

City of Blaine

Tax Increment Financing and Tax Abatement Policy

Introduction

Minnesota cities are granted the power to utilize Tax Increment Financing (TIF) and Tax Abatement by Minnesota Statutes, Chapter 469. In addition to Chapter 469, all requests shall comply with Minnesota Statutes 1 16J.993 and 116J.994, the Business Subsidies Act. As statutes authorizing TIF and Tax Abatement are frequently amended, this policy is subject to change to conform to amendments to such statutes.

Difference between TIF and Tax Abatement

The primary difference between Tax Increment Financing and Tax Abatement is the way in which the dollars are awarded to the project. When the City awards TIF to a project, the other political subdivisions (the school district and the county) are required to contribute their portion of the increased taxes to the project. Conversely, when Tax Abatement is requested, each political subdivision has the option of granting its portion of the increased taxes to the project. Consequently, the dollars generated for the project with Tax Abatement are generally less than the dollars generated with TIF.

Purpose

The purpose of this policy is to establish the City's position regarding the use of Tax Increment Financing (TIF) or Tax Abatement (Abatement) for private development. The term "City" as used in this policy shall include both the City of Blaine and the Blaine Economic Development Authority (EDA). This policy shall be used as a guide in the processing, review, and evaluation of applications requesting TIF or Abatement assistance. The City, in adopting this policy, retains the sole and absolute discretion to grant or deny any request for any reason. The City shall have the option of amending or waiving sections of this policy when the City Council has determined that to do so is necessary or appropriate and when it is determined that the total economic benefit exceeds this policy's intent.

Tax Increment Financing

Objectives

The City of Blaine is committed to maintaining the vitality of the city and in doing so will comply with all requirements of the Minnesota Tax Increment Financing Act, 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 Act. The City of Blaine will use tax increment financing only when a clearly identified city development objective is served and only to the degree necessary to accomplish that development objective.

The City will consider the use of tax increment financing to accomplish the following objectives:

1. Strengthen the city's property tax base and maintain a stable mix of residential, commercial, and industrial uses through the development or redevelopment of existing and new commercial, industrial and residential areas.
2. Support the local economy to create opportunities for living-wage jobs, with an emphasis on providing job opportunities for the unemployed and underemployed.
3. Eliminate blight and substandard conditions that impede the development potential and economic health of the City.
4. Clean contaminated land to provide sites for uses that achieve City redevelopment objectives.
5. 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.
6. Support redevelopment efforts that enhance and preserve unique urban features and amenities.
7. Create a desirable and unique character through compatible land use and quality design in new and redeveloped buildings.
8. Preserve historically significant structures to reuse in viable commercial, industrial or residential activities.
9. Promote the development of certain areas and properties consistent with the city comprehensive plan.
10. Retain and attract stable industries that provide significant employment and tax base.

General Guidelines in the Use of Tax Increment Financing

Tax increment financing 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.

The City of Blaine will recapture the public subsidy to the maximum extent feasible after allowing the developer a reasonable return.

Tax increment financing is to be paid solely from related tax increment revenue. Projects that employ "pay as you go" (PAYGO) financing and reimbursement of front-end public redevelopment costs with tax increment revenues, are preferable to bond financing and are to be considered and used when appropriate.

If a TIF project is to be bond-financed, it is the City's preference to structure the bond issue as a TIF Revenue Bond, with repayment of the debt solely from the increment generated from the project. Except in cases involving the financing of necessary public infrastructure, use of General Obligation (G.O.) Tax Increment Bonds (those bonds guaranteed or backed by the full faith, credit, and taxing power of the City) are allowed only with an affirmative vote of at least five (5) Councilmembers, and in the opinion of the Council:

- Will not place an undue burden on tax rates and relative debt load (as expressed in terms of per capita debt, or as a percentage of debt to Assessor's Market Value);

- No other, better, financing alternative exists;
- There is a significant rate of return in terms of taxable value or jobs created relative to the risk taken; or
- If it is found that there are overriding socioeconomic considerations which are significant to the City overall, as determined by the City Council.
- G.O. Tax Increment Bonds may also be used in instances where all net bond proceeds are used to refinance debt that was previously issued to pay for such costs.

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.

The City will analyze each potential new TIF district and recommend whether it should be included or excluded from the fiscal disparities contribution using the methodology prescribed by the Minnesota Department of Revenue.

Economic Analysis and Risk Assessment Process

Proposed uses of TIF and will be subject to rigorous economic 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.

The analysis and assessment of all proposed uses of 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 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?

The results of the economic analysis and risk assessment will be presented to the City Council at the time of the request for approval of the proposed use of TIF. The report will identify any elements of the proposed project that are not in conformance with this Tax Increment Policy.

The City will not approve any new tax increment district or abatement district if the resulting total projected tax capacity (net of estimated Fiscal Disparities Contribution) of all tax increment districts in the City (including the proposed district) exceeds 10 % of the total projected tax capacity of all taxable property (including the proposed district) in the City.

Evaluation Criteria

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

- **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 Council. 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.
- **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.
- **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.
- **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 infrastructure, 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.

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

Tax Abatement Financing

The City of Blaine will consider all proposals eligible for abatement districts before adopting an abatement district for any project. Tax Abatement will be granted pursuant to MN Statutes 469.1813. Additionally, the City of Blaine may grant an abatement of taxes imposed by the City of Blaine on a parcel of property, or defer the payment of the taxes and abate the interest and penalty that would otherwise apply if:

- It expects the benefits to the City of Blaine of the proposed abatement agreement to at least equal the costs to the City of Blaine of the proposed agreement or intend the abatement to phase in a property tax increase; and
- It finds that doing so is in the public interest because it will:
 - Increase or preserve tax base.
 - Provide employment opportunities in the City of Blaine.
 - Provide or help acquire or construct public facilities.
 - Help develop or renew blighted areas; or
 - Help provide access to services for residents of the City of Blaine; or
 - Finance or improve public infrastructure; or
 - Phase in a property tax increase on the parcel resulting from the increase of 50 percent or more in one year on the estimated market value of the parcel other than increase attributable to improvement of the parcel.