

# Tax Increment Financing Past, Present & Future

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City Council



# Community stability

- A community's success also requires regularly revitalized community activity, the maintenance and renewal of infrastructure and the provision of public goods, buildings and services like police, schools, hospitals and public recreation areas.



# Community stability

- A community's economic growth is an important government function that requires coordination with the private sector.
- When impediments arise, they can often be remediated by a combination of private sector and government activity.
- The system operates best when government and private sector actors work in harmony to achieve compatible goals by using their own tools – and TIF can provide a framework for that cooperation.



# Not all TIFs Created Equal

- Creature of each individual state
  - Allowed in 49 States
  - Some use liberally other constrict their use
- Minnesota TIFs now have two basic purposes
  - Move development forward that otherwise would not occur, the “but for” test
  - Finance public infrastructure related to development



# Tax Increment Financing

- Sets aside a portion of future taxes
  - The increase in taxes generated by a new development
- Dedicates those funds to pay costs related to development
  - Infrastructure, land acquisition and remediation costs
- Taxes are still paid
  - Still also pay voter approved Levies and other local Levies



# TIF as a Tool for Redevelopment

- Redevelopment has more costs associated with it than development on clean and unbuilt parcels
  - Assembling parcels with different owners
  - Environmental cleanup costs
  - Demolition expenses
  - Site prep work
- Public/Private partnership in which developers invest in real estate while city assists with property assembly, clean-up and infrastructure costs
- Adds value with increases in employment, greater amenities and more housing, recreation, dining and shopping



# Tax Increment Financing in Minnesota

- Have been around since 1960s
- Minnesota's first occurred in 1969
- Shakopee first (TIF #1) was the KMART Distribution Center pre-1977
- Under the old Statute. was used for economic development, redevelopment, senior affordable housing and infrastructure costs



# What Did TIF #1 Help Fund?

- Water Tower, well and water main
- Upgrade to CR 83 (twice)
- Upgrade to HWY 101 Intersections
- Upgrade to RR Crossings
- Downtown Streetscape
- Upper Valley Drainageway
- South Bypass
- Mini Bypass
- Chaska Sewer Interceptor
- Community Center
- Block 3 & 4 Acquisition
- Downtown Alley Improvements
- Upper Valley/Rahr Sewer
- Schleper Stadium





# Types of Districts / Durations

Type of District	Duration In Statute (Years of Increment)
Redevelopment	25 years (26)
Housing	25 years (26)
Economic Development	8 years (9)
Renewal & Renovation	15 years (16)
Soils Condition	20 years (21)

## Other Types:

- Pre-1979 districts
- Uncodified law districts
- Hazardous Substance Subdistricts (HSS)



# Types of Districts – 2016 Reported Data

Type of District	Number	Percent	Revenue (\$millions)	Percent
Redevelopment	800	48%	\$162.2	78%
Housing	520	31%	\$24.9	12%
Economic Development	299	18%	\$14.4	7%
Renewal and Renovation	26	2%	\$5.0	2%
Soils Condition	10	1%	\$0.2	<1%
Pre-1979	2	0%	\$0	0%
Uncodified	8	<1%	\$0.8	<1%
<b>Total</b>	<b>1,665</b>	<b>100%</b>	<b>\$207.6</b>	<b>100%</b>
Metro	614	37%	\$175.7	85%
Greater MN	1,051	63%	\$31.9	15%

Due to rounding, sums may not equal totals.



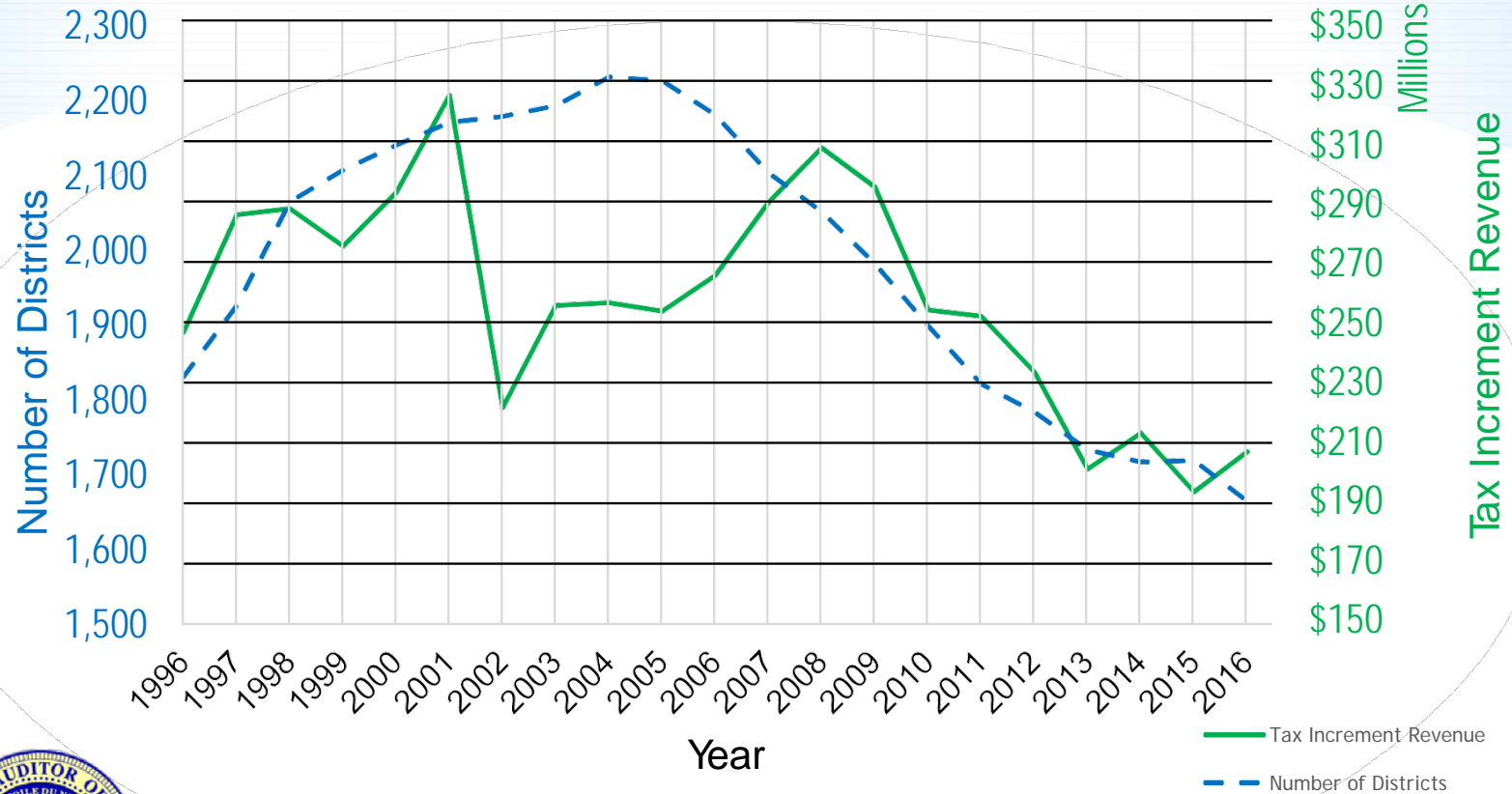
# History of TIF In Minnesota

- **1940s** TIF language enacted
- **1969-1974** Various statutes apply TIF; usage spreads
- **1979** TIF Act = uniformity/process; rapid growth
- **1988-1990** Reforms and controls
- **1990s** Change continues, controls loosened
- **2001** Tax reform changes landscape
- **Recent years** Modest, infrequent changes
- **Result: Complex law; rules vary by time of certification**



# Historical TIF Usage

## TIF Districts and Revenue, 1996-2016



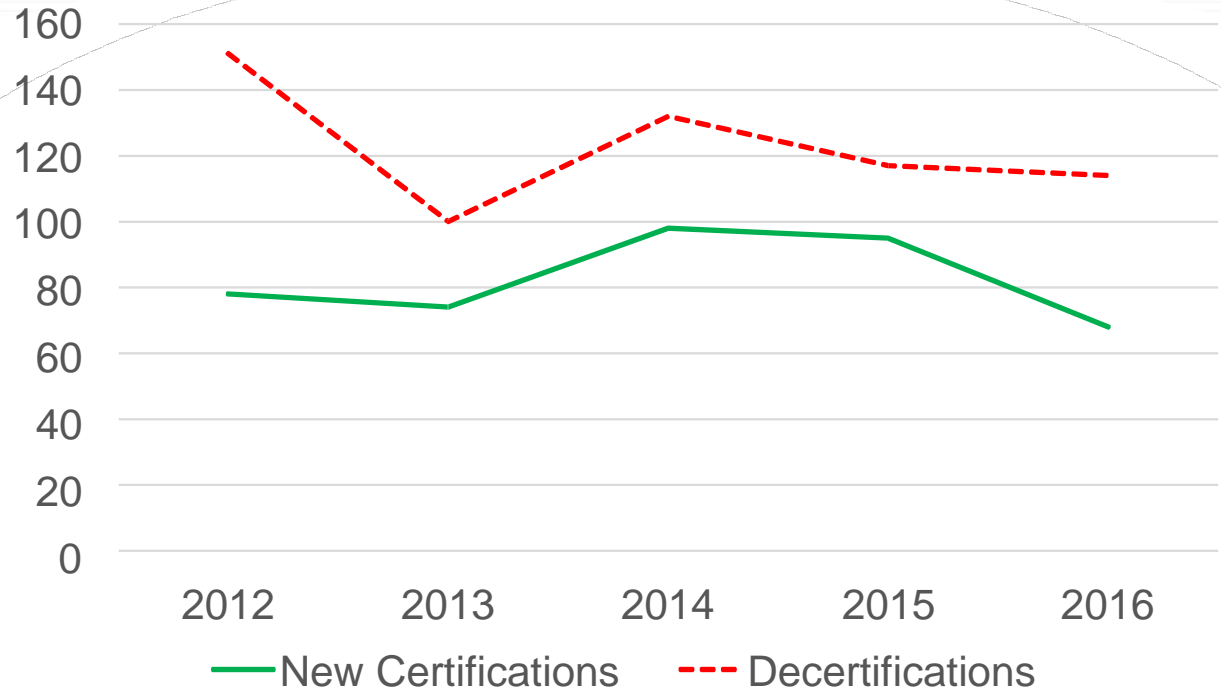
# Recent Law Changes

- **Interfund loans**
  - Authorize up to 60 days after transfer/expenditure
  - Resolution before/after TIF plan approval
  - Terms may be modified
  - May structure as draw-down or line-of-credit
  - Report on annual reporting forms
- **Economic development districts for Workforce Housing**
  - Assist rental housing under certain conditions/findings
  - County and school district must approve
- **MHFA challenge program income limits**
- **Technical changes**



# Decertifications Outpace New Certifications

## New Certifications and Decertifications, 2012-2016



# Early Decertification

## Full Duration vs. Early Decertification, 2012-2016

District Type (Max Duration)	Decertified Districts	Lasted Full Duration	Decertified Early	
			%	Average Years
Redevelopment (25 years)	323	49%	51%	11
Housing (25 years)	159	19%	81%	12
Economic Development (8 years)	117	77%	23%	3
Renewal & Renovation (15 years)	13	54%	46%	7
Soils Condition (20 years)	2	0%	100%	17

Measurement details available on request



# Shakopee TIF

- Improvements and expenses in Minnesota can be funded by:
  - Pay-as-you-go notes “Pay Go”
  - Revenue Bonds or Notes
  - General Obligation Bonds
  - Interfund loans





# Shakopee TIF

- Improvements and expenses in Minnesota can be funded by:
- Today, most City of Shakopee TIF Districts are Pay Go
  - Developer pays its expenses up front
  - Reimbursed through TIF payments twice a year by a note at state regulated interest rate
  - Don't always get fully reimbursed
  - Sometimes pays off early



# Shakopee TIFs

- TIF #1 KMART Distribution Center - 1976
  - \$22,583,300 market value today
  - \$797,002 total annual taxes
  - \$103,312 city taxes
- TIF #2 Elderly Housing (Levee Drive) – Decertified 1997
  - \$5,080,000 market value today
  - \$57,668 total annual taxes
  - \$14,361 city taxes



# Shakopee TIFs

- TIF #3 Downtown Streets & Sidewalks - 1982
  - Decertified in 2000
- TIF #4 Canterbury – 1984 - Decertified 1994
  - \$11,000,000 market value today
  - \$406,790 total annual taxes
  - \$52,769 city taxes



# Shakopee TIFs

- TIF #6 Shakopee Valley Motel - 1985
  - Decertified in 1997
- TIF #7 MEBCO – 1989 - Decertified 1998
  - \$3,150,000 market value today
  - \$57,530 total annual taxes
  - \$14,983 city taxes



# Shakopee TIFs

- TIF #9 FMG - TSUMURA – 2000 – Decertified 2009
  - Property was redeveloped under TIF#12
- TIF #10 River City Center – 1999 – Will be Decertified 2024
  - Redevelopment TIF with Senior Housing
  - Bonded
  - \$9,650,000 market value today
  - \$128,105 total annual taxes
  - \$56,635.46 TIF



# Shakopee TIFs

- TIF #11 Seagate – 2000 Decertified 2009
- City/EDA \$3,591,195 towards land, fill and grading and parking land
- 800+ jobs
  - \$22,000,000 market value today
  - \$815,584 annual taxes
  - \$105,710 city taxes



# Shakopee TIFs

- TIF#12 Challenge Printing – 2005 – Decertified 2014
- Added on to building, renovated huge structure
  - \$21,000,000 market value today
  - \$800,720 annual taxes
  - \$103,794 city taxes



- TIF#13 Open Systems – 2007 – Decertified 2015
- \$188,000 TIF and corporate HQ
  - \$3,000,000 market value today
  - \$114,016 annual taxes
  - \$14,260 city taxes



# Shakopee TIFs

- TIF#14 J&J/SanMar – 2014 – Decertified 2022
  - Pay go
  - \$23,000,000 market value
  - \$852,748 annually in taxes
  - \$16,106 city/\$15,198 County
  - \$330,386 TIF Annual Payment
- TIF#15 Trident/All Saints – 2039 decertified
  - Pay go \$1,000,000 towards 20% affordable units
  - \$11,450,00 current market value
  - \$4,144 original net tax capacity
  - \$202,578 annually in taxes
  - \$155,500 annual TIF payment
  - Payoff likely to occur in 2024





# Rahr Expansion TIF #16 – 2016 Decertified in 2025

- Pay go
- Kept one of our oldest & important industries
- Expanded employment
- Transformed our West End of city
- If Rahr had relocated or reduced operations:
  - Significant tax impacts increasing tax burden on all residents
  - \$1.88 million towards infrastructure and site work



# Shakopee TIFs

- TIF#17 4th Ave & Shenandoah

- Owned by an affiliate of USAA
- \$60,000,000 market value
- \$2,227,780 in annual taxes
- \$35,235 city taxes
- Interfund loans
- \$886,612 TIF



- No monies go to Amazon – all to infrastructure

Paying the city for the reconstruction of 4<sup>th</sup> Avenue \$2,319,076 (40.7%)

Paying the County for County Highway 83 in concrete \$3,379,250 (59.3%)



# Current Canterbury TIF #18

- One of the largest underutilized sites in the city
- Major barrier to access as public roads end into the property
- Up to \$33 million for Public Infrastructure
  - Roads to connect the community
    - 12<sup>th</sup> Avenue needs to be reconstructed even without Canterbury
  - Pay Go and TIF Bonds
  - Utilities
  - Storm Drainage
- \$350+ million total investment by Canterbury



# Riverfront Bluff TIF #19

- Pay go
- Cleaning up a garbage dump
- Reimbursing the city for property acquisition
- Undergrounding utilities along the river bluff
- Expanding SPUC water line capacity
- Improving three roads
- Streetscape



FIRST AVENUE WEST

10' - 11'

# Old city hall TIF #20

- Removing old foundation walls and asbestos lining
- Removing bedrock
- Building walls to hold up sidewalks, streets and railway
- Reimbursing the city for property demolition
- Paying for 70% of new concrete alley
- Upgrading utilities
- Streetscape on Holmes and Second



# Southbridge Soils TIF #21

- Paying for the removal of a garbage dump
- Pay go



# Bottom Line

- TIF has created new jobs
  - Now we need to use ED TIF for higher wage jobs
- TIF puts costs on developer who is reimbursed for expenses only if successful economic growth
- Reimbursed up to the max amount of TIF in TIF Plan



# Impact of TIF on Taxes?

- No direct impact to individual taxpayer
  - Uses the “new” tax which would not exist w/o the development
  - Taxing jurisdictions still get tax prior to TIF
- Taxes do not go up due to a TIF
- TIF Districts still pay other new tax levies
- Commercial TIF still pay Fiscal Disparities and State Tax





# TIF Impact to School District

- Large fixed costs and primarily funded through state funding formula based upon # of pupils
- Still pay new levies
- Still contribute to State Taxes
- Increased school population?
  - Not with these projects
    - Targeting young professionals and active older adults



# Not all projects should use TIF

- New residential development on clean undeveloped land is not eligible (residential subdivisions)
- New ED TIF should deliver high wage jobs
- City carefully weighs TIF or any other incentive development tool with our financial consultants
- Very small part of city growth attached to TIF
- TIF Districts have accelerated because of growth in value



# Questions

