City of Oronoco
Special City Council Meeting Agenda
August 9, 2010
6:00PM

I. CALL TO ORDER
Mayor Scott Keigley called the meeting to order at 6:00pm.

II. ROLL CALL
Mayor Scott Keigley, Councilor Kevin McDermott, Councilor Brian Breider, Councilor Paul Briggs, Attorney Fred Suhler, and Clerk Sandy Jessen. Councilor Jackie Hall arrived at 6:03pm.

III. APPROVAL OF AGENDA
Mayor Scott Keigley motioned to approve the agenda, Councilor Kevin McDermott second; all in favor, motion carried.

IV. CLOSED SESSION
Mayor Scott Keigley closed the meeting at 6:02pm and opened the closed session. Mayor Scott Keigley opened the regular session at 6:35pm.

V. TIF PPRESENTATION – Mike Bubany
- Tax Increment Financing ("TIF") redirects new property taxes (the "increment") generated by development to assist a project that would not occur but for the TIF assistance provided.
- Governed by the "TIF Act", Minnesota Statutes 469.174 ~ 469.1799, as amended
- There are different types of TIF Districts, but the basic calculation of tax increment is the same for each.

TIF: Calculation
- To calculate tax increment, you must first understand how to calculate property taxes (increment is a byproduct of new property taxes) product taxes).

Market Value (Assessor) times Class Rate (State) times Tax Rate (Local) = PROPERTY TAXES
"Tax Capacity" or "Tax Base"
- Typically, County Assessor sets Market Value, some cities have City Assessor.

Board of Equalization/Adjustment might change Assessor's value.
- Class Rates, set by the State Legislature, may seem stable, but are subject to change, this can cause problems…
- Local Tax Rate is calculated by taking: TOTAL LEVY divided by TOTAL TAXABLE TAX CAPACITY (sum of all individual properties)
- Existing Market Value in new TIF Districts is "frozen"
- Existing Tax Rate is also "frozen"
- No revenue is "lost" as a result of establishing a TIF District
- To simplify, increment is calculated by taking the difference in taxes before and after development.
- There are different types of TIF Districts, but the basic calculation of tax increment is the same for each.

Step 1: Calculate Original Tax Capacity

$	250,000	Existing Market Value of Commercial Property
	1.5%	Class Rate on 1st $150,000
	2.0%	Class Rate on residual value

($150,000 x 1.5%) + ($100,000 x 2%) = $4,250 Original Tax Capacity

Step 2: Calculate New Tax Capacity

$	1,000,000	Projected NEW Market Value of Commercial Property

($150,000 x 1.5%) + ($850,000 x 2%) = $19,250 New Tax Capacity

Step 3: Calculate Tax Increment from Captured Tax Capacity

$	19,250	New Tax Capacity
$	(4,250)	Less Original Tax Capacity
$	15,000	CAPTURED TAX CAPACITY
	134.52%	times Original Local Tax Rate
$	20,178	Subtotal
$	(73)	Less State Auditor's Deduction (0.36%)
$	**20,105**	**PROJECTED ANNUAL TAX INCREMENT**

NOTE: State Commercial Property Taxes are NOT collected as increment!!

City of Mosquito Heights, Minnesota **Economic Development Project 2007 (Proposed)**

Tax Increment Financing District No. 1-1

ESTIMATED
Tax Increment Projections

Valuations & Projected Increases

	Market Value	Tax Capacity
Original values	250,000	4,250
Completed Value	1,000,000	19,250
Increase upon Full Development	**750,000**	**15,000**

Tax Rate Assumptions:

	Tax Rate	Projected Avg. Rate	Original Rate
City	63.530%	63.530%	63.530%
County	45.730%	45.730%	45.730%
ISD	25.260%	25.260%	25.260%
Other	0.000%	0.000%	0.000%
	134.520%	134.520%	134.520%

Projected Tax Increment

2.50% Inflation

Payable Year	Original Tax Capacity	Projected Tax Capacity	Net Captured Tax Capacity	Less Fiscal Disparities	Retained Net Captured Tax Capacity	Projected Tax Rate	**Gross Tax Increment**	Adjustments: 10.00% Admin. Retainage	0.36% State Auditor's Deduction	0.00% Additional Reductions	**TOTA NE REVENUE**
2007	4,250	4,250	-	-	-						
2008	4,250	4,250	-	-	-	134.520%	**-**	-	-	-	**-**
2009	4,250	19,250	15,000	-	15,000	134.520%	**20,178**	2,011	73	-	**18,095**
2010	4,250	19,731	15,481	-	15,481	134.520%	**20,825**	2,075	75	-	**18,675**
2011	4,250	20,225	15,975	-	15,975	134.520%	**21,489**	2,141	77	-	**19,270**
2012	4,250	20,730	16,480	-	16,480	134.520%	**22,169**	2,209	80	-	**19,880**
2013	4,250	21,248	16,998	-	16,998	134.520%	**22,866**	2,278	82	-	**20,506**
2014	4,250	21,780	17,530	-	17,530	134.520%	**23,581**	2,350	85	-	**21,146**
2015	4,250	22,324	18,074	-	18,074	134.520%	**24,313**	2,423	88	-	**21,803**
2016	4,250	22,882	18,632	-	18,632	134.520%	**25,064**	2,497	90	-	**22,476**
2017	4,250	23,454	19,204	-	19,204	134.520%	**25,834**	2,574	93	-	**23,167**
							206,319	**20,558**	**743**	**-**	**185,019**

Net Present Value 9 Collections **8.50%** > **114,018**

TIF: Calculation
- Discussion re: Original Local Tax Rate and what happens when actual current rate exceeds it (excess increment distribution) distribution)…
- Discuss "cannibalization"…

Scenario 1: Project on Parcel 2

	Parcel 1	Parcel 2	Parcel 3	Parcel 4	Parcel 5	TOTAL	
Original Tax Capacity	$ 1,000	$ 5,000	$ 10,000	$ 5,000	$ 3,000	$ 24,000	Original
New Tax Capacity	$ 1,000	$ 15,000	$ 10,000	$ 5,000	$ 3,000	$ 34,000	New
						$ 10,000	Captured
						150%	Local Tax Rate
						$ 15,000	**Tax Increment**

Scenario 2: Cannibalization on Parcel 3

	Parcel 1	Parcel 2	Parcel 3	Parcel 4	Parcel 5	TOTAL	
Original Tax Capacity	$ 1,000	$ 5,000	$ 10,000	$ 5,000	$ 3,000	$ 24,000	Original
New Tax Capacity	$ 1,000	$ 15,000	$ -	$ 5,000	$ 3,000	$ 24,000	New
						$ -	Captured
						150%	Local Tax Rate
						$ -	**Tax Increment**

TIF: Quirky Rules
- Municipal Development Districts equal to or larger than the tif district / Redevelopment Project Areas
- 10% of tax increments collected may be used for administrative purposes (must be documented!)
- Discuss eligible TIF expenses, "ground and below" myth…
- NOT eligible: levy support, operations, gov't buildings, social/recreational facilities, parks and for the most part, decorative items
- "But For" Test: Must be documented, but how? Prove necessary

Discuss policy/philosophy…

TIF: Quirky Rules
- Four Year Rule: If, after four years from certification, no demolition, rehabilitation, renovation, site preparation, or road improvements (utility work does not qualify) have not been undertaken on or adjacent to a parcel within a TIF District, that parcel should be "kicked out" of the TIF District. It may be brought back in when such improvements actually commence.
- Five Year Rule: After five years have past since certification, tax increments can only be used to pay off obligations created within the first five years. No more new deals!!
- Pooling: The act of using tax increment to pay for items OUTSIDE of the TIF District, but within the Project Area. Pooling is heavily regulated, severely limited and must be specifically approved in the TIF Plan prior to doing so. Not a good idea to do.
- County Road Costs… 45 days to do an impact on the road and need for improvement
- Annual Reporting!!!!
- Green Acres: Except for Housing & certain Manufacturing projects, 5 year wait period… can continue to pay old tax value until sell and then the new assessed value is paid up.

TIF: The Districts
- There are several types of TIF Districts, each with its own criteria and restrictions.
- By far, the most common are: Housing, Economic Development, and Redevelopment Districts

TIF: The Districts
HOUSING DISTRICTS:
1. 26 years collections maximum
2. Must consist of a project, or a portion of a project, intended for occupancy, in part, by persons or families of low and moderate income
3. 100% of increments collected must be used to assist a Housing Project (10% can be used for admin purposes)
4. Residential Single Family Owner Occupied: 95% of initial sale of units located within the TIF District must be occupied by income qualified families. For a family of 2 or less, State or County median income (whichever is higher), for 3 or more, 115% of State or County median income (whichever is higher).
5. Rental property: 80% of units must be "controlled". 40/60, 20/50… Must fill "the gap" with local limitation…
TIF: The Districts
REDEVELOPMENT DISTRICTS:
1. 26 collections maximum
2. Parcels consisting of 70% of the total area are improved. "Improved" means 15% coverage.
3. >50% of buildings, not including out buildings, must be substandard. Substandard, in this instance, indicates that the cost to bring the building completely up to code would cost 15% or more of building a new building from scratch. Substandard test MUST include an interior inspection of all buildings.
4. 90% of increments must be spent correcting the conditions that allowed the designation as a Redevelopment District (basically, spending must occur on or adjacent to parcels that have substandard buildings)
TIF: The Districts
ECONOMIC DEVELOPMENT DISTRICTS:
1. 9 years collections maximum; 5 years to develop
2. 85% of all square footage must be used for:
    i. Manufacturing
    ii. Warehousing
    iii. R&D related to above
    iv. Telemarketing
    v. Tourism in certain counties
    vi. Qualified border retail (1 mile or less from border, not in metro area, at LEAST 25,000 square feet of retail)
3. Small City Rule: under 5,000 pop., more than 10 miles from city of 10,000 pop. as crow flies. Allows commercial facilities no greater than 15,000 square feet in size.
4. Must stick with small city exemption for all parcels if you do!!!

Economic Dev Districts NEW!!
Tax Increments from an economic development district for which certification was requested after June 30, 2009, may be used to provide improvements, loan subsidies, grants, interest rate subsidies or assistance in any form to developments consisting of buildings, and ancillary facilities if the following conditions are met:
a) The municipality finds the project will create or retain jobs in the state, including construction jobs, and the construction of the project would not have commenced before July 1, 2011 without the assistance to be provided;
(b) Construction of the project begins no later than July 1, 2011; and
(c) The request for certification of the district is made to the county no later than June 30, 2011.

TIF Bonds
- Issuance must be specifically approved within the TIF Plan
- Proceeds must be spent on TIF eligible items approved in the TIF Plan's budget
- PAYG & Revenue vs. General Obligation

• For General Obligation Bonds, tax increments must be sufficient to cover 20% of the principal amount of the bonds
• General tax levies or other revenues may be used to cover the difference
• Does NOT count against Net Debt
• If proceeds are used for land acquisition (>25% for redev, >10% for housing), developer agreement must be in place with recourse for non development
• Interfund loans are allowed, must be authorized via resolution PRIOR to making expenditure (limitation on interest rate)

PAYG (pay as you go) vs Up Front
• PAYG: Developer fronts all costs, submits copies of paid invoices for eligible costs, City reimburses the Developer for those costs ONLY to the extent tax increments are collected. No requirement to make up a shortfall. These deals come with a TIME limitation and a DOLLAR AMOUNT limitation.
• Up Front: City fronts costs with some type of official borrowing (bonds, interfund loan, etc.) and hopes annual increments are sufficient to cover the debt service payments.
• Up Front is MUCH MORE risky than PAYG unless the bonds can be issued as REVENUE BONDS. Difficult to do nowadays due to underlying risk of changing legislation impacting TIF revenues. Bank provides the up front money more difficult to achieve; higher interest higher costs.
• Pursue PAYG whenever you can…..

TIF DISTRICT APPROVAL
- Requires public hearing process, publication
- Requires drafting of a TIF Plan, including a budget
- Copies of TIF Plan sent to County & School District for comment
- Commissioner letter (Housing, Redev)
- 30 Day County/School review (45 days for County if adjacent to County Road)
- Property owner approval not required
- NO VETO POWER!

TIF vs. Abatement: The Differences

TIF Automatically captures all local taxes Cities, Counties, HRAs, EDAs, etc. Lots of rules and reporting requirements. County calculates and distributes TIF, Long-term commitments (up to 26 yrs) Can't do all projects, Easy, flexible bonding. Generally, worth more.

Tax Abatement
Each jurisdiction speaks for itself. . Not EDAs, HRAs, etc. Few rules and little reporting (for now) New value only (taxes). Each jurisdiction must calculate, budget, levy. Term limited to 15 or 20 years Most anything, anywhere. No leverage. . Generally, worth less.
NOTE: State Commercial Property Taxes are NOT collected as increment!!
What if the majority changes with new council; not obligated must prove need. Mayor Scott Keigley it makes sense because the city isn't out anything. Mike; as long as doing it properly, but others would have lower taxes with companies that are planning on coming in. Business subsidy law; when have tif they have to agree to maintain business for a certain amount of time and hire a certain number of employees that can be set up at the same time as a tif. Timeframe to complete; about 2 months.
Break at 7:43 5 minutes Mayor Scott Keigley called the meeting back to order at 7:50pm

VI. EMPLOYYEE / STAFF PLANNING SESSION

Roles and responsibilities; job sharing opportunities to do things differently, can't keep being reactive. Councilor Brian Breider; Tim taking on more with the water project, look at another part time person. Tim; there is enough work for at least a part time person and can justify a year round position. August is always busy; summer into fall, need a person on call for the water system when it is operational if he is unavailable. The city may not need to be full time year round. Councilor Brian Breider; seasonal would be cheaper but then will the person be dependable. Shadowing and training for coverage. Tim has a list of what he does but need to have someone else aware of what needs to be done. Councilor Kevin McDermott; would Steve Wittlief be willing to pick up more responsibility

with the water project. Councilor Brian Breider: the city needs to have a back up person. Steve Wittlief would be willing to be back up. Tim; the panel has codes, may not be necessary to do anything, may require a phone call, or may require repairs. Councilor Brian Breider: Steve as back up but also a part time person. Some things are being deferred: weed spraying, trimming, ect. Councilor Paul Briggs; seasonal may not make sense; need someone reliable year in and year out. Councilor Jackie Hall; if it is seasonal he will always be training someone in. Councilor Brian Breider; have overlapping coverage, the city will keep growing. The city will have to do curb stops; turning on and off, locates, can't just have one person to do this. Tim; there have already be a few meter calls that takes about an hour. The things that get added to his regular routine make him have to drop what he's doing. Councilor Brian Breider; shifting some of the building responsibilities to others. Lynn; can set up for meetings, do the board, run the vacuum; she was hired to support the city clerk, but is willing to be flexible. Councilor Brian Breider; the city took the park and the dam on. Tim supports the park and didn't have to do that prior. Evelyn not much they can do for expansion. Councilor Brian Breider; look at costs of the park and dam; the county payment will go away some day. Steve Wittlief; there are no problems, everything works smoothly, it stays the same. Tim; most places he's worked there has been cross training, there isn't here. There isn't someone that could come in and do my job without instruction. Councilor Jackie Hall; may want to consider cross training within the office as well, during slower times could cross train. Councilor Brian Breider; the Fire Dept. requested that a new hire would be on the Fire Dept. to make the daytime mutual aid call. It would be difficult if employee was in Rochester picking up material, using noisy equipment or has the day off. Councilor Brian Breider; it takes awhile to go through the process to hire. It's busy now, but by October it will be quieter. There is some coverage through Bonestroo. Tim; there are trainings that they could complete in the fall and winter months. Shoot for a January start date, post in October. Dial in the qualifications that they could attain or have. Tim; has a job description ready. Budget amount for wage; $12 per hour, minimum of 20 and up to 30 hours with busy times in the summer. Boiler& water operator, pesticide training; stress part time may become full time. Councilor Brian Breider; there are lot of changes in the community at this time, meter reads, billing, stamp sticking, it will get worked out.

VII. ADJOURNMENT

Councilor Brian Breider motioned to adjourn at 8:40 pm, Councilor Jackie Hall second; all in favor, motion carried.

Respectfully Submitted,

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City Clerk Mayor