

## Financing Options for Minnesota School Districts

### Tax Abatement Bonding – MS469.1812 – 469.1816

#### Abatement Bonding Authority

A political subdivision may issue general obligation bonds or other obligations to provide an amount equal to the sum of the abatements granted for a property under section 469.1813. The maximum principal amount of tax abatement bonds may not exceed the estimated sum of the abatements for the property for the years authorized. The bonds may be general obligations of the political subdivision if the governing body of the political subdivision elects to pledge the full faith and credit of the subdivision in the resolution issuing the bonds. General obligation abatement bonds do not count against the school district's levy limitation or debt limit.

The governing body of a political subdivision may grant a current or prospective abatement of the taxes imposed by the political subdivision on a parcel of property, which may include personal property and machinery, or defer the payments of the taxes and abate the interest and penalty that otherwise would apply, if it expects the benefits to the political subdivision of the proposed abatement agreement to at least equal the costs to the political subdivision of the proposed agreement or intends the abatement to phase in a property tax increase and it finds that doing so is in the public interest because it will:

- increase or preserve tax base;
- provide employment opportunities in the political subdivision;
- provide or help acquire or construct public facilities;
- help redevelop or renew blighted areas;
- help provide access to services for residents of the political subdivision;
- finance or provide public infrastructure;
- phase in a property tax increase on the parcel resulting from an increase of 50 percent or more in one year on the estimated market value of the parcel, other than increase attributable to improvement of the parcel; or
- stabilize the tax base through equalization of property tax revenues for a specified period of time with respect to a taxpayer whose real and personal property is subject to valuation under Minnesota Rules, chapter 8100.

School districts, cities and counties as combined jurisdictions may grant an abatement for no longer than 15 years (8 year maximum if no initial duration is specified). The term may be extended to 20 years if two or fewer jurisdictions participate, if one of the other jurisdictions provides written notice denying participation or 90 days pass from the initial notification to the other jurisdictions without written response. The annual maximum total of property taxes abated for the political subdivision may not exceed the greater of \$200,000 or 10% of the net tax capacity of the political subdivision for the taxes payable in the year to which the abatement applies. Issuance of abatement bonds does not reduce the funding provided from property taxes to the school district, city or county.

If two or more political subdivisions decide to grant abatements for the same property, the municipality in which the property is located may issue bonds to provide an amount equal to the sum of the abatements for each of the jurisdictions that agrees. The governing body of each of the other jurisdictions must guarantee and pledge to pay annually to the municipality the amount of the abatement. This pledge and guarantee is a binding obligation of the political subdivision and must be included in the abatement resolution.

#### Referendum Not Required

Tax abatement bonds are exempt from the referendum requirement in Chapter 475 as long as the project is eligible and property tax abatement bond proceeds are not used for the purposes prohibited under MN Statutes Section 469.176, subdivision 4g. This section disallows projects used primarily and regularly for conducting the business of a municipality, county, school district or any other local unit of government or the state and federal government. Since different interpretations are possible in terms of what constitutes conducting the “business of a school district” or other jurisdiction, it is important to engage bond counsel early in the planning process when considering a potential abatement project.

#### Use of Proceeds

The proceeds of bonds issued under this section may be used to:

- pay for public improvements that benefit the property;
- acquire and convey land or other property;
- reimburse the property owner for the cost of the improvements made to the property; and
- pay the costs of issuance of the bonds.

#### Permitted Projects

The project categories bulleted below are examples of the nature and type of projects that may be eligible for funding through abatement bonding. In many cases, the determination from bond counsel will be made based on the extent to which the proposed project is separate and apart, or otherwise condomuniumized from buildings used regularly and primarily for the business use of the school district, and the extent to which the proposed project is available for general public use. Clients are advised to seek advice from bond counsel to determine project eligibility subject to applicable statutes, including Section 469.176, subdivision 4g:

- parking lots and structures;
- outdoor infrastructure such as lighting and sidewalks;
- ice arenas;
- playgrounds, sport fields, courts or other recreational facilities or capital equipment;
- swimming pools; and
- land acquisition for certain purposes.

## Requirements and Process

The following general requirements and procedural steps must be adhered to in order to issue abatement bonds:

- determine eligibility and estimated cost of the proposed improvement;
- determine boundaries of tax abatement area and available revenue to service debt;
  - property currently within a tax increment financing district may not be included within a tax abatement area
- send notices to City and County requesting participation if desired and/or to extend the abatement term to maximum of 20 years;
- complete Review and Comment as required;
- publish public hearing notice 10 – 30 days prior to public hearing;
  - notice must be published in newspaper of general circulation
  - notice must indicate the school district will consider tax abatement, identify property or properties within proposed abatement area and total estimated amount of abatement
- hold public hearing;
- school board adoption of legal resolution authorizing abatement including
  - terms of abatement;
  - nature and extent of public benefits the school district expects to occur from the abatement; and
- add to the annual tax levy for each year of the abatement the amount necessary for principal and interest on the abatement bonds, separated, if appropriate, as an economic development abatement (principal) and debt service levy (interest).

Although school districts are expressly authorized to issue tax abatement bonds, historically most projects have been initiated by cities or counties. For that reason, and given the fact that some of the requirements for issuance are different than more commonly used financing options, it is recommended that you contact a Springsted Client Representative and bond counsel as soon as possible in the planning process. As your independent financial advisor, Springsted will assist your district through this process from beginning to end.

Please contact a Springsted Client Representative:

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