



Request for City Council Committee Action from the Department of Community Planning and Economic Development

Date: August 23, 2011

To: Council Member Lisa Goodman, Chair, Community Development Committee

Referral to: Council Member Betsy Hodges, Chair, Ways and Means/Budget Committee

Subject: Approval of Amendment to the Minneapolis Tax Increment Financing Policy

Recommendation: Amend the Minneapolis Tax Increment Financing Policy.

Previous Directives: The City Council approved the most recent amendment to the Minneapolis Tax Increment Financing Policy on April 1, 2005. On April 29, 2011, the Council directed CPED to prepare an amendment to the policy to clarify City intent regarding the use of tax increment financing for public infrastructure, transit corridors and job creation.

Department Information

Prepared by: Jeff Streder, Director, Development Finance (612-673-5130)

Approved by: Charles T. Lutz, Deputy Director, CPED _____

Presenter in Committee: Mike Christenson, Director, CPED

Financial Impact

- No financial impact

Community Impact

- **Neighborhood Notification:** On July 8, 2011, all neighborhood organizations were notified of the opportunity to review and comment on the proposed amendment to the Minneapolis Tax Increment Financing Policy.
- **City Goals:** A Safe Place to Call Home; Jobs & Economic Vitality; and Livable Communities, Healthy Lives

Supporting Information

The Minneapolis Tax Increment Financing (TIF) Policy guides the City's use of TIF. The current version of the policy was approved by the City Council in October 2000, with amendments in 2002, 2004 and 2005. On April 29, 2011, the City Council directed CPED to prepare an amendment to the policy to clarify City intent regarding the use of tax increment financing for public infrastructure, transit corridors and job creation.

The proposed amendment to the TIF Policy includes the following changes:

- Language is added encouraging development proposals that accomplish objectives related to transit-oriented development, public infrastructure improvements, job creation and increasing the tax base.
- Definitions of selected terms (transit-oriented development, public infrastructure improvements, job creation and increasing the tax base) are provided.
- The City's development objectives for the use of TIF are updated.
- A guideline is added stating the City may exercise, when appropriate, the option granted by the Minnesota TIF Act (Minn. Stat. §§ 469.174-469.179, as amended) to pool TIF revenue for the purpose of assisting qualified low-income rental housing anywhere in the city.
- Obsolete language is updated or removed and other "housekeeping" changes are made.

Neighborhood organizations were invited to review and comment on the proposed amendment to the policy, and a notice on the City's website invited public comments. As of the date of preparation of this report, no comments have been received. One neighborhood organization, the Kenwood-Isles Area Association, submitted questions about the amendment, and staff responded to those questions.

Attachment: Proposed Amendment to the Minneapolis Tax Increment Financing Policy

Proposed Amendment – Draft for Public Review (July 8, 2011)

(Note: Additions are indicated by underlining; deletions are indicated by ~~strike-through~~.)

Minneapolis Tax Increment Financing Policy

I. Purpose of Policy

This Tax Increment Financing (TIF) Policy has been approved by the Minneapolis City Council for the following purposes:

- to guide staff in forming recommendations regarding the use of ~~tax increment financing~~ TIF and negotiating contract terms with developers;
- to provide a framework within which the City Council and Mayor can evaluate and compare proposed uses of ~~tax increment financing~~ TIF; and
- to inform the public of the City's position on the use of ~~tax increment financing~~ TIF and the process through which decisions regarding the use of the tool are made.

This policy supersedes the Tax Increment Policy approved by the Minneapolis City Council on ~~March 22, 2002 and revised on January 1, 2004, April 1, 2005~~ and earlier versions of said policy. This policy is effective as of ~~April 1, 2005~~ _____.

II. Definitions

Within the context of this TIF Policy:

- Transit-oriented development means development that strengthens and supports both the community and the transit system, exhibits a compact and efficient use of available space, and is a comfortable walking distance to transit.
- Public infrastructure improvements include sewer, storm water, water, streets, alleys, sidewalks, bikeways, pedestrian ways, plazas, transit station area improvements and other TIF-eligible public improvements.
- Job creation includes both new and retained construction and permanent living-wage jobs.
- Increasing the City's property tax base means contributing to significant increases in property values.

III. Development Objectives

The City will consider using ~~uses~~ tax increment financing TIF to accomplish these ~~major~~ objectives listed below. Development proposals that seek to achieve one or more of these objectives, particularly Objectives A through D, are encouraged.

- A. Encourage and assist transit-oriented development and related public infrastructure improvements along transit corridors and in designated Transit Improvement Areas (as defined in Minn. Stat. §469.351, Subd. 1).
- B. Recruit new businesses into the City and assist in the expansion of existing businesses in order to support job creation and maintain a diversified local economy.

- C. Increase the City's property tax base.
- D. Redevelop substandard properties and eliminate blighting influences in order to achieve City housing and economic development goals.
- E. Clean contaminated land to provide sites for uses that achieve City redevelopment goals.
- F. Provide an array of housing choices that meet the needs of current residents and attract new residents to the City, with an emphasis on providing affordable housing.
- G. Support neighborhood retail services, commercial corridors and employment hubs, with an emphasis on transit-oriented development.
- H. Support redevelopment efforts that enhance and preserve unique urban features and amenities, including downtown, the riverfront and historic structures.
- ~~A. Expand the Minneapolis economy to create more living-wage jobs, with an emphasis on providing job opportunities for the unemployed and underemployed.~~
- ~~B. Attract and expand new and existing services, developments and employers in order to position Minneapolis and the region to compete in the economy of the 21st century.~~
- ~~C. Increase the city's property tax base and maintain its diversity. Clean contaminated land to provide sites for uses that achieve City redevelopment objectives.~~
- ~~D. Provide an array of housing choices that meet the needs of current residents and attract new residents to the city, with an emphasis on providing affordable housing.~~
- ~~E. Eliminate blighting influences throughout the city.~~
- ~~F. Support neighborhood retail services, commercial corridors and employment hubs.~~
- ~~G. Support redevelopment efforts that enhance and preserve unique urban features and amenities, including downtown, the riverfront and historic structures.~~

HIV. General Guidelines in the Use of ~~Tax Increment Financing~~ TIF

- A. The City of Minneapolis will comply with all requirements of the Minnesota Tax Increment Financing (TIF) Act, (Minn. Stat. §§ 469.174–469.179, as amended). The City will undertake a rigorous analysis to ensure that the proposed project satisfies the “but for” test embodied within the ~~Tax Increment Financing~~ TIF Act.
- B. The City of Minneapolis will use ~~tax increment financing~~ TIF only when a clearly identified City development objective is served and only to the degree necessary to accomplish that development objective.
- C. ~~tax increment financing~~ TIF will only be used in cases where the City has the financial capacity to provide the needed public assistance, the Council deems it fiscally prudent to provide such assistance, and the developer can clearly demonstrate that the development will be able to meet its financial and public purpose commitments.

- D. The City of Minneapolis will recapture the public subsidy to the maximum extent feasible after allowing the developer a reasonable return.
- E. Alternatives, such as “pay as you go” financing and ~~reimbursing front-end public redevelopment costs with tax increment revenues~~ internal financing, are preferable to bond financing and are to be considered and used when appropriate. The City will not issue general obligation tax increment bonds except when all net bond proceeds are used to directly pay public costs or refinance debt that was previously issued to pay for such costs, and the taxable development that will generate the tax increment used to pay all or a portion of the debt service on the bonds is either fully constructed and assessed by the City Assessor or is underway and subject to the terms and conditions of a development agreement with the City.
- F. Only those public improvements and public redevelopment costs directly associated with or needed to service the proposed development plan or project should be financed through ~~tax increment financing~~ TIF.
- G. The City will analyze each potential new ~~tax increment financing~~ TIF district and recommend whether it should be included in or excluded from the fiscal disparity contribution. The impact of the fiscal disparity election on the City’s general tax base will be ~~analyzed using the methodology prescribed by the Minnesota Department of Revenue and will be reported to the City Council in a manner understandable to the general public prior to approval of the proposed use of~~ tax increment financing TIF.
- H. ~~As part of the annual budget process,~~ The City will annually identify tax increment revenues deemed to be excess tax increment under the TIF Act, and will make related recommendations for decertification of parcels or districts, and report on the total value of captured tax capacity expressed in both dollars and as a percentage of total tax capacity.
- I. The City may exercise, when appropriate, the option granted by the TIF Act to pool tax increment revenue for the purpose of assisting qualified low-income rental housing anywhere within the City.

IVV. Economic-Financial Analysis and Risk Assessment Process

- A. Proposed uses of ~~tax increment financing~~ TIF will be subject to rigorous economic financial analysis and risk assessment. City Finance Department staff will be responsible for overseeing the analysis and assessment process. Consultants will be used to complete needed analysis and assessment as appropriate.
- B. The analysis and assessment of all proposed uses of ~~tax increment financing~~ TIF will address the following questions as part of the standard format for reports to the City Council:
- What is the public purpose of the financial assistance to the project?
 - Why is there a financial need for public investment and/or subsidy?
 - What is the total cost of the project?
 - What is the appropriate level of public participation?
 - What are the risks associated with the project?
 - What are the ~~alternative~~ proposed plans for managing the risk?
 - How does the proposed project finance plan compare with previously approved comparable projects?
 - What is the project's impact on other publicly financed projects?

- C. The results of the ~~economic~~ financial analysis and risk assessment will be presented to the City Council at the time of the request for approval of the proposed use of ~~tax increment financing~~ TIF. The report will identify any elements of the proposed project that are not in conformance with this ~~Tax Increment~~ TIF Policy.
- ~~D. Projects with an anticipated term of increment collection greater than 15 years or projects with tax increment principal in excess of \$10 million will be subject to a more extensive analysis, including appropriate market analysis and review by City Finance Department staff.~~

VI. Evaluation Criteria

The following items will be taken into consideration in the evaluation of any development proposal requesting ~~tax increment~~ TIF assistance.

- A. Need For Public Assistance – In all cases, it is required that the need for public assistance be demonstrated and documented by the developer to the satisfaction of the City Finance Department. All such documentation, including development budgets, cash flow projections, market studies and other financial and market information, must be submitted by the developer along with an application for public financial assistance. If the request is based on financial gap considerations, the developer will demonstrate the profitability and feasibility of the project (i.e. gross profit, cash flow before taxes, cash-on-cash return, IRR, etc.), both with and without public assistance.
- B. Amount of Public Assistance versus Private Investment - All development proposals should seek to maximize the amount of private investment per dollar of public assistance. Public assistance as a percentage of total development costs will be determined for each project (or discrete portion of a project receiving a subsidy) and compared to other development projects or subprojects of similar scope and magnitude whenever possible.
- C. Term of Public Assistance –The term of the public assistance shall be kept to a minimum. The proposed term of any public assistance shall be fully documented and explained to the City Council.
- D. Development Benefits and Costs – The direct and indirect benefits of the development proposal shall be determined and quantified to the degree possible. Benefits shall include, but are not limited to, employment benefits (number of jobs retained or created, percentage of jobs held by City residents, wage and salary information, etc.), tax base benefits (estimated market value of new development, new property taxes generated, etc.), housing benefits (number of new rental or ownership units, number of affordable units, etc.), and other benefits relating to transportation, parking, blight remediation, environmental cleanup and historic preservation.

Costs of the development proposal to the City shall also be identified to the degree possible. Such costs shall include, but are not limited to, additional required public infrastructure, public resources or public services required by the proposed project, ~~required local contributions by the City, and the impact on the City's General Fund of the fiscal disparity contribution election if tax increment financing is used.~~ The ~~timeframe used for these cost estimates should equal the timeframe of the project finance plan and should separately identify any projected recapture of public subsidy.~~

- E. Recapture of Public Subsidy – It is the City's goal to recapture all, or a portion, of the public subsidy provided to the extent practical/feasible. Methods of recapture shall

include, but are not limited to, long-term ground leases, subordinated loans, sale and/or refinancing provisions, and equity participation.