COUNCIL CONFERENCE MEETING

December 20, 2021

5:30 PM

Fridley City Hall, 7071 University Avenue N.E.

AGENDA

1. Park System Improvement Plan Tax Abatement Bonds Presentation

The City of Fridley will not discriminate against or harass anyone in the admission or access to, or treatment, or employment in its services, program, or activities because of race, color, creed, religion, national origin, sex, disability, age, marital status, sexual orientation or status with regard to public assistance. Upon request, accommodation will be provided to allow individuals with disabilities to participate in any of Fridley's services, programs, and activities. Hearing impaired persons who need any interpreter or other persons with disabilities who require auxiliary aids should contact Roberta Collins at (763) 572-3500. (TTD/763-572-3534).

AGENDA REPORT

Meeting Date: December 20, 2021 **Meeting Type:** City Council Conference Meeting

Submitted By: Walter T. Wysopal, City Manager

Title

Park System Improvement Plan Tax Abatement Bonds Presentation

Background

Attached is an information sheet and presentation from Ehlers Public Finance Advisors related to the use of tax abatement bonds to help support the cost of the Park System Improvement Plan for the City of Fridley.

Financial Impact

The City plans to invest about $30 million in the park system over a 10-year period. To support the cost of these improvements, the City will borrow about $20 million by issuing tax abatement bonds. The remaining $10 will be funded through existing and future City resources.

Discussion

Discussion on the use of tax abatement bonds and the process involved in issuing tax abatement bonds.

Focus on Fridley Strategic Alignment

X Vibrant Neighborhoods & Places
X Community Identity & Relationship Building
___ Financial Stability & Commercial Prosperity
___ Public Safety & Environmental Stewardship
___ Organizational Excellence

Attachments and Other Resources

- Frequently Asked Questions on Tax Abatement Bonds
- Ehlers' Tax Abatement Bonds Presentation

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Frequently Asked Questions
Tax Abatement Bonds

To help support the cost of the Park System Improvement Plan (Plan), the City Council (Council) of the City of Fridley (City) will consider the use of the tax abatement bonds. The following Frequently Asked Questions (FAQ) address some common questions about the Plan and tax abatement bonds.

1. What's in the Plan?

   The City plans to invest about $30 million in the park system over a 10-year period. To support the cost of these improvements, the City will borrow about $20 million by issuing tax abatement bonds. The remaining $10 million will be funded through existing and future City resources.

2. What are tax abatements and tax abatement bonds?

   State law allows the City to allocate or "abate" property taxes from certain properties for specific projects. Despite the name, a tax abatement does not reduce the amount of property tax paid by a property, rather it redirects them for a specific purpose, in this case, the bonds that finance the park system improvements. The tax abatements may last up to 20 years.

   The City may use these tax abatement revenues to borrow money. By issuing tax abatement bonds, the City would borrow about $20 million for park system improvements and pay it back over several years using the tax abatement revenues.

3. How does the tax abatement impact property taxpayers?

   Any properties included in the tax abatement area will continue to pay their property taxes just like other properties within the City. The amount paid by the properties in the abatement area will be remitted to the City and used to pay back the tax abatement bonds.

   The Council will also increase the property tax levy to be consistent with the amount of the abatements plus interest on the bonds. As a result, all property taxpayers will pay for the park system improvement if they are in the tax abatement area or not.

4. How did the City select the parcels included in the abatement area?

   The City selected parcels based on the 2040 Comprehensive Plan and the rules for tax abatements and other property tax tools (e.g., tax increment financing).

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As a result, most of the parcels identified for tax abatement are single-family homes located throughout the City.

5. Why use tax abatements to support Plan improvements?

   State law limits the opportunity for the City to borrow money for park improvements to a referendum or tax abatements. Generally, tax abatements allow the City to move forward more quickly than a referendum. Since the City invested almost three years of community engagement in the Plan, tax abatement would allow the community to move forward without further delay.

   Additionally, the bonds issued using tax abatements will have the same cost and structure as those issued through a referendum. Tax abatement allows the City to be more responsive to the needs of the park system without any added delay or cost.

6. Are there any disadvantages to using tax abatements?

   The use of tax abatements would forego any referendum. The community would not be able to weigh-in directly on the question of bond issuance through a vote. Additionally, tax abatements are a more complicated form of financing and may require additional education for the public.

   Properties in the abatement cannot be included in a tax increment financing district until the bonds are paid. Any redevelopment on the abatement parcels would not be able to receive tax increment assistance for the duration of the bond. This is the primary reason for including residential properties for most of the abatement parcels.

7. What happens next?

   To issue tax abatement bonds, the Council must hold a public hearing and accept comments regarding the proposed tax abatement for each bond. After the public hearing, the Council may then decide to issue the tax abatement bonds and move forward with the park improvements. The first public hearing will likely not be held until late 2022 or early 2023.

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Fridley, MN

General Obligation Tax Abatement Bonds
December 20, 2021

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Project Assumptions

General Obligation Abatement Bonds

- $20,470,000 to finance $20,000,000 for the Park System Improvement Plan
  - ✓ Utilizing Tax Abatement under M.S. 469.1812 to 469.1815
  - ✓ Estimated Bonding size assumes 3 phases
    - $6,860,000 in 2023
    - $6,805,000 in 2026
    - $6,805,000 in 2029
- 15-year term of repayment
  - ✓ Estimates assume level annual debt service payments
  - ✓ Options for structuring payments at time of each bond issue
- Consistent with the Public Finance Advisory Committee recommendations

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General Obligation Bonds – Tax Abatement

Tax abatement authority allows MN Cities to apply General Obligation pledge toward financing public improvements

- Full faith and credit pledge
- Pledge helps secure lowest costs financing ("Aa2" rating)
- Requires Public Hearing and established by City Council resolution
  - ✓ Identify source and term of abatement (15 years)
  - ✓ M.S. 469.1813, findings – in the public interest because:
    - Provide or help acquire or construct public facilities
    - Provide access to services for residents
- Does not require a referendum or allow for reverse referendum

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General Obligation Bonds – Tax Abatement

Tax abatement pledge toward financing public improvements

- Debt service, principal and interest for new bonds levied in budget
- Tax rate calculated including the abatement bond debt service levy
- All properties pay taxes as normal
  - ✓ Abatement properties pay same taxes as if not being abated
  - ✓ "Abatement" is the legal authorization for the bonds
    - – Abatement properties legally pledged to pay principal portion of debt service
    - – Interest on debt service paid by property tax levy
- The City pledges and directs its share of the property taxes collected from identified parcels throughout the City to pay principal on the bonds

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Tax Abatement Limit

City of Fridley Tax Abatement Limit

- City may annually abate up to 10% of Net Tax Capacity

2021 Net Tax Capacity	$	42,460,960
Limit (10%)	$	4,246,096
Less: Existing abatements	($	0)
Available Capacity =	$	4,246,096
Project Need	($	3,038,630)
Remaining for Future =	$	1,207,466

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Tax Abatement Bond Project Examples

- Parks
  - ✓ Lindstrom - $355,000
  - ✓ Chisago City - $1,550,000
- Community Centers/YMCA Facilities
  - ✓ Forest Lake - $9,170,000
  - ✓ Andover - $15,770,000
  - ✓ Plymouth - $38,965,000 (Plymouth Creek Center)
- Ice Arena Improvements
  - ✓ Rogers - $2,390,000
  - ✓ Coon Rapids - $10,260,000
- Swimming Pool Improvements
  - ✓ Belle Plaine - $3,210,000
  - ✓ Cloquet - $1,095,000

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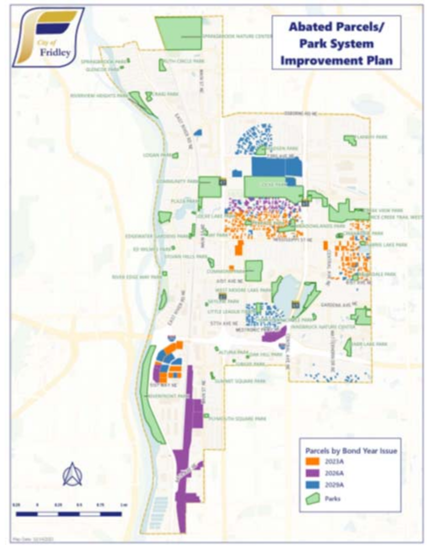
Tax Abatement Area

- Properties neighboring City parks included
- Abatement Property Options
  - ✓ Residential parcels only
  - ✓ Commercial parcels only
  - ✓ Combination
- Final number reduced to match the Bonds debt service for each phase
- Does not interfere or overlap with existing or potential TIF Districts



Bond – Assumptions

Ehlers' estimates the following bond assumptions

- 15-year term
- 3 issues, every 3rd year
- Interest estimates based on current market rates plus an interest rate cushion
  - ✓ 2023
    - – 100 basis point cushion
    - – Estimated True Interest Cost (TIC) 2.59%
  - ✓ 2026
    - – 150 basis point cushion
    - – Estimated TIC of 3.09%
  - ✓ 2029
    - – 175 basis point cushion
    - – Estimated TIC 3.34%

Tax Impacts

2023 $6,860,000 Bond Tax Levy - Annual Impact		
Type of Property	15 year Residential Homestead	15 year Commercial Industrial
Estimated Market Value	$247,200	$1,000,000
Annual City Tax Impact:	$43.98	$363.31
Monthly Tax Impact:	$3.67	$30.28
Avaerage Levy	$	585,977

2029 $6,805,000 Bond Tax Levy - Annual Impact		
Type of Property	15 year Residential Homestead	15 year Commercial Industrial
Estimated Market Value	$247,200	$1,000,000
Annual City Tax Impact:	$45.45	$375.45
Monthly Tax Impact:	$3.79	$31.29
Avaerage Levy	$	616,234

2026 $6,805,000 Bond Tax Levy - Annual Impact		
Type of Property	15 year Residential Homestead	15 year Commercial Industrial
Estimated Market Value	$247,200	$1,000,000
Annual City Tax Impact:	$44.58	$368.31
Monthly Tax Impact:	$3.72	$30.69
Average Levy	$	604,518

Total All Bonds Tax Levy - Annual Impact		
Type of Property	15 year Residential Homestead	15 year Commercial Industrial
Estimated Market Value	$247,200	$1,000,000
Annual City Tax Impact:	$134.01	$1,107.07
Monthly Tax Impact:	$11.17	$92.26
Average Levy	$	1,806,729

* The figures in the table are based on taxes for new bonded debt only, and do not include tax levies for other purposes. Tax increases shown above are gross increases, not including the impact of the state Property Tax Refund ("Circuit Breaker") program. Many owners of homestead property will qualify for a refund, based on their income and total property taxes. This will decrease the net tax effect of the bond issue for many property owners.

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General Timeline

Year and Month		Actions (Tentative)
2021	December	Adopt the 2022 Budget
2022	February	Accept the Parks System Improvement Plan
	March	Begin Phase 1 Design and Engineering
	April	Adopt Reimbursement Resolution (if needed)
	December	Adopt the 2023 Budget

Year and Month		Actions (Tentative)
2023	March	Hold Tax Abatement Public Hearing
	April	Issue General Obligation Tax Abatement Bonds
	May	Receive Bids (if needed), Award Contracts

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THANK YOU! QUESTIONS?

12/15/2021 11

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