



# City of Blaine Anoka County, Minnesota

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## Legislation Details (With Text)

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### WORKSHOP ITEM - *Joe Huss, Finance Director*

## DRAFT DISCUSSION II - DEBT MANAGEMENT, TIF/ABATEMENT POLICIES

At the April 12 Workshop, staff presented to Council drafts of new policies for Debt Management and Tax Increment Financing and Tax Abatement. Council suggested further revisions to the policies, notably, shortening the policies by removing redundant statutory requirements and incorporating these statutory requirements by reference in the policies. Pursuant to that direction, staff has prepared revised drafts of the policies for Council review.

### Debt Management Policy

Purpose & Objectives - The purpose of the debt policy is to establish guidelines and parameters regarding the administration of debt and other financing obligations issued by the City of Blaine and the Blaine EDA. The policy is intended to improve and direct decision-making, assist with the structure of debt issuance, identify policy goals, and demonstrate a commitment to long-term planning, including the City's Five-Year Financial Plan and its Capital Improvement Program. It is intended to ensure the City's debt is issued and managed prudently.

Standards - Recognizing that there are costs associated with debt issuance that are beyond the cost to obtain or construct capital assets, the City will consider debt issuance only in those cases where public policy, equity and economic efficiency favor debt financing over cash funding. Additionally, prior to the issuance of debt or other financing obligations, the City will carefully consider the overall long-term affordability of the proposed debt issuance and the project itself.

Policy Elements - Key elements of the policy include:

- Blaine will strive to confine long-term borrowing to capital improvements, equipment, or projects that have a useful life of at least three years.
- The City will strive to keep maturity length of bonds below 20 years and to retire 65% of outstanding principal within 10 years.
- Every effort will be made to structure its debt repayments to match pledged revenue streams and tax levies.
- Where possible, the City will use revenue (including G.O. backed revenue) or other self-supporting type bonds instead of general obligation bonds.
- The City will not use long-term debt for current operations (including repairs).
- The City will maintain frequent and regular communications with bond rating agencies and comply with Securities Exchange Commission (SEC) reporting requirements.
- Inter-fund borrowing is allowed in certain instances.

Finally, the City may issue debt to refund or refinance existing debt, but only in instances when the reissuance or refunding provides significant cost savings in terms of net present value of the reduced costs.

### **TIF & Abatement Policy**

Differences - For Tax Increment Financing, other political subdivisions (the school district and the county) are required to contribute their portion of the increased taxes to the project.

Conversely, for Tax Abatement, each political subdivision has the option of granting its portion of the increased taxes to the project. Typically, the dollars generated from tax abatement are less than those generated from TIF.

Purpose & Objectives - The policy establishes Blaine's position regarding the use of Tax Increment Financing (TIF) or Tax Abatement (Abatement) for private development, and includes both the City of Blaine and the Blaine Economic Development Authority (EDA). This policy is also to be used as a guide for staff in the processing and review of applications requesting TIF or Abatement assistance. Objectives include:

- To strengthen the city's property tax base and maintain a stable mix of residential, commercial, and industrial uses.
- To support the local economy to create opportunities for living-wage jobs, especially job opportunities for the unemployed and underemployed.
- To eliminate blight and substandard conditions that impede the development potential and economic health of the City.
- To clean contaminated land to provide sites for uses that achieve City redevelopment objectives.
- To 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.
- To support neighborhood retail services, commercial corridors and employment hubs.

- To support redevelopment efforts that enhance and preserve unique urban features and amenities.
- To create a desirable and unique character through compatible land use and quality design in new and redeveloped buildings.
- To preserve historically significant structures to reuse in viable commercial, industrial or residential activities.
- To promote the development of certain areas and properties consistent with the City's comprehensive plan.
- To retain and attract stable industries that provide significant employment and tax base.

Policy Elements - Key elements of the policy include:

- TIF or abatement will be used only when a clearly identified city development objective is served and only to the degree necessary to accomplish that development objective.
- TIF or abatement 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 will recapture the public subsidy to the maximum extent feasible after allowing the developer a reasonable return.
- TIF 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 the case of financing 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 under this policy only with an affirmative vote of at least five (5) Councilmembers. In addition, the following conditions must be met:
  - Such G.O. backed financing will not, in the opinion of the Council, place an undue burden on tax rates and relative debt load (in terms of per capita debt, or percentage of debt to Assessor's Market Value);
  - No other, better, financing alternative exists;
  - There is a significant return, as measured by enhanced property values or jobs created, relative to the risk taken or 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 to refinance debt that was previously issued to pay for such costs.

- The City will analyze each potential new TIF district and recommend whether it should be included or excluded from the fiscal disparities contribution. The impact of the fiscal disparities election on the City's general tax base will be analyzed using the methodology prescribed by the Minnesota Department of Revenue.

#### **Economic Analysis and Risk Assessment Process**

Proposed uses of TIF 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.
- **Amount of Public Assistance versus Private Investment.** All development proposals should seek to maximize the amount of private investment per dollar of public assistance.
- **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 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.

Staff is seeking Council's review and comments on the revised draft of the policies. Following this, staff will make necessary edits and present to Council for approval at a subsequent Council meeting.