



The TIF Toolbox

TIF 2

OSA ROLE

- Monitor compliance with the TIF Act
 - Informal compliance communications
 - Formal notices of noncompliance
- Educate to promote compliance
- Cannot give legal advice



ADMINISTRATION IS A COMMITMENT

- TIF is a commitment
 - Segregate and track funds
 - Annual reporting
 - Maintain compliance
- Many legal restrictions to understand
- Can use administrative expenses to get help

SEGREGATE FUNDS

- Do NOT account for increment in the General Fund
- No one method required
 - Debt service funds, capital project funds, special revenue funds
 - Account codes can play a key role
 - Can supplement with spreadsheets, schedules, ledger codes, etc.

REPORT ACCURATELY

- Reports / Disclosures
 - TIF Plan Submission Forms
 - TIF Annual Reporting Form
 - Pooled Debt Form
 - Annual Disclosure
 - Decertification Form
- Read instructions / watch videos
- Get help
- Use comments to explain issues



STAY INFORMED

- Follow OSA information
 - E-Updates
 - Articles
 - Statements of position
 - Training videos
 - In-person training sessions
- Watch for legislative changes
 - TIF Act changes
 - Property tax system changes



REVIEW PLANS AND AGREEMENTS

- Review TIF plans regularly
 - Stay within estimates
 - Identify necessary/possible changes
- Review pay-as-you-go (PAYG) agreements regularly
 - Avoid overpayments
 - Identify possible defaults, prepayments, etc.

REVIEW PLANS AND AGREEMENTS

- Monitor bond payment schedules
- Review interfund loan resolutions/documentation regularly
 - Check interest rate limits
 - Make payments when appropriate

TRACK IN-DISTRICT & OUT-DISTRICT SPENDING

- Out-district spending = “pooling”
- Monitor overall limit (20% or 25%; +10% for housing?)
- Understand Five-Year Rule (“in” is “out” after 5 years)
- Monitor Six-Year Rule
 - Extra annual limit
 - Decertification requirement



TRACK LIMITS

- Administrative expense limit
- Duration limit
- Spending within TIF plan estimates (excess increment)

OTHER ACTIVITIES

- Identify, return, or use excess increment by September 30th
- Send county evidence of parcel activity (by Feb. 1 of 5th year) for the Four-Year Rule
- Respond to OSA inquiries
- Respond to corrections of errors

CONSIDER IMPLICATIONS

- TIF captures tax base; Early decertification has merits
- Returning unneeded increment has merits



Recap: Why Consider Providing Assistance?

Public partnership is often needed to fill a financing gap and engage in economic development strategies to:

- Create or retain jobs
- Redevelop blighted areas / remediate polluted sites
- Construct affordable housing
- Increase tax base
- Change the market in the community



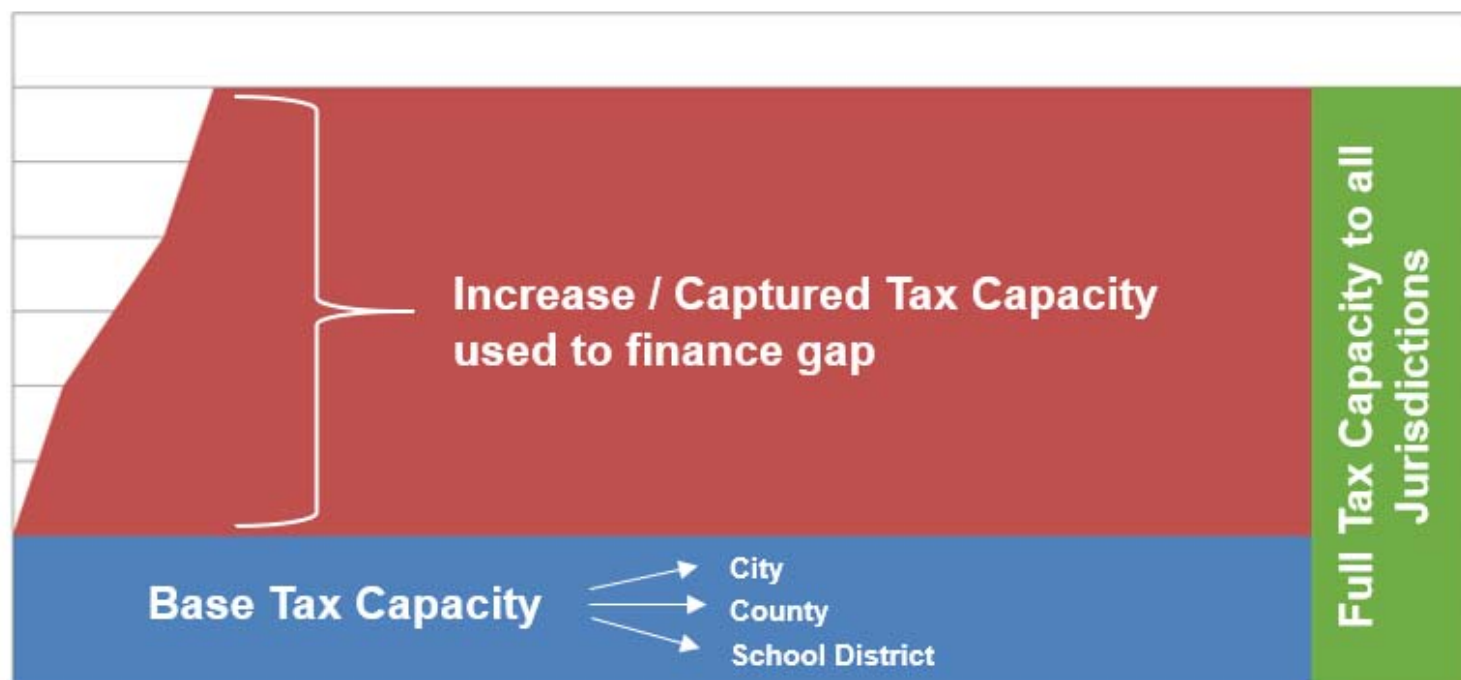
Recap: What is Tax Increment Financing?

Authorized by Minnesota Statutes 469.174 to 469.1794

- The ability to capture & utilize most of increased local property tax revenue from new development within a defined geography
- Used to encourage certain types of development or redevelopment that would not reasonably occur without assistance (“But For” test)

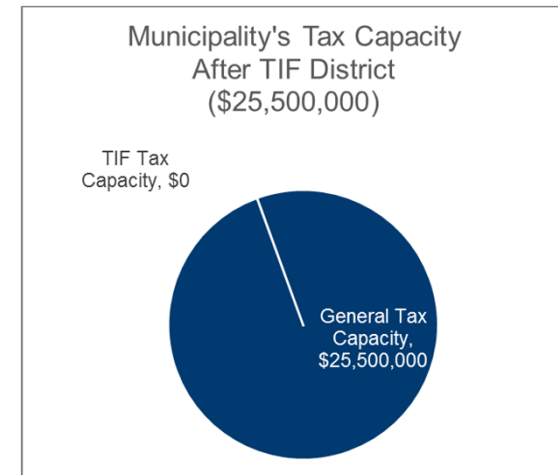
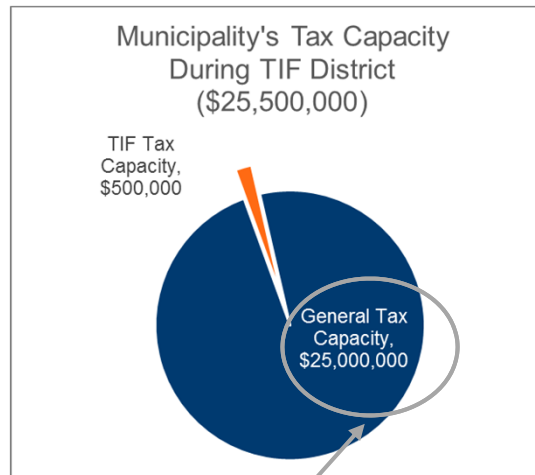
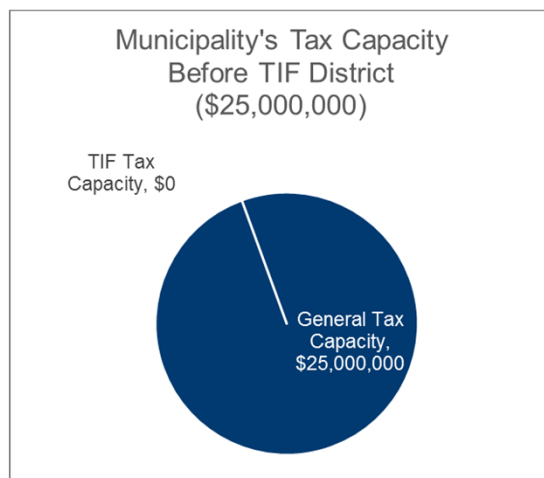


Recap: TIF Building Blocks





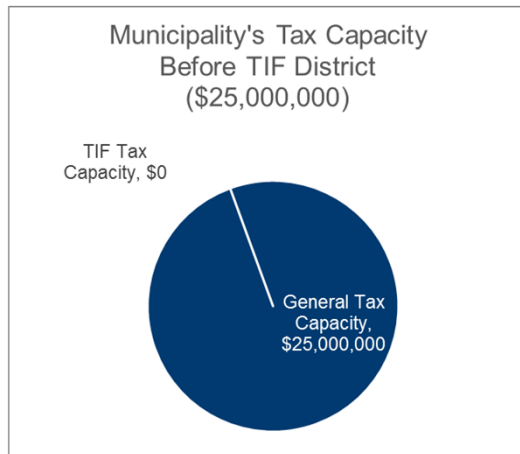
Actual Tax Base During a TIF District



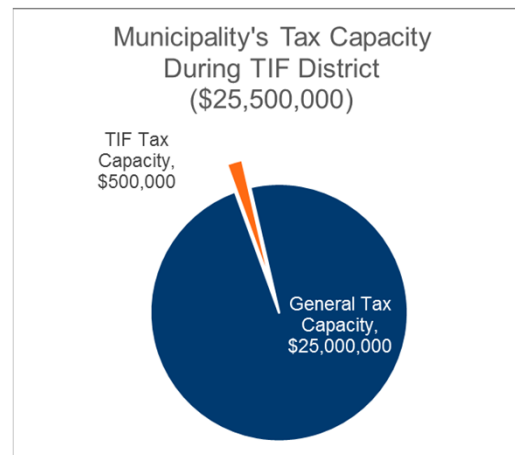
Tax Base - capacity to fund municipality remains throughout
**subject to property fluctuations*



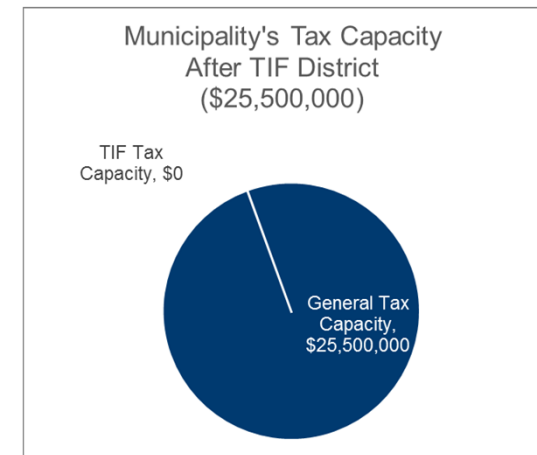
City/County Levy During a TIF District



Levy Amount	\$10,000,000
Taxable NTC	\$25,000,000
Local Tax Rate	40.000



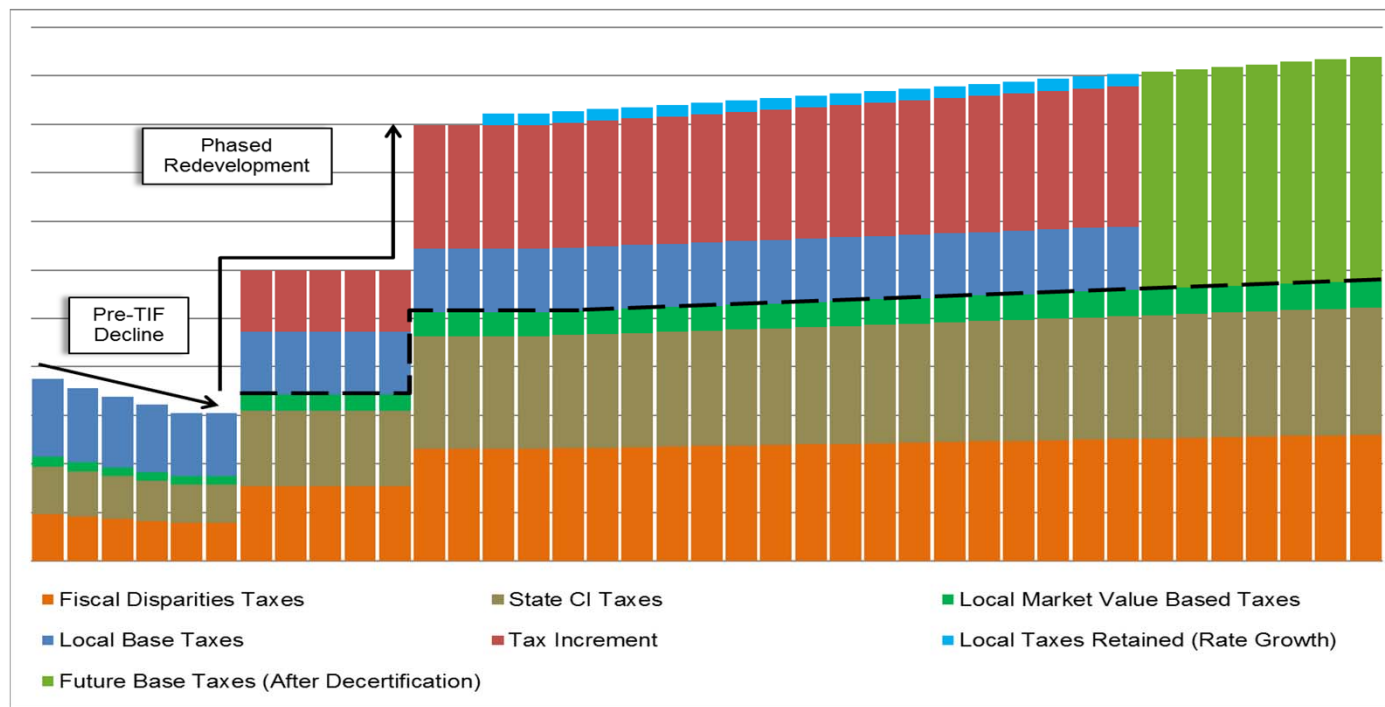
Levy Amount	\$10,000,000
Taxable NTC	\$25,000,000
Local Tax Rate	40.000



Levy Amount	\$10,000,000
Taxable NTC	\$25,500,000
Local Tax Rate	39.216



Actual Taxes Within a TIF District





Actual Taxes Within a TIF District

Housing Example

WHAT IS EXCLUDED FROM TIF?	
Total Property Taxes	192,548
less State-wide Taxes	0
less Fiscal Disp. Adj.	0
less Market Value Taxes	(41,095)
less Base Value Taxes	(9,530)
Annual Gross TIF	141,923

Gross TIF represents
\$.74 on the dollar

Commercial Example

WHAT IS EXCLUDED FROM TIF?	
Total Property Taxes	230,933
less State-wide Taxes	(48,460)
less Fiscal Disp. Adj.	(56,043)
less Market Value Taxes	(25,684)
less Base Value Taxes	(9,530)
Annual Gross TIF	91,216

Gross TIF represents
\$.39 on the dollar



Estimating Project Tax Capacity

Total Tax Capacity = 28,646



Original Tax Capacity = 264



- Projection of New Tax Capacity
- Developer Projections
 - Project Costs / Investment
 - Comparable Properties

Local Assessor's Estimated Value
X
Class Rate of new use



Assessed market value at certification
X
Class Rate determined by new use



Calculating Annual Tax Increment

TAX BREAKDOWN - New Housing Development									
	Property Value	Tax Capacity	Local NTC Taxes	City Portion	County Portion	Misc Districts	School District	School Op Referendum	TOTAL
Gross Taxes	\$2,500,000	28,646	130.2820%	56.2160%	39.5240%	3.4460%	31.0960%	0.4419%	
			\$37,321	\$16,104	\$11,322	\$987	\$8,908	\$11,047	\$48,368
Base Taxes	\$21,100	264	\$344	\$148	\$104	\$9	\$82	\$11,047	\$11,391
TIF District	\$2,478,900	28,382	\$36,977	\$15,955	\$11,218	\$978	\$8,826	\$0	\$36,977

Captured Tax Capacity \$ 28,382
 x Local Tax Rate x 1.30282
 = Gross Annual TIF \$ 36,977



How Much Can the Project Get?

Annual Gross Increment	\$ 36,977
Less State Auditor (0.36%)	(\$ 133)
<u>Less Retained (Admin max 10%)</u>	<u>(\$ 3,684)</u>
<u>Available Net Increment</u>	<u>\$ 33,160</u>
X 26 years (Housing)	\$ 862,160

Total 26-year Available Net Increment = \$862,160



How Much Can the Project Get?

Discount at an applicable borrowing rate to estimate value to project

TAX INCREMENT CASH FLOW											
Project Tax Capacity	Original Tax Capacity	Captured Tax Capacity	Local Tax Rate	Annual Gross Tax Increment	Semi-Annual Gross Tax Increment	State Auditor 0.36%	Retained Admin. 10%	Semi-Annual Net Tax Increment	Semi-Annual Present Value	PERIOD ENDING Yrs.	Tax Year
28,646	(264)	28,382	130.282%	36,977	18,488	(67)	(1,842)	16,580	15,704	0.5	2021
28,646	(264)	28,382	130.282%	36,977	18,488	(67)	(1,842)	16,580	30,988	1	2021
28,646	(264)	28,382	130.282%	36,977	18,488	(67)	(1,842)	16,580	45,862	1.5	2022
28,646	(264)	28,382	130.282%	36,977	18,488	(67)	(1,842)	16,580	60,339	2	2022
28,646	(264)	28,382	130.282%	36,977	18,488	(67)	(1,842)	16,580	422,809	23.5	2044
28,646	(264)	28,382	130.282%	36,977	18,488	(67)	(1,842)	16,580	427,197	24	2044
28,646	(264)	28,382	130.282%	36,977	18,488	(67)	(1,842)	16,580	431,467	24.5	2045
					18,488	(67)	(1,842)	16,580	435,624	25	2045
Total					924,419	(3,328)	(92,109)	828,982			
Present Value Rate					485,775	(1,749)	(48,403)	435,624			

Rate of Permanent Financing



Amount available for financing gap



Determines how much gap or project expense can be financed



Financing TIF

Developer or Municipality borrows funds today to be repaid with Available Net Increment collected in the future

- Pay-as-you-go Notes
- Internal Loans
- Municipal borrowing
 - ✓ If future TIF is to reimburse funds, an Interfund Loan Resolution must be completed within 60 days of expenditure of **any** funds.



Financing TIF – Evaluating Risk





Pay-As-You-Go Notes (PAYGO)

Pledge to provide a portion of TIF revenue as it is received, subject to conditions

- Developer assumes risk
- Developer obtains financing for the project
- Developer documents expenditures
- Municipality verifies conditions are met & issues Note
- Municipality makes periodic payments of available TIF as they are received
 - ✓ Typically as a % of TIF District tax settlement receipts



Interfund Loan

Municipality pays for portion of project expecting reimbursement from future TIF:

- Municipality assumes risk
- Municipality completes project or loans available cash to developer, subject to terms
- Adopt interfund loan resolution identifying terms of repayment
- Rely on developer to finance & complete the project
 - ✓ Create incremental taxes
- Municipality reimburses itself with Available TIF as it is received



TIF Revenue Bonds

Municipality issues bonds secured by project TIF revenues to fund a portion of the project:

- Bondholder and/or Municipality assumes risk
- Can issue General Obligation Bonds if at least 20% of debt service paid with TIF
 - ✓ Pledge of Municipality's full faith and credit may obtain favorable financing terms
 - ✓ ***TIF Shortfall: must supplement with levy or other funds***



TIF Negotiation

Key factors for Negotiation:

- Local policies & public goals
- Restrictions & requirements of law
- Negotiating team: staff & hired consultants
- Informing decision-makers (council / board)
- Private market demands
 - ✓ Financial feasibility requires profit/return, limited access to capital
- How much is too much? – when to walk away



But For Test

Analysis and documentation that the proposed project would not go forward without public assistance

- “But For” the public assistance, the development would not have occurred

Goal is to analyze project need and determine appropriate level of assistance to complete the project

- Review developers financials (pro forma analysis)
- Determine level of risk the Municipality is willing to take
 - ✓ Identify key assumptions for potential “look back” provisions



TIF Development Agreements

Spells out terms to complete project:

- Memorializes key goals/objectives of partnership
- Defines minimum qualifying activities of developer
- Conditions & terms of public assistance
 - ✓ Disbursement or Reimbursement amounts, rates & terms
- Deadlines for project completion or phasing
- Job & wage goals, housing limits or other reporting thresholds
- Look back & default provisions



TIF Agreements: PAYGO Terms

Require documentation of qualifying activities

- Evidence of timing and costs

Determine necessary issuance & accrual dates

Insert default provisions tied to:

- Annual reporting compliance for DEED or affordable housing
- Payment of taxes

Withhold all or portion of TIF payment until default cured



TIF Agreements: Tax Petitions & TIF

Property owner contests valuation, tax court reduces value:

- Often takes years to resolve
- If settled, County pays refund out of TIF in next tax settlement
- Potential issues: overpayment of PAYGO Note, negative cash balance in TIF Fund, or occurs after TIF District decertifies & TIF Fund closed

Establish Minimum Assessment Agreement or ability to withhold payments while petition is active



TIF Agreements: Annual Compliance

Business Subsidy requires annual DEED reporting:

- Annual reporting compliance for DEED or affordable housing
- Payment of taxes
- Minimum assessment agreement

Affordable Housing monitored by municipality

- Require 3rd party reports for agreement & policy provisions
- Require annual certification of compliance

Non-compliance potentially requires return of TIF



Your Presenters

Nick Anhut

Ehlers

nanhut@ehlers-inc.com

651-697-8507

Jason Nord

Office of the State Auditor

jason.nord@osa.state.mn.us

651-296-7979



The TIF Toolbox: TIF 2

ADDITIONAL RESOURCES



Common TIF Administrative Limitations

4-year “knockdown” rule:

- Qualifying activity within 4 years of certification (each parcel)
- Evidence submitted to County Auditor in fifth year
- Non-qualifying parcels excluded from future TIF calculations until reinstated by the municipality



Common TIF Administrative Limitations

5-year rule (post-1990 TIF districts):

- Qualifying TIF obligation incurred within 5 years of certification
- TIF payment / Bonds issued / Contract to reimburse qualifying activity (PAYGO TIF Note)



Common TIF Administrative Limitations

6-year rule (post-1990 TIF districts):

- 80% (75% for Redevelopment) spent within TIF district
- In-District percentage used to repay 5-year obligations
 - Amount set aside to provide future payment and decertify district
 - Exception is affordable housing if approved in TIF plan
- Out-district “pooling” 20% (25%) for qualifying expenditures
 - Spending must comply with rules applicable to source district
 - Has to be spent within the project area
 - TIF administrative expenditures count against pooling percentage