



Fifth and Washington TIF District

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Public Hearing

City of Northfield – Creation of a New TIF District

- What is Tax Increment Financing?
- Redevelopment TIF District
- Tax Increment Plan
- But-For / Gap Analysis
- TIF Assistance Agreement



What is Tax Increment Financing?

- The ability to capture and utilize most of the increased local property tax revenue from new development within a defined geography
 - Ex) Taxes derived from a school operating referendum are not captured
- Authorized by Minnesota Statutes 469.174 to 469.1794 (“TIF Act”)
- Used to encourage certain types of development or redevelopment that would not reasonably occur without assistance (“But For” test)
 - Ex) Acquisition, demolition and site improvements necessary for qualified redevelopment
- Annual Reporting to the Office of State Auditor



What is Tax Increment Financing?

- TIF District approval requires public hearing and adoption of a Tax Increment Financing Plan within a Development Program
 - Program and TIF Plan declare policy objectives and set budget for TIF revenues and expenditures
 - Fiscal Impact analysis sent to County and School District for comment
- Actual terms and use of TIF governed by a contract with a Developer
 - “TIF Assistance Agreement”
 - Sets city expectations for project development, amounts / types of public assistance, etc.



TIF Districts in Northfield

- City has seven existing TIF Districts (required decertification year)
 - Maple Brooke (2046), Aurora Pharma (2028), Spring Creek (2040), Jefferson Square (2037), Hiley Neff (2028), Riverfront (2032), and Presidential Commons (2026).

Entity	Pay 2020 Estimated Net Tax Capacity	Pay 2020 Estimated TIF Tax Capacity	Percent of Total
Rice County	71,187,981	713,584	1.0024%
City of Northfield	17,198,773	459,730	2.6730%
ISD # 659	31,983,440	669,330	2.0927%

Table represents that 2.673% of the City's gross tax base is captured within existing TIF Districts



Redevelopment TIF District

- Maximum term – 25 years after first TIF revenue received
- Fifth Street Flats property and adjacent City-owned surface parking
- Area must meet statutory redevelopment qualifications
 - At least 50% of existing buildings deemed substandard - study identifies 100%
 - At least 70% of area must be improved (not greenfield site) - study identifies 93%





Tax Increment Plan

- Establishes the purpose, boundaries and term for the TIF District
 - Parcel IDs and internal/adjacent rights-of-way
 - Maximum term – 2022 to 2047 as long as qualifications are met
- Sets a Budget for the TIF District
 - Assessor's estimated taxable value of \$9.3 million
 - TIF revenue estimate supports financing up to \$2.2 million in redevelopment costs (includes 1% inflator)
- Form of Financing - Pay-As-You-Go TIF Note issued to Developer
 - Payable from 95% of annual TIF receipts
 - Equates to \$134,342 based off of Assessors value estimate
 - 5% (or \$7,070) retained to offset City administrative costs



Tax Increment Estimates

TAX BREAKDOWN - City of Northfield - Fifth Street Flats Redevelopment									
	Property Value	Tax Capacity	Local Taxes	City Portion	County Portion	Misc Districts	School District	School Op Referendum	TOTAL
Gross Taxes	\$9,300,000	116,250	130.2820%	56.2160%	39.5240%	3.4460%	31.0960%	0.4419%	
			\$151,453	\$65,351	\$45,947	\$4,006	\$36,149	\$41,095	\$192,548
Base Taxes	\$585,200	7,315	\$9,530	\$4,112	\$2,891	\$252	\$2,275	\$41,095	\$50,625
TIF	\$8,714,800	108,935	\$141,923	\$61,239	\$43,055	\$3,754	\$33,874	\$0	\$141,923

*Represents: 16x growth in taxable value;
13x growth in local taxes at completion of TIF District*



“But For” Test

- The development is only possible but for the use of tax increment assistance
 - Developer has stated the project will not proceed solely through private investment in the reasonably foreseeable future
- Formal finding included in TIF Resolution and TIF Plan
- Market value of alternatives not expected to exceed:

MARKET VALUE BUT / FOR ANALYSIS	
Current Market Value - Est.	1,086,600
New Market Value - Est.	9,300,000
Difference	8,213,400
Present Value of Tax Increment	2,172,923
Difference	6,040,477
Value likely to occur without Tax Increment is less than:	6,040,477



“But For” Test

- Verification of the Project’s Pro Forma
 - Project development costs and operating assumptions are reasonable for the market
 - \$13.9 million total development costs
 - Developer identifies over \$1.8 million in qualifying redevelopment costs for downtown project
 - Rental revenue provides below-market returns on cost and equity
 - Affected by site, demolition and structured parking costs
- TIF Need
 - Net operating income below required mortgage/equity thresholds
 - Requesting \$1,800,000 PAYGO TIF Note to supplement equity investment necessary for the redevelopment project



TIF Assistance Agreement

- City Requirements
 - Create and administer TIF District; certify it with the County
 - PAYGO TIF Note reimburses certain development costs
 - Risk placed on developer to fund and construct project; pay taxes
 - TIF Note issued after completion; no other City funding required
 - First TIF Note payment anticipated in 2022
 - Limited pledge: only by 95% of TIF created by the redevelopment
- Developer Requirements
 - Redevelop site and prove up anticipated costs
 - Complete construction by 2021; achieve occupancy
 - Compliance with building, energy and affordability requirements



TIF Assistance Agreement

- TIF Note assistance Provisions
 - \$1.8MM TIF Note size based on budgeted figures
 - Issuance mechanism to “right-size” the amount of TIF Assistance
 - TIF Note amount reduced if project costs less than anticipated
 - \$0.50 per dollar of reduced costs in excess of \$100,000
- Lookback Provision: option for future TIF payments to be reduced or terminate if Developer sells property and/or attains adequate return on investment
 - Provision executed at earlier of event of sale or year 15



Considerations of Alternatives

- Do not approve TIF
 - Redevelopment does not occur in the near-term
 - Relocation of Bank may cease; EDA can market its property for other use
 - Property taxes remain for existing use
- Approve TIF
 - TIF Assistance and various EDA agreements executed
 - Developer completes land purchase and begins construction in 2019; construction completed by Spring 2021
 - 79 new housing units created by 2021
 - Existing base property taxes continue to flow to local jurisdictions
 - Plus > \$38,000 potential new taxes supporting school operating referendum
 - Potential for public/private redevelopment of City surface lots