AGENDA
Special City Council Workshop

The January 7 City Council special workshop and special meeting will be held via Zoom. Zoom is an online platform that allows persons to "attend" the meeting via video or telephone.

View Special Workshop at: https://zoom.us/j/96501750899?pwd=ODZEY1BZMkJ1bHZ4VFI3QzBCQmdwdz09 *from a PC, Mac, tablet, iPhone, or Android device.*

Or listen to the discussion by phone by calling 1-301-715-8592 and entering Meeting ID: 965 0175 0899 and Passcode: 061083, when prompted.

While the workshop is available for public viewing, public comment will not be taken during the meeting.

Thursday, January 7, 2021
Council Chambers

5:30 PM	Call to Order
	Tax Increment Financing 101
	Housing Project Incentives Discussion
	Adjournment

COUNCIL MEMORANDUM

To	Mayor and City Council
Through	Christina Volkers, City Administrator
Date	January 7 2021
Subject	Tax Increment Financing 101

At the January 7 special workshop, the City Attorney's Office will provide a comprehensive review on Tax Increment Financing (TIF) and facilitate an education session on TIF as an incentive for development. Baker Tilly staff, as our financial consultant, will also be available to respond to questions along with city staff.

Overview of Tax Increment Financing in Minnesota

City of Oakdale

2021

Tax Increment Financing Background

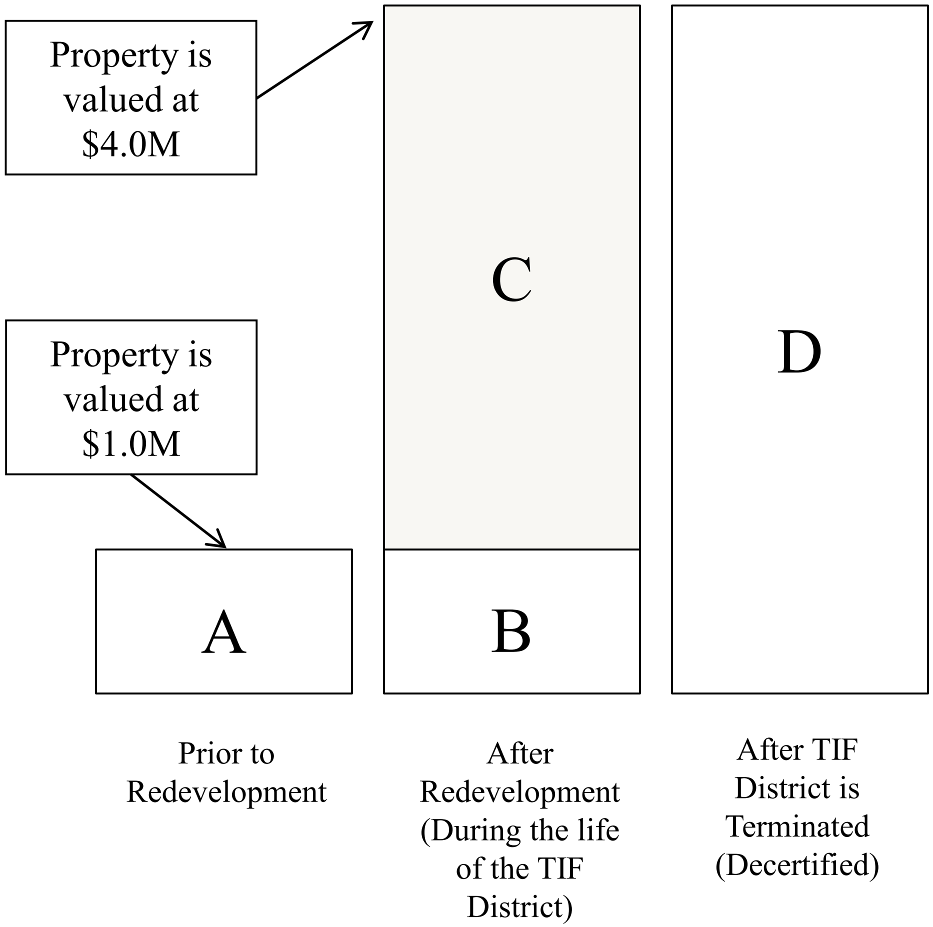
- Development finance tool
- A method of capturing tax base growth resulting from new development
- Use is governed by the "TIF Act"
  (MN Statutes, Sections 469.174-469.1794)
- Available to cities, counties and development authorities
- Annual compliance reporting to State Auditors Office
- The TIF Act is amended often by the Legislature

Tax Increment Financing Concept

- Captures the local property taxes on the “increased” value resulting from development within a specific geographic area (the “TIF district”)
- Fixed term for capture, then new development capacity is added to existing tax base

The Concept of Tax Increment Financing

A Simple Example



A. Property taxes on $1.0M of estimated market value (EMV) are distributed to all applicable taxing jurisdictions.

B. Property taxes on the first $1.0M of EMV continue to be distributed to all applicable taxing jurisdictions.

C. Local property taxes on the $3.0M of “Incremental” EMV are distributed to the TIF Authority These taxes are referred to as “tax increment.”

D. Property taxes on $4.0M of EMV are distributed to all applicable taxing jurisdictions.

Fundamentals

- Six (6) different types of TIF districts
- Each type - different purpose & qualification requirements
- Maximum duration of TIF district varies by type
- TIF district must be located within an underlying geographic area known as a “project” (redevelopment project, economic dev. district, city dev. district, other)
- Development must meet the “but-for” test
- County and school district have no veto powers
- Tax increment must be spent on “TIF eligible” costs

General Guidelines for Eligible Expenditures

- Generally eligible expenditures relate to activities needed to prepare land for development and redevelopment
- Purpose is to finance the “public cost” of re/development of the project area which includes preparing the way for private development
- “Ground level and below” rule of thumb
- Building costs only for income qualified housing, rehabilitation costs, certain publicly owned facilities

Typical “TIF Eligible” Costs

- Land/building acquisition or write-down
- Relocation
- Demolition
- Environmental/geotechnical/Soil Correction
- Public improvements (utilities, roads, sidewalks, etc.)
- Selected site improvements and Preparation (clearance, earthwork, etc.)
- Building rehabilitation / historic preservation
- Low/moderate income housing (in some cases)
- Parking facilities (lots and ramps)
- Administrative costs
- Paying debt (principal & interest) for any of the above

Prohibited Costs

- Public buildings such as a City Hall, Public Safety, and Public Works buildings
- Parks and social and recreational facilities such as community centers, golf courses, etc.
- Administration beyond 10% of TIF collections

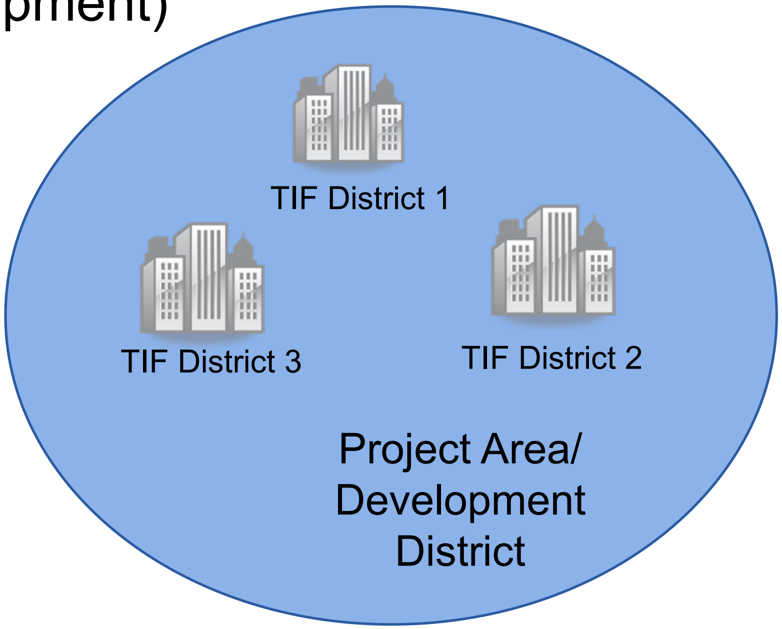
Fundamentals of Tax Increment Financing

Project Area (Development District)

– Where TIF dollars can be spent, with limitations

TIF District (Specific Development)

- TIF Plan
  - Budget
  - Geographic boundaries
  - Purpose
- Public Hearing
- Certification



Where Can Tax Increment Be Spent?

- Older TIF districts (established prior to May 1, 1990):
  - 100% of Increments spent within the "project"
  - Projects often much larger than TIF districts
  - No minimum % must be spent "within" TIF district
  - Often multiple TIF districts within a project
- Newer TIF districts (established on or after May 1, 1990):
  - 100% of Increments spent within the "project"
  - 75%-80% of Increments must be spent within "TIF district"
  - Exception: up to 35% of TI may be spent for qualified low income housing anywhere within the city
  - Projects often the same size as the TIF district

Types of TIF Districts & Max. Duration

Type of TIF District	Years
1) Redevelopment	26
2) Low/Moderate Housing	26
3) Economic Development	9
4) Soils Condition	21
5) Renewal & Renovation	16

Redevelopment

- Parcels consisting of 70 percent of the area of the district are occupied by buildings, streets, utilities, paved or gravel parking lots, or other similar structures and more than 50 percent of the buildings, not including outbuildings, are structurally substandard to a degree requiring substantial renovation or clearance;
- Also rail yards; tank facilities; qualifying disaster areas
- 90% must be used to correct conditions justifying the TIF District
- 25% (less administrative costs) can be used outside TIF District

Housing

- a project, or a portion of a project, intended for occupancy, in part, by persons or families of low and moderate income, as defined in chapter 462A, Title II of the National Housing Act of 1934, the National Housing Act of 1959, the United States Housing Act of 1937, as amended, Title V of the Housing Act of 1949, as amended…
- Income Limits:
- • 20@50 test: 20 percent of units are occupied by individual whose income are 50% or less of the area median income, or
- • 40@60 test: 40 percent of units are occupied by individual whose income are 60% or less of the area median income.
- Can be used outside TIF District but only for qualified housing

Economic Development

- (1) it will discourage commerce, industry, or manufacturing from moving their operations to another state or municipality;
- (2) it will result in increased employment in the state;
- (3) it will result in preservation and enhancement of the tax base of the state; or
- 85% of the buildings and facilities (determined on the basis of square footage) receiving TIF must be used for:
  - (1) the manufacturing or production of tangible personal property, including processing resulting in the change in condition of the property;
  - (2) warehousing, storage, and distribution of tangible personal property, excluding retail sales;
  - (3) research and development related to the activities listed in clause (1) or (2);
  - (4) telemarketing if that activity is the exclusive use of the property;
  - (5) tourism facilities;
  - (6) space necessary for and related to the activities listed in clauses (1) to (5).
- 20% (less administrative costs) can be used outside TIF District

Soils Conditions

- (a) "Soils condition district" means a type of tax increment financing district consisting of a project, or portions of a project, within which the authority finds by resolution that the following conditions exist:
  - (1) the presence of hazardous substances, pollution, or contaminants requires removal or remedial action for use;
  - (2) the estimated cost of the proposed removal and remedial action exceeds the fair market value of the land before completion of the preparation.
  - The requirements of clause (2) need not be satisfied, if each parcel of property in the district either satisfies the requirements of clause (2) or the estimated costs of the proposed removal or remedial action exceeds $2 per square foot for the area of the parcel.
- (b) The proposed removal or remediation action must be specified in a development action response plan to satisfy the requirements of paragraph (a).
- Revenue derived from tax increment from a soils condition district may be used only to (1) acquire parcels on which the improvements described in clause (2) will occur; (2) pay for the cost of removal or remedial action; and (3) pay for the administrative expenses of the authority allocable to the district, including the cost of preparation of the development action response plan.
- 20% (less administrative costs) can be used outside TIF District

Renewal & Renovation

- (1) parcels consisting of 70 percent of the area of the district are occupied by buildings, streets, utilities, paved or gravel parking lots, or other similar structures;
- (2) 20 percent of the buildings are structurally substandard;
- (3) 30 percent 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; and
- Maximum Duration: 15 years
- 20% (less administrative costs) can be used outside TIF District

Establishing a TIF District

- Process dictated by the TIF Act
- Notice to County Commissioner 30 days before publication
- Notice to county and school district 30 days before hearing
- Notice of public hearing published (10-30 days before)
- Review of project for conformity with comprehensive plan by City Planning Commission (in some cases)
- Public hearing conducted by City Council
- Approval by City Council (& EDA Board, if applicable)
- TIF district certification request to County
- Filing requirements with the MN Department of Revenue and Office of State Auditor

Financial Review Process

- Conducted by TIF Consultant
- Financial feasibility
  - Debt coverage
  - Return on equity
- Extraordinary costs
- Public purpose benefits
- Public versus private financing
- Type of assistance
  - Upfront
  - PayGO

Assessment of Need for Public Financing Assistance

- Determine need for and amount of public assistance
- Financing of public improvements that could not be supported by developer alone without assistance
- Financing of eligible private improvements not supported by development investment returns
- Verification of developer assumptions
- Matching funding sources with project costs
- Development would not occur ‘but-for’ assistance

Due Diligence for Needs Assessment

- Review sources and uses of funds
- Sources include
  - Debt
  - Equity
  - TIF
- Uses
  - Acquisition, construction, demolition, site work, public improvements, soft costs including financing, reserves, developer fee, contingency and other

“But For” Analysis

- Evaluate cash flow (operating proforma)
  - Test assumptions against comparables
- Perform analysis to understand what is driving gap
- Expenses:
  - Project cost estimates
  - Operating expenditures
- Revenues:
  - Lease rates for residential (affordable vs market rate) and commercial
  - vacancy rates
  - Other financial public assistance

Public Purpose Considerations

- Achieving high quality redevelopment and private investment on sites which would not be (re)developed otherwise
- Removing slum/blight and/or rehabilitate a high priority site
- Offsetting increased costs of infill development (demo, site remediation) above costs normally incurred in “greenfield” development
- Construction of affordable, workforce housing
- Enhancing and diversifying City’s economic base
- Retaining and increasing City tax base
- Retaining and/or increasing number and/or diversity of jobs that offer stable employment and/or attractive wages and benefits
- Facilitate infrastructure improvements
- Coordinate new developments with City planning

Financing Alternatives

- Pay-as-you-go note is issued to the developer
  - Developer funds the assistance and is repaid over time
  - Advantage: Risk is with developer
  - Disadvantage: Might have higher interest rates and developer needs another funding source during construction
- Bonds are issued by the City or Authority
  - General obligation (G.O.) or revenue debt
  - Advantage: Typically lower interest rate
  - Disadvantage: Risk is with City or Authority
- Interfund loan: City provides up front money to the developer from funds on hand and repays itself with tax increment
- Land Write-down
- Hybrid

COUNCIL MEMORANDUM

To	Mayor and City Council
Through	Christina Volkers, City Administrator
Date	January 7 2021
Subject	Housing Project Incentives Discussion

At the January 7 special workshop, the City Council will have a discussion on housing project incentives for development projects.