

**The Impact of the Affordable Housing Crisis  
and Housing Development on  
Low-Income Communities and Communities of Color**

A research project completed for the Metropolitan Interfaith Council on Affordable Housing (MICAH) with funding from the Community Program at the Center for Urban and Regional Affairs at the University of Minnesota.

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## **Executive Summary**

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This project focused on researching and reviewing existing literature on affordable housing, identifying relevant housing policies and practices, and assessing the feasibility of a racial and low-impact statement regarding metropolitan area housing policies. The role of tax increment financing (TIF) in redevelopment and housing was reviewed. The impact of tax increment financing on the destruction or construction of affordable housing and the retention/displacement of poor communities and communities of color were also examined.

### ***Abstract***

This paper explores the impact of policies and practices related to housing development and tax increment financing on affordable housing in the Twin Cities metropolitan area. The income and racial dimensions of the affordable housing problem are considered, the context of current housing policies and planning practices is explored, the use of tax increment financing (TIF) in development is described, and the impacts on low-income communities and communities of color are addressed. Recommendations are also suggested for improving the positive effects of tax increment financing on affordable housing development and for minimizing the potential displacement of poor people and people of color.

This project was completed for the Metropolitan Interfaith Council on Affordable Housing (MICAHA) with funding from the Community Program at the Center for Urban and Regional Affairs at the University of Minnesota. MICAHA mobilizes congregations and people of all faiths to advocate for public policies that increase the supply of affordable housing in the Twin Cities metropolitan area and promote fair housing for all residents.

## **Introduction**

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The Twin Cities has one of the tightest housing markets in the nation. On one level, the shortage of affordable housing is an economic problem. The availability (supply) of housing within a particular price range is insufficient to meet the demand of households that can afford those prices. Low-income people and people of color are disproportionately affected by this shortage. Households with higher incomes have more resources to respond to increasing housing costs; poor households do not. Under optimal conditions, these households faced barriers that limit housing choices. On another level, the shortage of affordable housing is a manifestation of metropolitan development and residential patterns. In both the past and present, communities of color and poor communities are negatively affected by policies that concentrate affordable housing in certain areas and not others.

This paper explores impact of policies and practices related to housing development and tax increment financing on affordable housing in the Twin Cities metropolitan area. The income and racial dimensions of the affordable housing problem are considered, the context of current housing policies and planning practices is explored, the use of tax increment financing (TIF) in development is described, and the impacts on low-income communities and communities of color are addressed. Recommendations are also suggested for improving the positive effects of tax increment financing on affordable housing development and for minimizing the potential displacement of poor people and people of color.

## **Dimensions of the Affordable Housing Problem**

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### ***Affordable Housing, Poverty and Residential Segregation***

Patterns of concentrated poverty and residential segregation influence the availability and location of affordable housing. Historical circumstances contributed to these spatial arrangements and contemporary policies and practices reinforce them. In metropolitan areas throughout the nation, low-income communities and communities of color are concentrated in sections of central cities and inner-ring suburbs. (Stoll, et al., 2000) Communities with 40% or more of households at or below the poverty line are considered areas of concentrated poverty. The most affordable housing is typically located in these same areas.

Of the 25 largest metropolitan areas, the Twin Cities ranked 6<sup>th</sup> in the wealth disparity between central cities and suburbs based on 1990 Census data. (Berg, 1993) The Minneapolis-Saint Paul metropolitan area is made up of 189 cities and townships, as well as the 7 counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington. In the metropolitan area, 60% of people living in poverty reside in the central cities. (IRP, 1998) Between 1980 and 1990, the poverty rate increased from 13.5% to 18.5% in Minneapolis and 10.9% to 16.7% in Saint Paul. (IRP, 1998) Annual median household incomes in Minneapolis and Saint Paul are on average \$10,000 less than those in suburban areas. (IRP, 1998) In 1994, 55% of public housing units for families were located in areas of concentrated poverty. (Goering, Kamely, & Richardson, 1994) Almost 50% of the people of color in the central cities are in poverty: The highest rate of the 25

largest metropolitan areas. People of color in Minneapolis and Saint Paul are more likely to live in poverty than minorities in any other major metropolitan area in the country. (Draper, 1993)

Residential patterns show that poverty is concentrated in communities of color, and communities of color are concentrated in the central cities and inner ring suburbs. Approximately 65% of people of color live in Minneapolis and Saint Paul. (IRP, 1998) In the cities, 50% of low-income people of color live in 35 of the metropolitan area's 600 census tracts compared to a dispersion of low-income Caucasians over more than 400 tracts. (Minneapolis Affordable Housing Task Force, 2000) Some census tracts have minority concentrations of more than 50% compared to less than 6% in other Minnesota cities and counties. (IRP, 1998) The geographical distance between the central cities and the suburbs correlates with a declining percentage of people of color. (IRP, 1998)

In the metropolitan area, the most affordable housing is available in the central cities and inner-ring suburbs. (Metropolitan Council, 1995) In contrast, little or no affordable housing exists in growing suburbs. Since housing with lower rents exists in neighborhoods with higher poverty rates, patterns of racial and income segregation are reinforced. A report from the Minneapolis Affordable Housing Task Force identified "the impact of race and discrimination on the availability of affordable housing for people of color" as an important component of the housing problem. (1999, 2) During the 1990's, the greatest economic growth and housing development occurred in suburban areas. Development in newer suburbs funnels scarce resources within the region away from declining areas in need of revitalization. Suburban sprawl development patterns also produce a spatial mismatch between the locations of new jobs and the geographical concentration of affordable housing available to low-income people and people of color. With a lack of affordable housing in suburban areas, low-income and minority households are cut-off from new jobs, higher quality schools, and socioeconomic mobility. These circumstances obscure the regional economy of metropolitan areas and the interdependent relationship between central cities and suburbs. Fractured leadership, due to multiple jurisdictions within the region, impedes the development of regional solutions to problems of concentrated poverty and racial segregation.

### ***Declining Housing Affordability***

Market conditions are another component of the affordable housing problem. Existing housing and new market-rate housing developments are increasingly less affordable. (Majors' Regional Housing Task Force, 2000) A tight housing market (less than a 1% vacancy rate) coupled with decreasing real wages, increasing entry level jobs, and increasing median costs of rental housing contribute to a higher percentage of renters with heavy rent burdens. (Metropolitan Council, 1997). Low-income and minority households, who are generally renters, face higher housing burdens than other groups

A household's income significantly influences whether it is a homeowner or a renter. The lower the income the more likely a household will live in rental housing. In comparison to the median income of renter households (\$21,275), homeowner households have double the median income (\$42,853). Approximately 23% of all renter households have incomes at or below the poverty level for their household size. (MHFA, 1995) Renters are less likely to live in affordable housing because a larger percentage of their income is spent on housing. The majority of the

metropolitan region's housing stock is single-family units. In 1996, only 29% of the stock was rental units. For each of these reasons, a lack of affordable rental housing disproportionately affects low-income households.

Affordable housing is commonly defined, as housing that costs no more than 30% of a household's income. Fair Market Rents (FMRs) provide a comparison point for assessing the level of affordability in an area. Under the Housing Act of 1937, HUD publishes FMRs annually. FMRs are the amount of income needed to pay the gross rent (rent plus utilities) of a private, decent, safe and sanitary rental-housing unit that is modest (non-luxury) with suitable amenities. In the metropolitan area, FMR for a 1-bedroom unit is \$549 and \$702 for a 2-bedroom unit. An extremely low-income household earning 30% of the area median income of \$73,993 can afford monthly rent of no more than \$555. A household with one full-time worker earning minimum wage (\$5.15) can afford monthly rent of no more than \$268. This same household would have to work 105 hours per week at minimum wage or work full-time earning a minimum of \$13.50 an hour to afford a 2-bedroom unit at Fair Market Rent.

According to the Family Housing Fund, from 1974 to 1993 the median real cost of a rental unit rose by 8%, while the median real income of a rental household declined by 13%. The metropolitan area experienced the 5<sup>th</sup> highest percentage change in housing prices among the 20 largest metropolitan areas between 1994 and 1996. (MDTED, 1999). In 1997 and 1998, rents increased at twice the rate of general inflation. According to the Minnesota Department of Revenue, median existing home sale prices in the metropolitan area also increased by 14% from 1993 to 1996. As a result of the mismatch between real wages and the affordability of housing approximately 38% of renters in the metropolitan area cannot afford Fair Market Rent for a 2-bedroom unit.

HUD estimates 38,000 renter households in the metropolitan region have "worst case" housing needs. Approximately 20,000 of these households are in the central cities with the remaining 18,000 in suburbs in Hennepin, Anoka, Dakota, Washington, Carver, Chicago, Isanti, Scott Wright counties in Minnesota and St. Croix County in Wisconsin. These households have incomes less than 50% of the area median income, and pay over half their incomes for rent or are living in severely substandard housing.

Overall, a broader distribution of households now face declining affordability and availability of housing in the metropolitan area. For people of color and low-income people who under the best circumstances have narrower housing choices, the competitive rental and ownership market is particularly detrimental. The affordable housing problem reinforces patterns of concentrated poverty and residential segregation.

## **Existing Policies and Planning Mechanisms Related to Affordable Housing**

There are a variety of policies and planning mechanisms that have been implemented to address the issue of affordable housing and its related problems. Generally, these initiatives focus on increasing the supply of affordable housing, increasing access to housing, or decreasing racial and poverty concentrations. The following discussion describes and assesses these major initiatives.

### ***Comprehensive Plans***

The Metropolitan Land Planning Act (M.S. §473.859) requires metropolitan area governments to develop comprehensive plans. This Act is intended to encourage intergovernmental coordination, planning and decision-making within the metropolitan region. Jurisdictions completing comprehensive plans include all cities, townships that elect to participate, and the counties of Anoka, Carver, Dakota, Scott and Washington. Comprehensive plans must outline the “objectives, policies, standards and programs to guide public and private land use, development, redevelopment and preservation for all lands and waters within the jurisdiction of the local government unit.” (M.S. §175.103B.6.1) Affordable housing programs and development strategies are also included in plans to encourage a diversity of housing. The Act outlines requirements for some areas of the plan content and guidelines for others. (See the appendix for detailed guidelines related to comprehensive plans from the Metropolitan Council.)

In 1995, an amendment to the Act requiring review of comprehensive plans every 10 years was passed. Review is intended to ensure that local fiscal devices and controls are consistent with the plan and to respond to changes in the regional system plans (M.S. §473.864.2). The Metropolitan Council is authorized to review comprehensive plans in order to ensure compliance with the legislation and to determine:

- Conformity with metropolitan systems plans;
- Consistency with other adopted plans of the Council; and,
- Compatibility with each other.

While the Council enjoys the power of review, it has limited authority and enforcement tools to address compliance with particular elements of the plans. The Council gives priority for regional resources to communities that support regional goals and revise plans as needed. Communities that have not adopted comprehensive plans may be ineligible for Council incentives. (Local Planning Handbook, 1997) Withholding regional funds is the Council’s sole mechanism for encouraging compliance and accountability. The Council’s lack of authority, the minimal incentives for cooperation, and the lack of consequences for jurisdictions that fail to comply are significant limitations of this legislation.



### *Potential Legislative Action*

- Increase the authority of the Metropolitan Council to reject inadequate comprehensive plans and to hold jurisdictions accountable for adhering to plan elements.
- Connect the access of jurisdictions to state and/or regional funding to compliance with their comprehensive plans.
- Identify areas of the property tax system that can be reformed to minimize disincentives for development of multifamily housing. Currently, rates benefit developers of single-family housing.

### *Metropolitan Livable Communities Act (LCA)*

In metropolitan areas with multiple cities, such as the Twin Cities, inter-jurisdictional competition acts to reduce expenditures on housing. (Basolo, 1999) Areas that successfully implement, incentives to promote inter-jurisdictional cooperation, facilitate increased spending on affordable housing. The Metropolitan Livable Communities Act (LCA) is intended to generate this kind of incentive. In 1995, the Minnesota Legislature enacted the Metropolitan Livable Communities Act (LCA). The intent of this legislation was to increase and spatially redistribute housing for low- and moderate-income households, alleviate problems associated with segregation along race and poverty lines, and revitalize communities in the metropolitan region. (Goetz, 6) The Act emphasizes both affordable housing development and a mix of housing or “life-cycle housing” to meet the changing needs of households over their lifetimes. The voluntary program includes funding accounts to be used for:

- Affordable and life-cycle housing;
- Clean-up of polluted lands for redevelopment; and,
- Compact development to promote housing near jobs, commercial development, and transportation.

Communities participating in LCA are eligible to compete for funding from these accounts. Communities who chose to participate in LCA negotiated affordable housing development goals for 1995 to 2010 with the Metropolitan Council. Goals are based on benchmarks for 6 categories: Ownership and rental affordability, diversity of life-cycle housing (non-single-family detached and renter-occupied, and development density of single- and multi-family dwellings. Each community translated these goals into an action plan to be completed by 2010. Unfortunately, the Act does not require the Metropolitan Council to review submitted plans and does not provide authority to reject them. An evaluation of the LCA program identified additional weaknesses in the legislation.

An evaluation conducted by the Center for Urban and Regional Affairs determined that the LCA fails to increase the *relative availability* of housing. If the goals of participating communities are successfully completed, the absolute availability of affordable housing would increase, but the amount of affordable housing as a percentage of the total housing stock would be reduced. Essentially, the rate of new affordable housing development is not high enough to maintain, let alone increase, the overall proportion of affordable housing in communities. Local zoning and

subdivision regulations are also inconsistent with land use plans. These discrepancies preclude successful completion of set goals. (Mayor's Regional Housing Task Force, 2000)

According to the Mayor's Regional Housing Task Force, "By 1998, 101 of the 143 metropolitan municipalities had agreed to participate in LCA with goals of adding 68,553 owned-homes and 12,885 rental-homes by 2010." (2000, 10) Of participating LCA communities, 66% have goals for homeownership and 53% have goals for rental housing that are significantly less than the current level of affordability. (Goetz, 24) Established goals for the overall region would produce a smaller proportion of housing stock that is affordable to low- and moderate-income households in 2010 than was available in 1995. The net result would be a 13% decline in affordable housing ownership and 4% fewer affordable rental housing units. (Goetz, 29) Under the existing guidelines of the LCA, communities are not creating affordable housing as a higher percentage of all new units built than what is currently available in their area.

#### *Potential Legislative Action*

The evaluation report suggested some of the following legislative recommendations for improving the effectiveness of the LCA.

- Revise benchmarks to more accurately establish affordable housing goals: Existing benchmarks ignore housing need and benefit under-performing communities with lower standards.
- Modify definitions of affordability: Currently, 68% of all housing units in the region are classified as affordable. A more accurate measure of the quantity of affordable housing is needed.
- Provide incentives for developing affordable housing: Connecting housing output to receipt of state aid and MUSA line and sewer extensions would increase production.
- Re-allocate funding for the LCA Inclusionary Housing Account to provide resources for mixed housing developments. A one-time \$4.0 million appropriation has been exhausted.

#### *Fair Housing and Consolidated Plans*

The Fair Housing Act prohibits the intentional discrimination and actions or policies that limit housing choices on the basis of race, color, national origin, sex, religion, disability, familial status or other protected class. The Minnesota Human Rights Act expands this protection to include public assistance status and sexual orientation. Enforcement of the Act generally addresses individual acts of discrimination. Litigation of fair housing violations is based on the initiative of individuals who make complaints, as well as the specific evidence of individual cases. Housing audits may also be used to generate evidence of discriminatory practices. For example, a report by the Minnesota Fair Housing Center identified race-based discrimination in over 60% of apartment inquiries. (1996) The tight rental market provides property owners the opportunity to be highly selective in choosing tenants. Current housing circumstances make enforcement of fair housing challenging.

Existing fair housing law does not address institutional and systematic discrimination. Increasing evidence does suggest that certain policies and practices systematically reduce the housing options available to classes protected under fair housing. One study found that low-density zoning in some areas had reduced rental housing and limited the number of minority

residents. (Pendall, 2000) At this time, policies, such as exclusionary zoning, have been minimally addressed under Fair Housing. (IRP, 1998)

The most comprehensive mechanism used to identify barriers to fair housing is associated with the consolidated plans that HUD entitlement jurisdictions must complete. In 1995, HUD implemented a rule consolidating the community development plan required for the CDBG program with the submission and reporting requirements for the 4 community development formula grant programs (CDBG, HOME, ESG, and HOPWA). Jurisdictions are now required to complete one plan, the Consolidated Plan. Jurisdictions who receive community development formula grants are required to Affirmatively Further Fair Housing (AFFH) and to complete Fair Housing Planning (FHP). HUD encourages multiple jurisdictions in metropolitan regions to collaborate and to initiate region-wide FHP when completing their consolidated plans. When jurisdictions create their consolidated plans, they must submit an AFFH certification that includes completion of FHP. Fair Housing Planning requires jurisdictions to complete the following activities:

1. Complete an Analysis of Impediments (AI). HUD defines impediments to fair housing choice as: a) Any actions, omissions, or decisions taken because of race, color, religion, sex, disability, familial status, or national origin that restrict housing choices or the availability of housing choice, and b) Any actions, omissions, or decisions that have this effect.
2. Take actions to eliminate any identified impediments.
3. Maintain AFFH records.

While a jurisdiction does not submit the actual AI to HUD, it must complete a consolidated plan performance report that includes a summary of the AI and accomplishments completed during the past program year. If the AI is not completed satisfactorily or actions to address any identified impediments are inappropriate, HUD holds the authority to not approve a jurisdiction's consolidated plan. A jurisdiction cannot receive CDBG, HOME, ESG, or HOPWA program grants without a HUD approved Consolidated Plan. Withholding access to these grant funds is the primary accountability and enforcement mechanism associated with fair housing planning. There is no significant state or local monitoring of the AI process or the actions associated with addressing barriers to fair housing.

*Potential Legislative Action*

- Increase the accountability of jurisdictions to complete meaningful fair housing planning and to take actions to address identified impediments by connecting these processes to regional planning processes, as well as local and state sources of funding.
- Encourage implementation of recommendations made by the Analysis of Impediments Project soon to be completed by Legal Services Advocacy Project (LSAP). (See related research projects list in appendix.)

### ***Preservation of Affordable Housing***

In exchange for passage of the Livable Communities Act, the one-for-one replacement rule associated with the demolition of housing was repealed by the legislature in 1995. This rule stipulated that every demolished unit of housing be replaced with a new unit. With the elimination of a meaningful policy guiding preservation or replacement of affordable housing, demolition of affordable housing stock has increased. In 1996 and 1997, 2,300 housing units in the region were demolished with 53% of the total located in the central cities. Units demolished in the central cities comprised 88% of the overall multifamily units demolished in the region and 33% of the single-family units. (Affordable Housing Task Force, X) Many of these units included subsidized, multifamily, and large units. Only a fraction has been replaced.

Additionally, some federal housing programs enacted in the 1960s that provided mortgage assistance and subsidies to private owners to finance low- and moderate-income rental housing have expired. After 20 years, owners have an option to prepay or pay off their mortgages. Property owners choosing this option, no longer face rent restrictions and return their properties to market rate units. In Minnesota, there are approximately 515 developments or 30,000 federally assisted housing units. If owners choose to leave the federally assisted housing program, federally subsidized properties will continue to decrease. (House Fiscal Analysis Department, 1998) At the same time, federal subsidized housing programs have shifted from physical buildings to vouchers. Unlike “bricks and mortar programs, the forces of the housing market affect the use of Section 8 vouchers. In the metropolitan area, approximately \$14 million of Section 8 vouchers have been unused due to the extremely low vacancy rate. (Mayor’s Regional Housing Task Force, 2000) Thus, the demolition of physical housing, conversion of subsidized properties to market-rate units, and increased use of voucher programs has negatively impacted the preservation of affordable housing.

#### ***Potential Legislative Action***

- *Reinstate the one-for-one replacement rule associated with the demolition of housing.*
- *Encourage local entities to continue creating mechanisms to maintain subsidized properties when they come due for market-rate conversion.*

### ***Ineffectiveness of Current Planning Efforts and Policies***

The policies and planning tools described above insufficiently address the problem of affordable housing. Existing policies provide regional authorities little power to spur on communities that fail to provide or fail to increase their fair share of affordable housing. Affordable housing distributed throughout a region provides low-income people access to economic opportunities that are available in rapidly developing new areas. New affordable housing is not being generated at a sufficient level and is not evenly distributed throughout the metropolitan area. Most importantly, the geographical location and increasing the quantity of affordable housing, the problems of concentrated poverty and residential segregation cannot be effectively addressed.

## **Tax Increment Financing as a Tool for Affordable Housing Development**

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Increasing development costs, declining federal funding, and higher benefits for market-rate housing complicate development of new affordable housing. Communities have turned to other financing tools in an effort to leverage a combination of public and private resources. For these reasons, Tax Increment Financing (TIF) has steadily gained popularity as a financing tool for development and redevelopment. TIF often takes place in communities that have experienced systematic disinvestments; blighted areas that have concentrations of low-income residents, lower property values, and vacant housing. Areas that also have low-cost, albeit substandard, housing. In other areas, the private market creates rehabilitation, but in low-income communities public intervention in revitalization is required. The remainder of the discussion will focus on the basics of tax increment financing and its impact on affordable housing.

### ***Background and Legislation***

Tax Increment Financing (TIF) is an economic development tool used by local government units to generate a local source of funding for new economic development, redevelopment, or publicly assisted housing in blighted areas. Although TIF was introduced in Minnesota in 1946, it was not commonly used until the 1970's when federal funding for housing and urban development began to be phased out. Tax increment financing filled the gap in development resources left by the withdrawal of more generous federal support.

Initially, a variety of Minnesota statutes guided tax increment financing, often resulting in conflicting procedures. To address the fractured use of TIF, in 1979 the legislature moved tax increment financing from a variety of underlying development statutes to a new act. The Tax Increment Financing Act (M.S. §§ 469.174-469.1791, as amended) established standardized laws related to tax increment financing with specified procedures and limitations. Additionally, there are a variety of statutes related to the definition of the project area that the tax increment district can be located within and that specify the public purpose served by the project. These statutes authorize local development authorities to use tax increment financing to redevelop blighted areas, provide housing for low- and moderate-income individuals and families, increase employment opportunities, and increase the tax base. Subsequent to the initial legislation, frequent amendments have produced a patchwork of legal rules, procedures and requirements governing TIF districts. Due to concerns about the inappropriate use of TIF, the Legislature implemented additional restrictions such as:

- Limiting the ability of cities to capture tax increments from development not stimulated by TIF;
- Adopting stricter blight requirements for redevelopment districts;
- Requiring larger portions of increments generated by redevelopment districts to be spent on blighted properties;
- Restricting use of economic development districts to manufacturing and related activities; and,
- Limiting the ability of cities to "pool" increments from multiple districts.

Districts are subject to existing rules at the time of their creation. Succeeding amendments may affect all districts or may only affect new districts or expansions. The creation date of a district, the date certification of the district was requested, and the certification date of the district all determines the applicable rules for the district. The Legislature has the authority to grant exemptions to TIF law. In 1995, the Omnibus Tax Act moved investigation and reporting responsibility for local government compliance with the TIF Act from the Department of Revenue to the Office of the State Auditor (OSA). The OSA continues to hold the authority to randomly examine and audit the records of TIF authorities to determine compliance with the TIF Act.

### ***Tax Increment Financing as a Development Tool***

A TIF baseline is established when the district is created based on the aggregate property tax revenues of all properties within a TIF district. Initially improvements and development within a TIF area are funded through a bond issue or general revenue funds. Theoretically, development stimulates an increase in the assessed value of property within the geographically defined TIF district. The tax increment is the difference between the existing property taxes before development and the increased property taxes produced by the new development. The TIF authority uses the increment to pay off initial development expenditures and to fund new projects within the district. Further investment stimulates additional increases in property value producing additional increment. After a TIF district is decertified, the property value of the district returns to the general tax rolls. The increased tax base generated by the development then benefits the municipality, school district, county, and other taxing jurisdictions. (See the appendix for a list of metropolitan area tax increments and total revenues for 1998.)

TIF enables local taxing authorities to leverage future increases in property value to pay for current improvements and development by capturing additional tax revenue through a Tax Increment District (TID). Annually, all properties, with the exception of public and tax exempt properties, undergo a property tax assessment. The property tax rate is applied to this assessment determining the total property tax. Property tax varies by relative property value and tax rate. Normally, several taxing districts share property tax revenue. TIF enables authorities to capture 100% of every property tax dollar (above the frozen tax base, i.e. assessed value at the time of certification) generated by properties within the district for up to the maximum life of the TIF district. In Minnesota, the state pays for any income lost to the school district that results from the captured property value in a TIF district through the school aid formula.

## ***Tax Increment Financing Districts***

TIF districts are geographical areas designated by a local development authority. Developmental authorities include: Cities, housing and redevelopment authorities (HRAs), port authorities, economic development authorities (EDAs), and rural development financial authorities (RDFAs). There are 7 types of tax increment districts in Minnesota:

- Redevelopment;
- Renewal and renovation;
- Soil conditions;
- Housing projects;
- Economic development;
- Mined underground space; and,
- Hazardous substance clean-up.

## ***Designation Process***

The following discussion will highlight the findings and public participation requirements associated with the process of designating a tax increment financing district. A more detailed description of the process used to create a TIF district is located in the appendix.

State law requires that TIF districts be created in blighted areas. Designation of an area as a TIF District may be initiated by city planning departments, developers, businesses, or community organizations. To ensure an increment, districts are often created in or near redeveloping, gentrifying areas. Development activities within a district must have one of the following public purposes:

- Expanding the property tax base;
- Providing employment opportunities;
- Redeveloping blighted areas;
- Remediation of polluted soils; or,
- Constructing low- and moderate- income housing.

In addition to serving a public purpose, the proposed TIF district must demonstrate a “but for” finding. The “but for” criteria requires the local development authority to demonstrate that the proposed development or redevelopment would not occur within the reasonable foreseeable future “but for” the TIF subsidy. Essentially, significant private investment would not have occurred in the designated area. TIF authorities must “set forth in writing the reasons and supporting factors” behind the “but for finding.” Revised blight requirements for redevelopment districts require that 70% of the district area be occupied by buildings, streets, utilities, or other improvements and that more than 50% of the buildings must be structurally substandard requiring substantial renovation or clearance.

In 1995, the legislature amended the “but for” test by requiring a municipality to find that the use of TIF will increase the estimated market value of the site more than what would occur without TIF. The “market analysis” was intended to quantify the “but for” finding. A municipality must

include in its TIF plan the description of studies used to make the “but for determination” and the reasons and supporting facts of the finding. Qualified Housing districts were exempted from the market analysis of the “but for” test in 1996. Some of the following criteria have been used by authorities in meeting the “but for” requirement and in designating TIF districts:

- Cost: the high cost of a proposed development makes the project too expensive without public assistance;
- Location: to encourage development in a location that is consistent with the development goals of the municipality or to prevent a developer from locating in a different community;
- Timing: to encourage development of the project sooner than would have happened otherwise;
- Scope and Quality: to ensure development of a larger or better quality facility;
- Ultimatums: reaction to an existing company that wishes to expand and threatens to go elsewhere if it does not receive assistance; and,
- Public Improvements: financing of public improvements, such as water and sewer utilities and road improvements, to encourage development or redevelopment. (OLA, 1996)

A 1996 report by the Office of the Legislative Auditor indicated that the application and interpretation of the “but for” test varied. Legislation does not provide concrete definition or criteria for making the “but for” finding. With the exception of redevelopment districts, the Act contains no specific definitions of blight.

After the required findings are made and a TIF plan is drafted, the municipality must schedule a public hearing. A notice announcing the public hearing must be published in a newspaper of general circulation within the community not less than 10 days or more than 30 days before the hearing. The notice must include a map of the district, the area increments may be collected and a map of the project area in which the increment revenue will be spent. The municipality then holds the public hearing and approves the plan.

### ***Tax Increment Financing and Housing***

Under the Minnesota Tax Increment Financing Act of 1979 and its amendments, there are 2 types of districts specifically associated with housing development: Housing Districts and Qualified Housing Districts. The goal of both types of districts is to encourage the development of housing for low- and moderate-income individuals and families.

#### *Housing Districts (M.S. §469.174, subd. 11)*

Housing districts do not have to be established on blighted property and may be created on empty land. The duration of a housing district is up to 25 years after receipt of the first tax increment, or up to 20 years if the authority chooses to delay the initial receipt of increments a) until a minimum market value is reached, or b) for up to 4 years. To qualify as a housing district, a minimum of 80% of the fair market value of improvements must be for low- and moderate-income housing. Up to 20% of the fair market value of improvements may be for



commercial uses or uses other than low- and moderate-income housing. Housing districts are subject to income requirements. Income requirements are as follows:

*Owner occupied housing:*

- 95% of the units must be initially purchased and occupied by people with income equal to 115% or less than the applicable median family income.

*Rental housing:* One of the following requirements must be met.

1. At least 20% of the units must be occupied by individuals whose income is 50% or less of the area median gross income.
2. At least 40% of the units must be occupied by individuals whose income is 60% or less of the area median gross income.
3. At least 50% of the units must be occupied by individuals whose income is 80% or less of the area median gross income.

Tax Increment revenues may be used for land purchase and site preparation, installation of public improvements, interest reduction program (limited to rental housing and a 15 year maximum), and administrative expenses. (See the appendix for more detailed information about eligible uses of increment. Lists of existing housing districts in the metropolitan area, as well as sample district descriptions are also located in the appendix.)

Recent changes have increased the flexibility of housing districts in generating housing development. The eligible uses of increments for low-income housing now include low-income housing located outside of the project area. Violations of the housing district income limits are subject to the law that governs all other TIF provisions; previously, districts were converted to the maximum life of an economic development district. Finally, the definition of qualified housing districts includes single-family home ownership projects in which at least 95% of the home purchasers have incomes at or below 70% of the greater of 1) the area median gross income or 2) the statewide median gross income. The income limit is adjusted for family size. Thus, the legislature has seen fit to increase the power of TIF in housing development.

*Qualified Housing Districts*

In 1993, the legislature established a new type of housing district. This type of district has more stringent income requirements than the guidelines generally applicable to housing TIF districts. Qualified housing districts must meet federal low-income tax credit guidelines (rent and income limitations) regardless of whether the project actually receives a housing credit. Unlike other types of tax increment districts, qualified housing districts do not carry a reduction in Local Government Aid (LGA) or Homestead and Agricultural Credit Aid (HACA) to local municipalities.

*Other Development of Housing Using Tax Increment Financing*

Housing development not only occurs in housing and qualified housing districts, but also in other types of districts. However, there are no low- and moderate-income requirements for housing generated in other types of TIF districts. Units are typically market-rate. The following

descriptions from the 1996 Office of the Legislative Auditor's report on Tax Increment Financing provide examples of housing development in other types of tax increment districts.

#### **Roseville (College Properties)**

*This 1993 redevelopment district contained a run-down hotel and bar. The city used TIF to provide a land write-down for a multi-use housing project, including a 57-unit motel, 90 assisted-living units, and 140 independent-living units for seniors. A future project includes a 36-bed residential facility for Alzheimer's patients. (OLA, 1996, 54)*

#### **Richfield (Richfield Rediscovered Housing Program)**

*This program includes four redevelopment districts created in 1991 and 1993 in which the city purchases substandard single-family homes at their appraised value, demolishes them, and sells the parcels to developers for construction of market-rate homes. The city has identified 70 houses to participate in the program. (OLA, 1996, 54)*

#### **Farmington (Soils Condition District)**

*A developer approached the city for assistance to construct up to 426 single-family homes and 132 multi-family town home units. The city created this 173-acre district in 1994 to finance soil correction of lowlands. Plans include adding three feet of soil to raise the ground level, upgrading city water and sewer lines, and constructing a waterway to control flooding and provide drainage. (OLA, 1996, 54)*

### ***Use of Tax Increment Financing in Minnesota***

Since 1986, the number of communities using TIF and the number of TIF districts has grown every year. (Citizen's League, 2000) Both urban and rural areas use TIF. In 1999, about 6% or \$222,856,233 of the state's total property tax base of \$3.6 billion was captured in TIF districts. The following information outlines the use of TIF during 1999 in the Twin Cities metropolitan area.

- Tax base captured by TIF in the metropolitan area increased by 1.6%, while declining almost 12% in greater Minnesota.
- There are 627 TIF districts in the metropolitan area.
- Metropolitan area TIF districts are almost 7 times larger than non-metropolitan districts.
- On average metropolitan TIF districts contain \$282,737 in captured tax base.
- Of the 97 metropolitan cities with TIF districts, there are an average of 6.5 districts per city with an average of \$554,881 in captured TIF value
- Thirty-eight communities have more than 10% of their tax base captured in TIF districts; 3 communities (Chaska, Rogers, Landfall) had more than 25% of their tax base in TIF districts.
- In the metropolitan area, \$231.1 million in net TIF taxes or increment was available to pay off development costs.

About 1/5 of TIF districts created in Minnesota since April 1990 are housing districts. About 1/2 of these districts provide low- and moderate-income housing and the remainder are redevelopment and soils condition districts for market-rate housing. There are a total of 93 housing districts in the metropolitan area with the following county distribution: Anoka 2, Carver

3, Dakota 5, Hennepin 28, Ramsey 10, Scott 6, and Washington 11. (See the appendix for greater detail about housing districts in the metropolitan area.)

### *Selected Impacts of Tax Increment Financing*

Tax increment financing seeks to address systematic financial disinvestments in low-income communities: Communities that have been abandoned by residents, businesses, and investors who had resources, but departed to the suburbs. (Michel, 1996) Communities now characterized by poverty and social problems, where meaningful private investment is not occurring and where public subsidy is warranted. While existing residents and businesses are most in need of improved housing and available jobs, there are few mechanisms inherent to TIF that protect these groups from displacement.

The public goal of TIF is to generate long-term economic benefits for the community through revitalization. Nonetheless, like earlier urban renewal programs, tax increment financing may have disparate effects on low-income communities and communities of color. Earlier urban renewal programs often incorporated the class and racial prejudices of leaders or majority groups in the community. These circumstances resulted in increased residential segregation along racial and income lines. Tax increment financing may have a similar effect. Some critics argue that TIF serves as a subsidy for developers and a bargaining tool to lure development to particular areas. TIF simply redirects public resources to subsidize development that would have been likely to occur anyway.

As an economic development tool, TIF relies on an increase in the property tax base, indirectly the cost of living, for its success. TIF districts succeed when property values rise creating an increment. This process affects the affordability of housing and businesses for existing residents and owners within the district. Revitalization generated by TIF may gentrify an area displacing existing residents: Gentrification is the process whereby a mixed income, racially diverse neighborhood changes into a neighborhood with increased income but reduced economic and racial diversity. Gentrification commonly involves the displacement, or involuntary movement of people or businesses out of their neighborhoods because of condemnation or the rising cost of ownership or rental property and/or housing. Instead of assisting initial residents, development may result in gentrification and force re-settlement outside of the original neighborhood but near the TIF district. (Michel, 1996) This process not only displaces original community members, but also shifts poverty and concentrates it elsewhere.

Because redevelopment occurs in blighted areas, many projects may involve demolition of substandard housing. As described earlier, low-income and minority households are typically located in the central cities and declining inner-ring suburbs. Areas that may be appealing targets for TIF redevelopment. Through the eminent domain process, homeowners and businesses may be forced to sell their properties and renters may be displaced if housing is destroyed or rents increase. Development occurs without any assurance of assistance in relocating or replacing lost housing or businesses. Currently, there are no replacement requirements for housing lost due to redevelopment. There are also no set-aside requirements mandating use of increment to replace housing or to generate new housing. Additionally, housing generated through housing districts functions with short-term income guidelines, eventually becoming market-rate units. Depending on the selected level of affordability, the new housing may or may be affordable to existing residents to begin with.

In Minnesota, there are minimal public participation requirements; only a notice of the public hearing in an appropriate newspaper is required. Residents and businesses that will be affected by a TIF project may not adequately have their concerns or interests represented in this process. When properties within a TIF district are removed from the tax rolls, state assistance increases to fill the revenue gap that county, school districts or other taxing jurisdictions experience. This increased tax burden is shifted to all state taxpayers who indirectly pay the costs of local development. Without an effective mechanism to hold local officials accountable, state taxpayers have little or no power in affecting the use of TIF. Not only is tax increment financing complex, the advantages and disadvantages of the development may not be readily clear. With little federal restrictions on redevelopment projects, the federal courts are no longer a resource for relocation, participation, or planning requirements. In the past, federal guidelines strengthened resident participation; state and local guidelines have few protections.

At this time, tax increment financing provides one of few tools available to local authorities for financing urban revitalization and development. Though, definitive research does not exist showing that TIF has disparate effects on poor people and people of color, anecdotal information from across the nation suggest displacement occurs. Additional study is needed in this area, specifically the impact of TIF on generating or reducing affordable housing.

## **Recommendations**

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While existing residents and businesses are most in need of improved housing and available jobs, there are few mechanisms inherent to TIF that protect the interests of the community; particularly groups vulnerable to displacement. The following recommendations will promote more informed use of TIF as a tool for housing development, while bolstering the responsiveness and accountability of the TIF process to the community.

### ***1. Institute mandatory set-asides in the use of tax increment and housing development.***

Current Minnesota statutes have no minimum provisions for the use of increment to fund affordable housing development. California requires that 20% of the gross amount of tax increment be set aside to increase, improve, and preserve low- and moderate-income housing (C.S. §33334.2(a) & 33334.3(a)). Funds may be used for building, improving, or preserving low and moderate-income housing (C.S. §33334.2(d)). All units must remain available at affordable costs to people in these income ranges for specified time limits (C.S. §33334.3(f)(1)(A-B)).

The set-aside requirements acts as an incentive for developers, who want to access TIF, to engage in affordable housing development. A set-aside requirement could also be extended to new housing projects in all TIF districts, not just housing and qualified housing districts. The Minneapolis Affordable Housing Task Force recommended that “a minimum of 20% of affordable units in all new mixed-use and mixed-income projects that include housing” be implemented to increase the production of affordable housing. (2000, 21) Mandatory set-aside guidelines in Minnesota would directly connect the potential leveraging benefits of TIF to the production of affordable housing.

### ***2. Improve enforcement of housing district income requirements.***

The auditing responsibilities of the OSA should be expanded to include compliance of TIF authorities with income requirements in housing districts. Authorities are required to enforce the income requirements of housing districts to ensure that housing is provided to eligible low- and moderate-income households. The OLA found that some cities did not have appropriate monitoring procedures or enforcement was not practiced. (1996) Since the program evaluation, no meaningful efforts have been made to standardize monitoring of these requirements.

### ***3. Increase public participation requirements.***

Current Minnesota statutes provide minimal disclosure and public participation requirements in the TIF district approval process. Expanded notification and public participation procedures would open the process of TIF district designation to concerned organizations, citizens and current residents of blighted areas. At minimum, multiple public announcements should be mandated, all property owners within a proposed district should be directly notified, and full disclosure of potential impacts of the district should be elements of public participation. Both California and Illinois provide models of improved public participation requirements.

In Illinois, every TIF that will have a housing impact (see recommendation 4) must establish an “interested parties registry.” Any individual or organization located within the municipality may request to be added to the registry for a 3-year period. Registry members must be sent notices of all hearings, amendments, and the availability of annual reports related to proposed or existing TIF districts in the area.

Similarly, California has more extensive public notification and public input requirements:

- Notice of the hearing must be published at least once per week for 4 successive weeks prior to the hearing (C.S. §33349(a)); and,
- Every landowner, resident, or business in the redevelopment area must be sent a copy of the published notice at least 30 days prior to the hearing (C.S. §33349(b-c)).

California also mandates higher levels of public participation when low- and moderate-income people will be affected by the proposed development. Project area committees must be established and serve in an advisory role to development authorities. Notices must be sent to all residents, businesses, and community organizations within the project area explaining the functions of and opportunity to serve on the committee, and notifying them of all meetings and hearings involving the project (C.S. §33385(a)(4)). In accordance with California statutes, project area committees must be established in the following circumstances:

*(a) The legislative body of a city or county shall...form a project area committee in either of the following situations:*

- (1) A substantial number of low-income or moderate-income persons, or both, reside within the project area, and the redevelopment plan as adopted will contain authority for the agency to acquire, by eminent domain, property on which any persons reside.*
- (2) The redevelopment plan as adopted contains one or more public projects that will displace a substantial number of low-income persons or moderate-income persons, or both.*

*A project area committee must be formed whenever a redevelopment project will impact an area involving a substantial number of low- or moderate-income people or could displace a substantial number of these residents. (C.S. §33385(a)(1-2))*

**4. Institute the use of housing impact statements to better assess the benefits and costs of proposed development.**

At this time, there are no explicit provisions to analyze the potential impact of a proposed TIF development on low-income communities and communities of color. Racial impact statements (RIS) and housing impact statements (HIS) provide examples of how this analysis could be conducted. RISs and HISs are modeled after environmental impact statements used by federal agencies to evaluate the environmental impact of a proposed action and to weigh alternatives.

John Powell at the Institute of Race and Poverty proposes the use of racial impact statements in public decisions. He argues that communities of color lack the political voice to prevent projects that disproportionately affect them. A RIS would require analysis of the impact a potential course of action might have on communities of color. A statement might include:

- Racial impact of the proposed course of action;
- Alternative courses of action and their impacts;
- Potential methods of alleviating these impacts;
- Discussion of critical, related racial issues; and,
- Consideration of how various alternatives contribute or do not contribute to a more egalitarian society. (Powell, 1998)

Housing impact statements are another tool for assessing potential impact and displacement of poor people and communities of color in TIF developments. Illinois recently mandated the use of housing impact statements for TIF districts that include 75 units of housing or that will likely displace 10 or more units of housing. A HIS must document the units to be displaced and describe the relocation benefits that displaced households will receive. It must also detail the affordability level of all housing in the district and the racial composition of the resident population. A HIS includes the following components:

*Part I of the housing impact study shall include*

- (i) Data as to whether the residential units are single family or multi-family units,*
- (ii) The number and type of rooms within the units, if that information is available,*
- (iii) Whether the units are inhabited or uninhabited, as determined not less than 45 days before the date that the ordinance or resolution required by subsection*

*(a) Of Section 11-74.4-5 is passed, and*

- (iv) Data as to the racial and ethnic composition of the residents in the inhabited residential units.*

*The data requirement as to the racial and ethnic composition of the residents in the inhabited residential units shall be deemed to be fully satisfied by data from the most recent federal census.*

*Part II of the housing impact study shall identify the inhabited residential units in the proposed redevelopment project area that are to be or may be removed. If inhabited residential units are to be removed, then the housing impact study shall identify*

- (I) The number and location of those units that will or may be removed,*
- (ii) The municipality's plans for relocation assistance for those residents in the proposed redevelopment project area whose residences are to be removed,*
- (iii) The availability of replacement housing for those residents whose residences are to be removed, and shall identify the type, location, and cost of the housing, and*
- (iv) The type and extent of relocation assistance to be provided.*

Implementation of either of these tools would more accurately determine the costs and benefits associated with TIF developments. Revitalization and housing development using TIF should not be at the expense of existing communities.

## **Conclusion**

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It is clear that existing policies, programs and planning fail to adequately address the problem of affordable housing. Low-income and minority households bear the brunt of this problem with high housing burdens and limited housing options. As one of the few public financing tools still available, tax increment financing is a necessary tool for promoting housing development. There is evidence that some entities, such as the Dakota HRA, have been successful in using TIF as a tool for housing development. Further research is needed to more accurately understand the overall benefits and costs of TIF projects and their impact on low-income communities and communities of color. Nevertheless, development of new housing, especially affordable housing for moderate-income households, should not be at the expense of communities of color or extremely low-income communities. Without attention to the interests of existing residents, TIF can destroy low-income communities and repeat history through the contemporary displacement of low-income communities and communities of color. Alternatively, with authentic public participation and appropriate safeguards to protect vulnerable populations, TIF development can be harnessed to benefit all members of the community and to increase the supply of affordable housing.

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## **Tax Increment Financing Basics**

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### ***What is TIF?***

Tax Increment Financing (TIF) is an economic development tool used by local government units to generate a local source of funding for new economic development, redevelopment, or publicly assisted housing in blighted areas. TIF enables local taxing authorities to capture additional tax revenue by establishing a Tax Increment District (TID). The regulations associated with TIF are authorized under the Tax Increment Financing Act of 1979 (M.S. §§ 469.174-469.1791, as amended).

### ***How does TIF work?***

Under TIF, local development authorities leverage future increases in property value to pay for current improvements and development within the designated TID. Theoretically, development stimulates an increase in the assessed value of property within the geographically defined TIF district. The tax increment is the difference between the existing property taxes before development and the increased property taxes produced by the new development. The increment is used to pay for the costs of the initial development, as well as future improvements.

Normally, property tax revenue is shared between several entities with the TIF authority receiving a percentage of the total revenue. In a TIF district, the TIF authority captures 100% of the increased property tax revenue (increment) of the properties within the TID for up to the maximum of its life. The increased tax revenue within the district is not available to other taxing districts, such as the county or school districts, for the life of the district.

### ***What is a TIF district?***

TIF districts are geographical areas designated by a local development authority. Authorities include: cities, housing and redevelopment authorities (HRAs), port authorities, economic development authorities (EDAs), and rural development financial authorities (RDFAs).

There are 7 types of tax increment districts in Minnesota.

- Redevelopment
- Soil conditions
- Economic development
- Hazardous substance clean-up
- Renewal and renovation
- Housing projects
- Mined underground space
- 

Development activities within a TIF district must have one of the following public purposes:

- Expanding the property tax base;
- Redeveloping blighted areas;
- Constructing low- and moderate- income housing.
- Providing employment opportunities;
- Remediating polluted soils; and,

State law requires development authorities to establish tax increment districts in areas where significant private investment would not occur. The authority must show that the proposed development or redevelopment would not occur within the reasonable foreseeable future “but for” the TIF subsidy. The reasons and supporting factors of the “but for” finding must be documented.

## **Tax Increment Financing and Housing**

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Under the Minnesota Tax Increment Financing Act of 1979 and its amendments, there are 2 types of districts associated with housing: Housing Districts and Qualified Housing Districts. The goal of both types of districts is to encourage the development of housing for low- and moderate-income individuals and families.

### ***Housing Districts (M.S. § 469.174, subd. 11)***

Housing districts do not have to be established on blighted property and may be created on empty land. The duration of a housing district is up to 25 years after receipt of the first tax increment, or up to 20 years if the authority chooses to delay the initial receipt of increments: a) until a minimum market value is reached, or b) for up to 4 years.

Tax Increment revenues may be used for:

- Land purchase and site preparation;
- Installation of public improvements;
- Administrative expenses; and,
- Interest reduction program (limited to rental housing and 15 year maximum).

To qualify as a housing district, a minimum of 80% of the fair market value of improvements must be for low- and moderate-income housing. Up to 20% of the fair market value of improvements may be for commercial uses or uses other than low- and moderate-income housing. Housing districts are subject to income requirements. Income requirements are below.

### ***Owner Occupied Housing:***

- 95% of the units must be initially purchased and occupied by people with income equal to 115% or less than the applicable median family income.

***Rental Housing:*** One of the following requirements must be met.

- At least 20% of the units must be occupied by individuals whose income is 50% or less of the area median gross income. OR At least 40% of the units must be occupied by individuals whose income is 60% or less of the area median gross income. OR At least 50% of the units must be occupied by individuals whose income is 80% or less of the area median gross income.

### ***Qualified Housing District (M.S. § 273.1399)***

In 1993, the legislature established guidelines for qualified housing districts.. This type of district has more stringent income requirements than those generally applicable to housing TIF districts. Qualified housing districts must meet federal low-income tax credit guidelines (rent and income limitations) regardless of whether the project actually receives a housing credit. Unlike other types of tax increment districts, qualified housing districts do not carry a reduction in Local Government Aid (LGA) or Homestead and Agricultural Credit Aid (HACA) to local municipalities.

## Establishing a Tax Increment District

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*Excerpt from: Minnesota Department of Trade and Economic Development. (1999). Tax increment financing handbook for local officials and development professionals 1999-2000. Saint Paul: Minnesota Department of Trade and Economic Development.*

### **Required Findings**

To establish a district, the approving municipality must make specific findings and elections. The reasons and supporting facts must be made in writing for each of the following findings:

1. **The type of district.** For each type of district, there is a specific set of findings, as defined by the Tax Increment Financing Act. If a district is a redevelopment or a renewal or renovation district, the documentation must be retained and available to the public until the district has been terminated.
2. **The “but for” finding.** That the proposed development or redevelopment would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future and that the increased market value of the site expected without the use of tax increment is less than the increase in the market value expected, after subtracting the present value of all tax increments for the duration of the district.
3. **Conformance to general plan.** That the tax increment plan conforms to the general plan for the municipality as a whole. This would refer to the comprehensive plan, if one existed.
4. **Opportunity and needs finding.** That the plan will provide the maximum opportunity for development or redevelopment of a project by private enterprise that is consistent with the needs of the municipality as a whole. Additionally, the following elections must be made at the time of plan approval:

**Fiscal disparities election.** If applicable, the municipality must elect to have fiscal disparities contributions come from either inside or outside the district.

**Local contribution election.** The municipality must elect whether to make a qualifying local contribution or incur the state aid reduction.

## ***Contents of a Tax Increment Financing Plan***

As part of the process of establishing or modifying a district, a tax increment financing plan must be created for a new district and modified for an existing district. The following information must be contained in a plan:

*\* required by statute*

*\*\* required by statute depending on type of project area*

1. A statement of the objectives of the authority for the improvement of a project;
2. A statement as to the development program for the project, including the property within the project, if any, that the authority intends to acquire;
3. A list of any development activities that the plan proposes to take place within the project, for which contracts have been entered into at the time of the preparation of the plan, including the names of the parties to the contract, the activity governed by the contract, the cost stated in the contract, and the expected date of completion of that activity;
4. Identification or description of any other specific development reasonably expected to take place within the project, and the date the development is likely to occur;
5. Estimates of the following:
  - The cost of the project, including administration expenses;
  - The amount of bonded indebtedness to be incurred;
  - The sources of revenue to finance or otherwise pay public costs;
  - The most recent net tax capacity of taxable real property within the district;
  - The estimated captured net tax capacity of the district at completion; and
  - The duration of the district's or subdistrict's existence.
6. Statements of the authority's alternate estimates of the impact of tax increment financing on the net tax capacities of all taxing jurisdictions in which the district is located in whole or in part. For purposes of one statement, the authority assumes that the estimated captured net tax capacity would be available to the taxing jurisdictions without creation of the district. For purposes of the second statement, the authority assumes that none of the estimated captured net tax capacity would be available to the taxing jurisdiction without creation of the district;
7. Identification and description of studies and analyses used to make the "but for" determination; and
8. Identification of all parcels to be included in the district or any subdistrict.

## *Approval Process*

It takes approximately six weeks to go through the procedural steps to establish a district. The procedural steps are listed below. The order of these steps may vary on a case by case basis.

1. \* The plan is drafted by or at the request of the authority.
2. \*\* The planning commission meets to determine whether the plan is consistent with the comprehensive plan of the municipality.
3. \* The authority approves the plan.
4. The authority requests that the municipality call for a public hearing.
5. The municipality calls for a public hearing on the establishment or modification of a district.
6. \* In the case of a housing or redevelopment district, written notice must be provided to the county commissioner who represents the geographic area within which the district is to be located, at least 30 days prior to publication of the public hearing notice. Such notice must contain a general description of the proposed district's boundaries, the proposed activities to be financed, an offer to meet with the commissioner to discuss the proposed district and a request for the commissioner's comments with respect to the district.
7. \* The county board of commissioners and members of the school board are given estimates of the fiscal and economic implications of the proposed district at least 30 days prior to the public hearing. The authority provides an opportunity to the members of the county and school boards to meet with the authority and municipality.
8. \* Notice of the public hearing is published in a newspaper of general circulation within the community. The notice is published not less than 10 days nor more than 30 days prior to the public hearing. the published notice must include a map of the district, the area from which tax increments may be collected and, if the project area includes additional property, a map of the project area in which the tax increment revenue may be expended.
9. \* The municipality holds a public hearing and approves the plan.
10. \* The authority files a copy of the plan and the plan or program for the project area with the Office of the State Auditor.
11. \* The county auditor is advised that the district has been established and is requested to certify the original net tax capacity and local tax rate of the district.

### ***Modifications to a Tax Increment Financing Plan***

An authority may modify a tax increment financing plan at any time during the life of the tax increment financing district. However, an authority must make the same findings required for approval of the original plan and hold a new public hearing if the anticipated modification includes any of the following:

1. Reduction or enlargement of the geographic area of the tax increment financing district:
  - a. The geographic area of the tax increment financing district may be reduced but not enlarged after five years from the certification of the original net tax capacity by the county auditor;
  - b. The authority need not hold a public hearing if the only plan change is a reduction of the geographic area of the tax increment financing district and if the current net tax capacity equals or exceeds the original net tax capacity of the parcels being eliminated or the authority agrees that the original net tax capacity of the district will be reduced by no more than the current net tax capacity of the parcels;
  - c. If the district being enlarged is a redevelopment or a renewal and renovation district, the authority must show that the new parcels meet the minimum statutory criteria for creation of that type of district.
2. Increase in the bonded indebtedness;
3. Increase in the portion of the tax increment financing value to be retained by the municipality;
4. Increase in total estimated tax increment expenditures;
5. Acquisition of additional property by the authority; or
6. Creation of a hazardous substance district.

If the authority decides to change a housing, redevelopment, or economic development district to another type of district, the authority must (i) decertify the existing district, (ii) create a new tax increment financing plan, and (iii) follow all procedures for creation of a new district, including county auditor certification.

### ***Certification***

A district is not established until the original tax capacity and the original local tax rate of the district have been certified by the county auditor....It is key that a formal, written request for certification of the district be submitted to the county auditor as soon as practical after approval of the district, since **the date the request is received by the county auditor is considered the certification request date of the district.**

## ***Reporting Requirements***

*Office of the State Auditor (M.S. § 469.175, subds. 5, 6, 6(a) and M.S. § 469.177, subd. 11)*

The Office of the State Auditor is the agency responsible for tax increment financing auditing compliance. The treasurer of each county is authorized to deduct 0.25 percent of tax increment and forward it to the Office of the State Treasurer for payment of the Office of the State Auditor's enforcement duties. The Office of the State Auditor has developed annual reporting forms for accounting and financial reporting of tax increment financing districts. Additionally, the Office of the State Auditor has issued memorandums with respect to various issues relating to tax increment financing.

The reporting forms are due **August 1** of each year. Both the municipality and the authority must complete forms for each tax increment financing district. Copies of the completed forms must be sent to the school board, the county board, the county auditor and the city council. In addition, authorities and municipalities must publish data on tax increment financing districts annually in the official newspaper, based upon the information submitted to the Office of the State Auditor. Reports must be filed for each district from its creation until the district has been terminated or decertified and all tax increment revenues generated within that district have either been spent or returned to the county auditor for distribution to the taxing districts.

If an authority or municipality fails to make a disclosure or submit a report, the Office of the State Auditor will notify the authority or municipality of the failure to report. If the disclosure or report is not made or submitted by the third Tuesday of November of each year, the county auditor will be directed by the Office of the State Auditor to hold the distribution of tax increment revenues. Twenty-five percent of the tax increment revenues will be held if the distribution is made after the third Friday in November of the year the report was to be submitted. One hundred percent of the tax increment revenues will be held if the distribution is made after December 31 of the year the report was to be submitted.

Once the required disclosure or report has been submitted, the state auditor will notify the county auditor to distribute the tax increment revenues. This notification will be mailed within five business days after the Office of the State Auditor receives the outstanding information. The county auditor has 15 days to distribute the tax increment revenues after receiving notification from the Office of the State Auditor. Any interest which accrues while the tax increment revenues are being held is retained by the county.

**Annual Disclosure** (M.S. § 469.175, subd. 5)

**Annual Report.** On or before **August 1** of each year, the authority must submit to the county board, the county auditor, the school board and the municipality an annual report of the status for the previous year of each tax increment financing district. The report must include the following information:

- i the amount and source of all revenue in the tax increment account;
- ii the amount and purpose of all expenditures from the tax increment account;
- iii the amount of any tax increment revenue pledged, including to the payment of debt service on outstanding bonds;
- iv the original net tax capacity of the district and any underlying subdistrict;
- v the captured net tax capacity retained by the authority and the amount of captured net tax capacity shared with other taxing jurisdictions;
- vi the amount of tax increment revenue received; and,
- vii any additional information necessary to indicate compliance with the respective tax increment financing plan. A copy of the report of the authority to the Office of the State Auditor required under M.S. § 469.175, subd. 6, may be used to satisfy this annual report requirement.

**Annual Statement.** On or before **August 15** of each year, the authority must publish in a newspaper of general circulation within the municipality an annual statement relating to the status of each tax increment financing district for the previous year. The annual statement must show:

- i the tax increment revenue received and spent;
- ii the captured net tax capacity of the district;
- iii the amount of tax increment revenue paid to other governmental entities;
- iv the amount of tax increment revenue paid for administrative costs;
- v the amount of total tax increment revenue spent directly or indirectly for activities and improvements outside the district boundaries;
- vi other information the authority may determine to be relevant; and,
- vii if a fiscal disparities contribution is elected under M.S. § 469.177, subd. 2, paragraph (a), the fact that such election has been made and the increase in property taxes imposed on other properties within the municipality as a result of that election. A copy of the annual statement and the name of the newspaper in which the annual statement has been or is to be published must accompany the report of the authority to the Office of the State Auditor previously discussed.



## ***Other Compliance Issues***

### **Income Limitations (M.S. § 469.1761)**

While no specific reporting requirements currently exist under state law, the income requirements for housing districts, including qualified housing districts, must be monitored by the authority. The easiest method for the authority to monitor compliance with the income limits is to require the owner of the housing units to submit to the authority an annual report certifying that the owner is in compliance with the required income limits under the (re)development agreement. In the case of a qualified housing district that received tax credits, a copy of the annual compliance form submitted by the owner to Minnesota Housing Financing Agency would be sufficient. If bonds are outstanding or if the authority is concerned that the income limits have not been met, a rent roll showing income levels should be required from the owner in each year tax increment revenue is received.

### **Square Footage/Use Requirements**

It is important to maintain documentation relating to compliance with the square footage or use requirements of various types of districts. For housing districts, no more than 20 percent of the total fair market value of the planned improvements may be constructed for uses other than low- and moderate-income housing.

Under the 1995 legislative changes, the Office of the State Auditor may perform random audits of a municipality's use of tax increment financing. Should the Office of the State Auditor find evidence that a municipality or authority has violated a provision of the law, the Office of the State Auditor is to forward the relevant information to the county attorney. Since the Office of the State Auditor does not have any prosecutorial powers, the county attorney may bring an action to enforce the provisions. If the Office of the State Auditor finds that an authority or municipality is not in compliance with the Tax Increment Financing Act, it must notify the governing body of the municipality that approved the tax increment financing district of its findings. The governing body has 60 days to respond in writing to the Office of the State Auditor's notification. This written response must state whether the municipality accepts, in whole or in part, the findings of the Office of the State Auditor. If the municipality does not accept the findings, the written statement must indicate the basis for its disagreement.

Copies of the written response of the municipality are then forwarded to the chairs of the committees of the Legislature having jurisdiction over tax increment financing. If it is found that an authority has collected tax increment revenue from a parcel which did not qualify for inclusion within a district, the authority must repay to the county auditor the amount of tax increment revenue collected from that parcel. If it is found that an authority has spent tax increment revenue for an illegal purpose or an activity outside the permitted geographic area, the authority must repay such revenue to the county auditor. If the authority does not have sufficient revenue to make such payments, the municipality must use any available money, including the levy of property taxes, to make such payment. Money received by the county will be distributed as excess tax increment, except if payment is received after 60 days from notification of noncompliance by the Office of the State Auditor or upon commencement of an action by the county attorney for repayment, no distribution will be made to the municipality.

## General Limitations on the Use of Tax Increment Revenues (M.S. § 469.176, subd. 4)

*Excerpt from: Minnesota Department of Trade and Economic Development. (1999). Tax increment financing handbook for local officials and development professionals 1999-2000. Saint Paul: Minnesota Department of Trade and Economic Development.*

Generally, the limitations relating to tax increment financing are contained in Section 469.176 of the Tax Increment Financing Act. The following is an outline of general limitations. Tax increment revenues must be used as provided in the tax increment financing plan. Tax increment revenues may only be used to:

1. Pay debt service on bonds issued to finance a project;
2. Finance an activity or purpose authorized in the underlying development statute;
3. Pay costs of developing and implementing a development action response plan; or
4. Pay premiums for insurance or other security on bonds issued to finance a multifamily housing development or an industrial development bond or to finance a reserve.

Tax increment revenues may not be used for the acquisition, construction, renovation, operation or maintenance of a building used primarily and regularly for conducting the business of a local unit of government or state or federal government. Tax increment revenues may be used to construct or renovate a parking structure, public park, or social, recreational or conference facility.

In the case of municipalities or authorities, which are located in more than one county, tax increment revenues generated from one county may not be expended for improvements undertaken in another county. At least 80 percent of the tax increment revenues generated from a district must be expended within that district. Administrative expenses are considered to be activities outside a district.

# Metropolitan Area Housing Districts

Reporting Year Ended 12/31/99

County	Authority	Districts	County	Authority	Districts
<i>Anoka County</i>	Andover	1	<i>Ramsey County</i>	Arden Hills	1
	Blaine EDA	2		Falcon Heights	1
	Circle Pines	1		Lauderdale	1
	Coon Rapids	8		Little Canada	1
	Fridley	1		Maplewood	6
	Lino Lakes	1		New Brighton	1
	Spring Lake Park	2		North St Paul	1
<i>Carver County</i>	Chanhausen EDA	1		Shoreview	1
	Chaska EDA	1		St Anthony	2
	Watertown	1		St Paul HRA	1
<i>Dakota County</i>	Dakota City HRA	7		Vadnais Heights	1
	Inver Grove Heights	1		White Bear Lake	4
	Lakeville	2		<i>Scott County</i>	Belle Plaine EDA
<i>Hennepin County</i>	Bloomington HRA	2	Jordan		1
	Brooklyn Cener	1	Savage		1
	Crystal	1	<i>Washington County</i>	Cottage Grove	2
	Eden Prairie	5		Mahtomedi	2
	Hopkins	1		Oakdale	4
	Long Lake	1		St Paul Park	1
	Maple Grove	2		Stillwater	1
	Minnetonka	2		Woodbury	2
	Minneapolis CDA	7			
	Plymouth	1			
	Robbinsdale	1			
	Spring Park	1			
	St Anthony	2			
	St Louis Park	1			
<b>TOTAL METRO HOUSING DISTRICTS:</b>		<b>93</b>			

Source: Minnesota Office of the State Auditor.

## Metropolitan Area Tax Increments and Total Revenues for 1998

County	Government Entity	Community Type	Population	Tax Increments	Total Revenues	Tax Increments as % of Total Revenues	
ANOKA	ANDOVER	Smaller, Developing Suburbs	23,213	\$ 815,831	\$ 15,956,525	5%	
	ANOKA	Established Suburbs	17,964	\$ 2,055,401	\$ 12,530,224	16%	
	BLAINE	Large, Developing Suburbs	44,852	\$ 1,581,042	\$ 23,990,035	7%	
	CIRCLE PINES	Smaller, Developing Suburbs	4,772	\$ 92,323	\$ 2,043,960	5%	
	COLUMBIA HEIGHTS	Established Suburbs	18,699	\$ 1,174,151	\$ 13,685,893	9%	
	COON RAPIDS	Large, Developing Suburbs	61,904	\$ 3,261,137	\$ 30,796,523	11%	
	FRIDLEY	Established Suburbs	28,626	\$ 2,633,854	\$ 18,113,561	15%	
	LINO LAKES	Smaller, Developing Suburbs	15,053	\$ 660,943	\$ 12,150,153	5%	
	RAMSEY	Smaller, Developing Suburbs	18,079	\$ 1,644,068	\$ 7,921,932	21%	
	SPRING LAKE PARK	Smaller, Developing Suburbs	7,113	\$ 130,013	\$ 3,163,303	4%	
CARVER	CHANHASSEN	Smaller, Developing Suburbs	17,381	\$ 7,499,637	\$ 22,496,197	33%	
	CHASKA	Smaller, Developing Suburbs	15,361	\$ 6,821,145	\$ 21,174,196	32%	
	WACONIA	Smaller, Developing Suburbs	5,309	\$ 552,467	\$ 4,538,936	12%	
DAKOTA	APPLE VALLEY	Large, Developing Suburbs	43,468	\$ 1,687,702	\$ 28,162,470	6%	
	BURNSVILLE	Large, Developing Suburbs	58,705	\$ 3,884,976	\$ 38,511,028	10%	
	EAGAN	Large, Developing Suburbs	60,073	\$ 181,921	\$ 35,495,404	1%	
	FARMINGTON	Small, Slow Growth Suburbs	10,563	\$ 776,081	\$ 9,185,762	8%	
	HASTINGS	Small, Slow Growth Suburbs	17,626	\$ 271,222	\$ 13,340,935	2%	
	INVER GROVE HEIGHTS	Smaller, Developing Suburbs	29,151	\$ 1,453,730	\$ 17,143,794	8%	
	LAKEVILLE	Smaller, Developing Suburbs	38,506	\$ 521,302	\$ 28,237,376	2%	
	MENDOTA HEIGHTS	Residential, High Value Suburbs	10,293	\$ 1,564,886	\$ 8,198,926	19%	
	ROSEMOUNT	Smaller, Developing Suburbs	13,146	\$ 506,901	\$ 11,744,504	4%	
	SOUTH ST. PAUL	Established Suburbs	20,268	\$ 1,459,526	\$ 15,031,966	10%	
	HENNEPIN	BLOOMINGTON	Large, Developing Suburbs	87,476	\$ 15,058,965	\$ 88,251,908	17%
		BROOKLYN CENTER	Established Suburbs	28,535	\$ 1,962,289	\$ 19,762,361	10%
		BROOKLYN PARK	Large, Developing Suburbs	63,940	\$ 1,847,642	\$ 12,042,031	15%
		BROOKLYN PARK	Large, Developing Suburbs	63,940	\$ 8,821,422	\$ 46,115,203	19%
		CORCORAN	Small, Slow Growth Suburbs	5,698	\$ 152,480	\$ 1,815,161	8%
CRYSTAL		Established Suburbs	23,677	\$ 1,654,246	\$ 15,547,421	11%	
DAYTON		Urban Fringe Cities	5,144	\$ 172,776	\$ 2,645,880	7%	
DEEPHAVEN		Residential, High Value Suburbs	3,706	\$ 141,088	\$ 2,210,207	6%	
EDEN PRAIRIE		Large, Developing Suburbs	50,681	\$ 331,019	\$ 37,265,776	1%	
EDINA		Established Suburbs	47,235	\$ 6,784,208	\$ 31,956,517	21%	
GOLDEN VALLEY		Established Suburbs	21,001	\$ 5,420,297	\$ 20,831,161	26%	
HOPKINS		Established Suburbs	16,887	\$ 1,951,190	\$ 16,155,227	12%	
MAPLE GROVE		Large, Developing Suburbs	47,164	\$ 2,885,294	\$ 54,588,886	5%	
MEDINA		Residential, High Value Suburbs	3,756	\$ 89,091	\$ 3,015,446	3%	

County	Government Entity	Community Type	Population	Tax Increments	Total Revenues	Tax Increments as % of Total Revenues	
RAMSEY	MINNEAPOLIS	Central Cities	360,591	\$ 60,042,000	\$ 535,240,000	11%	
	MINNETONKA	Large, Developing Suburbs	52,691	\$ 1,345,670	\$ 28,284,886	5%	
	MOUND	Small, Slow Growth Suburbs	9,778	\$ 203,118	\$ 3,553,259	6%	
	NEW HOPE	Established Suburbs	21,610	\$ 1,616,034	\$ 13,850,328	12%	
	OSSEO	Small, Slow Growth Suburbs	2,646	\$ 273,916	\$ 2,251,007	12%	
	PLYMOUTH	Large, Developing Suburbs	62,979	\$ 1,113,492	\$ 37,358,430	3%	
	RICHFIELD	Established Suburbs	34,261	\$ 3,687,870	\$ 26,522,237	14%	
	ROBBINSDALE	Small, Slow Growth Suburbs	14,149	\$ 1,706,842	\$ 9,377,106	18%	
	SHOREWOOD	Residential, High Value Suburbs	7,008	\$ 334,290	\$ 3,384,192	10%	
	ST. ANTHONY	Small, Slow Growth Suburbs	8,419	\$ 858,634	\$ 7,055,582	12%	
	ST. LOUIS PARK	Established Suburbs	44,244	\$ 4,225,180	\$ 31,800,997	13%	
	WAYZATA	Residential, High Value Suburbs	4,128	\$ 1,386,624	\$ 5,064,681	27%	
	ARDEN HILLS	Residential, High Value Suburbs	9,737	\$ 109,944	\$ 4,456,634	2%	
	FALCON HEIGHTS	Small, Slow Growth Suburbs	5,386	\$ 189,633	\$ 2,398,348	8%	
	LAUDERDALE	Small, Slow Growth Suburbs	2,728	\$ 183,787	\$ 1,567,667	12%	
	LITTLE CANADA	Small, Slow Growth Suburbs	9,626	\$ 351,194	\$ 4,710,277	7%	
	MAPLEWOOD	Established Suburbs	35,355	\$ 981,238	\$ 19,902,366	5%	
	MOUNDS VIEW	Small, Slow Growth Suburbs	12,859	\$ 1,882,594	\$ 7,237,730	26%	
	NEW BRIGHTON	Established Suburbs	22,854	\$ 2,455,637	\$ 18,772,046	13%	
	NORTH ST. PAUL	Small, Slow Growth Suburbs	12,801	\$ 250,173	\$ 4,728,509	5%	
	ROSEVILLE	Established Suburbs	34,306	\$ 5,757,813	\$ 29,546,859	19%	
	SHOREVIEW	Smaller, Developing Suburbs	26,427	\$ 1,317,875	\$ 14,064,271	9%	
	ST. PAUL	Central Cities	268,667	\$ 10,577,803	\$ 319,821,047	3%	
	VADNAIS HEIGHTS	Smaller, Developing Suburbs	13,284	\$ 1,501,114	\$ 7,491,864	20%	
	WHITE BEAR LAKE	Established Suburbs	26,485	\$ 1,116,243	\$ 11,843,562	9%	
	SCOTT	BELLE PLAINE	Small, Slow Growth Suburbs	3,481	\$ 27,298	\$ 2,233,827	1%
JORDAN		Small, Slow Growth Suburbs	3,359	\$ 362,078	\$ 2,620,458	14%	
NEW PRAGUE		Urban Fringe Cities	4,240	\$ 183,297	\$ 2,989,052	6%	
PRIOR LAKE		Smaller, Developing Suburbs	14,687	\$ 173,576	\$ 11,467,269	2%	
SAVAGE		Smaller, Developing Suburbs	17,040	\$ 1,908,694	\$ 19,963,674	10%	
SHAKOPEE		Small, Slow Growth Suburbs	16,043	\$ 1,746,274	\$ 17,169,716	10%	
WASHINGTON		AFTON	Small, Slow Growth Suburbs	2,920	\$ 4,414	\$ 1,058,755	0%
		BAYPORT	Small, Slow Growth Suburbs	3,095	\$ 87,759	\$ 4,075,843	2%
	COTTAGE GROVE	Established Suburbs	30,630	\$ 552,566	\$ 17,549,316	3%	
	FOREST LAKE	Small, Slow Growth Suburbs	6,808	\$ 791,666	\$ 4,934,150	16%	
	HUGO	Small, Slow Growth Suburbs	5,867	\$ 12,330	\$ 3,107,487	0%	
	MAHTOMEDI	Small, Slow Growth Suburbs	7,282	\$ 380,984	\$ 4,786,979	8%	
	NEWPORT	Small, Slow Growth Suburbs	3,719	\$ 555,109	\$ 2,843,382	20%	
	OAK PARK HEIGHTS	Residential, High Value Suburbs	3,986	\$ 43,834	\$ 3,724,708	1%	
	OAKDALE	Smaller, Developing Suburbs	26,061	\$ 1,648,484	\$ 15,267,266	11%	
	ST. PAUL PARK	Small, Slow Growth Suburbs	5,046	\$ 334,567	\$ 2,194,903	15%	
STILLWATER	Small, Slow Growth Suburbs	16,133	\$ 1,897,707	\$ 13,599,792	14%		
WOODBURY	Smaller, Developing Suburbs	38,845	\$ 2,724,196	\$ 45,898,536	6%		

Source: Minnesota Office of the State Auditor

## Descriptions of Housing Districts

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In 1996, the Office of the Legislative Auditor conducted a program evaluation of tax increment financing. The following descriptions of housing TIDs are excerpts from the supplementary report.

*Excerpts from: State of Minnesota, Office of the Legislative Auditor, Program Evaluation Division. (1996). Description of selected tax increment districts. (OLA Print 96-06a). Saint Paul: Office of the Legislative Auditor.*

### **City of Chaska EDA, Chaska Manor TID 2, Established 1982**

*The city issued \$200,000 in bonds to finance a land write-down, site preparation costs, and utility improvements for a federally subsidized senior housing project. An old duplex and storage building on the site were demolished...City officials told us they may use tax increments to expand the housing project. (OLA, 1996, 15)*

### **Dakota County HRA, West St. Paul TID 1, Established 1983**

*The HRA issued a \$225,000 TIF revenue note to finance a land write-down and soil correction costs for a 60-unit Section 202 senior rental project. In addition, tax increments finance a \$750,000 IRR loan and ensure that 26 units of a 128-unit market-rate senior facility are available to low-income families and individuals...Tax increments from District 1 are pooled with District 4 to provide assistance to the HRA's commercial rehabilitation loan program. Increments are also used to pay debt service on a 42-unit senior development. (OLA, 1996, 19)*

### **Dakota County HRA, Multiple Cities TID 2, Established 1984**

*This district involves a First-Time Home-buyer Program. Approximately \$450,000 in tax increments may be used to help pay interest on mortgages for first time homebuyers. The program has assisted approximately 214 families and individuals. The following multi-family projects in Lakeville receive IRR assistance: (1) a 70-unit multi-family rental housing development which benefits from an IRR loan of up to \$455,000; (2) a 72-unit multi-family rental housing development gets up to \$503,00 in IRR assistance; (3) a 60-unit low- and moderate-income senior rental housing project, which uses increments to make debt service payments on bonds issued by the HRA. (OLA, 1996, 19)*

### **Dakota County HRA, Apple Valley TID 3, Established 1985**

*A multi-family rental housing facility with 208 units will receive up to \$2.4 million in tax increments for IRR payments. Tax increments will also be used acquire a partnership development located in Apple Valley after the 15-year tax credit period expires. (OLA, 1996, 20)*

### **Dakota County HRA, Inver Grove Heights/College Housing TID 5, Established 1987**

*This district involved construction of 60 units of multi-family student rental housing. Tax increments will provide an IRR loan of up to \$564,200 with \$1.137 million in increments budgeted for future acquisition of a partnership development in the Andrews Pointe District. (OLA, 1996, 20)*

### **Dakota County HRA, Burnsville Family Housing/Parkside Townhomes TID 6, Established 1990**

*A 22-unit multi-family townhouse rental project will benefit from an IRR loan of up to \$385,000 over 12 years. In addition, up to \$100,000 in tax increments was budgeted for site*

preparation and improvements, \$500,000 for future project acquisition, \$15,000 for assessments and title searches for tax-forfeited parcels that will be sold to moderate-income persons for construction of single-family homes. (OLA, 1996, 20)

**Dakota County HRA, Apple Valley Family Housing TID 7, Established 1991**

The district includes two projects. First, tax increments will provide \$784,000 in IRR payments in connection with the construction of 39 units of multi-family housing. In addition, up to \$884,000 in tax increments from this district and from District 3 are budgeted for the HRA's future acquisition of this development. Second, tax increments from District 3 may be used for a 50-unit senior rental housing facility, which was constructed and is owned and operated by the HRA. (OLA, 1996, 20)

**Dakota County HRA, Andrews Pointe TID 8, Established 1993**

The district includes three housing development projects involving IRR programs and a tax forfeiture housing development. These projects include: (1) Andrews Pointe in Burnsville, a multi-family rental townhouse development containing 57 units; (2) Harriet South in Burnsville, a proposed multi-family rental housing facility with 50 units; and (3) Samson Addition in Inver Grove Heights, which includes a 24 unit, multi-family townhouse development constructed on tax-forfeited land, and a single-family development using tax increments for the tax forfeiture development program. Terra Addition in Farmington is part of the HRA's Blighted Properties Program. The HRA may provide financing for acquisition and demolition of blighted houses on 21 tax-forfeited parcels which will be sold to moderate-income families for construction of new homes. (OLA, 1996, 20-21)

**Dakota County HRA, Lakeville Court Apartments/Fairview Ridges Townhomes TID 9, Established 1995**

The district contains two housing projects: one in Lakeville and one in Burnsville. The Lakeville project, a 52-unit multi-family rental housing complex, will receive an IRR loan of up to \$360,000. In Burnsville, the county plans to make IRR payments of up to \$372,000 over 12 years for a 49 multi-family rental townhouse development. To keep the developments affordable in the long term, the HRA will use approximately \$1.48 million in tax increments collected in the final 13 years of the district's duration to purchase these developments at the end of the 15-year federal tax credit term. (OLA, 1996, 21)

**Bloomington HRA, Rich Road Housing TID, Established April 1990**

The HRA provided a \$290,000 loan to acquire vacant property and provide a land write-down to the developer who constructed 51 units of low-income rental housing for elderly and handicapped individuals. Tax increments are used to repay the HRA loan. (OLA, 1996, 9)

**Bloomington HRA, Lyndale Avenue TID, Established April 1989**

Prior to being acquired and cleared by the HRA, this site contained three single-family homes in poor condition. The HRA resold the land (for nearly \$75,000) to the developer who constructed 30 units of rental housing for low-income, developmentally disabled adults. (OLA, 1996, 9)

**City of Hopkins, Sonoma Apartments TID 2-6, Established 1992**

The city created this district to assist the National Handicapped Housing Institute develop a 24-unit apartment building for mobility-impaired persons. Tenants will be eligible for federal rent subsidies. (OLA, 1996 44)

**City of Maple Grove, Eagle Ridge Apartments HRA District 1, Established 1981**

*The apartment project consists of 12 acres on which 240 units of multi-family housing have been constructed. The city issued \$1.96 million in TIF bonds and \$4.79 million in HRA bonds to finance development of an 88-unit senior housing project owned by the HRA. Approximately \$120,000 in annual tax increments will be used for 10 years to ensure that 20 percent of the units will be made available to low- and moderate-income seniors (OLA, 1996, 51)*

**Minneapolis CDA, Housing for Chronic Alcoholics TID #65, Established 1994**

*The district contained a vacant 43,000 square foot warehouse and office building requiring renovation and major mechanical work. MCDA used \$425,000 in tax increment revenues to help rehabilitate the warehouse into an 80-unit single-room occupancy project providing permanent and affordable housing for chronic alcoholics. An adjacent, dilapidated building was razed and an outdoor patio and recreational facilities were developed. (OLA, 1996, 58)*

**City of White Bear Lake, Lake Square TID 1, Established 1985**

*The city issued \$675,000 in bonds to acquire land and improve the site for construction of an 89-unit apartment building for seniors. (OLA, 1996, 86)*

**City of White Bear Lake, Michael Development TID 3, Established 1988**

*The city created this district to provide site improvements and \$298,000 in interest rate reduction payments for a 60-unit low- and moderate-income apartment building...The developer agreed to reduce the rent on 12 of the units by 40 percent through 2001. (OLA, 1996, 86)*

**City of White Bear Lake, Homecraft Development TID 4, Established 1989**

*The city created this district to provide up to \$652,000 in interest rate reduction payments for a 39-unit low- and moderate-income student apartment building. \$177,000 was spent through 1994, and the interest reduction payments will continue through 2003. (OLA, 1996, 86-87)*

**City of Oakdale, Oak Terrace TID 1-5, Established 1994**

*The city will use tax increments to reimburse the developer for costs related to street, parking, and infrastructure improvements (\$453,650), trails on site and to a nearby retail shopping area (\$45,100), land acquisition (\$5,000), and construction of a senior recreation facility (\$500,000). The developer constructed a five-story building containing 50 rental units for low- and moderate-income seniors. (OLA, 1996, 61)*

**City of Oakdale, Eastwoode Village TID 1-4, Established 1994**

*The developer proposed to construct 91 units of rental housing for low- and moderate-income seniors. Tax increments will reimburse the developer for land acquisition and site improvements (\$1.32 million), and storm sewers, sanitary sewers, and water systems (\$770,000). (OLA, 1996, 61)*

**City of Woodbury, Woodbury Villa TID 1, Established 1984**

*The district is adjacent to a nursing home. A \$375,000 TIF bond financed a land write-down for construction of 75 units of rental housing for senior citizens. (OLA, 1996, 9)*



## Comprehensive Plan Contents

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*Excerpt from: Metropolitan Council. (1997). Local planning handbook Twin Cities metropolitan area. Minneapolis: Metropolitan Council.*

The following is a brief summary of the content guidelines and requirements for comprehensive plans (see primarily Minn. Stat. Sec.473.859 for content requirements). The Council has further defined the requirements for all items shown in bold italics (as described in the corresponding sections in this handbook).

1. **Community Background (Optional)** - this element generally includes history, relevant issues and trends in the community, and vision for the future.

Policies, objectives and population/employment forecasts, - may be placed at the beginning of the plan, or in the specific sections to which they apply - statements of the community's priorities for future action and investment, provide direction for local decision-making.

2. **Land use**

**Land use** - includes maps and data that show current and proposed land use (e.g., water bodies, wetlands, natural drainage courses; intended use for agricultural, residential, commercial, industrial and other public/private purposes) as well as Critical Area plans for communities along the Mississippi River, and specific area plans, if appropriate, for Urbanization and/or Redevelopment Areas and other environmental protection areas.

**Staged development plan** - for communities that intend to expand their urban services areas, the timing, sequence and official controls to ensure that new development (and/or redevelopment) occurs in accordance with the comprehensive plan.

**Housing plan** - includes standards, plans and programs to ensure adequate housing to meet projected local and regional needs.

**Surface water management plan** - implementation of the city's component of the local watershed plan (as defined by Minn. Stat. Sec. 103B.235).

**Historic site preservation**

**Solar access protection**

The Communities are required under other state and federal statutes to include specific elements in their comprehensive plans. Communities adjoining the Mississippi River are required to address the Mississippi National River and Recreation Area and Critical Area guidelines (see contents list in the appendix).

3. Public Facilities - includes the location, timing, use, and capacity of the following:
  - Transportation plan (including street, highways and transit)
  - Aviation plan
  - Sewer plan (sewer pipes and facilities and private systems)
  - Parks and open space plan
  - Water supply plan (including conservation program and contingency plan for emergencies)
4. Implementation program - narrative description of the local programs, fiscal devices and other actions to implement the comprehensive plan, including official controls (such as zoning, other ordinances, regulation); and a capital improvement program, housing implementation program, and other programs the community will undertake to implement its plans.
5. Economic Development (Optional) - identified areas for mixed use development, expansion of facilities for business and/or methods for developing a balanced and stable economic base.
6. Intergovernmental Coordination (Optional) - plans to work collaboratively with school districts, other municipalities and jurisdictions for siting public facilities, sharing services, etc.
7. "...and any additional matter pursuant to the applicable planning statute" (Minn. Stat. Sec. 473.859, Subd. 1).

## **Review Procedures for Comprehensive Plans and Amendments**

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*Excerpt from: Metropolitan Council. (1997). Local planning handbook Twin Cities metropolitan area. Minneapolis: Metropolitan Council.*

1. *Community completes pre-review procedures.*
2. *Community submits plan/amendment and supporting materials to the Council.*

Seven copies of the plan or amendment, along with the "Information Summary"...and any supplemental materials are sent to the Council's Referrals Coordinator....

If an amendment involves simple text changes, only Part I, "General Information" needs to be completed.

3. *Council staff determines whether the submission is complete.*

The Council staff has 10 full business days to determine whether the plan or amendment is complete for review and to notify the local community if it is not complete.

If a plan or amendment is incomplete for review, the Council will:

- Notify the contact person indicated on the review form that the plan review has been suspended;
- Advise what additional information is needed to make the submittal complete; and
- Set up a meeting with local staff (if necessary) to work out the details.

The 60-day clock will start again after all required information has been received.

4. *Council staff reviews the plan.*

The Council must review and act on all complete plans and amendments within 60 days. Extensions can be granted on a case by case basis.

Notice of receipt of a plan or plan amendment is sent to adjacent political divisions and special districts by the Council's Referrals Coordinator. The Council review focuses on the following:

Conformity with regional system plans. One of the key functions of the Council is to ensure that regional systems are managed efficiently, and that local plans conform with regional system plans.

To help ensure this coordination, state law gives the Council authority to require a local governmental unit to modify its plan or amendment if the Council finds that the plan or amendment would result in a substantial impact on or departure from metropolitan system plans for:

- Aviation (airports);
- Recreation open space (parks);

- Transportation (roads and transit); or
- Water resources management (sanitary sewers and nonpoint pollution control).

Consistency with the Regional Blueprint and other regional policies and plans. The Council also reviews local plans and amendments for consistency with:

Council policies and directives contained in the Regional Blueprint and other chapters of the Metropolitan Development Guide; and

The statutory requirements of the Metropolitan Land Planning Act and other applicable state and federal laws.

In addition, under a cooperative agreement with the National Park Service, the Council reviews local plans and amendments for consistency with additional provisions of the Mississippi National River and Recreation Area Comprehensive Management Plan (MNRRA-CMP). The Council may recommend changes to local plans and amendments to make them more consistent with Council policies.

While consistency with such policies is not necessary for a plan or amendment to be "complete" for review, Council staff will work with communities during the 60-day review period to ensure consistency with all applicable regional, federal and state policies in effect. Council staff will also advise the community that priority for regional resources will go to communities whose plans are consistent with regional guidelines.

Compatibility with comprehensive plans of other units of government. In cases where a proposed plan has been challenged by an adjacent community on the basis of potential impact on that community, the Council will expect documentation that the concern has been addressed. In addition, the Council can mediate to resolve differences at the request of affected jurisdictions.

##### 5. *Staff recommends action.*

Generally, the action recommended by Council staff falls into one of two categories:

Waiver of extended review: A plan amendment would result in no impact on or departure from regional system plans, is consistent with other regional policies, and is compatible with adjacent units of government.

The staff recommends no modification of the proposed amendment. Such amendments do not require Council action.

Council action item: The plan update or amendment does not conform with regional system plan(s), has a potential impact on or departure from a regional system, is inconsistent with other regional plans or policies, and/or is incompatible with other jurisdictions' plans.

The purpose of an action item is to provide Council members the opportunity to discuss and debate action on the plan or amendment. If there is a substantial impact on or departure from a regional system plan, the Council will decide whether to require a plan or amendment modification.

Local citizens, staff, local officials, and other interested parties are welcome to attend the committee and Council meetings.

Most presentations and discussion occur at committee meetings. Presentations by local government officials, local staff and other interested parties are invited at this time.

Minn. Stat. Sec. 483.866 provides procedures whereby affected local governments can contest plan modifications required by the Council. Unless a plan modification is contested, the local government unit is required to revise its plan consistent with the Council's request and resubmit it to the Council.

6. *The local government responds to a required plan modification.*

A local governmental unit must respond, but it may do so in several alternative ways.

In some cases, the Council may specify a required method of response. If there is a required plan modification, the plan or amendment must be revised to incorporate the modification and resubmitted to the Council.

Resubmittal triggers a new 60-day review timeline. However, because the purpose is to confirm that the required modification was made, this type of review generally takes 10 or fewer working days.

7. *The local government adopts the plan or amendment.*

After considering the Council's comments and those of adjacent communities, and making any required modifications, the local government unit should adopt the plan or amendment within nine months of Council action.

8. *The local government resubmits its adopted Tier II comprehensive plan sewer (CSP) - consistent with its adopted comprehensive plan - to the Council for final approval.*

After the Council approves the Tier II CSP, the local government can undertake the sanitary sewer projects as identified in the plan.

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## **Related Research Projects**

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### *Analysis of Impediments Project*

#### *Legal Services Advocacy Project (LSAP)*

*Anticipated completion beginning December 2000 through Spring 2001*

- HUD entitlement jurisdictions in the Minneapolis-Saint Paul region contracted with the Legal Services Advocacy Project (LSAP) to complete the analysis of impediments requirement for the HUD Consolidated Plan. Research will identify existing barriers to fair housing and make recommendations for alleviating these barriers.

### *Metropolitan Fair Share Housing*

#### *CURA, SMRLS, and IRP*

*Anticipated completion March 2001*

- Headed by Ed Goetz, this is a collaborative project between CURA, SMRLS and IRP. Research will evaluate implementation of the Land Use Planning Act and determine the authority that the MET Council holds in evaluating and enforcing plans. Regulations, zoning and density requirements will also be addressed. Research will be used to create pressure for meaningful fair share housing in municipalities and to assess the viability of a lawsuit related to access to federal transportation funds.
- Research focuses on three hypothesis:
  1. The MET council has been negligent in implementation of Act through its activities i.e. changed standards, encouraged insufficient plans.
  2. Metropolitan communities are “dragging their feet” in meeting legal requirements. Gaps exist between content of plans and implementation of plans. i.e. zoning, informal practices
  3. The legislation itself has not met its goal. This is based on the assumption that both the MET Council and communities have met their responsibilities.

### *Racial Justice and Regional Equity Project*

*Institute on Race and Poverty, University of Minnesota*

- This 3 year project will address racial justice and regional equity. Research will emphasize the impacts of urban sprawl on communities of color living in inner city and declining inner-ring suburbs. Strategies for addressing these problems and for engaging communities of color in regional problem-solving will be developed.

### *Briefing Paper: Addressing the Racial Impacts of Public Policy*

*Gavin Kearney, Institute on Race and Poverty, University of Minnesota*

- A briefing paper outlining the use of racial impact statements and the racial impacts of public policy is in the drafting stage. The final product will provide an in-depth tool for applying the concept of racial impact statements to public policy issues.

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