

## Explanation of Tax Increment Financing (TIF)

Tax Increment Financing (TIF) is a financing mechanism for Urban Renewal. It involves freezing the tax base (property values) within a designated area. Property taxes levied against the frozen tax base continues to provide revenue to all taxing authorities (counties, cities, schools, etc.). Property taxes levied against the increased property values in the designated area provide revenue to the taxing authority that created the TIF to finance improvements made within the Urban Renewal area until the TIF ends. Once the TIF ends, property taxes are apportioned among all taxing authorities.

Cities have used TIF to make improvements to their communities for years. This past year, the City of Osage had over \$550,000 of TIF monies incorporated into the city budget. Needed city improvements were made using these TIF dollars, thus holding down the City of Osage's property taxes. Osage and St. Ansgar have used TIF as part of their annual budget for decades. TIF has been very good for Osage and St. Ansgar!

TIF can only be used to pay for incurred debt, TIF monies cannot go into the general fund of the county. TIF was designed to incentivize cities and counties to seek out industrial and commercial entities to locate in and build new facilities within their taxing districts. Other taxing bodies are not hurt by TIF since IF the new facility(ies) were never built, there would be no new revenue, new taxes.

Also, by using TIF, the State of Iowa backfills 87½% of what would have gone to the schools. School taxes are normally about 48 or so % of your total tax bill (this is the rural area, city tax percentages will have schools lower as a percentage) so by backfilling the schools, instead of having 100% of monies available to use under the new increment, add another 40% or so from the State of Iowa backfill or the area receives 140% of new TIF revenues. In other words, another 40% or so of new revenues come into the county from the State of Iowa, a HUGE win for cities and counties.

Mitchell County also uses Tax Increment Financing (TIF). The following are projects funded with TIF dollars, not local property tax dollars:

1. A new courthouse, 70% paid with TIF dollars, 30% paid with the 1¢ option sales tax. No increase in property taxes.

2. The \$400,000 addition to the County Conservation building.
3. Resurfacing of over 40 miles of county Secondary Roads, some of which would have been turned back to granular roads if it was not for the TIF.
4. \$625,000 for improvements to Riverside Park in Stacyville. Forty campsites connected to city sewer will be an attractive addition to this park.
5. \$700,000 of gravel purchased for our Secondary Roads system. The purchase of gravel freed up monies to purchase much needed equipment.
6. \$150,000 to assist Osage on their new Daycare Facility.
7. \$250,000 to complete the Wapsi/Great Western Trail system that now by Minnesota law must connect to the Shooting Star Trail in Minnesota that will also connect to the Root River Trail at Lanesboro and the Blazing Star Trail in Albert Lea.
8. \$100,000 used towards the purchase of the Robin's Nest conservation area.
9. Over \$3 million dollars granted to the Mitchell County Economic Development Commission for the Commercial/Industrial Incentive Program. Here an entrepreneur can obtain up to a \$50,000 forgivable loan to build a new commercial or industrial venture valued at over \$150,000.

Also, under this program, an individual can purchase a new speculative house and receive \$20,000 for a one bedroom house, \$25,000 for a two bedroom house and a maximum of \$30,000 for a new three bedroom house. The idea behind this program is to encourage present homeowners to upgrade their present used house for a new house, thus making used houses in the \$90,000 to \$160,000 range available as possible starter houses, thus attracting and keeping our youth here in Mitchell County. Under both of these programs, the property tax base is increased and thus, for housing, in 12 years, the new house will have paid the equivalent back to the taxing bodies what it received in assistance.

10. Five hundred thousand has been set aside for dam rehab/removal at Otranto. Nothing definite has been decided on how to proceed, but we know the State of Iowa desires something to happen with this low head dam.

11. Four hundred thousand had been set aside for the Port Authority to study the possibility of bringing additional natural gas into the northern part of the county. The Port Authority received a State of Iowa earmark for \$250,000, thus covering all of the costs of the study after 1 July 2018. Bills have been submitted to the State for reimbursement, and Mitchell County should soon receive their share of the reimbursement. At the present nor in the foreseeable future, are there plans to bring additional natural gas into the northern part of the county. Most of the TIF monies allocated to the Port Authority will remain unspent.

TIF revenues can also assist industry in locating or expanding in Mitchell County. Mitchell County gave Absolute Energy a 100% tax abatement for their first 10 years and a 95% abatement for the second 10 years. In about six years, Absolute Energy will be paying full property taxes. Absolute Energy has been good for area farmers and good for the community with additional good paying jobs.

An agreement between Valent Bio Sciences and Mitchell County built Valent's pre-treatment sewer plant. Mitchell County owns the plant and Valent makes the monthly payment on the bonds plus Valent provides Mitchell County an additional \$5,000 a month revenue, adjusted annually for inflation. TIF monies are not being used here since Valent volunteers to pay additional taxes to cover the bond payments.

The Financial Planners for Mitchell County are Jeff Heil and Heidi Kuhl of Northland Securities of Minneapolis, MN. Northland Securities work with over 60 counties in Iowa including many more cities in Iowa. For the utmost use of TIF dollars, Northland Securities recommends to their clients TIF monies be used throughout the 20 year life of TIF so as to receive the maximum gains in improvements for cities and counties that otherwise may not be attainable.

Mitchell County continues to receive an A+ rating by Standard and Poors, due to Mitchell County's prudent management of its budgets and TIF revenues. An A+ rating allows Mitchell County to receive one of the lowest bond interest rates for our TIF bonds. This cannot be stressed enough, Mitchell County has been well run to claim and maintain an A+ bond rating.