




MEMORANDUM
Finance Department
Development Finance Division

Date: June 22, 2009
TO: CLPC Land Use Committee
FROM: Jeff Streder, Development Finance Director 
SUBJECT: **Consolidated Tax Increment Financing District and Plan**

Thank you for the opportunity to respond to CLPC's inquiry regarding the proposed Consolidated Tax Increment Financing District and Plan. I sincerely apologize that I cannot attend this evening's meeting in person, but do hope that this memorandum helps to address the "points to consider" contained in the draft agenda for the meeting.

Background

In 2008, the Minnesota Legislature passed special legislation authorizing the City of Minneapolis to establish a non-contiguous redevelopment tax increment financing (TIF) district comprising all, or portions of, the property currently located within the City's 15 existing pre-1979 TIF districts. These TIF districts were established prior to August 1, 1979 and will terminate on August 1, 2009. The Special Legislation (Laws of Minnesota 2008, Chapter 366, Article 5, Section 37) provides that the new district may be certified after January 1, 2010 and must terminate no later than December 31, 2020. This new TIF district will be named the Consolidated Redevelopment Tax Increment Financing District.

The Special Legislation provides a means of meeting the City's debt service obligations related to the Target Center as well as a source of funding for neighborhood revitalization activities. Pursuant to the Special Legislation, tax increment from the Consolidated TIF District may be expended only (1) to pay principal and interest on bond obligations issued by the City or the Minneapolis Community Development Agency for Target Center; and (2) for neighborhood revitalization purposes. The City must also return to Hennepin County its portion of the tax increment collected.

On July 11, 2008, the Minneapolis City Council approved the Special Legislation, in compliance with the local approval requirement for special laws. In the months thereafter the City Council established financial parameters for the use of the tax increment revenue generated by the district and, on December 11, 2008, directed Finance Department staff to prepare a proposed TIF plan for establishment of the district.

CLPC Points to Consider

1. *How many of the pre-1979 districts should be included? The Mayor recommended only 75% but the law makes no allowance for less than 100%.*

The proposed plan as drafted by the Finance Department includes all 15 of the pre-1979 districts in the new Consolidated TIF District. The draft plan also proposes that the entire tax increment generated within this district be retained by the City (except for the amount to be returned to Hennepin County).

State tax increment law does allow for a city to reduce the portion of captured tax capacity to be retained, so in essence, while all the parcels in the district are certified, the law does not require that all of the tax increment generated be retained and collected by the City. However, the City Council direction to the Finance Department (see Attachment 1) requires that 100% of the parcels be certified and all the captured tax capacity be retained for Target Center debt service and neighborhood revitalization purposes.

2. *Amount guaranteed to go to the Target Center*

On December 11, 2008, (as part of the adoption of the 2009 budget) the City Council approved financial parameters for revenues generated from the Consolidated TIF District (see Attachment 1). Those parameters state that the first \$10 million of revenues generated (after payments to Hennepin County and the costs of administering the TIF district) will go toward Target Center debt service. Of the next \$14 million, an additional \$2 million may be used for expedited Target Center debt service.

3. *What happens if the revenue projection is off and there is less than \$24 million per year for neighborhoods?*

The financial parameters discussed above (and in Attachment 1) state that if available revenues are less than \$24 million, then the funds for expedited Target Center debt payments (\$2 million), general neighborhood revitalization purposes (\$8.5 million), and for neighborhood commercial community revitalization (\$3.5 million) would be proportionally reduced.

For example, if the Consolidated TIF District were to only generate \$20 million in any given year, instead of \$24 million, the revised allocations, based on the current City Council policy, would be as follows:

Uses		Anticipated Distribution (\$24 million)	Reduced Distribution (\$20 million)
A.	Target Center Debt	10.0	10.0
B.	Expedited Target Center Debt	2.0	1.4
C.	Neighborhood Revitalization Purposes	8.5	6.1
D.	Neigh. Commercial Community Revitalization	3.5	2.5
Total		24.0	20.0

In the example above, Target Center Debt (A) is not reduced as a result of the reduction in revenues generated by the new district. The remaining three uses of the funds (B, C and D) are reduced proportionally based on the remaining funds (\$10 million) available for distribution. In this example, a 17% (\$4 million) reduction in revenues results in approximately a 29% reduction to each of the three funds.

However, if this proportionate reduction occurs, full funding of at least \$3 million for "Basic Citizen Participation Services" (within the \$8.5 million for general neighborhood revitalization purposes) would be preserved based on the current City Council policy.

It also should be noted that if revenues exceed \$24 million per year, the excess can be applied to further expedite Target Center debt repayment, applied to the Neighborhood Investment Fund (the portion of the \$8.5 million for general neighborhood revitalization purposes that provides discretionary funding directly to neighborhood organizations for neighborhood-identified priorities), or returned to the contributing taxing jurisdictions (in this instance, the City and the School District).

4. *What happens to the parcels used to pay down the Target debt when the debt is satisfied? Right now, those parcels go back on the tax rolls and are not available to help with neighborhood improvements.*

The proposed plan does not identify revenues generated by specific parcels to be used for specific purposes. Rather, the net tax increment collected is pooled and then disbursed according to the financial parameters adopted by the City Council. However, if these funds are no longer needed for Target Center debt, the financial parameters do require that parcels comprising up to 50% of the captured tax capacity of the district be decertified and their captured tax capacity returned to the tax base.

5. *What baseline of commitment is there to the neighborhoods?*

The attached financial parameters state that \$8.5 million of the revenues will be used for general neighborhood revitalization purposes. As noted above, if projections fall short, a "baseline" of approximately \$3 million would be maintained for basic citizen participation services. However, this should not be construed as a guaranteed amount. If tax increment collections from the proposed TIF district were to fall drastically short of projections, it is conceivably possible, yet highly unlikely, that the full \$3 million would not be available

It should be noted that the current revenue projections found in Exhibit 4 of the Consolidated TIF Plan reflect net tax increment revenues of approximately \$25.8 million for the first year (2011). This revenue would need to fall to approximately \$13.5 million (a 48% reduction) before the \$3 million commitment for basic citizen participation services could no longer be honored.

I hope that this provides you with adequate information relative to your list of points to consider. Should you require additional information, do not hesitate to contact me at (612) 673-5130 or at Jeffrey.Streder@ci.minneapolis.mn.us.

cc: Pat Born, Finance Officer

ATTACHMENT 1

City Council Direction to Staff Footnote to 2009 Adopted Budget December 11, 2008

The Council directs Finance staff to prepare and return to the Council with a proposed tax increment finance plan to establish a redevelopment tax increment financing district. The plan will be circulated for public review and comment and submitted to the Council for consideration no later than July 31, 2009. The plan should have the following financial parameters:

- a. annually provide after the administrative costs of the district:
 - i. At least \$10 million to retire Target Center debt;
 - ii. No more than \$14 million to be allocated as follows:
 1. \$2 million, if needed, to further expedite Target Center debt payment;
 2. \$8.5 million for general neighborhood revitalization purposes;
 3. \$3.5 million for neighborhood commercial community revitalization;
 4. Each of these three items would be proportionally reduced should their available revenues be less than \$14 million. If this proportionate reduction occurs, the dollars for general neighborhood revitalization purposes (item #2 above) shall be allocated as follows:
 - a) Full funding for Basic Citizen Participation Services, as defined by the Neighborhood Community Engagement Commission, up to \$3 million.
 - b) All other uses under general neighborhood revitalization purposes would be proportionately reduced.
 - iii. Revenues received in excess of \$24 million can be applied to further expedite Target Center debt repayment, applied to the Neighborhood Investment Fund, or returned to the contributing tax jurisdictions.
- b. That parcels comprising up to 50% of the captured tax capacity of the district will be decertified and their captured tax capacity returned to the tax base when they are no longer needed for Target Center debt.