



## MEMORANDUM

DATE: October 1, 2019

To: Honorable Mayor & City Council

CC: Dave Bennett, Director of Public Works/City Engineer; Monte Nelson, Police Chief; Mitzi Baker, Community Development Director; Deb Little, City Clerk; Michelle Mahowald, Communications & Human Resources Director; Teresa Jensen, Director of Library and Information Technology Resources; Chris Hood, City Attorney

From: Ben Martig, City Administrator

RE: "Supplemental Agenda Background Memo" for October 1, 2019 No.1.

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### Summary Report:

The following is an update on agenda items as supplemental background agenda information made available for Tuesday, October 1, 2019.

#### Agenda Item #7. Public Hearing on TIF Request for Fifth Street Lofts.

- Please see attached updated presentation for this item. The only changes made to the previously distributed presentations were as follows:
  - Combine the two presentations into one; and
  - Added additional data points to slide 15.

#### Agenda Item #10. Review of Proposed Purchasing Policy Amendments.

- Please see attached presentation for this item.


# Fifth Street Lofts TIF Request

Nate Carlson, Economic Development Coordinator

October 1, 2019



# Project Overview

- Co-Developers (Rebound Enterprises & Stencil Group)
    - Rebound Enterprises
      - Based in Northfield, significant investment in local economy
    - Stencil Group
      - Based in Sioux Falls, SD
      - Several urban residential projects in Rochester and Twin Cities
  - Urban Housing Project Opportunity
    - Identified the demand for market rate housing in Northfield
    - Approached City regarding infill lots available in or near the downtown district
    - Acquiring property at Washington Street and Fifth Street
    - Request for Tax Increment Financing
      - Required by primary financier for “Community Investment” (i.e. TIF)
      - Site Improvements
      - Cash shortfall in Net Operating Income (NOI)
- 

# Site Location



PROJECT AREA:

**ID #: 22.06.2.25.081**

LOI with Premier Bank  
(Vacant lot on SW corner of 5<sup>th</sup> &  
Washington)

**ID #: 22.06.2.25.082**


LOI with Premier Bank  
(Current bank building and parking lot)

**ID #: 22.06.2.26.097**

Owned by Northfield EDA  
(510 Washington Street)

\*Property ownership between Lot 5 Crossings  
project and Fifth Street Lofts does overlap.  
However, projects do have different partnership  
entities involved with project development.

# Type of Housing

- Market Rate Urban Housing
    - 79 apartment units to be constructed
    - 33 Studio; 38 1-Bedroom; 8 2-bedroom units
    - Enclosed parking for tenants on first floor
    - Additional active space on first floor balcony and sky deck
    - Buildings constructed for optimal energy efficiency
      - Conducting energy audit with Xcel Energy
    - Reducing environmental impacts
      - High efficiency HVAC Systems
      - Energy efficient appliances
- 



# City Strategic Planning Goals

- Housing Needs & Downtown Revitalization
  - Current rental vacancy rate in Northfield <1%
    - Vacancy rates of 5% indicate healthy rental market
    - Low vacancy rates can inflate rental prices due to high demand
  - City Strategic Plan increase square footage in downtown
    - 79 housing units in the downtown will achieve goals
    - Increasing density without adding public infrastructure costs
    - Land Use efficiency
    - Increased economic activity in downtown spurs revitalization and reinvestment
    - EDA supports TIF



# Project Renderings



NORTH  
FACADE



SOUTH  
FACADE





# Project Renderings

APARTMENT SIGNAGE  
APARTMENT ENTRANCE  
METAL DECK



METAL PANEL  
ALUMINUM/GLASS BALCONY  
BRICK MASONRY

Roof  
144' - 4 7/8"

4TH FLOOR  
133' - 3 3/4"

3RD FLOOR  
122' - 7 7/8"

2ND FLOOR  
112' - 0"

1ST FLOOR  
100' - 0"

LOWER FLOOR  
89' - 6"

**NORTH  
ELEVATION**

APARTMENT SIGNAGE



METAL PANEL  
BRICK MASONRY

Roof  
144' - 4 7/8"

4TH FLOOR  
133' - 3 3/4"

3RD FLOOR  
122' - 7 7/8"

2ND FLOOR  
112' - 0"

1ST FLOOR  
100' - 0"

**EAST  
ELEVATION**

ENTRY CANOPY


PUBLIC PARKING

LOFT PARKING






# Tax Increment Financing

- Project need for assistance
    - For project to occur in Northfield, lot consolidation is needed and relocation of Premier Bank to Crossings
    - Significant costs related to demolition, site preparation and foundation
    - Project could occur elsewhere (Developer has worked in other communities)
    - \$13.66 million project
  - Tax Increment Financing
    - Redevelopment TIF District (25-year duration)
    - Current request set up for a “Pay-as-you-go;” no up-front financing requested, assistance with cash flow over the duration of the TIF
    - Project assistance with site improvements and annual cash shortfall
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# Schedule of Events

- Developer presented to Council on July 23
  - Staff and Ehlers Review
    - Recommended approval of the Subsidy (TIF)
  - EDA Board met August 22
    - Approved Resolution recommending Council approval of Subsidy (Redevelopment TIF District)
    - Approved contribution of EDA owned land and a \$250,000 loan contingent upon TIF approval
  - City Council to hold Public Hearing on October 1
    - Public Hearing for TIF Plan
  - City Council Meeting on October 1
    - Approve the TIF District
    - Approve the TIF Agreement
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## Fifth and Washington TIF District

Nick Anhut – Senior Municipal Advisor

October 1, 2019

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## Public Hearing

### City of Northfield – Creation of a New TIF District

- What is Tax Increment Financing?
- Redevelopment TIF District
- Tax Increment Plan
- But-For / Gap Analysis
- TIF Assistance Agreement





## What is Tax Increment Financing?

- The ability to capture and utilize most of the increased local property tax revenue from new development within a defined geography
  - Ex) Taxes derived from a school operating referendum are not captured
- Authorized by Minnesota Statutes 469.174 to 469.1794 (“TIF Act”)
- Used to encourage certain types of development or redevelopment that would not reasonably occur without assistance (“But For” test)
  - Ex) Acquisition, demolition and site improvements necessary for qualified redevelopment
- Annual Reporting to the Office of State Auditor



# What is Tax Increment Financing?

- TIF District approval requires public hearing and adoption of a Tax Increment Financing Plan within a Development Program
  - Program and TIF Plan declare policy objectives and set budget for TIF revenues and expenditures
  - Fiscal Impact analysis sent to County and School District for comment
- Actual terms and use of TIF governed by a contract with a Developer
  - “TIF Assistance Agreement”
  - Sets city expectations for project development, amounts / types of public assistance, etc.



## TIF Districts in Northfield

- City has seven existing TIF Districts (required decertification year)
  - Maple Brooke (2046), Aurora Pharma (2028), Spring Creek (2040), Jefferson Square (2037), Hiley Neff (2028), Riverfront (2032), and Presidential Commons (2026).

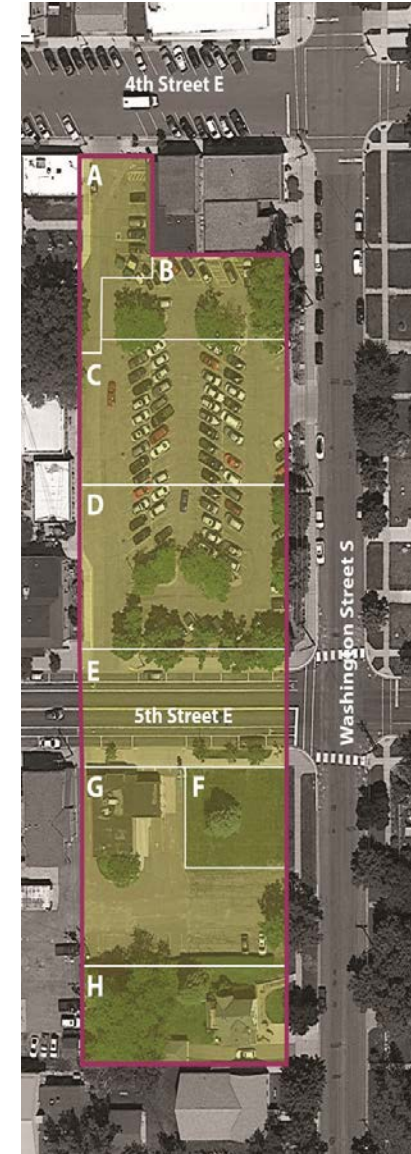
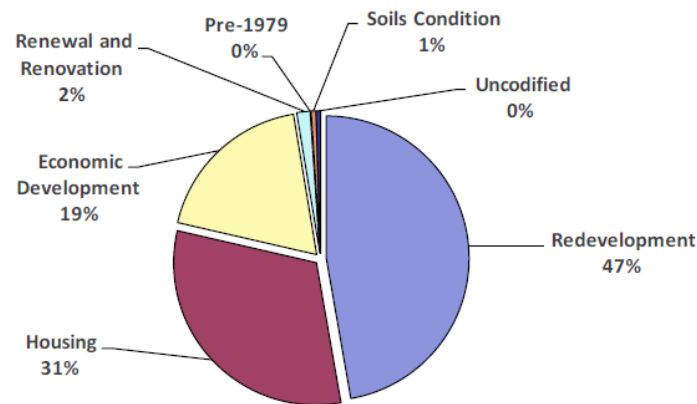
Entity	Pay 2020 Estimated Net Tax Capacity	Pay 2020 Estimated TIF Tax Capacity	Percent of Total
Rice County	71,187,981	713,584	<b>1.0024%</b>
City of Northfield	17,198,773	459,730	<b>2.6730%</b>
ISD # 659	31,983,440	669,330	<b>2.0927%</b>

*Table represents that 2.673% of the City's gross tax base is captured within existing TIF Districts*

# Redevelopment TIF District

- Maximum term – 25 years after first TIF revenue year
- Boundaries: Flats property and City-owned parking lot
- Area must meet statutory redevelopment qualifications
  - At least 50% of existing buildings deemed substandard - study identifies 100%
  - At least 70% of area must be improved (not greenfield site) - study identifies 93%

**TIF Districts by Type Statewide, 2017**







## Tax Increment Plan

- Establishes the purpose, boundaries and term for the TIF District
  - Parcel IDs and internal/adjacent rights-of-way
  - Maximum term – 2022 to 2047 as long as qualifications are met
- Sets a Budget for the TIF District
  - Assessor's estimated taxable value of \$9.3 million
  - TIF revenue estimate supports financing up to \$2.2 million in redevelopment costs (includes 1% inflator)
- Form of Financing - Pay-As-You-Go TIF Note issued to Developer
  - Payable from 95% of annual TIF receipts
    - Equates to \$134,342 based off of Assessors value estimate
    - 5% (or \$7,070) retained to offset City administrative costs



# Tax Increment Estimates

TAX BREAKDOWN - City of Northfield - Fifth Street Flats Redevelopment									
	Property Value	Tax Capacity	Local Taxes	City Portion	County Portion	Misc Districts	School District	School Op Referendum	TOTAL
Gross Taxes	\$9,300,000	116,250	130.2820%	56.2160%	39.5240%	3.4460%	31.0960%	0.4419%	
			\$151,453	\$65,351	\$45,947	\$4,006	\$36,149	\$41,095	\$192,548
Base Taxes	\$585,200	7,315	\$9,530	\$4,112	\$2,891	\$252	\$2,275	\$41,095	\$50,625
TIF	\$8,714,800	108,935	\$141,923	\$61,239	\$43,055	\$3,754	\$33,874	\$0	\$141,923

*Represents: 16x growth in taxable value;  
13x growth in local taxes at completion of TIF District*



## “But For” Test

- The development is only possible but for the use of tax increment assistance
  - Developer has stated the project will not proceed solely through private investment in the reasonably foreseeable future
- Formal finding included in TIF Resolution and TIF Plan
- Market value of alternatives not expected to exceed:

<b>MARKET VALUE BUT / FOR ANALYSIS</b>	
Current Market Value - Est.	1,086,600
New Market Value - Est.	9,300,000
Difference	8,213,400
Present Value of Tax Increment	2,172,923
Difference	6,040,477
Value likely to occur without Tax Increment is less than:	6,040,477



## “But For” Test

- Verification of the Project’s Pro Forma
  - Project development costs and operating assumptions are reasonable for the market
    - \$13.9 million total development costs
    - Developer identifies over \$1.8 million in qualifying redevelopment costs for downtown project
  - Rental revenue provides below-market returns on cost and equity
    - Affected by site, demolition and structured parking costs
- TIF Need
  - Net operating income below required mortgage/equity thresholds
  - Requesting \$1,800,000 PAYGO TIF Note to supplement equity investment necessary for the redevelopment project





# TIF Assistance Agreement

- City Requirements
  - Create and administer TIF District; certify it with the County
  - PAYGO TIF Note reimburses certain development costs
    - Risk placed on developer to fund and construct project; pay taxes
    - TIF Note issued after completion; no other City funding required
    - First TIF Note payment anticipated in 2022
      - Limited pledge: only by 95% of TIF created by the redevelopment
- Developer Requirements
  - Redevelop site and prove up anticipated costs
  - Complete construction by 2021; achieve occupancy
  - Compliance with building, energy and affordability requirements



# TIF Assistance Agreement

- TIF Note assistance Provisions
  - \$1.8MM TIF Note size based on budgeted figures
  - Issuance mechanism to “right-size” the amount of TIF Assistance
    - TIF Note amount reduced if project costs less than anticipated
      - \$0.50 per dollar of reduced costs in excess of \$100,000
- Lookback Provision: option for future TIF payments to be reduced or terminate if Developer sells property and/or attains adequate return on investment
  - Provision executed at earlier of event of sale or year 15



## Considerations of Alternatives

- Do not approve TIF
  - Redevelopment does not occur in the near-term
  - Relocation of Bank may cease; EDA can market its property for other use
  - Property taxes remain for existing use
- Approve TIF
  - TIF Assistance and various EDA agreements executed
  - Developer completes land purchase and begins construction in 2019; construction completed by Spring 2021
  - 79 new housing units created by 2021
  - Existing base property taxes continue to flow to local jurisdictions
    - Plus > \$38,000 potential new taxes supporting school operating referendum
  - Potential for public/private redevelopment of City surface lots



# Purchasing Policy Review Proposed Amendments

October 1, 2019



# Council Adopted Financial Policies

Purchasing Policy (current review)

Investment Policy

Debt Policy

Post-Issuance Policy for Tax Exempt Government Bonds


Fund Balance Year-End Classification Policy

Public Purpose Expenditure Policy

Utility Collection Policy



# Purpose of Amendment Review


- A. Review State Law Changes (August 2018) for consistency with City Purchasing Policy.
  - B. Incorporate relevant Charter and City Code references.
  - C. Codify operational practice of relevant budgetary & financial controls.
  - D. Codify operational practice of delegated contract execution authority.
- 



# Proposed Bidding Changes

	Existing Policy/ State Law 2008-2018 (\$)	Proposed Policy/ State Law Post 2018 (\$)
Sealed bids minimum	Over 100,000	Over 175,000
Direct Negotiation	25,000-100,000	25,000-175,000

Note: Under \$25,000 no change proposed to City Policy. State thresholds above that level did not change.




# City Code & Charter References

- City Charter Sections 7.3, 8.1 and 9.7
- City Code Section 2-161



# Proposed Financial Controls

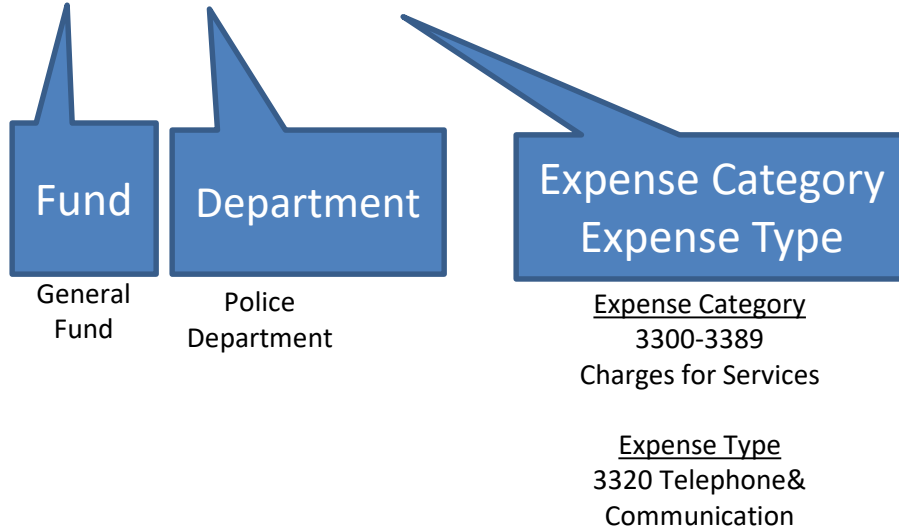
Budget Accounting Level	Existing Practice	Proposed Codified Policy
“Fund” Level	Council	Council
“Department Level” – Budgeted	Department Heads	Department Heads
“Department Level” – Unbudgeted	City Administrator/ Finance Director consulted	City Administrator/ Finance Director consulted
“Expense Category/Expense Type”	Department Heads	Department Heads



# Accounting Classification Terms

Example:

101-4200-3320



# Existing Financial Policy

- Existing Policy Does Suggest Department Head Authority at the Department Level

## Preamble Document: IV. Budgetary & Financial Control

- E. Department Directors will be responsible for administration of their respective Department Budgets** and are to submit requests for any required budget adjustments, such as supplemental appropriations, **to the City Administrator or Finance Director** before the program incurs cost overruns for the annual budget period.
- F.** Primary responsibility in the management of budgeted funds lies with the Department Directors. Such management includes, but is not limited to, reviewing expenditures before authorization, reviewing monthly financial reports to detect errors and assess progress, and staying within expenditure budget authorization. All costs incurred must be reasonable and necessary. Department Directors shall be responsible for contacting the City Administrator or Finance Director should there be any questions regarding financial management or if the issue or concern is related to internal controls. The Finance Director will monitor overall budget operating progress routinely throughout the year.



# Proposed Execution of Contracts

- See recommended Table 1 (pages 6 and 7 of redline)
- Consistent with operational practice (matching increased thresholds)
- Council (Mayor/Clerk Signatures)
  - over \$175,000 purchases
  - if unbudgeted at the “fund” level
  - other contracts as authorized by council resolution  
ex: Service Contracts (NDDC, Historical Society, etc.), NAFRS, etc.





# Council Finance Policy Subcommittee

- Reviewed provisions and recommended to come to Council.
- City Attorney did provide some additional revisions after the committee review (see highlighted yellow).



# Recommendation

- Questions/Discussion
- Any Modifications/Clarifications.
- Council Consideration October 15.

