



Economic Development 101

2026 Ehlers Public Finance Seminar

February 5, 2026

Today's Discussion



What is Economic Development?

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

What it's NOT

- Not just tax breaks
- Not just recruiting big companies
- Not “build it and hope they come”
- Much better to grow existing
 - ✓ Culture
 - ✓ Cost of attraction
 - ✓ Pays dividends for decades



Industry	Supercomputing
Founded	1957; 69 years ago
Defunct	1999
Fate	Broken up
Successor	Ceridian (later Dayforce, Inc.)
Headquarters	Bloomington, Minnesota, U.S.
Key people	Seymour Cray, William Norris

Economic Development (via ChatGPT)

Economic development is the **strategic process** of improving a community's overall economic well-being and quality of life by creating wealth, jobs, and opportunities through activities like business growth, infrastructure improvements, workforce training, and building **resilient, inclusive economies**, going beyond simple GDP growth to focus on broader social and environmental factors. It's a collaborative effort involving government, businesses, and stakeholders to **foster a better environment for residents.**

Why Engage in Economic Development?

Job Creation

Tax Base
Growth &
Diversification

Redevelopment

Neighborhood
Preservation

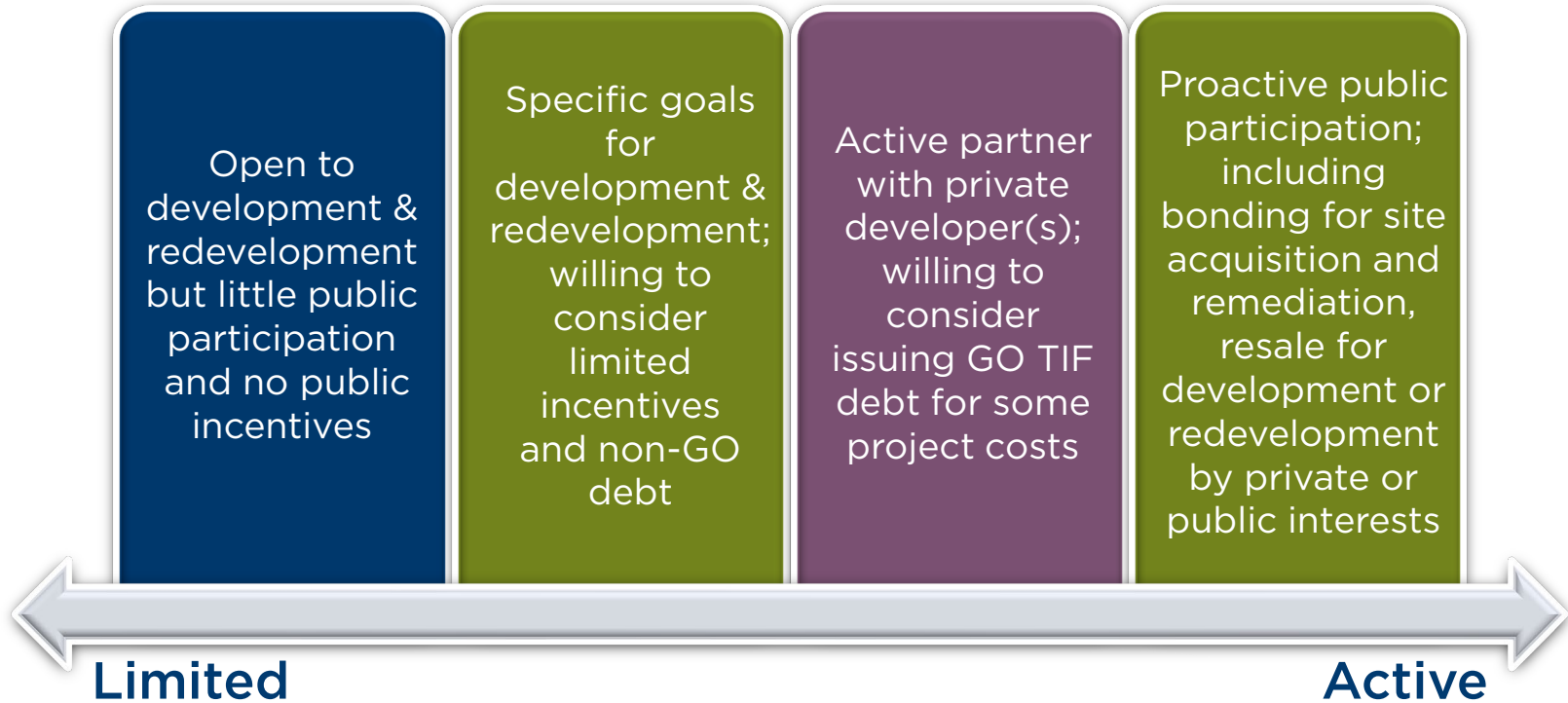
Develop
Infrastructure

Improve
Housing
Availability &
Choice

Pollution
Control &/or
Cleanup

Quality of Life

Public Economic Development Role



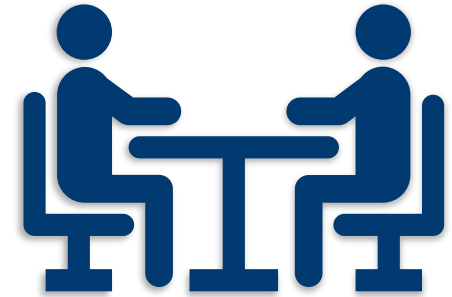
Policymaker Role

- 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 & PROTECTING PUBLIC RESOURCES

Preparing for Success

Establish an economic development/redevelopment plan!

- Helps unite staff & policy makers
- Provides foundation for successful projects
- 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
- **Creates a procedure & process for evaluating requests**



Why Might Public Financing Be Necessary?

**Site or
Market
Conditions
Limit
Feasibility**

- Private developers have market-based return on investment (ROI) expectations
 - ✓ They will pass on challenging sites
- Lenders & equity providers have limitations and requirements
- City goals may be incompatible with what the market wants to build

Why Might Public Financing Be Necessary?

Public Financing Fills a Gap

- Helps projects move forward that otherwise would not based on market conditions
- May provide up front, or over time
- Goal: Positive cashflow & reasonable ROI to incent private investment

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
- Only want to provide the minimum level of public assistance to make a project financially feasible
 - ✓ Commonly referred to as the “but for” test
- Should be able to demonstrate for elected officials and community members that this standard has been met

Pro Forma Analysis

Compare developer's numbers against industry standards

- Land acquisition
- Construction Costs
- Developer Fee
- Debt Assumptions
- Return on Investment

Ensure development components accounted for correctly

- Revenues
- Expenditures
- Debt service

Protecting Local Resources

- Final public assistance package is memorialized and governed by an agreement between the governmental entity and developer
 - ✓ Amount, duration, and source of assistance is identified
 - ✓ All developer and governmental obligations outlined
 - ✓ Provisions for default of conditions
- Often include “look back” provisions to review actual project performance against projections
 - ✓ If there are savings, then there is a reduction in assistance

The “But For” Test

- Required TIF finding: The development would not be possible *but for* the use of tax increment
 - ✓ Increased market value greater than alternatives – net of assistance
 - ✓ Likelihood of similar development in the foreseeable future without assistance – evidenced by pro forma analysis
- Captured tax revenues would not exist if TIF was not used to assist the project
- Elected body must make this finding

Economic Development Tools



Development Tools

Know the tools available to help facilitate development.



EDA LEVY
FUNDS



LOCAL
REVOLVING
LOAN FUNDS



TAX
INCREMENT
FINANCING
(TIF)



TAX
ABATEMENT



STATE & LOCAL
RESOURCES
(DEED, COUNTY,
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.

TIF and Abatement

- Tax Increment Financing
 - ✓ Captures increased property taxes on new development
 - ✓ Uses governed by statute
 - ✓ City, County, School, and other smaller jurisdictions
 - Not Fiscal Disparities or State General Property Tax
 - ✓ City leads process
- Tax Abatement
 - ✓ More flexible use of funds
 - ✓ Jurisdiction dependent

Other Tools

- Revolving Loan Funds
 - ✓ “**Gap**” loans for new development
 - ✓ Typically, lower interest rate to business 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

Affordable Housing Aid: Metro & Greater MN

Local Affordable Housing Aid (LAHA): 7 County Metro

- Funded by 0.25% **Metro Sales Tax**
- Populations over 10,000
- Metro cities and counties

Statewide Local Housing Aid (SAHA): Non-Metro*

- Funded by **State appropriation** (*legislative risk*)
- Populations under 10,000 (*MN Housing discretionary grant program*)
- All counties, non-metro cities

LAHA & SAHA: Uses

Emergency rental assistance, shelters, supportive services

Nonprofit housing providers - supporting their mission

Operations of financially distressed properties

New affordable projects - with restrictions on income, use

Market rate projects - Greater MN, SAHA

LAHA & SAHA: Special Requirements

- Land & Demo:
 - ✓ LAHA/SAHA can be used only if future use is affordable housing
- New Construction:
 - ✓ 5% of units - accessible (roll in shower, kitchen counter heights)
 - ✓ 5% of units - sensory accessible (sound, lighting, low VOC)
- Supplement, not supplant... new or expand existing affordable housing

Funding Partners

- State of MN: Department of Employment & Economic Development (DEED)
 - ✓ MN Investment Fund & Job Creation Fund
 - ✓ Redevelopment Funding
 - ✓ Infrastructure Funding (BDPI)
 - ✓ MN Forward Fund
- 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, others...

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

Common Economic Development Programs

Neighborhood & Housing Preservation

- Down payment assistance
- Fix-Up Loans
- Public housing ownership
- Homebuyer education
- Energy advisor visits

Common Economic Development Programs

Business Development

- Direct loans
- Technical assistance
 - ✓ Example: “Open to Business”
- Business retention & expansion programs
- Communication & information dissemination
- Marketing events



PROJECT EXAMPLES

Minnetonka – Marsh Run 2 (Vale)

- 197-unit mixed income project
- Developer requested \$8.25 million assistance from TIF (present value) over 15 years



Analysis of Costs

- Extraordinary costs – Soils, dewatering
- Cost of providing affordable units

Affordability Costs		Years: 30	
Units	Total	Per Unit	Per Year
40	\$3,816,672	\$95,417	\$3,181

Sources and Uses

SOURCES			
	Amount	Pct.	Per Unit
First Mortgage	41,501,905	62%	210,580
TIF Note	4,600,000	7%	23,340
Equity	21,167,145	31%	107,402
TOTAL SOURCES	67,269,050	100%	341,323

USES			
	Amount	Pct.	Per Unit
Acquisition Costs	5,122,000	8%	25,989
Construction Costs	49,982,341	74%	253,610
Contractor Fee	1,370,699	2%	6,955
Environmental Abatement/Soil Correction	1,250,000	2%	6,342
Professional Services	3,693,000	5%	18,738
Financing Costs	3,847,260	6%	19,521
Developer Fee	2,003,750	3%	10,167
TOTAL USES	67,269,050	100%	341,323

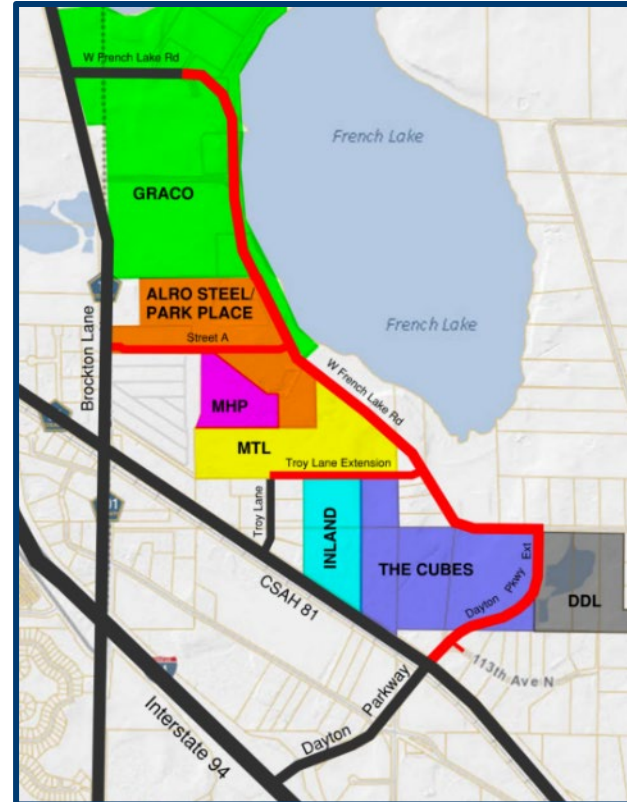
Outcome

- TIF Note agreed upon for \$4.6 million
- Lookbacks
 - ✓ Qualified Costs
 - ✓ Stabilization – Yield on Cost
 - ✓ Sale – 50% share between City and Developer



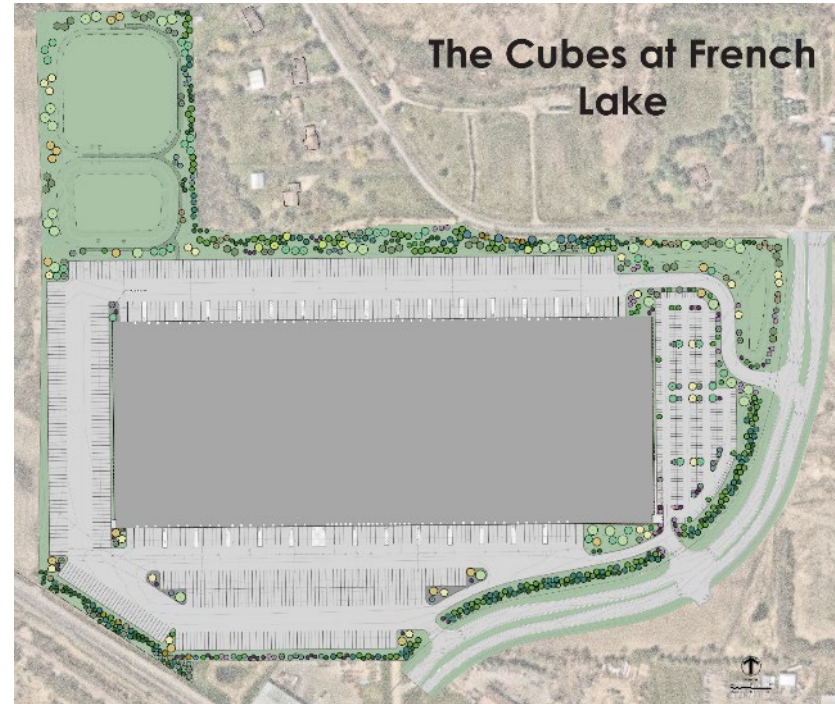
Dayton: Infrastructure Funding

- City needed to fill a funding gap of \$7.2 million for infrastructure
- Provides connection to new I-94 interchange
- Unlocks over 2.5 million sq. ft. of business park development



The Solution

- Leverage proposed 1 million sq. ft. project to capture TIF for the project
- Apply for Transportation Economic Development Infrastructure (TEDI) Grant
- Use some City pavement management funds based on conservative TIF projections



Project Funding

Funding Source	Amount
TIF Bond Proceeds	\$5,700,000
TEDI Grant (DEED)	\$1,000,000
City Pavement Mgmt.	\$500,000
Total	\$7,200,000

Outcome



- Spurred development of over 2.9 million sq. ft.
- Leveraged over \$12 million in additional infrastructure investment from private development
- Creation of approximately 730 new jobs

2nd Avenue Apartments: Long Prairie

- 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



2nd Avenue Apartments: Long Prairie

- 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

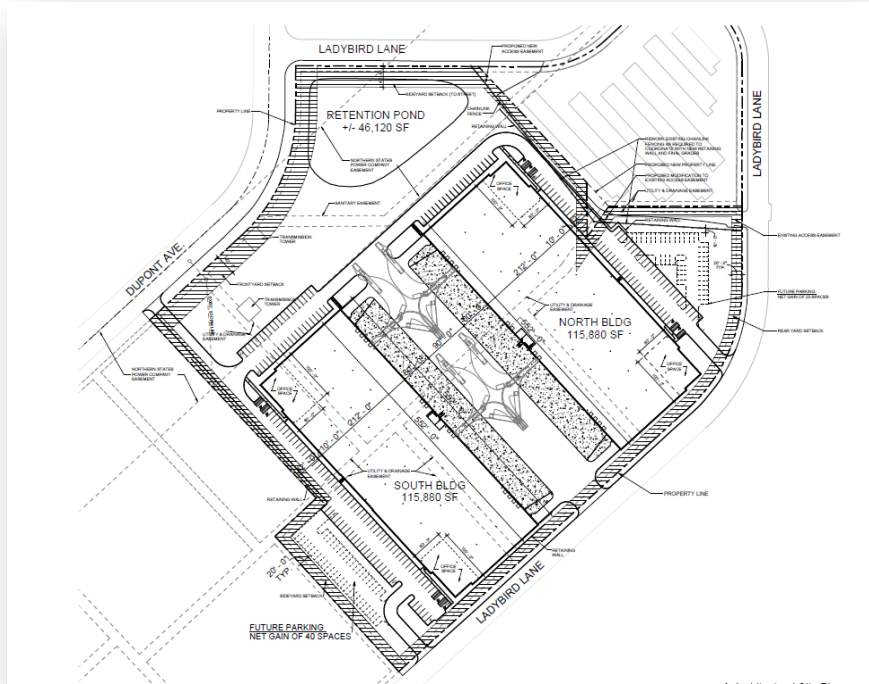
USES			
	Amount	Pct.	Per Unit
Acquisition Costs	99,000	1.8%	2,676
Construction Costs	5,112,500	92.5%	138,176
Professional Services	179,700	3.3%	4,857
Financing Costs	105,000	1.9%	2,838
Cash Accounts/Escrows/Reserves	30,000	0.5%	811
TOTAL USES	5,526,200	100%	149,357

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%

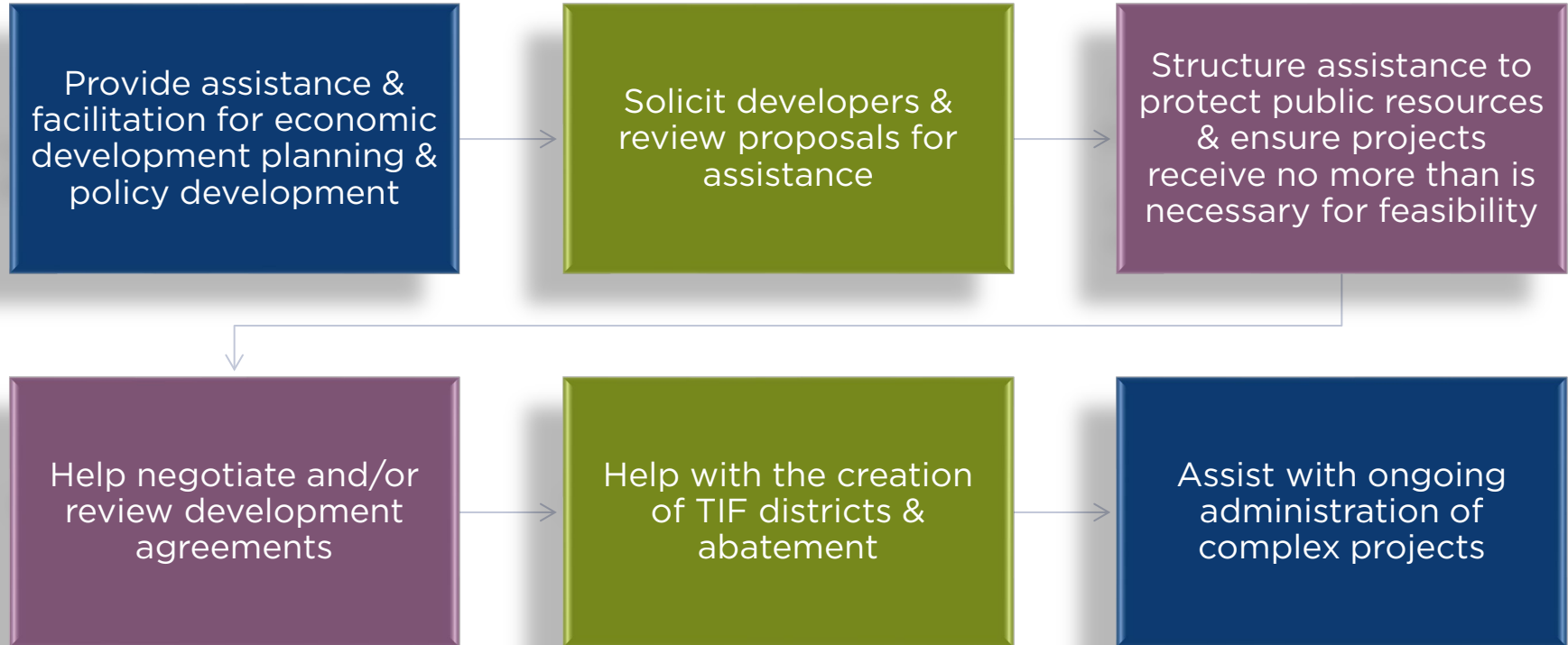
USES			
	Amount	% of Cost	Per Bldg. Sq/Ft
Acquisition Costs	3,000,000	11.03%	12.94
Remediation Costs	3,502,014	12.88%	15.11
Construction Costs	17,458,445	64.20%	75.33
Professional Services	1,117,439	4.11%	4.82
Financing Costs	1,073,702	3.95%	4.63
Developer Fee	902,805	3.32%	3.90
Cash Accounts	138,960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



Download the Presentation



Let's Talk!



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