



TIF 201 & Tax Abatement

Applied Tax Increment Financing

Session Goals

1

Understand importance of the “but for” test & how to support Council’s findings when establishing a TIF district

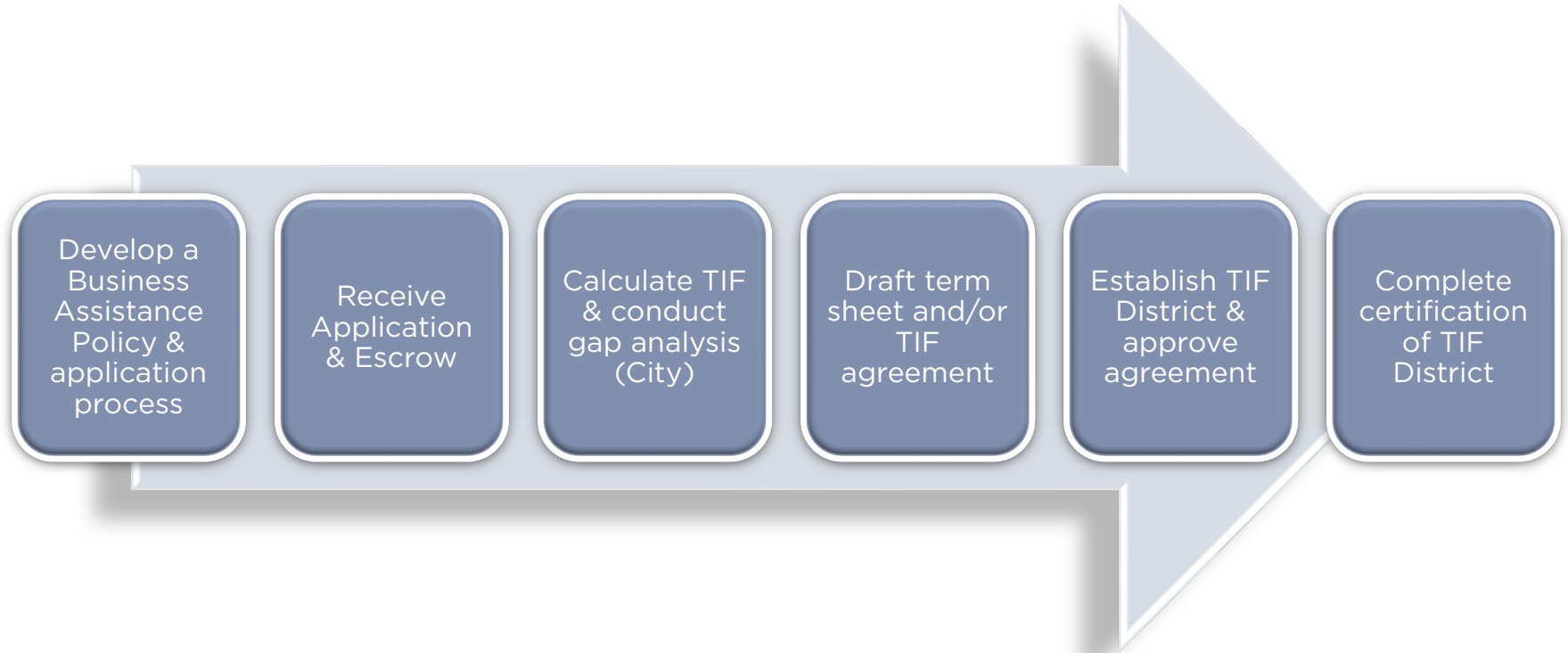
2

Discover how to turn TIF revenue stream into funds that can support a project today

3

Review a case study to show how communities use tax abatement to support development efforts

TIF Project Process Summary



TIF Project Process Summary, Cont...



Why Developers *Ask* for Assistance

The Gap!

Insufficient cash flow to:

- Support the level of debt needed to build the project and/or
- Provide high enough investment returns to attract equity to build the project

Why might there be a financial gap?

- Unproven market, low market rents, and/or affordable rents
- Extraordinary development costs (i.e. land, remediation, structured parking, infrastructure)

If You Don't Ask, You Don't Get!

Why Local Governments *Provide Assistance*

Fundamentally you *really want* what developer is proposing, but financial barriers prevent private market from developing a site in accordance with City vision.

Cities participate to overcome those barriers so they can:

- Change the market
- Improve housing availability & choice
- Improve quality of life
- Create jobs
- Grow & diversify tax base
- Redevelop blighted & polluted areas
- Revitalize downtowns

Public Financing Assistance: Key Questions

Non-financial:

- How does project advance community's goals?
- What other projects are competing for funding (*and attention*)?

Financial the “but for” test:

- Does project have a financial gap?
- If so, how big?
- Does community have resources or desire to assist with a portion of or entire gap?

Protecting Local Resources

- Adopt a Business Assistance policy
 - ✓ Do so in advance by working with community & elected officials
 - Required per MN statues 116J.993 – 116J.995
 - Often the outcome of economic development planning
- Develop application for assistance
 - ✓ Establishes formal process for review & requires developer to submit information necessary to effectively evaluate request

Policy consideration: *Developer covers cost of TIF related items*

Developer Application

- Includes project details
 - ✓ Site information
 - ✓ Full set of financial projections (pro forma)
 - ✓ Site plan, building elevations, floor plans, amenities, materials
 - ✓ Identification of financial need
- Developer submits fee, or escrowed deposit, with application
 - ✓ Covers third party costs for review & implementation

Pro Forma Analysis: How Much is Enough?

- Review developer's application & financial information to establish appropriate level of public assistance
 - ✓ *pro forma* analysis
 - ✓ Often referred to as “but for” test
- 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

Pro Forma Analysis: How Much is Enough?

SOURCES			
	Amount	Pct.	Per Unit
First Mortgage	18,418,096	59.4%	156,086
TIF Mortgage	3,280,000	10.6%	27,797
Equity	9,299,184	30.0%	78,807
TOTAL SOURCES	30,997,280	100%	262,689

USES			
	Amount	Pct.	Per Unit
Acquisition Costs	2,450,000	7.9%	20,763
Construction Costs	24,764,701	79.9%	209,870
Professional Services	1,598,846	5.2%	13,550
Financing Costs	1,280,900	4.1%	10,855
Developer Fee	902,833	2.9%	7,651
TOTAL USES	30,997,280	100%	262,689

- Analysis confirmed that assumptions meet industry standards
- Developer seeking 7% yield on cost return for project
- Yield on cost without assistance was 4.8%
- \$3.28 million PAYGO gets developer to 6.8% YOC
 - ✓ 15-year repayment

Term Sheet | TIF Agreement

Specifies terms & conditions under which municipality will pay collected TIF District increment to developer

Includes assistance identified through *pro forma* analysis

Often by City and/or EDA attorney with review & comment from developer

Term Sheet may serve as initial step

Final agreement governs all obligations in TIF project

Common Financing Tools

Paygo

- Most common
- Least risk to City
- Developer uses Note to obtain project funding

Revenue Bond

- Monetize future increment through issuing debt
- City issues tax-exempt or taxable bonds
 - ✓ After construction & paying taxes, or
 - ✓ Up-front

GO Bond

- Least common
- Most risk to City
- Only leveraged when there's a major issue to address or cost-effective
- Example: public infrastructure funding

Construction Commencement

- Construction may begin any time after public hearing is held for TIF District creation
 - ✓ Earlier commencement may open argument that “but for” test wasn’t met
- TIF agreement will specify date for both commencement & completion of project

Project Completion

- Must complete project by date specified in TIF agreement
 - ✓ Typically, no TIF note issued until completion
- Completion often defined by issuance of Certificate of Occupancy
- Next steps:
 - ✓ Document qualified costs
 - ✓ Issue TIF note

Qualified Costs Documentation

- TIF may only be spent on qualified costs
- Costs must be verified & documented before issuance of TIF note
 - ✓ Documented costs must be at least as much as TIF note to issue full note amount
 - ✓ Documentation includes invoices for work performed & evidence of payment for that work
 - Settlement statement works for property acquisition
 - AIA draw documents typical for other costs

TIF Note Issuance

- Conditions of issuance specified in TIF agreement, typically:
 - ✓ Project complete
 - ✓ Qualified costs documented
 - ✓ Developer financing rate confirmed
 - ✓ All City admin. costs paid
 - ✓ Any special provisions (project specific)
- Often approved & issued via Council | EDA resolution

UNITED STATE OF AMERICA
STATE OF MINNESOTA
HENNEPIN COUNTY
ROBBINSDALE ECONOMIC DEVELOPMENT AUTHORITY

No. R-1 \$3,280,000

TAXABLE TAX INCREMENT REVENUE NOTE
SERIES 2023A

<u>Rate</u>	<u>Date of Original Issue</u>
3.5%	_____

The Robbinsdale Economic Development Authority ("REDA"), for value received, certifies that it is indebted and hereby promises to pay to 4600 Lake Road Group, LLC, or registered assigns (the "Owner"), the principal sum of \$3,280,000 and to pay interest thereon at 3.5 percent per annum, as and to the extent set forth herein.

1. Payments. Principal and interest ("Payments") will be paid on August 1, 2023, and each February 1 and August 1 thereafter to and including February 1, 2038 ("Payment Dates"), in the amounts and from the sources set forth in Section 3 hereinafter. Payments will be applied first to accrued interest, and then to unpaid principal.

Payments are payable by mail to the address of the Owner or any other address as the Owner may designate upon 30 days written notice to REDA. Payments on this Note are payable in any coin or currency of the United States of America which, on the Payment Date, is legal tender for the payment of public and private debts.

2. Interest. Interest shall be simple, non-compounding interest at the rate 3.5 percent per annum will accrue on the unpaid principal, commencing on the date of original issue. Interest will be computed on the basis of a year of 360 days and consisting of 12 30-day months.

3. Available Tax Increment. Payments on this Note are payable on each Payment Date in the amount of and solely payable from "Available Tax Increment," which will mean, on each Payment Date, 90 percent of the Tax Increment attributable to the Redevelopment Property (defined in the Agreement) and paid to REDA by Hennepin County in the six months preceding the Payment Date, all as the terms are defined in the Contract for Private Redevelopment between REDA and Owner dated as of July 27, 2021 (the "Agreement"). Available Tax Increment will not include any Tax Increment if, as of any Payment Date, there is an Uncovered Event of Default by the Owner under the Agreement.

REDA will have no obligation to pay principal of and interest on this Note on each Payment Date from any source other than Available Tax Increment, and the failure of REDA to pay the entire amount of principal or interest on this Note on any Payment Date will not constitute a default hereunder as long as REDA pays principal and interest hereon to the extent of Available Tax

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RB115-155-940813-v1

Project Completed & TIF Note Issued

Now what?...

...We wait until we receive increment from the TIF District to pay the TIF Note!

Tax Increment Collection

- County calculates & sends increment to City
- Part of semi-annual tax settlement
- Report shows how much of settlement is TIF
- Confirm accuracy & complete PAYGO payments

Hennepin County Tax Increment Finance Settlements						Report No. S02RP02
Taxes Payable 2023						EDINA
TIF Project Number	TIF Project Name	May 2023	October 2023	November 2023	December 2023	Year To Date Total
1217	Edina West 76th Street					
	Current Tax:	18,433.73	0.00	0.00	0.00	18,433.73
	Delinquent Tax:	0.00	0.00		0.00	0.00
	Interest on Refund:	0.00	0.00		0.00	0.00
	Unclaimed Refunds:	0.00	0.00		0.00	0.00
	Settlement Total:	18,433.73	0.00		0.00	18,433.73
	Less .36% TIF Fee:	-66.36	0.00		0.00	-66.36
	Total Amount Settled:	18,367.37	0.00		0.00	18,367.37
1218	Edina 72nd & France					
	Current Tax:	160.36	160.35	0.00	0.00	320.71
	Delinquent Tax:	0.00	0.00		0.00	0.00
	Interest on Refund:	0.00	0.00		0.00	0.00
	Unclaimed Refunds:	0.00	0.00		0.00	0.00
	Settlement Total:	160.36	160.35		0.00	320.71
	Less .36% TIF Fee:	-0.58	-0.58		0.00	-1.15
	Total Amount Settled:	159.78	159.77		0.00	319.56
1219	Edina Amundson Ave					
	Current Tax:	25,385.63	25,385.64	0.00	0.00	50,771.27
	Delinquent Tax:	0.00	0.00		0.00	0.00
	Interest on Refund:	0.00	0.00		0.00	0.00
	Unclaimed Refunds:	0.00	0.00		0.00	0.00
	Settlement Total:	25,385.63	25,385.64		0.00	50,771.27
	Less .36% TIF Fee:	-91.39	-91.39		0.00	-182.78
	Total Amount Settled:	25,294.24	25,294.25		0.00	50,588.49

Making Pay-As-You-Go Payments

- Payments are made semi-annually, defined in TIF agreement
 - ✓ Typically, August 1st then February 1st of following year
 - ✓ Payments timed with county tax settlements
 - August 1 payment made from June tax settlement
 - February 1 payment made from December settlement
 - ✓ Important to confirm compliance with TIF agreement provisions before completing payment
 - Income compliance, ongoing operating covenants, etc.
 - ✓ Track payments to ensure no overpayment

Making Pay-As-You-Go Payments

Maximum amount		\$4,200,000		Interest Rate			2.99%	
Note Issue Date		3/8/2021						
Final Payment		2/1/2038						
Date	Interest Due	Total Tax Increment Available	Tax Increment Available at 90.00%	Principle Paid	Cumulative Tax Increment Paid	Accrued Interest Balance	Note Balance	Year
8/1/2021	50,929.67	\$ 68,771.88	61,894.69	10,965.03	10,965.03	\$ 0	4,200,000.00	0.5
2/1/2022	64,017.76	\$ 68,772.29	61,895.06	0.00	72,860.09	2,122.70	4,189,034.97	1
8/1/2022	62,974.00	\$ 235,665.83	212,099.25	147,002.55	284,959.33		4,042,032.43	1.5
2/1/2023	61,771.24	235,665.83	212,099.25	150,328.01	497,058.58		\$ 3,891,704.42	2
8/1/2023	58,504.21	305,935.78	275,342.20	216,838.00	772,400.78	\$	3,674,866.42	2.5
2/1/2024	56,160.13	305,935.78	275,342.20	219,182.08	1,047,742.99	\$	3,455,684.34	3
8/1/2024	52,236.51	305,935.78	275,342.20	223,105.70	1,323,085.19	\$	3,232,578.64	3.5
2/1/2025	49,400.99	305,935.78	275,342.20	225,941.22	1,598,427.40	\$	3,006,637.42	4
8/1/2025	45,198.95	305,935.78	275,342.20	230,143.26	1,873,769.60	\$	2,776,494.17	4.5
2/1/2026	42,431.00	305,935.78	275,342.20	232,911.20	2,149,111.81	\$	2,543,582.96	5
8/1/2026	38,237.82	305,935.78	275,342.20	237,104.38	2,424,454.01	\$	2,306,478.58	5.5
2/1/2027	35,248.12	305,935.78	275,342.20	240,094.09	2,699,796.22	\$	2,066,384.50	6
8/1/2027	31,064.07	305,935.78	275,342.20	244,278.13	2,975,138.42	\$	1,822,106.36	6.5
2/1/2028	27,845.83	305,935.78	275,342.20	247,496.37	3,250,480.63	\$	1,574,609.99	7
8/1/2028	23,801.98	305,935.78	275,342.20	251,504.23	3,525,822.83	\$	1,323,069.77	7.5
2/1/2029	20,219.45	305,935.78	275,342.20	255,122.76	3,801,165.04	\$	1,067,947.01	8
8/1/2029	16,054.51	305,935.78	275,342.20	259,287.70	4,076,507.24	\$	808,659.31	8.5
2/1/2030	12,358.11	305,935.78	275,342.20	262,984.09	4,351,849.45	\$	545,675.22	9
8/1/2030	8,203.17	305,935.78	275,342.20	267,139.04	4,627,191.65	\$	278,536.18	9.5
2/1/2031	4,256.65	305,935.78	275,342.20	271,085.55	4,902,533.86	\$	7,450.63	10
8/1/2031	112.01	305,935.78	7,562.63	7,450.62	4,910,096.49	\$	0.00	10.5
TOTAL		5,809,784.14	4,961,026.15	4,200,000.00				

Tax Abatement

Financing tool to encourage development, retain businesses, develop public facilities & parks

Used to assist developer financing, provide incentives for property (re)investment, or mechanism to authorize bonds for public infrastructure or facilities

More flexible than tax increment & simpler to establish... but requires approval from each participating taxing jurisdiction

Abatement Process: Information Gathering

Project description



Parcel information



Market values & tax rates



Participating entities' confirmation

Abatement Process: Cash Flow Annual Abatement

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

Initial calculation ties to TIF calculation
 Amount available for financing gap

Abatement Process: Notice & Hearing

- Each participating jurisdiction holds public hearing & considers resolution to approve abatement
 - ✓ Notice identifies entity granting abatement, abatement properties & estimated total abatement amount
 - ✓ Resolution includes:
 - Abatement terms
 - States that benefits to political subdivision at least equal costs of proposed agreement
 - Finding that abatement is in the public interest because...



Tax Abatement is in the Public Interest

Statutory Finding: Proposed abatement will...

Increase or
preserve tax
base

Provide
employment
opportunities

Help acquire or
construct
public facilities

Redevelop or
renew blighted
areas

Provide access
to services

Provide public
infrastructure

Stabilize tax
base

Tax Abatement Limitations

- Term: up to 20 years
 - ✓ Capped at 15 years if City, County and School participate
- An entity's annual abatements may not exceed greater of:
 - ✓ 10% of Net Tax Capacity - OR -
 - ✓ \$200,000
- Parcels may not be in a TIF District simultaneously
- Consent of property owner not required



Case Study: Otter Tail County

Your Presenters



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