

Economic Development Authority in and for the City of South St. Paul
Tax Increment Financing (TIF) Policy

Authority

Tax Increment Financing (“TIF”) is an economic development tool in which a City (or other statutorily recognized authority) uses the increase in property taxes that a new real estate development generates to finance costs of the development. Cities and development authorities make a policy decision to utilize TIF in order to spur development or redevelopment that would not otherwise occur. The South St. Paul Economic Development Authority (the “EDA”) is granted the power to utilize TIF in accordance with Minnesota Statutes §469.174 through 469.1791.

Purpose & Basic Provisions

- Ensure that development requesting/receiving TIF is considered for its consistency with the City’s overall economic development program and priorities
- Express to existing and potential businesses the EDA’s commitment to promoting economic development that is consistent with the City’s Comprehensive Plan and that provides substantial community benefit that will ultimately be shared by all taxing jurisdictions
- Establish a framework for considered and consistent policy decisions that will (by nature and necessity) be made on a case-by-case basis by the EDA
- City will consider using TIF to assist private development only in circumstances where private development project illustrates a demonstrated financial gap and any financial assistance requested is the minimum necessary to make the project feasible (the “But-For” test)
- Burden of establishing the public value of development requesting/receiving TIF lies with the applicant
- Any project requesting TIF assistance will be subject to financial analysis by the EDA and/or an independent third-party expert. All projects must demonstrate probability of financial success
- TIF is not “guaranteed”, even if statutory and local requirements and criteria are met
- Approval or denial of one project does not create a precedent for approval or denial of any other project
- Reserve the right of the Executive Director to bring forward (or not) any TIF proposal for consideration by the EDA

Objectives

- Stabilize and strengthen the City’s economic and property tax base, for both the short- and long-term
- Foster the creation and retention of family-supporting jobs in the City
- Encourage the expansion of local businesses and industries
- Stimulate the continued revitalization of the city’s aging commercial and industrial areas through:
 - Retaining existing businesses and attracting desirable businesses
 - Preventing and/or eliminating blight and slum conditions and contributors
 - Promoting a context-appropriate and healthy mix of uses and industries
 - Improving city infrastructure
 - Supporting development projects that enhance streetscapes and the overall pedestrian experience and improve the vitality and accessibility of commercial and industrial areas
- Promote the efficient use of land through redevelopment of blighted areas
- Stabilize and strengthen the City’s neighborhoods
- Advance the objectives of the City’s Comprehensive Plan and other relevant plans and studies
- Leverage additional non-city funds into development projects that benefit the community in the long-term

Eligible Application of TIF Assistance

The type of development that the SSPEDA will consider for TIF assistance may include any of the following, individually or in combination:

- Retaining, expanding, or attracting business development
- Projects that promote industrial development
- Projects that promote professional service and retail development
- Projects that promote mixed-use development to integrate commercial, retail, and/or office development with residential development
- Projects that promote the stabilization or revitalization of the City’s neighborhoods
- Projects that involve the mitigation and/or elimination of environmental contamination and limitations and other demonstrated blighting conditions
- Projects that involve the rehabilitation and/or revitalization of historically significant and/or functionally or structurally obsolete structures
- Projects that contribute to the implementation of other public policies, as adopted by the City in its Comprehensive Plan and subsequent plans, such as promotion of high quality architectural design, energy conservation, green infrastructure, etc.

As a matter of policy, the EDA will not favor the use of TIF assistance to support the following types of development:

- Projects that relocate business(es) within the City for purposes other than retaining or expanding the operational capacity and/or efficiency of the business(es)
- TIF shall not be used to assist the development single-family detached housing.
- Any project or circumstance where land and/or property price is in excess of fair market value, as determined through an appraisal by a mutually agreed upon (by the EDA and Developer(s)) third-party
- Land-banking or any proposal that fails to result in short-term (within 18 months) development or redevelopment of structures for private economic development purposes
- Any project that results in measurably significant negative environmental impacts on the City
- Any project that is inconsistent with the City's Comprehensive Plan

TIF eligible expenditures are defined by Minnesota Statute 469.176, subdivision 4, which the EDA may further limit on a project-by-project basis. The following are typical eligible public expenditures:

- Financing and construction of public improvements such as water, sanitary sewer, storm sewer, transportation, parking and drainage infrastructure
- Acquisition and/or assembly of land
- Acquisition and/or demolition of building space which is vacant, unused, underutilized, or inappropriately utilized for economic development purposes
- Removal and/or remediation of structures, soils, and groundwater inhibited by hazardous substances, pollution, or contaminants, including necessary administrative expenses such as environmental assessment and preparation of redevelopment and remedial action plans
- Preparation of sites for development (e.g., grading, soil correction, drainage improvements)
- Relocation
- Professional services (planning, engineering, legal, geotechnical, etc.) as necessary to carry out the above
- Administrative expenses (necessary studies, publications, notifications)

Financial and Policy Considerations

All of the following financial considerations, at a minimum, must be met in order for a project to be considered for TIF assistance:

- *Equity Requirement* – Developers must provide a minimum of 10% equity – in the form of cash or other un-leveraged value (land, prepaid costs) attributable to the project – of total project costs. In NO CASE will TIF be used to supplant cash equity.
- *Increment Value Cap* – No more than 75% of the value of increment generated by a private development shall be made available to any one project seeking TIF assistance. This limitation may be waived in exceptional circumstances upon approval by the EDA.
- *Reasonable Rate of Return* – In NO CASE will TIF assistance be provided to a project with a return on equity, return on cost, or internal rate of return (as determined by the EDA or its financial advisor) that exceeds 25%
- *Total TIF Assistance Cap* – The total amount of TIF assistance should not exceed 35% of total project costs. This limitation may be waived in exceptional circumstances upon approval by the EDA.
- *Taxable Increase* – At a minimum, projects requesting TIF assistance should demonstrate an increase in taxable valuation of 20% upon project completion.

In addition, the EDA will evaluate the following (as applicable) to determine whether proposed development projects are consistent with the City's goals and objectives in a manner commensurate with the requested assistance:

- *Employment Projections* – developments requesting TIF assistance will be expected to describe the following as a part of their proposal:
 - Number of new and/or retained full-time, permanent employees resulting from the project
 - Range of salary and/or hourly compensation rates for jobs retained or resulting from the project
 - Potential for the creation and/or relocation of executive-level employment opportunities resulting from the project
 - Other information (skills required, training programs, benefits, etc.)
- *Financial Information* - developments requesting TIF assistance will be expected to include the following as a part of their proposal:
 - Financial history, as requested, which may include personal and business tax returns, financial statements, and property tax records
 - Evidence of secured or applied-for conventional and/or other financing for the project, which may include references and/or commitment documentation
 - Financial projections related to the development, which may include a project pro forma for a minimum of five years
 - Projected value of the proposed development as-built and occupied. Projected value will be subject to verification by the Dakota County Assessor's Office.
- *Development Costs* – development projects requesting TIF assistance will be expected to include detailed information related to anticipated costs of development and articulate

how these costs relate to the request for assistance (Sources & Uses). Development costs are expected to be based upon written bids or estimates from qualified contractors. As applicable, costs should include:

- Remodeling/rehabilitation/demolition
- Environmental remediation
- Capital purchases
- Facility expansion
- Public infrastructure
- *Blight Elimination* – as applicable, developments requesting TIF assistance should identify slum and blight conditions that the proposed project will eliminate or alleviate
- *Historic Preservation* – as applicable, developments requesting TIF assistance should identify locally significant historic sites and/or structures involved in or impacted by the project, and how the development preserves, rehabilitates, or enhances such resources
- *Implementation of City Plans* – developments requesting TIF assistance should identify how the project helps the City to implement specific recommendations of the City’s Comprehensive Plan and other strategies of the City
- *Increased Standard of Development* – as applicable, developments requesting TIF assistance will be expected to include detailed information about the project to illustrate that the quality and standard of development provides a benefit to its surroundings and the community as a whole. Information might include:
 - How the development enhances community image, streetscape, neighborhood character, and pedestrian experiences and adds to quality-of-life
 - How the development improves and/or complements overall aesthetics through architectural, site, and landscape design beyond that which is required as a minimum by City Ordinances
 - How the development incorporates standards of building design, materials, and energy use that provides an overall net benefit to the local environment.

TIF Process

The creation and administration of a Tax Increment District is a significant commitment from the Economic Development Authority, and requires adherence to statutory rules and guidelines to include notifying overlying taxing jurisdictions and property owners within a proposed district, and publishing notifications in the official newspaper. While the EDA will make every effort to proceed as expediently as possible with all development projects, those requesting TIF assistance should understand and commit to the process laid out for successful administration of this policy by the EDA and the City. The following steps should be anticipated as essential for any project seeking TIF assistance:

- *Pre-Application* – Project proposer meets with Executive Director to present the general development concept for discussion. The proposer should be prepared to share sufficient detail related to the project’s scale, schedule, costs, and the nature of businesses that will occupy the project for the City to be able to evaluate the project’s viability and consistency with the City’s economic development program. The Executive Director reserves the right to present a concept to the EDA at a public meeting for consideration at this or any time prior to the submission of a formal application for assistance.
- *Application* (\$3,500 Fee)- A completed Application for Development Financing Assistance is submitted by the project proposer to the City, which includes information sufficient to address the “Financial and Policy Considerations” presented within this Policy, as may be supplemented by the Executive Director and/or EDA at the *Pre-Application* stage
- *Staff Review/Analysis* – City staff reviews the application for completeness and eligibility under the City’s policy and statutory requirements, and analyzes the development proposal and financial information. Based upon this analysis, findings of fact are prepared for SSPEDA consideration. The City reserves the right to engage outside experts, potentially at the proposer’s expense in addition to the standard application fee, for the review and analysis of the proposal
- *EDA Review* – If the request for assistance is within an established District, the EDA will review the proposal within sixty (60) days of receipt of a completed application, and approve or deny the request for TIF Assistance. If the request involves the creation of a new District, the EDA will review the proposal within sixty (60) days of receipt of a completed application and prepare a recommendation for final consideration by the City Council.
- *Council Review/Determination (for creation of a new District)* – Within forty-five (45) days of a recommendation from the EDA, the City Council will consider the application for assistance and will approve or deny the proposal.
- *Development Agreement* – If the application is approved, a Development Agreement is negotiated between the EDA and Developer, subject to approval by resolution. Upon execution, the Development Agreement serves as the contract between the EDA and the Developer, which includes (among other things) a minimum assessed value agreement which commits both parties to a minimum market value for the development.

Structure of TIF Assistance

TIF assistance is intended by the EDA to be used as a “last dollar in” to a project and will be structured to provide the City with the minimum financial exposure necessary at the most favorable terms to make a development project move forward that otherwise would not. TIF assistance will be based upon the increment value generated by the project. The structure of TIF Assistance will be based upon the following considerations, as applicable and appropriate:

- *Public Improvements* – TIF Assistance may be used to pay for the costs of public improvements associated with a private development project, including but not limited to streets, sanitary sewers, water and storm water infrastructure, public parking, communications and energy infrastructure, and other publicly owned infrastructure.
- *Land Write-Down* – The EDA may choose to sell publicly-owned property at an amount below its Estimated Market Value and/or asking price for proposed development requesting TIF Assistance. This assistance will be commensurate with the overall project and anticipated increment generated, and in no instance will the amount of land write-down exceed the stated price of the property being sold for development.
- *“Pay-Go” Financing* – The EDA’s preferred method of providing financial assistance for a private development is the “pay as you go” (“pay-go”) approach. “Pay-Go” involves the developer paying the up-front costs for particular improvements, with the City providing payment from receipt of tax increment generated by the development back to the Developer over an agreed-upon period. For “pay-go” structured projects, the Developer agrees to pay all outstanding property tax bills prior to any disbursement of “pay-go” payments by the City.
- *“Up Front” Assistance* – The EDA may consider providing TIF assistance in the form of a development loan for developments that provide extraordinary benefit to the City and underlying taxing jurisdictions. Requests for “Up Front” assistance will be subject to interest rates and terms agreeable to the SSPEDA on a case-by-case basis, and will be provided only for documented and incurred eligible development costs as spelled out in an executed development agreement.
- *Retention of Ownership* – For all projects receiving TIF assistance, the developer executing the development agreement agrees to retain ownership of the project at least long enough to complete construction, stabilize occupancy, and establish project and property management and initiate the payment of taxes based upon the increase in project value. If an assisted project is intended as a for-sale development (i.e., office, retail, or residential condominiums), the developer agrees to retain ownership of the overall project until final completion, although condominium units may be sold as they’re developed.
- *NO Mortgage Guarantees* – The EDA shall in NO CASE provide mortgage guarantees under this policy.
- *Administration* – The EDA will retain a maximum of ten percent (10%) of any tax increment received for the reimbursement of administrative costs. Until such time as the project generates positive tax increment, the EDA reserves the right to charge an administrative fee to the developer to partially offset the cost of record keeping, report preparation, and accounting.

Exceptions and Modifications

The EDA and City reserve the right to amend, modify, withdraw, or require additional information as related to this policy as deemed to be in the best interests of the City of South St. Paul and its Economic Development Authority. Any party requesting waiver from the requirements and provisions of this policy may do so formally in writing with the burden being on the requestor to demonstrate that any exception is in the best interests of the City.

Attach: Application for TIF Assistance