

POLICY 7-C
TAX INCREMENT AND TAX ABATEMENT POLICY

1. PURPOSE

- 1.01 The purpose of this policy is to establish the City's position as relates to the use of Tax Increment Financing (TIF) or Tax Abatement (Abatement) for private development. This policy shall be used as a guide in processing and reviewing applications requesting TIF or Abatement assistance.
- 1.02 The City shall have the option of amending or waiving sections of this policy when determined necessary or appropriate.

2. STATUTORY LIMITATIONS

- 2.01 Requests must comply with Minnesota Statutes 469.174-469.1791, the Minnesota Tax Increment Financing Act. Tax Abatement requests must comply with Minnesota Statutes 469.1812-469.1815.

3. ELIGIBLE USES

- 3.01 As a matter of adopted policy, the City of Hopkins will consider using TIF or Abatement to assist private developments only in those circumstances in which the proposed private projects meet one or more of the following uses.
- A. To redevelop blighted or underutilized areas of the community.
 - B. To meet the following housing-related uses.
 - 1. To provide a diversity of housing adjacent to the Hopkins downtown area.
 - 2. To provide a variety of housing ownership alternatives and housing choices.
 - 3. To promote affordable housing for low or moderate income individuals.
 - 4. To promote neighborhood stabilization and revitalization by the removal of blight and the upgrading in existing housing stock in residential areas.
 - C. To remove blight and encourage redevelopment in the commercial and industrial areas of the City in order to encourage high levels of property maintenance and private reinvestment in those areas.
 - D. To increase the tax base of the City in order to ensure the long-term ability of the City to provide adequate services for its residents while lessening the reliance on residential property tax.
 - E. To retain local jobs, increase the local job base, and provide diversity in that job base.
 - F. To increase the local business and industrial market potential of the City of Hopkins.
 - G. To provide adequate short-term business and shopper parking and resident parking.
 - H. To encourage additional unsubsidized private development in the area, either directly or through secondary "spin-off" development.
 - I. To offset increased costs of redevelopment over and above those costs that a developer

would incur in normal urban and suburban development.

- J. To accelerate the development process and achieve development on sites which would not be developed without this assistance.
- K. To meet other uses of public policy, as adopted by the Council from time to time, including promotion of quality urban design, quality architectural design, energy conservation, decreasing the capital and operating costs of local government, etc.
- L. Finance or provide public infrastructure as part of a development/redevelopment project.
- M. In addition to the above Abatement, may also be used to help provide access to services for residents.

4. PROJECT APPROVAL CRITERIA

4.01 All projects requesting TIF or Abatement assistance should meet the following minimum approval criteria. However, it should not be presumed that a project meeting these criteria will automatically be approved.

- A. The TIF or Abatement assistance shall be provided within applicable state legislative restrictions, debt limit guidelines, and other appropriate financial requirements and policies.
- B. The project should meet one or more of the above eligible uses.
- C. The project must be in accord with the Comprehensive Plan and Zoning Ordinances, or required changes to the Plan and Ordinances must be under active consideration by the City at the time of approval.
- D. TIF or Abatement assistance will not be provided to projects that have the financial feasibility to proceed without public financial assistance. In effect, assistance will not be provided solely to broaden a developer's profit margins on a project. Prior to consideration of a TIF or Abatement assistance request, the City may undertake an independent underwriting of the project to help ensure that the request for assistance is valid.
- E. Prior to approval of a TIF or Abatement application, the developer shall provide any required market and financial feasibility studies, appraisals, soil boring, information provided to private lenders for the project, and other information or data that the City or its financial consultants may require in order to proceed with an independent underwriting.
- F. To ensure cash flows are adequate, projects receiving TIF or Abatement assistance should normally have a 1.2:1 debt service coverage ratio (a ratio of funds projected to be available to funds required for debt service).
- G. The developer should provide adequate financial guarantees to ensure the repayment of the TIF or Abatement subsidy. These may include, but are not limited to: assessment agreements, letters of credit, etc.
- H. Any developer requesting TIF or Abatement assistance should be able to demonstrate past successful general development capability as well as specific capability in the type and size of development proposed.

- I. The developer should retain ownership of the project at least long enough to complete it, to stabilize its occupancy, to establish the project management, and to initiate repayment of TIF or Abatement.
- J. The level of TIF funding should be reduced to the lowest possible level by maximizing the use of private debt and equity financing first, and then using other funding sources or income producing vehicles that can be structured into the project financing, prior to using additional TIF or Abatement assistance funding.

5. EVALUATION CRITERIA

- 5.01 All projects will be evaluated on the following criteria for comparison with other proposed projects reviewed by the City, and for comparison with other subsidy standards (where appropriate). It is realized that changes in local markets and costs of construction and interest rates may cause changes in the amount of public assistance that a given project may require at any given time.
- 5.02 Some criteria, by their very nature, must remain subjective. However, wherever possible, benchmark criteria have been established for review purposes. The fact that a given proposal meets one or more benchmark criteria does not mean that it is entitled to funding under this policy, but rather that the City is in a position to proceed with evaluations of (and comparisons between) various TIF or Abatement proposals, using uniform standards whenever possible.
- 5.03 Following are the evaluation criteria that will be used by the City of Hopkins for proposals requesting TIF or Abatement assistance.
 - A. Proposals should optimize the private development potential of a site.
 - B. Proposals should obtain the highest possible private-to-public financial investment ratio. The Council establishes a benchmark ratio of three parts private to one part public funding for industrial projects. Housing and retail/commercial projects shall be reviewed on an individual basis.
 - C. Proposals should create the highest feasible number of new jobs on the site. Property shall meet the City of Hopkins Business Subsidy Criteria.
 - D. Proposals should create the highest possible ratio of property taxes paid before and after redevelopment. Given the different assessment circumstances in the City, this ratio will vary widely. However, under normal circumstances, the Council will expect at least a 1:2 ratio of taxes paid before and after redevelopment.
 - E. Proposals should normally not be used to support speculative industrial, commercial, and office projects. In general, speculative projects are defined as those projects which have letters of intent or pre-leasing for less than 50 percent of the space available for lease.
 - F. Proposals will be reviewed to determine the feasibility to provide the City with equity participation in new developments (through a share of the profits), or to treat the TIF assistance as a second mortgage with fixed payments.
 - G. Proposals involving displacement of low and moderate income residents should give

specific attention to the re-housing needs of those residents. Adequate solutions to these re-housing needs will be required as a matter of public policy.

- H. Proposals will normally not be used in a project that involves an excessive land and/or property price. This will normally be where the acquisition price is more than 10 percent in excess of market value.
- I. TIF or Abatement will not be used when the developer's credentials, in the judgment of the City, are inadequate due to past track record relating to: completion of projects, general reputation and/or bankruptcy, or other problems or issues considered relevant by the City.
- J. A developer using TIF or Abatement will need to provide a financial guarantee for the repayment of the assistance within the constraints of existing tax law.
- K. TIF or Abatement will not be used to support projects that place demands on City services, or other capital or operating expenditures, that exceed the average City expenditures for similar facilities. Consideration will be given to the total public costs that are required to support the project, including off-site facilities costs that are required.
- L. TIF or Abatement will not normally be used for projects that would generate significant environmental problems in the opinion of the local, state, or federal governments.
- M. TIF or Abatement will not be used when the schedule for development has exceeded the schedule established in the redevelopment agreement, and where the City has not agreed to extensions of that schedule.
- N. TIF or Abatement funding should not be provided to those projects that fail to meet good public policy criteria as determined by the Council, including: poor project quality; projects that are not in accord with the Comprehensive Plan, zoning, redevelopment plans, and City policies; projects that provide no significant improvement to surrounding land uses, the neighborhood, and/or the City; projects that do not provide a significant increase in tax base; projects that do not have significant new, or retained, employment; projects that do not meet financial feasibility criteria established by the City; and projects that do not provide the highest and best desired use for the property.

5.04 Additional Criteria--TIF

- A. All TIF projects will need to meet the "but for" test. TIF will not be used unless the need for the City's economic participation is sufficient that without that assistance the project could not proceed in the manner as proposed.
- B. TIF will not be used in projects that would give a significant competitive financial advantage over similar projects in the area due to the use of tax increment subsidies.

5.05 Additional Criteria--Abatement

- A. Abatement shall not be used on parcels of property located in TIF districts.
- B. The Abatement of taxes shall be used only for new taxes generated from the project.

C. Requests for Abatement shall be used only for large-scale development or redevelopment projects.

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City of Hopkins