



# CITY OF GRAND RAPIDS

## Meeting Agenda Full Detail City Council Work Session

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Monday, November 13, 2017

4:00 PM

Conference Room 2A

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**CALL TO ORDER:** Pursuant to due notice and call thereof a Special Meeting/Worksession of the Grand Rapids City Council will be held on Monday, November 13, 2017 at 4:00 p.m. in City Hall Council Chambers, 420 North Pokegama Avenue, Grand Rapids, Minnesota.

**CALL OF ROLL:** On a call of roll, the following members were present:

### Discussion Items

1. 17-0716 Presentation by RAMS - Steve Giorgi
2. 17-0697 TIF Abatement Presentation  
**Attachments:** [TIF and Tax Abatement Overview.pdf](#)
3. 17-0781 Discuss Legislative priorities.
4. 14-0789 Review 5:00 PM Regular Meeting

### ADJOURN

*Attest: Kimberly Gibeau, City Clerk*



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## Legislation Details (With Text)

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**File #:** 17-0716      **Version:** 1      **Name:** RAMS  
**Type:** Agenda Item      **Status:** CC Worksession  
**File created:** 9/25/2017      **In control:** City Council Work Session  
**On agenda:** 11/13/2017      **Final action:** 11/13/2017  
**Title:** Presentation by RAMS - Steve Giorgi

**Sponsors:**

**Indexes:**

**Code sections:**

**Attachments:**

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11/13/2017	1	City Council Work Session	Received and Filed	

Presentation by RAMS - Steve Giorgi



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## Legislation Details (With Text)

**File #:** 17-0697      **Version:** 1      **Name:** TIF Presentation  
**Type:** Agenda Item      **Status:** CC Worksession  
**File created:** 9/19/2017      **In control:** City Council Work Session  
**On agenda:** 11/13/2017      **Final action:** 11/13/2017  
**Title:** TIF Abatement Presentation

**Sponsors:**

**Indexes:**

**Code sections:**


**Attachments:** [TIF and Tax Abatement Overview.pdf](#)

Date	Ver.	Action By	Action	Result
11/13/2017	1	City Council Work Session	Received and Filed	
10/23/2017	1	City Council Work Session	Postponed	

TIF Abatement Presentation

**Background Information:**

Administrator Pagel will provide a presentation/tutorial regarding TIF Abatement to provide greater understanding to Council and public.



# **Tax Increment Financing (TIF) and Economic Development Tax Abatement**



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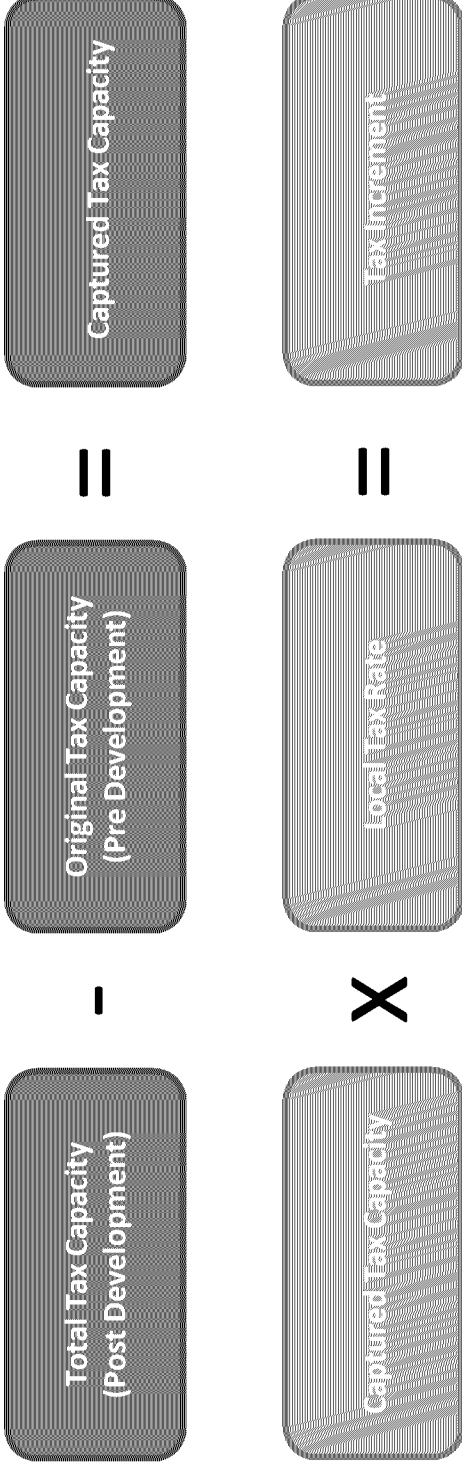
# What is TIF?

Tax Increment Financing (TIF) uses increased property taxes that a new real estate development generates to finance costs of the development.

## In Minnesota TIF is used for two basic purposes:

- To induce or cause a development or redevelopment that otherwise would not occur. (The economics of the development won't work without the assistance, for reasons such as; added cost of building acquisition and removal, development costs won't allow for affordable rents, added cost of site cleanup, etc.)
- To finance public infrastructure that is related to the development.

## How does TIF work?





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## **What government entities can use TIF and when can it be used?**

Minnesota law authorizes development authorities, such as HRAs, EDAs, port authorities and cities to use TIF. The City Council's EDA enabling resolution withholds approval of TIF from GREDA, requiring Council approval. The use of TIF, through approval of a resolution and adoption of a TIF plan by the city, uses property taxes imposed by all types of local governments. The school district and county are generally limited to providing comments to the city.

The type of development or redevelopment that is assisted through TIF must serve a public purpose, such as:

- Expanding the property tax base
- Providing employment opportunities
- Redeveloping blighted areas
- Remediating polluted soils
- Constructing low and moderate income housing.

## **What is the but-for test?**

Under Minnesota statute, before a City can establish a TIF district for a project, the developer must demonstrate and the City must verify that, but-for the use of TIF, the project would not occur in the foreseeable future.

We verify this through careful examination of the development pro-forma, which itemizes all of the anticipated revenues and expenses associated with both the construction and operation of the proposed facility. If that analysis reveals that a reasonable ROI cannot be achieved without TIF revenue, the but-for test is met.

## **How long does a TIF district last?**

TIF districts stay active, until either the amount of TIF revenue requested by the developer is generated by the project or until the TIF district reaches its maximum duration. The various types of TIF districts have differing maximum terms, with Housing and Redevelopment districts lasting as long as 25 years, and Economic Development districts lasting a maximum of only 8 years.



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## How is TIF used to pay “upfront” development costs?

There is a mismatch between when most TIF costs must be paid – at the beginning of the development – and when tax increments are received – after the development is built and begins paying their higher property taxes. Three techniques are used to finance these “upfront” costs:

- **Bonds** – City issues bonds and uses the increment to pay back the bonds over the duration of the district.
- **Interfund Loans** – City advances money from its own funds and uses the increment to reimburse the fund.
- **Pay-as-you-go financing** – The developer must pay the costs with its own funds. The increments are, then, used to reimburse the developer for these costs.

## Where has the City of Grand Rapids used TIF?

In 2012, there were 1,784 active TIF districts in the State of Minnesota, involving 427 development authorities (City, HRA, EDA). In 2017, the City of Grand Rapids has 7 active TIF districts:

**Grand Plaza** - Redevelopment of the former Hospital – Affordable housing

**Crystal Estates** – Redevelopment of the former Middle School – Affordable Housing

**Oakwood Terrace** – New Affordable Housing by Sports Complex

**Block 37** – Redevelopment of the block south of Central School - Redevelopment

**Lakewood Heights** – New Affordable Housing on Golf Course Rd.

**Majestic Pines** – New Affordable Housing for Seniors on Golf Course Rd.

**River Hills** – New Affordable Housing to be constructed at 21<sup>st</sup> St. SE/7<sup>th</sup> Ave. E.

In the past, TIF was used for the Central Square Mall development and the Blandin No. 6 expansion.



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## **What happens after the TIF expires?**

After a TIF district has returned the requested revenue to the developer or reached its maximum duration, it is decertified and all of the property taxes generated by the development, from that point forward, resume a normal distribution to the taxing authorities.





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# What is Economic Development Tax Abatement?

Economic Development Tax Abatement (Abatement), enacted in 1997 by the State Legislature, provides an alternative or a supplement to Tax Increment Financing (TIF). Abatement also uses property taxes that a new or benefitted real estate development generates to finance costs of the development.

Economic Development Tax Abatements should be distinguished from property tax abatements that are granted by a county board, primarily to correct errors.

## For what purposes may Abatement be used?

The law allows Abatements to be used for a broad range of projects and purposes, if the political subdivision finds that public benefits exceed the costs. Permitted uses of Abatement include:

- General economic development, such as increasing tax base or the number of jobs in the community
- Construction of public infrastructure, such as; streets, roads, utilities and public parking.
- Redevelopment of blighted areas
- Providing access to services for residents, such as; housing or retail.
- Deferring or phasing in a large (over 50%) property tax increase

## Which local governments can grant Abatements?

- Counties, cities, towns and school districts can grant abatements by resolution.



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## How do the mechanics of Abatement work?

- Similar to TIF, an application for business assistance, in the form of an Abatement, is first examined for consistency with the City's *Economic Development Policies*, which addresses business subsidies. Although the but-for test is not mandated for Abatement, essentially the same test is applied through this Policy.
- If found to be consistent with the Policy, a resolution is passed that specifies the duration and amount of property taxes to be abated
  - Amount can be set as a percentage of tax payable, a dollar amount, tax attributable to a portion of the parcel's market value, or in other ways.
- The local government(s) add the annual amount of the Abatement to the levy.
- The owner still pays the property tax on the parcel and the political subdivision uses the payment, as provided by the resolution, to either pay bonds or to be given back to the property owner as reimbursement for the required portion of their upfront costs.

## How long does an Abatement last?

The political subdivision sets the length of the Abatement for either a specific length of time or when a specific dollar amount is generated, per the resolution. State law limits the duration to 15 years. The maximum term is extended to 20 years if at least two of the of the three political subdivisions (city/town, county and school district) grant the abatement.



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Economic Development Policies

City of Grand Rapids, Minnesota  
Business Subsidy  
Tax Abatement  
Tax Incentment Financing

Original: May 2002  
Amended: April 13, 2015



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## How is Abatement used to pay “upfront” development costs?

The same three techniques are used to finance “upfront” costs at the beginning of the development:

- **Bonds** – City issues bonds and uses the Abatement revenues to pay back the bonds over the duration of Abatement.
- **Interfund Loans** – City advances money from its own funds and uses the abatement to reimburse the fund.
- **Pay-as-you-go financing** – The developer must pay the upfront costs with its own funds. Usually achieved through bank financing secured by a Tax Abatement Note issued by the local government(s). Over the duration of the Abatement, the property taxes collected from the parcel(s) are, then, used to reimburse the developer for these costs.

## Where has the City of Grand Rapids used Abatement?

In 2011, there were 101 local governments with active Abatements in the State of Minnesota, involving 62 cities and 31 Counties. In 2017, the City of Grand Rapids has 1 active Abatement, which was joined by Itasca County:

**1<sup>st</sup> Avenue Condominiums**- Redevelopment of the former St. Joe’s church & school

In the past, Abatement was used for the DC Manufacturing development, but it was terminated prior to any disbursements.

## What is the limitation on Abatements?

The total amount of property taxes abated may not exceed the larger of:

- 10% of the net tax capacity, or
- \$200,000

The City’s annual Abatement amount is approximately \$25,000, compared to 10% of net tax capacity \$814,220.



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## How Abatements compare with TIF?

TIF and Abatements can be used for similar purposes, both rely on property tax funding and both have similar bonding powers. However, Abatement and TIF differ in important respects:

- TIF can be used for longer durations (up to 25 years in some cases)
- TIF requires approval only by the municipality to capture all local property taxes, while Abatement requires each entity's approval to capture its taxes.
- TIF use is subject to more legal restrictions than Abatement. These include a blight test for redevelopment districts, but-for findings and stricter limits on what increments may be spent on.



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# Questions?



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## Legislation Details (With Text)

**File #:** 17-0781      **Version:** 1      **Name:** Legislative priorities  
**Type:** Agenda Item      **Status:** CC Worksession  
**File created:** 10/30/2017      **In control:** City Council Work Session  
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Discuss Legislative priorities.