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CITY OF SAINT PAUL

TAX INCREMENT FINANCING

April 10, 2024



What is TIF: Tax Increment Financing?

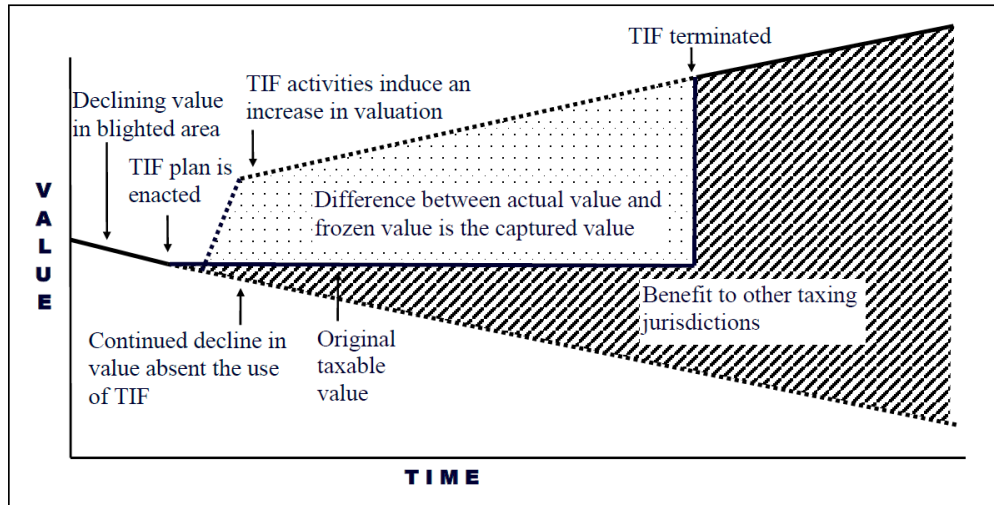
- Financing tool authorized under State law
- Enables cities and redevelopment authorities to capture increased local property taxes from development/redevelopment that would not occur “but-for” the assistance
- Local property tax revenues generated from increased value in TIF district are captured by TIF Authority* (HRA or Port)
- Local property tax revenues are used to pay eligible costs associated with development, including administrative expenditures, in accordance with the adopted TIF Plan budget

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



TIF District Illustration (Dept. of Revenue)

Figure 12.01-1: Classic Example of TIF



The figure to the left is from the Department of Revenue's White Paper on TIF. They use this figure to demonstrate the benefits of TIF. The example shows that without public intervention, the property value, and therefore tax revenue, would continue to decline over time. When the TIF district is established, the base value is frozen, providing the steady tax revenue stream, and then when the TIF district expires, the incremental value will be brought into the tax base.



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 reimburse a developer for a portion of the costs of the development
- **Property owners within a TIF district still pay their full amount of property taxes due**, and those property taxes are then divided in the following manner:
 - Local property taxes from taxable value in place prior to the development are still paid to the taxing jurisdictions, including the City, County and School District;
 - Local property taxes from increased value of the development are captured by the TIF Authority as derived from the applicable tax rate;
 - All non-local property taxes, market value-based taxes, and base rate excess taxes are not captured and are paid to the appropriate taxing jurisdiction



How Does TIF Work?

- The developer must demonstrate that the proposed development would not occur solely through private investment within the reasonably foreseeable future (“But-For”)
- The developer must incur and pay for the TIF eligible costs as outlined in the adopted TIF Plan and executed development agreement
- The developer must complete the project to qualify for reimbursement (principal amount), per the terms of the development agreement
- The reimbursement occurs semi-annually when property tax payments are made with “Pledged Tax Increments” until the full principal amount is reimbursed or the TIF district expires or is terminated
- Interest accrues on the unreimbursed principal amount and is paid before principal is reduced
- **The developer takes all of the risk that the Pledged Tax Increments will be sufficient to reimburse the full amount of the qualifying project**



TIF Review Process

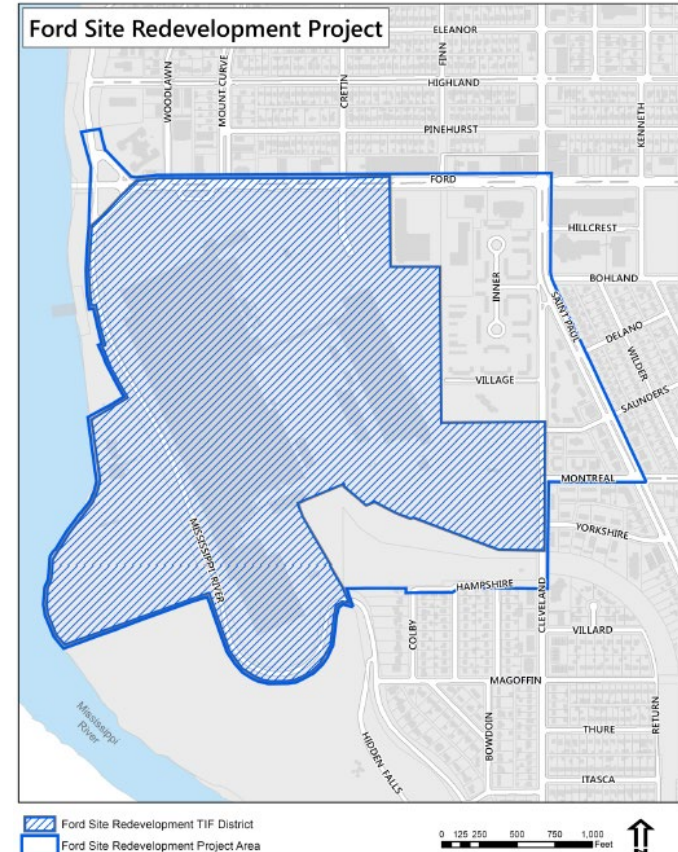
- PED staff review all requests for TIF to make sure the “but-for” test can be met
 - review includes a complete underwriting and a review of all project costs and developer returns compared to the current market
- For new TIF districts, PED staff evaluates the potential taxable value to be assessed once the project is constructed, including seeking input from Ramsey County
 - Informed values determined and used in TIF Plan
 - Current Tax rates
 - No inflation
- Projects must achieve City/HRA goals, including living wage jobs, elimination of blighting influences (including redevelopment of historic and/or obsolescent structures), housing of all types (including income restricted), etc.
- **A Development Agreement is approved by the HRA Board providing the form and maximum amount of tax increment for the proposed development and specific requirements therefore**



TIF District Geographies

TIF Districts include the specific parcels, within a Project Area, from which tax increment will be generated and captured. The Project Area is the area where increments may be expended, which area may be coterminous with the boundaries of the TIF District or larger.

Shown here is the original map from the Ford Site TIF District which includes the Ford Site Project Area. The Project Area was larger than the TIF District to enable the potential expenditure of tax increments for additional public improvements. Parcels may be included in multiple Project Areas, but only one TIF District. All types of TIF Districts limit the total expenditures outside the TIF District boundary; and qualifying affordable rental housing projects can be located anywhere in the City and are not limited to the Project Area.





How is a TIF District Established?

- Notification to the County Commissioner representing the area proposed to be included in the TIF District at least 30 days before published notice
- TIF Plan provided to County and School District at least 30 days before City Council public hearing
- City Council holds a public hearing and approves a resolution making certain findings, approving TIF District and TIF Plan
 - Requires published notice at least ten days before date of hearing
- HRA Board approves establishment of TIF District and adoption of TIF Plan, and authorizes its' certification
- The establishment of the TIF district itself does not authorize tax increment assistance to the developer. This step is completed (preferably at the same meeting) with the HRA Board's approval of a development agreement



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 from incremental value
- Estimated total tax increment to be collected
- Type and duration of TIF district
- Impacts on net tax capacities of taxing jurisdictions
- Pooling limitations/Administrative expenses

See glossary of terms at the end of the presentation



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, based on 3rd party study
- 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 but within the Project Area for TIF eligible expenditures, including affordable housing*

**Qualifying affordable rental housing projects can be located anywhere in the City and are not limited to the Project Area*



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., for rental housing: either a min. of 20% of units at 50% of AMI or a min. of 40% of units at 60% of AMI, or for ownership housing: 95% of the units need to be initially purchased by qualifying households, generally up to 115% 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 project;
- 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



HRA/City TIF Process/Procedure

- The City has a goal to capture no more than 10% of its tax capacity in TIF districts (both HRA and Port)
 - This is continuously measured as new TIF districts are proposed/established based on the city's current tax base
 - This measurement is used to ensure the city retains the highest bond rating when issuing property tax supported obligations
- TIF-eligible expenses are financed on a Pay-As-You-Go basis
 - Developer pays upfront for TIF eligible expenditures and is reimbursed over time from pledged 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



HRA/City TIF Process/Procedure (cont'd)

- The HRA includes “Lookback” language in some development agreements to ensure the financial assistance to the Developer is appropriate.
- A request and sizing of financial assistance is based on certain assumptions regarding likely costs and expenses associated with constructing the Project and certain assumptions to operate the Project.
- If a determination is made that the amount of financial assistance exceeds the amount needed to complete the development, the excess amounts will be clawed back or otherwise deemed paid.



Summary of TIF Districts

For Pay 2024, there are 47 HRA TIF Districts and 12 Port TIF Districts that will generate:

	No. of TIF Districts	Total Captured Tax Capacity	Percent of Total	Total Increment to TIF Authority	Percent of Total
HRA Districts	47	\$28,386,284	82%	\$35,262,135	86%
Port Districts	12	\$4,591,217	18%	\$5,761,404	14%
TOTALS	59	\$32,977,501		\$41,023,539	

Of the 47 HRA TIF Districts, 26 are Housing TIF districts, with 24 rental housing with long-term income restrictions, and the other two ownership housing



Tax Capacity Captured in TIF

For Pay 2024, these 59 TIF Districts are capturing 7.87% of the City's total tax capacity. The table below includes a five-year history:

Pay Year	Total Tax Capacity	<i>Total % Change</i>	TIF Tax Capacity	<i>TIF % Change</i>	% Captured
2020	322,743,625	5.6%	26,923,820	2.1%	8.34%
2021	351,910,499	9.0%	29,833,031	10.8%	8.48%
2022	360,745,057	2.5%	29,131,930	-2.4%	8.08%
2023	396,939,488	10.0%	30,891,446	6.0%	7.78%
2024	419,169,637	5.6%	32,977,501	6.8%	7.87%



TIF Districts Most Recently Established

The HRA established the following TIF districts in 2021, which districts will begin collections this year in Pay 2024:

- Ford Site Housing TIF #1 (PPL) (#345) (Parcels removed from Ford Site #322)
 - TIF assistance provided to finance the construction of two **PPL** projects: Emma Norton-Restoring Waters (60-unit supportive rental housing affordable at or below 30% AMI) and Nellie Francis (75-unit rental housing affordable at or below 60% AMI)
- Ford Site Housing TIF #2 (CommonBond) (#346) (Parcels removed from Ford Site #322)
 - TIF assistance provided to finance the construction of **CommonBond's** The Lumin project (60-unit senior rental housing affordable at or below 30% AMI)
- 520 Payne Avenue (The Hollows) Housing TIF (#350)
 - TIF assistance provided to finance the construction of **JO Companies/Johnny Opara's** The Hollows project (62-unit rental housing, on land previously owned by the HRA, with 5 units at or below 30% AMI and the balance at or below 60% AMI)



TIF Districts Most Recently Established (Cont'd)

The HRA established the following TIF district in 2022, which district will begin collections in Pay 2025:

- Farwell Yards Redevelopment TIF (#352)
 - TIF assistance provided to finance the construction of a new public street (Bidwell Street)
 - TIF assistance provided to finance the construction of **Buhl Investors** Harbourline Apartments project located at 115 Plato Blvd (63-unit income-restricted rental housing with 7 units at or below 30% AMI and the balance at or below 50% AMI)
 - TIF District includes the adjacent mixed-use project also developed by Buhl Investors with 221 market rate rental housing units



TIF Districts Most Recently Established (Cont'd)

The HRA established the following TIF districts in 2023, which districts will begin collections in Pay 2025 and 2026:

- **Landmark Towers Redevelopment TIF (#358)**
 - TIF assistance provided to finance the renovation of the Landmark Towers office floors, located at 345 St. Peter Street, to residential housing, producing 187 new market rate rental units. The project will be developed by Sherman Associates
- **Snelling Midway Redevelopment TIF (#362)**
 - TIF assistance authorized to redevelop the areas around Alliance Field with a mixed used, master planned development, with TIF assistance provided for the first phase of development that includes office, hotel and restaurant spaces. The project will be developed by Snelling Midway Redevelopment LLC. This new district will replace the previously established Renewal and Renovation TIF district.



TIF Districts Most Recently Established (Cont'd)

The HRA established three TIF districts at The Heights in 2023, which districts will begin collections in Pay 2027:

- **The Heights Sherman Associates Phase I Housing TIF (#359)**
 - TIF assistance authorized (*but not yet approved*) to finance the construction of **Sherman Associates** project at The Heights that would include approximately 230 rental housing units, with 20% of the units affordable at or below 50% AMI, and the balance unrestricted
- **The Heights Habitat Phase I Housing TIF (#360)**
 - TIF assistance provided to finance the construction of seventy-three (73) for-sale units on two blocks at The Heights developed by **Habitat for Humanity** (25% @ ≤ 60% of AMI, 50% between 60-80% AMI, 25% between 80% and 100% AMI) – TIF district includes a commercial property at The Heights (which will assist all housing projects listed here)
- **The Heights JO Companies Housing TIF (#361)**
 - TIF assistance authorized (*but not yet approved*) to finance the construction of **JO Companies** project at The Heights that would include approximately 199 rental housing units, with 100% of the units affordable at or below 60% AMI, and 20 units affordable at 30% AMI



Captured Tax Capacity Projections

The table below identifies how the projected captured tax capacity may change with the recently established TIF districts offset by TIF districts expiring, both as listed on the previous slides; **assuming no changes to the City's overall tax base, other than activity within a TIF district**

Year	Added TIF Tax Cap	Total Tax Capacity	Decertified TIF Tax Cap	Total Captured TIF Tax Cap	% Captured TIF Tax Cap
Pay 2024	\$3,091,830	\$419,169,637	\$1,460,131	\$32,977,501	7.87%
Pay 2025	\$3,210,426	\$422,380,063	\$1,862,881	\$34,325,045	8.13%
Includes Pay 2026 Pay 2027	\$7,099,405	\$429,479,468	\$2,717,444	\$38,707,006	9.01%
Pay 2028	\$1,880,442	\$431,359,910	\$755,570	\$39,831,878	9.23%
Pay 2029	\$1,650,734	\$433,010,644	\$6,176,568	\$35,306,044	8.15%
Pay 2030	\$1,236,834	\$434,247,478	\$762,404	\$35,780,474	8.24%
Includes Pay 2031 Pay 2032	\$2,607,660	\$436,855,138	\$2,573,115	\$35,815,019	8.20%



Capacity for New Tax Increment Financing Districts

As mentioned earlier, the City has a goal to commit not more than 10% of our tax base in TIF districts.

- The prior slide shows **9.23% of captured tax capacity in TIF for Pay 2028**, falling to 8.15% in Pay 2029; for construction by end of 2026 and 2027.
- This would leave capacity (to stay below 10%) of around \$3.6 million captured tax capacity for Pay 2028, increasing to \$8.8 million captured for Pay 2029. This level of captured tax capacity would equate to captured market value of \$180 million for commercial, or \$288 million of rental housing increasing to \$440 million for commercial, or \$700 million of rental housing



Temporary TIF Spending Authority*

- The 2021 Omnibus Tax Bill provided temporary authorization to expend unobligated Tax Increments to advance Private Development that includes the construction or substantial rehabilitation of buildings and that creates or retains jobs in the state, including construction jobs
- The construction must commence before December 31, 2025, and would not have without the tax increment assistance
- Requires all spending to be completed by December 31, 2025

* *MN Statutes 469.176, Subd. 4n.*



Temporary TIF Spending Authority (cont'd)

- The HRA and City Council adopted the TIF Spending Plan in June 2022
- \$27.55 million of tax increments were transferred to TIF holding account by December 31, 2022
- To date, 8 projects were approved allocating \$21.08 million (shown on following page)
- **Total uncommitted spending authority is \$6.47 million**
- Spending Plan was supplemented in February 2023 with two projects approved in 2022
- **Future action** will include an additional supplement with six projects approved in 2023 (for City Council and HRA Board action)



Temporary TIF Spending Authority

Project	Amount	Project	Amount
652 Sherburne	\$386,279	Little Africa Plaza	\$1,832,997
The Heights Habitat for Humanity Phase I	\$4,200,000	Mali Center	\$440,000
Landmark Towers Office to Housing Renovation	\$3,925,000	United Village Redevelopment	\$4,000,000
Listening House	\$1,400,000	Water Street Sanitary Sewer	\$5,000,000



Glossary of Terms

- **Base tax rate** is the sum of the tax rates imposed by the local taxing districts in the year the TIF district is created*. Tax rates not captured include market value-based taxes and State levied taxes.
- **Base value** is the total taxable market value in place at the time the TIF district is created*.
- **Captured tax capacity** is the current tax capacity of the parcels in the TIF district, less the original tax capacity.
- **Current tax capacity** is the tax capacity in the TIF district for the current tax year, derived from the taxable market values assessed the prior year.
- **Current tax rate** is the sum of the tax rates imposed by the local taxing jurisdictions for the current tax year.
- **Base tax rate** is the sum of the tax rates imposed by the local taxing districts in the year the TIF district is created*.
- **Original tax capacity** is the tax capacity of the TIF district at the time the TIF district is created* (derived from the base value) and is subject to adjustment if tax exempt property in the district becomes taxable.
- **Pooling** is spending Tax Increments collected from a TIF district on activities geographically located outside the TIF district.
- **Tax capacity** is determined by multiplying the taxable market value of property by the statutory percentage rates (also called class rates) for the specific classification. Class rates are 1.5% to 2% for commercial properties and range from 0.25% to 1.25% for residential properties.
- **Tax increment** is the captured tax capacity multiplied by *the lesser of* the current tax rate or base tax rate.
- **Taxable market value** is the assessed value of all non-exempt parcels in the TIF district

*The date of the request for certification of a TIF district determines the appropriate base value and base tax rate. If the request is submitted on or before June 30th of a year, the current years' tax rate and tax capacity (based on prior year assessment) are used and if after June 30th, the following years tax rate and tax capacity will be used.



Questions?

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