



## Kraewood TIF District

City Public Hearing

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# Overview

- Tax Increment Financing
  - Why Provide Public Assistance
  - Public Process
  - Protecting Local Resources in Public/Private Partnerships
  - Financing Request
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# What is Tax Increment Financing (TIF)?

- Ability to capture and utilize **most** of the increased local property tax revenue from new development within a defined geography (the TIF District)
    - ✓ Taxes derived from a school operating referendum are not remitted as TIF
    - ✓ Neither are state or fiscal disparities property taxes for commercial property
  - Authorized by Minnesota Statutes, Sections 469.174 to 469.1794 (the “TIF Act”)
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# Why Provide Public Assistance?

- **Fundamentally:** Used to overcome financial barriers preventing the private market from developing a site in accordance with City vision
  - ✓ Project rents too low to support overall project cost / risk, or
  - ✓ Private market can find cheaper / lower risk investment elsewhere
    - ✓ Could be due to:
      - Contaminated land and/or cost to clear blighted buildings
      - Development fees
      - Infrastructure costs too high
      - **Inclusion of Affordable Rents**



## Housing TIF District – up to 26 Years

- Assist Affordable Housing – rental or owner-occupied
- Rental Income Requirements - at least:
  - ✓ 40% of units restricted to 60% of county median income, **OR**  
20% of units restricted at 50% of county median income
- Annual test for income compliance for life of TIF assistance
- No pooling restrictions – Uncommitted TIF can be used to assist other qualifying affordable housing outside of the TIF District



# Affordable Criteria – Rice County

## Income Limits by Household Size (2021)

	1	2	3	4	5	6	7	8
50%	30,300	34,600	38,950	43,250	46,750	50,200	53,650	57,100
60%	36,360	41,520	46,740	51,900	56,100	60,240	64,380	68,520

## Maximum Gross Rents by Bedroom Size (2021)

	Studio	1	2	3	4	5	6
50%	757	811	973	1,125	1,255	1,384	1,513
60%	909	973	1,168	1,350	1,506	1,661	1,816



# Northfield Housing TIF Districts

City has six existing Housing TIF Districts (decertification year)

- Spring Creek II (2048), Maple Brooke (2046), Spring Creek (2040), Jefferson Square (2037), Hiley Neff (2028), and Presidential Commons (2026).

Entity	Pay 2021 Net Tax Capacity	Pay 2021 Captured Tax Capacity (CTC)	Percent of Total
City of Northfield	18,278,629	511,152	<b>2.80%</b>

*Table represents that 2.8% of the City's gross tax base is captured within all existing TIF Districts*



# TIF Financing Options

- Pay-as-you-go TIF Note
  - ✓ Developer funds eligible expenses and is reimbursed (with interest) over time from available tax increment
  - ✓ No risk to TIF authority if development delays and term expires before note is fully retired
- Other forms of financing:
  - ✓ Interfund Loan
    - City funds part of project up-front and TIF revenue repays City
  - ✓ Issue General Obligation or Revenue Bonds
    - Bond proceeds fund part of project up-front and TIF revenue is used to pay bonds' debt service

*Using Interfund Loans and/or Bonds induce greater risk (reliance on TIF repayment)*



# TIF Public Process

- Tax Increment Financing Plan prepared
  - ✓ Establishes purpose, boundaries and budget for District
- 30-day notification provided to County and School District
  - ✓ No comments received
- Planning Commission reviews land use within TIF Plan
  - ✓ Confirm TIF District complies with City's general plans
- Public Hearing held by City Council
  - TBD: TIF Plan adopted by Resolution*
  - TBD: TIF Assistance Agreement negotiated on or after TIF Plan adopted*





# TIF Plan – Estimated Tax Increment

- Property in TIF District pays total property taxes just like any other similar multifamily rental development
  - ✓ Assessor's Estimated Market Value of Project: \$12 million

## CURRENT TAXES – Vacant Land

<b>2021 Taxes (Full 12-acre site):</b>	<b>\$810</b>
<i>3-acre share:</i>	<i>\$203</i>

## ESTIMATED TAXES: WHAT IS EXCLUDED FROM TIF?

<b>Total Property Taxes from New Apartments Only:</b>	<b>\$198,488</b>
less: State-wide Taxes (Commercial only)	0
less: Market Value Taxes (School Operating)	(40,206)
less: <b>Base Value Taxes (to local jurisdictions)</b>	<b>(480)</b>
<b>Annual Gross TIF Available to assist Housing</b>	<b>\$157,801</b>



# TIF Plan – 26-year Budget Projection

SOURCES	
Tax Increment	\$ 4,644,094
Interest	464,409
<b>TOTAL</b>	<b>\$ 5,108,504</b>

USES	
Affordable Housing	3,094,095
Administrative Costs (up to 10%)	464,409
<b>PROJECT COSTS TOTAL</b>	<b>\$ 3,558,504</b>
Interest	1,550,000
<b>PROJECT AND INTEREST COSTS TOTAL</b>	<b>\$ 5,108,504</b>

Includes assumption of 1.0% annual Inflation on TIF District estimated market value



# Protecting Resources - “But For” Test

- Statutorily Required TIF Finding: The development would not be possible **but for** the use of tax increment
  - ✓ Proposed development would not reasonably be expected to occur solely through private investment without assistance
- Important to review developer’s TIF application and financial information (pro forma)
  - Determine gap, if any
  - Identify costs qualifying for TIF
  - Ensure project is maximizing **private** sources of funding
  - “Right-size” **public assistance** necessary for financial feasibility



# Financing Request – Rebound / Stencil

Project – 100-unit apartment development

- \$18.2 million Development cost (\$182,096 per unit)

<b>SOURCES</b>			
	<b>Amount</b>	<b>Pct.</b>	<b>Per Unit</b>
First Mortgage	14,567,687	80%	145,677
Equity	3,641,922	20%	36,419
<b>TOTAL SOURCES</b>	<b>18,209,609</b>	<b>100%</b>	<b>182,096</b>

<b>USES</b>			
	<b>Amount</b>	<b>Pct.</b>	<b>Per Unit</b>
Acquisition Costs	850,000	5%	8,500
Construction Costs	15,250,000	84%	152,500
Professional Services	709,609	4%	7,096
Financing Costs	900,000	5%	9,000
Developer Fee	500,000	3%	5,000
<b>TOTAL USES</b>	<b>18,209,609</b>	<b>100%</b>	<b>182,096</b>



# Financing Request – Rebound / Stencil

Pro Forma - Net Operating Income (NOI) below market underwriting levels for required debt and equity investment

- Using reasonable operating assumptions reflective of today's market
- 40 affordable units limited to occupancy at 60% Area Median Income
- Estimated annual shortfall (gap) to support financing: \$180k

Requesting PAYGO TIF Note to fill gap and supplement mortgage and equity financing necessary for the project

- Use 90% of annual TIF Revenue (\$141,510) to reimburse part of up-front investment
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# Council Action – TIF District

## Tonight's Consideration: Establish Housing TIF District

- Site of Apartment Building within Kraewood Development
- 40% of units set aside for occupancy at affordable levels
- \$5 million potential budget for use to assist affordable housing

## Next Steps: Negotiate TIF Assistance Agreement

- Developer finances and completes the project
- TIF Note issued upon satisfaction of terms with the City (*In progress*)
  - Affordability preserved for 26 years
  - Sustainable building design
  - City standards for construction quality
  - Note payable solely from increment generated from the TIF District



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