



TAX ABATEMENT

Tax abatement is a useful and flexible economic development tool. The name “tax abatement” is misleading. The enabling statute (Minnesota Statutes, Sections 469.1812 to 469.1815) does not authorize the actual abatement of taxes. Instead, local governments have the ability to levy a property tax (an abatement levy) that is equivalent to taxes that *could be* abated. The revenue derived from an abatement levy can be used for a variety of economic development, redevelopment and housing purposes.

This profile highlights the key elements of tax abatement. Planning for specific projects should refer to the complete statute and the guidance of qualified advisors. In addition, this profile is based on the statutes governing the use of tax abatement in 2009. These statutes are subject to change by the State Legislature.

Uses

The enabling statute contains relatively few limitations on the use of tax abatement. The statute requires a finding that the use of tax abatement is in the public interest for one of the following reasons:

- Increase or preserve tax base.
- Provide employment opportunities.
- Provide or help acquire or construct public facilities.
- Help redevelop or renew blighted areas.
- Help provide access to services for residents of the political subdivision.
- Finance or provide public infrastructure.
- Phase in a property tax increase on the parcel.

The revenues from the abatement levy can be retained by the political subdivision or conveyed to the property owner. When paid to the property owner, the abatement acts like a tax rebate.

The only other specific use limitations in the statute relates to bond-funded activities. The proceeds of Tax Abatement Bonds can only be used to (1) pay for

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Northland Strategies is the special projects group of Northland Securities. Northland Strategies provides public and private clients with consulting services in the areas of Real Estate Development, Financial Planning, Group Decision Making and Service Studies.

Northland Strategies combines the experience and skills needed to help you understand and make effective use of tax abatement. Our areas of expertise include:

- Identification and evaluation of options for use on economic development, redevelopment and housing projects.
- Analysis of funding capacity.
- Facilitation of approval process, including preparation of abatement resolution.
- Creation and implementation of plans for issuance of abatement bonds.
- Preparation of guidelines for administration of abatement programs.

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public improvements that benefit the property, (2) acquire and convey land or other property, as provided under this section, (3) reimburse the property owner for the cost of improvements made to the property, or (4) pay the costs of issuance of the bonds.

Calculating the Abatement

The maximum abatement for a parcel is its total net tax capacity value multiplied by the abating political subdivision's local property tax rate. The abatement may be based on the value created by new development, may be a specific amount per year, or may be in any other manner the governing body of the subdivision determines is appropriate.

The statute does not control how political subdivisions determine the parcels that will be subject to tax abatement. Users have the flexibility to target individual parcels, parcels grouped into a common project, or a broader area of improvements.

The methodology for calculating the abatement should be clearly described in the resolution authorizing the abatement.

Key Limitations

Several important limitations apply to the use of tax abatement.

Political Subdivisions

The ability to use tax abatement is given to cities (statutory or home rule charter), towns, school districts, and counties. Each of these political subdivisions has independent authority over the use of tax abatement.

Maximum Amount

The total amount of tax abatements for each political subdivision is capped. The total abated taxes in any year cannot exceed the greater of ten percent (10%) of the net tax capacity of the political subdivision for the taxes payable year to which the abatement applies, or (2) \$200,000.

Duration

The general rule is that a political subdivision may grant an abatement for 15 years or less. The maximum duration is 8 years if the authorizing resolution does

not specify a duration. The duration may be extended under certain circumstances:

- The maximum abatement period may increase to 20 years if one of the other political subdivisions is requested to participate and declines (pursuant to procedures in M.S. 469.1813, Subd. 6, Paragraph b).
- A political subdivision may grant an abatement for a period of up to 20 years, if the abatement is for a "qualified business" as defined by the statute.

Bonds

Bonds can be issued to provide funding for certain activities (see "Uses"). The total principal of abatement bonds cannot exceed the sum of estimated abatements for the years granted. If the abatement is not adequate to pay principal and interest, then the political subdivision may use other legally available revenues, including property taxes, to pay interest on the bonds. The general obligation of the political subdivision may be pledged to the bonds. The bonds are not subject to the debt limit and do not require an election.

Process

Compared to tax increment financing, the process for the use of tax abatement is simple. The governing body of the political subdivision must adopt a resolution that defines the parameters for the tax abatement. A public hearing is required before approving the resolution. Notice of the hearing must be published once at least 10 and not more than 30 days prior to the hearing. The statute does not require any other documents or notifications.

An abatement levy is not currently subject to levy limits. An abatement levy must follow the procedures applicable to all other property tax levies.