

# Tax Increment financing 101

*overview for planning commission*

- September, 2020

# What is TIF: Tax Increment Financing?

- Financing tool authorized under State law
- Enables cities and redevelopment authorities to capture increased property taxes from development
- Properties in a TIF district pay property taxes like every other property
- Revenues generated from increased value in TIF district are captured by TIF Authority\* (HRA or Port)
- Revenues are used to pay eligible costs associated with development, including administrative expenditures

*\* Tax increment provided to Authority generated by the original tax rate or current tax rate, whichever is less*

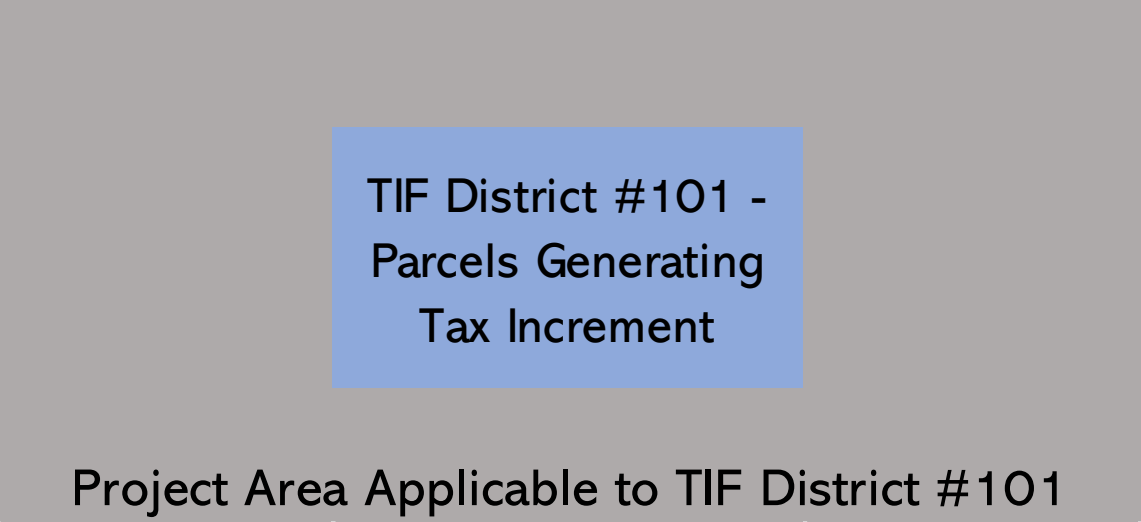
# How Does TIF Work?

- TIF captures the difference between the current tax value of a site and the future, redeveloped value, and uses that INCREMENT to pay for some portion of the development
- Property owners within a TIF district still pay their full amount of property taxes due, but those tax payments are captured to fund the development
- Property taxes that otherwise would flow to the City, County and School District go to fund the development
- TIF requires a “blight finding”\*, usually a deteriorated structure, and a “but for” test: “but for this investment, this redevelopment would not occur”
- TIF is not an appropriate tool for projects that result in properties exempt from property taxes

\* Does not apply to all TIF districts, i.e., Housing TIF districts do not require blight findings

# TIF District Geographies

- TIF Districts are the specific parcels within a Project area from which tax increment will be captured. The Project area may be coterminous with the boundaries of the TIF District or larger. Below is an illustration of a Project Area larger than the boundaries of the TIF District:



The diagram consists of a large gray rectangular area representing the 'Project Area'. Inside this gray area, there is a smaller blue rectangular area representing 'TIF District #101'. The text 'TIF District #101 - Parcels Generating Tax Increment' is centered within the blue area. Below the gray area, the text 'Project Area Applicable to TIF District #101' is displayed.

TIF District #101 -  
Parcels Generating  
Tax Increment

Project Area Applicable to TIF District #101

# How is a TIF District Established?

- City Council holds a public hearing and approves resolution making certain findings, approving TIF District and TIF Plan
- HRA Board approves establishment of TIF District and adoption of TIF Plan
- TIF Plan provided to County and School District at least 30 days before City Council public hearing

# What is in a TIF Plan?

- Boundaries of TIF District and Project Area, including a map
- Development expected to occur
- TIF Plan budget
  - Estimated cost of project and total sources of revenue
- Estimated captured tax capacity
- Estimated total tax increment to be collected
- Type and duration of TIF district
- Impacts on net tax capacities of all taxing jurisdictions
- Pooling limitations/Administrative expenses

# Redevelopment TIF Districts

- Duration – 25 years after first collection (26 total years);
- Qualified by the conditions within the district prior to redevelopment (blighted structures on improved land);
- Eligible expenditures include removal of the blighting influences, including acquisition, demolition/renovation, site improvements, and pollution remediation, as well as parking improvements (public or private) and public improvements; and associated admin expenditures;
- Tax increments may be pooled and spent outside the TIF district boundary for qualifying affordable housing projects

# Housing TIF Districts

- Duration – 25 years after first collection (26 total years);
- Qualified by the conditions within the district after project completion (threshold percentage of housing units set aside for income qualified households – i.e., either a min. of 20% of units at 50% of median income or a min. of 40% of units at 60% of median income);
- Tax increments may be used for all the same expenditures as for a Redevelopment TIF district and also include the construction of the qualified housing;
- Tax increments may be pooled and spent outside the TIF district boundary for qualifying affordable housing projects



# TIF Limitations/Prohibited Uses

- State law prohibits tax increments to be spent as follows:
  - Construction and operation of buildings used primarily for government use;
  - For a commons area used as a public park or a facility used for social, recreational, or conference purposes (does not include a privately owned conference facility)
- Tax increments from a Redevelopment TIF district cannot be used to construct buildings, other than qualifying affordable housing buildings

# TIF Review Process

- PED staff review all requests for TIF to make sure the “but-for” test can be met
  - review includes a complete underwriting and a review of all project costs and developer returns compared to the current market
- For new TIF districts, PED staff meets with the Ramsey County assessor’s office to determine the estimated value once the project is constructed
  - Ramsey County values used in TIF projections
  - Current Tax rates
  - No inflation
- Projects must achieve City/HRA goals, including living wage jobs, elimination of blighting influences, housing, etc.

# HRA/City TIF Policies

- The City has an informal policy to capture no more than 10% of its tax capacity in TIF districts
  - This is tied to how bond rating agencies look at TIF commitments
- TIF-eligible expenses are generally financed on a Pay-As-You-Go basis
  - Developer pays for upfront TIF eligible expenditures and is reimbursed over time from tax increments, with interest
  - Developer bears all the risk that the property value and resulting tax increments will be sufficient to reimburse them for their upfront costs with interest

# Role of Planning Commission in TIF Districts

- Minnesota law requires input from the municipality's planning agency on the proposed Redevelopment Plan (or amendment), including a written opinion, prior to the municipality's approval of the Redevelopment Plan (or amendment)
- The Planning Commission has traditionally acted as the planning agency for such requests and has provided their written opinion through adoption of a resolution

# Role of Planning Commission in TIF Districts (Cont'd)

- For a new Redevelopment Plan/Project Area with a TIF District:
  - The Planning Commission's resolution will confirm that the Redevelopment Plan and TIF Project are consistent with the Comprehensive Plan
- For an amended Redevelopment Plan/Project Area with a TIF District:
  - The Planning Commission's resolution will confirm that the amended Redevelopment Plan is consistent with the Comprehensive Plan

# Role of Planning Commission in TIF Districts (Cont'd)

- For a TIF District within an existing Redevelopment Plan/Project Area:
  - No action is required by the Planning Commission (Planning Staff affirm consistency with the Comprehensive Plan) - with no change to Redevelopment Plan/Project Area, the Planning Commission should already have provided their written comments

# Questions and Discussion