



DRAFT FOR DISTRIBUTION
Property Tax Abatement to Assist with Workforce Housing
City of Pelican Rapids
October 6, 2016

The City of Pelican Rapids has been asked to consider undertaking the process to grant a property tax abatement to assist with the private development of workforce housing units within the City of Pelican Rapids, estimated total construction cost of approximately \$3.6 million (the "Project") with a preliminary estimated taxable market value of \$2,700,000 for planning purposes. The proposed developer, D.W. Jones, Inc. (the "Developer") would also like Otter Tail County and the School District (ISD #548) to consider granting property tax abatement for the Project. This document describes the proposed plan for the use of tax abatement.

Northland has not reviewed the Developer's pro forma for the Project to comment on the need for the requested assistance. The Developer is seeking funding from the Minnesota Department of Employment and Economic Development (DEED) for this Project in the approximate amount of \$800,000. In order to secure funding from DEED the Developer needs to secure a local match of funds (2 for 1). For the local match the Developer is seeking the conveyance of land from the City to the Developer (at no cost) and property tax abatement assistance from the City, County, and School District to pay for certain project costs.

Funding Capacity

The funding capacity of tax abatement comes from four factors:

1. The property value subject to abatement.
2. The rate of property taxation.
3. The number of years the abatement is granted.
4. The political subdivision that agrees to grant abatement.

Property Value

The analysis in this plan assumes that the Project will result in approximately \$2,700,000 of additional Estimated Taxable Market Value (EMV) of property subject to taxation. As a residential apartment property, the EMV converts to \$33,750 in Tax Capacity Value. For the purposes of this plan, it is assumed full value is first available for taxes payable 2019 and remains constant in all future years.

Tax Rates

The projected abatement revenues are based on the local property tax rates for taxes payable 2016. The 2016 rates for applicable political subdivisions are as follows:

- City – 73.847%
- Otter Tail County – 41.382%
- School District (ISD #548) – 17.251%

Term of Abatement

The property value and tax rate assumptions in the previous sections combine to form the projections in Attachment 1. The projections show the estimated abatement revenue annually for the maximum 15-year period.

Annual Abatement

The projections in Attachment 1 show the amount of annual abatement revenue over each political subdivision over the maximum 15 year period. With only City participation, an abatement levy raises an estimated approximate \$25,000 per year. The annual revenue increases to an estimated approximate \$46,000 per year with the County and School District also granting abatements.

Use of Abatement

The revenue from tax abatement will be used to reimburse the Developer for site improvements and public improvements related to the expansion. The tax abatement revenue will be paid to the Developer annually for an estimated maximum term of 15 years. The present value of the annual abatement from the City, County, and School (assuming a 15 year term, and rate of 4%) is estimated at approximately \$520,000 (see Exhibit B). For example, the local taxing jurisdictions may agree to reimburse an estimated maximum \$520,000 of project costs on a pay-go basis at 4% interest payable over 15 years. The local jurisdictions may decide on a lesser amount of assistance and/or reduce the term of payment (i.e., less than 15 years).

Business Subsidy

Financial assistance for a housing project is not considered a business subsidy under Minnesota Statutes.

Abatement Findings

The abatement statutes contain relatively simple requirements for findings by the participating political subdivision. There are two basic findings:

- The political subdivision expects the benefits of the proposed abatement agreement to at least equal the costs to the political subdivision of the proposed abatement agreement.
 - Granting the abatement is in the public interest because it will: (i) increase or preserve tax base; (ii) provide employment opportunities in the political subdivision; (iii) provide or help acquire or
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construct public facilities; (iv) help redevelop or renew blighted areas; (v) help provide access to services for residents of the political subdivision; or (vi) finance or provide public infrastructure.

State Law does not contain requirements or criteria for making these findings. The approving abatement resolution as drafted, includes an explanation of the benefits and costs of the use of abatement.

Process

The City Council may approve a property tax abatement only after holding a public hearing on the abatement. Notice of the hearing must be published in a newspaper of general circulation at least once more than ten days but less than 30 days before the hearing. The notice must indicate that the City Council will consider granting a property tax abatement, identify the property or properties for which an abatement is under consideration, and the total estimated amount of the abatement. If applicable, the hearing notice should also address the business subsidy. The same process, including public hearing requirements apply to the County and School District for a property tax abatement. The Developer will need to request the property tax abatement assistance from these separate jurisdictions. The three taxing jurisdictions may enter into agreement separately or jointly with the Developer to provide the property tax abatement assistance.

Exhibit A

**Pelican Rapids
Property Tax Abatement (Inclusive of City, County, and School District)
Workforce Housing Project
Estimated Tax Abatement Levies Over Maximum Term**

Based on Pay 2016 Tax Rate = 132.480% 73.847% 41.382% 17.251%

| Abatement Year | Taxes Payable Year | New Taxable Market Value | New Tax Capacity | Base Tax Capacity | Captured Tax Capacity | Estimated Total Tax Abatement | City Abatement Related Share | County Abatement Related Share | School Abatement Related Share |
|-------------------|--------------------------|-----------------------------------|------------------------|-------------------------|-----------------------------|--|---------------------------------------|---|---|
| 1 | 2019 | 2,700,000 | 33,750 | (76) | 33,674 | 44,612 | 24,868 | 13,935 | 5,809 |
| 2 | 2020 | 2,713,500 | 33,919 | (76) | 33,843 | 44,835 | 24,992 | 14,005 | 5,838 |
| 3 | 2021 | 2,727,068 | 34,088 | (76) | 34,013 | 45,060 | 25,117 | 14,075 | 5,868 |
| 4 | 2022 | 2,740,703 | 34,259 | (76) | 34,183 | 45,286 | 25,243 | 14,146 | 5,897 |
| 5 | 2023 | 2,754,406 | 34,430 | (76) | 34,355 | 45,513 | 25,370 | 14,217 | 5,926 |
| 6 | 2024 | 2,768,178 | 34,602 | (76) | 34,527 | 45,741 | 25,497 | 14,288 | 5,956 |
| 7 | 2025 | 2,782,019 | 34,775 | (76) | 34,700 | 45,970 | 25,625 | 14,359 | 5,986 |
| 8 | 2026 | 2,795,929 | 34,949 | (76) | 34,874 | 46,200 | 25,753 | 14,431 | 6,016 |
| 9 | 2027 | 2,809,909 | 35,124 | (76) | 35,048 | 46,432 | 25,882 | 14,504 | 6,046 |
| 10 | 2028 | 2,823,959 | 35,299 | (76) | 35,224 | 46,665 | 26,012 | 14,576 | 6,076 |
| 11 | 2029 | 2,838,078 | 35,476 | (76) | 35,400 | 46,898 | 26,142 | 14,649 | 6,107 |
| 12 | 2030 | 2,852,269 | 35,653 | (76) | 35,578 | 47,133 | 26,273 | 14,723 | 6,138 |
| 13 | 2031 | 2,866,530 | 35,832 | (76) | 35,756 | 47,370 | 26,405 | 14,797 | 6,168 |
| 14 | 2032 | 2,880,863 | 36,011 | (76) | 35,935 | 47,607 | 26,537 | 14,871 | 6,199 |
| 15 | 2033 | 2,895,267 | 36,191 | (76) | 36,115 | 47,846 | 26,670 | 14,945 | 6,230 |
| Total | | | | | | 693,168 | 386,386 | 216,521 | 90,260 |

Exhibit B

Pelican Rapids

Property Tax Abatement (Inclusive of City, County, and School District)

Workforce Housing Project

Projected Tax Abatement Cash Flow

| Tax Abatement Year | Value Year | Taxes Payable Year | Taxable Market Value ^{1 4} | New Tax Capacity ¹ | Base Tax Capacity ³ | Captured Tax Capacity | Assumed Original Tax Rate ² | Estimated Tax Abatement | 100.00% | |
|--------------------|------------|--------------------|-------------------------------------|-------------------------------|--------------------------------|-----------------------|--|-------------------------|--|---|
| | | | | | | | | | Tax Abatement To Pay Developer Project and Financing Costs | Present Value of Abatement to Developer |
| 1 | 2018 | 2019 | 2,700,000 | 33,750 | (76) | 33,674 | 132.480% | 44,612 | 44,612 | 41,004 |
| 2 | 2019 | 2020 | 2,713,500 | 33,919 | (76) | 33,843 | 132.480% | 44,835 | 44,835 | 81,003 |
| 3 | 2020 | 2021 | 2,727,068 | 34,088 | (76) | 34,013 | 132.480% | 45,060 | 45,060 | 120,024 |
| 4 | 2021 | 2022 | 2,740,703 | 34,259 | (76) | 34,183 | 132.480% | 45,286 | 45,286 | 158,090 |
| 5 | 2022 | 2023 | 2,754,406 | 34,430 | (76) | 34,355 | 132.480% | 45,513 | 45,513 | 195,225 |
| 6 | 2023 | 2024 | 2,768,178 | 34,602 | (76) | 34,527 | 132.480% | 45,741 | 45,741 | 231,451 |
| 7 | 2024 | 2025 | 2,782,019 | 34,775 | (76) | 34,700 | 132.480% | 45,970 | 45,970 | 266,790 |
| 8 | 2025 | 2026 | 2,795,929 | 34,949 | (76) | 34,874 | 132.480% | 46,200 | 46,200 | 301,263 |
| 9 | 2026 | 2027 | 2,809,909 | 35,124 | (76) | 35,048 | 132.480% | 46,432 | 46,432 | 334,894 |
| 10 | 2027 | 2028 | 2,823,959 | 35,299 | (76) | 35,224 | 132.480% | 46,665 | 46,665 | 367,701 |
| 11 | 2028 | 2029 | 2,838,078 | 35,476 | (76) | 35,400 | 132.480% | 46,898 | 46,898 | 399,705 |
| 12 | 2029 | 2030 | 2,852,269 | 35,653 | (76) | 35,578 | 132.480% | 47,133 | 47,133 | 430,926 |
| 13 | 2030 | 2031 | 2,866,530 | 35,832 | (76) | 35,756 | 132.480% | 47,370 | 47,370 | 461,383 |
| 14 | 2031 | 2032 | 2,880,863 | 36,011 | (76) | 35,935 | 132.480% | 47,607 | 47,607 | 491,095 |
| 15 | 2032 | 2033 | 2,895,267 | 36,191 | (76) | 36,115 | 132.480% | 47,846 | 47,846 | 520,079 |
| TOTAL = | | | | | | | | 693,168 | 693,168 | |

Key Assumptions

- 1 Taxable market value annual growth assumption = 0.50%
- 2 Assume Pay 2016 Tax Year
- 3 Base Taxable Market Value = \$6,045 Pro rated value basis on 50% of Pay 2016 TMV of parcel number: 76000210004000
- 4 Assumption for New Taxable Market Value = \$2,700,000 based on 32 units at \$84,375 per unit
- 5 Present value is based on semi-annual payments.
- 6 Present value is calculated based on semi-annual payments, stated rate in the schedule above, and beginning on date of (1/1/2017)