



To: David Bennet, City of Northfield
From: Nick Anhut, Ehlers and Associates
Date: December 6, 2017
Re: City of Northfield – 2018 Spring Creek Financing

2018 Project Financing

The City is contemplating the Spring Creek Road Reconstruction as part of its 2018 capital projects. In discussions with staff, the preference is to finance these projects with bonds to be repaid from a tax levy. This approach is consistent with city practice to bond for large public infrastructure capital projects for street and utility improvements.

Bonding – Statutory Authority

Cities have limited options within the state statutes to issue debt for this type of project outside of holding a referendum. Unlike the Division & Seventh Street Reconstruction project also for bonding, City staff has indicated it is not the intent to assess at least 20% of the non-utility Spring Creek project costs to benefitting properties. Also, the portion of the Spring Creek project contemplated for bonding would not be classified as a “street reconstruction” within the bonding definition of Minnesota Statutes, Section 475.58.

One option in addition to a referendum that is available is to use the tax abatement authority within Chapter 469, Sections 1812 to 1815. Tax abatement is a tool local governments can use to finance public improvements or public facilities, as well as a form of assistance for new development or redevelopment. Municipalities can issue general obligation bonds to finance public improvements without a referendum if at least principal on those bonds is repaid with a tax abatement levy. Various examples of projects Minnesota cities have financed under this statutory authority include: land acquisition for parks, swimming pools and recreation facilities, parking infrastructure, civic centers, expansion of major intersections, and stoplights.

Abatement Mechanics

Tax abatement is the ability for the City as an individual taxing entity to allocate all or a portion of its local property tax revenues derived from a defined geographic area (by parcel). The City can choose to contribute its share of the taxes and limit abatement in the manner it determines appropriate to finance such projects.

Despite its name, tax abatement for public improvements is a reallocation of taxes rather than an exemption from paying taxes. The property included within the abatement area continues to pay its taxes in full just as any other property within the City. The amount is collected by the County, and remitted to the City along with its annual tax settlements. The amount attributed to the abatement, however, is redirected to a specific project rather than general funds.

Abatements are special tax levies. The amount of the abatement is added to the total general levy to be spread over the tax base for the applicable year, and is included in the proposed levy for

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Truth in Taxation as well as the certified levy. For bonds issued to finance public improvements, the abatement is used to repay principal and/or interest just like the city's other debt levies. The abatement will not show up as a separate line item on a tax notice.

All three taxing entities (city, county and school district) may individually approve participation in tax abatement to pool funds for a project up to a maximum term of 15 years. If only one or two of the entities participate, the maximum term is 20 years. Once the period of abatement expires the City may not grant another abatement for that property for 8 years. This prohibition does not apply to new property improvement added after the initial abatement approval. In addition, taxes on a parcel may not be abated while the parcel is located within a tax increment district.

Bonding Structure and Abatement Limits

The abatements levied over the term must add up to at least the principal amount of the bonds. The total amount of the abatement must be designated in the public hearing notice and within the adopting resolution, but is not subject to periodic review by the City afterward. This item is included in the statute to allow for unforeseen fluctuations in the tax base and/or annual tax revenues.

In any one year, the TOTAL amount a political subdivision may abate may not exceed the greater of 10 percent of the entity's net tax capacity or \$200,000. The City's Pay 2017 Net Tax Capacity is \$14,324,202, meaning the maximum annual amount the City can abate annually is currently \$1,432,420. In 2014, the City Council authorized abatements to refinance debt used to finance its community swimming pool to reduce interest costs. The 2014A Bonds' maximum annual abatement levy is \$247,538, leaving over \$1.1 million in annual abatement capacity remaining for bonding, development assistance or other purposes subject to Council approval. For discussion purposes only, an abatement levy to provide 105% coverage for a 10-year \$490,000 bond financing is conservatively estimated below \$61,000 annually.

Tax abatement bonds are excluded from the calculation of the City's statutory debt limit.

Establishing a Tax Abatement

After identifying the financing structure, the city must identify and the property to support the abatement. A public hearing with at least a ten-day published notice (which identifies the properties included in the abatement) must be held by each entity granting the abatement. The entity granting the abatement is then required to adopt a resolution approving the abatement. The adopting resolution must include the following: (1) Duration of the abatement; (2) Statement of public benefit expected to result from the abatement; (3) Required findings; and only if applicable (4) Schedule of repayment of deferred taxes. As the abatements are derived from taxes imposed on its tax base, the entity does not need to obtain the consent of the property owner in order to adopt an abatement.

The benefited project or infrastructure does not need to be on or adjacent to the parcel for which taxes are being abated. The City must make a finding that the public benefits at least equal the costs of the proposed improvement, and that the abatement is in the public interest for at least one of the following reasons:

- Increase or preserve tax base
- Provide employment opportunities
- Provide or help acquire or construct public facilities
- Redevelop or renew blighted areas
- Provide access to services for residents
- Provide public infrastructure
- Phase in a property tax increase, in specific circumstances
- Stabilize the tax base

Once the hearing is held, the City Council can choose to adopt the abatement and issue bonds for the project(s).

Considerations

As the public infrastructure projects contemplated in this memo are expected to benefit all members of the tax base, a policy decision is to be made over which properties to include in the abatement. Inclusion in the abatement will not impose a different tax from that of another property. However the City will not be able to include said properties within a TIF District, nor allocate those taxes toward another abatement during the period, plus potentially another 8 years afterward if no property improvements are made. In designating the properties the City should consider whether it wants to utilize this tool again for future public projects.

In 2014, the City chose to include all residential parcels within a 1,200 foot radius of Memorial Pool within the abatement for the Pool's bond refinancing. A radius was chosen because there was both a direct linkage between the properties and the public facility. The city verified the amount of city taxes derived from properties within the area, and set the radius at a distance to provide enough tax revenue on an annual basis to allocate toward making the refinanced bonds' debt service payment. The Memorial Pool abatement term is from taxes payable 2015 to 2023. The map from the abatement hearing notice is attached for reference.

Potentially the City can include all property within the city's jurisdiction into the abatement as long as it can demonstrate the purpose is of public benefit and the annual amount stays within the statutory limits. The City must exclude property already included in a TIF District, or properties already receiving an abatement.

As a policy decision, the City could limit the abatement to a portion of taxes from only residential properties as opposed to commercial, or vice versa. Alternatively, the City could identify only parcels from a specific area of the city. While the statute does not require it, the City could also limit the abatement to properties it finds have the most benefit from the project.

I look forward to discussing this financing with the City.

