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:
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