

# Memo – Draft for Review

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To: Joshua Tetzlaff, City of New Prague  
Ken Ondich, City of New Prague

From: Mikaela Huot, Director, BTMA

Date: March 22, 2024

Subject: Tax Abatement Revenue Projections for Proposed New 54-Unit Apartment Complex Project and Public Assistance

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## **Background**

The City of New Prague (the “City”) has been approached by Ebert Construction (the “developer”) regarding the proposed construction of a 54-unit multifamily apartment housing complex. The developer has estimated the total development cost to be approximately \$12.7 million and has requested the City apply for funding through the MHFA Workforce Housing Development Program to assist with closing a financial gap that is anticipated to exist with development of the project site and new project. The developer has also requested the City consider the establishment of a tax abatement area that would provide additional gap financing and be the required local funding match as required for the grant funding. The purpose of this memo is to provide a summary of the preliminary projected tax abatement revenues generated by the City.

## **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 \$93,000
  - Assumed existing land value would be calculated as ‘base’
  - Non-abated net tax capacity of \$1,163
- Estimated total taxable value upon completion
  - \$6,193,000 (\$112,963 per unit)
  - \$77,413 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
- Anticipated term of tax abatement based on initial review
  - Scenario 1: Up to 20 years with 100% City share pledged
  - Scenario 2: Up to 15 years with 100% City 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 share: 42.427%
  - Class rates
    - 1.25% for Residential Rental
  - 0% annual market value inflator

## **Tax Abatement Revenue Estimates**

<b>Tax Abatement Revenue Projections-City Share Only</b>		
	Scenario 1-20 Years	Scenario 2-15 Years
Total Estimated Taxable Value	\$6,193,000	\$6,193,000
Total estimated annual abatement City share (year 1)	\$32,351	\$32,351
Estimated total net revenues assuming 100% City participation	\$647,012	\$485,259

There is a statutory limit on the total amount of property taxes that may be abated by a political subdivision. The City's annual property tax abatement may not exceed (1) ten percent of the net tax capacity of the political subdivision for the taxes payable year to which the abatement applies, or (2) \$200,000, whichever is greater. We estimate the total City share of tax abatement from this project to be approximately \$32,351 (assuming 100%) for a taxable value of \$6,193,000. We recommend consideration for both existing abatements and potential future abatements as it relates to the City's maximum participation level on an ongoing basis. The City's 2023 adjusted taxable net tax capacity is \$4,492,252 allowing for the City's total tax abatement capacity of approximately \$449,225. It does not appear that the City has any outstanding abatements.

### **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.

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](mailto:mikaela.huot@bakertilly.com) with any questions or to discuss.

## **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.