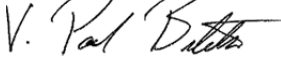


REQUEST FOR COUNCIL ACTION

Date: Nov. 17, 2014
Item No.: 14.e

Department Approval



City Manager Approval



Item Description: Tax Increment Financing (TIF) Status

BACKGROUND

The City of Roseville has 7 active TIF districts in the City (Attachment A). Four of these TIF districts will be expiring in the next 4 years (expiration dates and the types of TIF districts are indicated in the map legend).

TIF is an economic development tool created by the legislature to help projects get over the financial gap “Catch 22” that can sometimes occur with development and redevelopment projects. TIF is commonly used to remove extraordinary costs associated with redevelopment and blight removal, significant job creation, public infrastructure related to development and redevelopment projects and affordable housing. All such redevelopment projects generally include costs of redeveloping a property for the owner/developer that exceed the value of doing nothing. TIF recognizes that doing nothing can have an opportunity cost to the public because if the property were redeveloped, the increased taxes could significantly exceed the financial gap standing in the way of that redevelopment.

Decades ago, Minnesota had TIF laws that were lax in some ways which led to perceived abuses and gave the financial tool a bad name that was not the case in other parts of the country. These laws have been revised several times to limit the flexibility for use of the tool while still allowing communities to meet their policy objectives for projects that require using TIF. Even with the law changes some of the negative attitudes towards the use of TIF remain. A brief overview of TIF in Minnesota prepared by the nonpartisan Research Department of the Minnesota House of Representatives is Attachment B. This overview also outlines the various types of TIF districts which are used for different policy objectives and include different expiration dates.

TIF is often accomplished in one of two ways:

1. As a “pay as you go” TIF which requires the developer to finance the monetary gap up front and then is paid back over time by the increase in taxes created by the development
2. As an “up front” payment where the public finances the monetary gap, generally public improvements and infrastructure costs, at the beginning of the process and then collects the annual increment to pay back the obligation. The public finance can either be via interfund loan or bonds which may be issued to preserve City funds with certain security provisions included that assist to mitigate City risks. Taxability of the bonds is subject to certain use and security limitations resulting from the 1986 federal tax law changes that included additional restrictions on the use of bond proceeds.

No matter which method of TIF is used, the City, County, School District and other taxing authorities will continue to receive the same amount of pre-development taxes they did before the TIF district until the district is closed. At the time of closure, the captured tax capacity will

be available for all of the taxing authorities and assuming all other variables remain constant, each will receive the higher level of taxes that are now created by the redevelopment which should make the use of TIF revenue positive over the long term. A city is authorized to keep a district open to fulfill all district obligations and eligible expenditures as outlined in the TIF Plan, up to the maximum term of the TIF District. All projects financed with TIF must meet the ‘but-for’ test, meaning that the proposed development and redevelopment project would not proceed ‘but for’ the use of TIF. There can sometimes be negative feedback from the public or other taxing authorities regarding the ‘but for’ test and use of TIF if cities leave districts open in place for the maximum term to finance multiple projects as outlined in the TIF Plan. At times TIF funds are being accumulated for certain projects (such as future phases of development, planned capital improvement projects, etc.) To a lesser extent, TIF districts can also generate negative feedback because they do not adjust the baseline values to account for inflation, but the scale of that issue is generally dwarfed by the positive gains from the redevelopments over time.

TIF districts now have what are referred to as “knockdown rules” to ensure that the district is sized at the minimum size to accomplish the policy objective and that development activity is occurring. The knockdown rules as well as the constantly ticking expiration clock on TIF districts provides some incentive to create smaller, project specific districts rather than large, “catch all” TIF districts.

By law, TIF may not be used for general government purposes.

RISKS AND BENEFITS RELATED TO HOW TIF IS PROVIDED

Pay as you go: The lowest risk method for providing TIF is with the “pay as you go” model because the City is not incurring a financing risk. The structure of the “pay as you go” agreement can be structured in ways to transfer virtually all risk to the developer through the use of minimum assessment agreements and placing caps on the maximum amount of benefit which can be received by the recipient. The proposed project is generally known at the time of the financing commitment and therefore the City can negotiate directly with the end users to ensure the development is meeting the goals that the City has for the project.

Up front: Risk can be minimized with the use of minimum assessment agreements and other techniques as well, but because there is a financing component to this type of TIF financing, there is more risk than with “pay as you go”. In “up front” financing, the proposed project is generally known at the time of financing commitment and therefore the City can negotiate directly with end users to ensure the development is meeting the goals that the City has for the project.

Public infrastructure funding: Another way to use TIF is by constructing infrastructure in order to create an environment that is improved for development. This is particularly useful in situations where the infrastructure is difficult to finance through assessments, such as due to extraordinary technical difficulties or because the infrastructure is introducing important amenities that are critical for becoming the catalyst for the new development, which is common with streetscape and stormwater amenities.

Public infrastructure funding often occurs before the projects are proposed which can generate some risks. Since the City has already invested prior to any development negotiations, the investment may not assist in attracting the desired end users since the City would not have any input beyond regulatory controls in the end users. In addition, the redevelopment benefit can be muted because the initial underlying property owners may absorb a lot of the infrastructure benefits by raising land prices which doesn’t assist the end users with any gap financing.

81 Property acquisition:

82 Cities can also use TIF to acquire properties which provides the maximum control and risk for
83 redevelopment. A city should ensure it has a complete knowledge of property condition and
84 development risks if it wants to become the underlying landowner (or joint venture owner) as
85 well as develop a strategy for the eventual sale of the asset. Since the City would have an
86 underlying ownership interest, the City has extensive ability to negotiate with end users and
87 achieve the development that is desired.

88 **POLICY OBJECTIVE**

89 The use of TIF can be used to support a number of policy objectives. As an example, in 2008,
90 the City developed the Twin Lakes Public Financial Participation Framework (Attachment C)
91 which outlines the policy objectives that the City Council is attempting to achieve with the use of
92 financial incentives (including TIF) in the Twin Lakes area.

93 In addition, when TIF districts are created, they include a TIF Plan which outlines the policy
94 objectives for that district.

95 **BUDGET IMPLICATIONS**

96 In the short term, TIF districts can cause a small amount of reduction in taxes received due to the
97 loss of inflationary valuation increases. In the long run, the proper use of TIF districts should
98 significantly increase the amount of taxes received by the City due to the increased property
99 valuation and economic activity.

100 Depending on how the TIF funds generated are used, they can reduce City expenditures for items
101 such as capital improvements that would otherwise need to be financed through the general levy,
102 assessments, fees or some other method.

103 Of course, any new infrastructure creates new ongoing city maintenance obligations over the
104 long term and intensification of uses can increase incremental demands on city services since
105 more employees/shoppers/residents means more people using streets, parks, and needing
106 emergency services. However, cities that use TIF generally view those incremental costs to be
107 balanced out by being able to capture county and school incremental funds while the district is
108 active and then the permanent higher tax revenues going forward when the district expires.
109 However, being aware of the long term costs and benefits is often one of the key inputs into a
110 city's determination of whether it wants to provide economic development assistance to any
111 particular development proposal and why some cities prefer financing methods that preserve end
112 user negotiations where those costs and benefits can be more accurately estimated.

114 The current TIF district balances are as follows:

District	Name	Expiration	Balance
10	The Lexington	2014	\$495,387
11/11A	Old Twin Lakes	2016	\$765,016
12	NCR (Applewood)	2016	\$716,480
13	College Properties	2018	\$1,868,841
17	Twin Lakes Phase 1	2031	\$1,706,268
18	Sienna Green	2038	\$17,842
19	Applewood Pointe	2020	\$1,261

115

116 The current TIF districts are carrying future obligations for the following expenses:

117 **District 10**

118 The remaining TIF balance in this district is obligated to the Dale Street housing development.

119 **District 11**

120 The entire balance in this district is all contained in the Hazardous Substances Subdistrict (HSS).
121 HSS funds are limited to use for issues related to pollution including removal and remediation;
122 testing, demolition and soil compaction; purchase of environmental insurance or creating
123 guaranty fund to indemnify against environmental liability; as well as administrative and legal
124 costs.

125 **District 12**

126 The remaining TIF balance in this district is obligated to the Dale Street housing development.

127 **District 13**

128 This district does not have defined project obligations at this time and is limited in its geographic
129 scope to just being in the Eagle Crest/College Properties area. However, it is anticipated that
130 future projects will likely be defined in this area related to transportation improvements. The
131 area has a lot of projected change with the extension of Twin Lakes Parkway, a future BRT
132 station and the ongoing issues related to pedestrian safety crossing Snelling Avenue.

133 **District 17**

134 The entire value of this district balance is in HSS funds.

135 Although there are funds in the District 17 regular account, they are obligated to \$5.1 million in
136 infrastructure funding and \$1.9 million as a potential acquisition liability for the Xtra Lease
137 parcel. (This district is currently funding the Cleveland/I-35W interchange project). If both the
138 infrastructure and the Xtra lease obligations were to occur as projected, the projected regular TIF
139 deficit from 2014 – 2031 is (\$2,798,096). Of course, this is an area undergoing active
140 redevelopment which should increase TIF revenues significantly between now and 2031 that are
141 not included in the calculations.

142 **District 18**

143 This project specific district (Sienna Green) does not generate large account balances.

144 **District 19**

145 This project specific district (Applewood Pointe) does not generate large account balances. The
146 City does receive a 20% administrative fee on this district which is significantly larger than in
147 other districts.

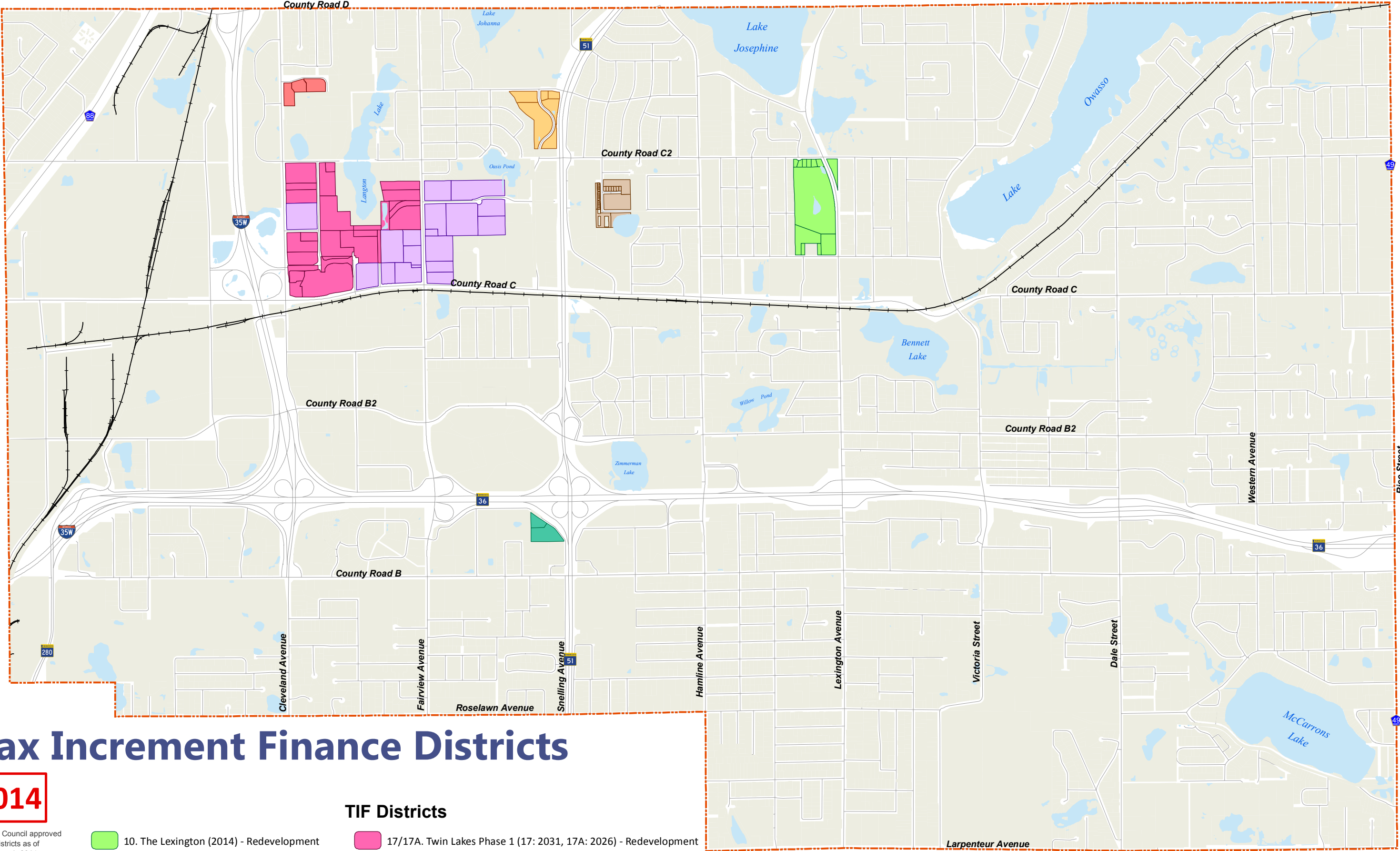
148 **STAFF RECOMMENDATION**

149 This RCA is for informational purposes only.

150 **REQUESTED COUNCIL ACTION**

151 Since this item is informational only, no Council action is requested.

Prepared by: **Paul Bilotta, Community Development Director**
Attachments: A: TIF District Map
B: TIF House Research, (June 2014)
C: Twin Lakes Public Financial Participation Framework



Tax Increment Finance Districts

2014

TIF Districts

- 10. The Lexington (2014) - Redevelopment
- 11/11A. Twin Lakes (2016) Redevelopment
- 12. NCR (2016) - Redevelopment
- 13. College Properties (2018) - Redevelopment
- 17/17A. Twin Lakes Phase 1 (17: 2031, 17A: 2026) - Redevelopment
- 18. Sienna Green Apartments (2038) - Housing
- 19. Applewood Pointe (2020) - Economic Development

Map reflects Council approved
TIF Districts as of
January 1, 2014

ROSEVILLE

Prepared by:
Community Development Department
Printed: February 2014

Data Sources

- * Ramsey County GIS Base Map (2/4/2014)
- * City of Roseville Community Development
- * City of Roseville Finance Department

This map is neither a legally recorded map nor a survey and is not intended to be used as one. This map is a compilation of records, information and data located in various city, county, state and federal offices and other sources regarding the area shown, and is to be used for reference purposes only. The City does not warrant that the Geographic Information System (GIS) Data used to prepare this map are error free, and the City does not represent that the GIS Data can be used for navigational, tracking or any other purpose requiring exacting measurement of distance or direction or precision in the depiction of geographic features. If errors or discrepancies are found please contact 651-792-7085. The preceding disclaimer is provided pursuant to Minnesota Statutes §466.03, Subd. 21 (2000), and the user of this map acknowledges that the City shall not be liable for any damages, and expressly waives all claims, and agrees to defend, indemnify, and hold harmless the City from any and all claims brought by User, its employees or agents, or third parties which arise out of the user's access or use of data provided.



Tax Increment Financing

What is TIF?

Tax increment financing (TIF) uses the increased property taxes that a new real estate development generates to finance costs of the development. In Minnesota, TIF is used for two basic purposes:

- To induce or cause a development or redevelopment that otherwise would not occur—e.g., to convince a developer to build an office building, retail, industrial, or housing development that otherwise would not be constructed. To do so, the increased property taxes are used to pay for costs (e.g., land acquisition or site preparation) that the developer would normally pay.
- To finance public infrastructure (streets, sewer, water, or parking facilities) that are related to the development. In some cases, the developer would be required to pay for this infrastructure through special assessments or other charges. In other cases, all taxpayers would pay through general city taxes.

How does TIF work?

When a new TIF district is created, the county auditor certifies (1) the current net tax capacity (i.e., property tax base) of the TIF district and (2) the local property tax rates. As the net tax capacity of the district increases, the property taxes (i.e., the “tax increment”) paid by this increase in value is dedicated and paid to the development authority. The tax increment is limited to the tax derived from the certified tax rate. Increases in value that generate increment may be caused by construction of the development or by general inflation in property values. The authority uses the increment to pay qualifying costs (e.g., land acquisition, site preparation, and public infrastructure) that it has incurred for the TIF project.

How is TIF used to pay “upfront” development costs?

There is a mismatch between when most TIF costs must be paid—at the beginning of a development—and when increments are received—after the development is built and begins paying higher property taxes. Three basic financing techniques are used to finance these upfront costs:

- **Bonds.** The authority or municipality (city or county) may issue its bonds to pay these upfront costs and use increment to pay the bonds back. Often, extra bonds are issued to pay interest on the bonds (“capitalizing” interest) until increments begin to be received.
- **Interfund loans.** In some cases, the authority or city may advance money from its own funds (e.g., a development fund or sewer and water fund) and use the increments to reimburse the fund.
- **Pay-as-you-go financing.** The developer may pay the costs with its own funds. The increments, then, are used to reimburse the developer for these costs. This type of developer financing is often called “pay-as-you-go” or “pay-go” financing.

What governmental units can use TIF?

Minnesota authorizes development authorities to use TIF. These authorities are primarily housing and redevelopment authorities (HRAs), economic

development authorities (EDAs), port authorities, and cities. In addition, the “municipality” (usually the city) in which the district is located must approve the TIF plan and some key TIF decisions. TIF uses the property taxes imposed by all types of local governments. But the school district and county, the two other major entities imposing property taxes, are generally limited to providing comments to the development authority and city on proposed uses of TIF. The state-imposed tax on commercial-industrial and seasonal-recreational properties is not captured by TIF.

What is the but-for test?

Before an authority may create a TIF district, it and the city must make “but-for” findings that (1) the development would not occur without TIF assistance and (2) that the market value of the TIF development will be higher (after subtracting the value of the TIF assistance) than what would occur on the site, if TIF were not used.

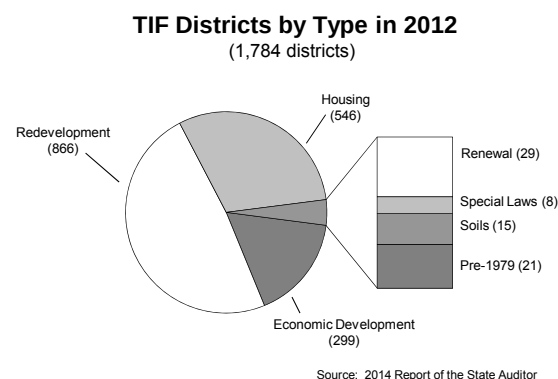
What types of TIF districts may be created?

Minnesota allows several different types of TIF districts. The legal restrictions on how long increments may be collected, the sites that qualify, and the purposes for which increments may be used vary with the type of district.

District type	Use of Increment	Maximum duration
Redevelopment	Redevelop blighted areas	25 years
Renewal and renovation	Redevelop areas with obsolete uses, not meeting blight test	15 years
Economic development	Encourage manufacturing and other footloose industries	8 years
Housing	Assist low- and moderate-income housing	25 years
Soils	Clean up contaminated sites	20 years
Compact development	Redevelop commercial areas with more dense developments	25 years

How many TIF districts exist?

According to the 2014 report of the Office of State Auditor (OSA), there were 1,784 active TIF districts in 2012. The graph shows the relative shares by type of district.



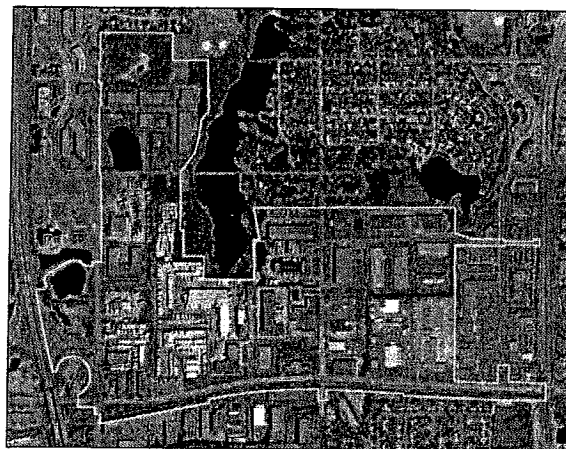
For more information: Contact legislative analyst Joel Michael at 651-296-5057. Also see the House Research website for more information on TIF at www.house.mn/hrd/issinfo/tifmain.aspx.

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.

Twin Lakes Public Financial Participation Framework

Introduction

Since 1988, the City of Roseville has worked to spark investment in the 275-acre Twin Lakes Redevelopment Area. The City initiated the creation of a Master Plan for the area, which has been updated several times since its inception. Over time, the importance of this project has become deeply rooted within the community, which is demonstrated by the adoption of Twin Lakes Master Plan into the City's Comprehensive Plan.



Twin Lakes Redevelopment Area

During the initial phases of redevelopment activities, public financial participation is often requested by developers to assist in offsetting the increased development costs associated with development on these more complicated sites. With limited financial resources and community expectations high, the City of Roseville has established a Public Financial Participation Framework to identify objectives and criteria by which to consider future financial requests for projects within the Twin Lakes Redevelopment Area.

The following framework, which has been developed with consideration to community goals articulated through the Imagine Roseville 2025 process, the Twin Lakes Master Plan (2001), and the Twin Lakes Design Principles, describes general policies that the City of Roseville will use when considering if to participate, what type of activities to assist with, and parameters of participation. These policies are intended to clarify what is within the realm of consideration when public financial participation is considered for elected officials, city staff, the public, and the development community.

Twin Lakes Public Financial Participation Determination

For all projects requesting financial assistance, the requestor must demonstrate (to be verified by the City) that the project is unlikely to proceed without the infusion of City funds. Beyond need, developers must demonstrate how their project will advance the city's overarching objectives. On the following page are eight community objectives and twenty-three scoring criteria by which to measure potential achievement of these objectives. The objectives include a mix of uses, enhanced aesthetics, environmental quality and sustainability, relationship to parks, transit and transportation options, diverse employment opportunities, diverse tax base, and diverse housing options. In order for the City to consider financial assistance for an individual project, the project must work toward achieving one-third of scoring criteria (eight criteria) within at least four of the objective categories.

Objectives and Scoring Criteria**1. Mix of Uses**

- ☐ Overall Use Mix: Contributes toward the desired mix of uses within the project area described in the Twin Lakes Master Plan
- ☐ Needed Services: Provides a needed service in Roseville.
- ☐ Community Spaces: Incorporates community spaces, such as plazas and greenspaces, into the project that are open for use by the general public

2. Enhanced Aesthetics

- ☐ Blight Elimination: Removes, prevents, or reduces blight or other adverse conditions of the property
- ☐ Urban Design: Achieves a walkable, pedestrian friendly environment, creates a strong “public realm,” and internalizes parking to the project as indicated in the Twin Lakes Design Principles
- ☐ Building Quality: Uses high quality, long-lasting building and construction materials
- ☐ Structured Parking: Replaces large, surface-parking lots with parking structures integrated into the overall project design

3. Environmental Quality and Sustainability

- ☐ Environmental Remediation: Cleans up existing soil and groundwater contamination
- ☐ Green Building: Is designed to a LEED-Silver rating or higher
- ☐ Green Infrastructure: Uses innovative stormwater management techniques, such as rain gardens/bioretention, porous pavement, or underground holding chambers
- ☐ Environmental Preservation: Preserves or improves quality of wetlands, wildlife habitats, or other natural areas inside or outside of parks.

4. Relationship to Parks

- ☐ Park Connections: Provides connectivity to the neighboring parks
- ☐ Buffers: Offers a buffer between the adjacent park and the new land uses
- ☐ Mitigates Environmental Impacts: Addresses environmental impacts related to park resources

5. Transit and Transportation Options

- ☐ Multimodal Transportation: Integrates bus, bicycle, and pedestrian connections into the project
- ☐ Transportation Demand Management: Works to reduce the number of trips to the project area by implementing various transportation demand options

6. Diverse Employment Opportunities

- ☐ Job Creation: Creates or retains a wide-range of professional-level, family-sustaining jobs
- ☐ Businesses Attraction/Retention: Attracts or retains competitive and financially strong businesses to Roseville

7. Diverse Tax Base

- ☐ Tax Base: Diversifies the overall tax base of the City
- ☐ Enhanced Tax Base: Maximizes tax-base potential within the redevelopment area

8. Diverse Housing Choices

- ☐ Unmet Housing Markets: Provides housing options not currently realized in the Roseville market (e.g. market-rate apartments, mid-sized single-family homes)
- ☐ Affordable Housing: Provides affordable housing opportunities.

Priority Funding Activities

The following is a list of activities, fundable under state statute, in which the City may consider financial participation.

- Cleanup of environmental contamination
- Construction of public infrastructure (e.g. utilities, roads, and sidewalks)
- Streetscaping
- Public, structured parking facilities
- Site improvements (e.g. soil correction)
- Land acquisition (e.g. right-of-way acquisition)
- Others on a case-by-case basis

General Financial Participation Parameters

If it is determined that the City will financially participate in a project, the following are the general parameters by which a development agreement will be negotiated.

Grants

- The City will apply for available regional, state, and federal grant funds to offset city costs associated with City-led project elements.
- The City will consider applying for regional, state, and federal grant funds to assist developer costs for projects that provide a demonstrated community benefit.
- If limited funds available, City will give priority to City-led elements.

Tax Increment Financing (TIF)

- Pay-as-you-go Financing: Initial financing of eligible improvements will be the responsibility of the developer with the City repaying the developer for eligible costs as revenue is generated (Developer-led project elements)
- Upfront Capitalization: Upfront financing for public improvements (City-led project elements)
- Financing Terms: Minimum financing for the shortest terms for the project to proceed.