

Public Sector Advisors

Proposed Tax Increment Financing Housing District



City of Red Wing

April 16, 2018



Springsted

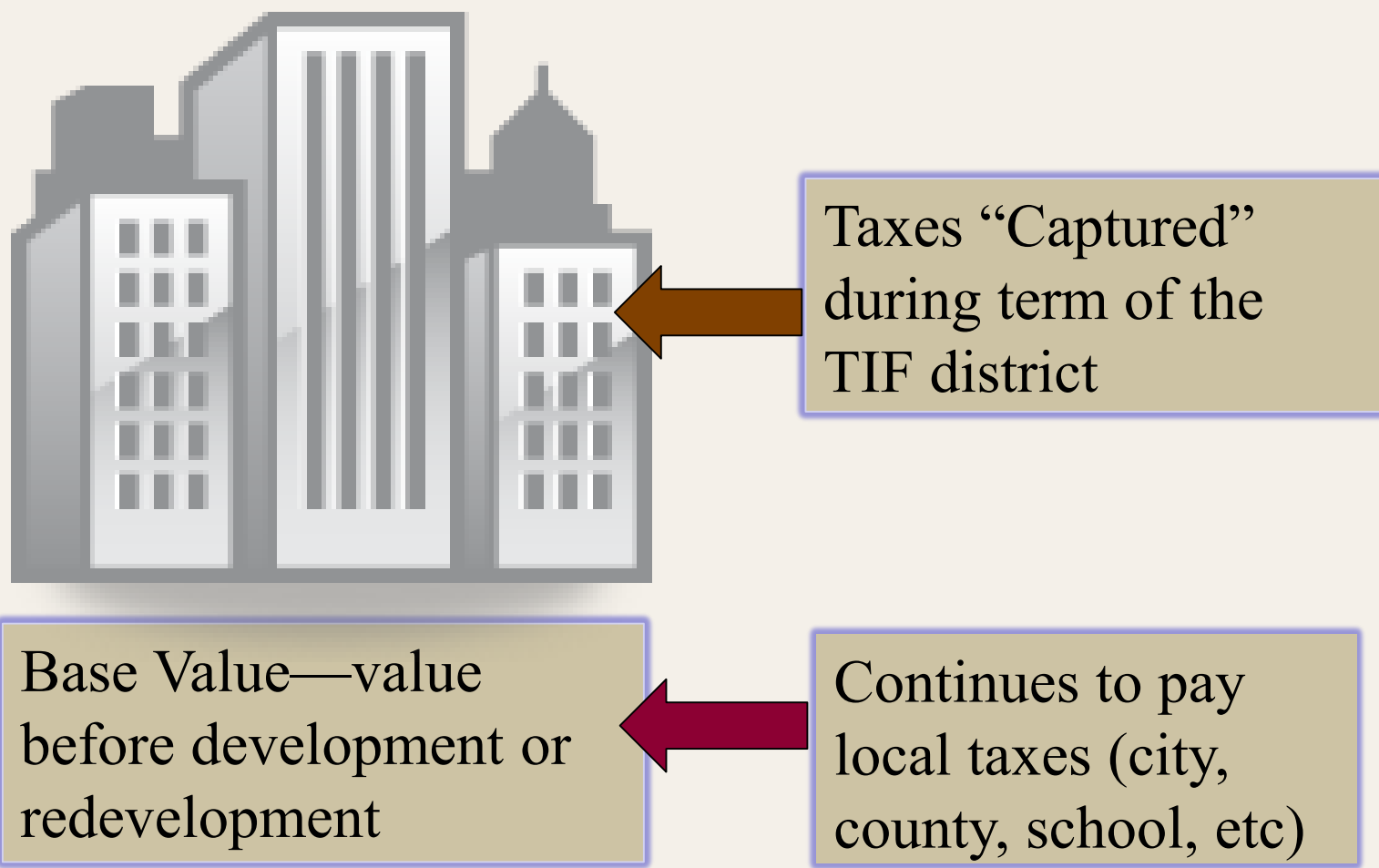
Purpose of Presentation

- Provide overview of tax increment financing (TIF)
- General policy discussion on use
- Proposed Housing TIF District

Tax Increment Financing

- A method of capturing tax base growth resulting from new development
- Tax increment is generated by the increased property value that is created when a property is developed
- Fixed term for capture, then new development capacity is added to existing tax base
- Property taxes attributed to the increased value are used to facilitate development
 - Includes City, County and School District Tax Levies

How TIF revenue is derived

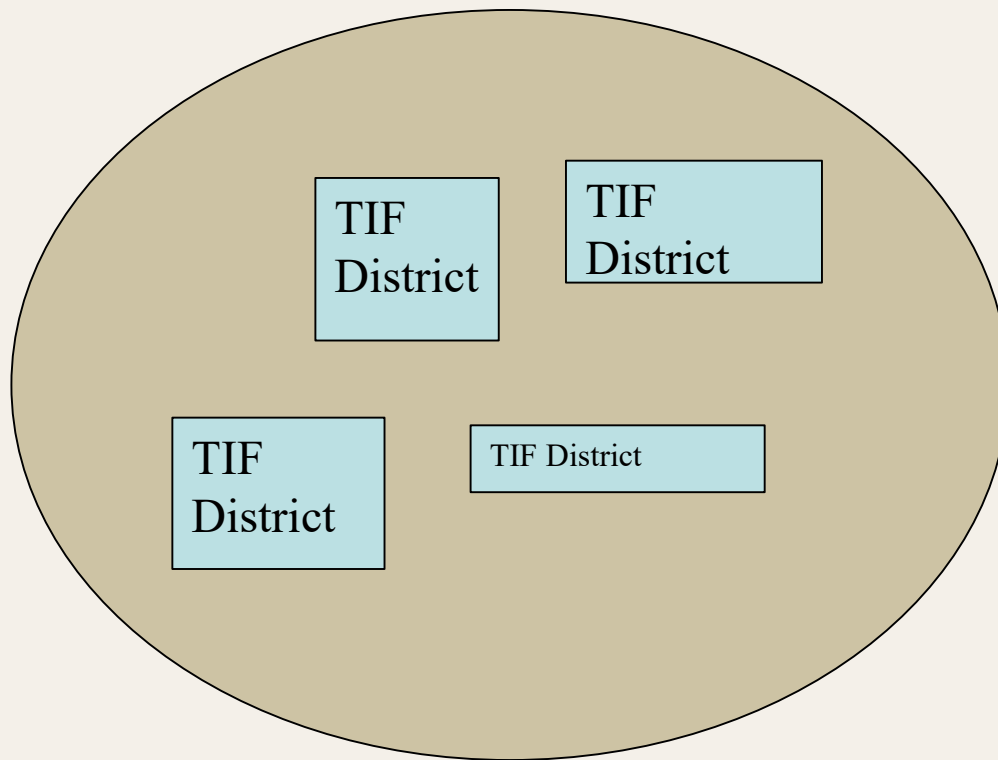


How a TIF District is Created

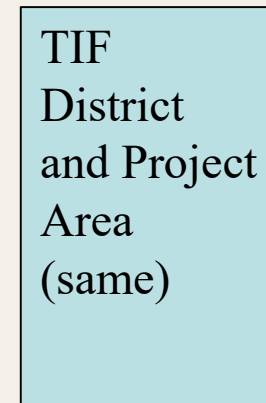
- Project Area
- TIF District
 - TIF Plan
 - Budget
 - Geographic boundaries
 - Purpose
 - Public Hearing
 - Certification

TIF District and Project Area Boundaries

Project Area larger than TIF District – can encompass more than one TIF District



Project Area and TIF District same size



Tax Increment Financing (TIF)

- Cities Use TIF to:
 - Stimulate development where it would otherwise not occur (**“but for” test**)
 - Encourage development of uses that would otherwise not occur, such as low income housing
 - Enhance tax base
 - Facilitate infrastructure improvements
 - Coordinate new developments with existing plans

Tax Increment Financing (TIF)

Eligible Costs

- Public Improvements
- Land Acquisition
- Soil Correction-Site Grading
- Site Preparation/Demolition
- Relocation
- Cost of Qualifying Housing
- Financing Fees/Capitalized Interest
- Administrative Costs

Tax Increment Financing (TIF)

Public Improvement Costs Allowed

- Streets and Roads
- Utilities
- Bridges and Interchanges
- Parking
- Sidewalks and walkways
- Soft costs related to any of the above

Tax Increment Financing (TIF)

Public Improvement Costs Not Allowed

- Public Buildings such as a City Center, Public Safety, Public Works buildings
- Culture and Recreation such as parks, community centers, golf courses, etc.
- Administration beyond 10% of TIF collections

Tax Increment Financing (TIF)

Common Methods for Financing Costs

- Upfront
 - G.O. Tax Increment Bonds
 - Can be issued without a referendum if tax increment contributes at least 20% of debt service costs
 - Interfund Loan
- Pay-as-you-go Notes
 - Project financed upfront by developer
 - Developer is reimbursed over time

Statutory Findings to Approve TIF District

- That the TIF Plan will afford maximum opportunity, consistent with the sound needs of the City as a whole, for development by private enterprise
- That the TIF Plan conforms to general plans for development of the City as a whole
- That the project will qualify as a TIF District
 - Specific criteria for each type of district

Statutory Findings to Approve TIF District

- That the proposed development, in the opinion of the City, would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future
 - The but/for test:
 - The proposed development would not occur but/for the use of tax increment financing

Public Purpose Benefits (Policy)

- Increased private investment (consequently market value) through:
 - Grow and diversify tax base
 - Property tax growth (tax rate constant)
 - Increased employment (Type of Jobs)
 - Retain existing businesses and jobs
 - Maintain competitiveness in marketplace

Public Purpose Benefits (Policy)

- Increased private investment (consequently market value) through:
 - Added housing units (Affordable or Market Rate)
 - Attraction of visitors who contribute to the local economy
 - Increased sales volume
 - Addition of infrastructure such as parking or public improvements which results in increasing market value through the above
 - Elimination of negative or blighting influences effecting surrounding property (Blight Curve)

Due Diligence Review for New Projects

- Statutory authority to use financial tools (legal)
- Market demand for the use developed
- Site control and qualified developer (FA/Legal)
- Extent to which the expected positive consequences of a project outweigh the negative consequences
- Probability that the project will leverage additional private investment or spin-off investment

What Drives The “Gap” Or Need For Public Financing Assistance?

- Extraordinary redevelopment costs
- Hold out property owner, land price too high
- Affordable housing
- Development needs more than it can pay for
- “Oversizing” of utility/infrastructure needs for future
- Developer wants less risk/more return than typical market conditions dictate
- Market competition

Types of TIF Districts

Determines Timeframe, Uses of TIF and Ongoing Requirements

- Redevelopment
- Renewal and Renovation
- Economic Development
- Housing
- Soils Condition
- Other
 - Hazardous Substance Sub-district

Qualification as a Housing TIF District

- at least 40% of the rental units will be occupied by persons or families with incomes no greater than 60% of county median income
- No more than 20 percent of the square footage of buildings that receive assistance from tax increments may consist of commercial, retail, or other nonresidential uses
- income limitations for the rental units in the housing project will apply for the duration of the TIF District

Proposed Housing TIF District

- Tyler Road and Rivers Ridge Townhomes
 - 2 separate project areas – both will qualify
- Anticipated 3 phase development
- Phase 1: 112 apartments (approximate) and 32 townhomes
- Phase 2: 122 senior housing
- Phase 3: 32 townhomes
- Total units: approximately 298 units

Proposed Housing TIF District

- Assistance has been requested to provide additional cash flow necessary to support debt service
 - PayGO as reimbursement (support TIF Note)
 - TIF Note for each phase
 - No financial risk to the City – based on developer performance
- Financials provided for each phase
 - Sources and Uses of Funds
 - Operating Proforma

Proposed Housing TIF District

- Financials provided for each phase
 - Sources include:
 - Developer cash equity
 - Debt
 - Developer equity (land and developer fee)
 - Uses include:
 - Acquisition
 - Construction
 - Soft costs including financing, developer fee and other

Proposed Housing TIF District

- Financials provided for each phase
 - Sources include:
 - Developer cash equity
 - Debt
 - Developer equity (land and developer fee)
 - Uses include:
 - Acquisition
 - Construction
 - Soft costs including financing, developer fee and other

Proposed Housing TIF District

- Gap is driven by reduction in rents (annually)
 - Low debt coverage
 - Lower equity returns

Next Steps:

- Process for establishing TIF District:
 - Drafting of TIF Plan for Review
 - Notice to County and School District
 - Publish hearing notice for public hearing
 - Hold public hearing (City Council)
 - HRA review and approval
 - Review and consider approval of TIF Agreement

Questions?