



STAFF REPORT

DATE: September 14, 2021

DISCUSSION

AGENDA ITEM: Tax Increment Financing (TIF) Introduction and NorthPoint Request

TO: Mayor and Council

SUBMITTED BY: Kristina Handt, City Administrator

BACKGROUND:

The city has been asked by NorthPoint Development to consider approving a Tax Increment Finance (TIF) district for their development on 77 acres south of CSAH 14 and east of CSAH 13. Since the city has not done any TIF districts in the past, I've asked Tammy Omdal from Northland Public Finance (the city's financial consultant) to attend the work session and provide a high level introduction to TIF so council can be more familiar with the program when considering the developer's request. Jenny Boulton from Kennedy Graven will also be there to answer any legal questions as she would be involved in helping to draft the documents to create the TIF should the city decide to move forward.

ISSUE BEFORE COUNCIL:

What questions does the council have about TIF? Any direction to staff following the presentations?

PROPOSAL DETAILS/ANALYSIS:

Included in your packet is a copy of Omdal's presentation for the meeting. It covers how TIF works, what's required and other considerations. If the council decides to move forward with TIF, the city will need to develop and adopt a business subsidy policy. It is important to note that if the council adopts a business subsidy policy it will apply to any request for TIF. It is not easy to change the policy once in place as it would require approval by the state to make changes.

Also included in your packet is some information on the proposed development by NorthPoint. Slide 5 outlines some public infrastructure costs typically paid by developers. In addition to these amounts, the TIF funds could cover the cost of the city expenses for sewer (about \$750,000) and an AUAR for the whole 180 acres so the site north of CSAH 14 wouldn't need to complete this work at a later date. These are all tentative items and subject to negotiation.

OPTIONS:

No final decisions are being made tonight. The main purpose is to educate the council on TIF and hear from the NorthPoint representatives. Any feedback would be helpful in providing direction on how we move forward with the drafting of a business subsidy policy, if the council so chooses. Staff would begin the policy discussion with the EDA if given the direction.

FISCAL IMPACT:

To be determined based upon increment created, length of district, and other negotiations with developer. TIF could be used to fund public infrastructure such as the sewer extension from Oakdale. If TIF was used the city would not have to rely on sewer or ARPA funds thereby freeing them up for other uses.

ATTACHMENTS:

- TIF Handout from Northland
- NorthPoint Info

TAX INCREMENT FINANCING (TIF) OVERVIEW

CITY OF LAKE ELMO
SEPTEMBER 14, 2021

Tammy Omdal, Northland Public Finance



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Overview

- Key Questions for TIF
 - How does TIF work?
 - What is the “but for test”?
 - Why is it so complex?
 - Who can establish and what are the requirements?
 - What is the duration of districts?
 - What are the limitations for use of TIF?
- Potential use of TIF in Lake Elmo



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How does TIF work?

- Property taxes created by development are captured and used to finance eligible project costs
- Purpose is to encourage development that would otherwise not be feasible
- Primary public finance development tool
- Simple in concept, but complex in application



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How are tax increments derived?



Taxes “captured” during term of the TIF district are distributed for deposit to the TIF District

Base Value – value before development or redevelopment

Continues to be paid to local taxing jurisdictions (city, county, school, etc)



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What is the “but for” test?

- Before creating a TIF district, City must find that in its opinion the subsidized development would not have happened “but for” the use of TIF
- Generally thought to have two purposes:
 - To prevent excessive use of TIF
 - To protect the interests of overlapping governmental units

Why is TIF so complex?

- TIF Act (MS Sections 469.174 to 469.1794 is complex and has changed over the years and continues to change
- Challenge in using TIF lies with the complexity of statutory limitations
- These complexities make it impractical to provide a thorough explanation of TIF in the limited time of this workshop
- We will keep focus on the “big picture”

Who can establish a TIF District?

- TIF Act gives the power to establish districts to an “authority”
- City has the power to act for the purposes of creating and administering TIF districts and plans

Who can establish a TIF District?

- Must establish TIF districts within the boundaries of a Project Area
- City has the authority to establish any of the various types of TIF districts authorized in statute (housing district, redevelopment district, etc.)

What are the requirements for establishing a TIF district?

- There are different types of TIF districts authorized by the TIF Law
- Which type of district is applicable to a specific project depends on the details of the project

What are the requirements for establishing a TIF district?

- To create a TIF district a specific process must be followed and ongoing reporting is required
- After a TIF district is established, there are other requirements that may be applicable depending on how the TIF will be used

What are the requirements for granting a business subsidy?

- Business subsidy may not be granted until the grantor has adopted criteria after a public hearing
 - Criteria may not be adopted on a case-by-case basis.
 - Requirements can be found in MN Statutes Sections 116J.003 to 116J.995
 - Business subsidy requirements are not specific to TIF, other forms of assistance may be subject to the business subsidy requirements

What needs to be included in a business subsidy policy?

- Criteria must set specific minimum requirements that recipients must meet in order to be eligible to receive business subsidies
- Criteria must include a specific wage floor for wages to be paid and jobs created
 - Wage floor may be stated as a specific dollar value or may be stated as a formula that will generate a specific dollar amount
 - For example, full-time equivalent (FTE) employees of a business subsidy recipient shall be paid wages excluding benefits of at least 110% of the federal poverty level for a family of four
 - A copy of the criteria must be submitted to DEED along with the first annual report after a grantor has adopted criteria

What is the maximum duration of TIF Districts?

- Depends on the type of TIF district
 - Economic development district is 9 years
 - Redevelopment district is 26 years
 - Housing district is 26 years
 - Renewal and Renovation District is 16 years
 - Soils condition district is 21 years
 - Hazardous Substance Sub-District is 26 years



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What are limitations for use of TIF?

- Use of TIF requires a clear understanding of the statutory limitations
- Use of TIF revenues is controlled by both State law and by the plan for a TIF district
- State law sets forth specific limitations based on the type of TIF district
- Use of TIF must be authorized by a TIF plan adopted by the City



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What are limitations for use of TIF?

- Term “pooling” refers to the ability to spend money outside of the geographic boundaries of a TIF district and within the boundaries of a larger Project Area
- Certain pooling limitations may apply, as defined in Minnesota statute, depending on the type of district



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What are limitations for use of TIF?

- Timing factors must be considered in creating a TIF district
- Establishing a district or making certain findings for substandard buildings, too far in advance of actual development may limit future ability to establish TIF districts and the use of increments
- State Legislature periodically makes changes to the statutes that govern TIF



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Potential use of TIF in Lake Elmo

- Establishment of TIF districts is one of several tools the City may consider for the implementation of plans for development and redevelopment
- Ability to meet the statutory criteria for establishing a TIF district is a key to the creation and use of tax increments



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Potential use of TIF in Lake Elmo

- City has received a request for the City to consider the establishment of an economic development district
 - Warehouse and distribution buildings
 - Capture increase in valuation (property taxes) from new development for 9-year duration to assist the development



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Potential use of TIF in Lake Elmo

- Under MN law each type of TIF district has certain criteria that must be met
 - For an economic development district, the property use must generally be for warehousing, distribution, and/or manufacturing
- Criteria must be met both in the original establishment of a district and on-going use of increment that is generated



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Potential use of TIF

- During life of a TIF District increase in valuation of property, from base valuation before TIF, is captured to assist the development

	Example for Annual Property Taxes Payable from Example Property		
	Before TIF	During TIF	After TIF
Taxable Market Valuation of Property	1,261,391	68,250,000	68,250,000
City Property Tax	3,627	3,627	202,154
County Property Tax	4,180	4,180	232,993
School Property Tax (Net Tax Capacity)	2,651	2,651	147,759
School Property Tax (Referendum)	2,140	115,782	115,782
Other Property Tax	1,176	1,176	65,566
State Property Tax	8,267	490,290	490,290
Local Taxes Paid to Fiscal Disparities Pool	12,742	710,142	710,142
Captured Taxes for TIF	-	636,837	-
Total Property Taxes Payable	34,784	1,964,686	1,964,686

Note: Analysis assumes no change in taxable market valuation during duration of TIF District for simplicity of illustration the example. In this example, the property within the TIF District is contributing tax capacity to the fiscal disparities pool.



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Illustration for use of TIF

EXAMPLE TIF CASH FLOW										TIF Retained by City 10%		Net Available TIF 90.0%	
TIF District Year	Taxable Market Value	Tax Capacity	Captured Tax Capacity After Fiscal Disparities	Original Tax Rate	Captured Tax Increment Financing (TIF)	Less State Fee	Total TIF Distributed to City	Total TIF to City	PV of Total TIF to City	Net Available TIF	PV of Net Available TIF ⁵		
1	18,850,000	376,250	220,514	75.83%	167,209	(602)	166,607	16,661	15,074	149,946	135,668		
2	43,842,500	876,100	533,853	75.83%	404,803	(1,457)	403,346	40,335	49,980	363,011	449,817		
3	59,117,500	1,181,600	725,361	75.83%	550,017	(1,980)	548,037	54,804	95,342	493,233	858,081		
4	68,250,000	1,364,250	839,858	75.83%	636,837	(2,293)	634,544	63,454	145,579	571,090	1,310,214		
5	68,250,000	1,364,250	839,858	75.83%	636,837	(2,293)	634,544	63,454	193,630	571,090	1,742,668		
6	68,250,000	1,364,250	839,858	75.83%	636,837	(2,293)	634,544	63,454	239,589	571,090	2,156,299		
7	68,250,000	1,364,250	839,858	75.83%	636,837	(2,293)	634,544	63,454	283,547	571,090	2,551,927		
8	68,250,000	1,364,250	839,858	75.83%	636,837	(2,293)	634,544	63,454	325,593	571,090	2,930,335		
9	68,250,000	1,364,250	839,858	75.83%	636,837	(2,293)	634,544	63,454	365,808	571,090	3,292,272		
TOTAL =					4,943,051	(17,795)	4,925,256	492,526		4,432,730			

Key Assumptions for Cash Flow:

- Taxable market value (TMV) annual growth assumption = 0.00%
- Original Tax Capacity Rate estimated based on Taxes Payable Year 2021.
- Election for captured tax capacity is 100.00%
- Present value (PV) calculated based on semi-annual payments and 4.0% rate, and date of 8/1/2022.
- Assumes the City elects for fiscal disparities contribution to be paid from inside the District.

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Potential use of TIF in Lake Elmo

- TIF “retained” by City can be used by the City to pay TIF eligible project costs, including administrative costs for the TIF district
 - Eligible costs including consulting and legal fees, costs related to annual reporting, staff time, etc.
- TIF that is not used to pay eligible costs is excess TIF to be returned to the County for redistribution to the taxing jurisdictions
- Not more than 10% of the tax increment derived from the property can be used to pay administrative costs and the administrative costs are included in the calculation for pooling limitation

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Summary

- TIF can be used to finance many actions needed to facilitate development and development, including land acquisition, site preparation, parking, and public improvements
- TIF creates a means to borrow money needed to pay for redevelopment costs
 - Pay-go TIF revenue note to developer
 - General obligation bonds
 - Interfund loans



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Thank You - Questions

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PROJECT ECONOMIC IMPACT AND NORTHPOINT PROFILE

CYPHERS LOGISTICS PARK

Lake Elmo, Minnesota



NORTHPOINT WAS RANKED THE

#1 INDUSTRIAL DEVELOPER

OVER THE LAST 5 YEARS BY REALCAPITALANALYTICS

107.4+
MILLION SF
CURRENT
INDUSTRIAL PORTFOLIO

27+
MILLION SF
INDUSTRIAL SPACE
UNDER CONSTRUCTION

16.3+
MILLION SF
INDUSTRIAL SPACE
LEASED IN 2020

\$9.5+
BILLION
TOTAL CAPITAL RAISED
SINCE INCEPTION

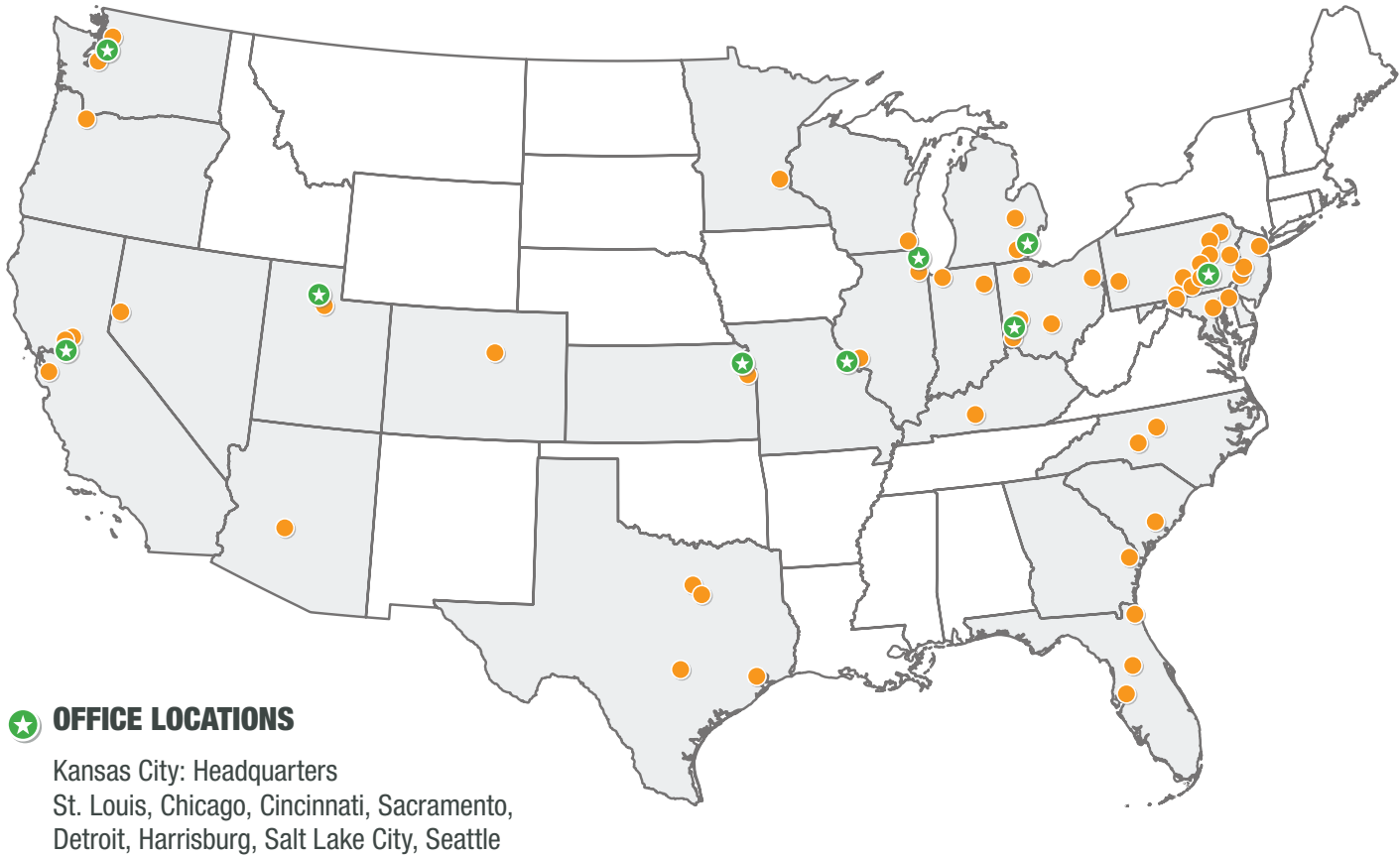
65+
THOUSAND
EST. JOBS CREATED
IN OUR DEVELOPMENTS

\$7.2+
MILLION
CHARITABLE CONTRIBUTIONS
SINCE INCEPTION

*All stats last updated beginning of Q3 2021

ACTIVE MARKETS

CURRENTLY ACTIVE IN 23 STATES



423+ INDUSTRIAL CLIENTS

References available from our clients; a few are represented below





DEVELOPMENT OVERVIEW

Site Area	76.6 acres
Building Coverage	31.5%
Total Building Area	1,074,000 sf
Building 1 Area	415,000 sf
Building 2 Area	189,000 sf
Building 3 Area	189,000 sf
Building 4 Area	281,000 sf




±560
Permanent
Job Creation


455
Construction Jobs


\$27MM
Annual Wages
& Benefits


±76
Acres of Land

DEVELOPMENT OVERVIEW

Site Area	76.6 acres
Building Coverage	31.5%
Total Building Area	1,074,000 sf
Building 1 Area	415,000 sf
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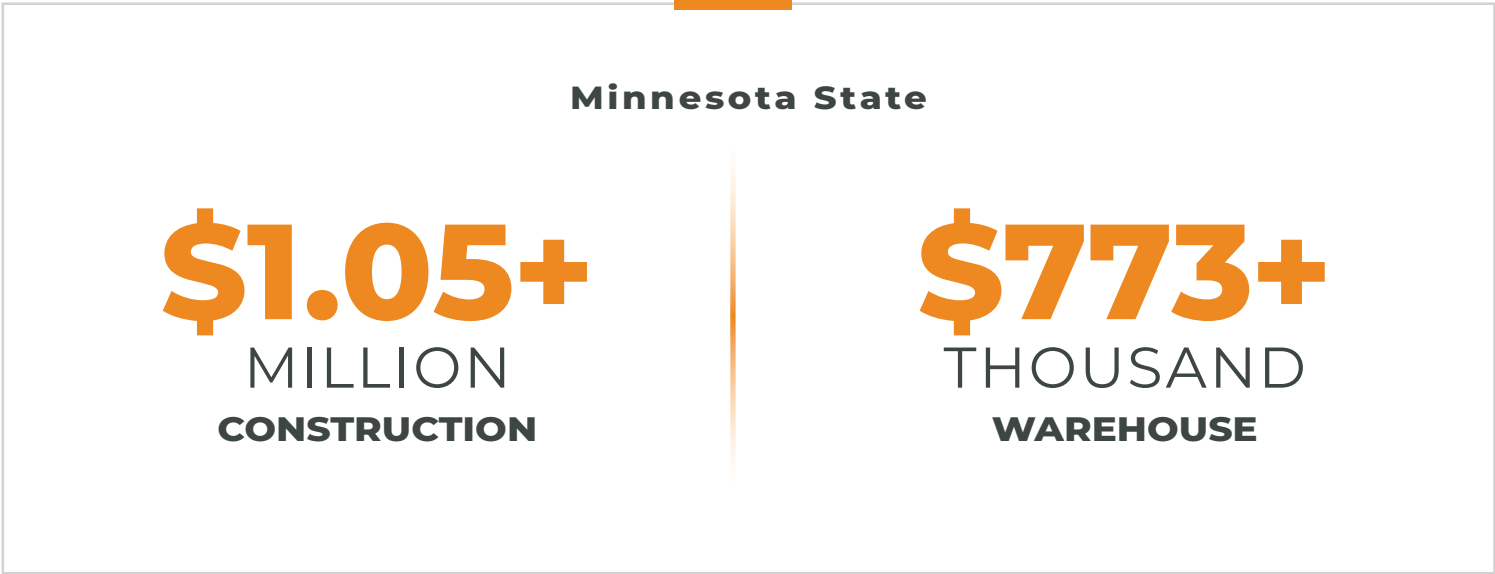
ITEM	QUANTITY	UNITS	UNIT COST	TOTAL
Sewer Extension	1	EA	\$139,400	\$139,400
Auger Under Rail	170	LF	\$1,180	\$200,600
34th St. Signal	1	EA	\$450,000	\$450,000
34th St. Curb Cut and Turn Lanes	1	EA	\$231,000	\$231,000
TOTAL				\$1,021,000

\$1,021,000
ESTIMATED
PUBLIC IMPROVEMENTS

WAGES



TAXES



JOBS



1.07M+
SQUARE FEET
TOTAL

\$103.5M
TOTAL CAPITAL INVESTMENT
ESTIMATED