

Memo

To: City Council for City of New Prague
Joshua Tetzlaff and Ken Ondich, City of New Prague

From: Mikaela Huot, Director, BTMA

Date: October 21, 2024

Subject: Tax Abatement for Proposed 54-Unit Apartment Project and Public Assistance Request to City of New Prague, LeSueur County and New Prague Area Schools

Executive Summary

The City of New Prague (the “City”) has received a request for assistance through tax abatement from Ebert Construction (the “developer”) for the proposed construction of a 54-unit multifamily apartment housing building. In spring of 2024, the developer requested the City apply for funding through the MHFA Workforce Housing Development Program in the amount of \$499,999 to assist with closing a financial gap that exists with development of the project site and construction of the building. The developer had also requested the City provide tax abatement assistance as a local funding match as required for the grant application. The request for tax abatement assistance could also include participation from the County and/or School District. The developer is solving for a financial gap of approximately \$1,200,000 over 15 years.

The request for tax abatement assistance includes City of New Prague, LeSueur County and New Prague Area School District participation for consideration of the granting of a tax abatement that would provide additional gap financing. Any grant funding received by MHFA would have reduced the requested total tax abatement assistance for each participating taxing entity to provide total assistance of up to \$1,200,000. We have since learned that the project was not successful in obtaining grant funding through the MHFA Workforce Housing Development Program and any financial assistance would be solely through tax abatement. Not receiving any grant funding resulted in the City’s tax abatement participation not being sufficient to support the financial gap and supporting the need for County and School District participation. To meet the \$1,200,000 gap, the developer’s request was to all three taxing entities (City, County and School District) for up to 100% of the increased taxes generated by the new project.

Based on additional discussions with the City Council, School Board and County Board, a revised structure of tax abatement has been proposed that would include tax abatement assistance at a blended 66% of the increased taxes above the existing pre-development base value. The School Board held a public hearing on Monday, September 23, 2024 and adopted a resolution approving the granting of a tax abatement. A tax abatement agreement would be considered at a later meeting and is scheduled to be considered on Monday, October 28. The County Board held a public hearing on Tuesday, October 15 to consider the granting of a tax abatement and consideration of a tax abatement agreement. The County Board denied participation in the tax abatement. The tax abatement structure for consideration of the granting of a tax abatement for the project is based on the City, County and School District share with the following scale:

- Years 1-5: 100% City and School District, 0% County
- Years 6-10: 66% City and School District, 0% County
- Years 11-15: 33% City and School District, 0% County
- Average blended percentage of participation is 66% over 15 years
- Total maximum abatement for City is \$316,965
- Total maximum abatement from all three entities of \$467,726

The developer estimated the total development cost to be approximately \$13,350,242 and the County Assessor's office has provided an initial taxable value estimate of the project upon construction completion of \$6,100,000. A summary of the projected revenues is included in the table on the following page. The purpose of this memo is to provide a summary of the preliminary projected tax abatement revenues generated by the City, County and School District. Any participation amounts would be subject to City Council approval following the holding of a public hearing scheduled for Monday, October 21. Additional details related to the tax abatement financing will be provided at the City Council public hearing and meeting.

Tax Abatement Analysis

The following assumptions were used to estimate the amount of projected tax abatement revenues:

- Total project area
 - Parcel ID: 23.501.0010
- Total estimated base value of \$93,300
 - Assumed existing land value would be calculated as 'base'
 - Non-abated net tax capacity of \$1,166
- Estimated total taxable value upon completion
 - \$6,100,000 (\$112,963 per unit)
 - \$76,250 total net tax capacity
 - Residential rental classification
- Maximum term of tax abatement
 - Up to 20 years with one or two participating taxing entities
 - Up to 15 years with all three taxing entities
- Projected term of tax abatement based on MHFA application
 - Estimated 15 years with blended 66% City, County and School District share pledged
- Construction commences in 2025 and completes in 2026
 - 100% assessed in January of 2027 for taxes payable in 2028
- Tax rates, class rates and future market values remain constant
 - Tax rates
 - City: 42.427%
 - County: 45.807%
 - School District: 20.180%
 - Class rate of 1.25% for residential rental
 - 0% annual market value inflator

Tax Abatement Revenue Estimates

Tax Abatement Revenue Estimates	
Participants	City, County and School
Total Estimated Taxable Value	\$6,100,000
Participation Level (blended)	66%
Estimated # of Years	15 years
City total abatement	\$316,965
County total abatement	\$0
School District total abatement	\$150,761
Estimated total projected abatement	\$467,726

Project Financing

There are generally two ways in which assistance can be provided for most projects, either upfront or on a pay-as-you-go basis. With upfront financing, the City would finance a portion of the applicant's initial project costs through the issuance of bonds or as an internal loan. Future tax abatements would be levied for collection by the City and used to pay debt service on the bonds or repayment of the internal loan. With pay-as-you-go financing, the developer would finance all project costs upfront and would be reimbursed over time for a portion of those costs as revenues are available.

Pay-as-you-go-financing is generally more acceptable than upfront financing for the City because it shifts the risk for repayment to the developer. If revenues are less than originally projected, the developer receives less and therefore bears the risk of not being reimbursed the full amount of their financing. However, in some cases pay as you go financing may not be financially feasible. With bonds, the City would still need to make debt service payments and would have to use other sources to fill any shortfall of revenues. With internal financing, the City reimburses the loan with future revenue collections and may risk not repaying itself in full if revenues are not sufficient. The City has historically financed projects as pay-as-you-go for reimbursement to the developer of eligible costs.

Definition of Tax Abatement

Any political subdivision, including statutory cities, home rule charter cities, towns, counties, and school districts, is authorized to abate property taxes on selected parcels or defer the payments of the taxes and abate the interest and penalty that otherwise would apply, if:

- The benefits gained equal or exceed the cost to the political subdivision or the abatement phases in a property tax increase, and
- The abatement is in the public interest because it will:
 - increases or preserves the tax base;
 - provides employment opportunities;
 - provides or helps acquire or construct public facilities;
 - helps redevelop or renew blighted areas;
 - helps provide access to services;
 - finances or provides for public infrastructure;
 - phase in a property tax increase on the parcel resulting from an increase of 50% or more in one year on the estimated market value of the parcel, other than an increase due to improvement of the parcel; or
 - stabilize the tax base through equalization of property tax revenues for a specified time period with respect to a taxpayer whose real and personal property is subject to valuation under Minnesota Rules, chapter 8100.

Cities, counties, and school districts as combined jurisdictions may grant an abatement for no longer than 15 years (8 year maximum if no initial duration is specified), or for no longer than 20 years if two or fewer jurisdictions participate.

No back-to-back abatements. Eight years must pass before a new abatement can be applied on the same properties.

In any given year, the total amount of property taxes abated by a political subdivision for all parcels may not exceed the greater of (1) 10% of the net tax capacity of the political subdivision for the taxes payable year to which the abatement applies, or (2) \$200,000.

Property in a tax increment financing district is not eligible for abatement; however, a tax abatement can be established following a tax increment district.

Thank you for the opportunity to be of assistance to the City of New Prague. Please contact me at 651-223-3036 or mikaela.huot@bakertilly.com with any questions or to discuss.

Projected Tax Abatement Report - Blended 66% Participation over 15 Years

**City of New Prague, Minnesota
 Proposed Tax Abatement Assistance
 New Prague Apartments with 54 Housing Units
 Draft Abatement Revenues: \$6.1M new taxable value**

Annual Period Ending	Total Market Value ⁽¹⁾	Total Net Tax Capacity ⁽²⁾	Less:		Times: Tax Capacity Rate ⁽⁴⁾	Estimated Annual Property Taxes ⁽⁵⁾		Maximum Tax Abatement City * 42.427%	Maximum Tax Abatement County * 45.807%	Maximum Tax Abatement School * 20.180%	Estimated Project Abatement
			Non-Abated Net Tax Capacity ⁽³⁾	Retained Captured Net Tax Capacity							
(1)	(2)	(3)	(4)	(5)	(6)	(7)		(8)	(9)	(10)	(11)
12/31/26	93,300	1,166	1,166	0	109.914%	0		0	0	0	0
12/31/27	6,100,000	76,250	1,166	75,084	109.914%	82,528	100%	31,856	0%	0 100%	15,152 47,008
12/31/28	6,100,000	76,250	1,166	75,084	109.914%	82,528	100%	31,856	0%	0 100%	15,152 47,008
12/31/29	6,100,000	76,250	1,166	75,084	109.914%	82,528	100%	31,856	0%	0 100%	15,152 47,008
12/31/30	6,100,000	76,250	1,166	75,084	109.914%	82,528	100%	31,856	0%	0 100%	15,152 47,008
12/31/31	6,100,000	76,250	1,166	75,084	109.914%	82,528	100%	31,856	0%	0 100%	15,152 47,008
12/31/32	6,100,000	76,250	1,166	75,084	109.914%	82,528	66%	21,025	0%	0 66%	10,000 31,025
12/31/33	6,100,000	76,250	1,166	75,084	109.914%	82,528	66%	21,025	0%	0 66%	10,000 31,025
12/31/34	6,100,000	76,250	1,166	75,084	109.914%	82,528	66%	21,025	0%	0 66%	10,000 31,025
12/31/35	6,100,000	76,250	1,166	75,084	109.914%	82,528	66%	21,025	0%	0 66%	10,000 31,025
12/31/36	6,100,000	76,250	1,166	75,084	109.914%	82,528	66%	21,025	0%	0 66%	10,000 31,025
12/31/37	6,100,000	76,250	1,166	75,084	109.914%	82,528	33%	10,512	0%	0 33%	5,000 15,513
12/31/38	6,100,000	76,250	1,166	75,084	109.914%	82,528	33%	10,512	0%	0 33%	5,000 15,513
12/31/39	6,100,000	76,250	1,166	75,084	109.914%	82,528	33%	10,512	0%	0 33%	5,000 15,513
12/31/40	6,100,000	76,250	1,166	75,084	109.914%	82,528	33%	10,512	0%	0 33%	5,000 15,513
12/31/41	6,100,000	76,250	1,166	75,084	109.914%	82,528	33%	10,512	0%	0 33%	5,000 15,513
						\$1,237,920	66%	\$316,965	0%	\$0 66%	\$150,761 \$467,726

⁽¹⁾ Total estimated market value based on preliminary value estimate following review by County Assessor **very preliminary and subject to further review. Includes 0% annual market value inflator**

⁽²⁾ Total net tax capacity based on rental class rate of 1.25%

⁽³⁾ Original net tax capacity based does include existing land value

⁽⁴⁾ Local tax capacity rate for the City, County and School District for taxes payable 2024

⁽⁵⁾ estimated property taxes for abatement calculations, not including School MvR rate