

City of Madelia  
Tax Abatement

## Policies and Procedures

### I. Purpose

The purpose of this policy is to establish the City of Madelia (“City”) and the Economic Development Authority (“EDA”)'s position as it relates to the use of tax abatement for private and public development. This policy shall be used as a guide in processing and reviewing applications requesting tax abatement for commercial or industrial properties.

The fundamental purpose of tax abatement in Madelia is to encourage desirable development or redevelopment that would not otherwise occur but for the assistance provided. A tax abatement allows a property owner to receive a refund on a portion of the yearly property tax. This abatement is traditionally based on the increase in a property’s value from a construction or renovation project. The yearly percentage of the abatement and duration vary based on the amount of business investment and job creation. The City shall have the option of amending or waiving sections of this policy when appropriate.

### II. Statutory Limitations

In accordance with the tax abatement policy, tax abatement requests must comply with applicable state statutes. The City is governed by the limitations established in sections 469.1812-469.1815.

### III. Objectives

Financial assistance opportunities are provided to businesses in order to encourage the following:

- A. *Encourage new technology*
- B. *Create or retain jobs*
- C. *Increase tax base*
- D. *Elimination of slum or blight*
- E. *Diversification of the overall industry base*
- F. *Exportation of products and/or services outside the state*
- G. *Increase health care service*

## **IV. Eligibility for Tax Abatements**

Pursuant to Minnesota Statute Section 469.1813, the governing body of a political subdivision may grant a tax abatement on property taxes if the governing body expects the benefits to the political subdivision of the proposed abatement agreement to at least equal the costs of the political subdivision and finds that doing so is in the public interest because it will achieve one or more of the following:

- A. Increase or preserve the tax base;*
- B. Provide employment opportunities in the political subdivision;*
- C. Provide or help acquire or construct public facilities;*
- D. Help redevelop or renew blighted areas;*
- E. Finance or provide public infrastructure;*
- F. Phase in a property tax increase on the parcel resulting from an increase of 50% or more in one year on the estimated market value of the parcel, other than increase attributable to improvement of the parcel; or,*
- G. 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.*

## **V. Tax Abatement Terms**

### *1. Abatement Timeframe*

A tax abatement agreement may last no longer than 15 years if the City, County, and School District are all participating. If either the school district or the County choose to not participate in the agreement, the term may be extended to 20 years.

### *B. Financing*

Tax increment assistance will be provided upon receipt of taxes by the City, otherwise referred to as the pay-as-you-go method whenever possible. Requests for up front financing will be discouraged.

### *C. Abatement Amount*

In order to ensure that the abatement is in the best interest of the public, developers are expected to maximize private dollars. Requests seeking a full abatement on the annual taxes for a property necessitate a substantiated and compelling justification.

The annual value of all property tax abatements granted by the City may not exceed the greater of \$200,000, or 10 percent of the net tax capacity.

## **VI. Application Process**

The following outlines the general process of a tax abatement request. Additional steps and/or city commission reviews may be necessary in some cases.

### *A. Application Submission*

This tax abatement policy was adopted on November 13, 2023.

An application is submitted to City Hall with all required supporting documents. The submission of an application does not guarantee an approval.

An escrow in the amount of \$5,000 will be required at the time of application submission to cover consultant fees for abatement review and the development of an abatement agreement. If these costs are less than the fee, the difference will be returned to the applicant. In the event that a project costs more than the fee, the City will send the applicant an invoice at a later date. By submitting an application, an applicant is agreeing to reimburse the City for all costs incurred as a result of reviewing and setting up an abatement regardless of approval. An escrow will not move forward until the escrow has been provided.

*B. Initial Application Review*

City staff reviews the application for completion within 3 business days of its submission. If items are not submitted, the applicant is contacted with a request to provide the additional information.

*C. Application Eligibility Review*

EDA staff and the City's public finance advisor review the application within 14 business days of the application's submission to determine if the application meets eligibility criteria.

Following their application review, eligible applications are placed on the next scheduled EDA board meeting for review. Applicants who submit ineligible applications are provided written notification as to the reason for their application's ineligibility.

*D. EDA Review and Recommendation*

Eligible applications are submitted to the EDA to provide recommendation of approval or denial of the proposal. The EDA board may request additional information after reviewing the application and postpone a recommendation until the subsequent meeting. The EDA will forward a recommendation to the City Council. If a recommendation for approval is granted by the EDA, all necessary notices and resolutions will be prepared by City staff.

Applicants will be provided with written notice as to the EDA's recommendation.

*E. Public Hearings and Notices*

A public hearing on the proposed project is scheduled and other jurisdictions are provided notice as required. The public hearing will be scheduled prior to the next scheduled council meeting following the EDA's review and recommendation.

*F. Application Decisioning by City Council*

Following the public meeting, the City Council will grant approval or denial of the proposal. Approval must be done through an abatement resolution that includes the parcels subject to the abatement, property values of those parcels used in the abatement calculation, duration of the abatement, and any other terms needed to define use of the abatement. The applicant will receive written notification of the City Council's decision.

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All approved requests will need to sign an abatement agreement in order to receive the abatement benefit.

## **VII. Servicing**

Minnesota business subsidy reporting requirements may apply. In the event of a business subsidy, the recipient business shall comply with all reasonable information requests made by the Madelia Economic Development Authority and/or the City of Madelia to ensure compliance with business subsidy reporting requirements. These must be provided to the City Administrator annually before January 31 of the previous calendar year for the duration of the requirements of the tax abatement agreement.

## **VIII. Default**

Failure by the recipient business to accurately answer or comply with any of the terms, conditions, covenants, obligations, agreements, observances or program requirements within the established time parameters set forth herein or in the signed abatement agreement shall constitute default.

- A. In the event of default by the recipient business, the Madelia Economic Development Authority or the City Council of Madelia, may take any one, or all, of the following actions after providing written notice to the recipient business and allowing ten business days for the recipient business to come into compliance or make other such necessary arrangements with the Madelia EDA or the City to insure such compliance:
  1. Cancel the agreement and require immediate repayment of the full tax abatement;
  2. Seek specific performance of the recipient business's obligations;
  3. Establish new terms, conditions or timelines for the abatement agreement;  
and / or
  4. Take any other action the Madelia Economic Development Authority or the City Council of Madelia deems appropriate.
- B. In the event of a default, the Madelia Economic Development Authority or the City Council of Madelia may take any action, including legal or administrative action, which may appear necessary or desirable to enforce any of actions provided above, or any other obligation, agreement, or covenant provided in the signed abatement agreement or in the signed tax abatement application.
- C. If a default occurs and the EDA or the City employs attorneys or incurs other expenses in taking any action, including legal or administrative action, which may appear necessary or desirable to enforce any of actions provided above, or any other obligation, agreement, or covenant provided in this policy or in the signed tax abatement application, the recipient business agrees that it shall, on demand therefore, pay the reasonable fees of such attorneys and such other expenses so incurred by the Madelia Economic Development Authority or the City Council of Madelia.