TIF & Tax Abatement 101 & Status Report
City of West St. Paul

Jason Aarsvold– Ehlers

January 24, 2022
Redevelopment

“The most important investment you can make is in yourself”

---Warren Buffet
Why is Reinvestment Important

- Tax base
- Appearance / desirability (your brand)
- Housing Diversification
- Development of public infrastructure
- Stability (public safety)
- Sustainability
- Extends to success in other areas (i.e. private investment)
# TIF and Increase in Tax Base

866% increase in market value overall upon completion

<table>
<thead>
<tr>
<th>District</th>
<th>Original Market Value</th>
<th>* Pay 2021 Market Value</th>
<th>Percent Increase in Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>TIF 1-2 Walmart</td>
<td>$6,149,800</td>
<td>$18,768,702</td>
<td>205.19%</td>
</tr>
<tr>
<td>TIF 1-3 Sherman</td>
<td>$1,024,400</td>
<td>$7,413,200</td>
<td>723.66%</td>
</tr>
<tr>
<td>* TIF 1-5 The Winslow</td>
<td>$1,230,000</td>
<td>$9,065,500</td>
<td>637.03%</td>
</tr>
<tr>
<td>** Town Center (Roers)</td>
<td>$2,793,700</td>
<td>$2,793,700</td>
<td>0.00%</td>
</tr>
<tr>
<td>** Kmart (Dominium)</td>
<td>$3,899,304</td>
<td>$3,899,304</td>
<td>0.00%</td>
</tr>
<tr>
<td>** TOTAL</td>
<td>$15,097,204</td>
<td>$35,247,402</td>
<td>277.80%</td>
</tr>
</tbody>
</table>

* Partial Value  
** Under construction

<table>
<thead>
<tr>
<th>District</th>
<th>Original Market Value</th>
<th>Final Valuation</th>
<th>Percent Increase in Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>TIF 1-2 Walmart</td>
<td>$6,149,800</td>
<td>$18,768,702</td>
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<tr>
<td>TIF 1-5 The Winslow</td>
<td>$1,230,000</td>
<td>$20,920,600</td>
<td>1600.86%</td>
</tr>
<tr>
<td>Town Center (Roers)</td>
<td>$2,793,700</td>
<td>$24,795,000</td>
<td>787.53%</td>
</tr>
<tr>
<td>Kmart (Dominium)</td>
<td>$3,899,304</td>
<td>$58,950,000</td>
<td>1411.81%</td>
</tr>
<tr>
<td>** TOTAL</td>
<td>$15,097,204</td>
<td>$47,102,502</td>
<td>866.70%</td>
</tr>
</tbody>
</table>

* Shaded TIF Districts are expected value upon final valuation
Spectrum of City / EDA Participation to Promote Reinvestment

Many potential (re)development approaches – just a few examples:

- **Limited**
  - Open to (re)development but little public participation and no public incentives

- **Specific goals for (re)development; willing to consider limited incentives and non-GO debt**

- **Aggressive**
  - Active partner with private developer(s); willing to consider issuing GO TIF debt for some project costs

  - Proactive public participation; including bonding for site acquisition and remediation, resale for (re)development by private or public interests
Without TIF or tax abatement development wouldn’t happen as proposed

- But-for test ([not required by statute for tax abatement](#))
- Market value increase
- Reasonably foreseeable future
- Pro forma review

Need for TIF & tax abatement is driven by

- Market conditions
- Affordable housing requirements
- Required infrastructure and/or remediation
- Site amenities
- Underground parking
- Quality of architecture and buildings
- Total development costs
What is TIF and Tax Abatement?

- **TIF** = The ability to capture the *increased portion* of the local property tax revenues within a defined *geographic area* to assist with redevelopment and development.

- **Tax Abatement** = The ability to capture and use *all or a portion* of the local property tax revenues within a *defined geographic area* to assist with redevelopment and development.

- Most cities treat abatement *like TIF* and *only abate increased market value*.
TIF EXAMPLE

Baseline Property Value

Captured Assessed Value

Tax Increment

Value After Termination of TIF

Assessed Value

Creation

Time

Termination
Forms of Financing

1. Pay-as-you-go (PAYGO)
   - Developer funds TIF-eligible expenses
   - No risk to City
   - Interest rate tied to developer financing

2. GO TIF Bonds (1 bond issue for TIF 1-2)
   - Risk to City
   - If TIF isn’t adequate, the City will levy taxes to pay debt service
   - Carries the lowest interest rate
Types of TIF Districts

Redevelopment
- **Redevelopment** TIF District (26 year maximum)
- **Renewal and Renovation** TIF District (16 year maximum)

Affordable housing
- **Housing** TIF District (26 year maximum)

Job and tax base creation
- **Economic Development** TIF District (9 year maximum)
When to Use Abatement

• Where TIF can’t be used

• Parks, Community Centers, Ice Arenas & Sports Facilities

• Retail Development
  • To obtain restaurants
  • Renovation/repurposing of existing retail

• Market Rate Rental
  • Developing on a “Greenfield” site
  • No income restrictions
Redevelopment

**Tax Increment**

- Coverage requirements
- Substandard building requirements
- Reasonable distribution of conditions

**Tax Abatement**

- No coverage or inspection requirements
Housing

Tax Increment

- Income test is main qualification
- Can include market rate housing to contribute TIF to affordable housing

Tax Abatement

- No income requirements
Geographic Areas

**Tax Increment**

- District must be in a project area, which sets boundaries for expenditures
- District defines parcels for capture of value

**Tax Abatement**

- Parcels with taxes abated must be identified
- No restrictions on area of expenditure
Maximum Terms

**Tax Increment**

- Redevelopment & Housing – 26 years
- Renovation & Renewal – 16 years
- Economic Development – 9 years

**Tax Abatement**

- Participation by all 3 entities – 15 years
- Participation by 1 or 2 entities – 20 years
Approval Process

Tax Increment

• Preparation of TIF Plan
• Notification to County and School District, but does not require approval from other jurisdictions
• City holds public hearing and adopts resolution with findings and approving a TIF plan

Tax Abatement

• Requires public hearing by each participating jurisdiction
• Each jurisdiction adopts a resolution with statement of public benefit and term of abatement
Maximum Use

Tax Increment

• No maximum on annual increment generated or number of Districts

Tax Abatement

• Maximum cannot exceed greater of $200,000 or 10% of estimated net tax capacity
Restrictions on Use

**Tax Increment**

- Restrictions on use depending on type of District
- General governmental use is prohibited
- Recreational use is prohibited

**Tax Abatement**

- Few restrictions on use
- Can use on some governmental uses like parks, ice arena, sports dome
- Cannot abate taxes on a parcel in a TIF district
Use of TIF Admin Dollars (10% of TIF)

1. **Administrative costs** which include:
   - Staff time related to redevelopment and documented
   - Consultant time (Ehlers, TIF Attorney, City Attorney, others)

2. **Redevelopment costs** which can include:
   - Acquisition of blighted property
   - Rehabilitation of a blighted property for resale
   - Environmental remediation demolition
   - Public improvements related to a redevelopment project

3. **Affordable housing costs** which can include anything related to study, program development, development or rehabilitation of affordable housing
## Number of TIF Districts

### 5 Active TIF Districts
- **4 Redevelopment**
- **2 Housing**

<table>
<thead>
<tr>
<th>Category</th>
<th>1-2 (Walmart, Wentworth TH/Com)</th>
<th>1-3 (Sherman)</th>
<th>1-5 (The Winslow)</th>
<th>Town Center (Roers)</th>
<th>Kmart (Dominium)</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Type</td>
<td>Redevelopment</td>
<td>Redevelopment</td>
<td>Housing</td>
<td>Redevelopment</td>
<td>Housing</td>
</tr>
<tr>
<td>Project/Costs Financed</td>
<td>Acquisition and site preparation for Walmart, North Wentworth Town Homes and Commercial Strip</td>
<td>Acquisition and site preparation for 35 apartments and 9,000 sq/ft retail</td>
<td>Construction of 172 apartments affordable at 60% AMI and below</td>
<td>Construction of 192 market rate apartments and 1,700 sq/ft of retail</td>
<td>Construction of 146 non-age restricted apartments and 247 sr. apartments all affordable to persons at or below 60% AMI</td>
</tr>
<tr>
<td>Anticipated term</td>
<td>12/31/2030</td>
<td>12/31/2031</td>
<td>12/31/2035</td>
<td>12/31/2039</td>
<td>12/31/2039</td>
</tr>
</tbody>
</table>
### Future Captured Tax Capacity in TIF

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDA TIF 14</td>
<td>199,717</td>
<td>118,933</td>
<td>134,491</td>
<td>145,766</td>
<td>147,224</td>
<td>148,696</td>
<td>150,183</td>
<td>151,685</td>
<td>153,202</td>
</tr>
<tr>
<td>TIF 1-3 Sherman</td>
<td>79,284</td>
<td>79,923</td>
<td>85,495</td>
<td>91,028</td>
<td>91,938</td>
<td>92,858</td>
<td>93,786</td>
<td>94,724</td>
<td>95,671</td>
</tr>
<tr>
<td>TIF 1-5 The Winshw</td>
<td>0</td>
<td>0</td>
<td>140</td>
<td>104,099</td>
<td>105,140</td>
<td>106,191</td>
<td>107,253</td>
<td>108,326</td>
<td>109,409</td>
</tr>
<tr>
<td>Town Center TIF (Roers)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>45,668</td>
<td>200,682</td>
<td>275,432</td>
<td>278,186</td>
<td>280,968</td>
</tr>
<tr>
<td>Kmart TIF (Dominiun)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>56,724</td>
<td>282,693</td>
<td>314,630</td>
<td>317,776</td>
<td></td>
</tr>
<tr>
<td><strong>Captured TIF Tax Capacity</strong></td>
<td>486,908</td>
<td>414,849</td>
<td>433,748</td>
<td>568,647</td>
<td>620,001</td>
<td>837,483</td>
<td>1,144,003</td>
<td>1,184,553</td>
<td>1,196,398</td>
</tr>
<tr>
<td><strong>Total Tax Capacity (Gross)</strong></td>
<td>19,139,486</td>
<td>20,297,891</td>
<td>21,985,058</td>
<td>23,378,205</td>
<td>24,746,207</td>
<td>24,993,669</td>
<td>25,243,606</td>
<td>25,496,042</td>
<td>25,751,002</td>
</tr>
<tr>
<td><strong>Percentage of Tax Base in TIF</strong></td>
<td>2.5%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.4%</td>
<td>2.5%</td>
<td>3.4%</td>
<td>4.5%</td>
<td>4.6%</td>
<td></td>
</tr>
</tbody>
</table>

Assumes 1% annual increase in tax base and TIF beginning in payable 2022.

<table>
<thead>
<tr>
<th>Comparable City</th>
<th>Captured TIF as a % of Tax Base</th>
<th>Pay 2021 City Tax Rate</th>
<th>City Bond Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brooklyn Center</td>
<td>16.5%</td>
<td>66.260%</td>
<td>AA</td>
</tr>
<tr>
<td>Hopkins</td>
<td>10.2%</td>
<td>66.252%</td>
<td>AA+</td>
</tr>
<tr>
<td>New Brighton</td>
<td>8.9%</td>
<td>37.798%</td>
<td>AA</td>
</tr>
<tr>
<td>New Hope</td>
<td>5.7%</td>
<td>63.940%</td>
<td>AA</td>
</tr>
<tr>
<td>Richfield</td>
<td>9.7%</td>
<td>54.080%</td>
<td>Aa2</td>
</tr>
<tr>
<td>Robbinsdale</td>
<td>6.5%</td>
<td>52.143%</td>
<td>AA</td>
</tr>
<tr>
<td>St. Louis Park</td>
<td>11.6%</td>
<td>42.855%</td>
<td>AAA</td>
</tr>
<tr>
<td>South St. Paul</td>
<td>11.3%</td>
<td>63.388%</td>
<td>Aa2</td>
</tr>
<tr>
<td><strong>West St. Paul</strong></td>
<td><strong>2.4%</strong></td>
<td><strong>69.427%</strong></td>
<td><strong>AA</strong></td>
</tr>
</tbody>
</table>
## Existing Obligations

### Pay As You Go & Interfund Loan Obligations

<table>
<thead>
<tr>
<th>District</th>
<th>Note</th>
<th>Outstanding After 2/1/2022</th>
<th>Total By TIF District</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TIF 1-2</strong></td>
<td>Town Home</td>
<td>$657,258</td>
<td>$1,526,472</td>
</tr>
<tr>
<td></td>
<td>Commercial</td>
<td>$869,214</td>
<td></td>
</tr>
<tr>
<td><strong>TIF 1-3</strong></td>
<td>Interfund Loan</td>
<td>$1,071,943</td>
<td>$1,071,943</td>
</tr>
<tr>
<td><strong>TIF 1-5 (The Winslow)</strong></td>
<td>Real Estate Equities</td>
<td>$1,662,000</td>
<td>$1,662,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td>$4,260,415</td>
</tr>
</tbody>
</table>

*47% of the obligations are within TIF 1-2*

### Bonds After 2/1/2022

<table>
<thead>
<tr>
<th>Issue</th>
<th>Outstanding Amount</th>
<th>Paying District</th>
<th>End Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015C GO Refunding Bonds</td>
<td>$895,000</td>
<td>TIF 1-2</td>
<td>2/1/2031</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$895,000</td>
<td></td>
<td></td>
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</tbody>
</table>

### Tax Abatement Obligation After 2/1/2022

<table>
<thead>
<tr>
<th>Issue</th>
<th>Outstanding Amount</th>
<th>Paying District</th>
<th>End Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oppidan</td>
<td>$500,000</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$500,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Tax abatement note has not yet been issued*
Let’s Talk!