

9.01 TAX INCREMENT POLICY

ECONOMIC DEVELOPMENT AUTHORITY

Enabling Legislation: M1987-436

Date Adopted: 12/21/87

Revised: 04/19/22, 06/24/24

PURPOSE

The purpose of this policy is to establish the City's position as it relates to the use of tax increment financing for private and public development. This policy shall be used as a guide in processing and reviewing applications requesting tax increment assistance.

The fundamental purpose of tax increment in Northfield is to encourage desirable development or redevelopment that would not otherwise occur *but for* the assistance provided. The City shall have the option of amending or waiving sections of this policy when appropriate.

STATUTORY LIMITATIONS

In accordance with the tax increment policy, tax increment financing requests must comply with applicable state statutes. The City is governed by the limitations established in the Minnesota Tax Increment Financing Act (M.S. § 4.69.174-496.1791, as amended) for all districts created after August 1, 1979.

DEFINITIONS

The following definitions are used in the Minnesota Tax Increment Financing Act (M.S. § 4.69.174 469.1791, as amended). They are defined here for tax increment project discussion purposes.

Tax Increment financing (TIF) is a financing tool meant to support local economic development, redevelopment, and housing development that would not otherwise occur without assistance. As its name suggests, TIF uses the incremental property taxes, or "tax increments," generated by the increased taxable value of a new development to help finance qualifying costs. TIF is not a tax reduction; taxes are paid on the full taxable value. The original taxable value continues to be part of the tax base that supports the tax levies of the city, county, school district, and other taxing jurisdictions. The new, additional value from development activity is "captured" from

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the tax base for the duration of the TIF district. After the TIF district is terminated, or “decertified,” the captured value becomes part of the tax base.

Redevelopment area means a depressed area within the territorial boundaries of any municipality or group of municipalities of the state reasonably defined by the local or area redevelopment agency wherein critical conditions of unemployment, underdevelopment, economic depression, depletion of natural resources, or widespread reliance on public assistance are found to exist by the municipality or municipalities.

Redevelopment projects includes the acquisition of land, stabilizing unstable soils when infill is required, demolition, infrastructure improvements and ponds or other environmental infrastructure.

Tax increment financing district means a contiguous or noncontiguous geographic area within a project delineated in the in the tax increment financing plan, as provided by section 469.175, subdivision I, for the purpose of financing redevelopment, housing or economic development in municipalities through the use of tax increment generated from the captured net tax capacity in the tax increment financing district.

Economic development district means a type of tax increment financing district that consists of any project, or portions of a project, which the authority finds to be in the public interest because:

1. it will discourage commerce, industry, or manufacturing from moving their operations to another state or municipality; or
2. it will result in increased employment in the state; or
3. it will result in preservation and enhancement of the tax base of the state.

Redevelopment districts are intended to correct negative land value where the costs of acquisition, demolition, infrastructure and environment cleanup exceed the value of the land. Redevelopment districts are limited to “blighted” areas. Minnesota law specifies criteria for blight determination: 70% of the parcels in the district must

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be occupied by buildings, streets, utilities or improvement and more than 50% of the buildings, not including outbuildings, are structurally substandard to a degree requiring substantial renovation or clearance.

Renewal and renovation district means a type of tax increment financing district consisting of a project, or portions of a project, within which the authority finds by resolution that:

1. 70 percent of the area of the district must be occupied by buildings, streets, utilities, or other improvements;
2. 20% of the buildings are structurally substandard; and
3. 30% of the other buildings require substantial renovation or clearance.

Housing district means a type of tax increment financing district which consists of a project intended for occupancy, in part, by persons or families of low and moderate income, as defined in chapter 462A, Title II of the National Housing Act of 1934, the National Housing Act of 1959, the United States Housing Act of 1937, as amended, Title V of the Housing Act of 1949, as amended, any other similar present or future federal, state, or municipal legislation, or the regulations promulgated under any of those acts.

Soils condition district means a type of tax increment financing district consisting of a project, or portions of a project, within which the authority finds by resolution that the following conditions exist:

1. The presence of hazardous substances, pollution, or contaminants requires removal or remedial action for use;
2. The estimated cost of the proposed removal and remedial action exceeds the fair market value of the land before completion of the preparation.

Increment is the increase or difference between the property tax on a parcel of land prior to development and the property taxes after development is complete. By

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State law increment is also considered as “tax increment revenues,” “revenue derived from tax increment,” and other similar terms for a district also include:

1. Taxes paid by the captured net tax capacity, but excluding any excess taxes, as computed under section 469.177;
2. The proceeds from the sale or lease of property, tangible or intangible, purchased by the authority with tax increments;
3. Repayments of loans or other advances made by the authority with tax increments; and
4. Interest or other investment earnings on or from tax increments.

ELIGIBLE USES FOR TAX INCREMENT FINANCING

Due to limited resources, high priority will be given to priority development or redevelopment sites. As a matter of adopted policy, the City will consider using tax increment financing to assist private and public developments only in those circumstances in which the proposed private projects meet one or more of the following uses:

1. To redevelop blighted or under-utilized areas of the community;
2. To accelerate the development or redevelopment on sites which would not be developed without this assistance on blighted or under-utilized property; or
3. To meet the following housing-related uses:
 - a. To provide a diversity of housing adjacent to the downtown area;
 - b. To provide a variety of housing ownership alternatives and housing choices within the City;
 - c. To promote affordable housing for low-or-moderate-income individuals within the City, generally 80% of the Dakota County median income as adjusted for family size and pursuant to State statute; or
 - d. To promote neighborhood stabilization and revitalization by the removal of blight and the upgrading in existing housing stock in residential areas.
4. To remove blight and encourage redevelopment in the commercial and industrial areas of the City in order to encourage high levels of property maintenance and private reinvestment in those areas;

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5. To increase the commercial/industrial tax base of the City in order to ensure the City's long-term ability to provide adequate services for its residents while lessening the reliance on residential property tax;
6. To retain local jobs, increase the local job base, and provide diversity in the job base (See 9.03 Business Subsidy Policy);
7. To increase the local business and job opportunities;
8. To provide adequate short-term business and shopper parking, and resident parking;
9. To encourage additional unsubsidized private development in the area, either directly or through secondary "spin-off" development;
10. To promote the potential future usage of a public transit system light/commuter rail line through maximizing the development potential of parcels adjacent to the system stations;
11. To offset increased costs of redevelopment, over the above those costs that a developer would incur in normal urban and suburban development such as brownfield development or increased costs for blight removal and demolition;
12. To meet other uses of public policy, as adopted by the Council from time to time, including promotion of quality urban design, quality architectural design, energy conservation.

TAX INCREMENT PROJECT APPROVAL CRITERIA

All new projects approved by the City shall meet the following minimum approval criteria. However, it should not be presumed that a project meeting these criteria will automatically be approved. Meeting these criteria creates no contractual rights on the part of any potential developer.

1. The tax increment financing assistance shall be provided within applicable state legislative restrictions, debt limit guidelines, and other appropriate financial requirements and policies.
2. The project should meet one or more of the above adopted tax increment eligible uses as stated above in Section 4, "Eligible Uses for Tax Increment Financing".

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3. The project must be in accordance with the Comprehensive Plan and Zoning Ordinances, or required changes to the Plan and Ordinances must be able to be approved by the City subsequent to the tax increment approval. Tax increment approval will be subject to the approval of the necessary land use approvals.
4. Tax increment financing assistance will not be provided to projects that have the financial feasibility to proceed without the benefit of tax increment financing. The developer shall provide the City with a project financial pro-forma and a development budget at the time of application. In effect, tax increment financing assistance will not be provided solely to broaden a developer's profit margins on a project.
5. Prior to approval of a tax increment financing plan, the developer shall provide any required market and financial feasibility studies, appraisals, soil boring information for the project, and other information or data that the City or its financial consultants may require in order to proceed with an independent underwriting.
6. To ensure cash flows are adequate, projects receiving tax increment financing assistance should normally have a 1.2:1 debt service coverage ratio (a ratio of funds projected to be available to funds required for debt service).
7. The developer should provide adequate financial guarantees to ensure the repayment of the tax increment financing subsidy. These may include, but are not limited to, assessment agreements, letters of credit, etc.
8. Any developer requesting tax increment financing assistance should be able to demonstrate past successful general development capability as well as specific capability in the type and size of development proposed. The developer shall submit a list of qualifications and references.
9. The developer should retain ownership of the project at least long enough to complete the project, to stabilize its occupancy, to establish the project management, and to insure repayment of the tax increment financing.
10. The level of tax increment financing funding should be reduced to the lowest possible level by maximizing the use of private debt and equity financing first, and then using other funding sources or income-producing vehicles that can be

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structured into the project financing, prior to using additional tax increment financing funding.

11. Tax increment assistance will be provided upon receipt of taxes by the City, otherwise referred to as the pay-as-you-go method whenever possible. Requests for upfront financing will be discouraged.

The applicant, the proposed project, and its application process shall comply with State Statutes, 469.175, regarding the use of tax increment financing. All consultants representing the applicant shall be separate and independent from the City. All materials and applications supplied by the applicant or its consultants shall become the property of the City. No assurances of approvals are implied or possible through the application or review process.

The City shall be reimbursed by the applicant for all costs incurred by the City in the preparation and review of the proposal. The applicant shall deposit with the City a non-refundable administrative/application fee as requested by the City Council. Prior to final approval of the tax subsidy, the City Finance Director shall certify any additional costs not covered by the administrative or application fees, which shall be paid to the City prior to final approvals by the City. No construction shall be done prior to final approval of the tax increment subsidy plan.

The City reserves the right to deny any application for financing at any stage of the tax increment review or hearings prior to the adoption of the final approval authorizing the issuance of the loan. The City reserves the right to select a third party to assist in the management of the tax subsidy process.

Proposals shall include a description of all direct and indirect service and improvement costs to the City, School District and County caused by this project.

TAX INCREMENT PROJECT EVALUATION CRITERIA

The fact that a given proposal meets the Approval Criteria in Section 5, "Tax Increment Project Approval Criteria", does not mean that it is entitled to funding

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under this policy, but rather that the City is in a position to proceed with evaluations of various tax increment financing proposals, using uniform standards whenever possible.

The following are the evaluation criteria that will be used by the City:

1. All tax increment financing proposals should optimize the private development potential of a site within site plan review criteria.
2. The developer shall demonstrate that the project is not financially feasible *but for* the tax increment financing provided.
3. All tax increment financing proposals should obtain the highest possible private-to-public financial investment ratio. The Council establishes a benchmark ratio of a minimum of 4 parts private and other funding to 1 part tax increment funding for industrial and commercial projects. Housing, redevelopment and mixed-use projects shall be reviewed on an individual basis.
4. All City assisted projects will follow the Northfield Business Subsidy Policy (9.03) as required by the State of Minnesota Statutes, Sections 116J.993 through 116J.995 and as established by Northfield City Council.
5. Housing Projects will target a portion of increment to create housing for families at or below 80% of the area median income level as determined by HUD and as defined in the Northfield Community Development Block Grant Program.

APPLICATION PROCESS FOR TAX INCREMENT FINANCING

1. Complete application submitted with all application fees. Fees will include:
 - A non-refundable application fee of \$250.00, and
 - A refundable processing fee of one percent (1%) of request amount will be prorated to cover staff or consultant time if the application is denied by the City or withdrawn by the applicant. The actual cost of searches, credit reports, filing fees and legal fees will be paid directly by the applicant. Fees will be waived if the City of Northfield or City agency serves as the developer.

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2. All applicants must demonstrate, through financial projections, that the cash flow of the project is sufficient to cover the proposed debt service. (An independent financial analysis may be conducted for the Economic Development Authority (EDA)/Housing and Redevelopment Authority (HRA).)
3. The EDA/HRA will determine if the financing gap between project revenues and expenditures will be based on the applicant's stated needs and financial condition.
4. City staff reviews the application.
5. Results are submitted to the EDA and/or the HRA for preliminary approval or denial of the proposal.
6. The EDA/HRA must determine that the proposed use of funds meets the appropriate test(s) for eligibility.
7. The EDA and/or HRA will forward a recommendation to the City Council.
8. If preliminary approval is granted by the EDA or the HRA, all necessary notices, resolutions and certificates will be prepared by City staff.
9. The City Council will act on a resolution that identifies conditions upon which an application is approved or findings upon which an application is denied.
10. Public hearing(s) on the proposed project will be held.
11. The City Council grants final approval or denial of the proposal.

STEPS NECESSARY FOR TAX INCREMENT PROCESS

The Tax Increment process is mandated by law. Project schedules will be estimated for the developer by City staff.

Step 1	Application received, Staff reviews for completeness
Step 2	Staff preparation of analysis
Step 3	EDA/HRA review and recommendation
Step 4	City Council approval to call public hearing for housing districts, for all other districts
Step 5	Public hearing held at City Council meeting
Step 6	Council approves or denies TIF request



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TAX INCREMENT PROJECT COMPLETION REPORTING

At the time of completion of the TIF project, or soon thereafter, staff shall present a report to City Council that demonstrates that the terms and requirements of the TIF Assistance Agreement have been achieved. The City Council's intent with this reporting requirement by staff is to improve transparency and provide City Council the opportunity to recognize that the terms of the assistance have been met. This reporting policy shall not restrict the execution and delivery of financial assistance pledged within the TIF Assistance Agreement for the intended party.