



Pouring the Foundation

TIF and Tax Abatement Basics



Why Consider Providing Assistance?

Part of an economic development strategy

- Create or retain jobs
- Redevelop blighted areas
- Remediate polluted sites
- Construct affordable housing
- Increase tax base
- Change the market in the community



Why Consider Providing Assistance?

Fill a financing gap / encourage development that would not normally occur without assistance
("but for...")



Common Types of Assistance

Purpose	Assistance	Max. Term
Redo substandard / obsolete buildings	Redevelopment TIF	26
	Renovation & Renewal TIF	16
	Tax abatement	8 - 20
Affordable housing	Housing TIF	26
	Economic Development - Workforce housing TIF	9
	Tax abatement	8 - 20
Job & tax base creation	Economic Development TIF	9
	Tax abatement	8 - 20
Business retention	Tax abatement	8 - 20
Public facilities & parks	Tax abatement	8 - 20



What is Tax Increment Financing (TIF)?

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.



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.



Original Tax Capacity

Prior to TIF or abatement assistance, properties have a **“base value”** with tax revenues funding local units of government

- TIF: Base value continues to go to taxing jurisdictions
- Abatement: Base value **may** be reduced to 0

Original Tax Capacity = 1,729



Total Tax Capacity

Total Tax Capacity = 31,907



New development increases
Total Tax Capacity



Original Tax Capacity = 1,729



Original tax revenues



Building Blocks: TIF & Abatement

New Total Tax Capacity = 31,907

- Original Tax Capacity = 1,729

“Captured” Tax Capacity (increase) = 30,178

x Tax Rate = 129.186%

Annual TIF or abatement = 38,985



Case Study: Housing Project

Background:

- Undeveloped land
- Proposing 49 units of rental housing with completed market value of \$4.25MM
- At least 40% of units will be occupied by persons at or below 60% AMI
- Developer will apply for 4d class rate
- Financing gap = \$469,500
- City has no tax abatement obligations



TIF vs. 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. 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. 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. 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.



Case study: Housing Project

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Public facilities & parks	Tax abatement	8 - 20



Which One?

	Housing TIF	Tax Abatement	
Establishment:	Est. 60+ days for notices and hearing	Est. 30+ days for hearing	
Reporting:	Annual income reports	None	
Available assistance for gap (\$469,500):	<u>26 years</u>	<u>15 years</u>	<u>20 years</u>
	\$1.01 million	City: \$167,213 County: \$200,412 School: \$213,404	City: \$222,951 County: \$267,216

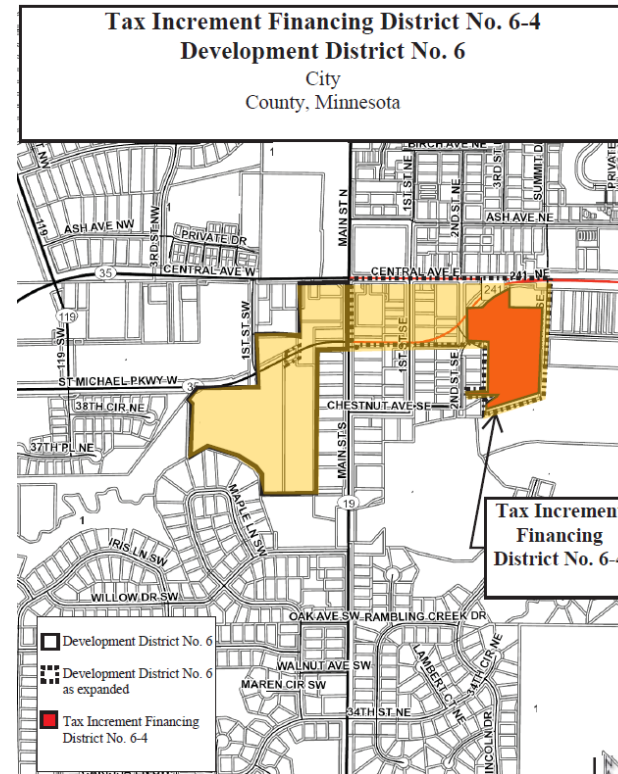


The Process

Gather project information

- Project description
- Market values & tax rates
- Estimated fiscal impacts of development
- Map showing project area & TIF district

Draft cashflow projections





TIF Building Blocks





Process: Cashflows – Estimated taxes

TAX CALCULATIONS							
New Use	Total Tax Capacity	Local Tax Capacity	Local Property Taxes	State-wide Property Taxes	Market Value Taxes	Total Taxes	Taxes Per Sq. Ft./Unit
Apartments	31,907	31,907	41,220	0	7,029	48,249	984.67
TOTAL	31,907	31,907	41,220	0	7,029	48,249	



Process: Cashflows – What To Exclude?

TIF Exclusions	
Total Property Taxes	48,249
less State-wide Taxes	0
less Fiscal Disp. Adj.	0
less Market Value Taxes	(7,029)
less Base Value Taxes	(2,234)
Annual Gross TIF	38,986



Process: Cashflow

TAX INCREMENT CASH FLOW											
Project Tax Capacity	Original Tax Capacity	Captured Tax Capacity	Local Tax Rate	Annual Gross Tax Increment	Semi-Annual Gross Tax Increment	State Auditor 0.36%	Admin. at 10%	Semi-Annual Net Tax Increment	Semi-Annual Present Value	Tax Year	Payment Date
					-	-	-	-			02/01/21
					-	-	-	-			08/01/21
					-	-	-	-			02/01/22
31,907	(1,729)	30,178	129.186%	38,986	19,493	(70)	(1,942)	17,480	15,836	2022	08/01/22
31,907	(1,729)	30,178	129.186%	38,986	19,493	(70)	(1,942)	17,480	31,286	2022	02/01/23
31,907	(1,729)	30,178	129.186%	38,986	19,493	(70)	(1,942)	17,480	46,360	2023	08/01/23
31,907	(1,729)	30,178	129.186%	38,986	19,493	(70)	(1,942)	17,480	61,065	2023	02/01/24
31,907	(1,729)	30,178	129.186%	38,986	19,493	(70)	(1,942)	17,480	455,662	2046	08/01/46
31,907	(1,729)	30,178	129.186%	38,986	19,493	(70)	(1,942)	17,480	460,385	2046	02/01/47
31,907	(1,729)	30,178	129.186%	38,986	19,493	(70)	(1,942)	17,480	464,993	2047	08/01/47
31,907	(1,729)	30,178	129.186%	38,986	19,493	(70)	(1,942)	17,480	469,488	2047	02/01/48
Total					1,013,627	(3,649)	(100,998)	908,981			
		Present Value Rate	5.00%		523,538	(1,885)	(52,165)	469,488			

Project and Base Tax Capacities

City may retain 10% for administration

Amount available for financing gap



Process: TIF Plan

TIF Plan draft includes:

- Project description
- Parcels in TIF district and map of project area & TIF district
- Maximum budget
- Estimated fiscal impacts of TIF district



Process: Notices

Notice to County Commissioner representing area sent 30 days prior to publication of hearing notice

TIF Plan with fiscal impacts is sent to county and school district 30 days prior to public hearing

Publication of hearing notice at least 10 days prior to hearing



Process: Public Hearing

Council holds public hearing & considers resolution adopting TIF plan:

- Type of district
- But-For finding
- District conforms to general plan for development
- TIF Plan affords maximum opportunity consistent with needs of the city for development of project area



Case study: Housing Project

Project information:

- Undeveloped land
- Proposing 49 units of rental housing
- ~~Will apply for the 4d class rate~~
- ~~40% of units will be occupied by persons at or below 60% AMI~~
- **Market rate housing**
- No tax abatement obligations
- Request for \$469,500



Process

Gather project information

- Project description
- Parcel information
- Market values & tax rates
- Confirm participating entities

Draft cashflow projections

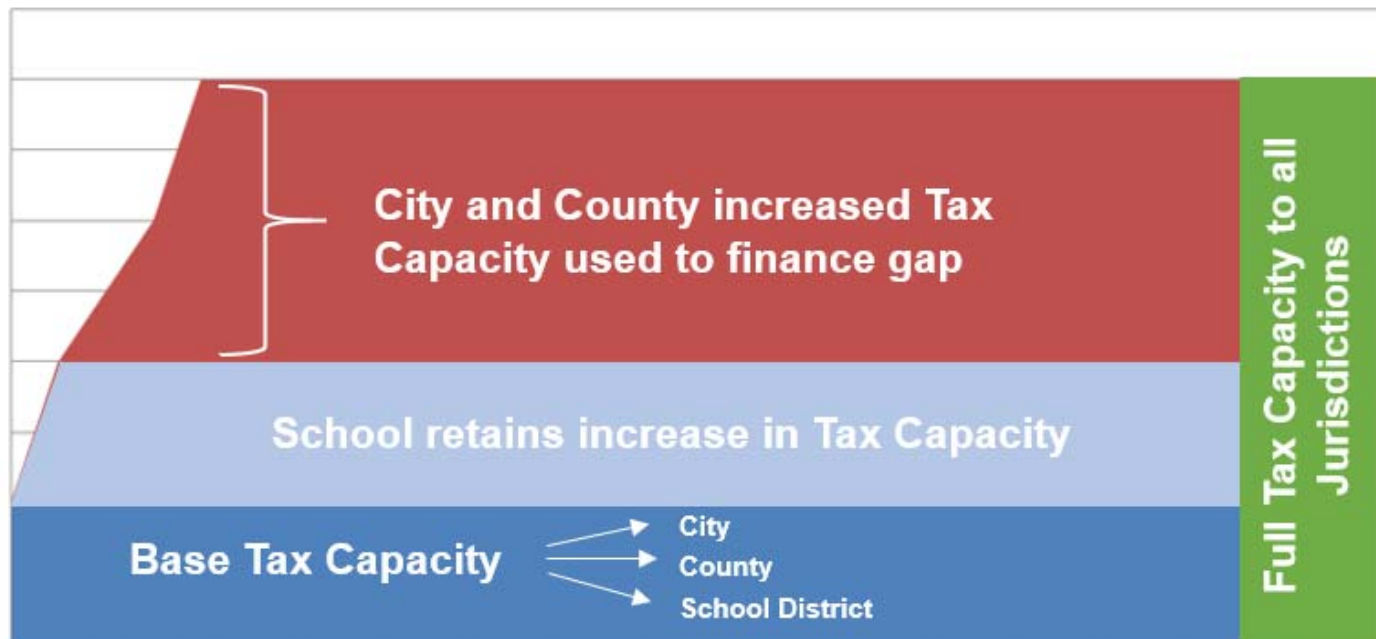


Abatement Building Blocks (All jurisdictions participate)





Abatement Building Blocks (City & County participate)





Process: Cashflows – Annual Abatement

Project Tax Capacity	Original Tax Capacity	Captured Tax Capacity	Combined City, County, & School Tax Rate	Maximum Annual Gross Tax Abatement	Semi Annual Gross Tax Abatement	100%	100%	100%	Semi Annual Net Tax Abatement	Semi-Annual Present Value	Tax Year	Payment Date
						City Abatement w/ Tax Rate	County Abatement w/ Tax Rate	School Abatement w/ Tax Rate				
						36.9390%	44.2730%	47.1430%				02/01/21
						-	-	-	-	-		08/01/21
						-	-	-	-	-		02/01/22
31,907	(1,729)	30,178	129.186%	38,986	19,493	5,574	6,680	-	12,254	11,102	2022	08/01/22
31,907	(1,729)	30,178	129.186%	38,986	19,493	5,574	6,680	-	12,254	21,933	2022	02/01/23
31,907	(1,729)	30,178	129.186%	38,986	19,493	5,574	6,680	-	12,254	32,499	2023	08/01/23
31,907	(1,729)	30,178	129.186%	38,986	19,493	5,574	6,680	-	12,254	42,808	2023	02/01/24
31,907	(1,729)	30,178	129.186%	38,986	19,493	5,574	6,680	-	12,254	272,616	2040	08/01/40
31,907	(1,729)	30,178	129.186%	38,986	19,493	5,574	6,680	-	12,254	277,068	2040	02/01/41
31,907	(1,729)	30,178	129.186%	38,986	19,493	5,574	6,680	-	12,254	281,412	2041	08/01/41
31,907	(1,729)	30,178	129.186%	38,986	19,493	5,574	6,680	-	12,254	285,650	2041	02/01/42
Total					779,721	222,951	267,216	-	490,167			
	Present Value Rate		5.00%		454,391	129,927	155,723	-	285,650			

Initial calculation ties to TIF calculation

Amount available for financing gap



Process: Notice

Publication of hearing notice more than 10 days prior to hearing

- Entity granting abatement
- Properties included in abatement
- Estimated total amount of abatement



Process: Public Hearing

Jurisdiction holds public hearing and considers resolution approving abatement:

- Abatement terms
- Benefits to the political subdivision at least equal the costs of the proposed agreement
- Abatement is in the public interest?...



Tax Abatement Is In The Public Interest

Increase or preserve tax base

Provide employment opportunities

Provide or help acquire or construct public facilities

Redevelop or renew blighted areas

Provide access to services for residents

Provide public infrastructure

Stabilize tax base



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Pouring The Foundation: TIF Districts

ADDITIONAL RESOURCES



Housing TIF – 26 Years

Purpose: Affordable housing

Income test = main qualification

- TIF law references Federal rules on income limitations
 - ✓ Rental (**annual requirement**): 40% of units restricted to 60% of county median income or 20% of units restricted to 50% median income
 - ✓ Owner occupied: 95% of **first buyers'** income at 110% or 115% of the greater of State or local median income



Economic Development TIF – 9 Years

Purpose: Job creation & tax base

At least 85% of new building space must be:

- Manufacturing
- Warehousing, storage and/or distribution
- Research & development
- Telemarketing
- Space necessary & related to above



Economic Development TIF:

Workforce Housing - 9 years

Purpose: Development of rental housing to serve employees

City outside 7-county Twin Cities metropolitan area

County board & school district approve TIF plan by resolution



Economic Development TIF:

Workforce Housing - 9 years

Average rental housing vacancy rate within 15 miles of city has been 3% or less for preceding 2 years

1+ business in or within 15 miles of city provides written statement indicating the lack of available rental housing has impeded its ability to recruit and hire employees

- Business must employ 20+ FTE



Redevelopment TIF – 26 years

Purpose: Redevelopment

Parcels consisting of 70% of area must be improved

- Occupied by buildings, streets, utilities, paved or gravel parking lots or other similar structures

More than 50% of buildings must be substandard



Renewal & Renovation TIF – 16 years

Purpose: Redevelopment

Parcels consisting of 70% of area must be improved

20% of buildings must be substandard and



Renewal & Renovation TIF – 16 years

30% of other buildings require substantial renovation or clearance to move inadequate street layout, incompatible uses or land use relationships, overcrowding of buildings, excessive dwelling unit density, obsolete buildings not suitable for improvement or conversion, etc.