
KANSAS CITY

City Planning and Development

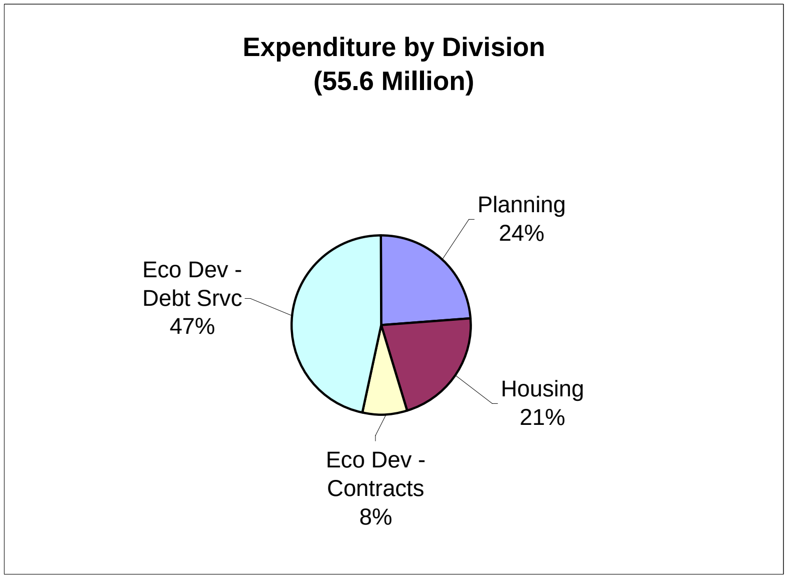
Housing

Economic Development (part of Development Finance)

REVENUES



EXPENDITURES



STAFF

Planning	153
Housing	35
	188

Population (2009): 482,299
Size Rank: 35

Revenue

Source	Amount
General Fund	3.1
Dedicated Tax	1.4
Grants	10.8
Permits and Fees	11.0
TIF	29.7
Total	**56.0**

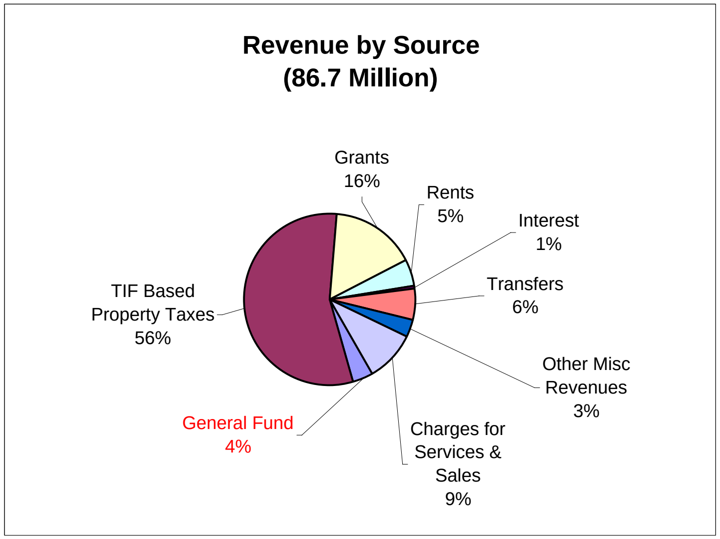
Expenditure

Divisions	Amount
Planning	13.3
Housing	11.8
Eco Dev - Contracts	4.56
Eco Dev - Debt Srvc	25.93
Total	**55.6**

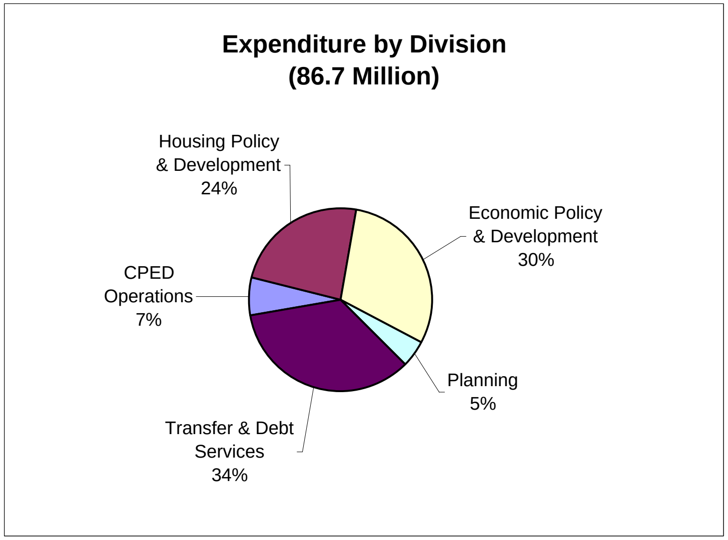
MINNEAPOLIS

Community Planning and Economic Development (CPED)

REVENUES



EXPENDITURES



STAFF

Economic Development	41
Housing	41
Planning	41
Executive Administration	12
	135

Population (2009): 385,542
Size Rank: 48

Revenue

Source	Amount*
General Fund	3.4
TIF Based Property Taxes	48.4
Grants	13.9
Rents	4.4
Interest	0.45
Transfers	5.1
Other Misc Revenues	2.85
Charges for Services & Sales	8.2
Total	**86.7**

Expenditure

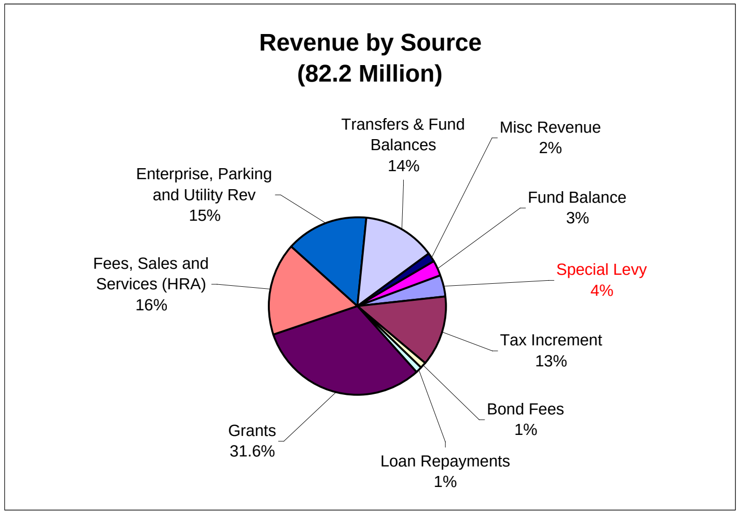
Divisions	Amount*
CPED Operations	5.8
Housing Policy & Developme	20.6
Economic Policy & Developm	26.2
Planning	4.0
Transfer & Debt Services	30.1
Total	**86.7**

ST. PAUL*

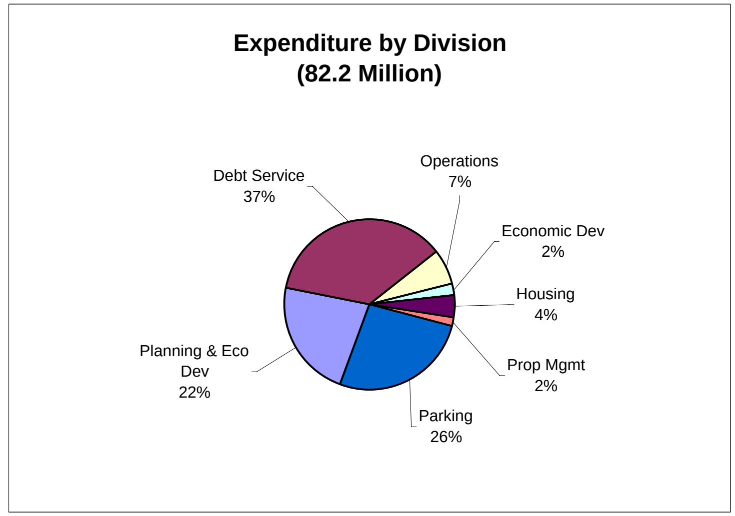
Planning and Economic Development

Housing and Redevelopment Authority of City of St. Paul

REVENUES



EXPENDITURES



STAFF

Director & Communications	3
Economic Development	13
Housing	19
Planning	18
Invest St. Paul	10
Admin / Financial Srvcs	12
	75

Population (2009): 281,262
Size Rank: 67

Revenue

Source	Amount
Special Levy	3.15
Tax Increment	10.6
Bond Fees	0.9
Loan Repayments	0.8
Grants	25.95
Fees, Sales and Services (HRA)	13.9
Enterprise, Parking and Utility Rev	12.25
Transfers & Fund Balances	11.1
Misc Revenue	1.34
Fund Balance	2.23
Total	**82.2**

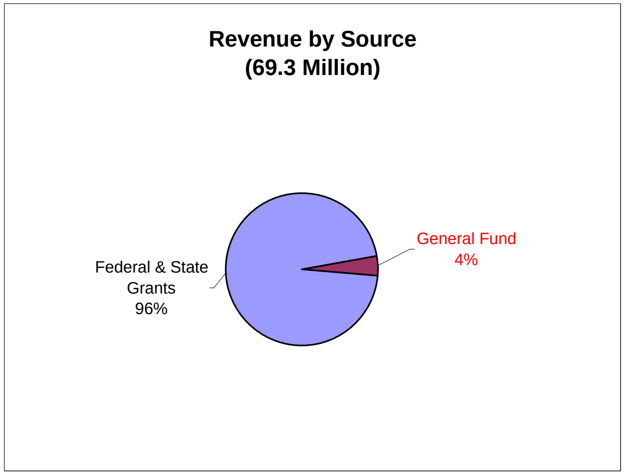
Expenditure

Divisions	Amount
Planning & Eco Dev	18.47
Debt Service	29.9
Operations	5.6
Economic Dev	1.8
Housing	3.4
Prop Mgmt	1.39
Parking	21.6
Total	**82.2**

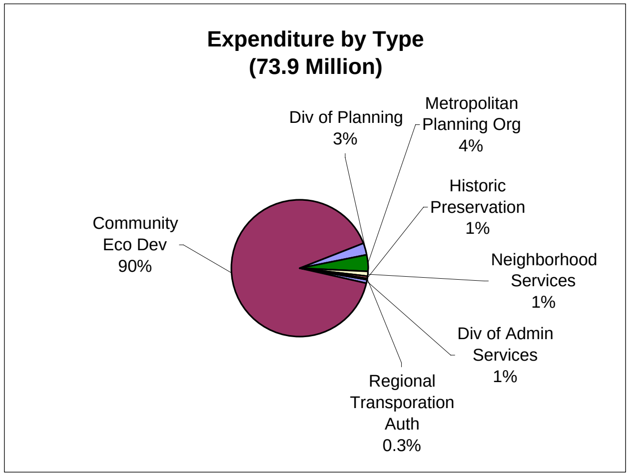
INDIANAPOLIS

Department of Metropolitan Development (DMD)

REVENUES



EXPENDITURES



STAFF

Division of Adminstrative Services	7
Community Economic Development	29
Division of Planning	31
Metropolitan Planning Org	14
Neighborhood Services	13
Historic Preservation	6
Regional Transportation Authority	2
	102

Population (2009): 807,584
Size Rank: 14

Revenue

Source	Amount
General Fund	2.9
Federal & State Grants	66.42
Total	**69.3**

Expenditure

Divisions	Amount
Div of Admin Services	0.631
Community Eco Dev	66.90
Div of Planning	2.01
Metropolitan Planning Org	2.92
Neighborhood Services	0.86
Historic Preservation	0.40
Regional Transporation Auth	0.21
Total	**73.9**

HRA and Chapter 595 Levies

HRA Levy

The Minnesota Housing and Redevelopment Authorities (HRA) Act provides that housing and redevelopment authorities may levy up to 0.0185 percent of the taxable market value within the city (Minnesota Statutes Section 469.033, Subd. 6). Revenue generated by the levy may only be used for the purposes of the HRA Act and must be kept in a separate fund to be known as the "housing and redevelopment project fund".

The Minneapolis Housing and Redevelopment Authority (predecessor to the Minneapolis Community Development Agency and CPED) exercised this HRA levy authority from 1949 through 1978, until the growth of tax increment financing provided an alternative source of funds.

Minnesota Laws 1980, Chapter 595 provided for the establishment of the Minneapolis Community Development Agency (MCDA) and allowed the Minneapolis City Council to determine by ordinance which powers provided under the Act the MCDA could exercise. In 1981, the City ordinance that established the MCDA and identified its powers (Minneapolis Code of Ordinances, Title 16, Chapter 422, Section 422.10) specifically excluded the power to exercise the HRA levy, but retained that power for the City Council.

In 1990, after the Minneapolis Public Housing Authority (MPHA) split off from the MCDA, MPHA began using a small portion of the HRA levy authority. MPHA continued to use this levy authority until 2010, when it temporarily became unnecessary due to the availability of federal funds. It is anticipated that MPHA’s use of a portion of the levy authority will resume in 2011, with a proposed levy amount of $1.4 million.

For taxes payable 2010, 54 Minnesota cities, 27 counties and three multi-county organizations exercised their HRA levy. This is an increase over the 47 cities, 22 counties and three multi-county organizations that exercised the levy in 2004. Twelve cities within Hennepin County, and the County itself, exercised the HRA levy for taxes payable 2010. The City of St. Paul’s use of the HRA levy generated almost $2.3 million in revenue in 2009.

Chapter 595 Levy

Under Minnesota Laws 1980, Chapter 595, Section 3 the MCDA “may levy a general ad valorem tax upon all taxable property in the city of Minneapolis for any economic development, housing, or redevelopment purpose for which the city council may levy a tax, or for which a housing and redevelopment authority pursuant to Minnesota Statutes, sections 469.01 to 469.047 may levy a tax.” This special levy, which may not exceed 3 mills, is referred to as the “Chapter 595 levy”.

For taxes payable in 2002 and 2003, the City Council approved a Chapter 595 levy not to exceed $4 million each year, to be used for development purposes. The City has not used the Chapter 595 levy since 2003.

Current estimates indicate the maximum 3 mill levy would generate property tax revenues in the range of $35 to $40 million.

HRA Levy Amounts* for Selected Minnesota Cities, Taxes Payable 2010

City	**HRA Levy**
St. Paul	$ 2,669,162
Bloomington	1,798,241
St. Louis Park	935,721
Duluth	778,919
Coon Rapids	625,632
St. Cloud	529,929
Plymouth	511,897
Richfield	492,838
Fridley	428,614
Ramsey	361,647
Roseville	331,154
Elk River	324,177
Woodbury	322,202
Hastings	272,232
South St. Paul	210,328
Alexandria	207,088
Columbia Heights	201,309

* Levy may include amounts used for public housing purposes.

Source: Minnesota Department of Revenue

Community Planning & Economic Development
Crown Roller Mill, 105 Fifth Ave. S.
Suite 200
Minneapolis, MN 55401

Minneapolis
City of Lakes

Position on Proposed Transit Improvement Districts
(H.F. No. 3218 / S.F. No. 2919)

Legislation was introduced in 2010 to amend the Tax Increment Act (MN Stat. 469.174 – 469.1791) in order to authorize a new type of tax increment financing (TIF) district: a "transit improvement district."

A transit improvement TIF district could be used to finance improvements and costs related to rail and bus rapid transit lines. In order for property to be included within a transit improvement district, each parcel must be located within one-half mile of a qualifying transit line and it must be found that creation of the district would be in the public interest because it will help finance improvements or services that will increase the effectiveness of the transit line. These are the only findings required in order to establish the district.

Qualifying transit lines are light rail, commuter rail, bus rapid transit identified and operated by the Metropolitan Council or MNDOT, and streetcars. The duration of a transit improvement district is 25 years from receipt of the first tax increment, which is the same duration as a housing or redevelopment TIF district. Tax increment may be used for the same purposes permitted for a housing or a redevelopment TIF district. Additionally, the tax increment revenue may be used to (i) acquire and improve a transit station; (ii) acquire and improve green space related to transit improvements; (iii) make streetscape improvements related to transit; (iv) pay operating costs of paratransit or circulator transit serving the line; (v) make transit improvement loans (as referenced in Transit Improvement Area authority and in accordance with an approved transit improvement area plan); (vi) implement transit improvement area plans; (vii) pay capital and operating costs of a streetcar line; or (viii) finance mitigation costs related to the line.

<u>Why does the City of Minneapolis need and support this legislation</u>?

The legislation provides more flexibility within the Tax Increment Act with respect to including property within a TIF district for transit and using resulting increments to assist in the acquisition and development of facilities necessary for and complementary to transit lines and surrounding transit-oriented development. The City needs and supports this legislation because it will provide additional ways in which TIF revenues may be captured and used specifically to finance transit, transit related facilities and ancillary development. It would become the most viable tool available to the City to fund and develop its transit corridors.

<u>What role would we expect the County to play in Transit Improvement Districts?</u>

We would not expect the County's role in transit improvement TIF districts to be any different than its role in other TIF districts established within the City. There would be a broader role for the County through the DEED-designated Transit Improvement Areas authorized by the 2008 Legislature (Minnesota Statutes, Sections 469.35 and 469.351,) where cohesive and parallel goals and objectives of the City and County could be developed and implemented.

<u>How does the legislation allow us to do something we cannot do now through a redevelopment project area in conjunction with the County's County Transit-Oriented Development Program?</u>

In order for the City to apply and access funds available through the County's Transit-Oriented Development Program, the project receiving the grant must be located within a designated redevelopment project area. A redevelopment project area is a geographic designation that outlines the goals and objectives of development and redevelopment within that area. In and of itself, a project area is not a funding tool. It does not generate revenue, but in certain instances may provide a designation where revenue may be expended.

A transit improvement TIF district is a financing tool that could be established within a redevelopment project area and would generate revenues to fund activities that meet the goals and objectives provided for in that underlying project area.

October 2010

What are current examples on how we could use this tool on the Hiawatha LRT line?

Over the past ten years, Minneapolis has completed several infrastructure, multi-family housing and economic development projects around the Hiawatha LRT stations in partnership with other public funders, community stakeholders and private investors. These projects have demonstrated the role of coordinated infrastructure and economic development investments in removing barriers to transit-supportive development around stations and increasing public benefit from the primary transit investment.

There are additional public investments proposed in the Hiawatha Corridor that will leverage additional tax base growth, transit ridership, and private jobs and investments if funding tools and resources are available at the right time to support coordinated investment programs in these areas. As the regional transit system expands, demand for these resources is increasing both in existing transit stations like Hiawatha as well as the newer and proposed transit corridors.

Examples of proposed projects or established funding needs around the Hiawatha LRT line that could utilize a Transit Improvement District tax increment financing tool include:

- Reconstruction of 38th Street and 46th Street between Minnehaha and Hiawatha Avenue as complete, green streets;
- Street reconstruction, pedestrian improvements and bicycle facilities at the Cedar Riverside and Franklin Avenue stations;
- Signal system improvements on Hiawatha Avenue to support safe pedestrian crossings and vehicular traffic movements near stations;
- Improvements to bicycle and pedestrian facilities connected to stations, including bicycle trail lighting and pedestrian lighting;
- Downtown park and open space improvements to support office and housing investments near transit;
- Extension of Snelling Avenue south of 46th Street to provide access to redevelopment sites and improve circulation;
- Funding for diagonal greenway, station plazas, and public green spaces in transit improvement areas;
- Midtown Farmer's Market site acquisition and improvements and other nonprofit facilities;
- Utility modernization, upgrades and relocation to support denser station area development; and
- Resources for affordable and mixed income housing preservation and development near stations, including funding to acquire sites for affordable housing.

At LRT station areas that are proposed to undergo significant physical land use and infrastructure transitions - like 46th Street and Franklin Avenue - the Transit Improvement District is an important funding option since it is a geographically targeted funding tool that increases in capacity as transit-supportive development occurs. The dedicated revenues allow for a phased and coordinated land use and infrastructure investment program to be implemented systematically over time, strengthening the market conditions for the private investment necessary to achieve the denser transit-supportive land uses envisioned in the Transit Improvement Area plans.

How would we expect this tool to raise market values and tax base?

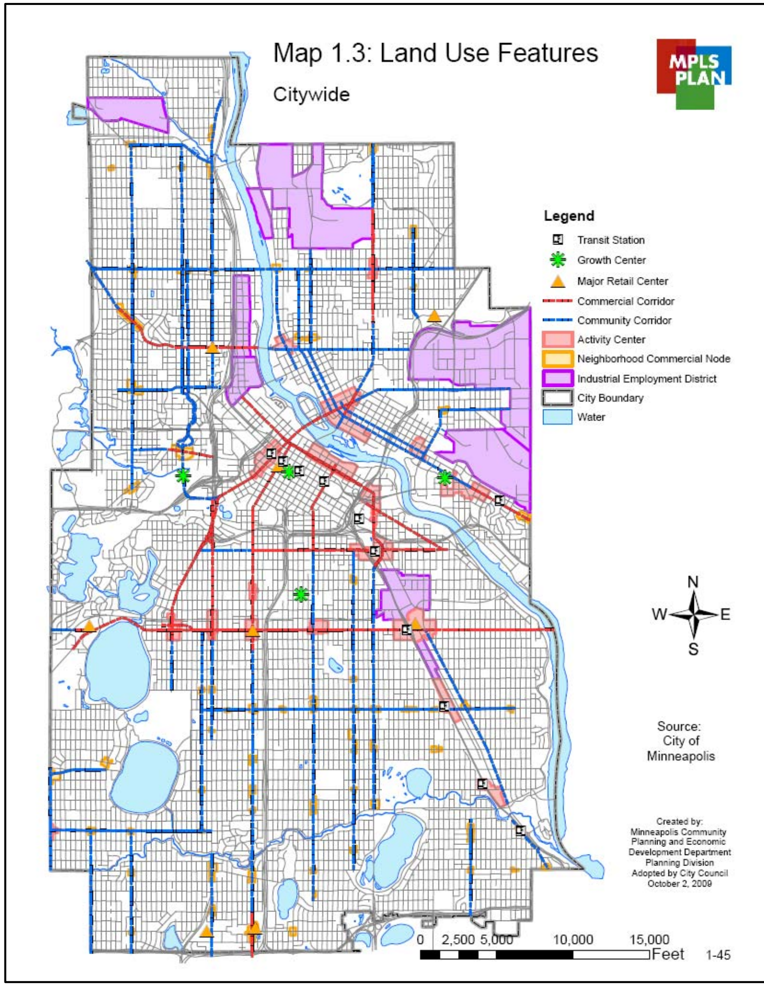
Studies completed by the Transitway Impacts Research Program at the University of Minnesota have documented that construction of Hiawatha LRT has already increased both commercial and residential property values around stations and increased new development in LRT station areas more than in other comparable areas in Minneapolis neighborhoods without proximity to LRT. These property value increases are directly related to distance from the station, quality of access to stations, and whether there are environmental or land use barriers - like inadequate infrastructure, poor quality pedestrian or bike facilities, blighted buildings and declining land uses, or contamination - that discourage station access and new investment.

Implementation of transit improvement area plans can increase transit utilization and the value of existing properties as well as support market driven transitions to higher density, transit supportive land uses that will increase tax base and transit ridership through targeted infrastructure, economic development, and access improvements in transit station areas.

Making the Case for TOD TIF Financing

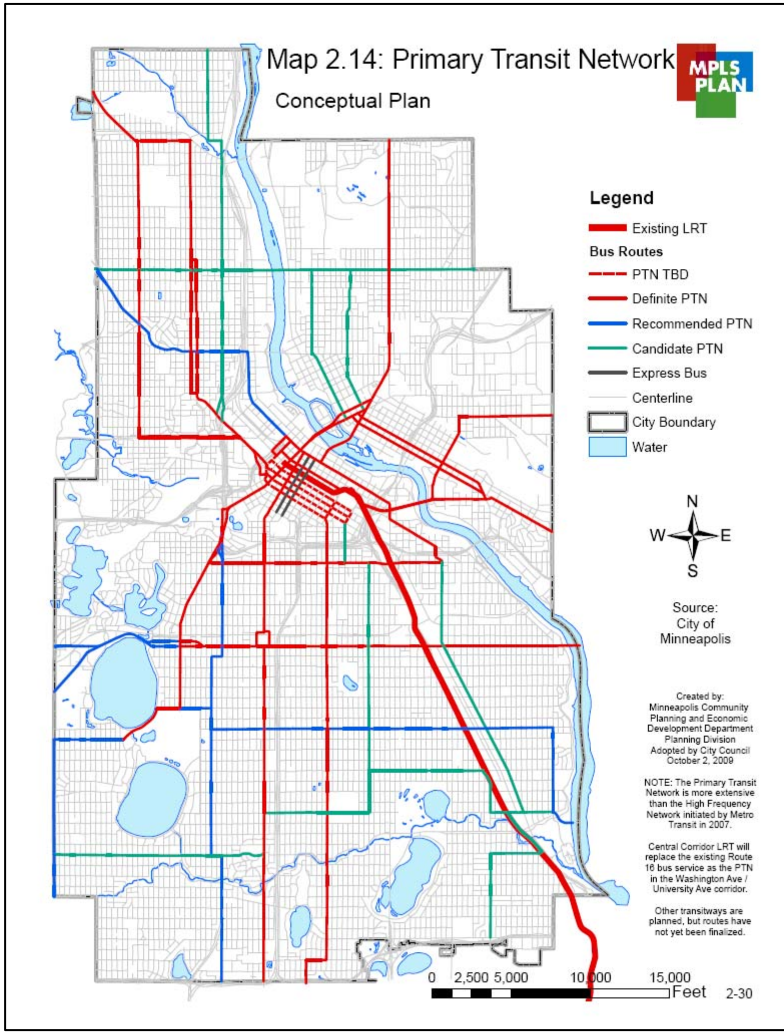
Targeted Areas for Growth

- Comprehensive Plan guidance for directing growth
  - Growth Centers (employment and supporting uses): University of Minnesota
  - Activity Centers (day-to-night mixed use): Cedar Riverside
  - Commercial Corridors (commercial districts): Cedar Ave and Riverside Ave



Transit Supportive Development

- Comprehensive Plan guidance for TOD
  - Transit station areas: Hiawatha and Central Corridor LRT stations
  - Primary transit corridors/ high frequency network: LRTs, Riverside and Washington Avenues

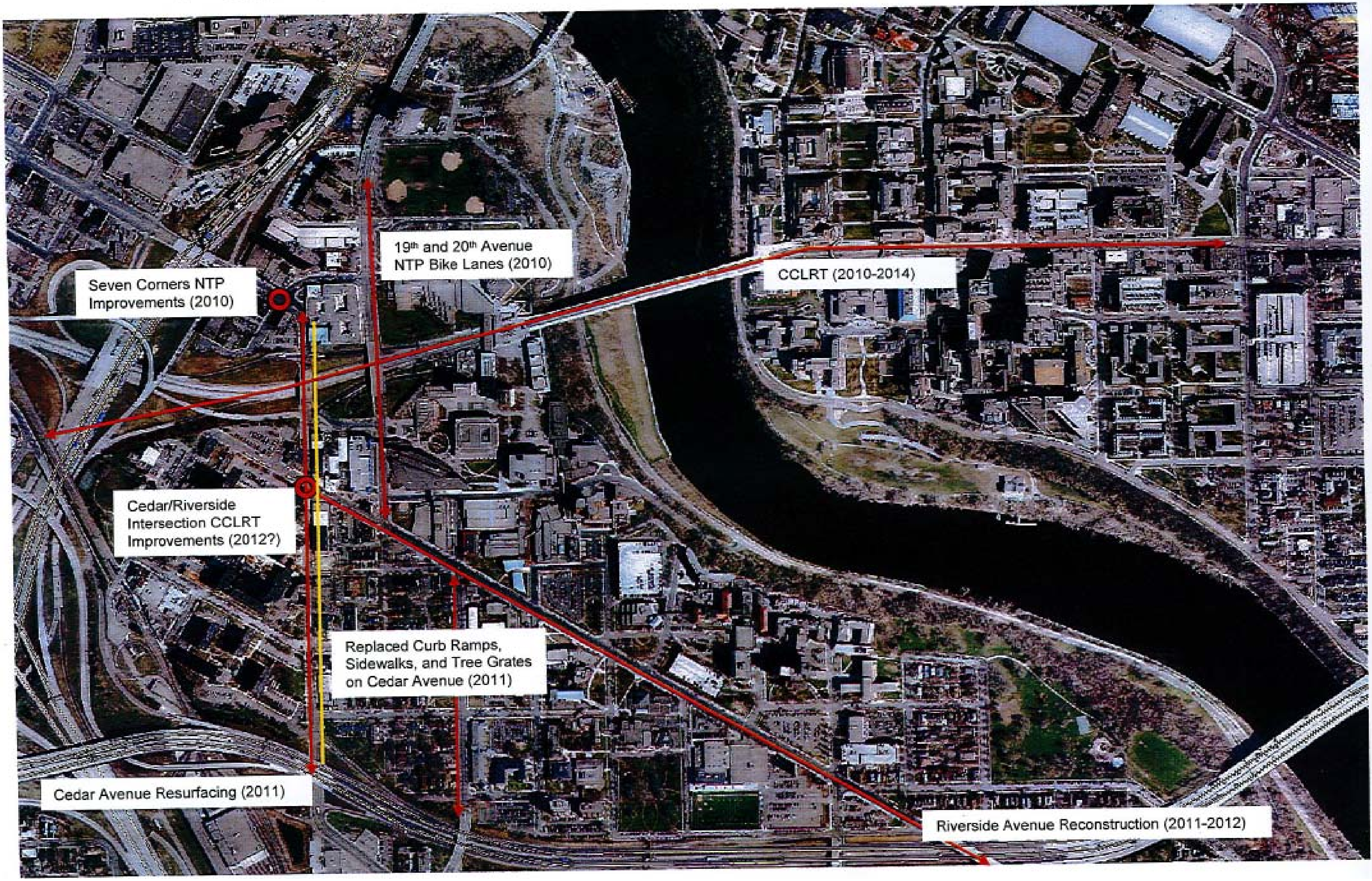


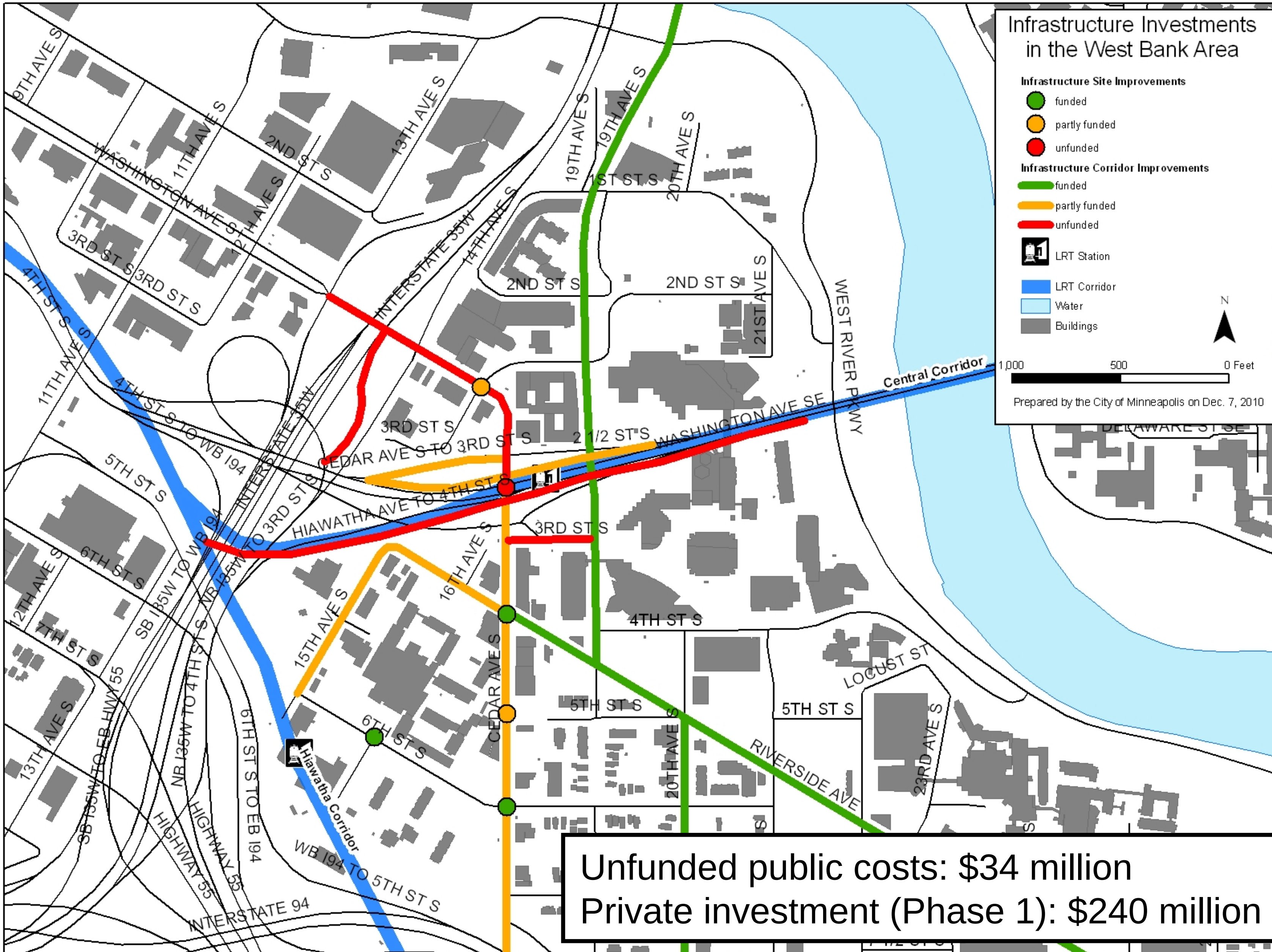
The Hiawatha Line: Impacts on Land Use and Residential Housing Value

Professor Ed Goetz, Director of CURA

- Hiawatha produced an increase of $47.1 million in residential property value between 2004 – 2007
- Average value of homes located near stations increased:
  - Single-Family Homes – more than $5,000
  - Multi-Family Homes – more than $15,500
- Compared to a control area,
  - New housing construction occurred at nearly twice the rate.
  - Single-family homes sold for 4.2% more

Funded Infrastructure Projects





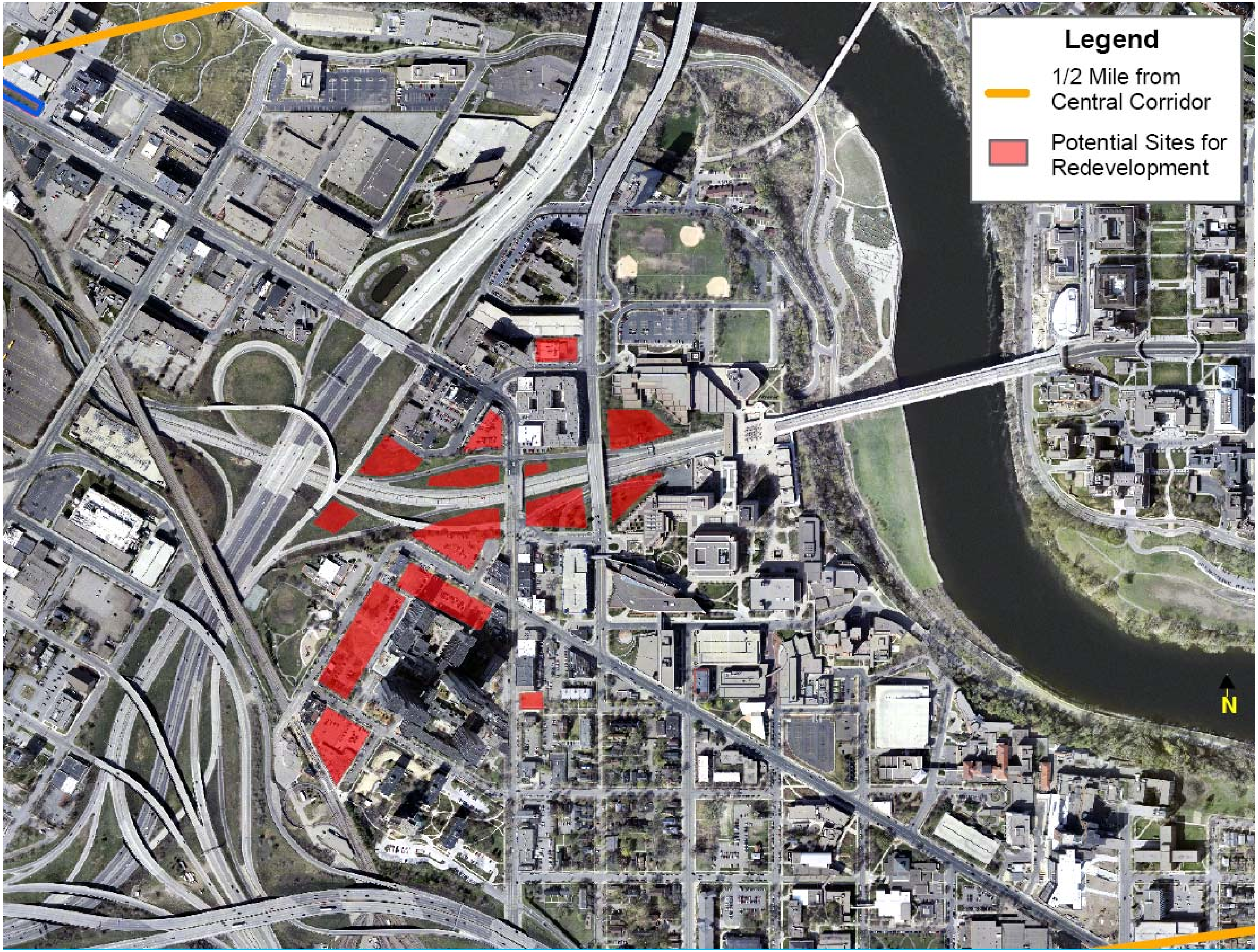
Unfunded public costs: $34 million

Private investment (Phase 1): $240 million

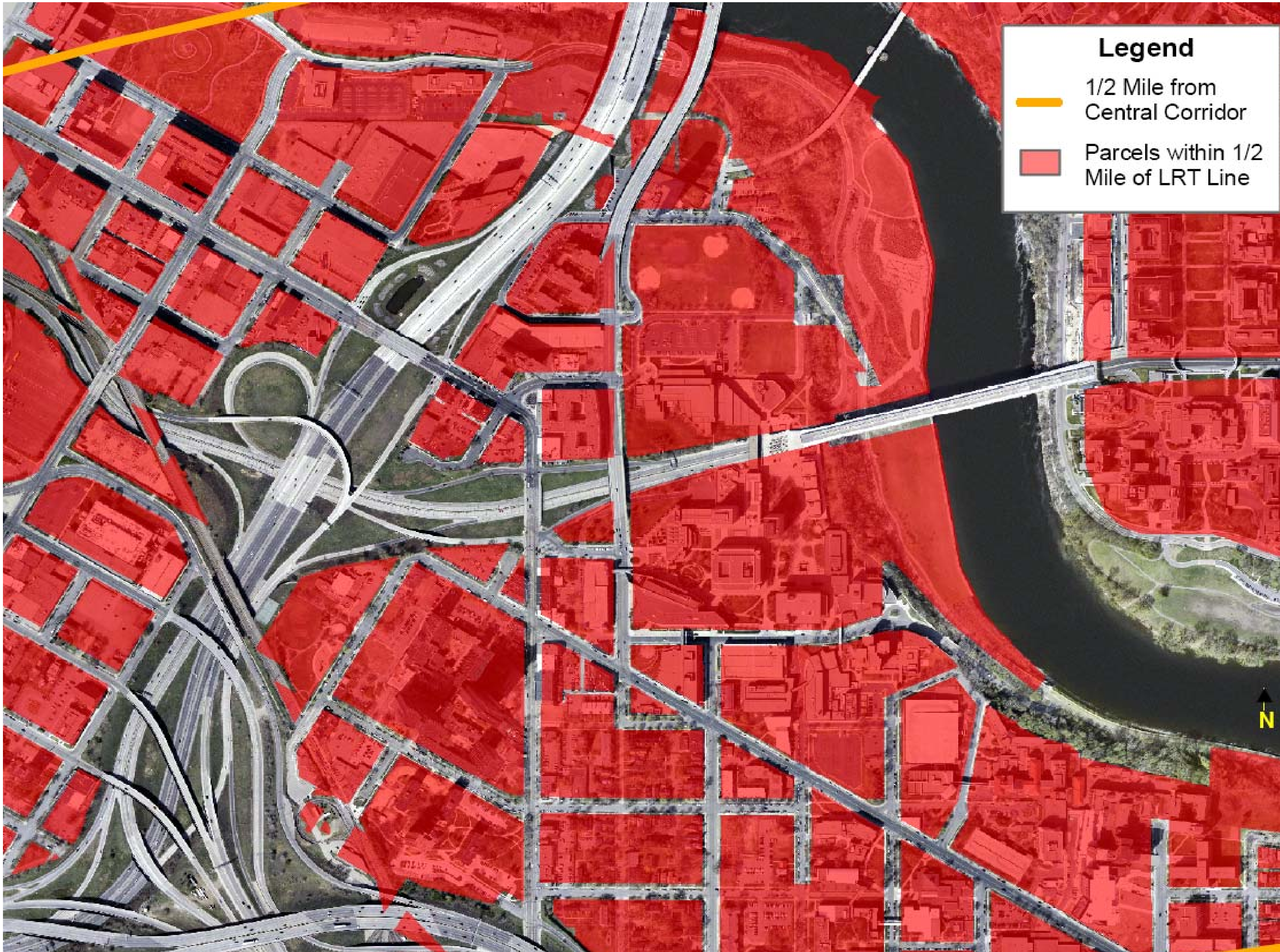
Potential Benefits of Transit Improvement TIF Districts

- Much broader area eligible - all properties within ½ mile of qualifying transit line. Results in significantly larger districts for collection and use of tax increment revenue.
- “But-for” finding not required (no need to demonstrate development would not occur solely through private investment within the foreseeable future).
- Eligible uses of tax increment include all purposes of redevelopment and housing districts, plus purposes related to transit stations, green space, streetscape and transit operating costs.

Potential TIF District configuration under existing law



Potential TIF District configuration if TOD TIF Financing is authorized



Comparison of Redevelopment TIF Districts Under Current Law and Proposed Transit Improvement TIF Districts

	Current Law (Redevelopment Districts)	**Proposed Transit Improvement TIF Districts**
Required Findings	• Eligible as a redevelopment district • Development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future ("but-for" finding) • Increased market value without the use of TIF would be less than increase after subtracting present value of projected tax increment • TIF Plan conforms to city's comprehensive plan • TIF Plan provides maximum opportunity for development or redevelopment by private enterprise • Fiscal disparities election	• **Eligible as a transit improvement district (see below)** • **"But-for" finding not required** • **Market value test not required** • TIF Plan conforms to city's comprehensive plan • TIF Plan provides maximum opportunity for development or redevelopment by private enterprise • Fiscal disparities election
Eligibility	• Parcels consisting of 70% of area must be occupied by buildings, streets, utilities or other improvements (a parcel is "occupied" if at least 15% of the area of the parcel contains improvements) AND • More than 50% of buildings must be structurally substandard to a degree requiring substantial renovation or clearance OR • Property consists of vacant or underutilized rail yards, rail storage facilities, or excessive or vacated railroad rights-of-way	• **Nearest boundary of each parcel in district is within one-half mile of a qualifying transit line** • **Qualifying transit line is light rail transit, commuter rail, bus rapid transit or streetcar**
Project Area	Required	Required
District Area	May consist of non-contiguous parcels	May consist of non-contiguous parcels
Approval of TIF Plan	• 45-day review and comment period • Public hearing with published notice and map • City Planning Commission review and opinion • City Council makes necessary findings	• 45-day review and comment period • Public hearing with published notice and map • City Planning Commission review and opinion • City Council makes necessary findings
Duration	25 years from date of first collection of tax increment	25 years from date of first collection of tax increment

	Current Law (Redevelopment Districts)	Proposed Transit Improvement TIF Districts
Eligible Uses of Tax Increment	• Acquisition • Demolition • Site preparation • Rehabilitation • Pollution remediation • Installation of utilities, roads, sidewalks, parking facilities • Administrative expenses	• Acquisition • Demolition • Site preparation • Rehabilitation • Pollution remediation • Installation of utilities, roads, sidewalks, parking facilities • Administrative expenses • **Acquiring and improving transit stations or green space** • **Streetscape improvements** • **Transit improvement planning** • **Transit operating costs** • **Financing mitigation cost related to the line**
Limitations	At least 90% of tax increment must be used to finance cost of correcting conditions that allowed designation as a redevelopment district	**No requirement to use tax increment to correct conditions that allowed designation as a district**

Administrative Expenses	• No more than 10% of tax increment
	• All expenditures of authority relating to district except:
	  • Amounts paid for purchase of land
	  • Amounts paid to contractors or others providing materials and services
	  • Relocation benefits
	  • Debt service costs
		• No more than 10% of tax increment
		• All expenditures of authority relating to district except:
		  • Amounts paid for purchase of land
		  • Amounts paid to contractors or others providing materials and services
		  • Relocation benefits
		  • Debt service costs
		  • **Transit operating costs**