

In\$ight St. Paul
October 27, 2025

Guide for the Responsible Use of Tax Increment Financing (TIF) for the City of Saint Paul.

What Defines a Successful TIF District?

Just because a TIF District can pay all its principal debt with interest in the initial term does not alone define it as a successful district. Equally, if not more important, determining whether the District has provided an overall net benefit to the City. Following are factors that need to be considered in making that determination:

Paying For City Services

- City service costs required by the TIF District need to be accounted for over the term of the District.

Effects of Depreciation

- New construction in today's world is often greatly depreciated in only 30 years. This is due to current building materials being less durable than those used in the early to mid 20th century and new technology will also speed up depreciation. When bonds are finally paid off, the once new development will need major improvements and experience considerable devaluation without new investment for Districts to remain competitive.

Unfair Competition

- It is very possible that a new TIF District will unfairly compete with existing local tax base. This has been obvious with Downtown St. Paul's office building market. This can also be the case with big box retail or residential development. A new TIF District may also compete with previous unpaid TIF projects, driving down valuation elsewhere.

Removing Best Development Sites

- Developers will first identify the most attractive development sites for development which in turn will remove its potential future tax base when incentivized by TIF.

New Job Creation

- New TIF development doesn't always create adequate new employment. While temporary construction jobs that account for employment when converted to FTE hours are much less than long term FTE employment. If new development only moves jobs from one location to another, there should be a net calculation for actual benefit to the taxpayers.

Reduced Tax Valuation

- New TIF conversion or reuse of an existing property could reduce tax valuation. This may occur when office buildings are converted to residential use. The converted taxes generate about half of the commercial tax base. It could be that a development subsidy to rejuvenate commercial is far less expensive than residential conversion and will generate much higher tax revenue.

TO PROTECT AND GROW ST. PAUL'S EXISTING TAX BASE, In\$ight St. Paul recommends that the City Council adopt the following TIF Policies for sound fiscal management:

1) Total St. Paul Tax Base Goal That No More Than 6% of the Tax Base Be Captured In Tax Increment Districts by the year 2030. The Upper Limit Goal for the St. Paul Port Authority TIF Districts Is **2%** of the tax base and the Upper Limit Goal for the St. Paul Housing and Redevelopment Authority TIF Districts Is **4%**. These goals limiting the use of TIF Districts in St. Paul should be reviewed and refined via formal City Council resolution at least once every four years, as changes in real estate values and state laws governing TIF may produce a changing environment for utilizing TIF districts. Future City Councils should provide responsible TIF District limitations to both guide future development subsidies and protect the St. Paul property taxpayer.

2) The Maximum Public Subsidy for a TIF Project is Limited to no more than:

- A. **15% for Market Rate Housing,**
- B. **20% for Low Income Housing,**
- C. **25% for Industrial (Job Creation)**
- D. **10% for Commercial**

3) When preparing a TIF District Financing Plan, the Estimate for Future Annual Property Taxes Captured for the District must be at least 15% greater than the

Estimated Total Annual Cost for paying the public subsidy. This property tax cushion is needed to provide for future unforeseen costs and uncontrollable changes in real estate valuations.

4) Both the Port Authority and the Housing Redevelopment Authority (H.R.A.) will use the following concepts and procedures when establishing new TIF Districts:

A strong **But-For Test** using Standardize Rigorous Economic and Risk Assessment overseen by City Office of Financial Services. The staff report to the City Council must address the following criteria and should be documented:

- A) Public Purpose: A clear statement of the public benefit to be achieved.
- B) Financial Need: Justification for why public subsidy is necessary for the project's viability.
- C) Level of Assistance: A rigorous underwriting analysis determining the appropriate amount of public participation necessary.
- D) Project Risks: Identification of financial, market, and execution risks to the project and the City and methods for mitigating the risks to the City.
- E) Comparative Analysis: A comparison of the proposed financing plan with previously approved, comparable projects indicating appropriate levels of public support.
- F) Market Impact: An assessment of the project's potential positive and negative impacts on existing private facilities and other publicly financed projects.

5) A strong Comprehensive Cost-Benefit Analysis

Quantify the net benefit to the City. A project must demonstrate a meaningful positive cost-benefit outcome to be considered for TIF assistance. Potential negative market impacts shall be identified, including the displacement of economic activity from other commercial areas within the City and Is there adequate demand to supply new development. Existing competitive office occupancy should exceed 90% occupancy. Competitive big box retail can generate disinvestment from local businesses.

- A) Required **Public Service Cost Contributions**. All TIF-supported developments **shall be required to enter into an Assessment Agreement and a Payment in Lieu of Taxes**

(P.I.L.O.T.) (not to be confused with P.I.L.O.T s for tax exempt properties). These agreements will ensure the development covers the added costs of ongoing public services (e.g., police, fire, public works) that are not covered by the original base tax capacity.

- B) Standardized **Public Service Cost Calculations**. The City shall establish a clear formula to project the annual public service costs generated by a new development over the life of the TIF district. This formula will differentiate cost allocations based on the type of use (e.g., residential, commercial, industrial, office).
- C) Minimization of the **Term of Assistance**. Debt term limits as strongly recommended not to exceed 15 years to the minimum necessary for project viability. The proposed term must be fully documented and justified in the economic analysis.
- D) Enhanced Scrutiny for **High Subsidy Projects**. Projects requiring a TIF term greater than 15 years or requesting more than \$10 million in tax increment assistance shall be subject to a more extensive analysis, including a current independent market study and heightened review by the City Office of Financial Services

6) In 2025, Both the P. A. and the H.R.A. shall prepare an **Early TIF District Decertification Options Analysis** report which would identify TIF Districts that could possibly be Early Decertified in 2025 and 2026. Each report should identify the pros and cons for Early Decertification of each possible TIF District identified. The P.A. staff should identify at least 1 possible P.A. districts for early decertification, while the H.R.A. staff should identify at least 12 possible H.R.A. districts for early decertification. The **Early TIF District Decertification Options Analysis** reports, besides identifying captured tax capacities, should also identify new property taxes generated, FTE jobs created, and blight and pollution eliminated. Both reports should be presented to their respective boards before the 2026 P.A. and H.R.A. budgets are adopted this December. The reports should contain staff recommendations regarding how soon they believe a TIF District should be decertified to benefit taxpayers not located within a TIF Districts.

7) In 2026, a **St. Paul Comprehensive Tax Increment Financing Report** shall be prepared. The report should be similar to the **City of St. Paul, Mn. Annual Informational Report on Tax Increment Districts, dated October 2016. Comprehensive TIF Reports** shall also identify for each district: the cost of the public subsidy provided, new property taxes

generated, FTE jobs created, and blight and pollution eliminated. After the 2026 report is prepared, future Comprehensive reports shall be prepared in the second quarter of the year for the Mayor and City Council elections.

8) Beginning in 2025, both the Port Authority staff and the H.R.A. staff shall prepare an **Annual TIF Progress Report** for the TIF Districts they manage. The reports should be formally reviewed at a City Council Budget Committee meeting. The Progress Report shall include the following information:

- Identify TIF Districts with captured tax increments greater than was originally projected in a TIF Plan.
- Identify Stressed TIF Districts that are not capturing tax increments at the conservative estimates originally projected in a TIF Plan.
- Projected use of TIF Pooling for the next three years in Project Areas.
- Projected Decertification of Existing TIF Districts for the next five years.
- Projected Captured Tax Capacity for next five years, for both existing and proposed new TIF Districts.
- Projected TIF Related Debt Outstanding for the next five years (bonds, notes and pay-as-you-go debt).
- And other information staff consider it important to manage TIF Districts responsibly.

9) Both the Port Authority and H.R.A. staff shall prepare annual budgets for the capital project funds and the debt service funds captured tax increments are deposited into. The budgets shall include estimates for all revenue sources and fund balances; and for the use of money for project costs, debt service, debt service reserves, administrative costs, TIF pooling and transfers to other funds and to other units of government.

10) Minnesota Law generally Limits TIF Administrative Expenses To 10% of Available Tax Increments (not to be confused with 10% of total tax capacity). St. Paul limits budget appropriations for TIF Administrative Expenses to actual costs incurred to-date. Once a project is fully implemented, the annual costs for TIF administrative expenses will be no more than 2% of increments collected.

11) Every other year, Port Authority and H.R.A. staff shall present their Annual TIF Progress Reports to the Joint Property Tax Advisory Committee. The elected officials serving on of that committee have an obligation to help provide future recommendations regarding creating TIF Districts and issuing debt to facilitate private development of the St. Paul tax base.

12) The Port Authority and H.R.A. staff shall annually identify for the City's Capital Improvement Budget and Five-Year Program proposed TIF District expenditures that relate to constructing city owned facilities and infrastructure. It is important to coordinate all proposed capital projects in an efficient, timely manner.

13) The Port Authority and H.R.A. staff shall work with the Office of Financial Services and City Council Operations to develop a coordinated TIF District Website that includes, as a minimum, the following information:

- City Council Resolution Adopting General Guidelines based on these recommendations for the use of TIF by the Port Authority and H.R.A.
- Port Authority Resolution Adopting Specific Guidelines for their use of TIF Districts.
- Housing and Redevelopment Authority Resolution Adopting Specific Guidelines for the H.R.A.'s use of TIF Districts.
- History of all Closed TIF Districts with results.
- List of Active Districts, with disclosure info required by Minnesota State law.
- Annual TIF Progress Reports for the Port Authority.
- Annual TIF Progress Reports for the H.R.A.
- Map Showing Closed TIF Districts.
- Map showing Active TIF Districts and Specific Project Area.
- Links to Staff video presentations and reports regarding TIF Districts.
- Annual estimate of how much a median valued residential homeowner pays to support TIF development subsidies.

- Links to Annual Comprehensive Financial Reports if they provide TIF District information.

14) The City should not approve any new Tax Increment District Plans, nor approve the implementation of any new financing for existing districts until such time as performance data for past and current districts is made available for public understanding and City Council review and analysis.