

**CITY OF HERMANTOWN
HERMANTOWN ECONOMIC DEVELOPMENT AUTHORITY**

Thursday, March 26, 2026 at 5:30 PM Central
Council Chambers, City Hall – Hermantown Governmental Services Building

Mayor Wayne Boucher:	Present
Councilor John Geissler:	Present
Councilor Andy Hjelle:	Present
Councilor Joe Peterson:	Present
Councilor Brian LeBlanc:	Absent
Karen Pionk:	Absent
Rob Unzen:	Present

CITY STAFF: Chad Ronchetti, Executive Director; Mia Thibodeau, HEDA Attorney; Joe Wicklund Assistant City Administrator

1. **ROLL CALL**

2. **MINUTES**

2.1 Approve February 19th, 2026 HEDA Minutes

Motion to approve minutes as presented. This motion, made by, Hjelle and seconded by Unzen, Carried.

Mayor Wayne Boucher:	Yea
Councilor John Geissler:	Yea
Councilor Andy Hjelle:	Yea
Councilor Joe Peterson:	Yea
Councilor Brian LeBlanc:	Absent
Karen Pionk:	Absent
Rob Unzen:	Yea

Yea: 5, Nay: 0, Absent: 2

3. **WORK SESSION**

3.1 Tax Abatement 101 for EDAs

Executive Director Ronchetti gave the attached presentation on tax abatement fundamentals for economic development authorities and how it relates to development.

4. **RECESS**

Motion to recess at 6:29 p.m. This motion, made by Geissler and seconded by Peterson, Carried.

Mayor Wayne Boucher:	Yea
Councilor John Geissler:	Yea
Councilor Andy Hjelle:	Yea
Councilor Joe Peterson:	Yea
Councilor Brian LeBlanc:	Absent
Karen Pionk:	Absent
Rob Unzen:	Yea

Yea: 5, Nay: 0, Absent: 2

Recorded by:



Chad Ronchetti, Executive Director

Public Financing Tools for Development:

Tax Abatement The EDA Fundamentals



March 26th, 2026

Definitions

Tax Abatement:

A time-limited public financing tool where property taxes on an individual parcel are levied and paid, but a portion of the taxes are dedicated by resolution to reimburse eligible project costs or fund public infrastructure — either by reimbursing the developer (or bondholder representative) or retained to pay those costs.

Tax Increment Financing:

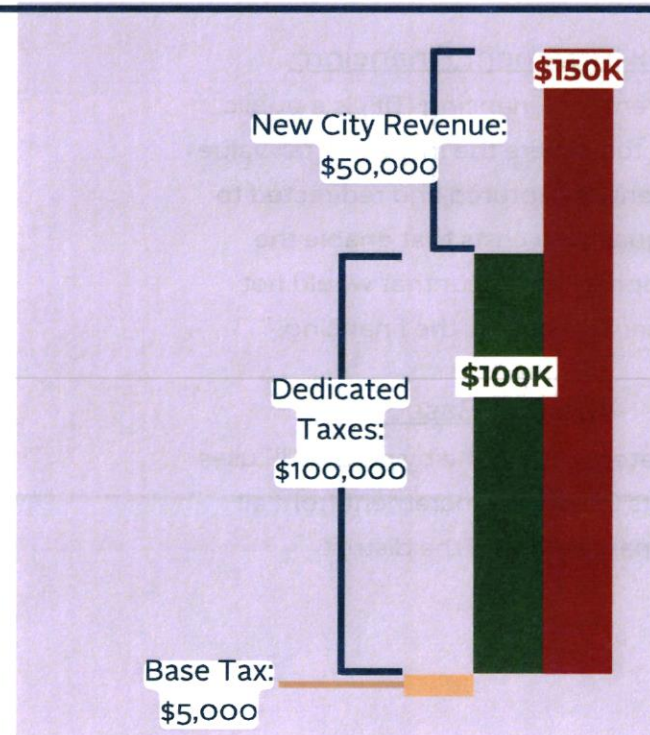
Tax Increment Financing (TIF) is a public financing tool where property taxes on the increased value created by a development (increment) are captured to pay qualifying costs that enable the development to occur that would not otherwise but-for the financing.

Tax Abatement: Mechanics - Hermantown Policy

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A time-limited public financing tool where property taxes on an individual parcel are levied and paid, but a portion of the taxes are dedicated by resolution to reimburse eligible project costs or fund public infrastructure — either by reimbursing the developer (or bondholder representative) or retained to pay those costs.

Example Abatement Annual City Property Tax Collections Following Project Completion

Pre-Project Taxes Abated Portion Property Tax on New Project Value



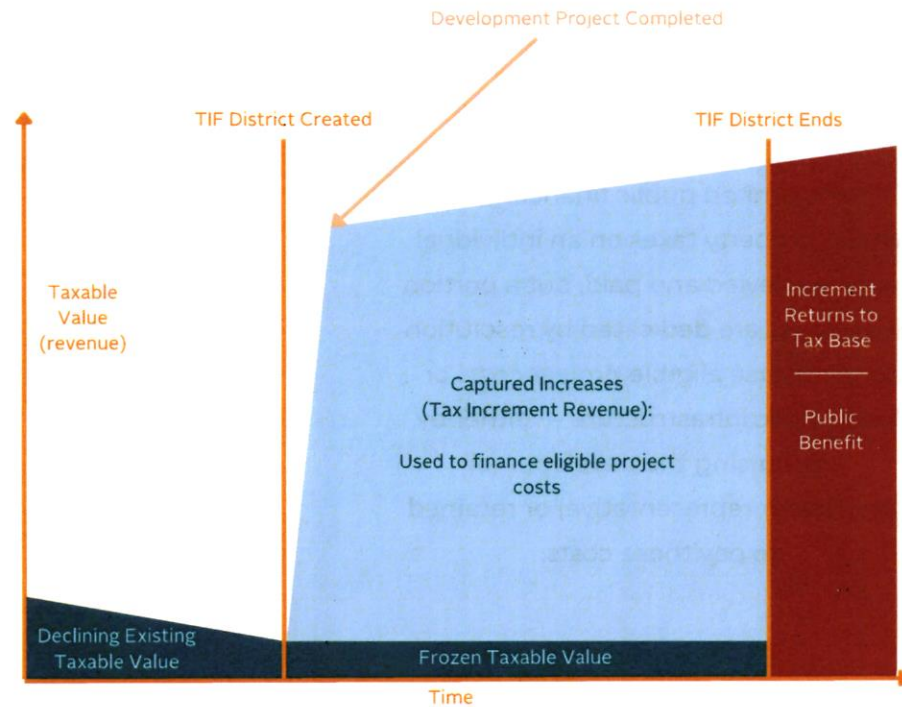
TIF Concept - For Comparison

Tax Increment Financing:

Tax Increment Financing (TIF) is a public financing tool where the increased tax value (increment) is captured and redirected to pay qualifying costs that enable the development to occur that would not otherwise but-for the financing.

District Based:

While abatement is done by parcel, TIF uses districts to capture increment from all parcels within the district.



Tax Abatement: Who, What, Why, When, and How

- Who:

- Political Subdivisions - (cities, counties, school districts, and towns)

- What:

- The State Legislature provides the authority - (Minn. Stat. §§ 469.1812-469.1815)
- Redirect some or all the subdivision's share of parcel taxes (done on a parcel by parcel basis)

- Why:

- Advance a public purpose that promotes local economic growth
- In exchange for the abatement, the landowner agrees to develop the land in a way that will promote local economic development

- When:

- The benefits of the abatement must be equal to or exceed its costs
- The abatement must serve the public good in one or more of these ways:
 - increasing or preserving the tax base;
 - redeveloping blighted areas;
 - providing employment opportunities;
 - construct public facilities; or
 - access to services.

- How:

- redirect after taxes are paid
 - pay the parcel owner/developer
 - use the money directly to improve public infrastructure

No matter how abatement is implemented, taxes are still levied and paid as usual; the abatement resolution directs the use of the abated share (paid out or retained for eligible costs)

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Tax Abatement: Process

- Terms

- A public hearing must be held, with notice "published in a newspaper of general circulation in the political subdivision at least once more than ten days but less than 30 days before the hearing".
- A political subdivision proposing to abate taxes may request that the other political subdivisions grant an abatement.
 - Though schools are allowed to abate, typically they do not participate.
- Counties and Cities that choose to grant an abatement must do so by resolution that specifies the terms.

- Duration

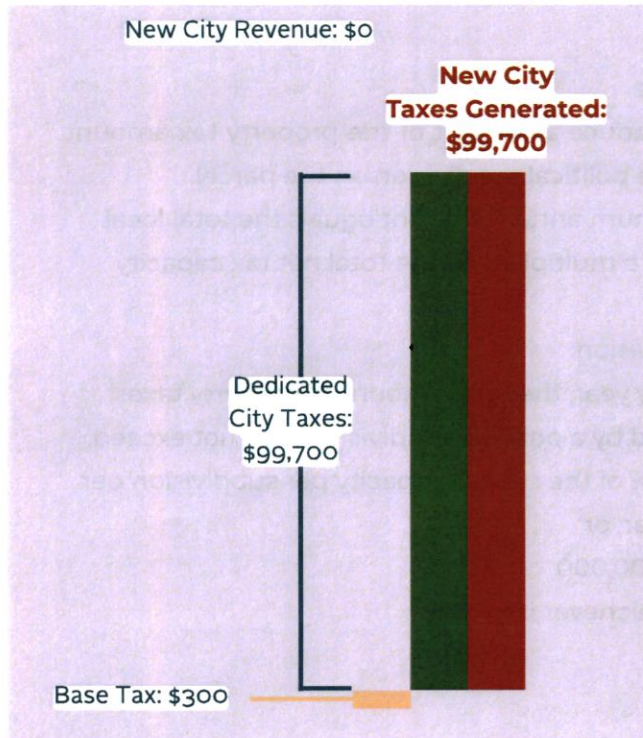
- No longer than 15 years unless;
 - If one of the other political subdivisions declines (e.g. the school) the duration is increased to 20 years

- Limitations:

- By parcel:
 - May reduce all or part of the property tax amount for the political subdivision on the parcel.
 - Maximum annual amount equals the total local tax rate multiplied by the total net tax capacity
- By Subdivision:
 - In any year, the total amount of property taxes abated by a political subdivision may not exceed:
 - 10% of the net tax capacity per subdivision per year; or
 - \$200,000
 - whichever is greater

Tax Abatement: Example Scenarios

Scenario One: Economic Expansion



A business is expanding. It anticipates the expansion will invest \$30,000,000 in its property and create 20 jobs at \$18.00/hour.

The business applies to the City and requests abatement because the costs of construction makes expansion economically infeasible - the expansion will not provide a level of return necessary to be reasonable.

The business states it needs \$600,000 to make the project economically feasible.

The City requests that the County and the School participate, and the County and School decline.

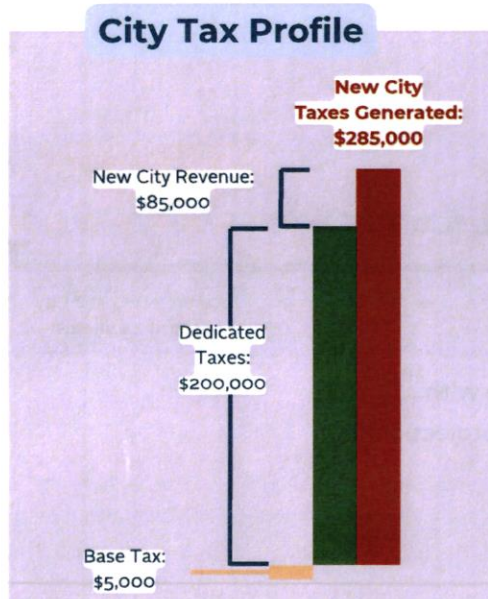
The City performs a fiscal analysis, in partnership with its third-party consultant, and determines that the project will have an economic impact greater than \$600,000 and that abating the requested amount will not be more than 10% of the City's net tax capacity.

Because the expansion will increase the tax base and provide employment opportunities it meets statutory requirements. The City Council believes that the impact of increased annual payroll and supply chain stimulus will generate community benefits greater than the \$600,000 and chooses to abate the taxes.

The abatement term is for up to 20 years or \$600,000, **whichever comes first.**

Tax Abatement: Example Scenarios

Scenario Two: Developer-Fronted Utility Extension



Construction	\$9.0M	Actual Cost of Work
Financing/Interest	\$4.0M	Cost of 20yr Debt
Total Bond Equivalent	\$13.0M	Total value of Utility Improvement

A business wants to open operations in the city. It anticipates that it would invest \$100,000,000 to construct its facility. In order to construct a facility on the selected site, they need to extend public utilities. That utility extension is estimated at \$9,000,000 in construction related costs – for illustration, the bonded 20-year debt-service equivalent of these improvements is \$13.0M at 4%.

The business applies to the City and requests abatement because the cost of constructing the utilities makes the project economically infeasible - the investment will not provide a level of return necessary to be reasonable. The business is willing to construct the utilities and once the utilities are built, the company would turn them over to the City to be a publicly owned asset.

The City requests that the County and the School participate, and the School declines.

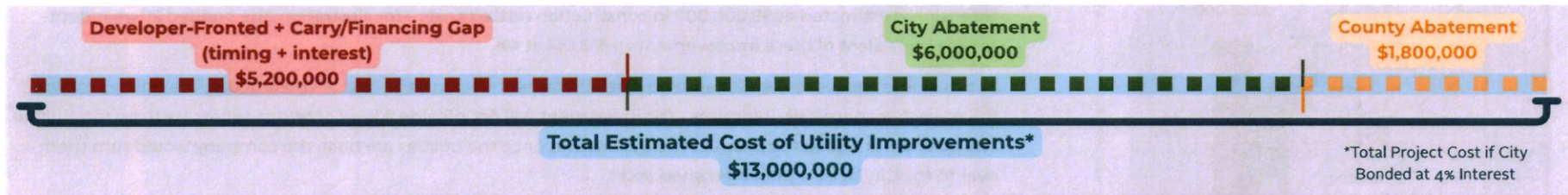
The City performs a fiscal analysis, in partnership with its third-party consultant. They determine that if the City bonded for the utility extension, the 20-year debt service total would be \$13.0M (principal + interest + issuance). Because the utility will be City owned, it evaluates a \$6.0M contribution while the County evaluates \$1.8M. The County and the City determine that the project will create more than their contributions in economic impact and that abating the requested amount will not be more than 10% of either subdivision.

The City and County will reimburse up to \$7.8M via abatement, making the developer's net unreimbursed contribution \$1.2M. The developer would deliver the infrastructure and carry the bond cost (\$13.0M debt-service equivalent). The City and County choose to reimburse the developer for the cost of the public infrastructure over 20 years by redirecting a portion of the new City/County tax revenue attributable to the project. The abatement term is for 20 years or \$7.8M **whichever comes first**.

Performance-Based Repayment: If the project doesn't generate the forecasted tax revenues, the City doesn't pay. The developer, not the taxpayer, carries the \$13M debt risk.

Tax Abatement: Example Scenarios

Scenario Two: Developer-Fronted Utility Extension



Private entity builds public infrastructure at their sole cost and expense with repayment made using new city/county tax revenues attributed to the project.

Construction	\$9.0M	Actual Cost of Work (hard & soft)
Financing/Interest	\$4.0M	Cost of 20yr Debt
Total Bond Equivalent	\$13.0M	Total Value of Utility Improvement

Tax Abatement: Example Scenarios

Scenario One: Economic Expansion

1. Is it a tax break?
 - a. Effectively, yes. It functions as a tax rebate on the new value the project creates; its not a reduction in existing tax obligations.
2. Why would we give a tax break to a private company?
 - a. By sharing the future revenues from the project, it provides economic incentive to invest in the local economy.
 - b. Multiplier effect: the broader economic impact - jobs, payroll, supply chain activity - generates community benefit that exceeds the value of the redirected taxes.
 - c. Consider it an opportunity cost: without the abatement, there is no project and property taxes for the parcel remain at \$300/year.
 - d. Comparable to the routinely used grants and loan guarantees, tax abatement is arguably more fiscally conservative because taxes are only redirected if the project generates the value.

Scenario Two: Developer-Fronted Utility Extension

1. Is it a tax break?
 - a. Arguably, no.
 - i. Developer funded, publicly owned: the abatement repays the developer for publicly owned utility asset. Essentially a privately funded public works project; not a private subsidy.
 - ii. Repayment is made by redirecting the new city/county tax revenues attributed to the project.
 - iii. The developer carries the risk: construction, financing, and performance. Should the project underperform, and produce less value than forecasted, the developer absorbs that gap — not taxpayers.
2. Why repay them?
 - a. Without abatement, the combined cost of private construction plus public infrastructure is economically prohibitive.
 - b. The community gains permanent public utilities at no upfront cost to taxpayers, eliminating any impact to the general levy.

Regardless of if we consider abatement a tax break or not:

Statute states that the benefits of the proposed abatement must be greater than or equal its cost.

Hermantown Policy

Business Subsidy Policy

- In 2025, City Council adopted an updated Business Subsidy policy (BSP)
 - Posted on HEDA's webpage
 - Serves as overarching framework and governing document for all business subsidies
 - Provides specifics on Tax Abatement Financing (TAF) as an addendum to the BSP
 - TAF program must comply with the principles and requirements of the BSP
 - The policy limits the use and geography for TAF
 - Allowable uses
 - Industrial, manufacturing, & commercial development, expansion, redevelopment, or rehabilitation;
 - Retail
 - Housing
 - For sale single family housing with ownership availability of 115% of statewide median income.
 - Multi-family housing of 4 or more units

EDAs do not have abatement authority granted by the state.

Abatement is a Council decision and consider a resolution only after a public hearing

