



# Tax Increment Financing 101

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# Why Consider Providing Assistance?

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Part of an economic development strategy to...

01

Create or  
retain jobs

02

Redevelop  
blighted  
areas

03

Remediate  
polluted  
sites

04

Construct  
affordable  
housing

05

Increase  
tax base

06

Change  
community  
conditions

# Why Consider Providing Assistance?

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To overcome capital marketplace constraints...

Debt service  
coverage ratio

Loan-to-value

Loan-to-cost

Interest rates

Return on  
investment (ROI)

# Why Consider Providing Assistance?

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## Fill a Financing Gap

- Encourage development that normally wouldn't occur without assistance (“but for”)

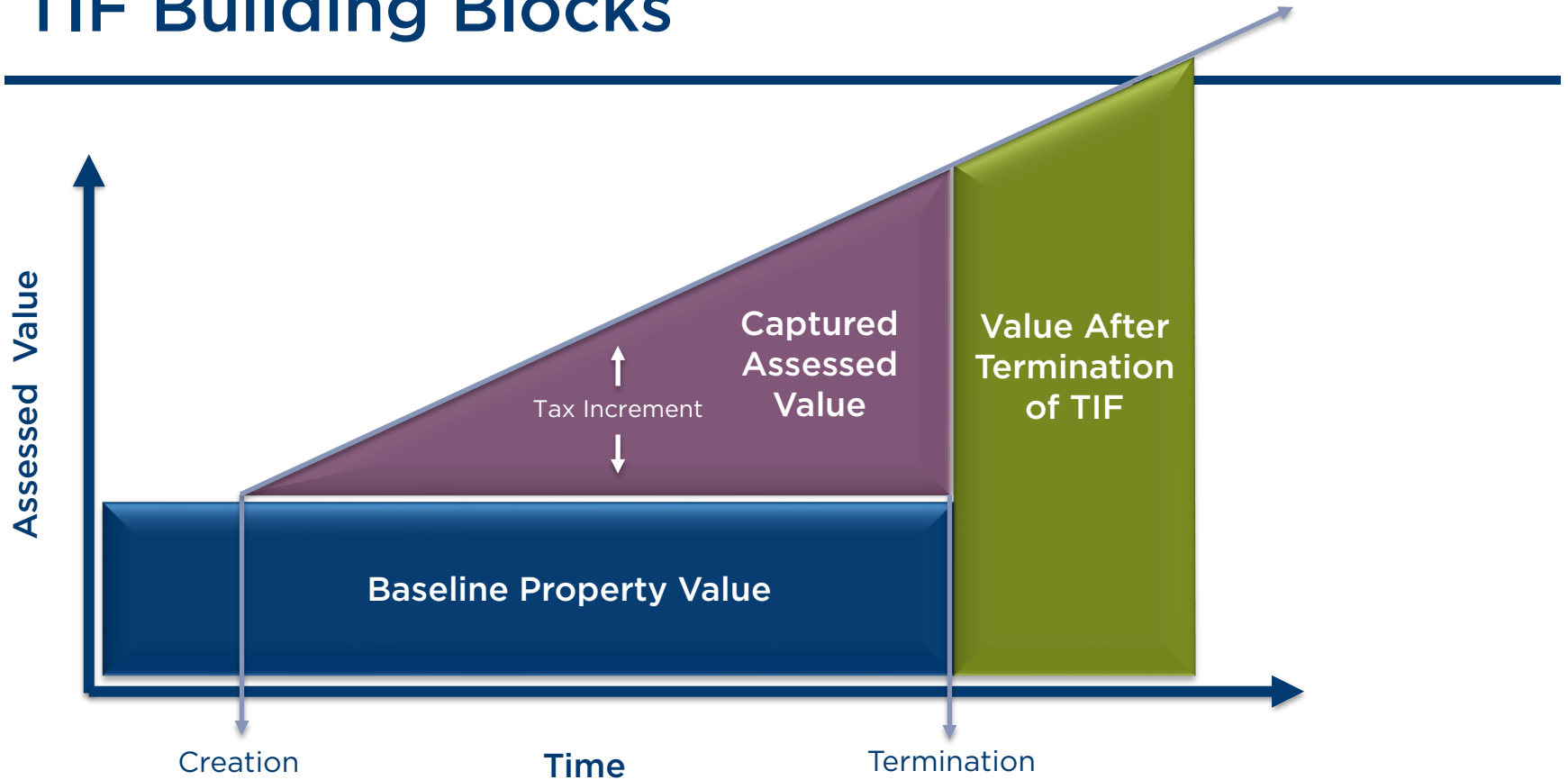
# What is Tax Increment Financing (TIF)?

The background of the slide is a photograph of the Minnesota State Capitol building at dusk. The building is illuminated with warm lights, and its large, ornate dome is the central focus. The sky is a deep blue, and the foreground shows a well-maintained green lawn with a paved walkway leading towards the building.

Minnesota Statutes  
469.174-469.1794

The ability to capture and use most of the **increase** in local property tax revenues from **new development** within a defined geographic area for a defined period of time **without** approval of the other taxing jurisdictions.

# TIF Building Blocks



# Types of TIF Districts

- Redevelopment
- Renovation & Renewal
- Housing
- Economic Development
- Soils



# Redevelopment TIF Districts

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- **Goal**
  - ✓ Clean up blighted sites & remove substandard buildings
- **Maximum Term**
  - ✓ 25 years from receipt of first increment (26 years total)
- **Establishment Requirements**
  - ✓ Coverage test
  - ✓ Blighted building test
  - ✓ Reasonable distribution



# Redevelopment Districts: Coverage Test

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- 70% of parcels must be occupied by
  - ✓ Buildings
  - ✓ Streets
  - ✓ Utilities
  - ✓ Paved or gravel parking lots
  - ✓ ...or other similar structures
- Parcel must be 15% covered to be considered “occupied”

# Redevelopment Districts: Coverage Test - FAIL

Parcel #	Site Area (Sq. Ft.)	Site Coverage (Sq. Ft.)	Coverage of Improvements (%)	Coverage Quantity (Sq. Ft.)
1	30,916	21,184	68.5%	30,916
2	203,983	148,402	72.8%	203,983
3	137,635	25,874	18.8%	137,635
4	860,972	150,687	17.5%	860,972
5	390,006	15,980	4.1%	-
6	126,248	15,385	12.2%	-
7	52,811	28,318	53.6%	52,811
8	55,851	8,250	14.8%	-
9	8,937	-	0.0%	-
10	113,509	-	0.0%	-
<b>TOTALS</b>	<b>1,980,868</b>			<b>1,286,317</b>
<b>Total Percent of Coverage</b>				<b>64.9%</b>

# Redevelopment Districts: Coverage Test - PASS

Parcel #	Site Area (Sq. Ft.)	Site Coverage (Sq. Ft.)	Coverage of Improvements (%)	Coverage Quantity (Sq. Ft.)
1	30,916	21,184	68.5%	30,916
2	203,983	148,402	72.8%	203,983
3	137,635	20,112	14.6%	-
4	860,972	158,068	18.4%	860,972
5	390,006	205,727	52.7%	390,006
6	126,248	12,005	9.5%	-
7	52,811	28,318	53.6%	52,811
8	55,851	8,305	14.9%	-
9	8,937	-	0.0%	-
10	113,509	-	0.0%	-
<b>TOTALS</b>	<b>1,980,868</b>			<b>1,538,688</b>
<b>Total Percent of Coverage</b>				<b>77.7%</b>

# Redevelopment Districts: Blighted Building Test

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More than 50% of buildings must be “**structurally substandard.**”

- ✓ Defined as containing defects in structural elements or combination of deficiencies in essential utilities & facilities
- ✓ Cost to bring building into compliance with today’s building code must be 15% **more than** cost to construct new structure of same type & square footage

# Redevelopment Districts: Blighted Building Test

## FAIL Example:

Parcel #	No. of Buildings	Building Replacement Cost	15% of Replacement Cost	Building Code Deficiencies	No. of Buildings Exceeding 15%	No. of Substandard Buildings
1	1	1,451,443	217,716	601,745	1	1
2	1	2,159,493	323,924	646,139	1	1
3	1	792,540	118,881	436,316	1	1
4	1	3,500,455	525,068	369,220	0	0
5	1	856,025	128,404	25,060	0	0
6	1	1,596,000	239,400	99,876	0	0
7	1	566,900	85,035	106,658	1	1
8	1	6,955,044	1,043,257	20,633	0	0
9	0	-	-	-	-	-
10	0	-	-	-	-	-
<b>TOTALS</b>	<b>8</b>					<b>4</b>
<b>Percent of Buildings Structurally Substandard</b>						<b>50.0%</b>

# Redevelopment Districts: Blighted Building Test

## PASS Example:

Parcel #	No. of Buildings	Building Replacement Cost	15% of Replacement Cost	Building Code Deficiencies	No. of Buildings Exceeding 15%	No. of Substandard Buildings
1	1	1,451,443	217,716	601,745	1	1
2	1	2,159,493	323,924	646,139	1	1
3	1	792,540	118,881	436,316	1	1
4	1	3,500,455	525,068	789,960	1	1
5	1	856,025	128,404	25,060	0	0
6	1	1,596,000	239,400	99,876	0	0
7	1	566,900	85,035	106,658	1	1
8	1	6,955,044	1,043,257	20,633	0	0
9	0	-	-	-	-	-
10	0	-	-	-	-	-
<b>TOTALS</b>	<b>8</b>					<b>5</b>
<b>Percent of Buildings Structurally Substandard</b>						<b>62.5%</b>

# Redevelopment Districts: Blighted Building Test

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## Scenarios:

Scenario	No. of Buildings	No. of Substandard Buildings	% of Buildings Structurally Substandard	Meets Blight Test?
1	1	0	0%	No
2	1	1	100%	Yes
3	2	1	50%	No
4	2	2	100%	Yes
5	3	1	33%	No
6	3	2	67%	Yes
7	3	3	100%	Yes

# Redevelopment Districts: Blighted Building Test

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Interior inspection is required **unless**...

1. City cannot gain access to property after best efforts to gain permission from owner.

**-AND-**

2. There's enough evidence to support reasonable conclusion that property is structurally substandard (i.e. exterior inspection, review of property records & building permits.

Remember, just because a building is structurally substandard **does not** mean it's uninhabitable or hazardous to occupants.



# Redevelopment Districts: Reasonable Distribution

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# Redevelopment Districts: Unreasonable Distribution

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# Renovation & Renewal TIF Districts

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- **Goal**
  - ✓ Clean up blighted sites & remove substandard buildings
- **Maximum Term**
  - ✓ 15 years from receipt of first increment (16 years total)
- **Establishment Requirements**
  - ✓ Coverage test
  - ✓ Blighted building test
  - ✓ Reasonable distribution

# Renovation & Renewal Districts: Coverage Test

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- 70% of parcels must be occupied by:
  - ✓ Buildings
  - ✓ Streets
  - ✓ Utilities
  - ✓ Paved or gravel parking lots
  - ✓ ...or other similar structures
- Parcel must be 15% covered to be considered “occupied”

# Renovation & Renewal Districts: Coverage Test

## FAIL Example:

Parcel #	Site Area (Sq. Ft.)	Site Coverage (Sq. Ft.)	Coverage of Improvements (%)	Coverage Quantity (Sq. Ft.)
1	30,916	21,184	68.5%	30,916
2	203,983	148,402	72.8%	203,983
3	137,635	25,874	18.8%	137,635
4	860,972	98,567	11.4%	-
5	390,006	205,727	52.7%	390,006
6	126,248	15,385	12.2%	-
7	52,811	28,318	53.6%	52,811
8	55,851	8,250	14.8%	-
9	8,937	-	0.0%	-
10	113,509	-	0.0%	-
<b>TOTALS</b>	<b>1,980,868</b>			<b>815,351</b>
<b>Total Percent of Coverage</b>				<b>41.2%</b>

# Renovation & Renewal Districts: Coverage Test

## PASS Example:

Parcel #	Site Area (Sq. Ft.)	Site Coverage (Sq. Ft.)	Coverage of Improvements (%)	Coverage Quantity (Sq. Ft.)
1	30,916	21,184	68.5%	30,916
2	203,983	148,402	72.8%	203,983
3	137,635	102,035	74.1%	137,635
4	860,972	158,068	18.4%	860,972
5	390,006	205,727	52.7%	390,006
6	126,248	55,089	43.6%	126,248
7	52,811	28,318	53.6%	52,811
8	55,851	33,182	59.4%	55,851
9	8,937	-	0.0%	-
10	113,509	-	0.0%	-
<b>TOTALS</b>	<b>1,980,868</b>			<b>1,858,422</b>
<b>Total Percent of Coverage</b>				<b>93.8%</b>

# Renovation & Renewal Districts: Blighted Building Test

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20% of buildings must be “**structurally substandard.**”

- ✓ Defined as containing defects in structural elements or combination of deficiencies in essential utilities & facilities
- ✓ Cost to bring building into compliance with today’s building code must be 15% more than cost to construct new structure of same type & square footage

# Renovation & Renewal Districts: Blighted Building Test

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30% of all other buildings must require substantial renovation or clearance to “**remove existing conditions.**”

✓ Defined as the following:

- Inadequate street layout
- Incompatible uses or land use relationships
- Overcrowding of buildings on property
- Excessive dwelling unit density
- Obsolete buildings not suitable for improvement or conversion
- Other hazards to health, safety & well-being of the community



# Renovation & Renewal Districts: Blighted Building Test

## FAIL Example:

Parcel #	No. of Buildings	Building Replacement Cost	15% of Replacement Cost	Building Code Deficiencies	No. of Buildings Exceeding 15%	No. of Substandard Buildings	No. of Obsolete Buildings
1	1	1,451,443	217,716	12,336	0	0	0
2	1	2,159,493	323,924	263,055	0	0	1
3	1	792,540	118,881	436,316	1	1	0
4	1	3,500,455	525,068	369,220	0	0	1
5	1	856,025	128,404	25,060	0	0	1
6	1	1,596,000	239,400	99,876	0	0	1
7	1	566,900	85,035	6,050	0	0	0
8	1	6,955,044	1,043,257	20,633	0	0	0
9	0	-	-	-	-	-	-
10	0	-	-	-	-	-	-
<b>TOTALS</b>	<b>8</b>					<b>1</b>	<b>4</b>
<b>Percent of Buildings Structurally Substandard</b>						<b>12.5%</b>	
<b>Percent of Buildings Requiring clearance to remove existing conditions</b>							<b>50.0%</b>

# Renovation & Renewal Districts: Blighted Building Test

## PASS Example:

Parcel #	No. of Buildings	Building Replacement Cost	15% of Replacement Cost	Building Code Deficiencies	No. of Buildings Exceeding 15%	No. of Substandard Buildings	No. of Obsolete Buildings
1	1	1,451,443	217,716	601,745	1	1	0
2	1	2,159,493	323,924	646,139	1	1	0
3	1	792,540	118,881	436,316	1	1	0
4	1	3,500,455	525,068	369,220	0	0	1
5	1	856,025	128,404	25,060	0	0	1
6	1	1,596,000	239,400	99,876	0	0	1
7	1	566,900	85,035	106,658	1	1	0
8	1	6,955,044	1,043,257	20,633	0	0	0
9	0	-	-	-	-	-	-
10	0	-	-	-	-	-	-
<b>TOTALS</b>	<b>8</b>					<b>4</b>	<b>3</b>

Percent of Buildings Structurally Substandard	<b>50.0%</b>
Percent of Buildings Requiring clearance to remove existing conditions	<b>37.5%</b>

# Renovation & Renewal Districts: Blighted Building Test

## Scenarios:

Scenario	No. of Buildings	No. of Substandard Buildings	% of Buildings Structurally Substandard	No. of Obsolete Buildings	% of Buildings Obsolete	Meets Blight Test?
1	1	0	0%	0	0%	No
2	1	0	0%	1	100%	No
3	1	1	100%	0	0%	Yes
4	2	0	0%	1	50%	No
5	2	1	50%	0	0%	Yes
6	2	1	50%	1	50%	Yes
7	3	1	33%	0	0%	No
8	3	1	33%	1	33%	Yes
9	3	0	0%	3	100%	No

# Renovation & Renewal Districts: Blighted Building Test

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Interior inspection is required unless...

City cannot gain access to property after best efforts to gain permission from owner.

**-AND-**

There's enough evidence to support reasonable conclusion that property is structurally substandard (i.e. exterior inspection, review of property records & building permits.

**Remember, just because a building is structurally substandard does not mean it's uninhabitable or hazardous to occupants.**

# Renovation & Renewal Districts: Reasonable Distribution

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# Renovation & Renewal Districts: Unreasonable Distribution

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# Housing TIF Districts

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- **Goal**
  - ✓ Create rental or owner-occupied housing for low- to moderate-income households
- **Maximum Term**
  - ✓ 25 years from receipt of first increment (26 years total)
- **Establishment Requirements**
  - ✓ Rental
  - ✓ Owner-occupied
  - ✓ Commercial restriction

*Each has very specific parameters!*

# Housing Districts: Establishment Requirements

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## Rental:

- 20% of units must be reserved for tenants with incomes at or below 50% of area median income (AMI)
- OR-
- 40% of units must be reserved for tenants with incomes at or below 60% of the area median income

## Owner-Occupied:

- 95% of housing units must be sold initially to buyers with incomes at or below:
  - 100% of greater of 1) Family AMI or 2) state median income for families of three or less
  - 115% of the greater of 1) Family AMI or 2) state median income for families of three or more

## Commercial Restriction:

- No more than 20% of the square footage of buildings in district may consist of commercial, retail, or other nonresidential use



# Housing Districts: Rental Income Limits

## Income Limits by Household Size

	1	2	3	4	5	6	7	8
50%	41,100	46,950	52,800	58,650	63,350	68,050	72,750	77,450
60%	49,320	56,340	63,360	70,380	76,020	81,660	87,300	92,940

## Maximum Gross Rents by Bedroom Size

	Studio	1	2	3	4	5	6
50%	1,027	1,100	1,320	1,525	1,701	1,877	2,052
60%	1,233	1,320	1,584	1,830	2,041	2,253	2,463

Example data is for a general metro suburb. Income and rent maximums are derived by the United States Department of Housing and Urban Development on an annual basis typically in April.

# Housing Districts: Owner-Occupied Income Limits

## Area Median Family Income (Metro Area)

	1	2	3	4	5	6	7	8
100%	82,740	94,560						
115%			122,337	135,930	146,804	157,678	168,553	179,427

## State Median Income (Minnesota)

	1	2	3	4	5	6	7	8
100%	72,800	83,200						
115%			107,640	119,600	129,168	138,736	148,304	157,872

Example data is for a general metro area community. Area Median Family Income and State Median Income are derived by the United States Department of Housing and Urban Development on an annual basis typically in April.

# Economic Development TIF Districts

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- **Goal**

- ✓ Create tax base & new jobs

- **Maximum Term**

- ✓ 8 years from receipt of first increment (9 years total)

- **Establishment Requirements**

- ✓ Building use
- ✓ Workforce housing

*Each has very  
specific  
parameters!*

# Economic Development Districts: Establishment Requirements

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## 85% or more of building used for...

- Manufacturing, production, warehousing, storage, and/or distribution of tangible personal property
- Research & development
- Telemarketing
- Tourism facilities
- Space necessary for above activities

## A workforce housing project if...

- City is located outside of metropolitan area
- Average vacancy rate for rental housing is 3% or less for last 2 years
- One business located in city or within 15 miles of city that employs a minimum of 20 full-time equivalent employees provides written statement indicating lack of available rental housing

# Soils TIF Districts

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- **Goal**
  - ✓ Remediation of land
- **Maximum Term**
  - ✓ 20 years from receipt of first increment (21 years total)
- **Establishment Requirements**
  - ✓ Presence of hazardous substances, pollution or contaminants
  - ✓ Response Action Plan (RAP) approved by MPCA
  - ✓ Estimated cost of proposed removal/remedial action exceeds fair market value of land before development -OR- \$2 per square foot of parcel's area

# TIF: The Public Process

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GATHER PROJECT  
INFORMATION, VALUES,  
TAX RATES



DRAFT DOCUMENTS,  
RESOLUTIONS &  
NOTICES



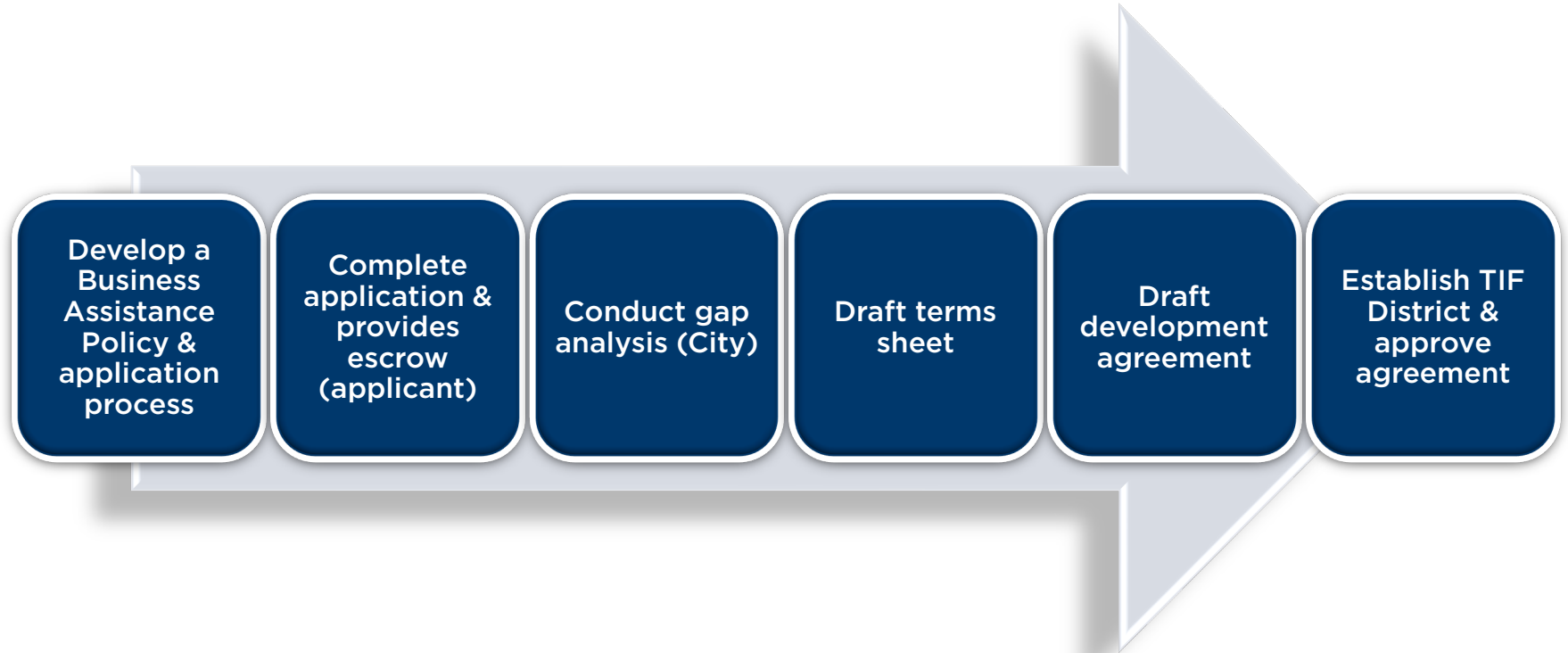
HEARING NOTICE  
PUBLICATION AT LEAST  
10 DAYS PRIOR TO  
HEARING



COUNCIL HOLDS PUBLIC  
HEARING & CONSIDERS  
RESOLUTION TO  
ESTABLISH ASSISTANCE

# TIF: Process Details

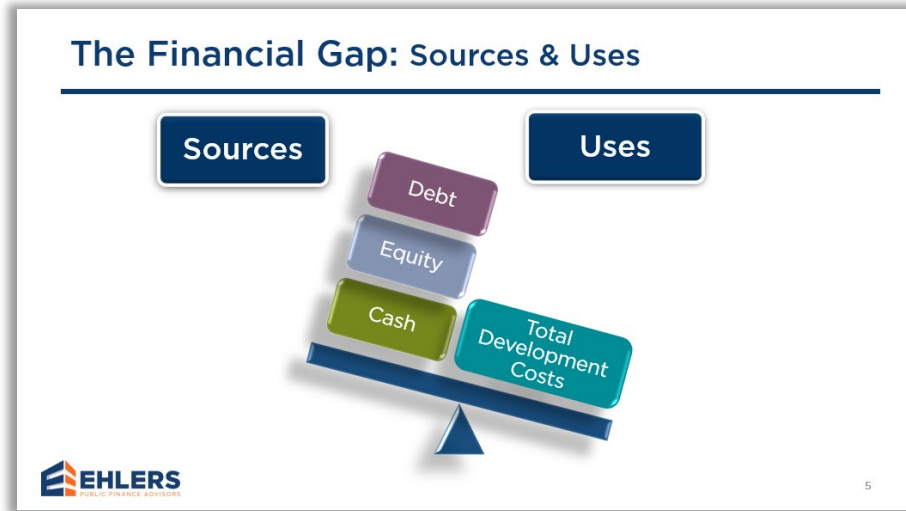
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# Tax Increment Financing: Want to Learn More?

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Check out our Virtual TIF & Tax Abatement Session!



<https://youtu.be/2K7REIJTNBs>





# Your Presenters

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**Todd Hagen**  
Senior Municipal Advisor  
[thagen@ehlers-inc.com](mailto:thagen@ehlers-inc.com)  
(651) 697-8508



**Keith Dahl**  
Municipal Advisor  
[kdahl@ehlers-inc.com](mailto:kdahl@ehlers-inc.com)  
(651) 697-8595

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