

Tax Increment Financing -- Summary of Project Analysis and Approval Process

(Note: The City has a much longer detailed TIF policy with the application and review process in more detail. This is a summary of the process only).

1. Developer submits project with a request for public financial assistance. Developer's request indicates that the project cannot proceed "but for" the public assistance. Developer also provides information on its ability to obtain financing for the private costs.
2. City staff review of the developer's request. Example based on downtown redevelopment TIF project.
 - City requires developer to submit a 10-year pro forma (costs/anticipated revenues and rents/developers return on investment).
 - City retains independent financial consultant to review the pro forma to determine if there is a gap/financial need.
 - The staff reviews the report from the consultant to determine the level of financial need and that the project cannot proceed "but for" the public assistance.
 - The City's overall guideline is that there should be at least nine dollars in private funding for each dollar public funding.
 - The city staff negotiates with the developer on the amount of assistance to be recommended. Oftentimes, the private funding is greater than \$10 private funding for each dollar of public funding.
3. What is the reason for the financial gap?
 - Rochester market rents are not sufficient to finance the full costs.
 - Downtown construction and project costs are higher than for projects built elsewhere in the City.
 - Land costs can be \$100 per sq. ft. or higher for some downtown sites.
 - Costs for structured parking can be \$35,000 per space and rental rates will not cover the full amount of the costs.
 - Costs for high-rise construction are higher than wood frame construction.
 - Utility upgrade costs can be higher.
 - Skyway costs and costs for downtown amenities can cause a higher cost.
4. If an agreement is reached on the level of assistance, a detailed development agreement is prepared and a staff recommendation for approval is made to the City Council (and DMC Board if it is a DMC project).
5. If the City Council, acting as the City EDA, approves the development agreement with the TIF assistance and the developer subsequently finalizes its financing, then the project is constructed. (For many projects obtaining the financing has taken considerably longer than anticipated, and financing is often difficult to finalize).
6. Once constructed the developer pays the full property taxes annually for the project.
7. The prior lower property taxes on the property continue to be paid to all the local government units.
8. All or a portion of the higher property tax increment amount is paid by the county to the city to pay the agreed upon annual Tax Increment assistance to developer annually. The development

agreement is structured as “pay as you go” TIF assistance where there is no risk to the City if the property taxes are not paid.

9. After the amount of agreed upon TIF assistance is fully paid for, the project the TIF District is de-certified and the full property taxes go to the local government units.

Why Use TIF?

-It allows projects that will improve the downtown to proceed to construction that otherwise would not be built.

-The projects eventually create a higher City tax base to benefit all property-taxpayers. Examples – many earlier downtown projects (Doubletree, Galleria, US Bank, Marriott, Wells Fargo, Riverside, Holiday Inn, Broadway Plaza and others) are fully on the property tax rolls, their TIF district was de-certified.

- The new projects will provide improved services and better facilities to attract patients, visitors and for our citizens.

- The projects create many short-term construction jobs and long-term jobs in the buildings.

-TIF has assisted in providing funding for skyways, structured parking and downtown amenities (Peace Plaza, landscaping).

- The City has used TIF assistance for more than 1500 affordable housing units. This has assisted in providing housing for families/workers. All the housing TIF Districts created by the City to assist the Rochester Area Foundation First Homes Initiative and build 1100 housing units have been de-certified and are fully on the tax rolls.