

  
**REQUEST FOR COUNCIL ACTION**

Date: June 22, 2015  
Item No.: 15.a

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Department Approval



City Manager Approval



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Item Description: Tax Increment Financing (TIF) District Overview

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1 **BACKGROUND**

2 Last Fall, the City Council asked for an update on the status of the City's TIF districts as part of  
3 the budget discussion which staff provided on November 17. In compiling the background data  
4 for the RCA, it was identified by staff that it was likely time for the City's financial advisor to  
5 prepare a comprehensive review of all of the City's TIF districts.

6 Since a number of the City's TIF districts were approaching key deadlines as well as the recent  
7 expiration of some of the TIF legislative changes that occurred in response to the recession, the  
8 Community Development Director requested that Springsted perform a comprehensive review of  
9 all the TIF districts (Attachment A).

10 The goal of this review is so that the City Council and the public would be aware of available  
11 assets, outstanding liabilities, legislative changes and any other key issues that impact the various  
12 TIF districts to assist in future decision making. Since this type of deeper review has not been  
13 done in a while, Springsted was also asked to insert an overview of how TIF works in Minnesota  
14 to help the public better understand the discussion in the remainder of the report as well as how  
15 TIF legislation has changed over the years. The overview can be found starting on page 26 with  
16 a map of all of the City's districts on page 39.

17 The TIF district review identified some areas where the City Council may want to take actions to  
18 maximize the effectiveness and public benefit of the City's TIF districts.

19 Mikaela Huot of Springsted will be in attendance to provide an overview of the report, offer  
20 recommendations and answer any questions the City Council may have.

21 **POLICY OBJECTIVE**

22 This item is to assist the City Council to effectively manage the City's financial resources for  
23 redevelopment and also to assist with the City Council's efforts to increase the transparency of  
24 City operations for the public.

25 **BUDGET IMPLICATIONS**

26 The review was completed as part of the portion of TIF proceeds collected for administrative  
27 purposes and therefore no general levy funds were used.

28 If the City Council chooses to make any changes to the TIF districts as part of the  
29 recommendations, there could be budget implications which will be outlined in future RCAs  
30 asking for those future actions.

31 **STAFF RECOMMENDATION**

32 This item is for information and discussion purposes only.

33 **REQUESTED COUNCIL ACTION**

34 This item is for information and discussion purposes and therefore no formal action is being  
35 requested.

Prepared by: Paul Bilotta, Community Development Director, Paul.Bilotta@CityofRoseville.com  
Attachments: A: TIF District Review Report



# Analysis

City of Roseville, Minnesota

TIF District Analysis

JUNE 2015

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*Springsted provides high quality, independent financial and management advisory services to public and non-profit organizations, and works with them in the long-term process of building their communities on a fiscally sound and well-managed basis.*



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**LETTER OF TRANSMITTAL**

June 22, 2015

Mr. Chris Miller  
Mr. Paul Bilotta  
City of Roseville  
2660 Civic Center Drive  
Roseville, Minnesota 55113

**Re: City of Roseville – Tax Increment District Review**

Dear Chris and Paul:

The following is a draft report on each of your tax increment districts which provides you an overview of the issues governing such districts. Each district is administered differently depending upon the year in which the district was created. The report examines historical information, and tax increment revenues and uses for each district.

We relied on historical accounting records, tax increment plans and other information provided by City staff in our analysis of each of the tax increment districts.

We hope this provides you the necessary assistance to enable you to most effectively utilize the tax increment tool.

Sincerely,

**SPRINGSTED INCORPORATED**

## Introduction

The City of Roseville requested that Springsted Incorporated perform an analysis of the tax increment districts of the City and provide a comprehensive summary of current status of each district. A primary purpose of the review is also to determine what flexibility there may be in each district to deal with excess increments, deficits, pooling, administrative payments, additional expenditures, and timing for closing of each fund. The analysis also included a determination that all of the City's Districts are in compliance with original and amended TIF plans and that the TIF records, including internal and external reports, are accurate, reliable and auditable.

Springsted relied upon information provided by the City for review and preparation of the analysis. The process includes a review of the City's original and amended TIF Plans, Development Agreements, current year OSA TIF Reports and current financial information.

For the purpose of this report we have evaluated the City's active districts and placed them into separate categories dependent upon the type of district and the date of approval and certification.

- Pre-1990 Redevelopment District
- Post-1990 Redevelopment District
- Hazardous Substance Subdistrict
- Housing District
- Economic Development District

Statutory powers relate directly to the type and certification dates of a TIF district. For each respective category we have provided an overview of the regulations regarding the following issues:

- Term of district
- Pooling
- The applicable 4 and 5 year rule provisions
- Excess increment
- Administrative expenses
- Qualified tax increment expenditures
- Other restrictions

The City of Roseville has a Tax Increment Financing policy that establishes criteria and guidelines for how the tool is utilized in the city. Generally, the policy states that TIF be considered on a case by case basis for projects that accomplish the City's goals and assistance will be provided on a pay-as-you-go basis.

## Executive Summary

The City of Roseville currently has seven active tax increment districts and two hazardous subdistricts. All current obligations of the districts are either 1) pay-as-you-go notes in which the City entered into an agreement with a developer for the reimbursement of eligible project costs or 2) payment of capital expenditures for certain redevelopment projects. One of the active districts will be decertified with all obligations having been fulfilled.

- **Tax Increment Financing District No. 10**
  - Capital expenditures through pooling
- **Tax Increment Financing District No. 11**
  - Capital expenditures through pooling
- **Tax Increment Financing District No. 12**
  - Capital expenditures through pooling
- **Tax Increment Financing District No. 13**
  - None outstanding
  - *District to be decertified*
- **Tax Increment Financing District No. 17**
  - None outstanding
- **Tax Increment Financing District No. 18**
  - PayGO Note with a developer
- **Tax Increment Financing District No. 19**
  - PayGO Note with a developer
  
- **Tax Increment Financing District No. 11A**
  - None outstanding
- **Tax Increment Financing District No. 17A**
  - None outstanding

### Summary Action Items/Recommendations

#### TIF District No. 10

Decertified as of December 31, 2014.

Administrative Amendment was passed in 2014 to authorize transferring of available fund balance for eligible redevelopment activities associated with the Dale Street Redevelopment Project. There is not anticipated to be any additional funds after that project has been financed and the City will be limited to future activities because it was previously decertified.

Finance remaining project costs pursuant to the administrative amendment.

Return excess increment (if applicable).

Close district and remit final OSA reports (as of December 31, 2015).

#### TIF District No. 11

Decertification required as of December 31, 2016.

All available fund balance to be transferred to TIF District No. 17 to finance remaining eligible redevelopment activities associated with the Twin Lakes Redevelopment Project. There is not anticipated to be any additional funds

after that project has been financed as there are future anticipated project costs.

Finance remaining project costs pursuant to the administrative amendment.

Return excess increment (if applicable).

Close district and remit final OSA reports (as of December 31, 2016).

#### TIF District No. 12

Decertification required as of December 31, 2016.

Administrative Amendment was passed in 2014 to authorize transferring of available fund balance for eligible redevelopment activities associated with the Dale Street Redevelopment Project. There is not anticipated to be any additional funds after that project has been financed. The City has until December 31, 2016 to consider any future modifications that may alter the existing budget authority.

Finance remaining project costs pursuant to the administrative amendment.

Return excess increment (if applicable).

Close district and remit final OSA reports (as of December 31, 2016).

#### TIF District No. 13

Decertified required as of December 31, 2015.

No additional obligations and district will be decertified.

All remaining fund balance will be returned to the County for redistribution.

Return excess increment.

Close district and remit final OSA reports (as of December 31, 2015).

#### TIF District No. 17

Decertification required as of December 31, 2031.

There are no current obligations of the District. The 4 and 5 year timing restrictions apply to this district which may limit the City's ability to finance future project costs.

#### TIF District No. 18

Decertification required as of December 31, 2038.

The District is supporting one pay-as-you-go note. There is not anticipated to be any additional funds available to finance future project costs.

Finance remaining project costs pursuant to Development Agreement.

Return excess increment (if applicable) upon obligation fulfillment.

Close district and remit final OSA reports (as of December 31, 2038).

#### TIF District No. 19

Decertification required as of December 31, 2020.

The District is supporting one pay-as-you-go note. There is not anticipated to be any additional funds available to finance future project costs.

Return excess increment (if applicable) upon obligation fulfillment.

Close district and remit final OSA reports (as of December 31, 2020).

## 1 Obligations

The City has the following outstanding obligations payable from the existing Tax Increment Financing Districts.

### Tax Increment Financing District No. 10

- Pooling of available increment for other eligible redevelopment project
- *Dale St Redevelopment*

### Tax Increment Financing District No. 11

- Pooling of available increment for other eligible redevelopment project
- *Twin Lakes (TIF District No. 17)*

### Tax Increment Financing District No. 12

- Pooling of available increment for other eligible redevelopment project
- *Dale St Redevelopment*

### Tax Increment Financing District No. 13

- None outstanding
- *District to be decertified – all qualifying activities have occurred*

### Tax Increment Financing District No. 17

- None outstanding
- *Financing of infrastructure improvements and further incent redevelopment activities*
- *Pooling of available increment from TIF 11*

### Tax Increment Financing District No. 18

- PayGO Note with AEON
- *Final payment date is December 31, 2038*
  - *(or sooner if revenues exceed projections)*

### Tax Increment Financing District No. 19

- PayGO Note with United Properties
- *Final payment date is February 1, 2021*
  - *(or sooner if revenues exceed projections)*

## 2 Tax Increment Financing District Summaries

### Tax Increment Financing District No. 10

TIF District No. 10 is a redevelopment district with a required decertification date of December 31, 2014 based on the statutory maximum duration. The District has been decertified as of the time of this review and as a result, the City is limited to the use of available fund balance based on existing TIF Plan and budget authority. Modifications are not authorized activities of a decertified TIF District.

TIF Plan Approval Date	07/07/1988
Certification Request Date	11/03/1988
Certification Date	11/03/1988
Decertification Date	12/31/2014
Modification Date	06/20/2005

ESTIMATED TAX INCREMENT REVENUES	OSA Budget	Actual Activities	Projected thru District term
TIF Revenues	39,857,569	26,881,096	27,564,678
Interest & Investment Earnings	5,776,046	986,268	986,268
Market Value Homestead Credit		3,054	3,054
Total	48,047,684	27,870,418	28,554,018

ESTIMATED PROJECT/FINANCING COSTS	OSA Budget	Actual Activities	Projected thru District term
Land/building acquisition	13,117,721	643,458	643,458
Site improvements/preparation costs	0	0	
Utilities	6,739,847	958,702	958,702
Other qualifying improvements	4,638,023	5,644,534	6,825,954
Construction of affordable housing	0	0	
Administrative costs	0	3,679	3,679
Total	24,495,591	6,172,787	7,354,207
Principal		14,508,262	14,508,262
Interest expense	23,552,093	14,372,835	14,372,835
Total estimated project/financing costs	48,047,684	35,053,884	36,235,304
Estimated bond financing	14,000,000	16,567,240	16,567,240

The original TIF Plan budget authorized expenditures for land acquisition, utilities and public improvements, and interest expenses in the amount of \$48,047,684. Tax increment and investment earnings were anticipated to be the primary source of repayment of the budgeted expenditures.

As of December 31, 2013, the estimated available fund balance is \$497,838 and is projected to be approximately \$452,706 upon decertification as of December 31, 2014. Final payment was paid on the outstanding PayGO note on December 31, 2014. All existing obligations of the District have been fulfilled. The District has not exceeded total authorized budget authority.

#### Allowable Uses

MN Statutes 469.176 subd. 4j specifies the activities in which tax increment from a redevelopment TIF District can be used. Effective for districts with a request for certification after October 2, 1989 and does not apply to this TIF District.

#### Obligations

- PayGO Note with George Reiling with maturity date of 12/31/14
- Bonds issued previously that have been paid in full

#### Pooling

Any future expenditures of tax increment are not restricted to any pooling restrictions regarding percentage or timing but must be authorized by approved TIF Plan budget.

#### 4 and 5-year rule provisions

The 5 year rule does not apply to this district. Future expenditures eligible for reimbursement through pooled increment subject to budget authority.

#### Excess increments

There is not projected to be excess increment from TIF District No. 11 as all increment will be spent according to the authorized budget.

#### Administrative expenses

Can be retained by the City equal to 10% of the total tax increment expenditures authorized by the TIF plan or the total tax increment expenditures for the project, whichever is less.

#### Fiscal Disparities Option

Option B: from commercial-industrial properties within TIF District

#### Other restrictions

Minimal

### Tax Increment Financing District No. 11

TIF District No. 11 is a redevelopment district with a required decertification date of December 31, 2016 based on the statutory maximum duration.

TIF Plan Approval Date	03/26/1990
Certification Request Date	04/02/1990
Certification Date	10/01/1992
Decertification Date	12/31/2016
Modification Date	06/20/2005

ESTIMATED TAX INCREMENT REVENUES	OSA Budget	Actual Activities	Projected thru District term
TIF Revenues	17,000,000	8,722,044	9,573,055
Interest & Investment Earnings		1,046,852	1,046,852
Market Value Homestead Credit		450,000	450,000
Total	17,000,000	10,218,898	11,069,907

ESTIMATED PROJECT/FINANCING COSTS	OSA Budget	Actual Activities	Projected thru District term
Land/building acquisition	7,800,000	7,277,395	7,277,395
Site improvements/preparation costs	0	104,637	104,637
Utilities	2,900,000	2,644,911*	2,644,911
Other qualifying improvements	100,000	423,229	2,049,742
Construction of affordable housing	0		
Administrative costs	0	331,732	331,732
Total	10,800,000	10,781,071	12,407,584
Principal		1,738,100	1,738,100
Interest expense	4,100,000	202,877	202,877
Total estimated project/financing costs	14,900,000	12,722,881	14,348,561
Estimated bond financing	2,100,000		

\* reduced by costs paid with public funds other than tax increment

The original TIF Plan budget authorized expenditures for land acquisition, public improvements, and interest expenses in the amount of \$14,900,000. Tax increment was anticipated to be the primary source of repayment of the budgeted expenditures.

As of December 31, 2013, the estimated available fund balance is \$(28,247). With an authorized transfer of \$1,544,481 in 2013 to TIF District No. 17 for eligible activities, the balance is \$(1,150,810) as of December 31, 2014. The remaining years of increment collected will reduce the negative balance with

a projected surplus by December 31, 2016. The District is not projected to exceed total authorized budget authority.

All other obligations of the District have been fulfilled. Based on future cash flow projections, the future collections of increment in 2015 and 2016 are expected to be sufficient to repay the interfund loan and provide additional funds for transfer to TIF 17 for future anticipated public improvement expenditures.

#### Allowable Uses

MN Statutes 469.176 subd. 4j specifies the activities in which tax increment from a redevelopment TIF District can be used. Effective for districts with a request for certification after October 2, 1989 and does not apply to this TIF District.

#### Obligations

Pooling for eligible public improvements within TIF 17

#### Pooling

Any future expenditures of tax increment are not restricted to any pooling restrictions regarding percentage or timing but must be authorized by approved TIF Plan budget.

#### 4 and 5-year rule provisions

The 5 year rule does not apply to this district. Future expenditures eligible for reimbursement through pooled increment subject to budget authority.

#### Excess increments

There is not projected to be excess increment from TIF District No. 11 as all increment will be spent according to the authorized budget.

#### Administrative expenses

The City has retained some increment for payment of authorized administrative costs. Amounts to date are well below the maximum allowed percentage amount.

#### Fiscal Disparities Option

Option B: from commercial-industrial properties within TIF District

#### Other restrictions

Minimal

### Tax Increment Financing District No. 12

TIF District No. 12 is a redevelopment district with a required decertification date of December 31, 2016 based on the statutory maximum duration.

TIF Plan Approval Date	03/26/1990
Certification Request Date	04/02/1990
Certification Date	04/20/1990
Decertification Date	12/31/2016
Modification Date	06/20/2005

ESTIMATED TAX INCREMENT REVENUES	OSA Budget	Actual Activities	Projected thru District term
TIF Revenues	3,700,000	1,144,763	1,532,154
Interest & Investment Earnings	370,000	3,136	3,136
Market Value Homestead Credit		162,969	162,969
Total	\$4,070,000	1,310,868	1,698,259

ESTIMATED PROJECT/FINANCING COSTS	OSA Budget	Actual Activities	Projected thru District term
Land/building acquisition	1,200,000	1,303,072	1,303,072
Site improvements/preparation costs	200,000	587,897	587,897
Utilities	600,000	327,576	327,576
Other qualifying improvements	200,000		1,109,203
Construction of affordable housing	0		
Administrative costs	370,000	66,381	66,381
Total	2,570,000	2,284,926	3,394,129
Principal			
Interest expense	770,000	0	0
Total estimated project/financing costs	3,340,000	2,284,926	3,394,129
Estimated bond financing	2,750,000	0	0

The original TIF Plan budget authorized expenditures for land acquisition, public improvements, and interest expenses in the amount of \$3,340,000. Tax increment and investment earnings were anticipated to be the primary source of repayment of the budgeted expenditures.

As of December 31, 2013, the estimated available fund balance is \$622,900 and is projected to be \$721,812 as of December 31, 2014. Based on future cash flow projections, through 2016 that balance is projected to grow to just over \$1.1M if no additional expenditures are made. The City approved an administrative amendment in 2014 to allow available revenues and fund balance of this district be used to support eligible pooling project costs for a

City redevelopment project. All available revenues are anticipated to be used for this purpose. The District is not projected to exceed total authorized budget authority.

#### Allowable Uses

MN Statutes 469.176 subd. 4j specifies the activities in which tax increment from a redevelopment TIF District can be used. Effective for districts with a request for certification after October 2, 1989 and applies to this TIF District.

#### Obligations

Pool for eligible redevelopment projects

#### Pooling

Any future expenditures of tax increment are not restricted to any pooling restrictions regarding percentage or timing but must be authorized by approved TIF Plan budget. An administrative amendment was approved in 2014 to allow for the pooling of available fund balance on eligible redevelopment activities.

#### 4 and 5-year rule provisions

The 5 year rule does not apply to this district. Future expenditures eligible for reimbursement through pooled increment subject to budget authority.

#### Excess increments

There is not projected to be excess increment from TIF District No. 12 as all increment will be spent according to the authorized budget.

#### Administrative expenses

The City has retained some increment for payment of authorized administrative costs. Amounts to date are well below the maximum allowed percentage amount.

#### Fiscal Disparities Option

Option B: from commercial-industrial properties within TIF District

#### Other restrictions

Minimal

### Tax Increment Financing District No. 13

TIF District No. 13 is a redevelopment district with a required decertification date of December 31, 2018 based on the statutory maximum duration.

TIF Plan Approval Date	04/26/1993
Certification Request Date	07/26/1993
Certification Date	10/24/1994
Decertification Date	12/31/2018
Modification Date	06/20/2005

ESTIMATED TAX INCREMENT REVENUES	OSA Budget	Actual Activities	Projected thru District term
TIF Revenues	6,450,000	6,353,609	7,296,587
Interest & Investment Earnings		116,656	116,656
Market Value Homestead Credit			
Total	\$6,450,000	6,470,265	7,413,243

ESTIMATED PROJECT/FINANCING COSTS	OSA Budget	Actual Activities	Projected thru District term
Land/building acquisition	2,690,000	4,318,861	4,318,861
Site improvements/preparation costs	0		
Utilities	965,000		
Other qualifying improvements			
Construction of affordable housing			
Administrative costs	230,000	4,171	4,171
Total	3,875,000	4,323,032	4,323,032
Principal			
Interest expense	0	0	
Total estimated project/financing costs	3,875,000	4,323,032	4,323,032
Estimated bond financing	2,575,000		

The original TIF Plan budget authorized expenditures for land acquisition, public improvements, and interest expenses in the amount of \$3,875,000. Tax increment revenues were anticipated to be the primary source of repayment of the budgeted expenditures.

The City held a Paygo Note with Presbyterian Homes/College Properties on July 24, 1996. The contract amount was \$3,752,810 with 8% interest and had a final maturity date of December 10, 2010. The Note was paid in full prior to or upon the maturity date. There are no outstanding obligations and due to establishment date, the District is limited to future activities. As a result, the

District will be decertified and existing fund balance will be returned as excess increment to the County and redistributed to the taxing jurisdictions.

As of December 31, 2013, the estimated available fund balance is \$1,513,847 and is projected to be \$3,745,353 based on annual increment collections of 437,921 through December 31, 2018. Current estimates indicate the district will exceed authorized budget authority.

#### Allowable Uses

MN Statutes 469.176 subd. 4j specifies the activities in which tax increment from a redevelopment TIF District can be used. Effective for districts with a request for certification after October 2, 1989 and applies to this TIF District.

#### Obligations

PayGO Note with Presbyterian Homes with maturity date of 12/31/10

*Obligation paid in full and no additional obligations*

#### Pooling

Any future expenditures of tax increment are restricted to pooling restrictions regarding percentage or timing and as a result the TIF District will be decertified.

#### 4 and 5-year rule provisions

The 4 and 5 year rules apply to this district. Future expenditures eligible for reimbursement through pooled increment subject to budget authority.

#### Excess increments

There is currently projected to be excess increment from TIF District No. 13 as included in the 2013 OSA TIF Reports. Verification of amount is recommended prior to remitting to County.

#### Administrative expenses

The City has retained some increment for payment of authorized administrative costs. Amounts to date are well below the maximum allowed percentage amount.

#### Fiscal Disparities Option

Option B: from commercial-industrial properties within TIF District

#### Other restrictions

### Tax Increment Financing District No. 17

TIF District No. 17 is a redevelopment district with a required decertification date of December 31, 2031 based on the statutory maximum duration.

TIF Plan Approval Date	06/20/2005
Certification Request Date	06/29/2005
Certification Date	09/03/2005
Decertification Date	12/31/2031

ESTIMATED TAX INCREMENT REVENUES	OSA Budget	Actual Activities	Projected thru District term
TIF Revenues	82,200,000	2,543,474	5,544,669
Interest & Investment Earnings	822,000	120	120
Market Value Homestead Credit			
Total	83,022,000	2,543,594	5,544,789

ESTIMATED PROJECT/FINANCING COSTS	OSA Budget	Actual Activities	Projected thru District term
Land/building acquisition	13,100,000	3,925,926	3,925,926
Site improvements/preparation costs	12,022,000	81,585	81,585
Utilities	2,000,000	159,327 *	159,327
Other qualifying improvements	3,600,000	3,271,431	3,271,431
Construction of affordable housing	0		
Administrative costs	4,110,000	361,428	361,428
Total	34,832,000	7,799,697	7,799,697
Principal			
Interest expense	48,190,000	0	0
Total estimated project/financing costs	83,022,000	7,799,697	7,799,697
Estimated bond financing	29,900,000		

*\* reduced by costs paid with public funds other than tax increment*

The original TIF Plan budget authorized expenditures for land acquisition, site improvements/preparation costs, utilities, other qualifying public improvements, administrative and interest expenses in the amount of \$83,022,000. Tax increment and investment earnings were anticipated to be the primary source of repayment of the budgeted expenditures.

There are no outstanding obligations related to this TIF District. The City established an interfund loan between TIF District No. 11 and No. 17 before making it a permanent transfer in from TIF 11. The transfer of funds from TIF 11 has been made permanently to assist with financing public improvements within the boundaries of TIF District No. 17.

The primary purpose of the TIF District has been to finance significant infrastructure improvements necessary for redevelopment of properties within the District. The estimated fund balance as of December 31, 2013 was \$1,538,652 and is projected to be \$377,319 as of December 31, 2014. The district carried a negative balance in 2013 until the transfer in from TIF 11 occurred, which accounted for the large (temporary) fund balance. The decrease in fund balance in 2014 is the result of capital projects expenditures.

#### Allowable Uses

MN Statutes 469.176 subd. 4j specifies the activities in which tax increment from a redevelopment TIF District can be used. Effective for districts with a request for certification after October 2, 1989 and applies to this TIF District.

#### Obligations

- No bonds or PayGO Notes
- Significant infrastructure improvements

#### Pooling

Described as dollars spent outside the boundaries of the TIF district, but within the defined geographic area of the project area and also included as pooling are additional expenditures incurred beyond the 5 year limit of the district (for post-90 redevelopment and economic development districts).

Future expenditures made after the 5-year period (extended to 10 years pursuant to Legislative changes) of tax increment are restricted to pooling restrictions (at least 75% of the revenues must be spent within the District) and at 90% of the revenues must be for a purpose regarding percentage or timing but must be authorized by approved TIF Plan budget. The 5-year (extended to 10 years) date for this district is September 3, 2015.

#### 4 and 5-year rule provisions

The 4 and 5 year rules apply to this district. Information was previously submitted to the County regarding the parcels that met the 4-year rule, and the ones that were 'knocked' out of the District but can be brought back in once an eligible improvement occurs.

MN Statute 469.1763 subdivision 3 requires that, within five years from certification date, funds must have been spent and obligated for projects within the TIF district. The date in which this requirement must be met is September 3, 2015.

#### Excess increments

After paying priority obligations detailed above, any excess increments received by the City may be used for one or more of the following:

- Prepay any outstanding bonds;
- Discharge pledge of tax increment for any outstanding bonds;
- Pay into escrow account dedicated to payment of any outstanding bonds; or
- Return excess amount to county auditor who shall distribute to city, county and school district in direct proportion to their local tax rate.

At this time there is not projected to be excess increment from TIF District No. 17 as all increment will be spent according to the authorized budget.

#### Administrative expenses

The City has retained some increment for payment of authorized administrative costs. Amounts to date are well below the maximum allowed percentage amount.

#### Fiscal Disparities Option

Option B: from commercial-industrial properties within TIF District

#### Other restrictions

4 and 5 Year Rules as described above.

Limitations on future boundary and budget adjustments

### Tax Increment Financing District No. 18

TIF District No. 18 is a housing district with a required decertification date of December 31, 2038 based on the statutory maximum duration.

TIF Plan Approval Date	07/13/2009
Certification Request Date	09/18/2009
Certification Date	12/22/2009
Decertification Date	12/31/2038
Modification Date	06/13/2011

ESTIMATED TAX INCREMENT REVENUES	OSA Budget	Actual Activities	Projected thru District term
TIF Revenues	2,602,233	38,599	505,479
Interest & Investment Earnings	25,000	0	0
Market Value Homestead Credit			
<b>Total</b>	<b>2,627,233</b>	<b>38,599</b>	<b>505,479</b>

ESTIMATED PROJECT/FINANCING COSTS	OSA Budget	Actual Activities	Projected thru District term
Land/building acquisition			
Site improvements/preparation costs			
Utilities			
Other qualifying improvements			
Construction of affordable housing	1,339,798		
Administrative costs	260,223	2,356	
<b>Total</b>	<b>1,600,021</b>		
Principal			
Interest expense	1,027,207	18,401	
<b>Total estimated project/financing costs</b>	<b>2,627,233</b>	<b>20,757</b>	
Estimated bond financing	0		

The original TIF Plan budget authorized expenditures for eligible affordable housing projects, administrative costs, and interest expenses in the amount of \$2,627,233. Tax increment and investment earnings were anticipated to be the primary source of repayment of the budgeted expenditures.

The City entered into a Development Agreement with Aeon to provide tax increment financing for assistance with a portion of the affordable housing costs associated with the rehabilitation of an existing apartment building and construction of additional units in separate buildings. The principal amount of the Note is \$935,005 with interest of 4.25% and a final maturity date of December 31, 2038.

Payments began on the obligation in 2013, for interest only, and will continue as annual increments are collected. The estimated fund balance as of December 31, 2013 was \$17,842 and is projected to be \$18,697 as of December 31, 2014. The outstanding balance on the obligation is estimated to remain at \$935,005.

#### Allowable Uses

MN Statutes 469.176 subd. 4d specifies the activities in which tax increment from a housing TIF District can be used. Revenue derived from tax increment from a housing district must be used solely to finance the cost of housing projects as defined in MN Statutes, Sections 469.174, subdivision 11, and 469.1761. The cost of public improvements directly related to the housing projects and the allocated administrative expenses of the authority may be included in the cost of a housing project.

#### Obligations

PayGO Note with AEON for \$935,005

Final payment scheduled for December 31, 2038 (or sooner if revenues exceed projections)

#### Pooling

Described as dollars spent outside the boundaries of the TIF district, but within the defined geographic area of the project area and also included as pooling are additional expenditures incurred beyond the 5 year limit of the district (not applicable for housing districts). As permitted under Minnesota Statutes, Section 469.1763, subdivision 2(b) and subdivision 3(a)(5), any expenditures of increment from the TIF District to pay the cost of a “housing project” as defined in Minnesota Statutes, Section 469.174, subd. 11 will be treated as an expenditure within the district for the purposes of the “pooling rules” and the “five year rule”.

#### 4 and 5-year rule provisions

The 4 and 5 year rules apply to this district. Information was previously submitted to the County regarding the parcels that met the 4-year rule, and all of the properties within the District qualified. MN Statute 469.1763 subdivision 3 requires that, within five years from certification date, funds must have been spent and obligated for projects within the TIF district. Housing projects are treated as an expenditure within the district.

Excess increments

At this time there is not projected to be excess increment from TIF District No. 18 as all increment will be spent according to the authorized budget.

Administrative expenses

The City has retained some increment for payment of authorized administrative costs. Amounts to date are well below the maximum allowed percentage amount.

Fiscal Disparities Option

Not applicable for residential properties within TIF District

Other restrictions

Limitations on use of tax increment from a housing district (MN Statutes 469.176, subd. 4d)

- Revenue derived from tax increment from a housing district must be used solely to finance the cost of housing projects as defined in sections 469.174, subdivision 11, and 469.1761. The cost of public improvements directly related to the housing projects and the allocated administrative expenses of the authority may be included in the cost of a housing project.
- Housing project means a project, or a portion of a project, that meets all of the qualifications of a housing project established as a housing district. In the case of a housing district, a housing project, is an activity in the district

4 and 5 Year Rules as described above.

Limitations on future boundary and budget adjustments

### Tax Increment Financing District No. 19

TIF District No. 19 is an economic development district with a required decertification date of December 31, 2020 based on the statutory maximum duration.

TIF Plan Approval Date	09/13/2010
Certification Request Date	02/15/2011
Certification Date	05/20/2011
Decertification Date	12/31/2020

ESTIMATED TAX INCREMENT REVENUES	OSA Budget	Actual Activities	Projected thru District term
TIF Revenues	2,450,551	34,756	1,493,902
Interest & Investment Earnings	0		
Market Value Homestead Credit			
<b>Total</b>	<b>2,450,551</b>	<b>34,756</b>	<b>1,493,902</b>

ESTIMATED PROJECT/FINANCING COSTS	OSA Budget	Actual Activities	Projected thru District term
Land/building acquisition	500,000		
Site improvements/preparation costs	585,962		
Utilities	250,000		
Other qualifying improvements	745,056		
Construction of affordable housing	0		
Administrative costs	245,056	18,129	
<b>Total</b>	<b>2,326,074</b>		
Principal			
Interest expense	124,477	15,008	
<b>Total estimated project/financing costs</b>	<b>2,450,551</b>	<b>33,137</b>	
Estimated bond financing	330,000		

The original TIF Plan budget authorized expenditures for land acquisition, public improvements, and interest expenses in the amount of \$2,450,551. Tax increment revenues were anticipated to be the primary source of repayment of the budgeted expenditures.

The City entered into a Development Agreement with United Properties Residential LLC to provide tax increment financing for financing a portion of the senior cooperative project. The principal amount of the Note was \$659,000 plus interest at 7% with a final maturity date of February 1, 2021.

TIF District No. 19 is an economic development district established in 2010 and certified in 2011 under the special provisions of the ‘JOBS’ bill.

#### Allowable Uses

MN Statutes 469.176 subd. 4j specifies the activities in which tax increment from a redevelopment TIF District can be used. Effective for districts with a request for certification after October 2, 1989 and applies to this TIF District.

#### Obligations

PayGO Note with United Properties for \$659,000

Final payment scheduled for February 1, 2021 (or sooner if revenues exceed projections)

#### Pooling

Described as dollars spent outside the boundaries of the TIF district, but within the defined geographic area of the project area and also included as pooling are additional expenditures incurred beyond the 5 year limit of the district (for post-90 redevelopment and economic development districts).

Future expenditures made after the 5-year period of tax increment are restricted to pooling restrictions (at least 80% of the revenues must be spent within the District). The 5-year date for this district is May 20, 2016.

#### 4 and 5-year rule provisions

The 4 and 5 year rules apply to this district. Information was previously submitted to the County regarding the parcels that met the 4-year rule, and all of the properties within the District qualified. MN Statute 469.1763 subdivision 3 requires that, within five years from certification date, funds must have been spent and obligated for projects within the TIF district.

#### Excess increments

We do not anticipate there will be excess increment from TIF District No. 19 as the District will be decertified once the existing in-district obligation has been fulfilled.

#### Administrative expenses

The City has retained some increment for payment of authorized administrative costs. Amounts to date are well below the maximum allowed percentage amount.

#### Other restrictions

4 and 5 Year Rules as described above.

Limitations on future boundary and budget adjustments

### 3. Restrictions Use of Increment

Each year the County Treasurer shall deduct 0.36% of the annual tax increment generated by the TIF District and pay such amount to the State's General Fund. Such amounts will be appropriated to the State Auditor for the cost of financial reporting and auditing of tax increment financing information throughout the state. The City is restricted to using 100% of the tax increment generated by TIF Districts for any of the following purposes:

- (1) pay for the estimated public costs of the TIF District and County administrative costs associated with the TIF District;
- (2) pay principal and interest on tax increment bonds or other bonds issued to finance the estimated public costs of the TIF District;
- (3) accumulate a reserve securing the payment of tax increment bonds or other bonds issued to finance the estimated public costs of the TIF District;
- (4) pay all or a portion of the county road costs as may be required by the County Board under M.S. Section 469.175, Subdivision 1a; or
- (5) return excess tax increments to the County Auditor for redistribution to the City, County and School District.

Tax increment shall not be used to finance the acquisition, construction, renovation, operation, or maintenance of a building to be used primarily and regularly for conducting the business of a municipality, county, school district, or any other local unit of government or the State or federal government, or for a commons area used as a public park, or a facility used for social, recreational, or conference purposes. This prohibition does not apply to the construction or renovation of a parking structure or of a privately owned facility for conference purposes.

If there exists any type of agreement or arrangement providing for the developer, or other beneficiary of assistance, to repay all or a portion of the assistance that was paid or financed with tax increments, such payments shall be subject to all of the restrictions imposed on the use of tax increments. Assistance includes sale of property at less than the cost of acquisition or fair market value, grants, ground or other leases at less than fair market rent, interest rate subsidies, utility service connections, roads, or other similar assistance that would otherwise be paid for by the developer or beneficiary.

Tax increment may be used for several TIF eligible project costs. Examples of those costs include public improvements for street, sewer, water, etc, land acquisition, soil correction, site preparation/demolition, relocation, financing fees and capitalized interest.

## City Administrative Costs

Administrative expenses are defined as all costs of the City other than:

- (1) amounts paid for the purchase of land;
- (2) amounts paid for materials and services, including architectural and engineering services directly connected with the physical development of the real property in the project;
- (3) relocation benefits paid to, or services provided for, persons residing or businesses located in the project;
- (4) amounts used to pay principal or interest on, fund a reserve for, or sell at a discount bonds issued pursuant to section 469.178; or
- (5) amounts used to pay other financial obligations to the extent those obligations were used to finance costs described in clause (1) to (3).

For districts for which certification was requested before August 1, 2001, administrative expenses are limited to 10% of the total estimated tax increment expenditures authorized by the TIF Plan or 10% of the total tax increment expenditures for the project, whichever is less. For districts for which certification was requested after July 31, 2001, administrative expenses are limited to 10% of total estimated tax increment expenditures authorized by the TIF Plan or the total tax increments, as defined, from the district, whichever is less.

Administrative expenses include amounts paid for services provided by bond counsel, fiscal consultants, planning or economic development consultants, and city staff time. The City may allocate administrative expenses on a district-by-district basis.

## Excess Increment

Excess increment equals the excess of total increments collected from the district, reduced by any excess increments returned to the county for redistribution, over the total costs authorized by the TIF plan to be paid from the district. That amount is reduced by the sum of the authorized costs that have been paid from sources other than tax increments from the district; revenues, other than tax increments from the district, that are required to be used to pay the authorized costs and that the city has received; and the amount of principal and interest obligations due on outstanding bonds after December 31 of the year. Excess increment may only be used to prepay outstanding bonds, discharge the pledge of tax increment for outstanding bonds, pay into an escrow account dedicated to payment of outstanding bonds, or returned to the county auditor for redistribution to the city or town, county, and school district in which the TIF district is located in direct proportion to their respective tax rates.

In any year in which the tax increments from the TIF District exceed the amount necessary to pay the estimated public costs authorized by the TIF Plan, the City shall use the excess tax increments to:

- (1) prepay any outstanding tax increment bonds;
- (2) discharge the pledge of tax increments thereof;
- (3) pay amounts into an escrow account dedicated to the payment of the tax increment bonds; or
- (4) return excess tax increments to the County Auditor for redistribution to the City, County and School District. The County Auditor must report to the Commissioner of Education the amount of any excess tax increment redistributed to the School District within 30 days of such redistribution.

### Pooling

- Tax increment revenues may be spent outside of the TIF District but within the boundaries of the Project Area, subject to certain restrictions.
- For redevelopment TIF districts (certified after June 30, 1995) the minimum in-district percentage is 75%. The maximum pooling percentage is 25%.
- For all other TIF districts (certified after June 30, 1995) the minimum in-district percentage is 80%. The maximum pooling percentage is 20%.
- All administrative costs are considered expended outside of the TIF district.
- Pooled increment revenue must still be spent on TIF eligible project costs.
- An additional 10% can be pooled for low-income housing (must meet statutory guidelines).

### Time Restrictions

#### Four-Year Knock-Down Rule

- Increment will not be collected from a particular parcel unless, within four years of certification, demolition, rehabilitation or renovation of property or other site improvements, including qualified improvement of a street adjacent to a parcel but not installation of utility service including sewer or water systems has occurred in accordance with a TIF plan.

- If a parcel is “knocked down” and later improved, it can be reinstated in the district, but at the market value at the time of reinstatement.

#### Five-Year Rule

- For increment to be considered a spent expenditure within the TIF District, one of the following must occur within five years after certification of the district:
  - ◆ Increment is paid to a third party for a TIF eligible expenditure
  - ◆ Bonds are issued to a third party and proceeds are expected to be spent within five years.
  - ◆ Binding contracts are entered into with a third party for performance of an activity and increment is spent under the contract, or
  - ◆ Costs are incurred by a “party” and revenues are spent to reimburse that party.

#### Sixth-Year Rule

- In each year beginning with the sixth year following certification of the district, if the applicable in-district percent of the revenues derived from tax increments paid by properties in the district exceeds the amount of expenditures that have been made for costs permitted under subdivision 3, an amount equal to the difference between the in-district percent of the revenues derived from tax increments paid by properties in the district and the amount of expenditures that have been made for costs permitted under subdivision 3 must be used and only used to pay or defease the following or be set aside to pay the following:
  - ◆ outstanding bonds, as defined;
  - ◆ contracts, as defined;
  - ◆ credit enhanced bonds to which the revenues derived from tax increments are pledged, but only to the extent that revenues of the district for which the credit enhanced bonds were issued are insufficient to pay the bonds and to the extent that the increments from the applicable pooling percent share for the district are insufficient; or
  - ◆ the amount provided by the tax increment financing plan to be paid for pooled housing projects.
- The district must be decertified and the pledge of tax increment discharged when the outstanding bonds have been defeased and when sufficient money has been set aside to pay, based on the increment to be collected

through the end of the calendar year, the following amounts:

- ◆ contractual obligations as defined;
- ◆ the amount specified in the tax increment financing plan for activities qualifying as housing projects; and
- ◆ the additional expenditures permitted by the tax increment financing plan for housing activities under an election that have not been funded with the proceeds of certain bonds.

#### Decertification

Once all obligations of a TIF District have been fulfilled, a TIF District should be decertified and all remaining fund balance returned to the County as redistribution of excess increment. Excess increment will be redistributed to each taxing entity based on their share of the current year's tax capacity rate.

The county auditor shall decertify a tax increment financing district when the earliest of the following times is reached:

- (1) the applicable maximum duration limit;
- (2) the maximum duration limit, if any, provided by the municipality;
- (3) the time of decertification specified if the commissioner of revenue issues an order of noncompliance and the maximum duration limit for economic development districts has been exceeded;
- (4) upon completion of the required actions to allow decertification as defined; or
- (5) upon the later of receipt by the county auditor of a written request for decertification from the authority that requested certification of the original net tax capacity of the district or its successor or the decertification date specified in the request.

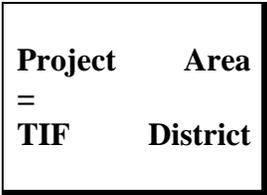
### 4. Tax Increment Financing District Overview

#### Project Area (i.e., Development District) and Tax Increment Financing (TIF) District

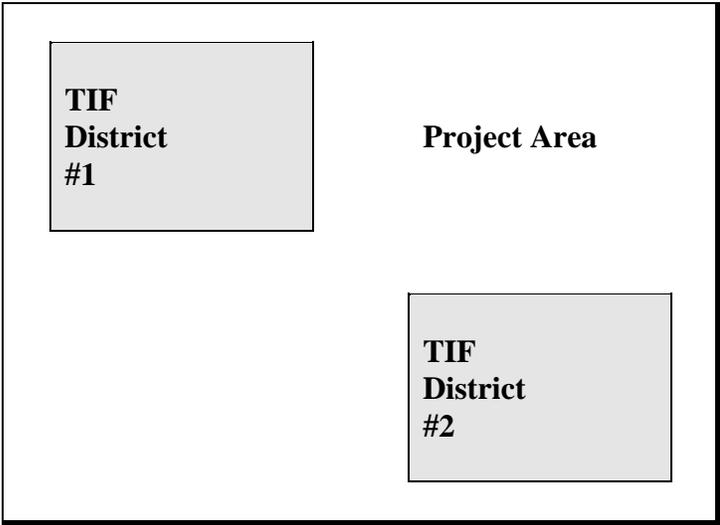
- A. Financial difference between the two
  - Project Area: Area in which TIF funds can be spent (with certain restrictions).
  - TIF District: Area from which TIF funds are generated.

#### B. Geographical difference between the two

- Project Area and TIF District can be the same, or



- Project Area can be larger than the TIF District



The City of Roseville established Development District No. 1, which is coterminous with the corporate boundaries of the City. All TIF Districts created by the City are the authority of the City and within the defined project area. The defined boundaries of the project area dictate where ‘pooled’ increment can be spent, and will be described further in the report.

## Types of Tax Increment Financing Districts

- A. **Redevelopment District**
  - Generally a blighted area containing substandard buildings, sometimes having inadequate streets and incompatible land uses.
  - Requires documentation to evaluate occupied land area and estimated costs of rehabilitation versus new construction.
  - Additional conditions include railroad uses or tank facilities or a qualified disaster area.
  - Maximum duration of TIF district is 25 years from receipt of the first tax increment.
  
- B. **Renewal and Renovation District**
  - Blight and obsolescence tests must be met, which are slightly less restrictive than for redevelopment TIF districts.
  - Maximum duration of TIF district is 15 years from receipt of the first tax increment.
  
- C. **Housing District**
  - Provides housing opportunities for persons and families of low to moderate income.
  - Maximum duration of TIF district is 25 years from receipt of the first tax increment.
  
- D. **Soils Condition District**
  - Where there exists the presence of hazardous substances, pollution or contaminants requiring removal or remedial action. Such costs must exceed the fair market value of the land.
  - Maximum duration of the TIF district is 20 years from receipt of the first tax increment.
  
- E. **Economic Development District**
  - May be used only for manufacturing, production, processing, warehousing, storage, distribution (excluding retail sales), research and development, telemarketing, tourism facilities (in certain cases), qualified border retail facilities, and small city commercial facilities.
  - Prohibits establishment if more than 15% of the square footage of such facilities are used for other purposes. The allowable percentage of non-qualifying square footage can be increased when such uses are directly related to or in support of the qualifying activity.

- Must demonstrate retention of local business, increased employment and enhancement of the state tax base.
- Maximum duration of TIF district is 8 years from receipt of the first tax increment.

F. Other TIF Districts

- Includes hazardous substance subdistrict.

Examples of TIF Eligible Project Costs

- Public improvements for street, sewer, water, etc.
- Streets and sidewalks
- Land acquisition
- Soil correction
- Site preparation/demolition
- Relocation
- Financing fees and capitalized interest
- Administrative costs up to 10% of the tax increment

The Increment

Prior to forming the TIF district

- “Estimated Market Value” of properties in the proposed TIF district

**Estimated  
Market  
Value**

- Translated into “Net Tax Capacity” through statutory classifications

**Estimated  
Market  
Value**



**Net  
Tax  
Capacity**

- “Net Tax Capacity” times “Tax Capacity Rate” equals property taxes

**Net  
Tax  
Capacity**

**Tax  
X  
Capacity =**

**Property  
Taxes**

- City
- County
- School District
- Other

When a TIF district is established

- The “Net Tax Capacity” is given the term “Original Net Tax Capacity (ONTC)”, and is certified for the previous assessment year, provided that the request for certification was made by June 30. The ONTC of a district for which requests are filed after June 30 is based on the current assessment year.
- Property taxes generated by the ONTC of the TIF district continue to provide revenue to each individual taxing jurisdiction.
- The local tax capacity rate is called “Original Local Tax Rate,” and is certified for the previous assessment year, provided that the request for certification was made by June 30. The Original Local Tax Rate of a district for which requests are filed after June 30 is based on the current assessment year.
- The Original Local Tax Rate is the sum of all local tax rates that apply to a property in a district or subdistrict.
- The lesser of the Original Local Tax Rate or current local tax rate is used to calculate the annual tax increment.

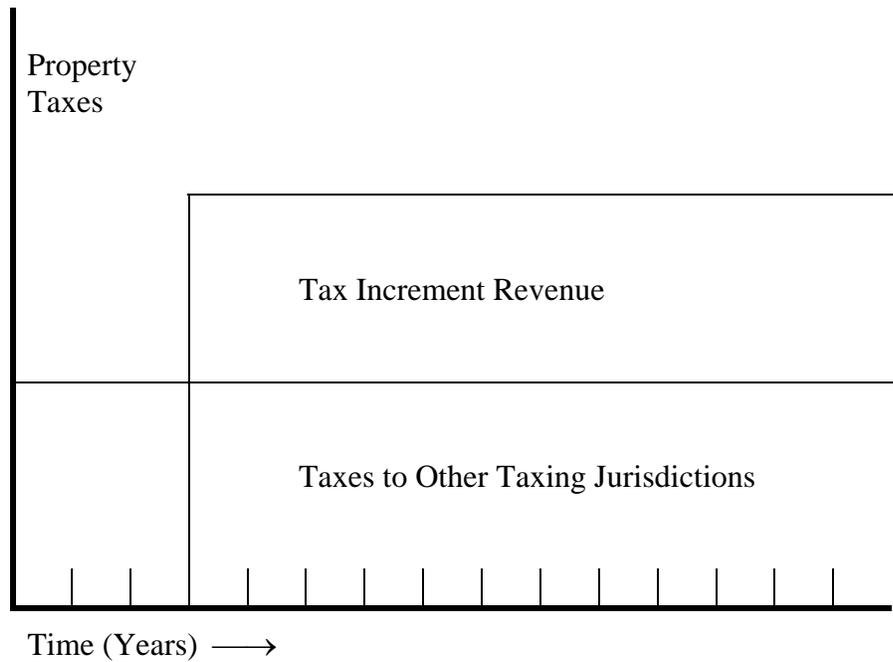
New development occurs within the TIF district

- New market value is added to the existing estimated market value.

<b>Total Estimated Market Value</b>	<b>Total Net Tax Capacity</b>		<b>Total Property Taxes</b>
Increase in Estimated Market Value	Increase in (Captured) Net Tax Capacity	Tax	Tax Increment Revenue
Original Estimated Market Value (OMV)	Original Net Tax Capacity (ONTC)	X Capacity = Rate	Taxes to Other Taxing Jurisdiction

Tax increment revenue generated by the increase in Net Tax Capacity.

- Increment received over the duration of the TIF district.



Financing of Project Costs

- In some cases, the City is required to fund project costs prior to development occurring.
- City issues general obligation tax increment bonds to finance the project costs. The possibility exists for non-general obligation revenue bonds to be issued.

Taxable Bonds If Two Federally Imposed Tests Are Met

A. **“Private Business Use Test”** - Are more than 10% of the expenditures made for a private purpose?

- Types of expenditures for improvements available to every resident:

- ◆ Streets, sewer, water, etc.,

- Types of expenditures benefiting private parties, such as landowners/developers;
  - ◆ Land acquisition, soil corrections, site preparation, etc.
- B. **“Private Security Interest Test”** - Are more than 10% of the payments of taxes and/or debt service guaranteed by the landowner/developer?
  - A contract or guarantee requiring the landowner/developer to make tax payments and/or fund a debt service shortfall triggers the private security interest test.
  - Assessment agreements trigger the private security interest test.
- City receives tax increment revenues over a period of years and uses them to pay debt service on the bonds.
- Tax increment bonds may be repaid with:
  - ◆ Tax increment revenues.
  - ◆ Other pledged revenues.
  - ◆ General obligations: potential City-wide property tax levy. This situation can be dealt with through security guarantees by the landowner.
- Financial limits on the City's ability to fund project costs dictated by the amount and duration of the tax increment revenues available.
- In some cases the developer will pay all costs upfront and be reimbursed for eligible project costs over a period of time. This is generally referred to as “pay-as-you-go” financing.
  - ◆ Reimbursements are made from tax increment revenues.
  - ◆ This financing approach significantly reduces City liability and risk.
  - ◆ If development does not occur or does not reach the levels forecasted, increment is reduced and less funds are available for reimbursement.

## 5. Documents

### Development District Program

- This document (or equivalent document, i.e. Redevelopment Plan) establishes overall guidelines for the project area boundaries and the type and level of improvements to be constructed or acquired.
- This document does not establish the TIF district.

### Tax Increment Financing Plan

- This document establishes the boundaries of the TIF district, the expenditures and financing limitations, elects year to first receive tax increments (with limitation) and starts the process for collection of tax increment revenue by the City.
- The Development District Program and the Tax Increment Financing Plan can be drafted either concurrently or the Development District Program can be drafted first and the TIF Plan later on.

### Development Agreement

- A. This document is a contract between the City and the landowner, stipulating the obligations of each party. The Development Agreement usually requires the landowner to:
  - Construct a development within a certain time frame with a specified minimum size and market value.
  - Provide guarantees ensuring the timely completion of the development, and may require prompt payment of property taxes and debt service shortfalls.
  - May require the City to construct public improvements and/or purchase land associated with the new development according to an agreed upon schedule using the expected tax increment revenue.
- B. Terms of this agreement may well dictate whether bonds are tax-exempt or taxable.
- C. Many cities currently require a Development Agreement on all new developments.

## 6. Policy Questions

### “But For” Test

- In order for the City to create a TIF district it must make a finding that the new development/redevelopment would not occur “But For” the use of tax increment financing.
- The critics of TIF state that the development would occur anyway and the City is simply giving funds to a private party.
- Counties and school districts are particularly interested in this finding because they will not realize any enhancement to their general tax base until after the TIF district is terminated (up to 26 years depending on type of district).

### Project Area

The project area, the parcels upon which TIF funds can be spent, can be the same as or greater than the TIF district.

- Does the City intend to use TIF funds beyond the parcels from which TIF revenue will be generated?
- Does the City envision numerous TIF districts created over time within a single project area?
- Does the City have other improvement projects in other adjoining areas for which funding can be augmented with TIF?
- Does the scope of the improvement project benefit two or more TIF districts?

### Level of Assistance

- A. How much funding does the City wish to commit to the project?
  - Demonstration by private parties of need for level of TIF assistance requested.
- B. Mandatory imposed limitations
  - Statutory duration of the TIF district
  - Tax capacity rate ceilings
- C. Discretionary imposed limitations
  - Term of TIF district shorter than maximum permitted
  - Nature of expenditures

- ◆ Do they lead to taxability and therefore higher interest rates yielding lower net bond proceeds?
- Pace of development
  - ◆ How soon will development occur?
- Fiscal disparities option on commercial-industrial developments in the Twin Cities Metropolitan Area and Taconite Tax Relief Area.

Fiscal Disparities

- State law requires new commercial-industrial properties in the Twin Cities Metropolitan Area and Taconite Tax Relief Area to contribute up to 40% of their valuation to an area wide pool for distribution back to all local taxing jurisdictions.
- For TIF districts with new commercial-industrial development, the City must decide whether the fiscal disparities contribution will be made from valuation within the TIF district or from commercial-industrial properties located within the City but outside of the TIF district.
- How does this affect the TIF district and related increment revenue?

TIF District Net Tax Capacity Without/With Fiscal Disparities Contribution
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Without  
(Option A)

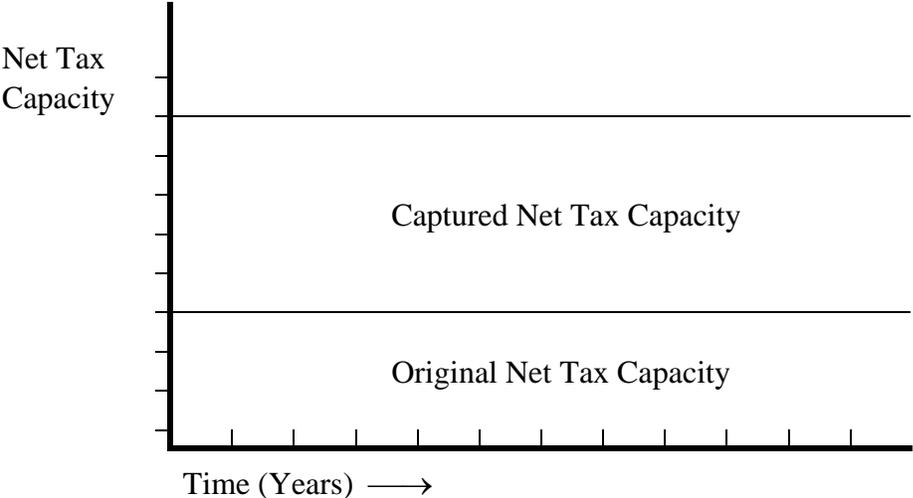
Captured Net Tax Capacity
(ONTC)

With  
(Option B)

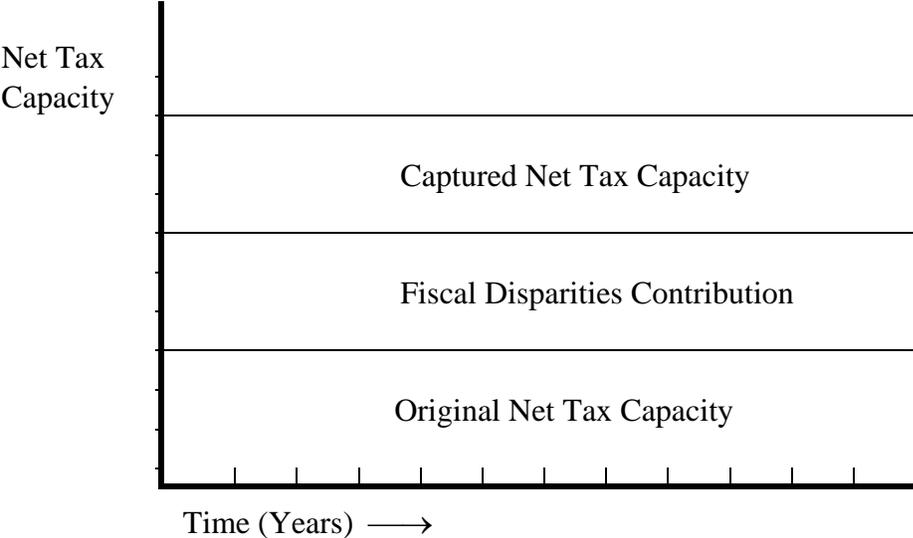
Captured Net Tax Capacity (≥ 60%)
Fiscal Disparities Contribution (≤ 40%)
(ONTC)

- Over the life of the TIF district.

Without Fiscal Disparities Contribution  
(Option A)



With Fiscal Disparities Contribution  
(Option B)



Primary Impacts

If the fiscal disparities contribution comes from the TIF district, less increment revenue results, which restricts the level of funding for the project. If the fiscal disparities contribution comes from outside the TIF district, the converse is true, that being an increase in the level of funding.

### Secondary Impacts

With the fiscal disparities contribution being made from outside the TIF district, the amount of the contribution must come from other commercial-industrial properties within the City.

- The potential exists for City tax rate increases dependent on the relative magnitude of the new development to the City's total tax capacity. With the fiscal disparities contribution coming from outside of the TIF district, the City's total gross tax capacity is reduced by both the TIF captured tax capacity and the fiscal disparities contribution. This can lead to a potentially higher City tax rate.

### City Security Guarantees

- A. Usually when TIF bonds are sold they are general obligation bonds. General obligation TIF bonds require that if increment revenue is not sufficient to pay debt service at any time over the life of the bonds, then the City is ultimately required to levy City-wide property taxes to repay the bonds.
- B. How can this occur?
  - New development is constructed over a longer time frame and/or to a lesser market value than was represented to the City at the time of approval;
  - Property owners don't pay their taxes on time;
  - Property owners pay taxes on time, but with decreases in tax capacity rates caused by changes in the funding of local governments or tax structure changes, actual property tax payments are less than scheduled debt service.
- C. How does the City protect itself?
  - Assessment agreement stipulating the market value of new development and schedule of completion.
  - Withholding bond proceeds or delaying construction of public improvement until all or a portion of new development is completed.
  - Liquidity guarantees (letters of credit) provided by property owners ensuring timely payment of property taxes.

- Liquidity guarantees (letters of credit) provided by property owners covering debt service shortfalls regardless if taxes are paid on time.
  - Pay-as-you-go: No debt is issued. The landowner finances his own improvements and is reimbursed over time by the City from the actual collection of increment revenue.
- D. The type of guarantees depends on the level of risk the City perceives itself to be exposed to.

### City Administrative Costs

The establishment of a TIF district and the negotiation of a thorough Development Agreement require substantial time commitments by City staff and its consultants. A large portion of that time is expended prior to the signing of the Development Agreement and before actual construction of the new development. Furthermore, additional City staff time is needed to monitor and report on the performance of the TIF district over its life. The legislature has anticipated these City costs by providing for a reimbursement for administrative costs (interfund resolution required). This reimbursement is limited to the lesser of 10% of project costs or 10% of increment revenue, and is intended to cover all staff and consultant costs other than engineering.

The City should consider two relevant policy questions.

- Does the City wish to receive a guarantee of its costs from the landowner for the period from inception of the TIF process until signing of the Development Agreement? This guarantee covers the situation whereby the project terminates during the negotiation phase.
- What is the appropriate level of administrative cost reimbursement?

## 7. Future Considerations

The City has determined that its primary objectives regarding the future use of tax increment financing is to maximize pooling for redevelopment qualifying activities specifically related to Twin Lakes and Dale Street Project Area. The City has undergone the necessary steps to provide authority for the spending of available increment for those identified projects. TIF was created as a tool for development or redevelopment of specific project sites and defined areas. A TIF District is required to be decertified once all obligations have been paid and the objectives of the TIF Plan have been met.

Continuing to receive tax increment from the Districts through the maximum term enables the City to retain the captured tax capacity to finance additional TIF eligible projects, as allowed by the individual TIF Plans and TIF District establishment dates. However, decertifying the TIF districts once obligations have been met will allow the captured tax capacity to be added to the city's total tax capacity thereby helping to reduce property owners' overall tax burden.

Depending on the establishing dates, in most cases the City will be required to decertify individual districts upon fulfillment of individual obligations, especially those newer districts established as post-1990.

Minnesota State Law sites specific restrictions regarding the use of tax increment based on the various types of districts.

### Pre-1990 Redevelopment TIF District

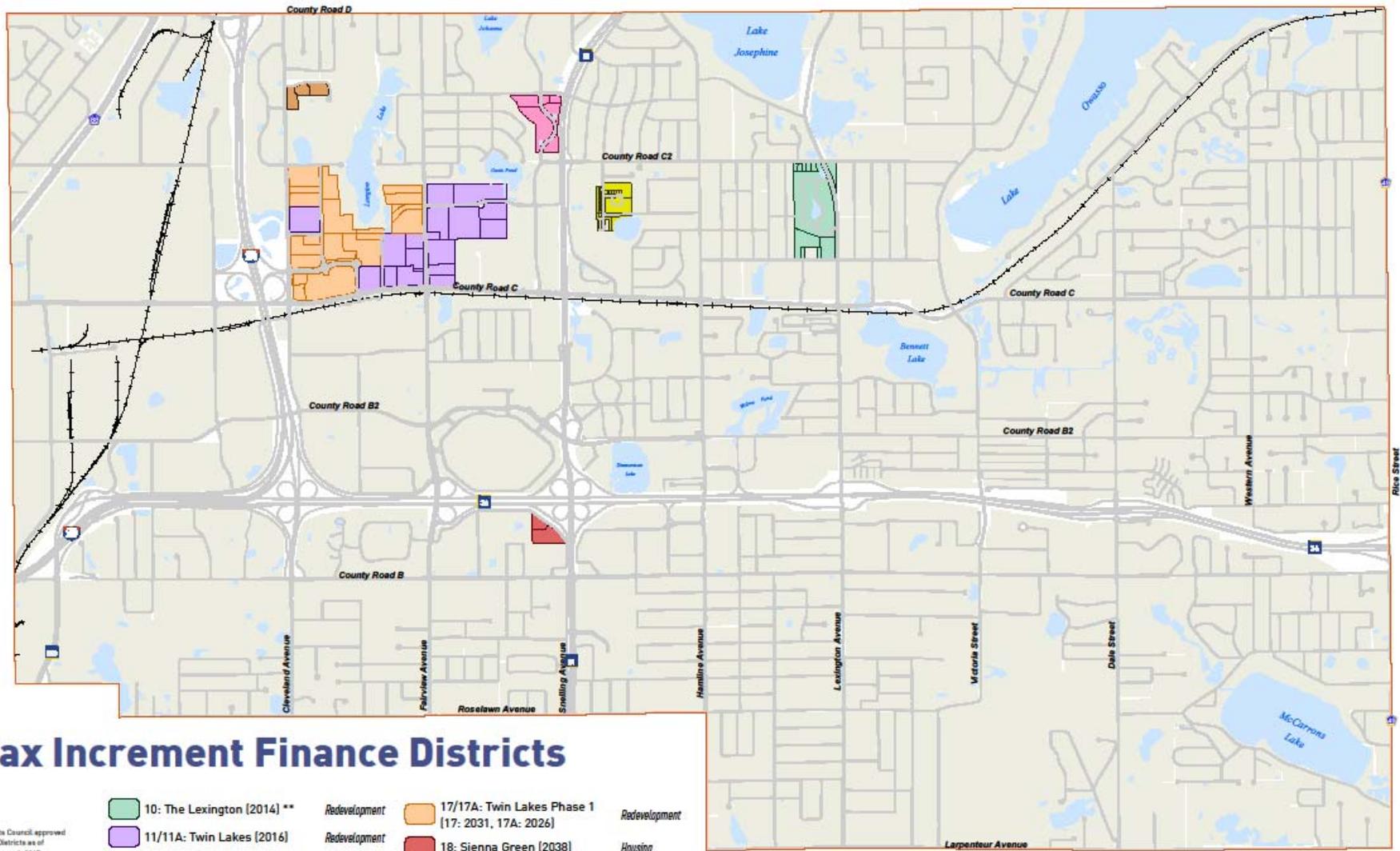
- No pooling restrictions.

### Post-1990 Redevelopment TIF District (MN Statutes 469.176, subd. 4j)

- Pooling restrictions apply and at least 90 percent of the revenues derived from tax increments from a redevelopment district must be used to finance the cost of correcting conditions that allow designation of redevelopment districts.

### Housing TIF District (MN Statutes 469.176, subd. 4d)

- Revenue derived from tax increment from a housing district must be used solely to finance the cost of housing projects as defined in sections 469.174, subdivision 11, and 469.1761. The cost of public improvements directly related to the housing projects and the allocated administrative expenses of the authority may be included in the cost of a housing project. Housing project means a project, or a portion of a project, that meets all of the qualifications of a housing established as a housing district. In the case of a housing district, a housing project, is an activity in the district



# Tax Increment Finance Districts

Map reflects Council approved TIF Districts as of January 1, 2015  
**ROSEVILLE**  
 Prepared by: Community Development Department  
 Printed: February 2015

- |   |                      |  |                             |
|---|----------------------|--|-----------------------------|
| <span style="color: green;">■</span> 10: The Lexington (2014) **  | <i>Redevelopment</i> | <span style="color: orange;">■</span> 17/17A: Twin Lakes Phase 1 (17: 2031, 17A: 2026) | <i>Redevelopment</i>        |
| <span style="color: purple;">■</span> 11/11A: Twin Lakes (2016)   | <i>Redevelopment</i> | <span style="color: red;">■</span> 18: Sienna Green (2038)                             | <i>Housing</i>              |
| <span style="color: yellow;">■</span> 12: NCR (2016)              | <i>Redevelopment</i> | <span style="color: brown;">■</span> 19: Applewood Pointe (2020)                       | <i>Economic Development</i> |
| <span style="color: pink;">■</span> 13: College Properties (2018) | <i>Redevelopment</i> |  |                             |
|   |                      | ** Not yet closed  |                             |

**Data Sources**  
 \* Ramsey County GIS (1/20/2015)  
 \*\* City of Roseville Community Development  
 \* City of Roseville Finance Department

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