

# **Tax Increment Financing (TIF)**

## **Saint Paul's Overuse of TIF Has Negative Consequences**

Tax increment financing (TIF) is a public financing tool employed with the long-term objective of expanding the City's tax base. It seeks to accomplish that goal by subsidizing redevelopment, infrastructure, and community improvement projects such as:

1. Upgrading obsolescent facilities.
2. Eliminating blight.
3. Remediating pollution
4. Expanding affordable housing choices.
5. Enhancing private sector employment growth.
6. Encouraging redevelopment activities that enhance urban features, amenities, and historic structures.

There is growing concern that TIF has been overused and that it has not delivered hoped-for results in addressing City goals. Other municipalities concerned about the efficacy of TIF have concluded that it places an undue and unfair burden on taxpayers and are reducing the use of TIF.

When using TIF, the City typically provides a subsidy to developers to engage in a project and then diverts property tax revenue from the project using those funds for 25+ years to repay the City for the upfront money it spent to induce the private development activity. The City's tax base is not increased during this period. TIF is not a loan to a developer that the developer pays back to the City. TIF is a gift to the developer. The City provides the developer with a public subsidy – the gift – and the City must issue bonds to fund the amount of the gift. During the 25 to 30-year life of the project, property taxes that are paid by the TIF project do not go into the general fund but are used to retire the debt incurred by the City. In addition, none of the new tax revenue is used to pay for

public services provided to the project such as fire, police, and public works. Those cost obligations are passed on to all other St. Paul taxpayers.

In 2024 the City of Saint Paul had over 7.9% (\$2.8 Billion) of taxable property captured in TIF projects – the largest amount of any city in Minnesota. Given the significant need for redevelopment in Saint Paul’s downtown, there will be mounting pressure to increase the use of TIF.

## **TIF IS A SEDUCTIVE TOOL**

Many City constituencies view TIF as an efficient and constructive solution to the achievement of one or more of the City’s goals. City leaders may view TIF as an easy and attractive method for developing the City’s tax base – an important goal of the City. The building trades may view it as an effective method for creating construction jobs – also an important goal of the City. Developers view it as “free money” enabling them to pursue and profit from development opportunities. Taxpayers, unaware of the increased tax burden they will bear, may be pleased that the City is focusing on development opportunities. Accordingly, the pressure to use TIF can be persuasive despite negatives associated with its use.

## **TIF IS AN IMPERFECT TOOL**

There are significant negatives associated with the current use of TIF:

- It is a complex tool with many permutations making it difficult for the public to understand how it works, and the City websites provide little information about TIF projects and the impact on taxpayers.
- Its ultimate impact often cannot be assessed for years after its implementation.
- The predicted success of the project is often based on difficult-to-make financial projections.
- TIF obligations are not identified in annual City budgets.

## USE OF TIF REQUIRES CAREFUL ANALYSIS

Careful and rigorous consideration needs to be given to the approval of each TIF project to increase the probability that the project will benefit the City and its taxpayers. To ensure that it is the right solution for any given project requires a thoughtful understanding and analysis of the following issues:

- Is there a clear and compelling public purpose served by the proposed project?
- What are the barriers to private sector funding of the project that make it necessary to use public subsidies – TIF – on a given project? To what extent has the City or a developer explored other funding sources? What keeps a developer from tackling a project without a public subsidy?
- The “but for” test – a test that the project would not occur without the assistance of a public subsidy – must be rigorously applied. If a pattern develops that TIF is readily granted, it provides an incentive for all developers to ask for a public subsidy.
- TIF can incentivize development that results in over-building and thus the sub-optimal use of existing facilities. This can in turn reduce net operating income for other competing properties and reduce the City’s overall tax capacity.
- Should TIF be awarded to local or non-local developers? Providing TIF financing to non-local developers gives the financial advantages of TIF financing to those developers outside of the City.
- If a local developer has a project not financed with TIF and is confronted with a competing project financed by TIF, that creates an unfair advantage for the TIF financed project. Such conflicts should be avoided in the awarding of TIF.
- Will the impact of a TIF project on other properties be positive or negative?
- When a project involving the conversion of a commercial structure to a residential structure is considered for TIF, decision-makers need to

understand that residential structures pay only about half the tax that commercial structures pay.

- The City needs to analyze the difference between poorly performing and successful districts – both past and present – to assist in the decision making about whether a proposed district is likely to be successful and provide a benefit to the entire City.

## **INFLECTION POINT CALLS FOR CAUTIOUS AND PRUDENT USE OF TIF**

The City of Saint Paul will be making critical decisions in the coming months concerning development opportunities in the downtown area. At least ten buildings in the center of downtown will be candidates for redevelopment. There will be increasing pressure to utilize TIF despite the negatives associated with its use. Many have expressed concern that TIF has been overused and that City goals for its use have not been accomplished. The cautious and prudent analysis of upcoming TIF proposals is a wise course of action. The long-term financial health of the City is at stake.

In\$ight St. Paul Committee