



TIF Basics Session II

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Overview

- ✓ How to Set Up a TIF District & TIF Plan Components
- ✓ Required Findings & But For Test
- ✓ Development Analysis
- ✓ Restrictions & Rules
- ✓ How to Read TIF Projections
- ✓ Development Agreements
- ✓ TIF Policies & Applications
- ✓ Look Back Provisions



How to Set Up a TIF District

- ✓ Determine the Project Area
- ✓ Quantify need for public assistance
- ✓ Notices to County and School District
- ✓ Hold Public Hearing



TIF Plan

- ✓ Controls use of TIF
- ✓ Prescribed by State Law and reviewed by the State Auditor



TIF Plan Key Contents

- ✓ Description of district and expected development
- ✓ Findings and the “But For” Test
- ✓ **Budget for expenses and revenue sources**
- ✓ **Parcels to be acquired**
- ✓ **Maximum debt to be incurred**
- ✓ Duration of district
- ✓ Current and future tax capacities
- ✓ **Estimate of tax increment**
- ✓ Impacts on other jurisdictions
- ✓ Studies and Analyses



Findings Required in the Resolution

- ✓ Type of district and supporting facts
- ✓ Conforms to general plan of the city
 - **Comprehensive plan and/or redevelopment plan**
- ✓ Consistent with project plan
- ✓ Applicable fiscal disparities election
- ✓ “But For” Test (see sample resolution in packet)
 - **General Test**
 - **Market Value Test**



But For Tests

- ✓ Should have evidence that project meets tests
 - Developer Proforma
 - Comparable costs of land
 - Risk
 - Future development potential for site



Meeting the But For Test

Complete analysis and have documentation that the proposed project would not go forward without tax increment assistance



But For Tests

- ✓ Should have evidence that project meets tests
 - Developer Proforma
 - Comparable costs of land
 - Future development potential for site
 - Risk



Four Types of Development Analysis

- ✓ Development comparison
- ✓ Profit on for-sale projects
- ✓ Cash-on-Cash Return on rental/commercial projects
- ✓ Internal Rate of Return on rental projects



Proforma Example

SOURCES AND USES AND PROFIT STATEMENT		
Cost Summary	Amount	Percent
Land Acquisition	1,912,750	12.89%
Site Work-Environmental, and Improvements	\$ 200,000	1.35%
Total Acquisition	\$ 2,112,750	14.24%
Rehabilitation/New Construction	7,500,000	50.55%
Commercial Construction and Tenant Improvem	1,700,000	11.46%
Contingency	426,159	2.87%
SAC	0	0.00%
WAC	0	0.00%
City Fees-Park Ded.	152,619	1.03%
Total Construction costs	\$ 9,778,774	65.91%
Architectural and Engineering	355,000	2.39%
Total Architectural/Engineering	\$ 355,000	2.39%
Sale Fees and Marketing	853,758	5.75%
Total marketing	\$ 853,758	5.75%
Interim Costs	836,888	5.64%
Financing Fees and Expenses	71,800	0.48%
Total Carrying Costs	\$ 908,688	6.12%
Environmental Consultants	\$ -	0.00%
Total Special Consultants	\$ -	0.00%
Related Costs	109,000	0.73%
Total Financing Costs	\$ 109,000	0.73%
Condo Documents-Attorney and Survey	119,000	0.80%
Total Title and Recording	\$ 119,000	0.80%
Developer's Overhead	600,000	4.04%
Total Other Soft Costs	\$ 600,000	4.04%
Total Project Cost	\$ 14,836,970	100.00%
Income Summary		
	Total	
Total Sale Price of Units	12,444,000	
Commercial Sale	1,977,000	
TIF	1,900,000	
Total Proceeds	\$ 16,321,000	
Project Cost	\$ 14,836,970	
Allowable Profit	\$ 1,484,030	
Percent of Cost	10.00%	



Restrictions & Rules

- ✓ General government use is prohibited
- ✓ Recreational use is prohibited
- ✓ Public improvement upgrades
- ✓ Geographic restrictions and pooling



Four Year Activity Rule - "Knock Down"

- ✓ **Each parcel** must have activity within **4 years** of **County Certification date**
 - Demolition of buildings
 - Rehabilitation or renovation of property
 - Other site preparation, including street improvements, but not installation of utility service



Four Year Activity Rule - "Requalification"

- ✓ If the parcel does not have activity within four years and is "knocked down," the parcel can be ***reinstated*** at the ***current*** (usually higher) market value.





Five Year Rule – “Limit Pooling Restriction”

- ✓ Activity must take place **5 years** from the *County Certification date*
 - Paid to a *third party* for activities
 - Pledged to **pay bonds** to pay for activities
 - Binding **contractual obligation** for activity
 - Reimbursement of costs for the activity, including interest



Five Year Rule – Maximum Geographic Changes to Districts

- ✓ Add additional parcels by public hearing process
 - Like a new district
 - New frozen tax rate for new parcels (used in some counties - OSA opinion)
 - Original value is equal to the most current value
 - not the same as original district



Parcel Removal

- ✓ Can be any time during the life of the district
 - Can remove by **resolution** if current tax capacity is **greater** than the original tax capacity
 - Must remove by **public hearing process** if current tax capacity is **less** than the original tax capacity



Other TIF Considerations

- ✓ Use class rate of future use
- ✓ Green Acre Rules
- ✓ Decertify old and create new
- ✓ Combine establishment of districts
- ✓ Consider the five year rule
- ✓ Do not underestimate administration



Reading TIF Projections

- ✓ New format for Ehlers Clients
- ✓ More detailed and descriptive
- ✓ 3 pages instead of 2
 - Page 1
 - Assumptions and Tax Classification Rates
 - Base Value Information (to calculate original tax capacity)
 - Page 2
 - Project Information (new development)
 - Tax calculations
 - Page 3 is TIF run

Assumptions and Rates

ASSUMPTIONS AND RATES			
District Type: District Name/Number: County District #: First Year Construction or Inflation on Value Inflation Rate - Every Year: Interest Rate: Present Value Date: First Period Ending Tax Year District was Certified: Cashflow Assumes First Tax Increment For District: Years of Tax Increment Assumes Last Year of Tax Increment Fiscal Disparities Election (Outside (A), Inside (B), or NA) Incremental or Total Fiscal Disparities Fiscal Disparities Contribution Ratio Fiscal Disparities Metro-Wide Tax Rate	Redevelopment 2006 0.00% 6.75% 1-Feb-08 1-Aug-08 Pay 2007 2008 26 2033 Inside(B) Incremental 34.1567% Pay 2007 Est. 119.5300% Pay 2007 Est.	Maximum/Frozen Local Tax Rate: Current Local Tax Rate: (Use lesser of Current or Max.) State-wide Tax Rate (Comm./Ind. only used for total taxes) Market Value Tax Rate (Used for total taxes)	99.0900% Pay 2007 99.0900% Pay 2007 99.0900% Pay 2007 0.17386% Pay 2007
PROPERTY TAX CLASSES AND CLASS RATES: Exempt Class Rate (Exempt) 0.00% Commercial Industrial Preferred Class Rate (C/I Pref.) First \$150,000 1.50% Over \$150,000 2.00% Commercial Industrial Class Rate (C/I) 2.00% Rental Housing Class Rate (Rental) 1.25% Affordable Rental Housing Class Rate (Aff. Rental) 0.75% Non-Homestead Residential (Non-H Res.) 1.25% Homestead Residential Class Rate (Hmstd. Res.) First \$500,000 1.00% Over \$500,000 1.25% Agricultural Non-Homestead 1.00%			

Inflation 0%
 (Annual growth in market valuation)

Interest Rate 6.75%
 (Rate used in present value calculation & usually same as development's bank financing rate)

Maximum/Frozen Local Tax Rate - 99.09000%
Current Local Tax Rate - 99.09000%
 (New district they are the same but when adding development or updating runs the TIF calculations utilize the lower of the 2 rates)

Base Value Information

BASE VALUE INFORMATION (Original Tax Capacity)												
PID	Owner	Address	Land Market Value	Building Market Value	Percentage		Tax Year Original	Property Tax Class	Current Original Tax Capacity	Class After Conversion	After Conversion Orig. Tax Cap.	Area/Phase
					Total Market Value	Original Market Value						
14-116-22-13-0030	City	1234 Unity Ave	3,000,000	200,000	3,200,000	3,200,000	Pay 2007	Exempt	-	C/I		1
14-116-22-13-0024	City	1238 Unity Ave	609,000	0	609,000	609,000	Pay 2007	Exempt	-	C/I Pref.	63,250	1
14-116-22-13-0005	Bob's Plumbing	1240 Unity Ave	6,200	0	6,200	6,200	Pay 2007	C/I Pref.	11,430	C/I	12,180	1
14-116-22-42-0002	Bob's Plumbing	1242 Unity Ave	6,200	0	6,200	6,200	Pay 2007	C/I Pref.	93	C/I	124	1
14-116-22-24-0009	Bob's Plumbing	1244 Unity Ave	600,000	180,000	780,000	780,000	Pay 2007	C/I Pref.	14,850	C/I	15,600	1
14-116-22-13-0023	Bob's Plumbing	1248 Unity Ave	600,000	180,000	780,000	780,000	Pay 2007	C/I Pref.	15,050	C/I	15,900	1
			4,812,200	570,000	5,382,200	5,382,200			41,423		106,954	

Original Market Value

(Current assessed value for the property)

Current/Original Tax Capacity

(Original market value times the current tax classification rate for the property)

After Conversion Tax Capacity

(Original market value times the future use tax classification rate for the property)

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	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		486,450					

Total Sq Ft/Units

(Self explanatory)

Market Value Sq Ft/Unit

(Discuss with your Assessor)

Project Tax Capacity

(Market value of new development times the current tax classification rate for the property)

Percent Completed

(Market value is phased in over 4 year period)

Tax Calculations & What is Excluded From TIF

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	

WHAT IS EXCLUDED FROM TIF?

Total Property Taxes	1,027,595
less State-wide Taxes	(476,078)
less Fiscal Disp. Adj.	(196,156)
less Market Value Taxes	(41,896)
less Base Value Taxes	(69,781)
Annual Gross TIF	243,684

Reading TIF Projections

TAX INCREMENT CASH FLOW														
% of OTC	Project Tax Capacity	Original Tax Capacity	Fiscal Disparities Incremental	Captured Tax Capacity	Local Tax Rate	Annual Gross Tax Increment	Semi-Annual Gross Tax Increment	State Auditor 36%	Admin. at 10%	Semi-Annual Net Tax Increment	Semi-Annual Present Value	PERIOD ENDING Year	Tax Year	Payment Date
100%	106,954.00	(106,954.00)			99%						\$0.00	0.5	2008	08/01/08
100%	480,450.00	(106,954.00)	(127,573.91)	245,922.09	99%	243,684.26	121,842.10	(438.63)	(12,140.35)	109,263.12	\$98,907.00	1.5	2008	02/01/08
100%						121,842.10	(438.63)	(12,140.35)		109,263.12	\$194,584.88	2	2009	08/01/09
Total						5,097,469.02	(21,931.98)	(697,417.34)		5,463,156.10				
	Present Value From 2/1/2008		Present Value Rate 6.75%			\$2,735,691.93	(9,848.49)	(272,384.34)		\$2,453,259.09				

Fiscal Disparities Reduction
(Since commercial development you have to select if FD is paid inside or outside. This example it is paid inside and therefore that amount is deducted before calculating available TIF)

Annual & Semi Annual TIF Generated

Admin (Up to 10%)

Total TIF Generated Over Term of District (Future Value)

Present Value of TIF Generated Over Term of District (Future Value Discounted at Present Value Rate or Financing Rate)



What is a Development Agreement?

Contract between the Authority and the developer, which lays out the terms of providing assistance and the type of financing involved



Functions of a Development Agreement

- ✓ Serves as land sale agreement if public entity is making property available
 - Spells out responsibilities of parties to acquire property
 - Sets forth terms of sale (price, timing of sale, etc.)



Functions of a Development Agreement

- ✓ Serves as construction agreement
 - Describes improvements to be constructed
 - Describes process of approval of construction plans by TIF Authority
 - Describes construction to be done by TIF Authority
 - Establishes timing of construction
 - Describes ongoing responsibilities of developer



Functions of a Development Agreement

- ✓ Serves as security document if TIF Authority's investment is to be repaid with tax increment
 - Describes conditions to be met before public assistance is provided
 - Describes security to be provided (cash, bonds, letters of credit, etc.)
 - May require assessment agreement establishing a minimum market value
 - May provide for a developer guarantee of tax increment levels



Functions of a Development Agreement

- ✓ Creates obligation of TIF Authority if tax increment is to be paid over time (Pay-as-you-go)
 - Establishes terms of reimbursement (timing, amount, etc.)
 - Details any warranties or lack of warranties as to amounts of tax increment that will be generated
 - Payments are based upon actual TIF collected
 - If not enough TIF, City (or Authority) is not obligated to pay or use other sources



Functions of a Development Agreement

- ✓ Serves as business subsidy agreement under the business subsidy law
 - Establishes wage and job goals
 - Establishes reporting requirements
 - Establishes repayment obligations if goals are not met



Business Subsidy

- ✓ Any grant of **\$25,000+** or loan of **\$75,000+** must include an agreement to meet certain wage levels and stay in business for at least **5** years (M.S. Sections 116J.993 to 116J.995)
- ✓ Reports must be filed annually by **April 1**, to the Department of Employment and Economic Development (DEED).



Functions of a Development Agreement

- ✓ Satisfies certain statutory tax increment requirements
 - Imposes continuing restrictions on use required by tax increment laws (qualified uses for economic development districts, income restrictions for housing districts, etc.)
 - Requires documentation of tax increment expenditures
 - Imposes repayment or forfeiture requirements mandated under certain laws



Other Issues

- ✓ Who is paying expenses of establishing the district and preparing the Development Agreement?
- ✓ Is the Development Agreement assignable?
- ✓ Are public improvements being constructed by the City and paid from TIF?
- ✓ Are there additional obligations triggered by the type of district?



TIF Policies & Applications

- ✓ Important to limit the use to projects with most benefit
- ✓ Could require certain job growth, market value growth, participation of other jurisdictions or state, type of business, or term
- ✓ Can specifically exclude bonds or limit to a certain value
- ✓ Application provides avenue to obtain required information to complete analysis, provide written documentation from the developer for the "but for" test and obtain deposit to pay for legal and fiscal costs in creating the TIF District and development agreement



Look Back Provision

- ✓ What is a Look Back Provision
- ✓ When do you do a look back
- ✓ Why would you do a look back
- ✓ Impact on take out financing
- ✓ Share in the "up side"



In Closing...

- ✓ Complex matter
 - Takes many years to fully understand
 - Ask questions
 - Get good guidance
- ✓ Determine if the assistance necessary
- ✓ Allow enough time
- ✓ Understand risks and obligations
- ✓ Monitor the Legislature



Questions?

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