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TOOL I:

# **ABATEMENT BONDS**

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Tax abatements were first authorized by the State in 1997 and intended to be an economic development tool used as an alternative to Tax Increment Financing (TIF). The mechanics of abatements are rather complex, and we won't cover all of the details here. In general, a local government can agree to "abate" a portion of the property taxes on specified property parcels. The owners of those parcels would still pay taxes at the same rates as all other property. The portion of the taxes that are abated, however, can be used for purposes specified in the abatement resolution and permitted in statutes. The local government is then allowed to add the amount of abated taxes to their tax levies for the year.

Since the original law was adopted, the statutes have included language allowing local governments to issue bonds for which payments would be financed from tax abatements, but the purposes for which school districts could issue abatement bonds was unclear. The Minnesota Department of Education has interpreted the statute to allow school districts to issue abatement bonds without an election only for the construction or renovation of parking lots and parking structures.

In any year, the principal amount of the bonds must not exceed the sum of the abatements granted, and the total amount of property taxes abated may not exceed the greater of 10 percent of the net tax capacity of the district or \$200,000.

## Statutory Authority – Minnesota Statutes Section 469.1812 – 469.1815

### Approval Process

- » The District – in consultation with its counsel, municipal advisor and MDE - must first determine the proposed project is eligible to be funded through abatement bonds
- » If the estimated cost of the project(s) exceeds \$2 million, the district must comply with the Review and Comment statutes
- » The Board must hold a public hearing on the proposed abatement, with at least 10 days published notice
- » The Board must adopt an abatement resolution including very specific findings - including findings related to the public benefits of the abatement

### Type of Debt Issued

- » General obligation bonds
- » Can be included in the state Credit Enhancement program

### Permitted Uses of Funds

May only be used for construction or renovation of parking lots and parking structures.

### Repayment of Debt

Repayment must coincide with the term of the abatement. Abatements are limited to 15 years if the city, county and school district all grant an abatement. If the district requests in writing the city and county grant an abatement, and one or both of the parties decline in writing to grant the abatement, the term may be extended to 20 years. The abated taxes, which are equal to the next year's payments on the bonds, continue to be paid by the county to the school district each year, and the school district is required to increase its debt service tax levy each year by the amount of the abated taxes.

### Advantages

- » General obligation bonds result in lower interest rates than most other forms of borrowing
- » No election required
- » Debt service levies on the certificates are eligible for the school building bond agricultural credit

### Disadvantages

- » Permitted uses of funds are very limited (only construction or renovation of parking lots and parking structures)
- » Debt service payments do not qualify for debt equalization aid
- » Procedures for approval are more complex and time-consuming than other forms of borrowing