



Tax Increment Financing & 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 community market conditions

Why Consider Providing Assistance?

**Fill a
Financing
Gap**

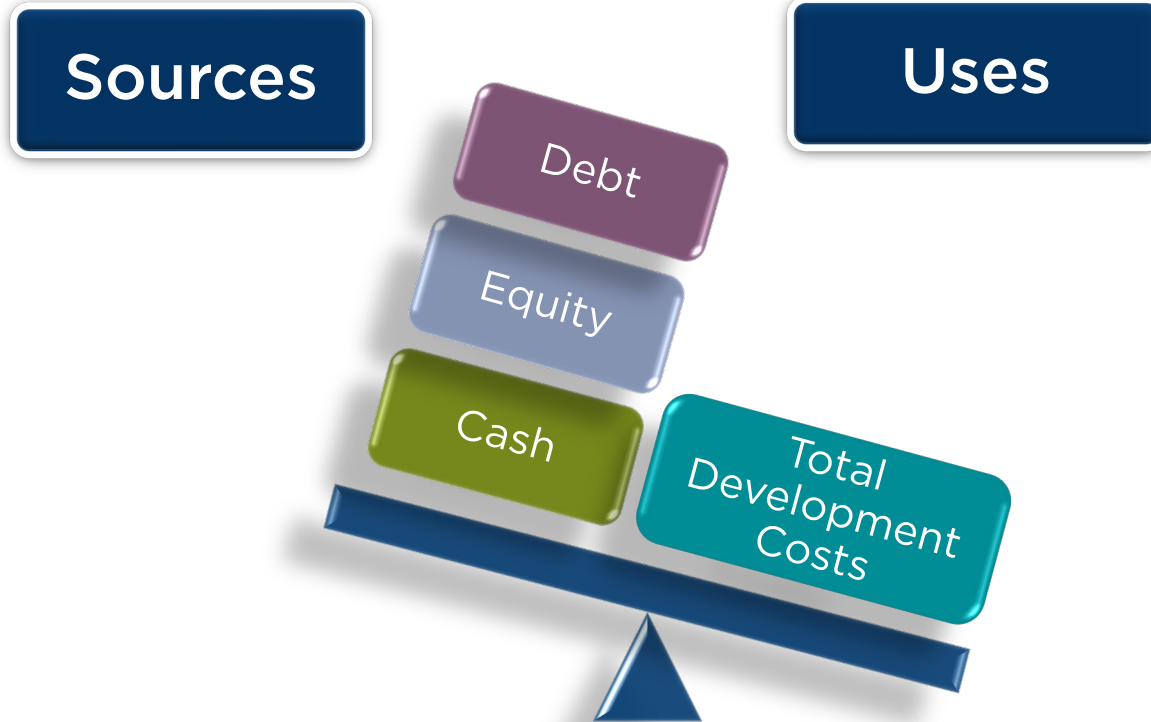
- Encourage development that normally wouldn't occur without assistance (“but for”)

Why is There a Financing Gap?

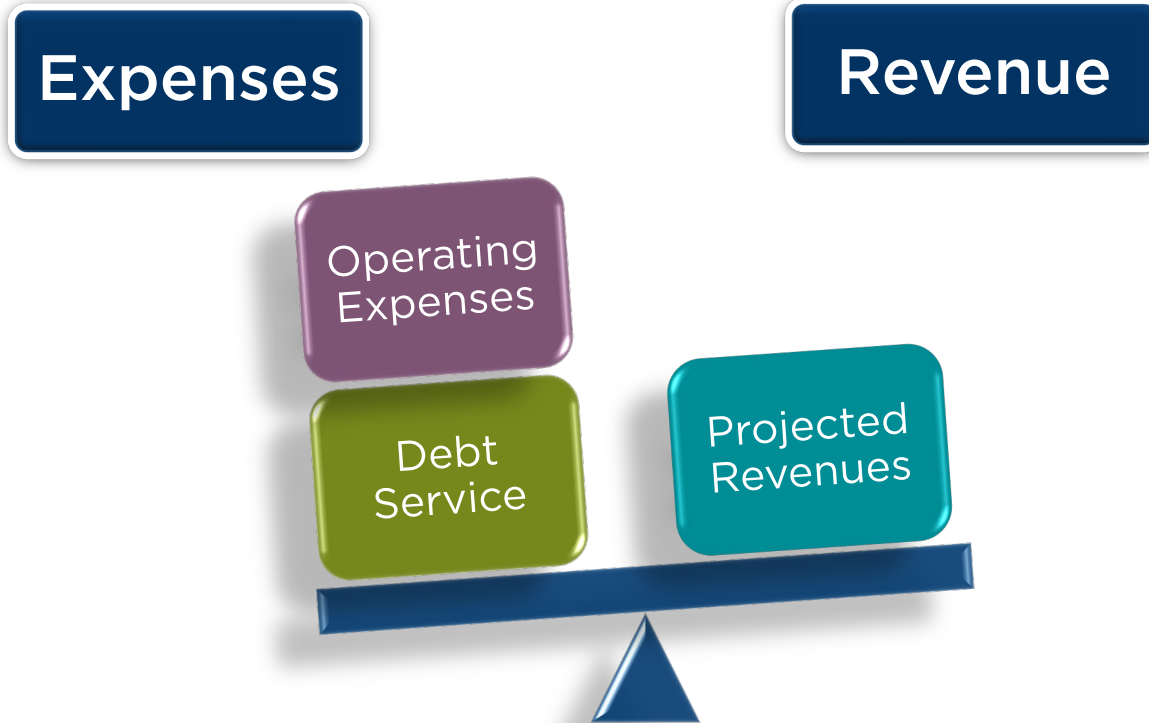
Fundamentally: Financial barriers preventing the private market from developing a site in accordance with City vision

- Contaminated land and/or existence of blighted buildings
- High development fees
- Market rents too low
- Infrastructure costs too high
- Cheaper alternatives elsewhere
- City vision incompatible with market

The Financial Gap: Sources & Uses



The Financial Gap: Ongoing Operations



Common Types of Assistance

Purpose	Assistance	Max Term
Substandard or Obsolete Buildings	Redevelopment TIF	26
	Renovation & Renewal TIF	16
	Tax Abatement	8-20
Affordable Housing	Housing TIF	26
	Econ Dev. - Workforce Housing TIF	9
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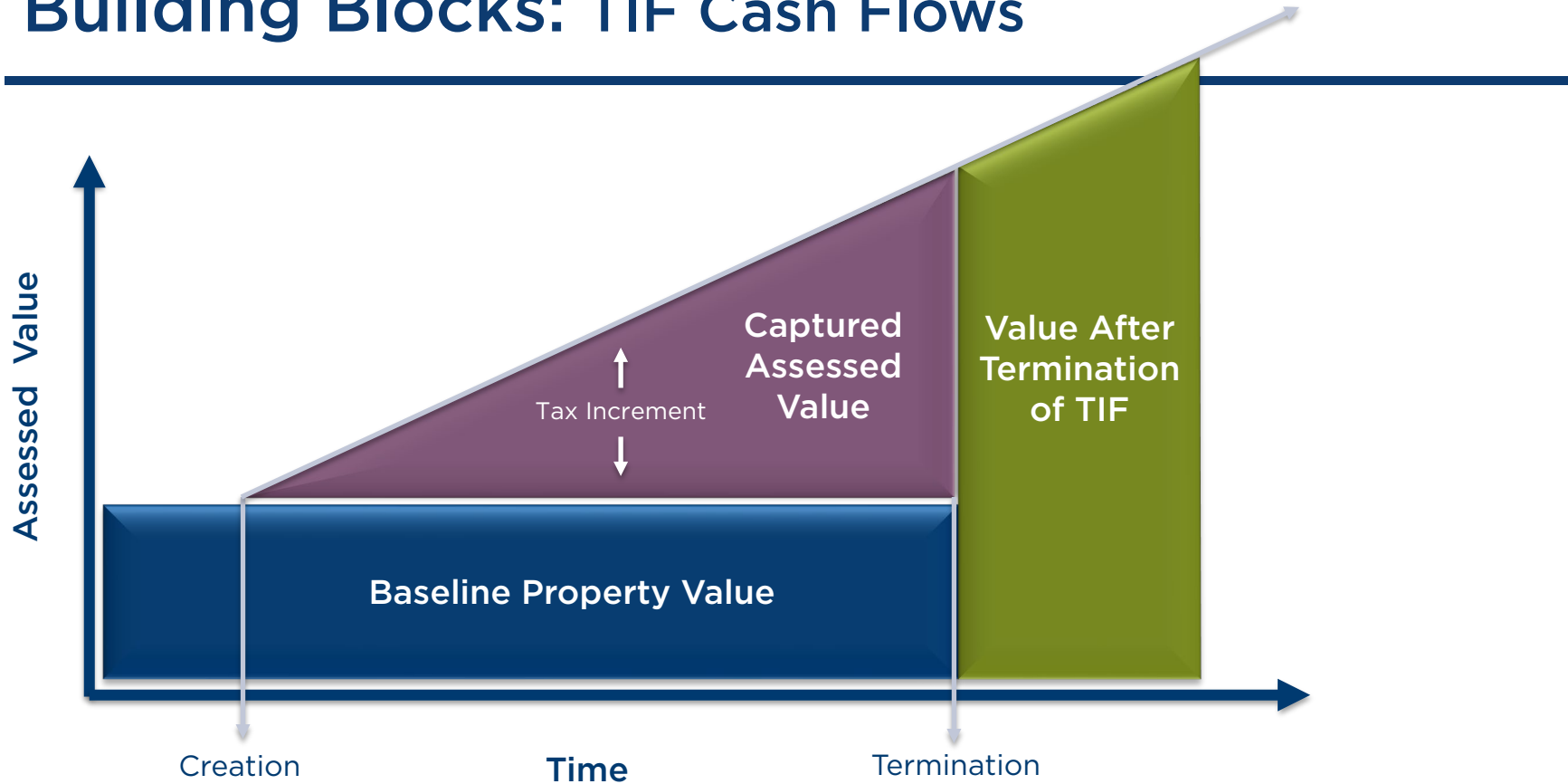
What is Tax Increment Financing (TIF)?

The background of the slide is a photograph of the Minnesota State Capitol building at dusk. The building is illuminated with warm lights, and its large, ornate dome is the central focus. The sky is a deep blue, and the foreground shows a well-maintained green lawn with a paved walkway leading towards the building.

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.

Building Blocks: TIF Cash Flows



Original Tax Capacity

- Prior to TIF or Tax Abatement, properties have **“base value”** with tax from base value funding local units of government.
 - ✓ TIF: Still goes to taxing jurisdiction
 - ✓ Tax Abatement: **May** be reduced to zero

Original Tax Capacity = \$7,838

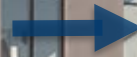
Total Tax Capacity

Total Tax Capacity = 90,338



Development Increases

Original Tax Capacity = 7,838



Original Tax Revenues



Building Blocks: TIF & Tax Abatement

$$\begin{aligned} \text{New Total Tax Capacity (increase)} &= 90,338 \\ - \text{Original Tax Capacity} &= \underline{7,838} \\ \text{“Captured” Tax Capacity (increase)} &= 82,500 \\ \quad \times \text{Tax Rate} &= \underline{153.410\%} \\ \text{Annual TIF or Abatement} &= \mathbf{126,563} \end{aligned}$$

Cash Flows: 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
Warehouse	90,338	90,338	138,588	34,510	10,692	183,789	1.47
TOTAL	90,338	90,338	138,588	34,510	10,692	183,789	

Cash Flows: What to Exclude?

TIF EXCLUSIONS	
Total Property Taxes	\$183,789
Less State-wide Taxes	(\$34, 510)
Less Fiscal Disparity Adjustment	0
Less Market Value Taxes	(\$10,692)
Less Base Value Taxes	(\$12,024)
Annual Gross TIF	\$126,563

Cashflows: How It Ties Out

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	
90,338	(7,838)	82,500	153.410%	126,563	63,282	(228)	(6,305)	56,748	54,545	2023	08/01/23	
90,338	(7,838)	82,500	153.410%	126,563	63,282	(228)	(6,305)	56,748	108,020	2023	02/01/24	
90,338	(7,838)	82,500	153.410%	126,563	63,282	(228)	(6,305)	56,748	160,447	2024	08/01/24	
90,338	(7,838)	82,500	153.410%	126,563	63,282	(228)	(6,305)	56,748	211,846	2024	02/01/25	
90,338	(7,838)	82,500	153.410%	126,563	63,282	(228)	(6,305)	56,748	262,237	2025	08/01/25	
90,338	(7,838)	82,500	153.410%	126,563	63,282	(228)	(6,305)	56,748	311,640	2025	02/01/26	
90,338	(7,838)	82,500	153.410%	126,563	63,282	(228)	(6,305)	56,748	360,074	2026	08/01/26	
90,338	(7,838)	82,500	153.410%	126,563	63,282	(228)	(6,305)	56,748	407,558	2026	02/01/27	
90,338	(7,838)	82,500	153.410%	126,563	63,282	(228)	(6,305)	56,748	454,112	2027	08/01/27	
90,338	(7,838)	82,500	153.410%	126,563	63,282	(228)	(6,305)	56,748	499,753	2027	02/01/28	
90,338	(7,838)	82,500	153.410%	126,563	63,282	(228)	(6,305)	56,748	544,498	2028	08/01/28	
90,338	(7,838)	82,500	153.410%	126,563	63,282	(228)	(6,305)	56,748	588,367	2028	02/01/29	
90,338	(7,838)	82,500	153.410%	126,563	63,282	(228)	(6,305)	56,748	631,375	2029	08/01/29	
90,338	(7,838)	82,500	153.410%	126,563	63,282	(228)	(6,305)	56,748	673,540	2029	02/01/30	
90,338	(7,838)	82,500	153.410%	126,563	63,282	(228)	(6,305)	56,748	714,878	2030	08/01/30	
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90,338	(7,838)	82,500	153.410%	126,563	63,282	(228)	(6,305)	56,748	795,139	2031	08/01/31	
90,338	(7,838)	82,500	153.410%	126,563	63,282	(228)	(6,305)	56,748	834,092	2031	02/01/32	
Total					1,139,069	(4,101)	(113,497)	1,021,472				
			Present Value Rate 4.00%		930,118	(3,348)	(92,677)	834,092				



Project and Base Tax Capacities

Cashflows: What is Available?

TAX INCREMENT CASH FLOW											
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City may retain 10% for administration

Amount available for financing gap

Forms of Financing

Paygo

- Most common
- Least expensive
- Don't always know how developer uses funds

Revenue Bond

- Developer monetizes through underwriter
- City issues tax-exempt or taxable bonds
 - After construction & paying taxes
 - Can be done up-front

GO Bond

- Least common
- Only leveraged when there's a major issue to address

Common Types of Assistance

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Redevelopment or Renovation & Renewal TIF

Goal: Clean-up blighted sites & remove substandard buildings

Requirements: Coverage & blighted buildings



Twin Cities Premium Outlets
Eagan, MN



The Thompson
(mixed use)
Worthington, MN



Parker Station Flats
Robbinsdale, MN

Housing TIF

Goal: Create rental or owner-occupied housing for persons who qualify as low- to moderate income

Requirements:
Renters / owners must meet income requirements



The Pillars
Grand Rapids, MN



RF64
Richfield, MN



The Chamberlain
Richfield, MN

Economic Development TIF

Goal: Create tax base & jobs

Requirements: Manufacturing, warehouse, distribution, telemarketing



G&J Awning
Sauk Rapids, MN



Home Depot
Warehouse
Rosemount, MN



Die Technology
St. Michael, MN

Economic Development TIF: Workforce Housing

Goal: Create workforce, rental housing

Requirements:
3% or lower vacancy rate and employers documenting need for housing

2nd Avenue Apartments
Long Prairie, MN

Tax Abatement

Goal: Encourage development, retain businesses, develop public facilities and parks

Benefit: More flexible than tax increment and simpler to establish. **However,** requires approval from each participating taxing jurisdiction



Puris Proteins
Dawson, MN

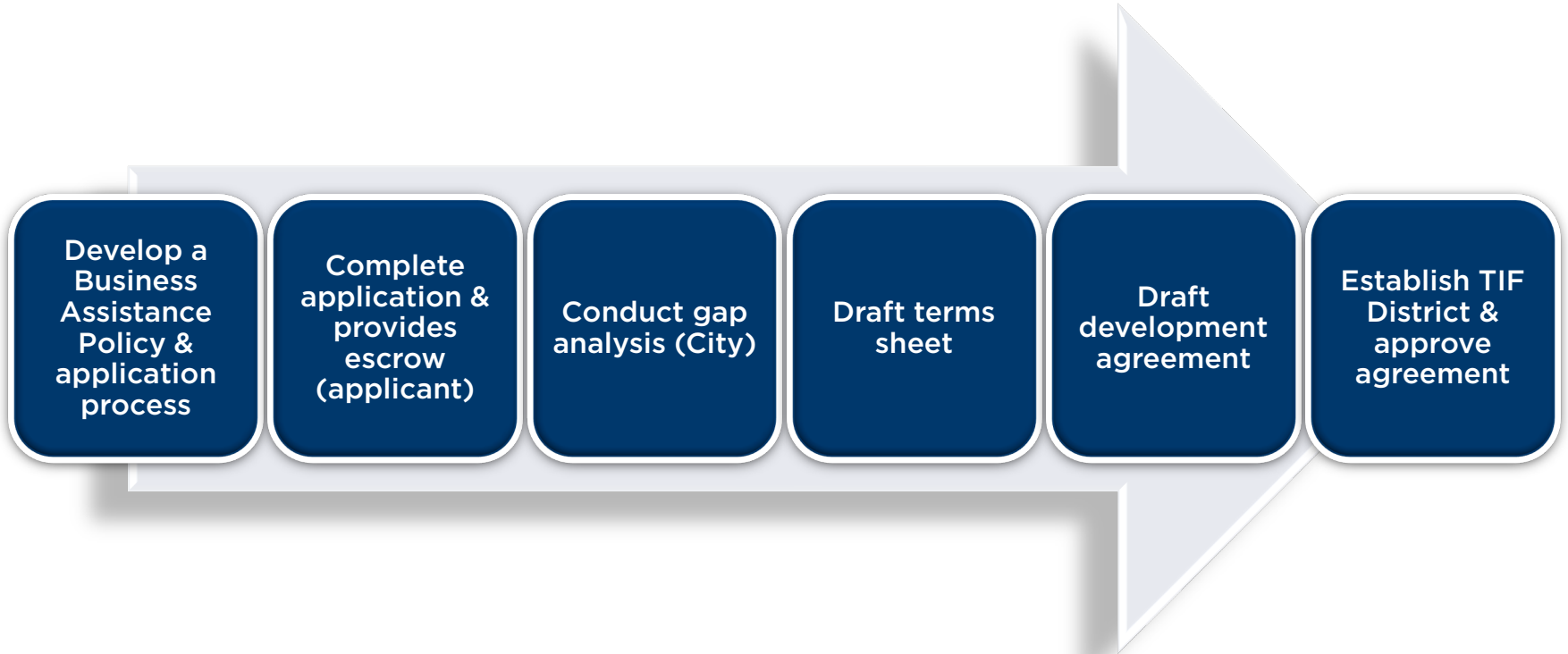


Essentia Wellness
Center
Hermantown, MN



Midwest Truck
Dawson, MN

Process



TIF/Abatement Public Process



**GATHER PROJECT
INFORMATION, VALUES,
TAX RATES**



**DRAFT DOCUMENTS,
RESOLUTIONS &
NOTICES**



**HEARING NOTICE
PUBLICATION AT LEAST
10 DAYS PRIOR TO
HEARING**



**COUNCIL HOLDS PUBLIC
HEARING & CONSIDERS
RESOLUTION TO
ESTABLISH ASSISTANCE**

Let's Talk!



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