

Minneapolis Tax Increment Financing Policy

Proposed Amendment – July 8, 2011; Revised October 12, 2011

I. Purpose of Policy

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

- to guide staff in forming recommendations regarding the use of TIF and negotiating contract terms with developers;
- to provide a framework within which the City Council and Mayor can evaluate and compare proposed uses of TIF; and
- to inform 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.

This policy supersedes the Tax Increment Policy approved by the Minneapolis City Council on April 1, 2005 and earlier versions of said policy. This policy is effective as of December 1, 2011.

II. Development Objectives

The City will consider using TIF to accomplish the objectives listed below. Development proposals that seek to achieve one or more of these objectives, particularly Objectives A through D, are encouraged.

- A. Encourage and assist transit-oriented development and related public infrastructure improvements along transit corridors and in designated Transit Improvement Areas (as defined in Minn. Stat. §469.351, Subd. 1). For purposes of this policy, i) transit-oriented development means development that strengthens and supports both the community and the transit system, exhibits a compact and efficient use of available space, and is within one-half mile of high-frequency transit lines; and ii) public infrastructure improvements includes sewer, storm water, water, streets, street lighting, alleys, sidewalks, bikeways, pedestrian ways, plazas, transit station area improvements and other TIF-eligible public improvements.
- B. Recruit new businesses into the City and assist in the expansion of existing businesses in order to support job creation and maintain a diversified local economy. For purposes of this policy, job creation includes both new and retained permanent living-wage jobs.
- C. Increase the City's property tax base. For purposes of this policy, increasing the City's property tax base means contributing to significant increases in property values, preferably if it results in a TIF district term that is shorter than the maximum allowed by the TIF Act or new property tax value that is above and beyond what is needed for TIF obligations and commitments.
- D. Redevelop substandard properties and eliminate blighting influences in order to achieve City housing and economic development goals.

- E. Clean contaminated land to provide sites for uses that achieve City redevelopment goals.
- F. 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.
- G. Support neighborhood retail services, commercial corridors and employment hubs, with an emphasis on transit-oriented development.
- H. 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 TIF

- A. The City of Minneapolis will comply with all requirements of the Minnesota Tax Increment Financing (TIF) Act (Minn. Stat. §§ 469.174–469.179, as amended). The City will undertake a rigorous analysis to ensure that the proposed project satisfies the “but for” test embodied within the TIF Act.
- B. The City of Minneapolis will use TIF only when a clearly identified City development objective is served and only to the degree necessary to accomplish that development objective.
- C. TIF 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 internal financing, 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 TIF.
- G. The City will analyze each potential new TIF 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 reported to the City Council in a manner understandable to the general public prior to approval of the proposed use of TIF.

- H. The City will annually identify tax increment revenues deemed to be excess tax increment under the TIF Act, 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. The City may exercise the option granted by the TIF Act to pool tax increment revenue for the purpose of assisting qualified low-income rental housing anywhere within the City.

IV. Economic and Financial Analysis and Risk Assessment Process

- A. Proposed uses of TIF will be subject to rigorous economic and financial 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 TIF 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 proposed 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 and financial analysis and risk assessment will be presented to the City Council at the time of the request for approval of the proposed use of TIF. The report will identify any elements of the proposed project that are not in conformance with this TIF Policy.

V. Evaluation Criteria

The following items will be taken into consideration in the evaluation of any development proposal requesting TIF 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 public infrastructure, public resources or public services required by the proposed project.

- 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 feasible. Methods of recapture shall include, but are not limited to, long-term ground leases, subordinated loans, sale and/or refinancing provisions, and equity participation.
- F. TOD Projects – Any proposal for a transit-oriented development project must address necessary and desirable public realm improvements within the scope of the project. To the extent possible, the City will prioritize funding of public realm improvements over other TIF-eligible redevelopment costs. For purposes of this subsection V.F., the following costs shall not be considered eligible TOD project costs for reimbursement: enhanced streetscape elements such as trees, tree grates, plants and banners.