

TAX INCREMENT FINANCING (TIF)

- Basic Facts -

Should Saint Paul
continue the use of TIF?

What is Tax Increment Financing (TIF)

- A public financing tool used for subsidizing redevelopment, infrastructure, and other community improvement projects.
- It captures the future tax benefits (dollars) of real estate improvements to pay for the current cost of those improvements.
- TIF is complicated, difficult to understand, and has many permutations.

TIF is a Seductive Tool

- Its use in supporting redevelopment is popular with many constituencies:
 - City leaders – recognition for focusing on development
 - Chamber of Commerce – supports growth objectives
 - Trade unions – increases jobs
 - Developers – free money
- At first glance, it seems like a good thing to do.
- But many do not understand the negative impact on taxpayers.
- 8% of current property taxes paid by each taxpayer go to support the costs of TIF financing.

TIF – The Primary Benefit

- Redevelopment projects deemed by the City to be important and have a clear and compelling public purpose are initiated and completed.
- They are projects that private developers would not normally undertake "but for" the provision of a public subsidy.
 - The public subsidy is not a loan – it is essentially an incentive – a gift – to the developer to undertake the project.

TIF - The Primary Negatives

- The increased property taxes created by the development project do not go into the general fund for a period of 25 years or more. They are used to retire the debt incurred by the City to provide the subsidy to the developer.
 - The City's tax base is not increased during this period.
- City services provided to the project - Fire, Police, Public Works, etc. - are not paid for by the project but are paid for by taxpayers outside of the project.

TIF - Other Negatives

- Lack of rigor in applying the "but for" test results in overuse of TIF – i.e., the excessive use of public subsidies.
- Impact on competing properties in the surrounding area not funded by TIF may not be positive.
- Impact of TIF cannot be determined for years after its implementation.
- Use of TIF in converting commercial to residential facilities results in properties with a lower tax rate.
- Predicted success of a TIF project often based on difficult-to-make financial projections.
- Taxes collected in successful projects often not returned to general fund to pay for city services.

Saint Paul is at an Inflection Point

- The City is financially stressed.
- Tax base must be increased.
- At least 10 buildings in the center of downtown are candidates for redevelopment.
- Result: Increasing pressure to utilize TIF.
- Saint Paul is largest user of TIF in the State of Minnesota and one of the largest in the country.
- Other municipalities are reducing the use of TIF because of its negatives.

Is TIF the Right Tool for a Development Project?

Careful Analysis is a Must!

- Is there a clear and compelling public purpose?
- What are the barriers to private funding?
 - Has the "but for" test been rigorously analyzed?
- What will be the impact on surrounding properties?
- Will the project increase the City's tax base?

Concluding Statistics

- Saint Paul's tax levies to service debt for TIF projects INCREASED 40.1% by approximately \$13M from 2015-2024.
- Saint Paul's net property tax burden rate of 17.1% is almost double the State average of 9.2%.
- In 2024 Saint Paul had over 7.9% of taxable property captured in TIF projects.
- Taxes on these properties do not go into the general fund – they are used to retire debt.
- *It is time to proceed with caution in the use of TIF.*
- *Sound financial management demands it!*