Tax Abatement
Policy & Application

Dated:

City of Mankato
Economic Development

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I. POLICY PURPOSE

For the purposes of this document, the term "City" shall include the City of Mankato City Council and Economic Development Authority.

The purpose of this policy is to establish the City of Mankato's position relating to the use of Tax Abatement for private development above and beyond the requirements and limitations set forth by State Law. This policy shall be used as a guide in the processing and review of applications requesting Tax Abatement assistance. The fundamental purpose of providing Tax Abatement in the City of Mankato is to encourage desirable development or redevelopment that would not otherwise occur *but-for* the assistance provided through the Tax Abatement.

The City of Mankato is granted the power to utilize Tax Abatement by Minnesota Statutes, Sections 469.1812 to 469.1815 (the "Minnesota Tax Abatement Act"), as amended. It is the intent of the City to provide the minimum amount of Tax Abatement, as well as other incentives, at the shortest term required for the project to proceed. Preference is given to projects in which the total amount of Tax Abatement request includes participation from the county. The City reserves the right to approve or reject projects on a case by case basis, taking into consideration established policies, project criteria, and demand on City services in relation to the potential benefits from the project. Meeting policy criteria does not guarantee the award of Tax Abatement to the project. Approval or denial of one project is not intended to set precedent for approval or denial of another project.

II. DIFFERENCE BETWEEN TAX ABATEMENT AND TAX INCREMENT FINANCING

The primary difference between Tax Abatement and Tax Increment Financing (TIF) is the way in which the dollars are awarded to the project. When TIF is awarded to a project by the City, the other taxing jurisdictions (the school district and the county) are required to contribute their portion of the increased taxes to the project. Conversely, when Tax Abatement is requested, each political subdivision has the option of granting its portion of the increased taxes to the project. Subsequently, the dollars generated for the project with Tax Abatement are generally less than the dollars generated with TIF.

III. OBJECTIVES OF TAX ABATEMENT

As a matter of adopted policy, the City will consider using Tax Abatement to assist private development projects to achieve one or more of the following objectives:

A. To retain local jobs and/or increase the number and diversity of jobs that offer stable employment and/or attractive wages and benefits as defined in the City's business subsidy guidelines.

B. To enhance and diversify the City of Mankato's economic base.

C. To encourage additional unsubsidized private development in the area, either directly or indirectly through "spin off" development.

D. To facilitate the development process and to achieve development on sites which would not be developed without Tax Abatement assistance.

E. To remove blight and/or encourage redevelopment of commercial and industrial areas in the City that result in high quality redevelopment and private reinvestment.

F. To offset increased costs of redevelopment (i.e. contaminated site clean-up) over and above the costs normally incurred in development.

G. To create opportunities for affordable housing.

H. To contribute to the implementation of other public policies, as adopted by the City from time to time, such as the promotion of quality urban or architectural design, energy conservation, and decreasing capital and/or operating costs of local government.

I. To significantly increase the City of Mankato's tax base.

IV. POLICIES FOR THE USE OF TAX ABATEMENT

a. Tax Abatement assistance will generally be provided to the developer upon receipt of taxes by the City, otherwise referred to as the *pay-as-you-go* method.

b. Any developer receiving Tax Abatement assistance shall provide a minimum of ten percent (10%) owner cash equity investment in the project.

c. Tax Abatement will not be used in circumstances where land and/or property price is in excess of fair market value.

d. Developer shall be able to demonstrate a market demand for a proposed project.

e. Tax Abatement will not be utilized in cases where it would create an unfair and significant competitive financial advantage over other projects in the area.

f. Tax Abatement shall not be used for projects that would place extraordinary demands on City services or for projects that would generate significant environmental impacts.

g. The developer must provide adequate financial guarantees to ensure completion of the project, including, but not limited to: agreements, letters of credit, personal guaranties, etc.

h. The developer shall adequately demonstrate, to the City's sole satisfaction, an ability to complete the proposed project based on past development experience, general reputation, and credit history, among other factors, including the size and scope of the proposed project.

i. For the purpose of underwriting the proposal, the developer shall provide any requested market, financial, environmental, construction plans or other data requested by the City or its consultants.

j. Tax Abatement proposals shall not be used to support speculative office projects. Speculative projects are defined as those projects which have pre-leasing agreements or letters of intent for less than 50% of the available space.

   In addition, leasable office projects must meet the following guidelines:
   1. Evidence of the 50% occupancy must be reported to the Director of Community Development six months following an issued Certificate of Occupancy.
   2. Of the occupants certified at the six month period, 50% of the jobs must be considered "new" jobs to the City of Mankato, meaning jobs not located in the City at any time prior to occupying space in the project.
   3. Business retention jobs will be considered on a one-for-one match to job creation only in cases where job loss is specific and demonstrable in accordance with the Minnesota Business Subsidy Law. Evidence may include documentation that the company will have to close involuntarily, or the company has received an attractive offer to move to another state or community.

k. All Tax Abatement proposals shall optimize the private development potential of a site.

V. PROJECT QUALIFICATIONS

All Tax Abatement projects considered by the City of Mankato must meet ***each*** of the following requirements:

a. The project shall meet at least <u>one</u> of the objectives set forth in Section III of this document.

b. The use of Tax Abatement will be limited to:
   - Industrial development, expansion, redevelopment, or rehabilitation; or
   - Commercial redevelopment or rehabilitation; or
   - Research and development facilities; or
   - <u>Affordable housing; or</u>
   - Office facilities with a minimum new construction of 25,000 square feet; or

c. The developer shall demonstrate that the project is not financially feasible *but-for* the use of Tax Abatement.

d. The City will consider the use of Tax Abatement assistance for projects that may not meet the *but-for* and job creation criteria, but rather would be considered as a "location incentive". These projects may result in other public benefits such as a significant tax base increase, the creation of higher paying jobs (at least twice the minimum hourly rate stated in the City's business subsidy guidelines), and is likely to assist in the marketing and attraction of additional desired developments.

e. The project shall comply with all provisions set forth in the Minnesota Tax Abatement Law, Minnesota Statutes 469.1812 to 469.1815, as amended.

f. The project shall be consistent with the City's Land Use Plan and Zoning Ordinances.

g. The project shall be consistent with the City's economic development policies and priorities.

h. The project shall obtain all required zoning approvals prior to consideration of a Tax Abatement request by the Economic Development Authority (EDA).

~~h.~~ The City reserves the sole and absolute discretion to deny any request for Tax Abatement if the proposed project is determined to impose an unreasonable or excessive burden upon the City's public facilities, including but not limited to municipal water systems, sanitary sewer infrastructure, stormwater management systems, or transportation networks. The City may likewise deny a request if the project would necessitate a disproportionate or inequitable expenditure of public funds for the expansion, upgrade, or extension of municipal infrastructure in order to accommodate the proposed development.

i. The project shall serve at least two of the following public purposes:
- Job creation or job retention.
- Significantly increase the tax base.
- Enhancement or diversification of the City's economic base.
- Development or redevelopment that will spur additional private investment in the area.
- Fulfillment of defined City objectives, such as those identified in the City's Strategic Plan, among others.
- Removal of blight or the rehabilitation of a high profile or priority site.

j. Tax Abatement may be considered for projects that do not qualify for Tax Increment Financing (TIF), provided the project meets the applicable objectives, policies, and financial feasibility criteria outlined in this document. The City will not provide Tax Abatement assistance to projects that also receive TIF.

VI. SUBSIDY AGREEMENT & REPORTING REQUIREMENTS

All developers/businesses receiving Tax Abatement assistance from the City of Mankato shall be subject to the provisions and requirements set forth by the City's business subsidy guidelines as amended and Minnesota Statutes Sections 116J.993 to 116J.995 (the "Minnesota Business Subsidy Law"), if applicable.

VII. APPLICATION PROCESS FOR TAX ABATEMENT

A. CITY OF MANKATO

1. Applicant submits the completed application ~~along~~ together with ~~a~~ $4,400 application fee. Applications will not be reviewed or processed without payment of this fee. The application fee will be used toward the cost of services provided in the evaluation of financial feasibility and preparation of legal documents and agreements. Projects that demand professional services in excess of the application shall be required to reimburse the City for the additional expenses.

2. City staff reviews the application and completes the Application Review Worksheet. City staff forwards application to ~~Baker Tilly~~the City's consultant to complete but-for test analysis to evaluate financial need for Tax Abatement.

3. Results of the Worksheet and ~~Baker Tilly's~~consultant's analysis are submitted to the appropriate governing authorities (EDA) for recommendation to the City Council of approval or denial of the request.

4. If preliminary approval is granted, all necessary notices, resolutions and agreements are prepared by City staff and/or consultants.

5. Public hearing(s) on the proposed request are held.

6. The City Council grants final approval or denial of the request.

B. APPLICATIONS TO OTHER JURISDICTIONS

It is recommended that applicants intending to seek Tax Abatement from Blue Earth County and/or School District 77 make their applications to those bodies concurrent with their application to the City of Mankato. For more information on applying for Tax Abatement through Blue Earth County and/or School District 77, contact:

Blue Earth County
507-304-4150

School District 77
507-387-1868

10 Civic Center Plaza
Post Office Box 3368
Mankato, Minnesota 56002-3368

Phone: (507) 387-8600
Fax: (507) 388-7530
www.mankatomn.gov

City of Mankato
Financial Incentive Application
Tax Abatement Financing

VIII. APPLICATION FOR TAX ABATEMENT

Public Information Notice
Generally, correspondence to and from Staff is considered public information. Specific data related to a financial assistance request is deemed not public: Financial Information, Financial Statements, Net worth Calculations, Business Plans, Income and Expense projections, Balance Sheets, Customer Lists, Income Tax returns. When public financial assistance is received, only the following remains not public: Business Plans, Income and Expense projections, Customer lists, Income tax returns, design, market, and feasibility studies not paid for with public funds. The City does allow an applicant to submit sensitive financial information directly to the City's financial consultant, for additional security.

A. APPLICANT INFORMATION

Name of Business Entity's____

Address ____

Primary Contact ____

Address____

Phone_____________ Fax_______________ Email______________________

Brief description of the business entity, including history, principal product or service:

____
____
____
____

Brief description of the proposed project:

____
____
____
____

Attorney Name ____
Address____
Phone _______________Fax_______________Email______________________

Accountant Name____
Address____
Phone____________________Fax______________________Email____________________

Contractor Name ____
Address____
Phone____________________Fax______________________Email____________________

Engineer Name ____
Address____
Phone____________________Fax______________________Email____________________

Architect Name ____
Address____
Phone____________________Fax______________________Email____________________

B. PROJECT INFORMATION

1. The project will be:
 ____Industrial: ___New Construction ____Expansion ____Redevelopment / Rehab.
 ___Office/research facility
 ____Commercial Redevelopment/Rehabilitation
 ____Other____

2. In addition to the City of Mankato, applicant is requesting Tax Abatement from:
 _______Blue Earth County__________School District 77

3. The project will be: ___Owner Occupied ____Leased Space

4. Project Address ____
 Parcel Identification Number(s)__________________________________

5. Site Plan and Construction Plans Attached: ____Yes ____No

6. Total Amount of Tax Abatement Requested: $________________over____years.
 City Portion: Annual $___________Total $_______
 County Portion: Annual $___________Total $_______
 ISD 77 Portion: Annual $___________Total $_______

7. Current Real Estate Taxes on Project Site: $________________________
 Estimated Real Estate Taxes upon Completion: Phase I $________________
 Phase II $________________

8. Construction Start Date: ___________________________________
 Construction Completion Date: ___________________________________
 If Phased Project: ____________Year _____________% Completed
 ____________Year _____________% Completed

C. PUBLIC PURPOSE

It is the policy of the City of Mankato that the use of Tax Abatement should result in a benefit to the public. Please indicate how this project will serve a public purpose.

___Job Creation/Retention Number of existing jobs ________________________
Number of jobs created by project _______________
Average hourly wage of jobs created/retained _______

___New industrial development which will result in additional private investment in the area.
___Enhancement and/or diversification of the City of Mankato's economic base.
___The project contributes to the fulfillment of the City's Strategic Plan.
___Removal of blight.
___Rehabilitation of a high profile or priority site.
___Significantly increase the City's tax base.

D. SOURCES & USES

SOURCES	NAME	AMOUNT
Bank Loan	________________________	$________________
Other Private Funds	________________________	$________________
Owner Cash Equity	________________________	$________________
Fed Grant/Loan	________________________	$________________
State Grant/Loan	________________________	$________________
EDA Loan	________________________	$________________
Tax Abatement	________________________	$________________
ID Bonds	________________________	$________________
TOTAL		**$** ________________

USES	AMOUNT
Land Acquisition	$________________
Site Development	$________________
Construction	$________________
Machinery & Equipment	$________________
Architectural & Engineering Fees	$________________
Legal Fees	$________________
Interest During Construction	$________________
Debt Service Reserve	$________________
Contingencies	$________________
TOTAL	**$** ________________

E. ADDITIONAL DOCUMENTATION AND CHECKLIST

Applicants will also be required to provide the following documentation:

______A) Written business plan, including a description of the business, ownership/management, date established, products and services, and future plans

______B) Financial Statements for Past Two Years
- ______Profit & Loss Statement
- ______Balance Sheet

______C) Current Financial Statements
- ______Profit & Loss Statement to Date
- ______Balance Sheet to Date

______D) Two Year Financial Projections

______E) Personal Financial Statements & Current Tax Return of all Major Shareholders

______F) Letter of Commitment from Applicant Pledging to Complete During the Proposed Project Duration

______G) Letter of Commitment from the Other Sources of Financing, Stating Terms and Conditions of their Participation in the Project

______H) Application fee of $4,400.

______I) Construction Plans and Itemized Project Construction Statement

______J) Attach the following documentation as Exhibits
- ______Exhibit A – Corporation/Partnership Description
- ______Exhibit B – Description of Project
- ______Exhibit C – List of Shareholders/Partners
- ______Exhibit D – *But-For* Analysis
- ______Exhibit E – List of Prospective Lessees
- ______Exhibit F – Legal Description and PID Number(s)

The undersigned certifies that all information provided in this application is true and correct to the best of the undersigned's knowledge. The undersigned authorizes the City of Mankato to check credit references, verify financial and other information, and share this information with other political subdivisions as needed. The undersigned also agrees to provide any additional information as may be requested by the City after the filing of this application.

Applicant Name____Date______________

IX. SAMPLE *BUT-FOR* ANALYSIS

	WITH NO TAX ABATEMENT			WITH TAX ABATEMENT		
	SOURCES AND USES			SOURCES AND USES		
	SOURCES			SOURCES		
Mortgage			9,600,000			8,667,000
Equity			2,400,000			2,400,00
Tax Abatement			0			933,000
TOTAL SOURCES			12,000,000			12,000,000
	USES			USES		
Land			1,500,000			1,500,000
Site Work			300,000			300,000
Soil Correction			468,000			468,000
Demolition			100,000			100,000
Relocation			65,000			65,000
Subtotal Land Costs			2,433,000			2,433,000
Construction			6,750,000			6,750,000
Finish Manufacturing			250,000			250,000
Subtotal Construction Costs			7,000,000			7,000,000
Soft Costs			350,000			350,000
Taxes			35,000			35,000
Finance Fees			850,000			850,000
Project Manager			542,000			542,000
Developer Fee			540,000			540,000
Contingency			250,000			250,000
Subtotal Soft Costs			2,567,000			2,567,000
TOTAL USES			12,000,000			12,000,000
	Income Statement			Income Statement		
		Sq. Ft.	Per Sq. Ft.		Sq. Ft.	Per Sq. Ft.
Rent-Space 1	100,000	$8.00	800,000	100,000	$8.00	800,000
Rent-Space 2	25,000	$8.50	212,500	25,000	$8.50	212,500
Rent-Space 3	25,000	$9.00	225,000	25,000	$9.00	225,000
Other	0	$0.00	0	0	$0.00	0
			1,237,500			1,237,500
Mortgage	20 Term		1,051,646	20 Term		949,439
	9.00% Interest			9.00% Interest		
	9,600,000 Principal			8,667,000 Principal		
Net Income			185,854			288,061
Total Return on Equity			7.74%			12.00%

X. TAX ABATEMENT APPLICATION REVIEW WORKSHEET

TO BE COMPLETED BY CITY STAFF

1. **The project meets the criteria set forth in Section V of the Tax Abatement policy**.

_______a) Meets at least one of the objectives in Section III.
_______b) Demonstrates need for Tax Abatement with the *but-for* analysis.
_______c) Consistent with all City plans and ordinances.
_______d) Serves at least two public purposes as defined in Section V(g).

2. Ratio of Private to All Public Investment in Project: **Points:______**

$____________Private Investment		5:1	5
$____________Public Investment		4:1	4
____________**Ratio Private: Public Financing**		3:1	3
		2:1	2
	Less than	2:1	1

3. Job Creation in the City of Mankato: **Points:______**

_______Number of new jobs as a result of the project.		25+	5
_______Number of existing/retained jobs		20+	4
_______**Total**		15+	3
		10+	2
	Less than	10	1

4. Ratio of Public Investment to Job Creation: **Points:______**

$____________Public Investment	$8,000 or less	5
____________Number of *new* jobs created/retained	$10,000 or less	4
$____________of Public Investment per *new* job	$12,000 or less	3
	$15,000 or less	2
	Over $15,000	1

5. Wage Level of *new* jobs created/retained **Points:______**

Minimum hourly wage	Over $21/ hour	5
of jobs created/retained: ___________	$18-21 / hour	4
	$14-17 / hour	3
	$10-13 / hour	2
	Under $10/ hour	1

6. Project size: **Points: ______**

The project will result in the construction	40,000+	5
of square feet _____________	30,000+	4
	20,000+	3
	10,000+	2
	10,000 or less	1

7. Market Value/Tax Base Generation: **Points: ______**

The project will result in a per square foot estimated market value (land and building) of_________________

Industrial	Commercial	
$80/sf+	$110/sf+	5
$70/sf+	$100/sf+	4
$60/sf+	$90/sf+	3
$50/sf+	$80/sf+	2
$40/sf+	$70/sf+	1

8. Type of Project: **Points:______**

_______100% Owner Occupied	5
_______Mix Owner Occupied & Investment	4
_______Investment Property	3

9. Use: **Points:______**

_______Industrial or Business Park Project	5
_______Commercial Rehabilitation/Redevelopment	4

10. Likelihood that the project will result in unsubsidized, spin-off development. **Points:______**

______High	5
______Moderate	3
______Low	1

Sub - Total Points: ______ of a possible 45 points.

Total Points: _______	**Rating**	**Points**	**Max Eligibility**
Overall project desirability:	High	45-38 points	100%
	Moderate	37-29 points	75%
	Low	28-20 points	50%
	Not Eligible	19-0 points	0%