STPAUL.GOV

CITY OF SAINT PAUL

TAX INCREMENT FINANCING (TIF) 201 (DEEPER DIVE)

October 16, 2024

TIF UPDATES – PRIOR TOPICS COVERED

- **April 2024**
  - Introduction to Tax Increment Financing (**TIF**) including what TIF is and **how it works**, how a TIF district is established, contents in the TIF Plan, types of TIF districts, HRA/City TIF Process/Procedures and Summary of existing TIF districts, TIF districts recently established, captured tax capacity projections and more.

- **September 2024**
  - Summary of existing TIF districts and preliminary Pay 2025 information
  - Identification of upcoming action before year end
    - **Early Decertification**
    - Administrative Amendments
    - Formal Amendment of Housing TIF district
  - **Estimated pooled tax increments to be utilized to expand affordable housing**

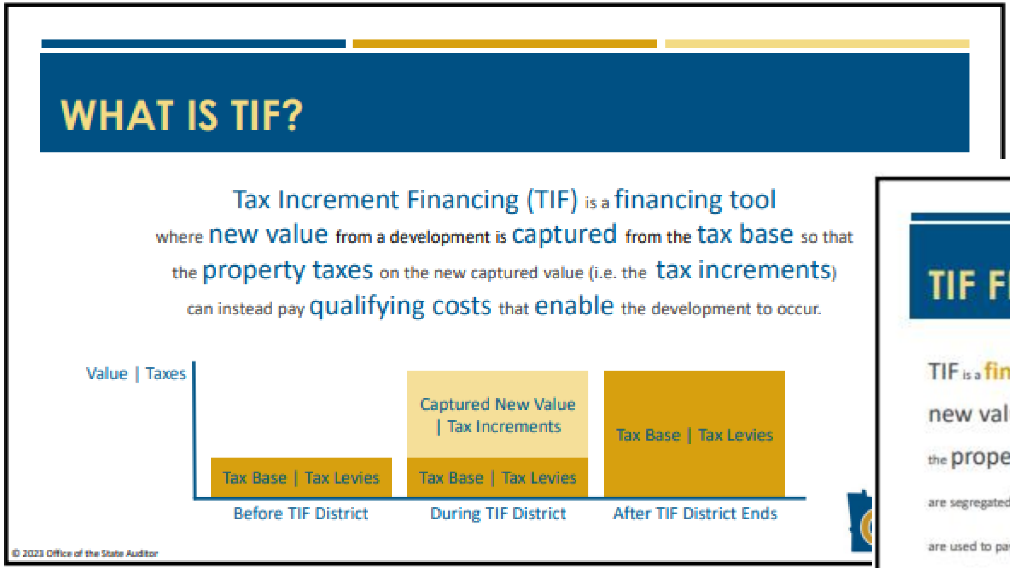
TIF TOPICS FOR DEEPER DIVE

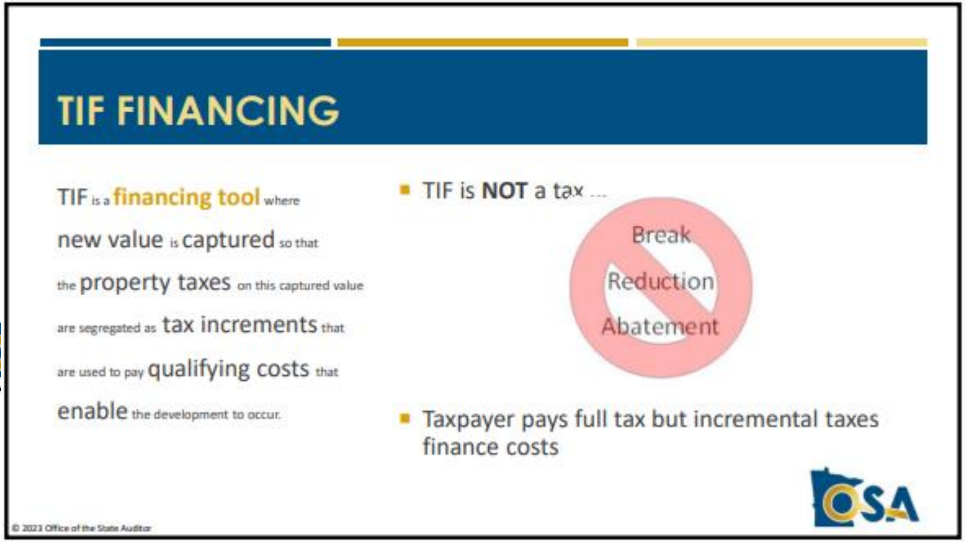
- **TIF and How it Works**

- **Decertification of a TIF District**
  - What requires early decertification and why?
  - What happens to the tax dollars?
  - Example of TIF District with early decertification

- **Pooling for affordable housing**

TIF AND HOW IT WORKS





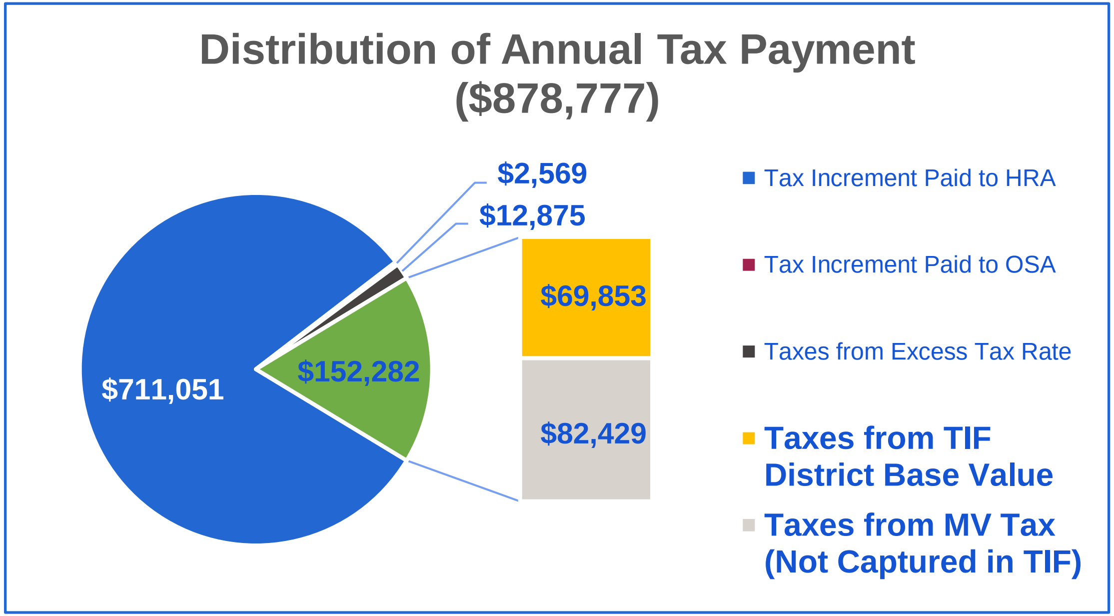
[OSA Link Training Video]

TIF AND HOW IT WORKS (CONT'D)

- 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 (BASE VALUE) 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 (TAX INCREMENT);
    - All non-local property taxes, taxes from market value (MV)-based taxes, and taxes from EXCESS TAX RATE are not captured and are paid to the appropriate taxing jurisdiction

TIF AND HOW IT WORKS (CONT'D)

- As mentioned on the prior slide, all properties in a TIF district continue to pay their full taxes.
- The pie chart on the right shows the breakdown of a TIF district's distribution of their property taxes once paid.
- $152,282 of taxes continue to flow to the taxing jurisdictions either through the base value or through market value taxes, not captured in TIF
- HRA captures $711,051 of taxes paid as tax increment, to be spent in accordance with adopted TIF Plan



TIF AND HOW IT WORKS (CONT'D)

- 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 the risk that the Pledged Tax Increments will be sufficient to reimburse the full amount of the qualifying project**

DECERTIFICATION OF A TIF DISTRICT

What requires early decertification and why?

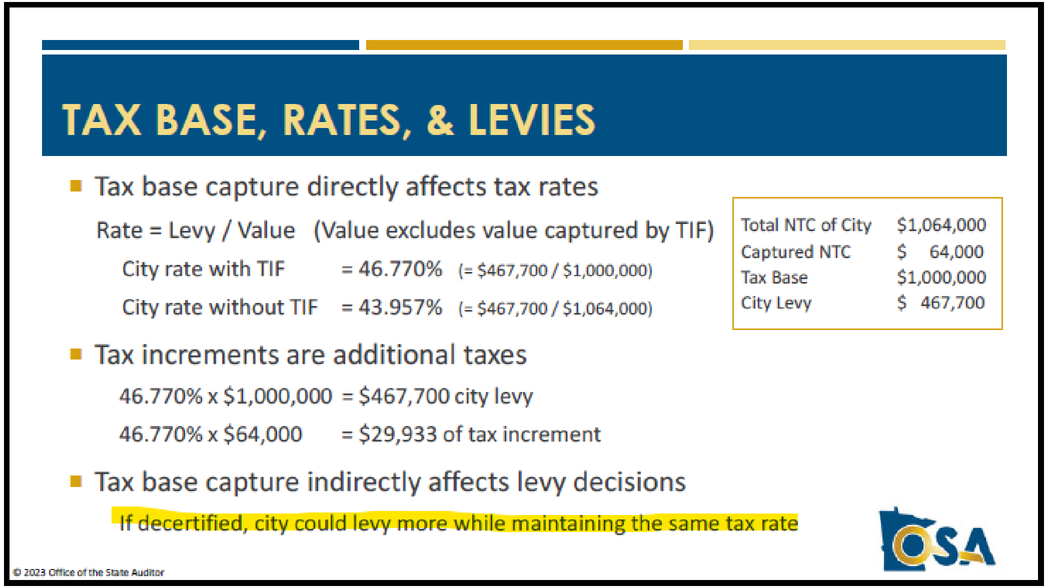
- MN TIF Statutes limit total spending in a TIF district beginning in the 6th year (except for a housing TIF district)
    - This requirement can be challenging for large redevelopment sites that will phase development, aka Highland Bridge
- When a determination has been made that no additional spending is allowed, the TIF district would need to be decertified, and no future tax increment collections would be allowed
- Alternatively, the TIF district could have met its development outcomes and covered all obligations, and could be closed early, even if pooling opportunities exist (policy decision, provided appropriate TIF Plan budget in place)
- The tax capacity captured in the TIF district would become available for the taxing jurisdictions
- See graphic from OSA on following slide

DECERTIFICATION OF A TIF DISTRICT (CONT'D)

What happens to the tax dollars?

- Since all properties pay their taxes even when they are located within a TIF district, the tax dollars, in full, will now be collected by the taxing jurisdictions.

- The graphic to the right is from the OSA to demonstrate the change to tax rates with and without TIF



DECERTIFICATION OF A TIF DISTRICT (CONT'D)

Example of TIF District with early decertification

- The Carondelet Village Redevelopment TIF District #291 was established by the HRA in June of 2010, with the first collection in 2013, and final collection in 2021 (17 years earlier than maximum duration of 26 years)
- The TIF District was created to demolish a blighted building and construct new senior housing, as follows (the "Development"):
    - 149 independent living units
    - 46 assisted living units
    - 19 memory care units, and
    - 45 skilled care nursing home beds
- The Developer requested TIF assistance to fill a gap in the project and to enable senior debt to be issued
- The Development was substantially completed in 2011 and fully occupied by the end of 2012

DECERTIFICATION OF A TIF DISTRICT (CONT'D)

Example of TIF District with early decertification (Cont'd)

- The executed development agreement pledged up to 65% of the collected tax increments, maximizing the Pooling abilities, and included a Lookback that required reductions in the TIF Note if certain financial conditions were met
- The HRA expected to maximize Pooling for affordable housing, however, with the structure of the TIF Note, the actual tax increments made available to the Developer were considerably lower than anticipated
- The total tax increments collected were $2,834,556, expended as follows:
  - $1,704,207 to reimburse for eligible project costs for the Development
  - $1,012,545 for qualifying affordable housing
  - $117,804 for administrative expenditures
- The TIF district was decertified early due to Pooling limitations under the TIF law
- The captured tax capacity was returned to the tax base for taxing purposes (no changes to the taxes paid by the Development)

POOLING FOR AFFORDABLE HOUSING

- MN TIF Statutes allow tax increments collected from TIF districts to be spent on activities geographically located outside the TIF district, commonly know as “Pooling”
    - Redevelopment TIF districts are limited to up to 35% for Pooling, including administrative expenditures, with certain limitations
    - Housing TIF districts are similarly limited, however, qualifying housing expenditures are not considered Pooling even when located outside the TIF district
        - Tax increments generated in a Housing TIF district may only be used to finance the cost of a qualifying housing project
    - Pooling also includes expenditures for eligible costs within the TIF district that occur after a specific date (known as the Five-Year Rule)
- Staff track and monitor Pooled tax increments from existing TIF districts
- The allocation of Pooled tax increments to a project must be authorized by the HRA Board, examples of prior approvals are shown on the following slide

POOLING FOR AFFORDABLE HOUSING (CONT'D)

Project	Amount	Detail
520 Payne Ave (The Hollows)	$2,190,000	Approved Nov 2021, 62 total units with 100% restricted to 60% AMI or below and 5 units at 30% AMI (*plus new housing TIF District*)
1222 University (Twelve 22)	$748,983	Approved June 2022, 55 total units with 100% restricted to 60% AMI or below and 15 units at 30% AMI
PPL Emma Norton @ Highland Bridge	$444,399	Approved Oct 2022, 60 total units with 100% restricted to 30% AMI or below *(plus new Housing TIF District)*
PPL Nellie Francis Court @ Highland Bridge	$537,516	Approved Oct 2022, 75 total units with 100% restricted to 60% AMI or below and 15 units at 50% AMI *(plus new Housing TIF District)*

POOLING FOR AFFORDABLE HOUSING (CONT'D)

Pooling for Housing from Redevelopment TIF Districts

- Total available through 2024 is anticipated to be **$4.88 million**, as shown below:
  - Emerald Gardens (#228/266/267): $1.63 million
  - Phalen Village (#234/269): $1.075 million
  - Koch/Mobil (#248): $700,000
  - Pioneer Endicott (#302): $525,000
  - Custom House (#317): $950,000
- Upcoming action to allocate $2,159,382 to Mary Hall project
- Determining additional Pooling for Pay 2025 and beyond

Questions?

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