



Request for City Council Committee Action from the Department of Finance

Date: August 4, 2008
To: Council Member Paul Ostrow, Chair, Ways & Means/Budget Committee

**Subject: Staff Review and Analysis of Redevelopment Finance District
Legislation**

Recommendation: Receive and File

Previous Directives: July 7, 2008 direction to staff to conduct review and analysis of the Redevelopment Finance District legislation and report back by August 4, 2008

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Approved by: Steven Bosacker, City Coordinator _____
Patrick Born, Finance Officer _____

Presenter in Committee: Jack Kryst, Heather Johnston

Financial Impact

- No financial impact

Supporting Information

Major Provisions of the Legislation

In 2008 the Minnesota Legislature adopted MN Laws 2008, Chapter 366, Article 5, Section 27 (Attachment 1) which authorized the City to establish a non-contiguous redevelopment tax increment financing (TIF) district comprised of the properties within the areas commonly referred to as the pre-1979 TIF districts which are scheduled to decertify (terminate) in 2009.

The district created under this legislation may not be certified before January 1, 2010 and would terminate no later than December 31, 2020, thereby providing a maximum of ten years of tax increment collections from 2011 to 2020.

The City may create this district only if it enters into an agreement to annually pay Hennepin County out of the tax increment generated from the district, an amount equal to the tax that would have been payable to the County from the captured tax capacity of the district had the district not been created.

The legislation establishes the original tax capacity of the district at \$2,731,854, an amount based on the current frozen tax capacity of the pre-1979 TIF districts.

The new district may be created from any or all parcels that are currently within the pre-1979 districts scheduled to decertify in 2009. The legislation is not concerned with which districts contribute parcels to the new district, although in choosing specific parcels for Council consideration and approval of the required TIF plan, staff may consider such issues as current and future development plans.

Under the special legislation, Tax Increment (TI) from the district may be expended only to pay principal and interest on Target Center bonds or for "neighborhood revitalization purposes". The legislation does not specify or require any particular allocation of revenues between these purposes.

The term "neighborhood revitalization purposes" is undefined and leads to ambiguity in understanding the purposes for which these revenues can be used. The Neighborhood Revitalization Program (NRP) law was specific in how NRP dollars could be spent but as noted in the attached legal review (Attachment 2), "We have no comparable authority in the 2008 special law. We thus have no clear basis to avoid any TIF requirements not specifically exempted in the 2008 special law." General Law restricts eligible TI use to various activities such as acquisition, demolition, remediation, relocation, related infrastructure improvements, etc. This interpretation excludes a number of activities that are permissible and ongoing under the NRP law.

Legal review also notes that, "There is no express authority to pay administrative expenses with TIF from the special law redevelopment district and it is difficult to imply such authority." These present at least two points on which clarification from the legislature should be sought.

Local Government Aid (LGA) Impact

The special legislation explicitly states that the captured tax capacity of the district must be included in the calculations for local government aid, education aid and county program aid. The legislation does not shelter the City of Minneapolis from the loss of LGA caused by the decertification of the pre-1979 districts. The City will see an estimated \$9 million drop in LGA in 2011 with approximately \$8 million of this loss impacting the City's General fund. This loss in these amounts will occur whether or not the City uses the special legislation to create a new district; however, the legislation requires the additional tax capacity to be included in the calculation of LGA, even if the value is re-certified in a new district

Revenue Capacity of a District Created under the New Law

A number of assumptions must be made to estimate the pay 2011 net TI that would be available from the special district. Details of these assumptions are shown in Attachment 3. Table A summarizes a range of likely scenarios. The summary is organized around the key question, "What percent of the total value of eligible parcels should be included in the new district?" The table below lists four scenarios that assume from 25 percent to 100 percent of the value of eligible parcels is included in the new district.

Each scenario assumes that the required contribution of commercial/industrial value to the metro-area fiscal disparities pool is made from "inside" the new district. This City election reduces the amount of annual TI generated by the district, but it also eliminates any negative impact to the City's local tax base. In essence, the district would be contributing its fair share and not burdening City taxpayers.

The projected pay 2011 column displays the estimated annual revenue available to the City net of the related fiscal disparities contribution, Office of the State Auditor fees, and the

required TIF reimbursement to the County. It is the net available to the City and does not presume any specific allocation between Target Center debt and neighborhood revitalization purposes.

The percentages shown are illustrative only, and any desired percentage from 0 to 100 could be considered.

Table A

Summary Report
Projected Pay 2011 Net Tax Increment
From Potential New TIF District Established in 2010

<u>Scenario</u>	<u>% of Total Value of Eligible Parcels Included in New TIF District (a)</u>	<u>Projected Pay 2011 Net Tax Increment (b)</u>
A	100%	\$24,146,280
B	75%	\$17,704,083
C	50%	\$11,261,887
D	25%	\$4,819,689

(a) All of the parcels that are in the pre-79 TIF districts (as of 7/1/08) are eligible for inclusion in the new TIF district.

(b) Assumes that the City makes the fiscal disparity Option B election (pursuant to M.S. Section 469.177, Subd. 3) so that the required fiscal disparity contribution is made from inside the TIF district, which eliminates any negative impact to the City's local tax base.

See the Detail Reports in Attachment 3 for other assumptions used in projecting pay 2011 net tax increment.

Impact on Property Tax

The number of assumptions needed to project the impact on property tax payments in 2011 is significant enough to make any calculation unreliable. Staff believes that, although not perfect, the best representation can be made by looking at known values for 2008 and

answering the question: If the pre-1979 districts were decertified and the new district put in place for taxes payable in 2008, what would the property tax impact be? Table B below summarizes the answer to that question across a range of residential property values. This preliminary analysis does not extend to commercial, industrial, or rental housing properties.

Table B

**Projected Change in Annual City Property Taxes Paid
(Ownership Housing)**

% of pre-1979 TIF district parcels placed in the new TIF district	<u>Estimated Market Value (EMV) of Home</u>					
	<u>\$145,000</u>	<u>\$225,500</u>	<u>\$280,000</u>	<u>\$325,000</u>	<u>\$564,000</u>	<u>\$680,000</u>
100%	0	0	0	0	0	0
75%	(\$17)	(\$27)	(\$34)	(\$39)	(\$70)	(\$87)
50%	(\$34)	(\$53)	(\$66)	(\$76)	(\$136)	(\$170)
0%	(\$61)	(\$95)	(\$119)	(\$138)	(\$246)	(\$307)

The table shows that if 100 percent of the eligible value is used to create the new district there would be no tax change from the situation that exists with the pre-1979 districts in place. If a smaller percentage of the value is re-captured in the new district, then there is a corresponding reduction in property tax costs to the homeowner.

This method provides an approximation of the impact of creating the new district, but it should be noted that the pre-1979 districts will decertify in 2009 and the benefit of that decertification will accrue to the City's tax base for payable 2010. Since a new district may not legally be certified before January 1, 2010, its tax base impacts will not be seen until payable 2011. There will exist a one-year transition in 2010 in which – all else being equal – the pay 2010 City tax rate would drop in recognition of the 2009 decertification and then rise again in pay 2011 in recognition of the creation of the new district.

Target Center Debt Service and Finance Plan

Total Target Center bonds outstanding at the end of 2009 will be \$61,335,000. Retirement of this debt could occur over the 10-year life of the district assuming a refinancing and structuring of the outstanding bonds. It is currently projected that annual debt service on new Target Center refinancing bonds would range from \$8.9 million to \$10.1million depending on whether the bonds are tax-exempt or taxable which is not yet determined.

Annual TI needed with 10 year bonds @ 5.0% (tax-exempt)

\$8.9 million (with 110 debt coverage)

Annual TI needed with 10 year bonds @ 7.5% (taxable)

\$10.1 million (with 110% debt coverage)

Revenues from the Redevelopment Finance District may not be used to pay for Target Center costs, other than debt service. However, elimination of the arena's debt obligations presents the opportunity to redirect resources to the currently unfunded capital and

contractual obligations of the arena and provide relief to the funds from which these obligations are currently paid. Such redirection would require City approval of changes to the existing Target Center Finance Plan.

There are a number of sources currently being used to service both the Target Center debt as well as a portion of the City's Target Center capital obligations. They include: Arena District TI, Common Project TI, property taxes, entertainment taxes, parking revenues, and an annual Minnesota Amateur Sports Commission (MASC) payment which is scheduled to cease after 2009. These sources and their estimated capacity after relief of debt service are summarized in Attachment 4.

Policy Considerations

The special legislation does not allow certification of the new district until after January 1, 2010. However, there are a number of issues for policy maker consideration and decision that need to precede the formal creation of a district. Primary among these are:

- How should the opportunities presented by this legislation be applied among the interests of Target Center debt relief; neighborhood revitalization purposes; and property tax relief for City tax payers?
- For which provisions of the special law should the City seek clarification in the next legislative session?
- How should revenues dedicated to neighborhood revitalization purposes be allocated?
- How should benefits from the elimination of Target Center debt be applied to the ongoing Target Center Finance Plan and to the relief of other City funding pressures?