

A p p e n d i x C

*F i n a n c i a l
T o o l b o x*



Appendix C Financial Toolbox

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Financial Resources

This section focuses on the two key elements of public action related to implementation: public improvements and redevelopment incentives.

Several basic principles frame the financial issues related to the implementation of the plan:

- Local financial resources are limited.
- Local funding should be viewed as strategic investments – expenditures that will lead to private development consistent with the plan.
- There is no single funding plan, rather a collection of tools that can be applied to specific uses.

The tools available to public implementation actions fall into four broad categories:

- Capture of new tax revenues
- Direct support from development
- General City revenues
- Special Programs

Capture of New Tax Revenues

State law allows cities to capture the property taxes from new development (or redevelopment) and use these revenues to pay for a variety of implementation actions. The capture and use of new tax revenues can occur through tax increment financing and tax abatement.

Tax Increment Financing

Tax increment financing (TIF) is the most common local development finance tool. The use of TIF is governed by complex and often changing statutes. A detailed explanation of TIF is beyond the scope of the Corcoran Midtown Revival. Instead, the Corcoran Midtown Revival examines the broader issues associated with the use of TIF as an implementation tool.

In simplest terms, the tax increment is the property tax revenue created by the property valuation from new development. This revenue is captured by the City and used

for eligible redevelopment purposes. In previous years, the tax increment could be described as all of the new tax revenue. As the Legislature has modified the property tax system, certain types of property taxes have been excluded from being captured in a TIF district. Tax increment financing does not apply to taxes levied on the basis of market value or to the state property taxes for education.

The key to using tax increment financing lies with the criteria needed to establish a TIF district. For the purposes of the Corcoran Midtown Revival, the TIF potential relies on the presence of “structurally substandard” buildings or the construction of housing for low and moderate income households. One of these factors is needed to establish a TIF district.

State Law prescribes specific criteria for finding a building to be structurally substandard. The statutory test relates to the presence of certain physical defects and the costs of correcting the defects. For preliminary planning, a “windshield survey” can identify potential eligible buildings and the location of TIF districts. The actual inspection of building interiors by a qualified individual is needed to make an accurate evaluation of existing conditions. This inspection may discover conditions not obvious from the outside. The failure to properly determine the structurally substandard status of buildings is one of the issues in the court challenge of TIF for the Best Buy project in Richfield.

A TIF district does not consist solely of structurally substandard buildings. A district may also include non-substandard buildings and vacant land. The composition varies based on the type of the district. The parcels representing at least 70% of the area in a redevelopment TIF district must be improved. A parcel is improved if at least 15% of the parcel area is covered by buildings, streets, utilities, or other improvements. In addition, more than 50% of the buildings, not including outbuildings, must be found to be structurally substandard.

A renovation and renewal TIF district requires a slightly less strenuous test. The same 70% improved area threshold applies. The minimum for structurally substandard buildings drops to 20%. In addition, the City must determine that 30 % of the other buildings require substantial renovation or clearance to remove existing conditions such as: inadequate street layout, incompatible uses or land use relationships, overcrowding of buildings on the land, excessive dwelling unit density, obsolete buildings not suitable for improvement or conversion, or other identified hazards to the health, safety, and general well being of the community. The statutes do not prescribe specific criteria for making this finding.

The criteria for a housing TIF district does not relate to existing conditions, but to future use. The development in the TIF district must be intended for occupancy, in part, by persons or families of low and moderate income. The development may contain a non-



housing element if the fair market value of this element does not exceed 20% of the total fair market value of the planned improvements in the development plan.

State Law contains a wide range of requirements and restrictions on the actual use of TIF. For the purposes of the Corcoran Midtown Revival, the discussion will focus solely on potential implementation applications. More detailed investigation will be needed to evaluate the limitations for specific uses.

Tax increment financing could be used to finance:

- Land acquisition/site assembly
- Demolition of buildings
- Environmental remediation
- Site preparation
- Public improvements
- Parking structures

Tax Abatement

The name is misleading. Under the type of tax abatement authorized in Minnesota, the property taxes are not abated. A local unit of government levies an additional property tax in an amount equivalent to taxes that could have been abated on a parcel. The revenue from this levy can be collected and repaid to the property owner, in which case it acts like abatement. This revenue can also be retained by the local unit and used in TIF-like programs. For this reason, some have called tax abatement “TIF lite.”

Tax abatement offers several advantages in designing an implementation plan for Corcoran Midtown Revival:

- Tax abatement can be used throughout the Midtown area. None of the improved property or substandard building tests that govern TIF apply to abatement.
- Abatement has far simpler requirements to use and manage.
- Abatement can be applied to both new and existing values. Abatement will not suffer a loss of revenue from base value as in a TIF district.

Tax abatement revenues can be used to finance the key public actions. These uses include site assembly, site preparation, and public improvements

While tax abatement operates under less complicated rules than TIF, there are some important limitations to the use of this option:

- Each local unit has independent authority over abatement. The City and the County and the School District make separate decisions on the use of abatement levies.
- The total annual amount of abatement authority is capped at the greater of \$100,000 or 5% of the current year's levy. An abatement levy is outside of levy limits under the current system.
- Property in a TIF district cannot be subject to an abatement levy.
- The abatement levy can only be collected for 10 years if all units abate and for 15 years if one or two units abate.

Direct support from development

Cities have the authority to raise money to finance public improvements and *assign* these costs back to private development. While special assessments and special districts are typically viewed as public funding devices, the reality is that the costs flow back to property owners.

As implementation strategies, these tools produce revenues and the capacity to borrow money. The application of these tools requires careful attention to the financial implications. The amount of improvement costs assessed/levied against property owners becomes part of the overall cost of business. Despite the enhancements to the physical environment, redevelopment will not occur and sustain unless businesses can operate successfully.

Special Assessments

Special assessments are the most common tool used by Minnesota cities to pay for public improvements. Special assessments are the portion of improvement costs allocated to and levies against benefiting property. In general terms, all of the public improvements contemplated in the plan are eligible for financing with special assessments. Specific examples of assessable improvements include:

- Sidewalks
- Lighting
- ROW landscaping

- Public plazas

Some issues to consider in evaluating the potential use of special assessments include:

- Benefits test. The amount of the assessment cannot exceed the benefit received by the property. Benefit is measured in terms of increase in the market value of the parcel.
- Who benefits? Typically, assessments are levied against properties adjacent to the improvements. State Law does not preclude assessing non-adjacent parcels if there is benefit from the improvements.
- Method of allocation. The most common approach for allocating cost is the front footage of the parcel. In an urban setting, the front foot approach could mean that a surface parking lot is assessed the same amount as a multi-story office building.

Special Service District

State Law authorizes cities to create two types of special taxing districts to finance improvements: a special service district and a housing improvement area. Both tools levy “taxes” across specified parcels to pay for defined improvements. The application of special service districts to Corcoran Midtown Revival includes:

- The mixed use nature of the project requires the use of both tools. A special service district applies only to commercial and industrial property. A housing improvement area covers only owner-occupied housing.
- The districts do not bring new money to the project. The districts create a vehicle to borrow funds and spread the private costs over time at a lower interest rate.
- The district “tax” can resemble a property tax or can be modified to fit other factors.
- The district approach fits area-wide improvements, such as parking and storm water, better than traditional special assessments.
- The creation of special service districts are subject to a unique process. Cities cannot initiate the process without a qualifying petition from affected property owners. This requirement makes the use of special districts a matter to coordinate



with land acquisition and development projects.

General City Programs

General funding from the City may play a role in financing construction of public improvements. Capital improvement funds, utility revenues and property taxes can be used to supplement special assessment, tax increments and other project specific revenues. These revenues can be applied on an annual basis or pledged to support debt.

Limitations on the use of general City programs are more practical than technical. The Corcoran Midtown Revival must compete with other services and capital improvements for limited funds. It is difficult to predict the immediate nature of this fiscal limitations or how it may change in the future.

Special Programs

As the title suggests, special programs are funding sources targeted at specific objectives. The programs and the objectives tend to change over time based on policy and fiscal resources. The creation of implementation plans should not dismiss the possibility of City assistance for improvements and site assembly. Funding through special funding may yield better results when connected to a specific project. The types of actions that tend to associate with special programs include:

- Gap funding for development projects.
- Environmental clean up.
- Housing and business development for disadvantaged groups.
- Job creation.