



Introduction to Economic Development Finance

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Ehlers: Independent Municipal Advisors



Economic Development Consulting

- Tax Increment Financing
 - ✓ District Creation & Administration
 - ✓ Pay-As-You-Go Calculations
 - ✓ TIF Reporting
- Development Budget & Proforma Analysis
- Fiscal Impacts (Public Cost – Benefit) Studies
- Developer Incentive Negotiations
- Project Management

Today's Discussion



What is Economic Development?

- Comprehensive activity undertaken by municipalities to help promote specific economic outcomes, including:
 - ✓ Adoption of plans & policies
 - ✓ Creation, funding & staffing of specific programs (loans, housing assistance, etc.)
 - ✓ Raising of funds for initiatives
 - ✓ Public private partnerships with development entities

Why Engage in Economic Development?

- Job Creation
- Tax Base Growth & Diversification
- Redevelopment
- Neighborhood Preservation
- Develop Infrastructure
- Improve Housing Availability & Choice
- Pollution Control &/or Cleanup
- Quality of Life



Why Engage in Economic Development?

- Development is Expensive
 - ✓ Cost of Redeveloping Existing Uses
 - ✓ Cost of New Construction
 - ✓ Cost of Operations & Maintenance
 - ✓ Cost of Annual Debt Service
- Tax Base Growth & Diversification
 - ✓ Commercial & Residential Rents
 - ✓ Commercial & Residential Property Sale Prices



Why Engage in Economic Development?

Private Financing is Limited

- Lenders have Loan to Value (LTV) Limitations
- Private Developers have market-based return on investment (ROI) expectations for Equity

Result is a Gap

- Can Fill Upfront
- Can Fill Overtime
- Goal: Positive Cashflow & Reasonable ROI

Public Economic Development Role



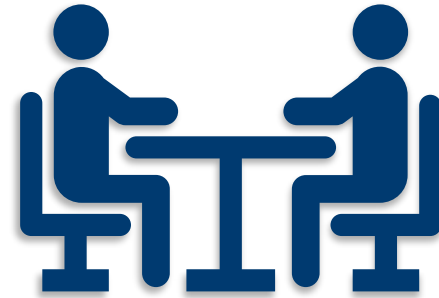
Policymaker Role

- Develops “big picture” goals & priorities for staff
 - ✓ Need to decide what they want
 - ✓ Staff knows what to “go after”
- Develop policies
- Serve as ambassador & “champion” on
- Projects being implemented
- Approve level of assistance for projects
 - ✓ Don’t sit at the table for negotiations



Staff Role

- Develop & implement programs & policies to meet objectives of the public entity
- Serves as front line
- Approve level of assistance for projects
 - ✓ Request for financial assistance
 - ✓ Questions
 - ✓ Assistance/customer service for residents/businesses
- Keep connected with business community & residents





PREPARING FOR SUCCESS

Preparing for Success

Establish an Economic Development/Redevelopment Plan!

- Helps unite staff & policy makers
- Provides foundation for a successful project
- Ensures you're prepared when opportunity knocks
- Sets priorities for limited resources



Preparing for Success

Adopt policies to set parameters for public involvement

- Business subsidy policy
 - ✓ Required per MN statues 116J.993 – 116J.995
 - ✓ Include additional local goals
- Developer fee policy
- Application for assistance



Protecting Local Resources

BEFORE
using any
economic
development
tools:

- What is the community goal or plan?
- What problem are we solving for?
- What else competes for these limited resources?

Projects that don't advance goals end up wasting limited resources.

Protecting Local Resources

- Review developer's application & financial information to establish appropriate level of public assistance
 - ✓ *pro forma* analysis
- Ensure project qualifies for proposed type of assistance
 - ✓ Default format is Pay-As-You-Go
- Maximize **private** funding sources
- Minimize **public assistance** needed to make a project financially feasible

Economic Development Tools



Economic Development Tools

Know the tools available to help facilitate development.



EDA/HRA LEVY
FUNDS



LOCAL REVOLVING
LOAN FUNDS



TAX INCREMENT
FINANCING (TIF)



TAX ABATEMENT



STATE & LOCAL
RESOURCES (DEED,
COUNTY, ETC.)

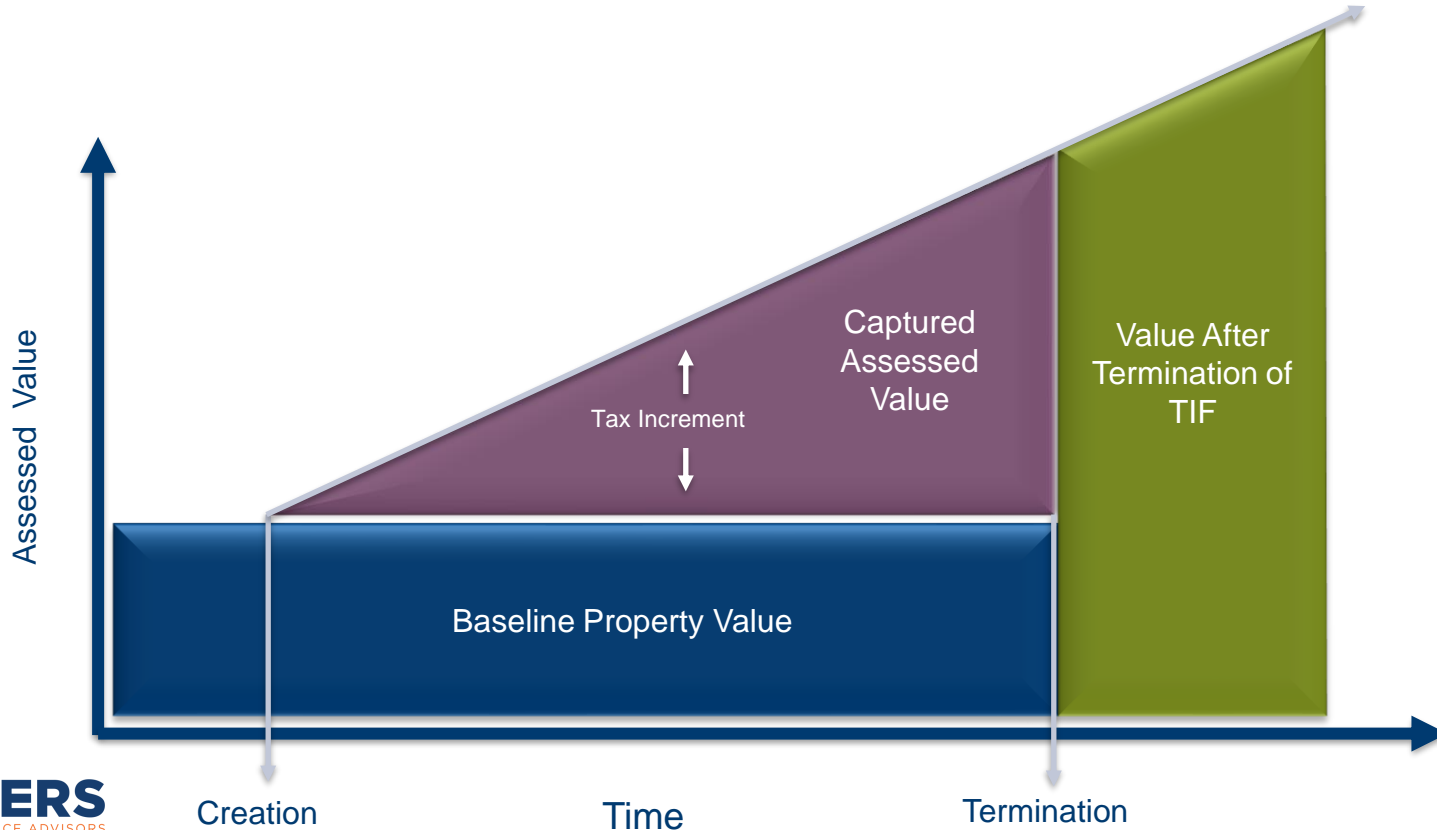
What is Tax Increment Financing (TIF)?

The background of the slide is a photograph of the Minnesota State Capitol building at dusk. The building's central dome is illuminated with warm lights, and the sky is a deep blue. The building's facade is lit up, and the surrounding area includes a green lawn and some trees.

Minnesota Statutes
469.174-469.1794

The ability to capture and use most of the **increase** in local property tax revenues from **new development** within a defined geographic area for a defined period of time **without** approval of the other taxing jurisdictions.

TIF Example



Common Types of TIF Districts

TIF District	Term Length
Economic Development	9 Years
Housing	26 Years
Redevelopment	26 Years
Renewal & Renovation	16 Years
Soils	20 Years

Note: Each type of TIF District has its own requirements & limits

Economic Development TIF District

At least 85%
of new
building
space must
be:

- Manufacturing
- Warehousing, storage, distribution
- Research & development
- Telemarketing
- Small city commercial
- Space necessary & related to the above uses
- Workforce housing (Greater MN only)

Housing TIF District

- Affordable Housing - Income test is main qualification
- 100% tax increment used for affordable housing
 - ✓ 20% of project's value can be used for commercial development
- Rental Income adjusted by number of occupants
 - ✓ 40% of units restricted to 60% of median income; or
 - ✓ 20% of units restricted at 50% of median income
- Can be used for owner occupied housing subdivisions
 - ✓ 95% of units must qualify

Redevelopment TIF District

- Parcels consisting of 70% of area must be improved
- More than 50% of buildings must be substandard
- 90% of TIF used to correct redevelopment issues
- No restrictions on end use
 - ✓ No income restrictions on housing

Renewal & Renovation TIF District

- Parcels consisting of 70% of area is improved (same as redevelopment)
- Difference is in substandard findings
 - ✓ 20% of buildings are structurally substandard
 - ✓ 30% of other buildings require substantial renovation or clearance
- No restrictions on end use
 - ✓ No income restrictions on housing

How to Establish a TIF District

Project description



Market value & tax rates



Estimated fiscal impact



Project area & TIF District map

TIF Process: The Plan

- TIF plan draft includes:
 - ✓ Project description
 - ✓ District parcels, project area map & TIF district
 - ✓ Maximum budget
 - ✓ Estimated financial impacts

Adoption Date April 14, 2021

Anywhere Port Authority The City of Anywhere, MN

Tax Increment Financing (TIF) Plan
Establishment of the Anywhere TIF District



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BUILDING COMMUNITIES. IT'S WHAT WE DO.

TIF Process: Notices



Notice to County
Commissioner 30 days
prior to hearing notice
publication



TIF Plan with fiscal
impacts to County &
School Districts 30 days
prior to public hearing



Hearing notice publication
at least 10 days prior to
hearing

TIF Process: Public Hearing

- Council holds public hearing, considers resolution to adopt TIF plan
 - ✓ Type of district
 - ✓ But-for finding
 - ✓ District conforms to general development plan
 - ✓ Plan affords maximum opportunity for city's development needs



What is Tax Abatement?



Minnesota Statutes
469.1813-469.1815

The ability to capture and use **all or a portion** of the ~~increase in~~ local property tax revenues ~~from new development~~ **from** a defined geographic area for a defined period of time **with approval from each** participating taxing jurisdiction.

How Tax Abatement Works

- Allows **each** major taxing jurisdiction to choose to contribute **its share** of the taxes and limit abatement in any manner it determines appropriate
- Duration limit varies
 - ✓ Participation by all 3 entities – 15 years
 - ✓ Participation by 1 or 2 entities – 20 years
 - ✓ Resolution is silent as to the term – 8 years
- May use to retain business by abating existing taxes

Who May Grant Abatements?

Cities, Counties, School Districts, Towns (with approval from each governing board)

May use to retain business by abating existing taxes

How to Establish an Abatement

Project description

Parcel information

Market values & tax rates

Participating entities' confirmation

Tax Abatement Process: Notices

- Hearing notice publication more than 10 days prior to hearing
 - ✓ Entity granting abatement
 - ✓ Properties included
 - ✓ Estimated total amount

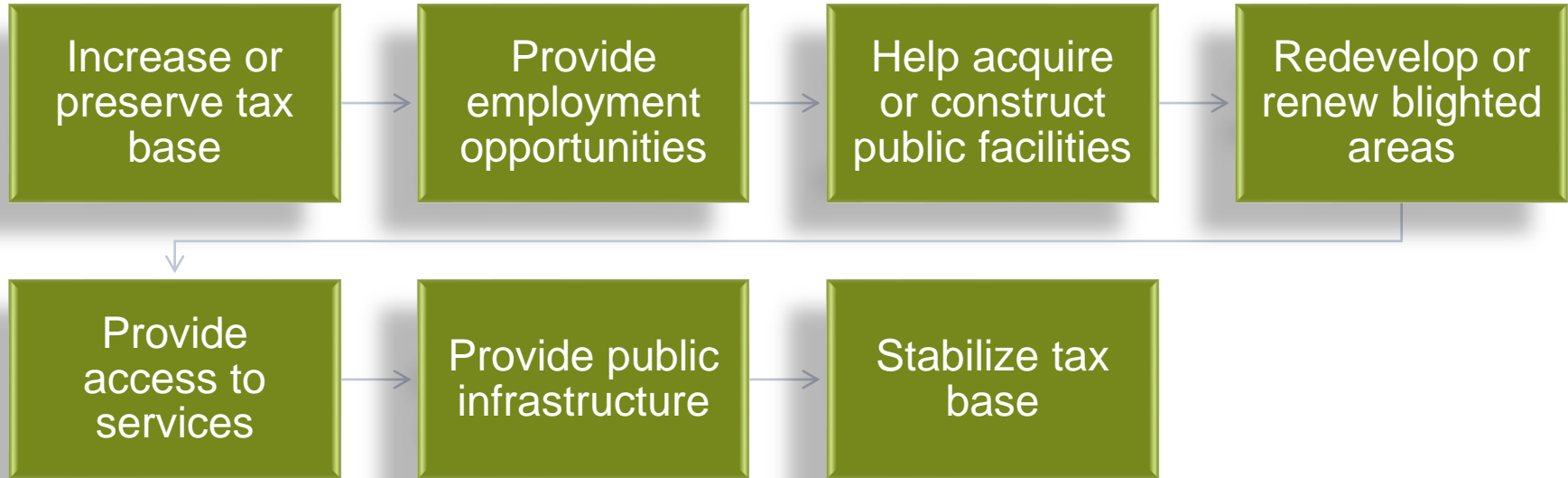


Tax Abatement Process: Public Hearing

- Jurisdiction holds public hearing, considers resolution to approve abatement
 - ✓ Abatement terms
 - ✓ Benefits to political subdivision at least equal costs of proposed agreement
 - ✓ Abatement is in the public interest?...



Tax Abatement is in the Public Interest



TIF / Abatement: Financing Options

- Pay-as-you-go TIF Note
 - ✓ No up-front funds from the City
 - ✓ Developer funds eligible expenses and is repaid with interest, over time, from available tax increment / abatement
 - ✓ No risk to TIF / abatement authority if term expires before note is retired
- G.O. or Revenue Bonds
 - ✓ Bond proceeds fund up-front project costs and TIF revenue is used to repay bonds
 - ✓ Higher-risk to City for G.O. debt

TIF vs. Tax Abatement

	TIF	Tax Abatement
Process:	45-60 days for notices and City public hearing	Public hearing by each participating jurisdiction
Location:	TIF district must be within a project area	No project area requirement
	Increment must be spent within TIF district, generally	No restrictions on where funds are spent
Value:	Captures increase in value	Flexible structure: can capture existing value

TIF vs. Tax Abatement

	TIF	Tax Abatement
Use of funds:	Restricted by district type	Few restrictions
Annual limit:	No maximum	Annual total is greater of 10% of the jurisdiction's net tax capacity or \$200,000
Term:	9-26 years based on district type	8-20 years, depending on participating jurisdictions
Maximum assistance:	No maximum	Annual total is greater of 10% of the jurisdiction's net tax capacity or \$200,000

TIF vs. Tax Abatement

	TIF	Tax Abatement
Reporting:	Annual reports to OSA; May require Subsidy reporting	No reports to OSA; May require Subsidy reporting
End use:	Restrictions on end user by district type	No restrictions on end use unless established by policy
	Income limits (housing)	No income limits: can be used for market rate housing
	Blighted buildings and coverage (redevelopment)	No blight findings

TIF vs. Tax Abatement

	TIF	Tax Abatement
End use:	Manufacturing, warehouse, distribution (economic development)	No restrictions on use: can use for retail development
	Maximum vacancy rates, business statements, and county and school approval (economic development – workforce housing)	No maximum vacancy rates or business statements
	Cannot be used for recreational facilities	Can be used for parks, pools, rinks, etc.

HRA / EDA Levy

Maximum HRA Levy:

- 0.0185% of City's estimated market value
- \$540,000,000 TMV = \$99,900 maximum levy

Maximum EDA Levy:

- 0.01813% of City's estimated market value
- \$540,000,000 TMV = \$97,902 maximum levy

Flexible Revenues:

- Can fund staff, debt service, revolving loan fund, etc.

Other Tools

- Revolving Loan Funds
 - ✓ “**Gap**” loans for new development
 - ✓ Typically, lower interest rate and more favorable repayment terms, but not always
- Housing Improvement Areas
 - ✓ A “**special assessment**” mechanism for city funding privately-owned improvements when other financing is not available
 - ✓ “**Special assessments**” are collected through a fee imposed on a special taxing district

Funding Partners

- State of MN: Department of Employment and Economic Development (DEED)
 - ✓ MN Investment Fund & Job Creation Fund
 - ✓ Redevelopment Funding
 - ✓ Infrastructure Funding
- MN Housing
 - ✓ Housing-related funding

Funding Partners

- Counties
 - ✓ Community Development Block Grant (CDBG)
 - ✓ HOME Investment Partnerships Program (HOME)
- Metropolitan Council
 - ✓ Livable Communities Demonstration Account (LCDA)
 - ✓ LCDA – Transit Oriented Development (LCDA-TOD) grants
 - ✓ Tax Base Revitalization Account (TBRA)
 - ✓ Local Housing Incentives Account (LHIA)

Funding Partners

- USDA Rural Redevelopment
 - ✓ Rural Econ Dev Loan & Grant Programs
 - ✓ Rural Business Enterprise Grants
 - ✓ Intermediary Relending Program (fund RLF)
 - ✓ Value Added Producer Grants
 - ✓ Renewable Energy Loans & Grants
 - ✓ HOME Investment Partnerships Program (HOME)
- Foundations: Blandin, Northwest Area, Initiative Foundations, etc

Regulatory Incentives

- Zoning Incentives
 - ✓ Typically allows for greater density in exchange for some public benefit (e.g. – affordable housing; project enhancements, etc.)
- Fee Waivers (less common)
 - ✓ Sewer / Water Fees
 - ✓ Park Dedication Fees
 - ✓ Trunk Infrastructure Fees
- Economic Development “Ambassador” Services



PROJECT EXAMPLES

Fergus Falls: River Oaks Landing

- 4.84 - acre site
- Development of greenfield site in 2016
- 24 - unit market-rate senior rental housing (55+)
- \$4.17 million project cost (\$173,750/unit)



The Scenario

- City needed new rental housing choices
- Developers unable to make the numbers work
- City agreed to partner for new housing
- City's goal = more housing choices for seniors, free up housing for the workforce

Financial Returns	No Assistance	
	Year 3	Year 10
Rents	412,154	473,436
Operating Expenses	(130,651)	(142,538)
Net Operating Income (NOI)	281,503	330,898
First Mortgage Debt Service	(240,802)	(240,802)
Net Income	40,701	90,096
Return on Equity	3.8%	8.4%

**Below
Market
Returns!**

Analysis

- Rents
 - ✓ \$1.10/ft projected rents (aggressive for the market in 2016)
- Project development costs & operating expenses were reasonable for the market
- Below market returns
- TIF or Abatement consideration
 - ✓ TIF includes affordability requirements, which means less revenue and a higher financial gap
 - ✓ Decision to use Tax Abatement

Analysis

Financial Returns	No Assistance		With Assistance	
	Year 3	Year 10	Year 3	Year 10
Rent	412,154	473,436	412,154	473,436
Operating Expenses	(130,651)	(142,538)	(130,651)	(142,538)
Tax Abatement	0	0	18,065	18,065
Net Operating Income (NOI)	281,503	330,898	299,568	348,963
First Mortgage Debt Service	(240,802)	(240,802)	(240,802)	(240,802)
Net Income	40,701	90,096	58,766	108,161
Return on Equity	3.8%	8.4%	5.5%	10.1%

The Outcome

- \$175,000 PAYGO Tax Abatement Note for 15 years
- Project is complete & fully occupied



Long Prairie: 2nd Avenue Apartments

- New 37-unit rental project
- Traditional financing not enough to pay for development costs
- Layered in several financing sources
- Return on investment still relatively low, even with all other funding



Financing Solutions

- Workforce housing TIF (9 years)
- Abatement after the 9 years

SOURCES			
	Amount	Pct.	Per Unit
First Mortgage	2,592,000	46.9%	70,054
TIF PAYGO (City Match)	669,310	12.1%	18,089
Developer Cash	713,620	12.9%	19,287
Energy Rebate	10,610	0.2%	287
Minnesota Housing Grant	975,000	17.6%	26,351
Employer Contribution	565,660	10.2%	15,288
TOTAL SOURCES	5,526,200	100%	149,357

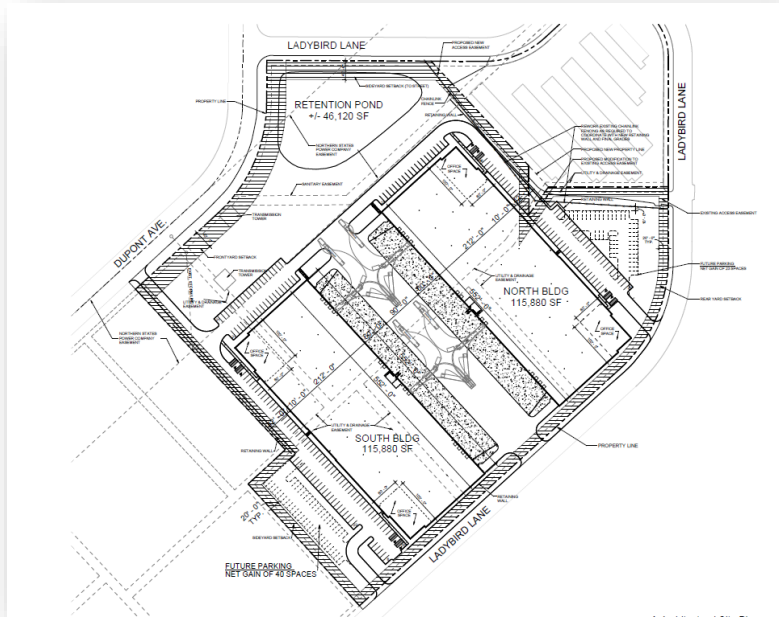
USES			
	Amount	Pct.	Per Unit
Acquisition Costs	99,000	1.8%	2,676
Construction Costs	5,112,500	92.5%	138,176
Professional Services	179,700	3.3%	4,857
Financing Costs	105,000	1.9%	2,838
Cash Accounts/Escrows/Reserves	30,000	0.5%	811
TOTAL USES	5,526,200	100%	149,357

Burnsville: Capstone Industrial

- 16.6 - acre site
- 231,760 sq. ft. industrial development
- Challenge: extraordinary site costs totaling \$3.5 million
- \$27 million project cost (\$196,000/unit)



Developer *Pro Forma* Review



- Land assembly costs
- Construction costs
- Market rents – need to ensure projections are high enough
- Proposed financing (debt, equity, rate, term)
- Developer fee
- Rate of return target

Ehlers' Analysis

- Developer's yield on cost projected at 5.3% without TIF
 - ✓ 6.5%-7% desired
- Located within existing City TIF district
- \$1.76M in City TIF, plus outside grant sources
 - ✓ Yield on cost reaches 6.3%

SOURCES		
	Amount	Pct.
Developer Financing - First Mortgage	15,399,378	56.63%
Developer Financing - TIF Note	1,760,143	6.47%
Developer Equity	8,291,973	30.49%
Subtotal	25,451,494	93.59%
DEED Grants	950,000	3.49%
Dakota County RIG	250,000	0.92%
Met Council	430,000	1.58%
Dakota County ELF	111,871	0.41%
Subtotal	1,741,871	6.41%
TOTAL SOURCES	27,193,365	100.00%

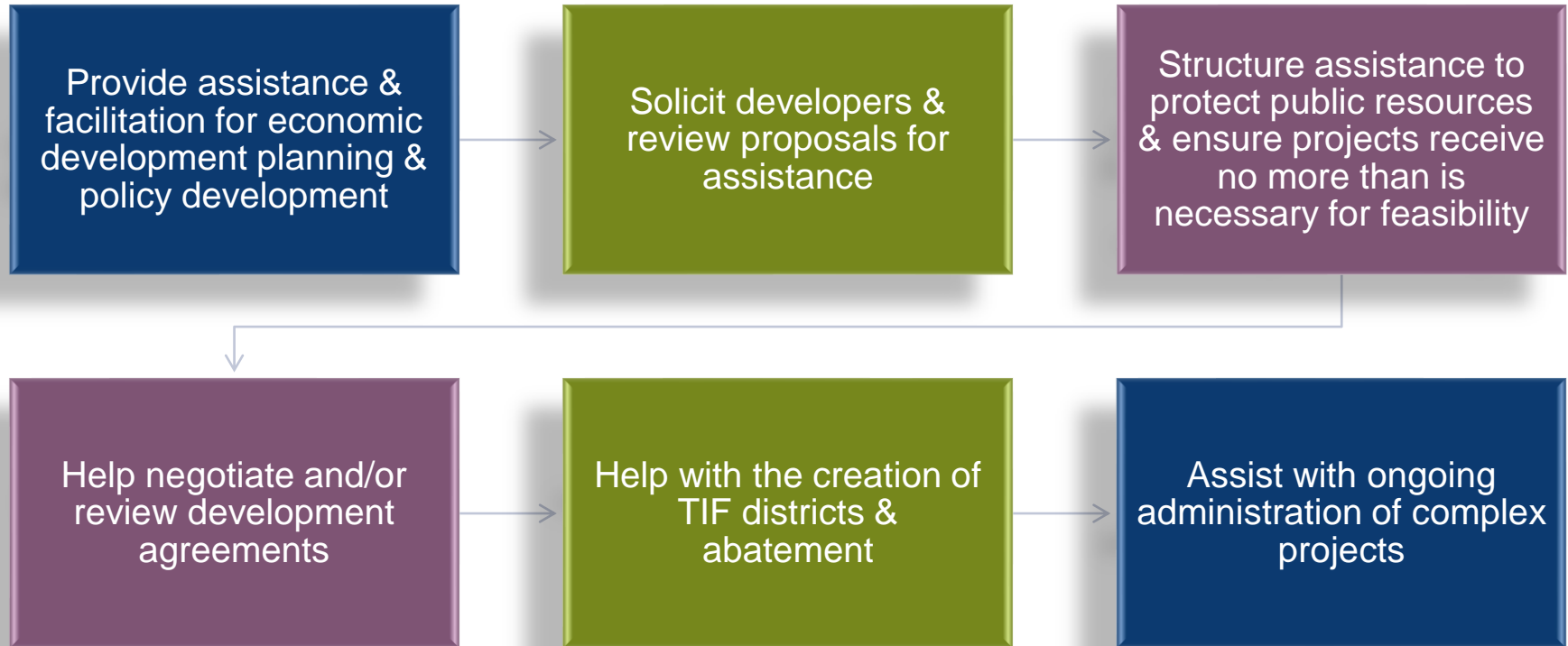
USES			
	Amount	% of Cost	Per Bldg. Sq/Ft
Acquisition Costs	3,000,000	11.03%	12.94
Remediation Costs	3,502,014	12.88%	15.11
Construction Costs	17,458,445	64.20%	75.33
Professional Services	1,117,439	4.11%	4.82
Financing Costs	1,073,702	3.95%	4.63
Developer Fee	902,805	3.32%	3.90
Cash Accounts	138,960	0.51%	0.60
TOTAL USES	27,193,365	100.00%	117.33

The Outcome

- Shell construction complete
- Build to suit leasing underway



Final Thoughts: Municipal Advisor Role



Let's Talk!



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Year 2: Economic Development/HRA/TIF

May 9, 2024, 10:15 AM – 12:00 PM



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