



TIF Basics I

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Overview

- What questions do you hope to get answered or what do you want to hear about most in this session?
 - ✓ Property taxes
 - ✓ Something you have always wanted to know about TIF but was afraid to ask
 - ✓ Other



Overview

- Property Tax
- Tax Increment Districts
- Redevelopment TIF Qualifications



Class Rates to Taxes

- **Minnesota Two Step**
 - Assessor market value X Class Rate = **Tax Capacity**
(taxable value of the property)
 - Tax Capacity X Local Tax Rate (combination of various taxing jurisdictions) = **Taxes to be paid**

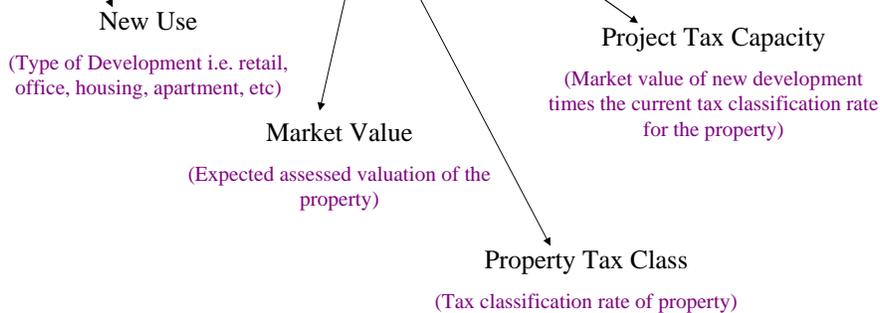


Tax Classification Rates

- **Commercial/Industrial**
 - 1st \$150,000 at 1.5%
 - Anything over \$150,000 at 2%
- **Owner Occupied Housing**
 - 1st \$500,000 at 1%
 - Anything over \$500,000 at 1.25%
- **Rental Housing (more than 1 unit)**
 - 1.25%

Project Information

PROJECT INFORMATION (Project Tax Capacity)											
Area/Phase	New Use	Total Sq. Ft./Units	Market Value Sq. Ft./Units	Market Value	Property Tax Class	Project Tax Capacity	Percentage Completed 2006	Percentage Completed 2007	Percentage Completed 2008	Percentage Completed 2009	First Year Full Taxes Payable
1	Retail	18,300	175	3,202,500	C/I Pref.	63,300	10%	100%	100%	100%	2009
1	Restaurant	14,000	225	3,150,000	C/I	63,000	10%	100%	100%	100%	2009
1	Office	105,500	120	12,660,000	C/I	253,200	10%	100%	100%	100%	2009
1	Gas Station	22,600	225	5,085,000	C/I Pref.	100,950	10%	100%	100%	100%	2009
TOTAL				24,097,500		480,450					



Tax Calculations

TAX CALCULATIONS						
New Use	Total Tax Capacity	Fiscal Disparities Tax Capacity	Local Tax Capacity	Fiscal Disparities Taxes	Market Value Taxes	Taxes Per Sq. Ft./Unit
Retail	63,300	21,621	41,679	25,844	5,568	7.40
Restaurant	63,000	21,519	41,481	25,721	5,477	9.62
Office	253,200	86,485	166,715	103,375	22,011	5.13
Gas Station	100,950	34,481	66,469	41,215	8,841	9.56
TOTAL	480,450	164,106	316,344	196,156	41,896	

Local Tax Rate



- Made up from various taxing jurisdictions
 - ✓ City
 - ✓ County
 - ✓ School District
 - ✓ Special Taxing Authorities (HRA, EDA, Watershed, etc)
- Varies between cities
 - ✓ State Aid
 - ✓ Commercial/Industrial Tax Base
 - ✓ School Debt
 - ✓ Budget, Etc



Property Tax Calculation Example

Assessor Estimated Market Value of Commercial Property:
\$3,860,000

To calculate Tax Capacity, apply Class Rates to Market Value:

Market Value subject to 2% Rate: $\$3,860,000$ less $\$150,000 = \$3,710,000$
1.5% portion of Tax Capacity (First $\$150,000$): $\$150,000 \times 1.5\% = \$2,250$
2.0% portion of Tax Capacity (Over $\$150,000$): $\$3,710,000 \times 2.0\% = \$74,200$

Total Tax Capacity: $\$2,250 + \$74,200 = \$76,450$

To calculate Taxes paid, apply Tax Rates to Tax Capacity:

Tax Rate for Taxes Payable in 2006: 103.877%

Total Taxes Paid
(less State & Mk Value Portion): $\$76,450 \times 1.03877 = \$79,414$



Other Taxes

- **State Property Taxes**

- ✓ Tax paid by commercial users to support education (cabin owners pay as well)
- ✓ Not included in tax capacity rate, therefore it is not applied to captured value for TIF districts

- **Market Value Taxes**

- ✓ City & County referendums and School operating referendums
- ✓ Based upon market value of property rather than tax capacity of property
- ✓ Not included in tax capacity rate, therefore it is not applied to captured value for TIF districts



Fiscal Disparities

- What is it

- ✓ State Law requires new commercial/industrial properties in 7-County area and Taconite Tax Relief Area to contribute 40% of valuation to an area-wide pool for redistribution to all local taxing jurisdictions

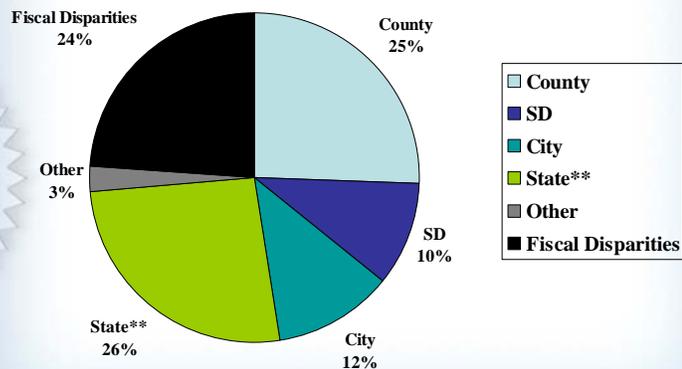
- Impacts

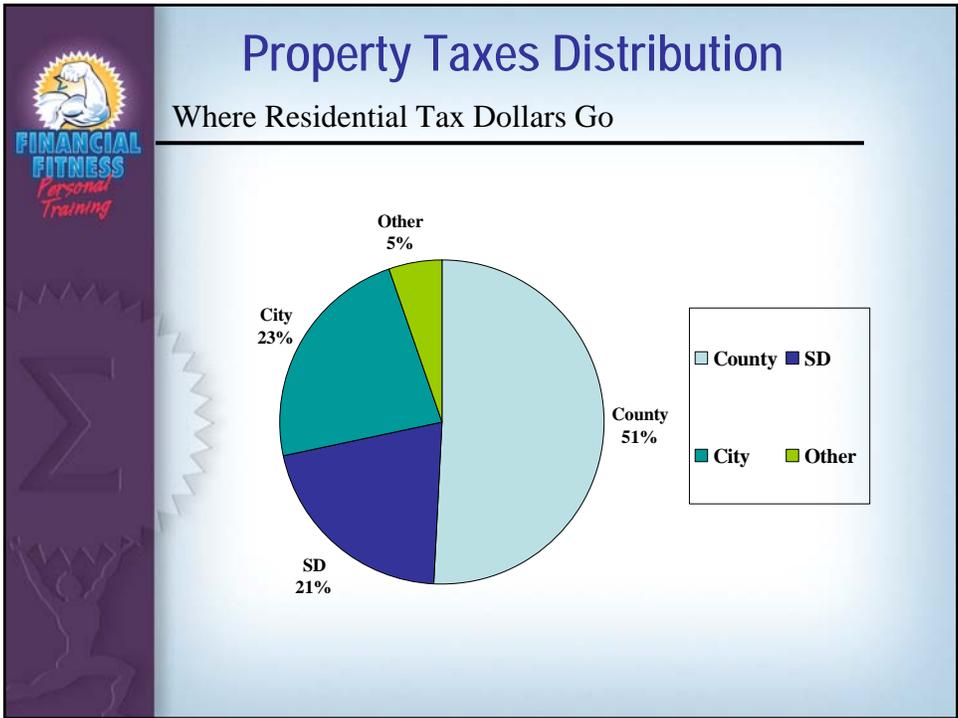
- ✓ Fiscal disparities from inside the TIF district equates to less TIF for project
- ✓ Fiscal disparities from outside the TIF district equates to more TIF for project
 - Amount of contribution must come from other all other users within the community
 - Potential exists for City tax rate increases
 - Depends on magnitude of development with respect to total tax capacity



Property Taxes Distribution

Where Commercial Tax Dollars Go

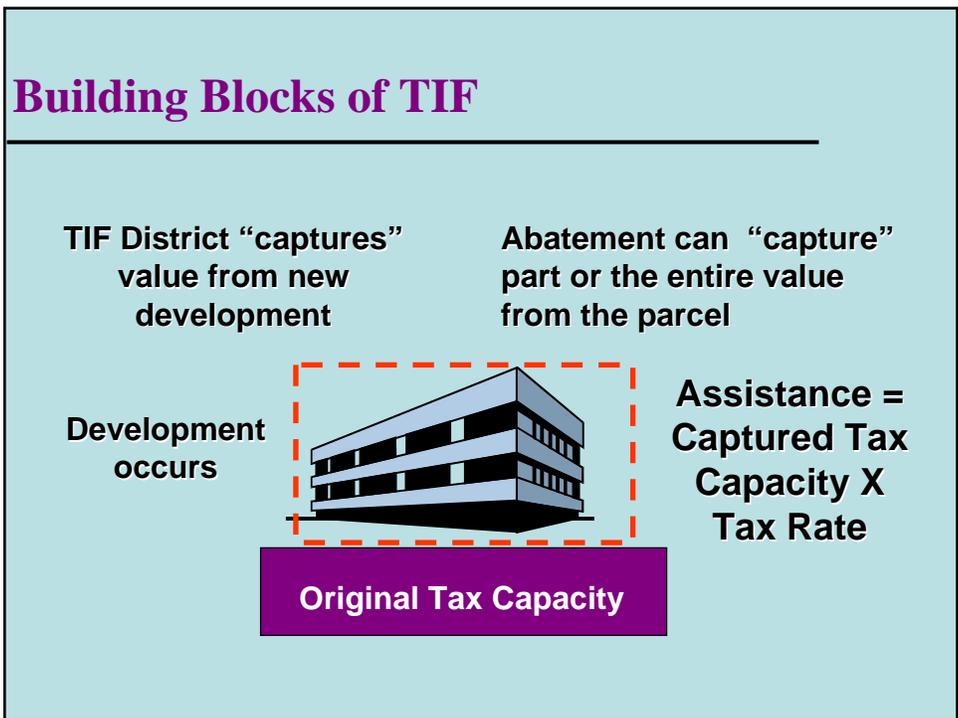
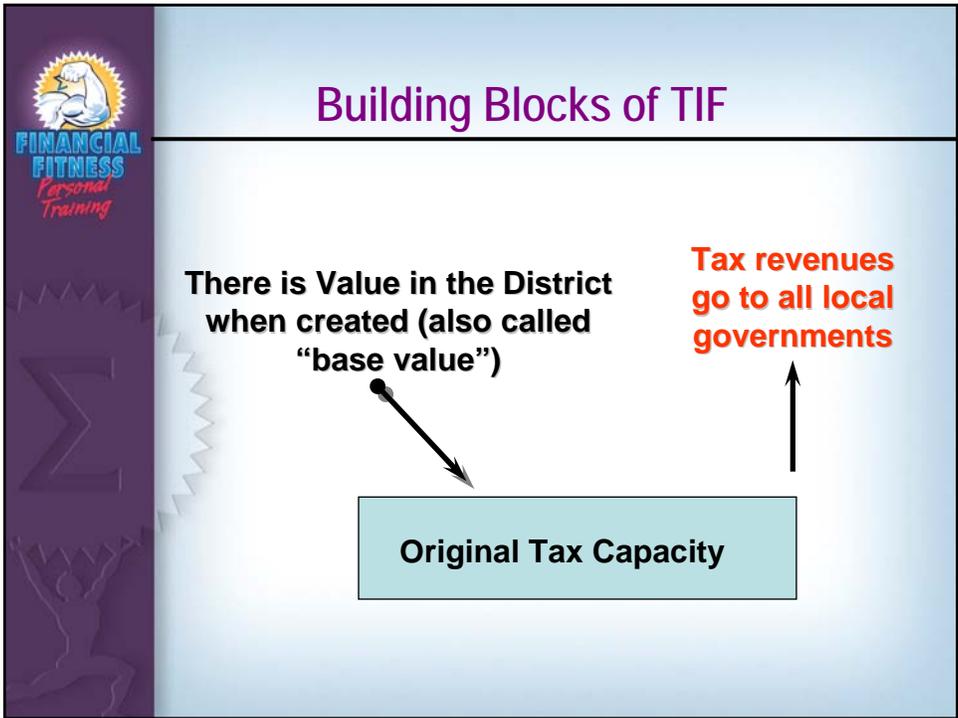




What is TIF?

The ability to **capture** and **use** all increased **local property tax revenues** from **new development** within a **defined geographic area**.

The text defines TIF (Tax Incremental Financing) as the ability to capture and use all increased local property tax revenues from new development within a defined geographic area. Below the text is a cartoon illustration of a person's head with a question mark above it, indicating a question or inquiry.





Project Area

Where money can be spent

Project Area



- TIF districts must be located in a **Project Area** or a **Development District**
- Established by various statutory authorities (HRA, EDA, City Powers)
- Sets boundary for TIF expenditures

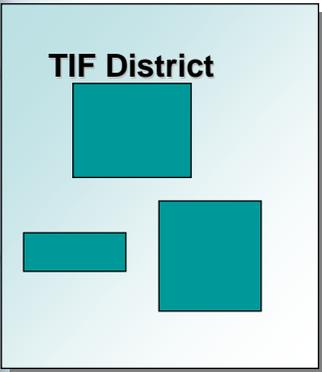


TIF District

Where increment is collected

Project Area

TIF District



- Defines parcels for capture of value
- Some increment can be spent **outside** the TIF District, but in the Project Area (“Pooling”)
- Project Area can contain multiple TIF Districts



- Now ban on pooling for
 - Swimming Pools
 - Streetscape outside TIF district
 - Etc.



Uses of TIF

- Eligible uses
 - ✓ Land acquisition
 - ✓ Demolition and clearance
 - ✓ Site improvements
 - ✓ Public utilities
 - ✓ Relocation
 - ✓ Administration
 - ✓ Other public improvements
 - ✓ Interest on financing





Types of TIF Districts

- Different rules for each type (6 types)
 - ✓ Redevelopment – condition now
 - ✓ Economic Dev. and Housing – future conditions
- Uses and duration of tax increment differ by district
- Old districts are grandfathered in with the old rules



Economic Development District

- Specific forms of development
 - ✓ Manufacturing
 - ✓ Warehousing
 - ✓ Research and Development
 - ✓ Telemarketing
 - ✓ Tourism Conditions
 - ✓ Bedrock Conditions



Economic Development District

- ✓ 8 years after receipt of first increment (9 years maximum)
- ✓ Fiscal disparities must come from within district (metro or taconite area)
- ✓ Use of increment outside boundaries of the district is restricted to 20%

Brooklyn Park

Protein Design Labs

Used TIF to move a pipeline





Occupied
Homes at Hawk
Ridge on Boreal
Circle



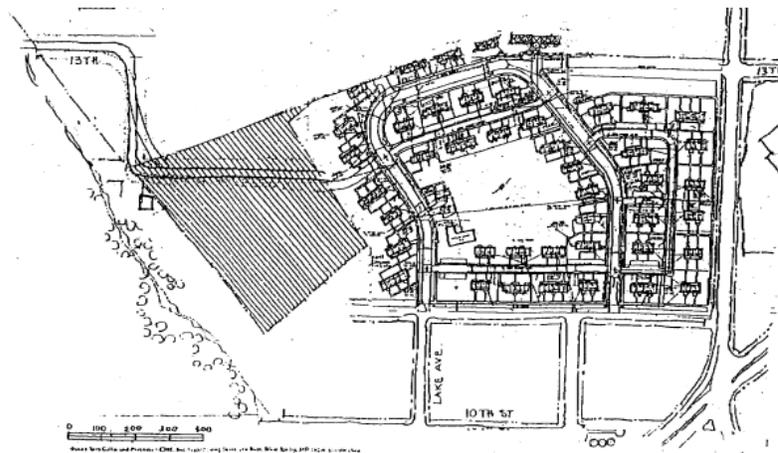
Boreal Circle Landscaping Progress



Hawk Ridge Northern Community Land Trust Homes

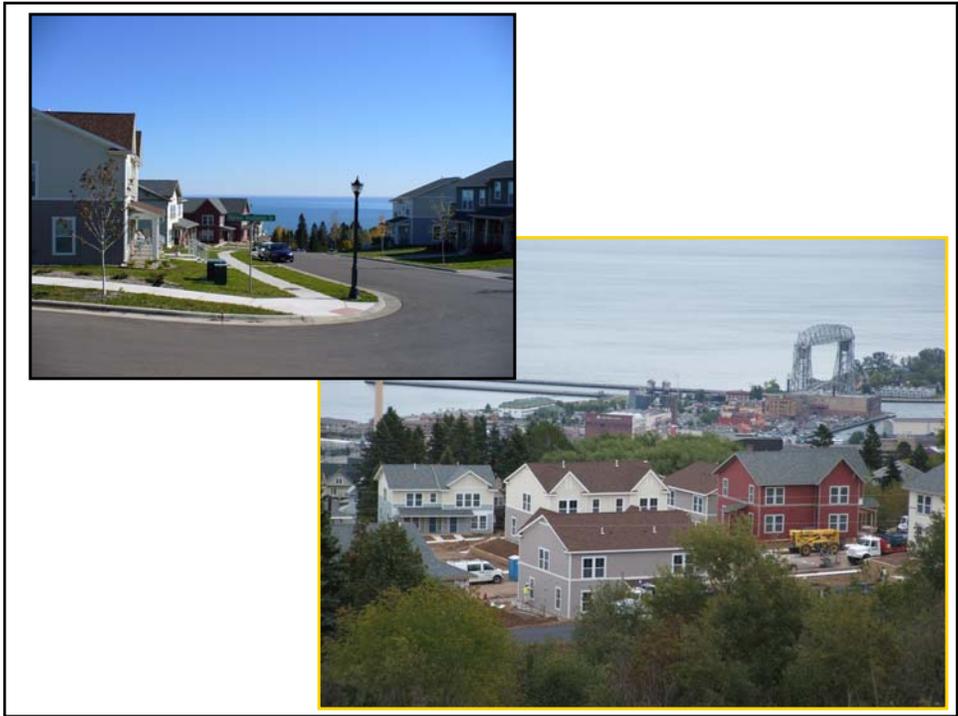


Duluth HRA Rental Housing



1300 DULUTH HOUSING & REDEVELOPMENT AUTHORITY
1400 FOURTH GALLAS AND PARTNERS - CHS

HARBOR VIEW/CENTRAL HILLSIDE



Extensive Apartment Rehabilitation



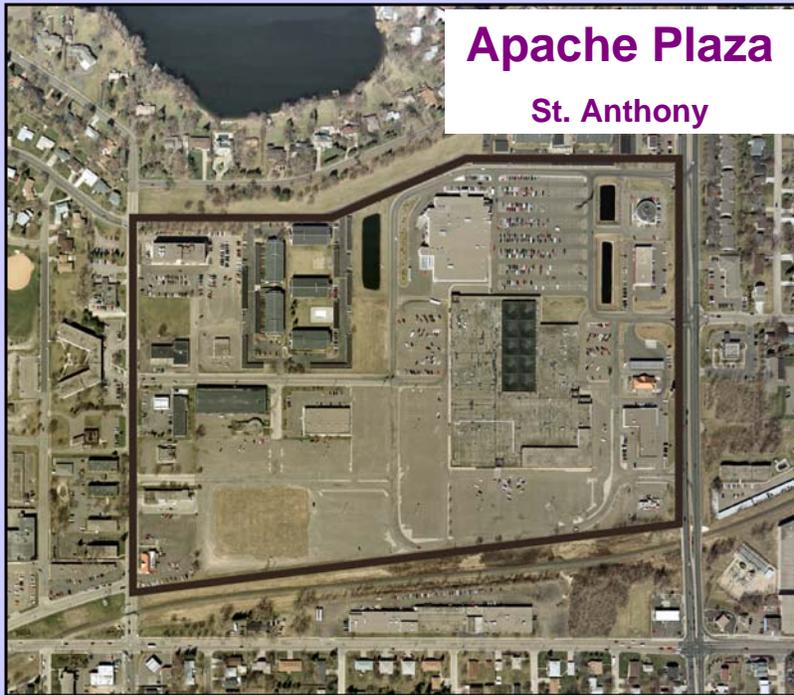




Redevelopment District

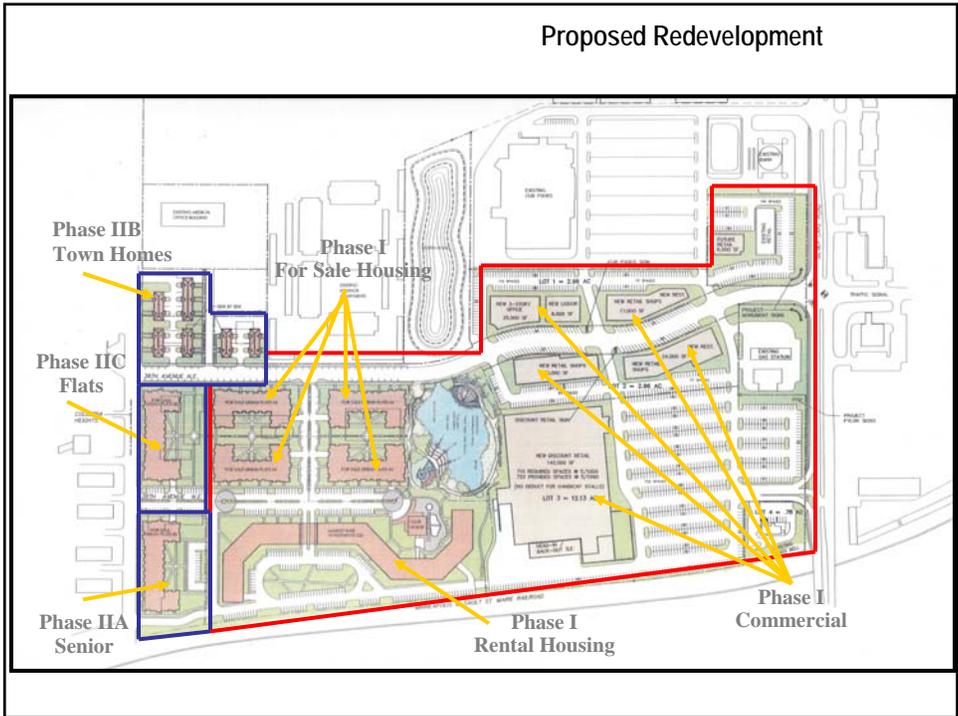


- ✓ *Improved parcels and structurally substandard buildings*
 - **70%** of area must be improved
 - Improved area equals 15% area of parcel
 - More than **50%** of buildings must be substandard
 - Building Conditions
 - 15% Code Requirement
- ✓ **90%** of TIF used to correct redevelopment issues
- ✓ **26** year maximum duration
- ✓ Fiscal Disparities in or out of district (Metro or taconite area)



Apache Plaza

St. Anthony





Renewal and Renovation District

- *Improved parcels, structurally substandard buildings, and buildings requiring substantial renovation or clearance*
 - ✓ 70% of area is improved
 - ✓ 20% of buildings are structurally substandard
 - ✓ 30% of other buildings require substantial renovation or clearance
 - To remove inadequate street layout, incompatible uses or land use relationships, overcrowding of buildings, excessive dwelling unit density, obsolete buildings not suitable for improvement or conversion, etc.



Renewal and Renovation District

- 16 year maximum duration
- 90% must be used to correct redevelopment issues
- Fiscal Disparities in or out of district (metro or taconite area)



Heart of the City Burnsville

Grande Market Place & Park Area



Other Districts

- **Soils Condition District**
 - Must be contaminated
 - Remediation costs exceed "as is" land value or \$2 per square foot
- **Hazardous Substance Sub district**
 - Used to finance removal or remediation actions
 - Base value is reduced



TIF Analysis Training 101

- Analyzing proposed TIF Districts requires good observation skills
- Are you up for the challenge?



Question One

- Which of these buildings is structurally substandard as defined by State Statutes?

Building One



Building Two





Question Two

- Which of these buildings has a higher probability of being Substandard?

Building One

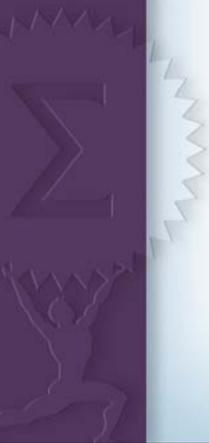


Building Two



Question Three

- Identify the best indicator of potential code deficiencies in the building.



Question Three



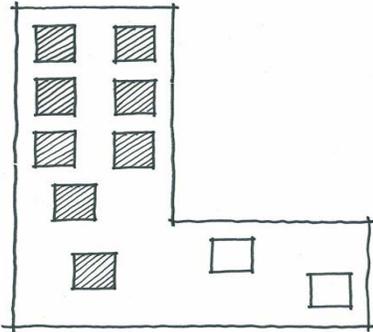
Question Four

- Which diagram represents the strongest proposed TIF District?

FINANCIAL
FITNESS
Personal
Training

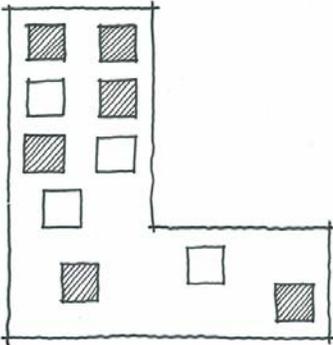
Question Four

A



80% Substandard buildings
80% Coverage

B



60% Substandard buildings
80% Coverage



Question Five

- Which building is Substandard?

Building One



Building Two



Building Three



Typical things we see in Renewal or Redevelopment Districts

Buildings on
second or third
generation of
use

Gravitation to
lower
intensity, less
code-
restrictive
uses



Typical things we see in Renewal or
Redevelopment Districts



Storage is always the last stop

Typical things we see in Renewal or
Redevelopment Districts



Hiding masonry
issues with paint

Filling in larger
window openings
with smaller
windows and infill
materials

Interior finishes tired and outdated

Typical things we see in Renewal or
Redevelopment Districts

Deferred
Maintenance



Typical things we see in Renewal or
Redevelopment Districts

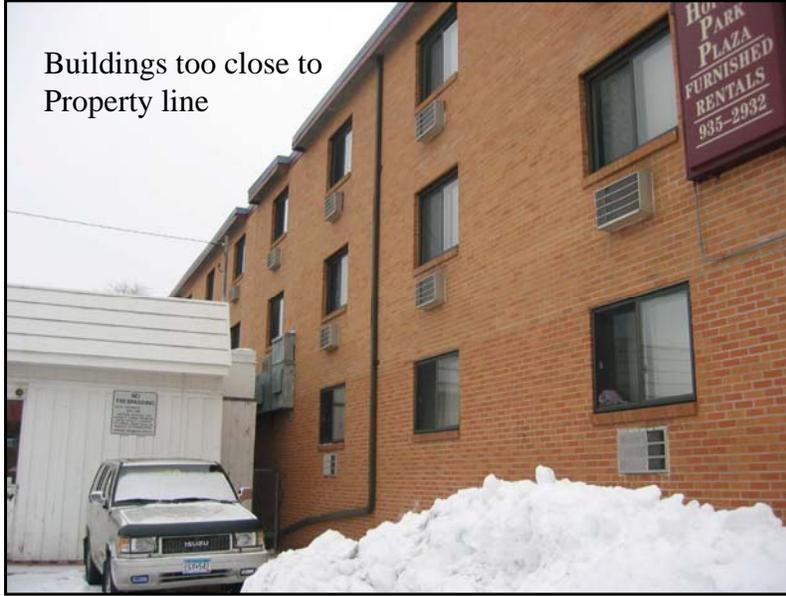
ADA Issues

Low-maintenance
landscape

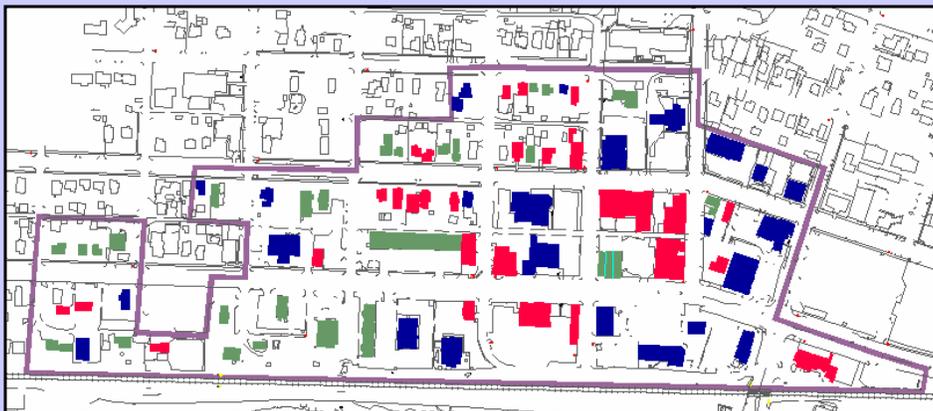


Typical things we see in Renewal or Redevelopment Districts

Buildings too close to
Property line



Windshield Tour Probability Reviews





Questions?

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