Request for City Council Committee Action
From the Finance Department

Date: February 15, 2005

To: Council Member Lisa Goodman, Community Development Committee
Referral to: Council Member Barbara Johnson, Ways & Means/Budget Committee

Prepared by: Jack Kryst, Director, Development Finance, 612-673-5130

Approved by: Patrick Born, City Finance Officer _____
John Moir, City Coordinator _____

Presenter in Committee: Jack Kryst, Director, Development Finance

Subject: Approval of Revised Minneapolis Tax Increment Policy

Recommendation:
Approve the revised Minneapolis Tax Increment Policy, dated February 15, 2005.

Previous Directives:
The current version of the Minneapolis Tax Increment Policy was approved by the City Council on March 22, 2002 and was revised on January 1, 2004. On September 3, 2004, the City Council directed staff to examine and create a policy on the use of general obligation tax increment finance bonds.

Financial Impact (Check those that apply)
_X_ No financial impact - or - Action is within current department budget.

Community Impact

Neighborhood Notification: Not applicable.

City Goals: The Minneapolis Tax Increment Policy addresses Goal 4 (Create an environment that maximizes economic development opportunities within Minneapolis by focusing on the City's physical and human assets) and Goal 5 (Foster the development and preservation of a mix of quality housing types that is available, affordable, meets current needs and promotes future growth).

Comprehensive Plan: Not applicable

Zoning Code: Not applicable

Background/Supporting Information

The Minneapolis Tax Increment Policy guides the City's use of tax increment financing (TIF), provides a framework for negotiating contract terms with developers, and informs the public of the City's position on the use of TIF and the process through which decisions regarding the use of the tool are made.

The Tax Increment Policy was most recently updated and revised in:

- October 2000, to establish a developer application fee, outline the elements of economic analysis and risk assessment to be undertaken by staff, establish a standard format for staff reports, and establish processes for analysis of the impact of fiscal disparities elections and disposition of excess tax increment;
- March 2002, to delete reference to the developer application fee and make the policy consistent with the Public Financial Assistance Fee Policy; and
- January 2004, to update references to MCDA to the City.

The attached February 15, 2005 draft revision to the Tax Increment Policy makes the following changes:

1) adds language stating the City's position that it will not issue general obligation tax increment bonds except under certain limited conditions (Section III.E.);
2) removes references to a separate staff guide (Procedure for Analyzing Applications for Public Financial Assistance) to avoid implying that the staff guide has the same formal status as the Tax Increment Policy (Sections I and V.A.); and
3) removes the reference to a semi-annual report to the Committee of the Whole on the status of tax increment projects "in order to provide context for City Council decisions on public investment for development" (Section III.I.), since beginning this year, tax increment and Common Project revenues will be included in the City's five-year financial direction.

The addition of language stating the City's position on issuing general obligation tax increment bonds is the result of the September 3, 2004 City Council direction to staff to "examine and create a policy on the use of general obligation tax increment finance bonds". Finance Department staff drafted the language and recommend that it be included in the Tax Increment Policy rather than in a separate policy.

The recommended language is:

> The City will not issue general obligation tax increment bonds except under one of the following conditions: 1) substantially 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; or 2) if a substantial portion of the net bond proceeds is used to pay private costs, then a developer or other entity must provide the City with a debt service guaranty or similar form of security for the outstanding life of the bonds. All such guaranties are subject to the review and approval of the City Finance Officer.

Minneapolis Tax Increment Policy
February 15, 2005 (Draft)

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 ~~January 1, 2004~~February 28, 2005.

~~A separate document, *Procedure for Analyzing Applications for Public Financial Assistance*, outlines the administrative procedures to be followed in the review, analysis and approval of requests for tax increment financing and certain other types of assistance.~~

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. General Guidelines in the Use of Tax Increment Financing

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 under one of the following conditions: 1) substantially 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; or 2) if a substantial portion of the net bond proceeds are used to pay private costs, then a developer or other entity must provide the City with a debt service guaranty or similar form of security for the outstanding life of the bonds. All such guaranties are subject to the review and approval of the City Finance Officer.

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.

~~I. Tax Increment Forecast – In order to provide context for City Council decisions on public investment for development, staff will semi-annually provide a verbal report to the Committee of the Whole on the status of current, pending and known potential projects. If possible these presentations should occur at the first meeting in January and July of each year.~~

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 ~~in accordance with the *Procedure for Analyzing Applications for Public Financial Assistance*~~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.