



# **TIF 201 & Tax Abatement**

Development Finance & Public Assistance

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# Today's Topics

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## Perspectives on Financing Real Estate Development

- Market challenges & realities
- Funding sources & underwriting

## Deeper Dive into Evaluating a Request for Public Assistance

- TIF & Tax Abatement 201
- How can we apply these tools?



# U.S. & Minnesota Development Overview

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# Headline Quotes

## Multifamily (Minnesota / Midwest)

- “In Midwest markets like Minneapolis–St. Paul, elevated construction costs have fundamentally altered deal feasibility, even for well-located multifamily projects.” — *National Multifamily Housing Council, Midwest Developer Commentary (2023–2024)*

## Office (Twin Cities & Regional CBDs)

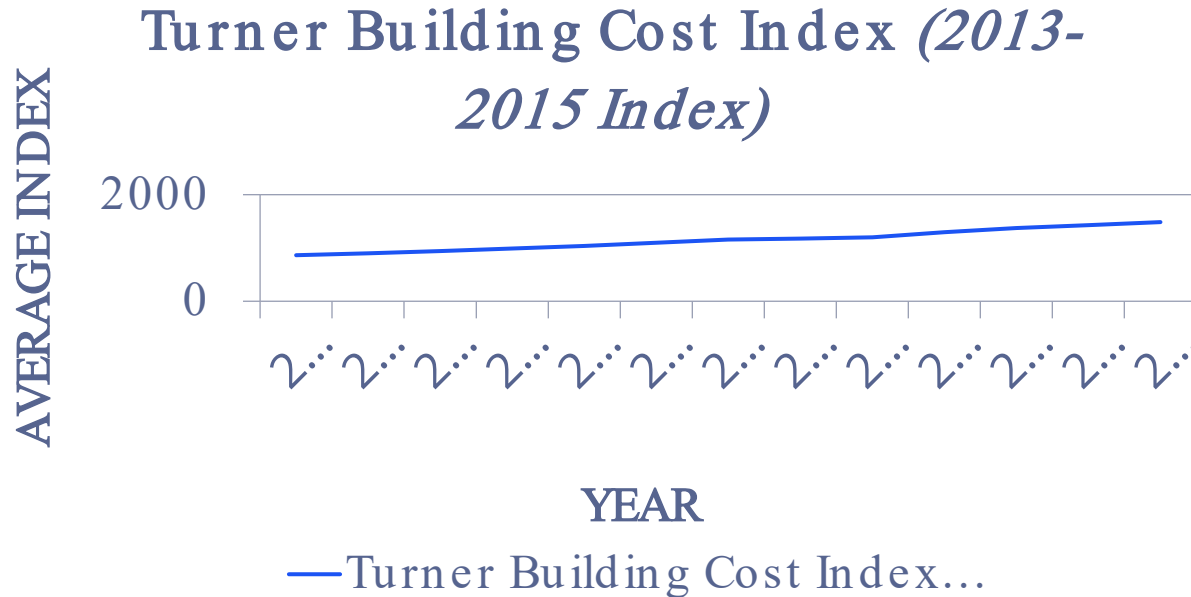
- “Office development in Midwest CBDs faces continued cost headwinds as labor, mechanical systems, and energy-efficiency requirements push projects toward historically high budgets.” — *Cushman & Wakefield, Project & Development Services – Midwest Perspective (2025)*

## Industrial (Upper Midwest)

- “Industrial construction costs across the Midwest remain well above pre-pandemic norms, driven by labor availability constraints and higher structural steel and concrete pricing.” — *Cushman & Wakefield, U.S. & Midwest Industrial Outlook (2024)*

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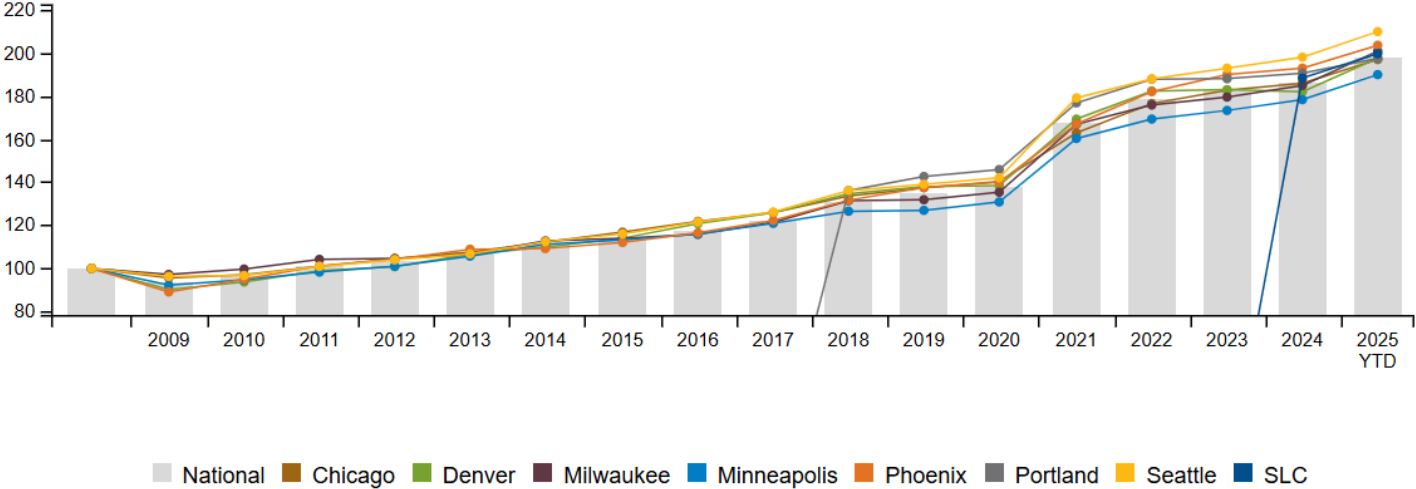
# U.S. Construction Cost Index (Yearly Average)



The Turner Building Cost Index is determined by the following factors considered on a nationwide basis: labor rates and productivity, material prices and the competitive condition of the marketplace.

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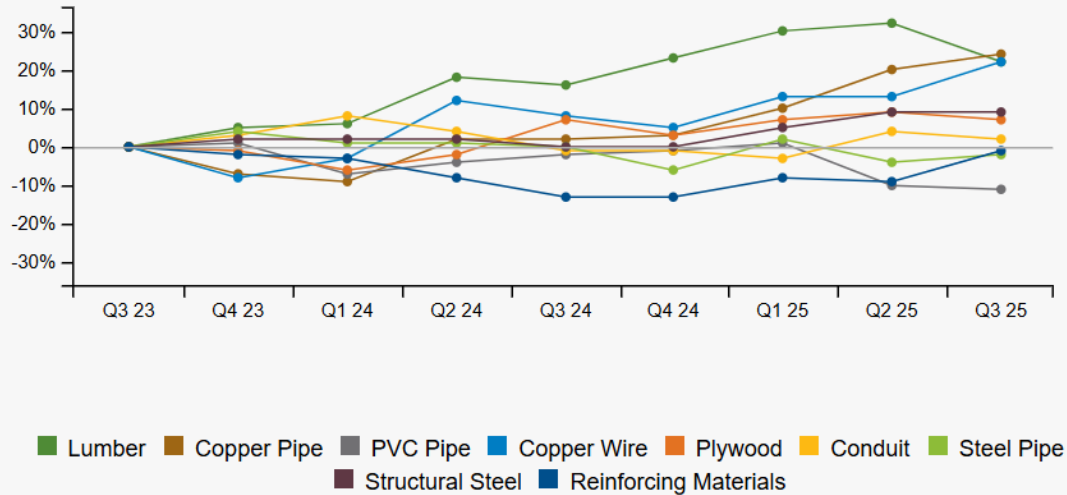
# Overall Construction Cost Index Q3 2025 (January 2009 = 100)



Source: Mortenson Construction Cost Index (Minneapolis & National)

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# Material Pricing Changes (Cumulative Q3 2023 to Q3 2025)



Construction material costs remain elevated amid a gradually stabilizing but volatile global supply chain, affected by economic uncertainty, tariffs, and fluctuating demand. Steel and copper continue to experience notable, upward price swings.

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# Estimated Construction Costs by Property Type (2024–25)



**INDUSTRIAL:**  
\$75–\$140 per SF



**HOTEL:**  
\$250–\$400+ per SF



**RETAIL:**  
\$100–\$200+ per SF



**OFFICE:**  
\$160–\$220+ per SF



**MULTIFAMILY:**  
\$200–\$300+ per SF  
*(~\$320K–\$340K per unit)*

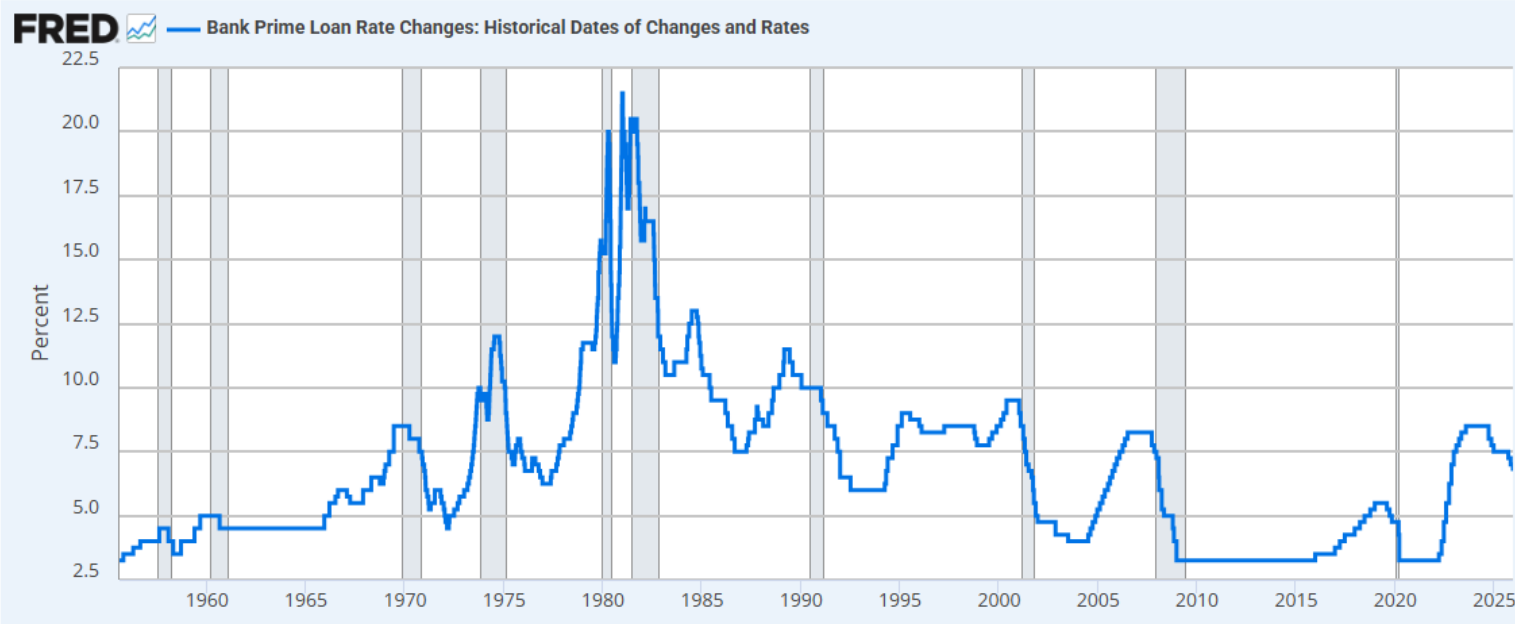
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# Minnesota Multifamily Construction Costs

- Twin Cities mid-rise apartments:  
\$320K–\$340K per unit
- Approx. 30–35% increase since 2019
- High construction costs slowing new development

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# PRIME – Indication of Development Cost to Borrow



Source: Board of Governors of the Federal Reserve System (US) via FRED®

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# Band of Return Expectations

INVESTMENT STRATEGY	TARGET IRR RANGE	TYPICAL RISK PROFILE
Core / Stabilized Assets	6% – 9%	Low risk, income-focused
Value-Add	12% – 17%	Moderate risk, operational upside
Opportunistic / Development	18% – 25%+	High risk, execution & market
Senior Debt	8% – 10%	Low risk, secured position
Mezzanine / Preferred Equity	10% – 14%	Moderate risk, fixed return

Source: Syndication Attorneys — “What Returns Do Real Estate Investors Want in 2025?": <https://syndicationattorneys.com/articles/what-returns-do-real-estate-investors-want-in-2025/>, Institutional Real Estate Investor (IREI) — Investor Trends Survey: <https://www.institutionalrealestateinc.com/>

## U.S. &amp; Minnesota Development Overview

# Other Options

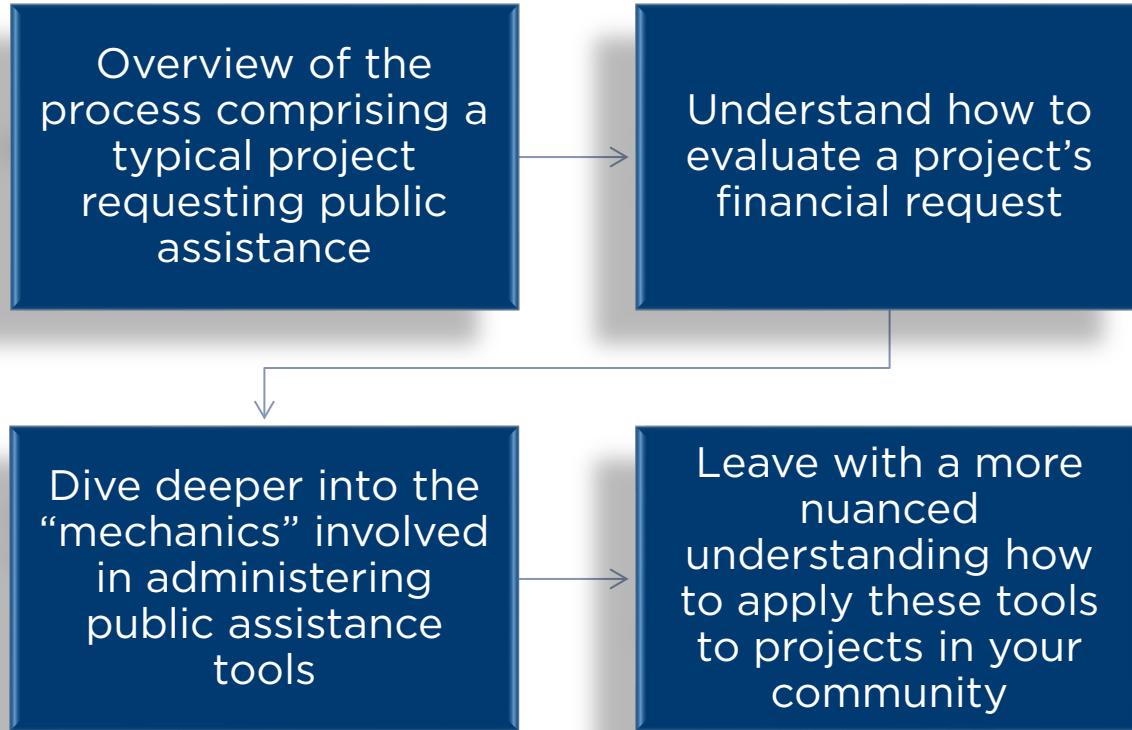
- TIF (*Tax Increment Financing*)
- Tax Abatements & Exemptions
- Enterprise / Opportunity Zones
- Grants
- Forgivable loans
- Subsidized loans
- Density Bonuses, Zoning Variances, Fee Waivers
- Land Donation
- Capital Improvement Plans



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# Evaluating a Request For Public Assistance

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# Recap: Why Developers Ask for Assistance

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## 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)

# Recap: Why Provide Public Assistance

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**Financial barriers prevent private market from developing a site in accordance with Local Government's vision**

**Public may 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

# But First: What Is Tax Abatement?

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City, County and School District financing tool using property tax revenues from designated properties for qualifying public purposes

Can be 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: Notice & Hearing

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- 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

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## 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

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



# Evaluating a Request for Public Assistance

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## Various Components:

- Pro Forma analysis – verify gap and how much is enough?
- Evaluate feasibility of public assistance tools
  - ✓ Calculate TIF / Abatement
- Negotiate Term Sheet / Financial Agreement
- Work in concert with pursuit of other Funding Sources / Partners
  - ✓ MN Housing, DEED, Met Council, etc.
  - ✓ Special Legislation

# Tool: Public Assistance Application

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## Project details

- Location, site plan, building elevations/floor plan, amenities, etc.
- Financial projections (pro forma)
- Financial assistance request – statement of need

## Due Diligence & Policy Objectives

- Developer experience & referrals
- Project's funding commitments
- Information to support public benefits / policy objectives

## Application fee and/or escrow deposit

- Covers internal and third-party costs for review & implementation

# Pro Forma Analysis

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- Review developer's application & financial information to establish appropriate level of public assistance
  - ✓ Substantiate the financial gap
  - ✓ Shared understanding of project feasibility
    - Project's funding and operating challenges
  - ✓ Rigor to satisfy "but for" test
    - Verify project is maximizing **private** funding sources
    - Minimize **public assistance** needed to make a project financially feasible



# Pro Forma Analysis: How Much is Enough?

- Confirm assumptions meet industry standards
  - ✓ Various costs, fees, rates, etc.
- Can be an iterative process
  - ✓ City fees, property taxes, etc.
- Returns and market expectations
  - ✓ Compare ROI of project with and without assistance
- Size the assistance to:
  - ✓ Satisfy debt underwriting
  - ✓ Achieve minimum returns

Sources		Per Unit
Supportable Mortgage (125% DSC)	21,130,387	179,071
Supportable Equity (6% Initial Return)	6,334,367	53,681
Private Funding Gap	<u>2,532,526</u>	<u>21,462</u>
<b>Total:</b>	<b>29,997,280</b>	<b>254,214</b>

Uses		Per Unit
Land / Acquisition	2,450,000	20,763
Construction	23,764,701	201,396
Professional Services	1,598,846	13,550
Financing Costs	1,280,900	10,855
Developer Fee	<u>902,833</u>	<u>7,651</u>
<b>Total:</b>	<b>29,997,280</b>	<b>254,214</b>

Operating Assumptions			
Units	Average Rent	Annual Total	Rent Per SF
118	2,150	3,044,400	\$2.05
	Vacancy (5.0%):	<u>(152,220)</u>	
	<b>Effective Gross Income:</b>	<b>2,892,180</b>	
	Management:	(115,687)	
	Operating Expenses:	(517,548)	
	Property Taxes:	(329,135)	
	Reserves:	<u>(29,500)</u>	
	<b>Net Operating Income (NOI):</b>	<b>1,900,310</b>	Ratio
			65.7%

Mortgage Assumptions	
NOI Available for Debt (125% DSC):	1,520,248
x 30-yr Debt Constant (6.0% Rate):	<u>7.19%</u>
<b>Supportable Mortgage</b>	<b>21,130,387</b>

# Evaluate Feasibility of Public Assistance Tools

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- Determine financial resources available
  - ✓ Review project qualifications
    - Policy may dictate types of assistance available
  - ✓ Alignment with *Pro Forma* Analysis
    - Does the tool help solve the specific financial need?
  - ✓ Consider available alternatives
    - Funding programs, public improvements, land/fee write-down, etc.
- Calculate TIF | Abatement
- Evaluate Risks and long-term impacts

# Calculate TIF | Abatement: Valuation Assumptions

PROJECT INFORMATION (Project Tax Capacity)													
Area/Phase	New Use	Insert Rows	Taxable	Total	Total Taxable	Property	Project	Project Tax	Percentage	Percentage	Percentage	Percentage	First Year
		Market Value	Market Value										
		Per Sq. Ft./Unit	Per Sq. Ft./Unit						2026	2027	2028	2029	Payable
1	Apartments	154,643	154,643	22	3,402,143	Rental	42,527	1,933	50%	100%	100%	100%	2029
2	Apartments	154,643	154,643	20	3,092,857	Rental	38,661	1,933	0%	50%	100%	100%	2030
TOTAL					6,495,000		81,188						

TAX CALCULATIONS									
New Use	Total Tax Capacity	Fiscal Disparities Tax Capacity	Local Tax Capacity	Local Property Taxes	Fiscal Disparities Taxes	State-wide Property Taxes	Market Value Taxes	Total Taxes	Taxes Per Sq. Ft./Unit
Apartments	42,527	0	42,527	47,128	0	0	5,751	52,879	2,403.58
Apartments	38,661	0	38,661	42,844	0	0	5,228	48,072	2,403.58
TOTAL	81,188	0	81,188	89,972	0	0	10,978	100,950	

- Confirm assessed valuation & tax classification
  - ✓ Comparisons to like-property (local or otherwise)
  - ✓ Conversations with local assessors
  - \*Pro Forma will help inform potential value assumptions*
- Timing of construction and/or phasing
  - ✓ Affects when tax incidence & tool revenue will be collected for each component

# Calculate TIF | Abatement: What is Excluded?

TIF EXCLUSIONS	
Total Property Taxes	\$100,950
Less: State-wide Taxes	0
Less: Fiscal Disparities*	0
Less: Market Value Taxes	(\$10,978)
Less: Base Value Taxes	(\$8,782)
Annual Gross Tax Increment	\$81,190
Less: OSA Fee (0.36%)	(\$292)
Annual TIF Received	\$80,898

ABATEMENT EXCLUSIONS	
Total Property Taxes	\$100,950
Less: State-wide Taxes	0
Less: Fiscal Disparities*	0
Less: Market Value Taxes	(\$10,978)
Less: Other Taxing Jurisdictions	(\$1,386)
Optional: Base Value Taxes	(\$8,782)
Annual Gross Abatement	\$79,804
City Abatement	\$38,007
County Abatement	\$26,011
School District Abatement	\$15,786

- Fiscal Disparities program applicable in 7-county Metro and Iron Range
  - ✓ Up to 40% of commercial/industrial tax capacity contributed to FD pool
  - Authority can elect for FD contribution to come from inside or outside TIF District

# Calculate TIF | Abatement: Collection

Report No. 502RP02

**Hennepin County Tax Increment Finance Settlements  
Taxes Payable 2024**

Project	1215 Edina 50th and France 2			EDINA
	May	October	December	YTD
Current Tax:	413,191.98	413,191.97	0.00	826,383.95
Current Tax November:	0.00	0.00	0.00	0.00
Delinquent Tax:	0.00	0.00	0.00	0.00
Interest on Refund:	0.00	0.00	0.00	0.00
Interest on Refund:	0.00	0.00	0.00	0.00
Settlement Total:	413,191.98	413,191.97	0.00	826,383.95
Less .36% TIF Fee:	-1,487.49	-1,487.49	0.00	-2,974.98
Total Amount Settled:	411,704.49	411,704.48	0.00	823,408.97

Project	1216 Edina 44th an France 2			EDINA
	May	October	December	YTD
Current Tax:	127,584.80	127,584.78	0.00	255,169.58
Current Tax November:	0.00	0.00	0.00	0.00
Delinquent Tax:	0.00	0.00	0.00	0.00
Interest on Refund:	0.00	0.00	0.00	0.00
Interest on Refund:	0.00	0.00	0.00	0.00
Settlement Total:	127,584.80	127,584.78	0.00	255,169.58
Less .36% TIF Fee:	-459.31	-459.31	0.00	-918.61
Total Amount Settled:	127,125.49	127,125.47	0.00	254,250.97

- ✓ County calculates and sends increment from tax collections
  - ✓ Deducts OSA .36% TIF fee
- ✓ Part of the semi-annual tax settlement
  - ✓ Lag: revenue available after valuation and tax payments made
- ✓ Reporting will show how much of the settlement is tax increment
- ✓ Different for Abatement
  - ✓ Local levy process
  - ✓ Part of general settlement

# TIF | Abatement: Additional Nuances

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- When TIF District encompasses multiple properties/projects
  - ✓ County calculation & settlement is “District-wide”
    - Actual parcel’s contribution to TIF settlement is not accurately reflected on property tax statements
  - ✓ Determining a parcel’s actual contribution requires:
    - Confirmation parcels have paid taxes – **AND** –
    - Individual parcel’s share of the TIF District’s captured tax capacity
- “Available” revenue does not have to be all or nothing
  - ✓ Balance between financing need and local objectives / compliance

# Evaluate Risks & Long-term Impacts

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## Weigh financial risks & project benefits

- Financial resources, debt capacity, fund balances
- Community investment/vitality, tax base, public improvements

## Consider impacts to public resources & taxpayers

- Will project materially impact public services and operations?

## Monitor public assistance use

- Project evaluation, measure outcomes
- Reporting: financial, year-in-review, etc.

# TIF | Abatement Financing Options

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## Pay-As-You-Go Note (PAYGO)

- No up-front funds from local government
- Developer funds eligible expenses & note repaid, with interest, from available tax increment | abatement
- No risk to TIF | abatement authority if revenue comes up short or term expires before note retired

## G.O. or Revenue Bonds

- Bond proceeds fund up-front project costs and TIF | abatement revenue is used to repay bonds
- Higher-risk for G.O. debt

# PAYGO: Pledged to First Mortgage

	With Pledge	Without Pledge
Net Operating Income (NOI)	8,758,431	8,758,431
Annual Tax Increment	971,415	
Debt Service Coverage	1.20	1.20
<b>NOI Available for Debt</b>	<b>8,108,205</b>	<b>7,298,693</b>
Amortization (Years)	30	30
Interest Rate	6.00%	6.00%
<b>Supportable Mortgage</b>	<b>112,698,000</b>	<b>101,446,000</b>

**PAYGO TIF Provides \$11,252,000 additional funding  
within supportable mortgage**

# PAYGO: Separately Financed TIF Loan

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	<b>15 Years</b>	<b>26 Years</b>
Annual Tax Increment	971,415	971,415
Debt Service Coverage	1.00	1.00
Interest Rate	6.50%	6.50%
MIP	0.00%	0.00%
<b>Semi-Annual Net Present Value</b>	<b>7,868,000</b>	<b>10,670,000</b>

**PAYGO TIF Provides \$7.9 to \$10.7 million funding dependent on pledged term**

# Term Sheet | Public Assistance Agreement

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Specifies terms & conditions under which municipality will pay collected TIF | Abatement to developer

Includes assistance identified through *pro forma* analysis

Often prepared by Authority attorney with review & comment from developer

Term Sheet may serve as initial step

Final agreement governs all obligations for project

# Example Deal Term: Qualified Costs

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- TIF may only be spent on qualified costs
- Best practice to require verification & documentation before issuance of any PAYGO Note
  - ✓ Require note issuance upon project completion and verification
  - ✓ Documented costs to equal or exceed the note principal 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

# Example Deal Term: Lookback Provisions

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- Mechanism to resize assistance upon certain events
  - ✓ Upon project completion and verification
  - ✓ Stabilization or final phase
  - ✓ Sale of Property / Refinancing
  - ✓ Defined Time / deadline
- Typically used to validate original assumptions and preserve public findings if a change in investment is made
- Be aware: provision may constrain initial debt and equity investment

# Download the Presentation

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# Let's Talk!

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