



Infrastructure Planning & Funding

Session 3: Funding for Development Projects

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Bonds for Development

Last session we discussed:

- Improvement / 429 Bonds
- Utility Revenue Bonds

Other options:

- Tax Increment Bonds
- Tax Abatement Bonds
- Use of Fund Balances or Cash



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General Obligation Bonds

- General Obligation (G.O.)
 - ✓ Backed by the full faith and credit of the city.
 - ✓ Lowest interest rates due to high security.
 - ✓ **Risk:** If the tax increment or abatement is insufficient, the city must use general tax levies to pay bondholders.
- Identification of TIF or abatement parcels does NOT impact the taxes paid by these parcels in any way



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Infrastructure Funding

Special Assessments (MN Statute 429)

- Charges imposed by a local government against benefiting real estate to fund eligible improvements

Tax Increment Financing (TIF)

- Captures additional property taxes or “tax increment” from new development to pay for qualified costs

Tax Abatements

- Redirects or “abate” property taxes to for economic development or certain public improvements



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What is Tax Increment Financing?

Tax Increment Financing (TIF):

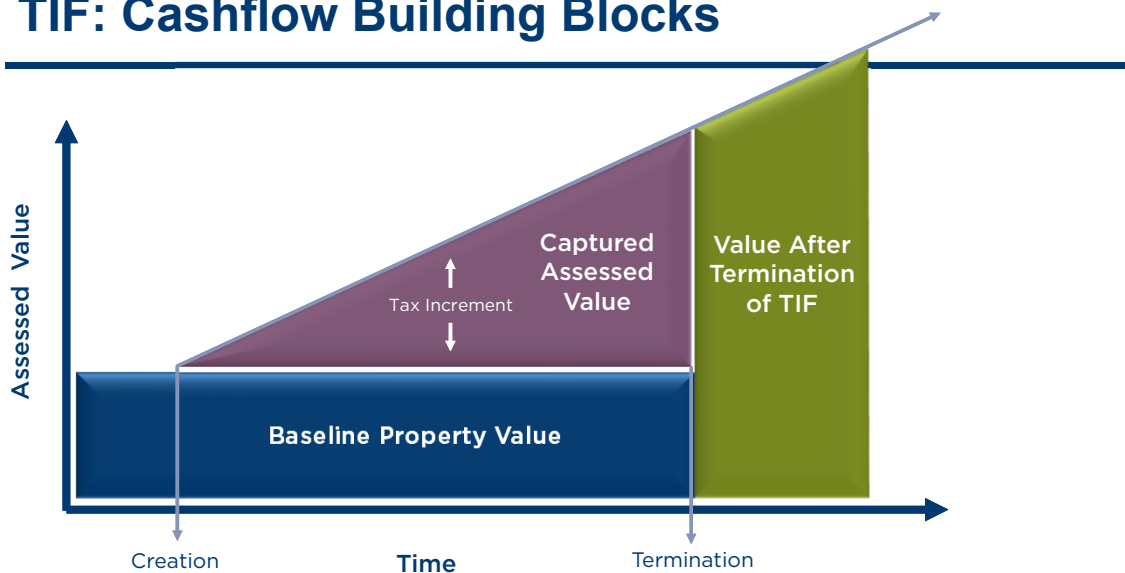
The ability to capture and use most of the increased local property tax revenues from **new development** within a **defined geographic area** for a defined period of time without approval of the other taxing jurisdictions.



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TIF: Cashflow Building Blocks



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TIF Bonds

- Increase in taxes from development (tax increment) may be used to fund public infrastructure
 - ✓ I.e., roads and utilities in industrial park
- Requires a minimum of 20% of the debt service be paid with tax increment
 - ✓ If less than 105% of the debt service is paid with tax increment, the balance is paid with a tax levy



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Tax Abatement

- Working Definition of Tax Abatement:
 - ✓ The ability to capture and use **all** or **a portion** of the **property tax revenues** within a **defined geographic area** for a **defined period of time**, typically to assist with housing or commercial development.
 - Can abate existing taxes
- Allows each major taxing jurisdiction to choose to contribute its shares of the taxes & limit abatement in any manner it deems appropriate.



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Tax Abatement Bonds

- Must identify parcels/development with enough tax from abating entities to show coverage for 105% of the average annual bond principal payments
 - ✓ Interest can be paid with abatement or ad valorem taxes
- If county / school participate, the City issues the bonds, and others pledge payment to the City
- Taxes are not actually “abated”, rather they are just showing adequate coverage and authority to issue the bonds



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Forms of Financing

PAYGO

- Most common
- Least expensive
- Developer may or may not monetize for capital stack

GO Bond

- Least common
- Only leveraged when there's a major issue to address



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Use of Fund Balances

Local governments may use reserves to support certain costs

- General, Capital & Closed Debt Service Funds may be used for any purpose
- Excess funds may be transferred or loaned



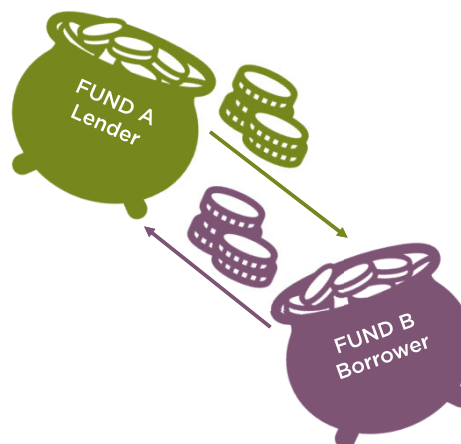
To help determine if you have “extra money”

- Set up a financial management plan
- Establish fund balance requirements by fund
- Determine if balances regularly exceed the requirement
- Develop a policy for use of any “excess” balances

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Internal Loans & Transfers

- Interfund or Internal Loans
 - ✓ One fund lends to another
 - ✓ Allow organization to retain funds from financing activity vs. pay bondholders
 - ✓ Both borrowing & lending funds should be treated fairly
 - ✓ Can create fund balance & cash flow issues for lending fund
- May be able to “revolve” funds



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What About Grants?

Federal

- Congressionally Directed Spending
- HUD
- USDA
- US DOT
- US EDA

State

- DEED
- DNR
- IRRRB
- Legislature
- Metropolitan Council
- Minnesota Housing
- Mn/DOT
- PFA

Other

- County Governments
- Individual Donations
- Private Foundations
- Watershed Districts



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Grants: A Few Best Practices...



Plan months in advance of a grant applications



Invest in grant plans, proposals & applications



Refine grant accounting & internal controls



Review any subrecipient & contracting rules



Understand any auditing & reporting requirements



Understand any other grant covenants & terms



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Final Thoughts...

- Turns out there's no free lunch
 - ✓ Many options for local governments
 - ✓ Diverse funding sources always helpful
 - ✓ Don't leave money on the table
- Be prepared to think creatively
 - ✓ Consider fairness
 - ✓ Think about who benefits from service



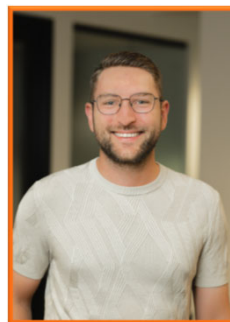
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Let's Talk!



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