

TAX ABATEMENT AUTHORITY

Minnesota Municipal Clerks Institute
Year 3 Program
May 6, 2024



RC 24-234, Muni 24-146, PE 24-04

Today's Session

- Scheduled for 1:00 pm to 3:15 pm

Session Overview

- Overview of Tax Abatement authority and how it works
- Use of case studies to help explain
- You will learn about Tax Abatement:
 - How it may be used
 - How to calculate
 - Key limitations and process for approving

Focus on Key Questions for Tax Abatement

- Can you use Tax Abatement?
- What is the funding capacity
- What can you use it for?
- How can project costs be funded?
- What is the process for using?
- How do you administer?



Session Handouts

- Handout 1: Tax Abatement Profile
- Handout 2: Enabling Statutes, Minnesota Statutes, Sections 469.1812 through 469.1815
- Handout 3: Session PowerPoint Slides

Session Presenters

- Peter Meidal, Northland Public Finance
 - Vice President, Public Finance

What is "Tax Abatement"?

- Authorized by Minnesota Statutes, Sections 469.1812 to 469.1815
- A copy of current statute included in handouts
- Initially adopted in 1997

What is “Tax Abatement”?

- Not really “abatement”
- No authority to abate taxes
- All taxes paid by property owners
- Raise money through an “abatement levy”
- For development projects, tax abatement may be used for purposes similar to TIF

Basic Facts for Example Case Studies

Example City

■ Current Property Tax Rates

- City 70.0%
- County 30.0%
- School District 15.0%

■ Current Tax Capacity Amounts

- Tax Capacity \$100,000,000
- TIF Tax Capacity \$5,000,000
- Net Tax Capacity \$95,000,000

Case Study 1 – New City Park



Case Study 2 – Clinic Expansion



Case Study 1 – New City Park

- Basic Facts for Case Study 1
 - City plans to acquire property for a new park and construct improvements within the park
 - City plans to issue bonds to finance land acquisition and park improvements

Case Study 2 – Clinic Expansion

- Basic Facts for Case Study 2
 - Private clinic plans to expand its existing clinic within the City
 - Estimated Taxable Market Value of Expansion is \$4,000,000
 - Taxable Market Value of existing property (tax parcel) is \$10,000,000

Question 1 – Can You Use Tax Abatement

- Depends on political subdivision
- Power given to:
 - Cities (statutory or home rule charter)
 - Towns
 - School districts
 - Counties
- Power not given to EDAs or HRAs

Question 1 – Can You Use Tax Abatement

- Can you make the findings?
 - Far less detailed statutory findings than TIF
 - Statutory authority has two requirements:
 - Expect benefits to equal or exceed costs
 - Is it in public interest

Benefits and Costs

- No specific statutory criteria
- Potential benefits
 - Jobs
 - Tax base
 - Attract other businesses
 - Good and services
- Should include statement in approving resolution

Public Interest

Eight Areas of Public Interest Listed in Statute

1. Tax base

6. Infrastructure

2. Jobs

7. Phase in tax increase from significant investment

3. Public facilities

8. Stabilize tax base for utility property

4. Redevelopment

5. Access to services for residents

Public Interest

- No statutory criteria for these findings
- May use one or multiple criteria
- Should be stated in approving resolution

Question 1 – Can You Use Tax Abatement

- Is Tax Abatement needed?
 - No statutory requirement for “but for” test
 - Still prudent to determine need for assistance
 - Why is use of Tax Abatement needed to make development financially feasible?

Question 1 – Can You Use Tax Abatement

- Is proposed Tax Abatement within the statutory limit?
- Total amount of property taxes abated in any year may not exceed greater of:
 - (1) ten percent of the net tax capacity of the political subdivision for the taxes payable year to which the abatement applies, or
 - (2) \$200,000, whichever is greater

Example of Statutory Limitation

Net Tax Capacity	95,000,000
Multiplied by 10.00%	10.0%
Maximum Abatement for Calendar Year	9,500,000
Within Tax Abatement Limitation?	YES

Year	Tax Abatement for Proposed 2019A Bonds		Tax Abatement for Proposed Clinic Expansion		Total Tax Abatement Levy
	Term	Amount	Term	Amount	
2019	1	200,000	-	-	200,000
2020	2	200,000	1	56,000	256,000
2021	3	200,000	2	56,000	256,000
2022	4	200,000	3	56,000	256,000
2023	5	200,000	4	56,000	256,000
2024	6	200,000	5	56,000	256,000
2025	7	200,000	6	56,000	256,000
2026	8	200,000	7	56,000	256,000
2027	9	200,000	8	56,000	256,000
2028	10	200,000	9	56,000	256,000

Question 1 – Recap

- Can you use Tax Abatement?
 - Eligible political subdivision
 - Project provides benefits
 - Use is in public interest
 - Development would not occur but for assistance through abatement
 - Tax Abatement does not exceed statutory limit

Question 2 – What is Funding Capacity

- Tax Abatement based on value
 - Basic options:
 - Value from new development
 - Value of existing parcels
 - Some other basis
 - May use only development parcel or broader area



Case Study 1 – New City Park

■ Basis for Annual Tax Abatement

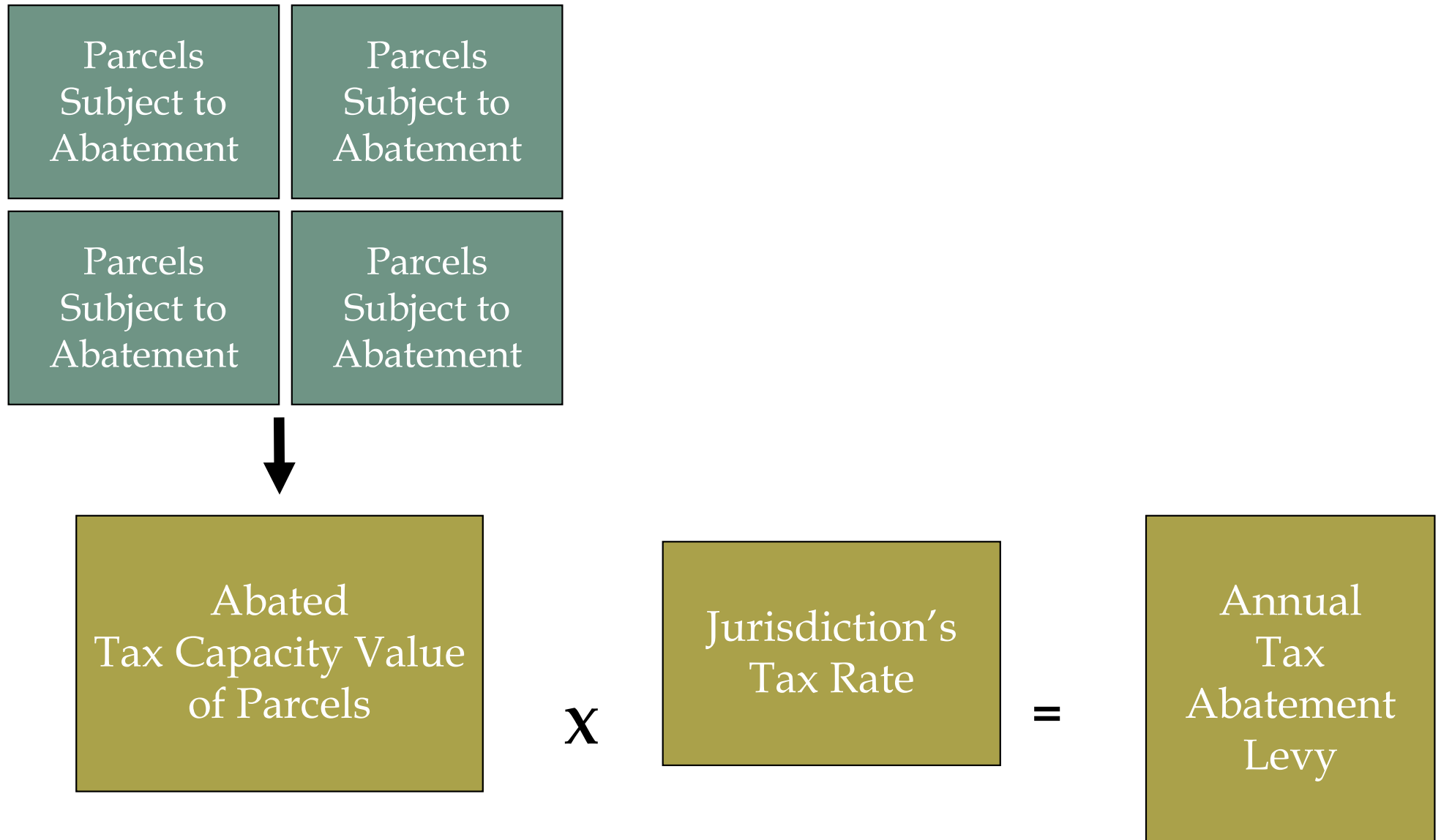
Items	Amounts
Estimated Taxable Market Value Included within Tax Abatement Project Area	\$14,285,700
Tax Capacity of Property within Tax Abatement Project Area	\$285,714
Tax Abatement Levy:	
City	\$200,000
County	\$0
School District	\$0

Case Study 2 – Clinic Expansion

■ Basis for Annual Tax Abatement

Items	Amounts Based on Value of Expansion Only	Amounts Based on Total Value of Tax Parcel (Existing and Expansion)
Estimated Taxable Market Value Included within Tax Abatement Project Area	\$4,000,000	\$14,000,000
Tax Capacity of Property within Tax Abatement Project Area	\$80,000	\$280,000
Tax Abatement Levy:		
City	\$56,000	\$196,000
County	\$24,000	\$84,000
School District	\$12,000	\$42,000

Calculating Tax Abatement Levy



Funding Capacity

- Which political subdivisions will abate?
 - Independent authority
 - Base decision to abate
 - Terms of Tax Abatement
 - Use of revenue
- What is rationale for other jurisdictions to abate?



Funding Capacity

- How many years of Tax Abatement?
 - Basic maximum = 15 years
 - May go to 20 years if:
 - Other political subdivision decline written request to grant Tax Abatement
 - Granted to “qualified business”

Question 2 - Recap

- What is funding capacity?
 - Value basis for Tax Abatement
 - Will other subdivisions grant Tax Abatement?
 - Years of Tax Abatement

Question 3 – How Tax Abatement is Used

- Tax Abatement can finance broad range of activities
 - Specific uses not clearly defined or limited in statute
 - Typical uses
 - Public improvements
 - Land development

Public Improvements

- Street and roads
- Public utilities (water, sewer, storm)
- Parking facilities
- Parks
- Transit improvements
- Other public facilities



Land Development

- Acquisition
- Demolition and clearance
- Remediation
- Relocation
- Site improvements



Case Study 1 – New City Park

- Acquire land for park
- Construct parking lot
- Construct walking paths

Case Study 2 – Clinic Expansion

- Acquire land for expansion
- Construction parking lot
- Increased public utility capacity
- Construct street improvements for additional traffic

Limits for Bond Funded Projects

- Proceeds of Tax Abatement Bonds only used for:
 - Public improvements that benefit the property
 - Acquire and convey land or other property
 - Reimburse the property owner for the cost of improvements made to the property
 - Pay the costs of issuance of the bonds
- ...more on Tax Abatement Bonds later

Why Use Tax Abatement

- Projects that do not meet criteria for other financing, including criteria for TIF:
 - Redevelopment lacking “substandard” buildings
 - Housing without specific income requirements
 - Economic development other than stated “industrial” uses in TIF Act

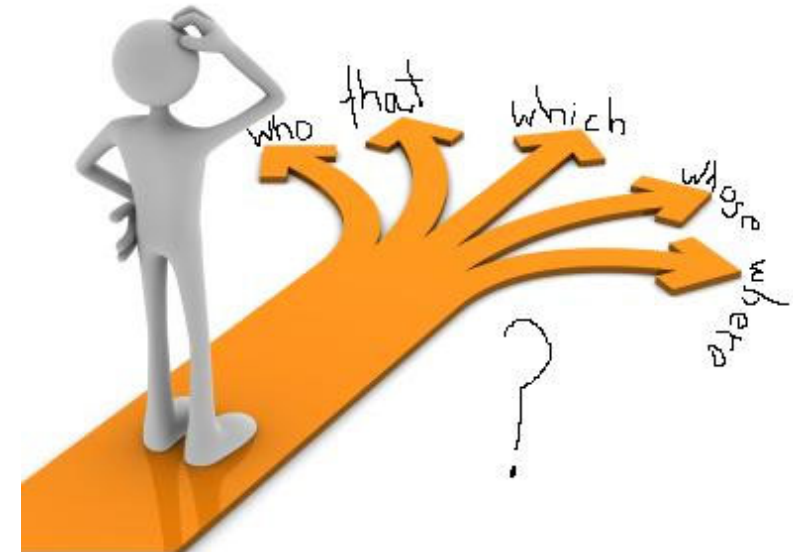
Why Use Tax Abatement

- Incentive to achieve public objectives, for example:
 - Incentive to induce private investment in property
 - Matching funds for storefront renovations
 - Incentive for energy improvements or alternative energy initiatives
 - Improvements difficult to assess



Question 3 - Recap

- How will Tax Abatement be used?
 - Public costs
 - Private costs
 - Implications of issuing Tax Abatement Bonds



Question 4 – How are Costs Funded

- Funding options
 - Similar to TIF
 - Three basic options:
 - Pay-As-You-Go (reimbursement over time)
 - Issuance of Bonds
 - Inter-fund Loan



Pay-As-You-Go

- What costs will be reimbursed?
 - Specify activities and amounts
- Will interest be paid on outstanding costs?



Case Study 1 – New City Park

- Options for “Pay-As-You-Go”
 - Incremental construction of park improvements
 - \$200,000 annually for 20 years for total of \$4,000,000

Case Study 2 – Clinic Expansion

Options for “Pay-As-You-Go”

Scenarios	City Only Tax Abatement				City, County, and School Tax Abatement			
	Annual	Term	Total	PV	Annual	Term	Total	PV
Include Value of Expansion Only	\$56,000	20	\$1,120,000	\$761,058	\$92,000	15	\$1,380,000	\$1,022,892
Inclue Value of Entire Parcel (Existing Building and Expansion)	\$196,000	20	\$3,920,000	\$2,663,704	\$322,000	15	\$4,830,000	\$3,580,121

Note: Present Value (PV) calculated at rate of 4.0%.

Tax Abatement Bonds

- Authority to issue general obligation Tax Abatement Bonds
- Limits on use of proceeds
 - Described previously
- Not subject to debt limit
- No election required

Tax Abatement Bonds

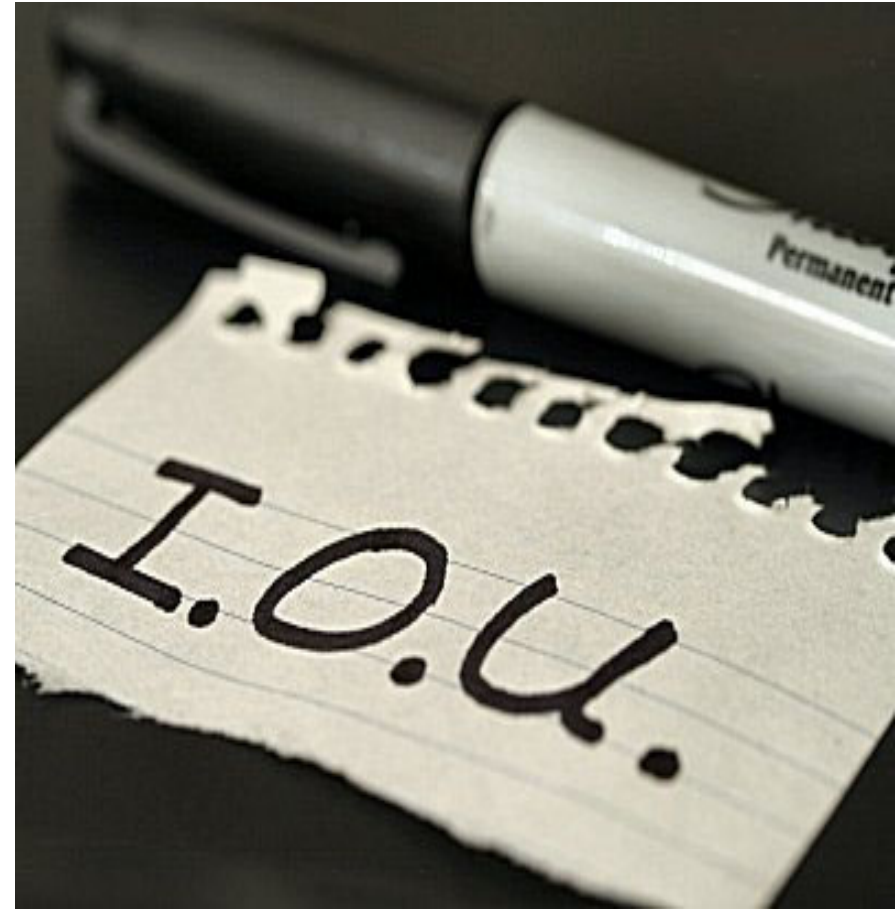
- Maximum total principal payments on Tax Abatement Bonds cannot exceed sum of approved total Tax Abatements
 - Would require other revenues to pay interest
- May issue bonds on behalf of other taxing jurisdictions that have authorized a Tax Abatement

Example of Schedule for Tax Abatement Bonds

Year	Term	Principal	Interest	Total Debt Service Payment	105% of Debt Service	Tax Abatement Levy	Debt Service Levy	Total Levies
2019	1	135,000	232,889	367,889	386,283	135,000	251,283	386,283
2020	2	140,000	154,600	294,600	309,330	140,000	169,330	309,330
2021	3	145,000	149,000	294,000	308,700	145,000	163,700	308,700
2022	4	150,000	143,200	293,200	307,860	150,000	157,860	307,860
2023	5	155,000	137,200	292,200	306,810	155,000	151,810	306,810
2024	6	160,000	131,000	291,000	305,550	160,000	145,550	305,550
2025	7	170,000	124,600	294,600	309,330	170,000	139,330	309,330
2026	8	175,000	117,800	292,800	307,440	175,000	132,440	307,440
2027	9	185,000	110,800	295,800	310,590	185,000	125,590	310,590
2028	10	190,000	103,400	293,400	308,070	190,000	118,070	308,070
2029	11	200,000	95,800	295,800	310,590	200,000	110,590	310,590
2030	12	205,000	87,800	292,800	307,440	205,000	102,440	307,440
2031	13	215,000	79,600	294,600	309,330	215,000	94,330	309,330
2032	14	225,000	71,000	296,000	310,800	225,000	85,800	310,800
2033	15	235,000	62,000	297,000	311,850	235,000	76,850	311,850
2034	16	245,000	52,600	297,600	312,480	245,000	67,480	312,480
2035	17	250,000	42,800	292,800	307,440	250,000	57,440	307,440
2036	18	265,000	32,800	297,800	312,690	265,000	47,690	312,690
2037	19	275,000	22,200	297,200	312,060	275,000	37,060	312,060
2038	20	280,000	11,200	291,200	305,760	280,000	25,760	305,760
Total		4,000,000	1,962,289	5,962,289	6,260,403	4,000,000	2,260,403	6,260,403

Other Types of Bonds

- May pledge Tax Abatement revenues to other bonds
- Use of proceeds must be consistent with statute and Tax Abatement resolution



Bonding Considerations

- Costs of issuance of bonds
- Need for capitalized interest
 - Time lag between borrowing and first revenue (from Tax Abatement levy)
- Bonds may or may not be tax-exempt, depends on purpose of financing

Interfund Loan

- Can use available reserves to provide up-front funding for projects
- Adopt resolution authorizing inter-fund loan and setting the terms



Question 4 - Recap

- How will costs be funded?
 - Pay-go reimbursement of developer project costs
 - Pay-go funding of public improvements
 - City issued bonds
 - Internal funding
- How does funding decision influence funding capacity?



Question 5 – What is the Process

- Five basic steps:
 - Determine need and funding capacity
 - Determine participation of other subdivisions
 - Determine if business subsidy applies
 - Call for public hearing
 - Approve Tax Abatement resolution
- Each subdivision conducts its own process

Participation of Others

- Best to deal with early in process
- Is there a clear financial need?
- Do you have a specific request?
- How do other subdivisions benefit?
- Do the other subdivisions have Tax Abatement policies?



Case Study 1 – New City Park

Benefits of New City Park to Other Taxing Jurisdictions?

- Amenity for residents outside of city
- Ability to attract and retain residents
 - Students for school system
- School district use of the park
- Ability to attract and retain other businesses

Case Study 2 – Clinic Expansion

Benefits of Clinic Expansion to Other Taxing Jurisdictions?

- Jobs and tax base
- Services for residents outside of city
- Ability to attract and retain residents
 - Students for school system
- Ability to attract and retain other businesses

Business Subsidy

- Uses of Tax Abatement may create a business subsidy
 - See Minnesota Statutes, Sections 116J.993 to 116J.995
- Requires public hearing and subsidy agreement
- Coordinate with Tax Abatement process

Notice of Public Hearing

- Published in newspaper of general interest and readership
- One publication
- At least once more than ten days but less than 30 days before the hearing



Notice Contents

- Date/time/place of hearing
- Statement that Tax Abatement will be considered
- Identification of properties to be included in the Tax Abatement project area
- Total estimated (not to exceed) amount of Tax Abatement

Tax Abatement Resolution

- Resolution must be approved by resolution of governing body
- Resolution contains:
 - Statement of expected public benefits
 - Statement of findings
 - Terms of Tax Abatement
 - If applicable, maximum amount of bonds to be issued

Terms in Resolution

- Subject Parcels
- Calculation/limits on Tax Abatement
- Purpose/use of Tax Abatement
- Duration of Tax Abatement
- Relationship (if any) to other abating political subdivisions
- Maximum amount of Tax Abatement bonds to be issued

Question 5 - Recap

- What is process for using Tax Abatement?
 - Understand need and potential
 - Determine participation of other subdivisions
 - Determine business subsidy implications
 - Conduct a public hearing
 - Adopt Tax Abatement resolution

Question 6 – How to Administer

- Benefits of development assistance agreement
- Making the Tax Abatement levy
- Benefit of having a Tax Abatement Policy



Development Agreement

- Not required, but useful and recommended
 - Defines roles and responsibilities of parties
 - Provides compliance with business subsidies reporting (if applicable)
 - Defines terms of use of Tax Abatement



Development Agreement

- Draft Development Agreement to be a useful administrative guide
 - Carefully review before adopting
- Expectation of actions by developer
- Practical description of calculation of Tax Abatement
- Defines structure for conveying Tax Abatement revenue to developer

Making the Tax Abatement Levy

- Tax Abatement revenue comes from certification and collection of a property tax levy
- Special levy under current State Law
- Timing same as all other levies
- Essential to coordinate with other participating subdivisions

Making the Tax Abatement Levy

- **WILL** know applicable estimated property value
 - Estimated property value as of January 2 in current year for taxes payable in following year
 - Final value certified after set levy
- Will **NOT** know actual tax rate
 - Actual tax rate calculated after set levy
 - Must use best guess

Example Abatement Levy Scenarios

Scenarios	A No Tax Abatements	B With Tax Abatements for Clinic Expansion	C With Tax Abatements for New City Park	D With Tax Abatements for New City Park and Clinic Expansion
General Fund Levy	65,100,000	65,100,000	65,100,000	65,100,000
Debt Service Levies	1,000,000	1,000,000	1,000,000	1,000,000
Tax Abatement Levies		56,000	400,000	456,000
Total Levies Certified	66,100,000	66,156,000	66,500,000	66,556,000
Tax Capacity	100,000,000	100,080,000	100,000,000	100,080,000
Less TIF	5,000,000	5,000,000	5,000,000	5,000,000
Net Tax Capacity	95,000,000	95,080,000	95,000,000	95,080,000
City Tax Rate	69.579%	69.579%	70.000%	70.000%

Note: The scenarios shown here do not account for fiscal disparities. Only certain taxing jurisdictions in MN are subject to fiscal disparities tax base sharing. Scenario A and Scenario C assume no clinic expansion and increased valuation (tax capacity).

Tax Abatement Policy

- Helpful to create and adopt policy guidelines
 - Define objectives/criteria for use in advance
 - Provide consistent framework for evaluating requests
 - Determine information and monies required from developer to apply to use

Question 6 - Recap

- How do you administer a Tax Abatement?
 - Use a development agreement
 - Understand timing and calculation of annual levy
 - Coordinate with other subdivisions
 - Create meaningful policies on use of Tax Abatement

Closing Comments

- Tax Abatement is:
 - Powerful and flexible tool
 - Variety of basic and creative applications
 - Limited resource – use wisely
 - Think through ongoing administration at the outset

Questions



Thank You

RC 24-234, Muni 24-146, PE 24-04

Peter Meidal

Vice President, Public Finance

612-851-4978

pmeidal@northlandsecurities.com

Northland Public Finance

The public finance group of

Northland Securities, Inc.

150 South Fifth Street, Suite 3300

Minneapolis, Minnesota 55402

800-851-2920

www.northlandsecurities.com/public_finance

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Year 3: Tax Abatement

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