



CITY OF CLOQUET

TAX INCREMENT FINANCING POLICY

Adopted 08/04/05

Amended 03/15/11; 02/7/12

1. **PURPOSE**

The purpose of this policy is to establish the City's position as relates to the use of Tax Increment Financing for private development. This policy shall be used as a guide in processing and reviewing applications requesting Tax Increment assistance.

The City shall have the option of amending or waiving sections of this policy when determined necessary or appropriate.

2. **STATUTORY LIMITATIONS**

In accordance with the Tax Increment Policy, TIF requests must comply with applicable state statutes. The City of Cloquet is governed by the limitations established in Minnesota Statutes 469.174, the Minnesota Tax Increment Financing Act, for all districts created after August 1, 1979.

3. **ELIGIBLE USES FOR THE USE OF TAX INCREMENT FINANCING**

While Tax Increment Financing (TIF) is an important and useful tool in retaining and attracting business, it is essential that it is used appropriately to accomplish the City's economic goals and objectives. The fundamental principle which makes TIF viable is that it is designed to encourage development which would not otherwise occur.

The City Council and EDA have expressed their support for the use of TIF, however, the EDA and City have reserved the right to approve or reject new industrial or commercial projects, mixed and multi-family housing, or rehabilitation and/or expansion of business already existing in the City, on an individual case-by-case basis. As a matter of adopted policy, the City of Cloquet will consider using Tax Increment Financing (TIF) to assist private developments only in those circumstances in which the proposed private projects meet one or more of the following uses:

A. To meet the following housing related uses:

1. To provide a diversity of housing throughout the community.
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.
 5. To provide housing development which are not being met at adequate levels by the private market which contribute to the life cycle housing availability in the community.
 6. Housing which leverages other state and federal resources will be given a priority for funding through TIF.
 7. Housing which will burden other city services such as infrastructure extension beyond existing plans will be given less of a priority for TIF.
 8. TIF for owner occupied housing will be limited to the housing which is affordable and the TIF will be treated as a second mortgage for the buyer to eliminate the opportunity for a short-term gain through speculation of TIF assisted units.
 9. TIF shall be awarded to housing developments only in an amount necessary to enable the developer to receive a reasonable development fee and/or a reasonable return on equity. The City staff and/or its consultants shall determine industry standards.
 10. Any TIF assistance to housing shall be subject to a “look back” provision in which the developer certifies a budget for revenue and expenses prior to commencing the project and will set an estimated net profit. After construction is complete, the developer shall submit a final accounting of net profit and if the profit is higher than anticipated, the TIF assistance shall be reduced on a proportional basis.
- B. 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.
- C. 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.
- D. To retain local jobs, increase the local job base, and provide diversity in that job base.

- E. To increase the local business and industrial market potential of the City of Cloquet.
- F. To encourage additional unsubsidized private development in the area, either directly or through secondary “spin-off” development.
- G. To accelerate the development process and achieve development on sites which would not be developed without this assistance.
- H. To meet other uses of public policy, as adopted by the Council from time to time, including the promotion of quality design, quality architectural design, energy conservation, decreasing the capital and operating costs of local government, etc.

4. **TAX INCREMENT PROJECT APPROVAL CRITERIA**

All projects approved by the City of Cloquet should meet the following mandatory minimum approval criteria. However, it should not be presumed that a project meeting these criteria will automatically be approved. Meeting these criteria creates no contractual rights on the part of any potential developer.

- A. The TIF 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 adopted Tax Increment Financing goals of the City.
- 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 assistance will not be provided to projects that have the financial feasibility to proceed without the benefit of Tax Increment Financing. In effect, TIF assistance will not be provided solely to broaden a developer’s profit margins on a project. Prior to consideration of a TIF assistance request, the City may undertake an independent underwriting of the project to help ensure that the request for assistance is valid.
- E. Any developer requesting TIF assistance should be able to demonstrate past successful general development capability as well as specific capability in the type and size of development proposed.

- F. 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 funding.
- G. Prior to approval of a TIF plan, the developer shall provide any required market and financial feasibility studies, appraisals, soil borings, 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.

5. **TAX INCREMENT PROJECT EVALUATION CRITERIA**

All projects will be evaluated on the following criteria for comparison with other proposed TIF 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 Tax Increment subsidies that a given project may require at any given time.

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 position to proceed with evaluations of (and comparisons between) various TIF proposals, using uniform standards whenever possible.

Following are the evaluation criteria that will be used by the City of Cloquet:

- A. All TIF proposals should optimize the private development potential of a site.
- B. All TIF 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. The Council establishes a benchmark ratio of two parts private to one part public funding for housing projects. Commercial projects shall be reviewed on an individual basis.
- C. All TIF proposals should create the highest feasible number of new jobs on the site. The Council establishes a benchmark of one newly created (or retained) FTE job per \$10,000 of TIF assistance provided to industrial projects. Housing and retail/commercial projects shall be reviewed on an individual basis.
- D. All TIF proposals should create the highest ratio of property taxes paid before and after redevelopment. Given the different assessment circumstances in the City, this ratio shall vary widely. However, under normal circumstances, the Council will expect at least a 1:2 ratio of taxes paid before and after redevelopment.

- E. TIF proposals should normally not be used for speculative industrial, commercial, and office projects. In general, speculative projects are defined as those projects which have letters of intent or preleasing for less than 50 percent of the space available for lease.
- F. All TIF proposals involving the displacement of low and moderate income residents should give specific attention to the re-housing of those residents. Normally, this should be done as part of the TIF funding proposal. Adequate solutions to these re-housing needs will be required as a matter of public policy.
- G. TIF 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.
- H. 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.
- I. 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.
- J. TIF will not be used when the developer’s credentials, in the judgement 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.
- K. TIF 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 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 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 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 funding should not be provided to those projects that fail to meet good public policy criteria as determined by the City 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 a 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.
- O. Economic Development TIF/Bond Issue: Bonds may be issued to pay for public improvements such as streets, sewers, storm water control, water, public lots or parking, purchase of land for lease back, streetscaping, lights, and other publicly owned infrastructures. TIF project timetable will not exceed the State law stipulation of 8 annual payments in a given 10 year project.
- P. Economic Development TIF/Pay-As-You-Go: The City and EDA encourages the use of “Pay-As-You-Go” TIF whenever possible. Pay-As-You-Go may be used to pay for public improvements such as streets, sewers, storm water control, water, public parking lots and structures, purchase of land for lease back, streetscaping, lights, and other publicly owned infrastructures. TIF project timetable will not exceed the State law stipulation of 8 annual payments in a given 10 year project. Economic Development TIF bonding and Pay-As-You-Go programs may be combined as a development tool if financially feasible in the project.

6. **PROCEDURES FOR TAX INCREMENT FINANCING ASSISTANCE**

- A. Meet with appropriate City Staff to discuss the scope of the project, public participation being requested, time schedule, and other information as may be necessary.
- B. Applicant submits a TIF Worksheet to the Community Development Office of the City which staff reviews (Exhibit A/B) with the developer.
- C. Staff submits results of the Worksheet for review by the EDA (commercial/industrial project), or the (housing project), Cloquet HRA input is requested as it relates to the application.
- D. EDA reviews proposal, provide comments, and make an advisory recommendation to the City Council on denial or approval of the request within 30 days.
- E. The application shall be placed on the City Council agenda (regular or work

session) for concept review. The applicant may at that time make a formal presentation of the project.

- F. If the applicant decides to make TIF Application (Exhibit C), staff prepares all necessary notices, resolutions, and certificates. The applicant pays the TIF fee and the case is reviewed by the City's financial advisors to ensure that the project meets the *but for test* and other requirements. The City's financial advisors prepare a TIF Plan.

At the time of submission of the Final Application for Tax Increment Financing Assistance Form, a \$15,000 deposit (cash or letter of credit) shall be required to defray costs involved in these steps. In the event that consultant costs exceed \$15,000, the applicant will be required to deposit additional funds with the City.

- G. City Council holds public hearing(s) on the proposed project to consider the advisory recommendation by the EDA on the project.
- H. The City Council grants final approval or denies the request.
- I. If approved, staff prepares a development agreement based upon the terms approved.
- J. Prepare a development Plan and Tax Increment Financing Plan if required.
- K. It is understood that the City/Staff may from time to time determine that a different process than that which is outlines here is more appropriate, given the circumstances of each individual request.