



**City Council Work Session
Tuesday, August 31, 2021 at 6:00 PM
Public Meeting Room**

AGENDA

1. Call to Order/Roll Call
2. Items for Discussion
 - A. Draft Franchise Fee Ordinance and Franchise Fee Rebate Policy Review
 - B. Heritage Days 2022 Discussion
 - C. Tax Increment and Abatement Overview
3. Future Discussion
4. Adjournment

(The Council may meet as a group for dinner)

Please contact the City Administrator's Office if you need special accommodations while attending this meeting



Council Work Session Memorandum

TO: Mayor and City Council
THROUGH: Tim Murray, City Administrator
FROM: Mark DuChene, City Engineer
MEETING DATE: August 31, 2021
SUBJECT: Draft Franchise Fee Ordinance and Franchise Fee Rebate Policy Review

Discussion:

At the July 20, 2021 City Council Work Session, the City Council reviewed a draft proposal to increase utility franchise fees as an alternative to levying special assessments for traditional pavement management street improvement projects (i.e. mill and overlay and street reconstructions). At that meeting there was general consensus from the City Council to move forward with refining the numbers and estimates for the necessary franchise fee increases as well as to develop a rebate program for the portion of the franchise fee increase allocated to street improvement projects for those properties who have an active and eligible previous street improvement project assessment roll, regardless of if they have paid any or all of their assessment off. Since that time, staff has completed a review of the eligible projects and active assessment rolls and confirmed that the proposed franchise fee increases as shown on the attached draft ordinances are sufficient to cover the costs for the street improvement projects based on historical allotments from property tax levies, special assessments and the proposed rebate program.

Attached are copies of the draft ordinance, rebate policy and an FAQ that will be posted to the City's website and Facebook pages for people to review. Additionally, a notice of the ordinance hearing scheduled for a first reading on September 28, 2021 will be included in the September City utility bills and also posted in the Faribault Daily News, City Website and Facebook pages.

At the meeting, staff will again review the proposed fee increases, the draft rebate program and the FAQ to solicit any feedback from the Council and confirm the Council's intent to move forward with the first reading of the ordinance on September 28, 2021.

Attachments:

1. Draft Ordinance 2021-XX Amending Appendix A - Utility Franchise Fees - 1st Reading
2. Draft Resolution 2021-XXX Establishing a Utility Franchise Fee

Refund Program

3. Draft Franchise Fees _ Faribault_FAQ

**CITY OF FARIBAULT
ORDINANCE No. 2021-xx**

**AMENDING APPENDIX A, ARTICLE II OF THE CITY CODE OF
ORDINANCES REGARDING UTILITY FRANCHISE FEES**

THE CITY OF FARIBAULT ORDAINS:

Section 1. The City Code of Ordinances, Appendix A, ARTICLE II, DIVISION 1. – CITY ELECTRICITY, Section 8.2 shall be amended by the addition of the underlined language and the deletion of the ~~stricken~~ language as follows:

DIVISION 1. – ~~CITY ELECTRICITY~~ ELECTRIC – XCEL ENERGY

8.2. Franchise fee amount. Commencing with the companies' January 1, 2006, billing cycles, a franchise fee is hereby imposed on the companies as herein provided. The franchise fee shall be in addition to, not in lieu of, any other fees, payments or amounts owed to the city by the companies including right-of-way permit fees.

This ordinance establishes a monthly per meter fee. If a premises has two (2) or more meters being billed at different rates, the companies may have an account for each rate classification, which will result in more than one (1) franchise fee assessment for electric service to that premises.

The city council may annually adjust the fees in Exhibit A. The fee amounts for ~~2020-2022~~ shall remain in effect for subsequent years until such time as they would be changed by the city council.

FEE SCHEDULE

Class	2019 Fee-Per-Meter-	2020-2022 Fee Per Meter
Residential	\$1.48	\$1.63 <u>6.63</u>
Sm C & I—Nondemand	\$1.76	\$1.94 <u>21.94</u>
Sm C & I—Demand	\$35.20	\$38.72 <u>58.72</u>
Large C & I	\$308.00	\$338.80 <u>438.80</u>
Franchise fees are to be collected in the amounts set forth above and remitted to the city on a quarterly basis as follows:		
January—March	Collections due by April 30	
April—June	Collections due by July 31	
July—September	Collections due by October 31	
October—December	Collections due by January 31	

Section 2. The City Code of Ordinances, Appendix A, ARTICLE II, DIVISION 1A. – STEELE WASECA COOPERATIVE ELECTRIC, Section 8.2 shall be amended by the addition of the underlined language and the deletion of the ~~stricken~~ language as follows:

8.2. Franchise fee amount. Commencing with the companies' January 1, 2006, billing cycles, a franchise fee is hereby imposed on the companies as herein provided. The franchise fee shall be in addition

to, not in lieu of, any other fees, payments or amounts owed to the city by the companies including right-of-way permit fees.

This ordinance establishes a monthly per meter fee. If a premises has two (2) or more meters being billed at different rates, the companies may have an account for each rate classification, which will result in more than one (1) franchise fee assessment for electric service to that premises.

The city council may annually adjust the fees in Exhibit A. The fee amounts for ~~2020-2022~~ shall remain in effect for subsequent years until such time as they would be changed by the city council.

FEE SCHEDULE

Class	2019 Fee Per Meter-	2020-2022 Fee Per Meter
Residential	\$1.48	\$1.63 <u>6.63</u>
Sm C & I—Nondemand	\$1.76	\$1.94 <u>21.94</u>
Sm C & I—Demand	\$35.20	\$38.72 <u>58.72</u>
Large C & I	\$308.00	\$338.80 <u>438.80</u>
Franchise fees are to be collected in the amounts set forth above and remitted to the city on a quarterly basis as follows:		
January—March	Collections due by April 30	
April—June	Collections due by July 31	
July—September	Collections due by October 31	
October—December	Collections due by January 31	

Section 3. The City Code of Ordinances, Appendix A, ARTICLE II, DIVISION 2. – GAS – XCEL ENERGY, Section 8.2 shall be amended by the addition of the underlined language and the deletion of the ~~stricken~~ language as follows:

8.2. Franchise fee amount. Commencing with the company's January 1, 2006, billing cycles, a franchise fee is hereby imposed on the company as herein provided. The franchise fee shall be in addition to, not in lieu of, any other fees, payments or amounts owed to the city by the company including right-of-way permit fees.

This ordinance establishes a monthly per meter fee. If a premises has two (2) or more meters being billed at different rates, the companies may have an account for each rate classification, which will result in more than one (1) franchise fee assessment for electric service to that premises.

The city council may annually adjust the fees in Exhibit A. The fee amounts for ~~2020-2022~~ shall remain in effect for subsequent years until such time as they would be changed by the city council.

FEE SCHEDULE

Class	2019 Fee Per Meter-	2020-2022 Fee Per Meter
Residential	\$1.78-	\$1.96 <u>6.96</u>
Commercial firm—Nondemand	\$4.16-	\$4.57 <u>24.57</u>
Commercial—Demand	\$35.64-	\$39.20 <u>59.20</u>
Small interruptible	\$100.98-	\$111.08 <u>131.08</u>
Medium and large interruptible	\$297.00-	\$326.70 <u>426.70</u>
Franchise fees are to be collected in the amounts set forth above and remitted to the city on a quarterly basis as follows:		

January—March	Collections due by April 30
April—June	Collections due by July 31
July—September	Collections due by October 31
October—December	Collections due by January 31

Section 4. The City Code of Ordinances, Appendix A, ARTICLE II, DIVISION 2A. – GAS – GREATER MINNESOTA GAS, INC, Section 7.2 shall be amended by the addition of the underlined language and the deletion of the ~~stricken~~ language as follows:

7.2 Franchise Fee Amount. Commencing with the Company's January 1, 2019 billing cycles, a franchise fee is hereby imposed on the Company as herein provided. The franchise fee shall be in addition to, not in lieu of, any other fees, payments or amounts owed to the City by the Company, including right-of-way permit fees.

This ordinance establishes a monthly per meter fee. If a premises has two (2) or more meters being billed at different rates, the Company may have an account for each rate classification, which will result in more than one franchise fee assessment for natural gas service to that premises.

The City Council may annually adjust the fees in the Fee Schedule with proper notice to Company and sufficient time for Company to meet regulatory requirements as they may exist from time to time. The fee amounts for ~~2020~~ 2022 shall remain in effect for subsequent years until such time as they would be changed by the City Council.

FEE SCHEDULE

Class	2019 Fee Per Meter	2020 <u>2022</u> Fee Per Meter
Residential Service (RS1)	\$1.78	\$1.96 <u>6.96</u>
Small Commercial Service (SCS1)	\$4.16	\$4.57 <u>24.57</u>
Commercial Service (CS1)	\$4.16	\$4.57 <u>24.57</u>
Mid Commercial Service (MS1)	\$35.64	\$39.20 <u>59.20</u>
Large Commercial Service (LS1)	\$35.64	\$39.20 <u>59.20</u>
Agricultural Service - Interruptible (AG1)	\$100.98	\$111.08 <u>131.08</u>
Industrial - Interruptible (IND1)	\$297.00	\$326.70 <u>426.70</u>
Transportation Service (TR1)	Same as applicable rate class	Same as applicable rate class
Franchise fees are to be collected in the amounts set forth above and remitted to the city on a quarterly basis as follows:		
January—March	Collections due by April 30	
April—June	Collections due by July 31	
July—September	Collections due by October 31	
October—December	Collections due by January 31	

Section 5. This ordinance amendment shall take effect and be in force after its passage and publication in accordance with Section 3.05 of the City Charter.

First Reading: September 28, 2021

Second Reading: October

Publication Date:

Faribault City Council

Kevin F. Voracek, Mayor

ATTEST:

Timothy C. Murray, City Administrator

CITY OF FARIBAULT

RESOLUTION #2021-XXX ESTABLISHING A UTILITY FRANCHISE FEE REFUND PROGRAM

WHEREAS, the City of Faribault (the "City") has adopted franchise fee ordinances for gas and electric utilities, respectively, within the City pursuant to City Ordinance Nos. 2004-21, 2004-22, 2004-23 and 2018-10 (the "Ordinances") thereby imposing the respective franchise fees contained therein upon Xcel Energy, Steele Waseca Cooperative Electric, and Greater Minnesota Gas, Inc. and their respective successors and assigns (collectively the "Companies"); and

WHEREAS, the Ordinances, respectively, provide specific franchise fees applicable to certain classifications of properties within the City as outlined in Schedule A of each of the Ordinances; and

WHEREAS, the respective franchise fees applicable to the respective property classifications provided in Schedule A of the respective Ordinances are applicable per customer premise/per month based on metered service to customers of the Companies within the City; and

WHEREAS, the City desires to use a portion of the respective franchise fee revenues collected from the Companies pursuant to the respective Ordinances for eligible public improvement projects (the "Eligible Projects"); and

WHEREAS, one of the purposes of collection of franchise fees is to replace future special assessments for certain Eligible Projects, which may be funded partially with revenues collected from the respective franchise fees pursuant to the Ordinances; and

WHEREAS, in adopting the Ordinances, the City Council has recognized that there are existing and currently outstanding special assessments that have been levied on prior Eligible Properties and that the same have been or will continue to be paid by such original property owners until the levied special assessments are paid in full; and

WHEREAS, for either eligible Properties, as defined herein below, with outstanding special assessments remaining to be paid, or for Eligible Properties for which a special assessment was levied , but was otherwise paid in full prior to the original maturity date by the original property owner (collectively the "Eligible Properties"), the payment of franchise fees under the Ordinances by such original property owners would be in addition to the payment of the identified levied special assessments; and

WHEREAS, based on the foregoing, payment of franchise fees by the above-identified original property owners of Eligible Properties would be duplicative of the corresponding equal amount of special assessments also paid by the above-identified property owner of Eligible Properties; and

WHEREAS, the City Council desires to address this duplicative payment through the establishment of a franchise fee refund program whereby the duplicate amount of franchise fees paid would be refunded to the above-identified original property owners of eligible Properties on an annual claims-made basis for the period until the original maturity date of the respective special assessments.

NOW, THEREFORE BE IT RESOLVED, the franchise fee refund program described in the recitals hereto, which are made a part hereof, is hereby approved in the form attached hereto and incorporated herein by reference as Exhibit A.

Date Adopted: September 28, 2021

Faribault City Council

Kevin F. Voracek, Mayor

ATTEST:

Timothy C. Murray, City Administrator

EXHIBIT A

Franchise Fee Refund Program

Eligible Properties: The following properties are eligible to participate in the franchise fee refund program:

1. Properties within the City with current, levied, and outstanding special assessments thereon for Eligible Projects where such special assessments have not been paid in full upon a respective Eligible Property by the original property owner of such property; and
2. Properties within the City for which special assessments were levied for Eligible Projects, but where such special assessments on respective Eligible Properties are not currently outstanding because the same have otherwise paid in full by the original property owners of such property prior to the original maturity date of such special assessment.

No property within the City shall remain an Eligible Property for purpose of an annual franchise fee refund under this program following the date upon which the special assessment levied upon a respective Eligible Property has been paid in full and the duration of the levied special assessment has expired; the original maturity date has passed.

Notice and Claim for Refund Payment: On an annual basis, for the duration of the refund program herein provided, the City Finance Department shall post notice on the City's website for Eligible Properties to make an annual claim for an annual refund of franchise fees paid on an Eligible Property in the Eligible Amount provided herein.

Original Property Owner: The original property owner shall be defined as the property owner on the final assessment roll of an eligible project as approved by resolution of the City Council. In order to be eligible to participate in the Franchise Fee Refund Program, the property owner submitting for a refund must be the same property owner as listed on the final assessment roll of the eligible project as approved by resolution of the City Council. The City reserves the right, in its sole discretion, to determine eligibility of a property owner in such cases as the transfer of a property into a trust or similar property transfer.

Eligible Projects: Eligible Projects shall generally be defined as projects related to the City's pavement management program such as street reconstruction and pavement preservation (mill and overlay) projects. New street construction projects, utility only construction projects and projects for which no special assessments were levied are generally not eligible. The City reserves the right, in its sole discretion, to determine Eligible Projects.

Eligible Amount of Refund: The amount of annual refund that the original property owner of an Eligible Property may claim shall not exceed the portion of

the amount of franchise fees applicable to the Eligible Property related to Eligible Projects for the prior calendar year and paid by the Owner of the Eligible Property (the "Eligible Amount"). The Eligible Amount of an annual claim for refund of franchise fees shall also not exceed the amount of the amortized special assessment for the same period, not including interest, for which refund is sought by the original property owners of an Eligible Property.

Annual Claim Procedure: Owner of Eligible Property may submit Eligible Refund form to the City Finance Department between January 1 and February 28 of the subsequent year to be considered for refund. All refunds will be issued on the fourth Tuesday of March. The form will need to be accompanied with a copy of one month electric and gas bill.

Duration of Program: The franchise fee refund program hereby established shall terminate and be of no further force or effect at such time as there are no Eligible Properties remaining, or fifteen years from the date of this resolution, whichever occur first. Notwithstanding the foregoing, the City Council may terminate this program at any time by resolution if the City Council determines that it is in the best interest of the City to so act.

Franchise Fees

The Faribault City Council approved utility franchise fees on gas and electric utilities as an alternative revenue source starting back in 2004. Allocations from these utility franchise fees have funded various City improvements including parks and trail improvements, a portion of street improvements, as well as capital equipment and public facility projects.

Currently the City Council is considering raising the franchise fees on utilities to increase revenues for street improvement projects related to the City's pavement management program. By increasing franchise fees on utilities, the City can eliminate the need to generate revenues to fund street improvement projects from special property tax assessments. Historically the City has allocated as much as \$600,000 towards street improvements which is approximately 6% of the City's property tax revenues and 22% of the properties (based on property valuation) in the City are exempt from paying property taxes.

The City of Faribault currently maintains over 115 miles of streets in town and is seeking a more reliable and equitable revenue source to fund street improvements.

The following information is provided for property owners to review and be educated on why the City is considering raising franchise fees and the pros and cons of using these increased franchise fees to fund street improvement projects versus the current method of utilizing special assessments.

What is a franchise fee?

Many cities in Minnesota have a franchise agreement with each utility company (gas, electric) for the use of publicly-owned right-of-way for their business purpose. The right-of-way is the public property located adjacent to roadways for utilities, construction access, and snow storage. By law (Minnesota Statute 216B.36), cities may charge utility companies a fee to manage the use of the publicly-owned right-of-way to deliver service.

The City determines the amount of franchise fees as established by an ordinance that is mutually agreed upon by the City and the utility company. In Faribault those utility companies are Xcel Energy (gas and electric), Steele Waseca Electric Cooperative (electric only) and Greater Minnesota Gas Co. (gas only). Existing City of Faribault franchise fees on these four utility companies are collected monthly based on a flat rate for residential and commercial customers, based on their defined customer categories.

Utility companies have the right to pass franchise fees on to their customers. Utility customers see a line item on their gas and electric bills for a "city fee." The utility companies collect this fee and remits all of the payments directly to the City.

What is a street assessment?

A street assessment is a fee levied against properties that receive direct benefit from a public improvement, such as a street improvement, and are typically limited to the properties that directly abut said improvement. Street assessments are levied according to Minnesota Statutes 429.

Home and business owners are assessed for street improvement projects and owners typically pay between 20% to 50% of the project costs based on the benefit of the improvement to property. The type of street

improvement can vary, from a Mill and Overlay, to Reclamation, to Reconstruction. The expected life of a street is 60 years. Typically, you will have one type of street improvement on your street every 20 years, two mill and overlays and then a full street reconstruction.

According to the City's current special assessment policies regarding street improvement projects, home and business owners are assessed based on the amount of front footage the property has adjacent to the project street. These assessments can be quite costly and if not paid in full upfront, are added to a parcels property taxes and collected over a period of time (typically 15 years) and accrue interest as well.

Assessment amounts can vary largely due to the difference of size in each parcel and the rates can change annually. A typical residential street assessment for a mill and overlay can range from \$1,000- \$2,100 and for a reconstruction \$3,775 to \$7,550. Non-residential property assessments for street projects vary even more due to the increased variability in lot sizes but can range anywhere from \$1,000 to \$10,000+.

What are the benefits of franchise fees over a street assessment?

- Smaller monthly fees instead of one large assessment
- All typical single-family residential properties (assuming they have only one gas meter and one electric meter) would pay the same amount towards street improvements regardless of size of home or number of cars/drivers.
- Less time-consuming and substantially less costly overall for the city.
- Keeps maintenance and reconstruction on a proactive and timely schedule
- More equitable to people who move into, out of, or within the city

What are the benefits of franchise fees over increasing property taxes?

- New construction would contribute immediately, which would

eliminate the one to two-year lag for the City to receive property taxes for property owners receiving municipal services

- A wider base than property taxes; property tax exempt, renters, non-profits, schools, and other entities that use the public infrastructure pays franchise fees.
- Flat fee instead of tax increases based on property valuation increases/decreases.

How will the proposed franchise fee increases be used?

The proposed franchise fee increases will be used for street maintenance, which includes mill and overlays, full depth reclamations, and reconstructions and will be used in lieu of levying special assessments for typical street improvement projects.

How much will I be charged?

Residents will typically see an increased charge of \$5.00 on their electric bill and \$5.00 on their gas bill every month.

Commercial and industrial properties will need to contact their utility service provider to find your classification. When contacting your utility provider, please identify yourself as a city of Faribault commercial user.

Note regardless of property classification, franchise fees are charged on a per meter basis, so if you have multiple gas and/or electric meters/accounts, the fee will be charged on each meter based on that meter's classification.

	Existing Faribault 2021 Franchise Fees	Proposed Additional Franchise Fees for Street Improvements	Proposed Total 2022 Franchise Fees
XCEL	Monthly Fee	Monthly Fee	Total Proposed Monthly Fee
Electric - Residential	\$1.63	\$5.00	\$6.63
Electric - Sm C&I Non Demand	\$1.94	\$20.00	\$21.94

Electric - Sm C&I Demand	\$38.72	\$20.00	\$58.72
Electric - Large C&I	\$338.80	\$100.00	\$438.80
Gas - Residential	\$1.96	\$5.00	\$6.96
Gas - Comm Firm Non-Demand	\$4.57	\$20.00	\$24.57
Gas - Comm Firm Demand	\$39.20	\$20.00	\$59.20
Gas - Small Interruptible	\$111.08	\$20.00	\$131.08
Gas - Med & Lg Interruptible	\$326.70	\$100.00	\$426.70

	Existing Faribault 2021 Franchise Fees	Proposed Additional Franchise Fees for Street Improvements	Proposed Total 2022 Franchise Fees
Steele Waseca Electric	Monthly Fee	Monthly Fee	Total Proposed Monthly Fee
Electric - Residential	\$1.63	\$5.00	\$6.63
Electric - Sm C&I Non Demand	\$1.94	\$20.00	\$21.94
Electric - Sm C&I Demand	\$38.72	\$20.00	\$58.72
Electric - Large C&I	\$338.80	\$100.00	\$438.80

	Existing Faribault 2021 Franchise Fees	Proposed Additional Franchise Fees for Street Improvements	Proposed Total 2022 Franchise Fees
Greater MN Gas	Monthly Fee	Monthly Fee	Total Proposed Monthly Fee
Gas - Residential	\$1.96	\$5.00	\$6.96
Gas - Small Commercial	\$4.57	\$20.00	\$24.57
Gas - Commercial	\$4.57	\$20.00	\$24.57
Gas - Mid Commercial	\$39.20	\$20.00	\$59.20
Gas - Large Commercial	\$39.20	\$20.00	\$59.20
Gas - Agricultural	\$111.08	\$20.00	\$131.08
Gas - Industrial	\$326.70	\$100.00	\$426.70

Why now?

Residents who have gone through a street assessment process have

stated they do not like the large unanticipated assessment and the assessment process is complex and exhausting to figure out.

By implementing a franchise fee, residents will pay a flat fee per month. This revenue replacement is more manageable and eliminates an unanticipated expense for the projects the City has planned.

Is this just another tax?

This is revenue replacement - a different revenue source for the city. Franchise fees will replace special assessments and are applicable to all properties in the City who have gas and electric utility accounts regardless of their tax or tax-exempt status.

What if I am paying for a street assessment?

Continue to pay your street assessment. A refund program for eligible properties plan will be put in place to offset the franchise fee increase amount related to street improvements. Eligible properties with an active assessment roll for an eligible project regardless or not if the property previously paid all, some or none of their assessment will be sent a rebate form from the City after the first year of the franchise fee increase. These eligible properties will receive an annual rebate of either their street portion of their franchise fees or the amount of their assessment whichever is smaller.

Why not add this fee to the water bill? Why don't you just charge a 'Street Fee' to each property and bill it similar to a water bill? Why go through a third party for collection?

State law does not allow a city to charge a direct street fee for maintenance. State law does allow for the collection of a franchise fee from utility service providers for their use of the right-of-way. That is why we are charging this fee to the utility companies and then dedicate its use to maintain the city street system.

I live in an apartment, town home or manufactured home. Will I

be charged the fee?

Yes, you will pay the standard residential fee assuming you are responsible for your gas and electric utility bills.

Will commercial/industrial properties or state or school properties pay the fee?

Yes, all properties with a gas and/or electric utility account will pay the fee regardless of tax/tax-exempt status.

I live on a private road or county road. Will I be charged the fee?

Yes, you will pay the standard residential fee.

When will this go into effect?

The franchise fees go into effect January 2022.

When do I have to pay the franchise fee?

The franchise fee is included on your gas and electric bill every month.

How long will the city have franchise fees?

The fee is expected to be a long-term funding option for the city and not anticipated to be eliminated.



Council Work Session Memorandum

TO: Mayor and City Council
THROUGH: Tim Murray, City Administrator
FROM: Paul J. Peanasky, Parks and Recreation Director
MEETING DATE: August 31, 2021
SUBJECT: Heritage Days 2022 Discussion

Discussion:

At the August 10, 2021, Council Work Session, a presentation was made for the 2022 Heritage Days Festival. Since this is the 150th anniversary of the City being incorporated, the Heritage Days Committee was asked to put together a proposal for a larger community celebration. At this Work Session, the Council asked to discuss the additional expenses and to possibly provide some input on what they would like to add to the event. It should be noted that the normal annual request for Heritage Days has been \$5,000 for general operations and \$1,500 for youth and family activities for a total of \$6,500.

Since that meeting, the Heritage Days Board met to discuss planning for the larger event. Below are some of the recommendations and funding requests that were discussed.

Bringing our German and French Sister Cities to the event (cost includes two (2) people from each location)

1. Motel Rooms – 4 rooms x 5 days x \$150.00
2. Meals – 4 visitors x \$100.00 x 5 days
3. Special Dinner with City Council (Redemption?)
4. Transportation - from and to Airport
5. Entertainment (i.e. golf, Paradise show, etc.) \$200 x 4

<i>Total</i>	<i>\$10,800</i>
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Fireworks	\$14,000
Additional Family Friendly Event	\$ 4,500
Additional Parade Entertainment	\$ 5,000
Additional Youth Entertainment	\$ 4,000
Commemorative Mug and Shirt	\$ 2,500
Upgraded Bands for Evening Entertainment	\$ 4,000
<i>Total</i>	<i>\$34,000</i>
Total Cost	\$44,800

The Heritage Days Board currently partners with a number of organizations in order to offer as many events as possible, including:

- City of Faribault – Mayor’s Reception
- Faribault Parks and Recreation – Concert in the Park
- Rice County Sportfishing Association – Fishing Contest
- Christ Lutheran Church – Box Car Races
- Trinity Lutheran Church – Friday Meal
- Southside Liquors – Beer Garden and Entertainment
- Pleasant Manor – Bingo
- Chamber of Commerce – Downtown Car Cruise
- Gold Star Amusements – Carnival
- Various food vendors
- Fareway – Free Watermelon

The Board does some coordination with each of these organizations, however, most of them conduct their own activities. Depending on the organization/event, there is some financial support for the Board.

The Board is seeking direction on what the City Council would like to see and any additional input for the 2022 event.

Attachments:

1. Page from City's Public Purpose Expenditure Purchasing Policy

D. Membership, Dues and Contributions

The City Council has determined that the City will fund memberships and dues (individual or organization) in professional organizations, and local social and community organizations when the purpose is to promote, advertise, improve or develop the City's resources and advantages that advance the City's efforts in improving economic development, civic, educational and governmental efficiency but such expenditures shall not have as their primary purpose the personal interest or gain of an individual employee.

Monetary contributions to civic organizations must be approved by the City Council during the annual budget process and/or by City resolution. Monetary contributions provided by the City must be for programs that serve our citizens and are deemed to meet the public purpose guidelines.

E. International, Cultural, and Economic Development Programs

The City Council has determined that funds may be expensed for the purpose of advertising the City and its resources and advantages. Sister Cities programs, or their equivalent, are expressly authorized by this provision. Funds appropriated pursuant to this authority may be allocated for activities such as preparation or advertising materials, official travel to related events, and monuments memorializing participation in such events. Funds appropriated pursuant to this authority may further be used in any manner that the City Administrator deems appropriate for the purpose of advancing the City's interests with respect to international, cultural, or economic development activities.

F. Community Events, Festivals, and Celebrations

The City Council authorizes the allocation and expenditure of funds for the purpose of hosting or participating in community events, festivals, or celebrations. The City shall not expend any funds unless it has been determined, by the City Administrator, that participation in such event shall positively advertise the City.

Appropriation of Funds

The cost of the authorized public purpose expenditures will be included in the City's annual budget and approved by the Council as part of the overall budget approval process which includes public notification and opportunity for public input regarding budgeted expenditures.

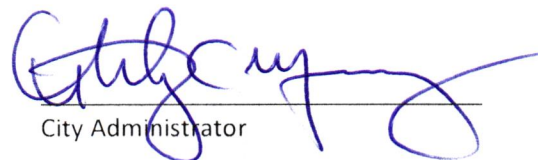
THIS POLICY SPECIFICALLY REPEALS AND REPLACES PRIOR CITY POLICIES AND ADMINISTRATIVE MEMORANDA RELATIVE TO PUBLIC PURPOSE EXPENDITURES AND PURCHASING POLICIES.

Approved:



Mayor

November 12, 2019



City Administrator



Council Work Session Memorandum

TO: Mayor and City Council
THROUGH: Tim Murray, City Administrator
FROM: Jeanne Day, Finance Director
MEETING DATE: August 31, 2021
SUBJECT: Tax Increment and Abatement Overview

Discussion:

The City has utilized tax increment financing and tax abatement as economic development tools to encourage developers to invest in projects that would otherwise not occur and promote new development in the community. These incentives have a financial effect as they impact the City's property tax revenue. Attached is a detailed report of the City's current tax increment districts and tax abatement agreements.

Attachments:

1. 8-31-21 TIF Districts & Tax Abatements Report
2. TIF Districts & Tax Abatement Overview Presentation



Tax Increment Financing Districts & Tax Abatements

City of Faribault, MN

A report providing tax increment financing district types and how they can be used as economic development tools, as well as tax abatement agreements. Details of the existing Tax Increment Financing Districts and fund balances are reported as of December 31, 2020, as well as Tax Abatement projections.

Updated August 31, 2021

Tax Increment Financing Districts

City of Faribault, MN

Tax increment financing is an incentive tool used by cities across the country to encourage developers to invest in projects that would otherwise not occur and promote new development in their communities.

Tax increment is the difference between the amount of property tax revenue generated before a TIF district is created and the amount of property tax revenue generated after a district is created and improvements have been made within the district. The additional revenue, or increment, is made available to developers as an incentive for investing in development projects. The life of the district and the individual projects depend on the type of district and terms in the developer agreement.

Tax increment financing can be used to create five types of districts:

- Redevelopment
- Economic Development
- Housing
- Renewal and Renovation
- Soils Condition

Each type of TIF district has different requirements for its creation, different maximum duration limits, and different restrictions on the use of tax increment revenue. The most common use of TIF districts is for redevelopment, housing and economic development.

Redevelopment Districts – These types of districts are created to help eliminate blighted conditions. Qualifying tax increment expenditures include acquiring sites containing substandard buildings, streets, utilities, paved or gravel parking lots, or other similar structures; demolishing and removing substandard structures; eliminating hazardous substances; clearing the land; and installing utilities, sidewalks, and parking facilities. Use of tax increment in these districts is intended to “level the playing field” by removing the added costs of the blighted property. The statutory maximum duration limit is 25 years after receipt of the first tax increment from the County.

Why Use TIF?

TIF is one of the few remaining tools that local governments can use to attract new business, invest in infrastructure and rebuild blighted areas. TIF districts are a popular and effective economic development tool, available in 49 states across the country and used by 416 development authorities throughout Minnesota.

Economic Development Districts - The purpose for using an economic development district is to support a project which is considered to be in the public interest because it will: (a) discourage commerce, industry or manufacturing from moving to another state or city; (b) increase employment in the State; or (c) preserve and enhance the tax base. Economic development districts are short-term districts intended to primarily assist manufacturing, warehousing, storage and distribution, research and development, telemarketing, and tourism. The statutory maximum duration for economic development districts is 8 years after receipt of the first increment.

Housing Districts – These types of districts are used to encourage development of owner-occupied and rental housing for low- and moderate-income individuals and families by using tax increment revenue as a type of financial assistance. Increment revenue can be used in the construction of qualified housing, as well as to acquire and improve the housing site. Verification of income qualifications are required throughout the life of the district in order to utilize increment for housing projects. The statutory maximum duration limit is 25 years after receipt of the first increment.

Administration and Pooling – All TIF districts allow up to 10% of the increment received to be used to pay for administrative expenses, including fees from the County for tracking the tax increment, independent consultants completing annual State required reporting, and local government for documented time spent administering the districts.

Up to 25% of increment collected in redevelopment districts may be used for pooling outside the district and 20% for economic development districts. Housing districts can use all additional pooled funds for similar low- to moderate-income housing projects. Pooling limits include the 10% allowed for administrative costs. Pooled tax increment revenue may be used for eligible expenses to correct blighted conditions, add to housing projects, or provide other projects with revenue to accomplish goals eligible under tax increment guidelines.

Faribault TIF Districts

Faribault currently has seven active TIF districts made up of the following:

- Two housing districts - Village at Park Ave, 1996; Lofts at Evergreen, 2020.
- Three redevelopment districts - River Ridge, 2000; Faribault Road, 2007; Hamilton, 2019.
- One economic development district – Mike’s Garages, 2011.
- One soils district – Straight River Apartments, 2020.

All seven districts have been created with Pay-As-You-Go (PAYGo) obligations between the developers and the City of Faribault Economic Development Authority. Costs were initially paid by the developer pursuant to the terms of the project development agreements. After the qualifying costs are substantiated and increment is generated by the TIF district, the developers begin receiving reimbursements based on the terms of the PAYGo note. Generally, in PAYGo financing, the developer accepts the risks of failed development and the potential shortfall of anticipated tax increments to reimburse project costs.

Summaries of the seven districts can be found in the charts below:

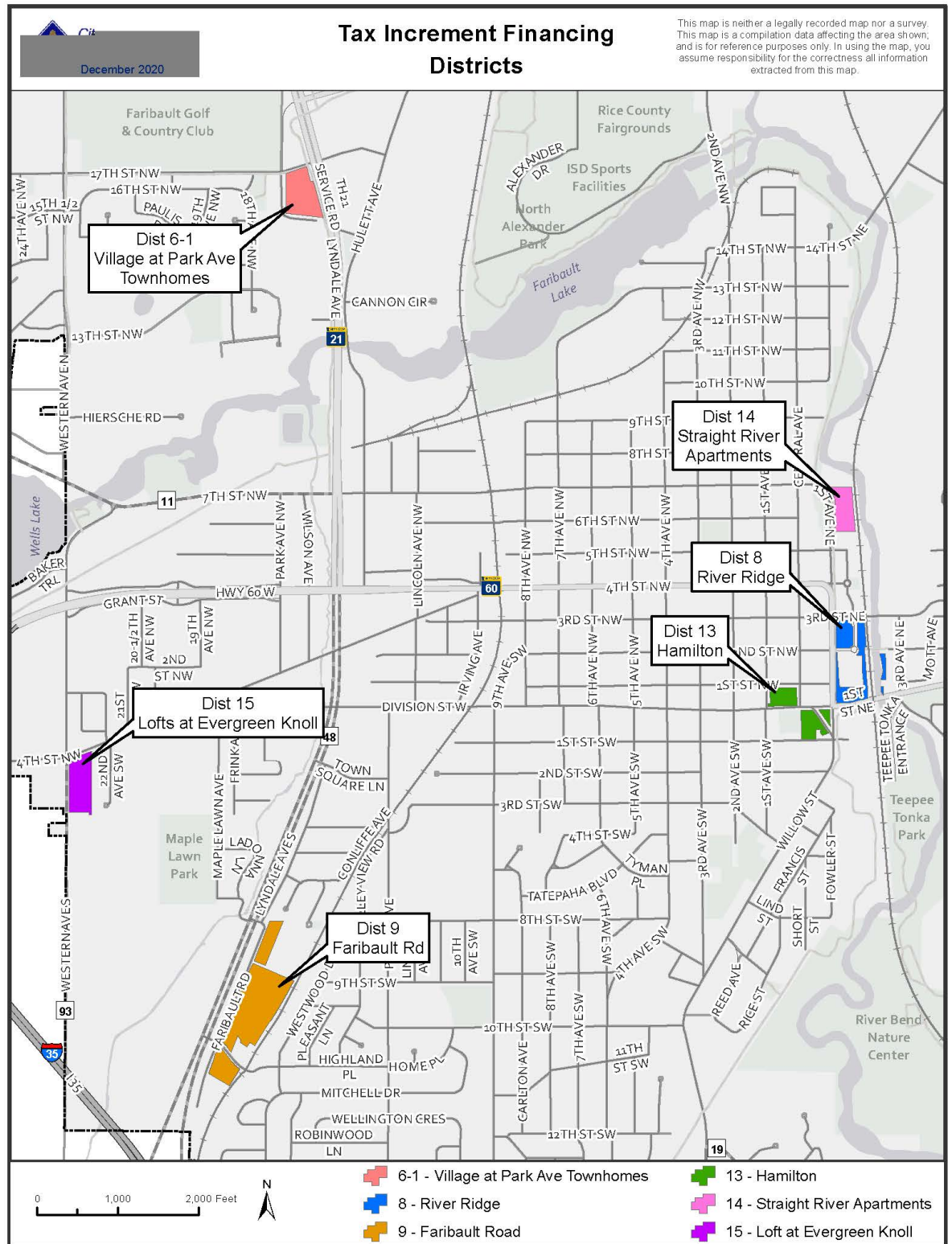
Dist.	Project	Type	Term (yrs)	Start Date Certify	End Date Decertify	Eligible Costs	Paid to Date	Fund Balance
6-1	Village at Park Ave	Housing	25	8/26/96	12/31/23	\$259,771	\$234,502	\$60,760
8	River Ridge	Redevelopment	25	12/26/00	12/31/28	\$1,176,755	\$790,820	\$167
9	Faribault Road	Redevelopment	25	4/24/07	12/31/33	\$844,025	\$174,519	\$0
11	Mike's Garage	Economic Development	8	7/12/11	12/31/21	\$114,341	\$68,063	\$1
13	Hamilton	Redevelopment	25	6/24/19	12/31/46	\$262,000	\$0	(\$241,996)
14	Straight River Apts.	Soils District	20	8/13/20	12/31/40	\$2,086,340*	\$0	(\$46,569)
15	Lofts at Evergreen Knoll	Housing	25	8/11/20	12/31/47	\$528,000*	\$0	\$0

*Maximum eligible amount, not yet determined with actual expenditures

A detailed description of each district, the current available balances, and projected tax increment is shown below to provide management with information to assist in the decision-making process for future tax increment financing projects.

Dist.	Project	Current Net Tax Capacity	Original Net Tax Capacity	Captured Net Tax Capacity	Decertification Date
6-1	Village at Park Ave	\$14,648	\$360	\$14,288	12/31/23
8	River Ridge	\$63,746	\$1,104	\$62,642	12/31/28
9	Faribault Road	\$114,380	\$14,248	\$100,132	12/31/33
11	Mike's Garage	\$18,156	\$8,056	\$10,100	12/31/21
13	Hamilton	\$25,873	\$12,640	\$13,233	12/31/46
14	Straight River Apts.				12/31/40
15	Lofts at Evergreen Knoll				12/31/47

A map of the TIF Districts is included below.



HOUSING DISTRICT 6-1 (263)

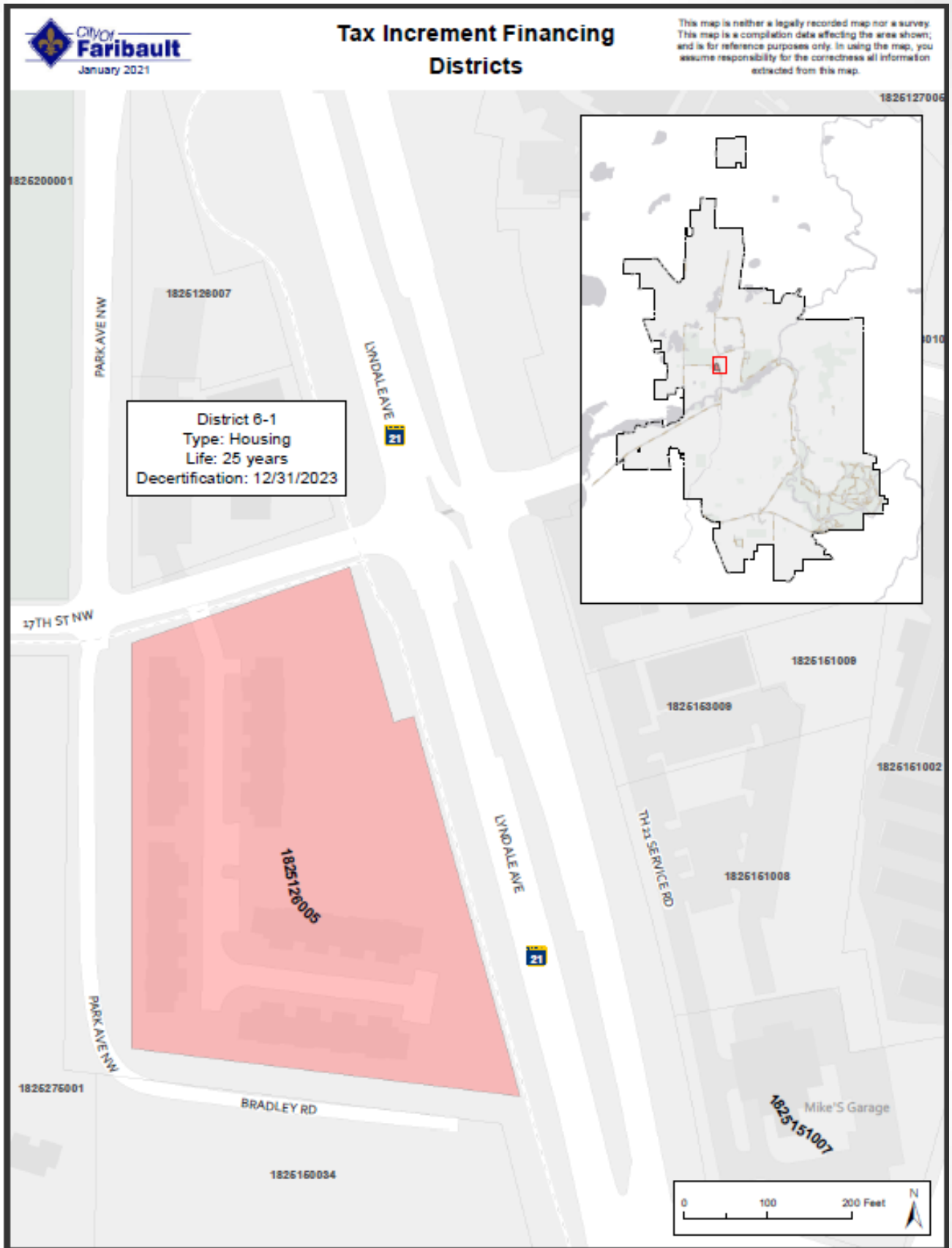
Village at Park Ave. (Kerstrel Properties II)

Certified:	8/26/1996	Required Decertification Date:	12/31/2023
Term:	25 Years	First Increment Received:	07/01/1998

This district was created in 1996 for the construction of a forty (40) rental unit townhouse development. The rental units were to be leased to households with incomes in the low- to moderate-income bracket. TIF proceeds were to be used to offset rents in roughly 50% of the units. TIF funds were to be reimbursed to the developer on a Pay-As-You-Go basis up to \$20,000 per year for ten years. The developer received increment payments beginning in 1998 after receipt of the first increment from the County. Payments continued for the remainder of the ten-year period, as provided in the developer agreement, with the final payment in 2009. The developer did not receive the full amount of eligible reimbursement due to the fractional increment received in 1998 and the onset of the ten-year term defined in the developer agreement. The developer received \$174,731, leaving \$25,269 unclaimed as part of the fund balance. Increment was used in 2013/2014 for the Prairiewood Townhomes Project for low- to moderate income family housing in the amount of \$59,771. In 2018 & 2019, increment was used for building permits for 3 Habitat for Humanity buildings totaling \$15,240. In 2020, increment was used for the demolition of a 2-story building at 1116 2nd St NW in the amount of \$20,025, 3 additional building permits for Habitat for Humanity for \$15,000, and I & S plans for 1116 2nd Street for \$3,250. No additional projects have been undertaken.

Increment continues to be collected in this district and may be used for housing projects that have the same low- to moderate-income requirements located anywhere within the City boundaries. The annual increment is approximately \$15,425 and could build a balance in excess of \$107,035 during the remaining term of the district. The district will require decertification when it reaches the maximum 25-year life in 2023. In 2003, \$88,429 was budgeted for a transfer out for deficit pooling. The City will need to use the balance of the increment prior to the expiration date or the balance will be returned to the County for distribution among taxing jurisdictions.

Year	Increment Received	Amount Paid to Developers	10% Amount for Admin/Pooling	Admin/Pool/Other Spent	Fund Balance
1998-2020	\$379,375	\$234,502	\$37,938	\$93,759	\$60,760
2021-2023 (Projected)	\$46,275	\$0	\$4,628	\$0	\$107,035



REDEVELOPMENT DISTRICT No. 8 (266)

River Ridge

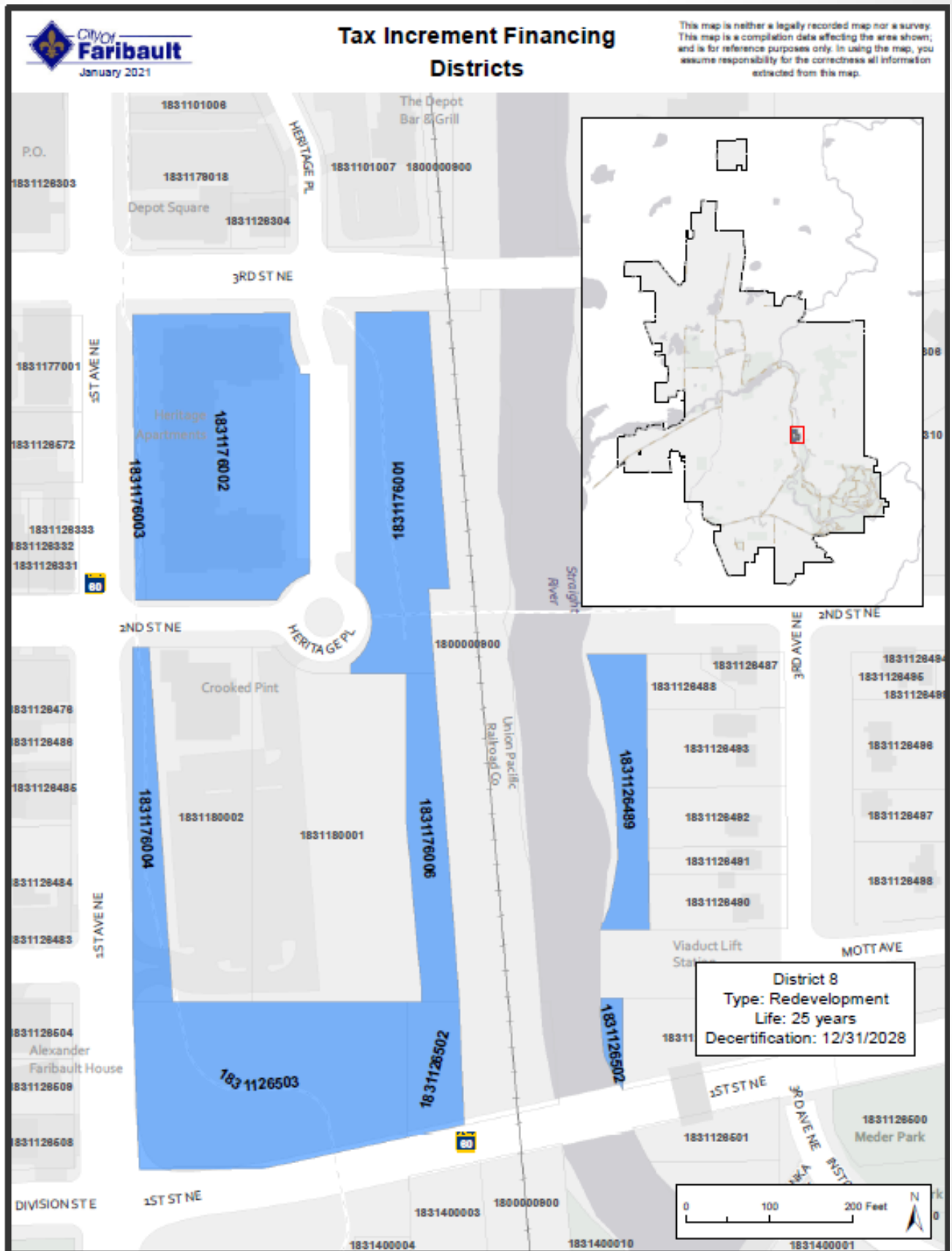
Certified:	3/13/2001	Required Decertification Date:	12/31/2028
Term:	25 Years	First Increment Received:	07/01/2003

This district was created in 2000 for the purchase, clean-up, and sale of substandard property for the construction of two, 68-unit, three-story rental housing units, a 9,000 square foot retail building, a 6,000 square foot restaurant and related public infrastructure. The rental housing units were constructed but not the retail and restaurant space. TIF funds are to be reimbursed to the developer on a Pay-As-You-Go basis in an amount not to exceed \$1,176,755, or until February 1, 2021, whichever comes first. The developer received increment payments beginning in 2006 after receipt of the first increment from the County. Payments continued as provided in the developer agreement, with the final payment in 2021. Based on the amount of increment being generated, the total estimated payments to the developer for the life of the district is \$790,820, plus 7% compounded interest. The developer will recover 67% of the eligible costs associated with this project, experiencing a shortfall of approximately \$385,935.

Increment continues to be collected in this district. The annual increment is approximately \$67,500 with 10% available for reimbursing documented administrative costs. The EDA sold the property to the developer for \$250,000 and the proceeds were deposited into the TIF fund. These proceeds have been deposited back into the EDA fund in 2016, reducing the fund balance significantly. This district has a total of eight parcels included in its boundaries and can be seen in the map below. The only parcel that has been developed is the one that has the Heritage Place housing development. In 2018, via Resolution 2018-107, \$39,250 of excess increment was used outside of the District to pay a portion of the 2018 Fuel System Upgrade Project at the Airport. Future increment and existing fund balance is estimated at \$487,045, that could be utilized prior to the 12/31/2028 Decertification Date.

Any additional phases of development will require removal of the designated parcels from this district and the creation of a new housing or economic development district.

Year	Increment Received	Amount Paid to Developers	10% Amount for Admin/Pooling	Admin/Pool/Other Spent	Fund Balance
2003-2020	\$977,411	\$790,820	\$97,741	\$238,093	\$167
2021-2028 (Projected)	\$540,976	\$0	\$54,098	\$54,098	\$487,045



REDEVELOPMENT DISTRICT No. 9 (267)

Faribault Road

Certified:	4/24/2007	Required Decertification Date:	12/31/2033
Term:	25 Years	First Increment Received:	07/01/2008

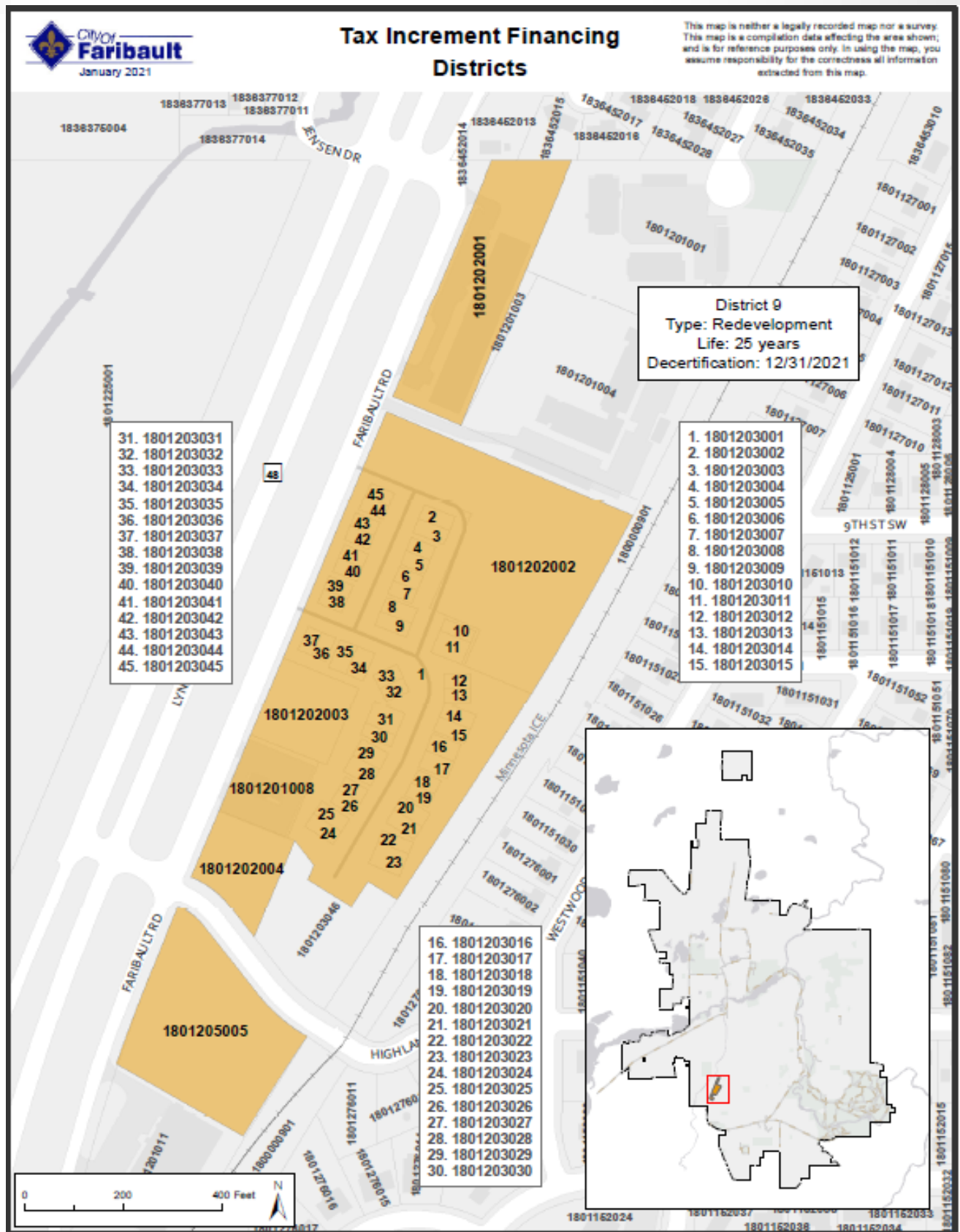
This district was created in 2007 for the demolition of the old K-Mart building and Budget Inn Motel and the construction of a 72-unit senior assisted living facility. Additional phases would include rental apartment units, town homes, 18,000 square feet of retail space, and relocation of the Mexican Restaurant currently located on the property. The first phase senior assisted living facility was constructed in 2007 but the additional phases were put on hold due to the economic downturn. The developer had five years to make eligible expenditures within the district. At the beginning of the sixth year following the certification of the district, no additional developer costs were eligible for TIF reimbursement.

TIF funds are to be reimbursed to the developer on a Pay-As-You-Go basis in an amount not to exceed \$2,318,750, or until December 31, 2033, whichever comes first. Compounded interest is calculated at 6.75%. The developer received increment payments beginning in 2010 after receipt of the first increment from the County. There are documented developer costs in the amount of \$844,025 which is the maximum eligible for reimbursement under the First Amendment in 2010. In accordance with the amended developer agreement, the anticipated final payment will be in 2033 based on existing documented costs.

Increment continues to be collected in this district with 90% obligated to the developer. The annual increment is approximately \$88,500 with 10% available for reimbursing documented administrative costs. Based on the amount of increment being generated, the total estimated payments to the developer for the life of the district will be approximately \$654,321. The developer will recover 77.5% of the eligible documented costs associated with this project. The district will require decertification when the obligation to the developer has been satisfied in 2033.

This district includes a plat with multiple parcels in its boundaries and can be seen in the map below. The only parcel that has been developed is the Faribault Senior Living housing development. Any additional phases of development will require removal of the designated parcels from this district and the creation of a new housing or economic development district.

Year	Increment Received	Amount Paid to Developers	10% Amount for Admin/Pooling	Admin/Pool/ Other Spent	Fund Balance
2003-2020	\$839,336	\$177,143	\$83,934	\$667,945	\$0
2021-2033 (Projected)	\$999,257	\$477,178	\$99,925	\$522,079	\$0



ECONOMIC DEVELOPMENT DISTRICT No. 11 (269)

Mike's Garage

Certified: 7/12/2011 Required Decertification Date: 12/31/2021
Term: 8 Years First Increment Received: 07/01/2013

This district was created in 2011 for the construction of an automotive service center located on a main gateway corridor at 1515 Lyndale Avenue. The project included the construction of an 8,320 square foot building with 43 parking spaces and creation of five new jobs. TIF funds are to be reimbursed to the developer on a Pay-As-You-Go basis in an amount not to exceed \$127,045, or until December 31, 2021, whichever comes first. The developer provided documentation of eligible costs in the amount of \$114,341 which is the maximum amount for reimbursement. The developer received increment payments beginning in 2013 after receipt of the first increment from the County. The final increment payment to the developer is estimated at \$9,053. Based on the increment being generated, the total estimated payments to the developer for the life of the district will be approximately \$77,656. The developer will recover only 68% of the eligible costs associated with this project, experiencing a shortfall of approximately \$36,685.

Year	Increment Received	Amount Paid to Developer	Amount for Admin/Pooling	Admin/Pool/Other Spent	Fund Balance
2013-2020	\$76,811	\$68,603	\$7,681	\$8,207	\$1
2021 (Projected)	\$10,059	\$9,053	\$1,006	\$1,007	\$0

REDEVELOPMENT DISTRICT No. 13 (270)*Hamilton*

Certified:	6/24/2019	Required Decertification Date:	12/31/2046
Term:	25 Years	First Increment Received:	07/01/2021

This district was created in 2019 and consists of 12 parcels to facilitate the construction of up to 74-units of rental housing in the City in two separate buildings. Phase I will consist of a 44-unit apartment complex and the future Phase II will consist of approximately 30 units. In addition, the City developed additional public parking within the district since an existing City lot was sold for the Phase I development and intends to reimbursement for land write-down. TIF funds are to be reimbursed to the developer on a Pay-As-You-Go basis in an amount not to exceed \$262,000, or until February 1, 2031, whichever comes first. Simple interest accrues at 5%. The developer documented the full amount of eligible costs available for Phase I in this district. The developer received increment payments beginning in 2021 after receipt of the first increment from the County. The annual increment payment to the developer is approximately \$13,550 with completion of Phase I. This district will adjust as Phase II is developed and potential additional agreements can be entered into.

Year	Increment Received	Amount Paid to Developer	10% Amount for Admin/Pooling	Admin/Pool/Other Spent	Fund Balance
2019-2020	\$0	\$0	\$0	\$241,996	(\$241,996)
2021-2046 (Projected)	\$2,709,303	\$262,000	\$270,930	\$2,205,307	\$0

Tax Increment Financing Districts

This map is neither a legally recorded map nor a survey.
This map is a compilation data affecting the area shown,
and is for reference purposes only. In using the map, you
assume responsibility for the correctness of all information
extracted from this map.



SOILS CONDITION DISTRICT No. 14*Straight River Apartments*

Certified:	6/29/2020	Required Decertification Date:	12/31/2041
Term:	20 Years	First Increment Received:	07/01/2022

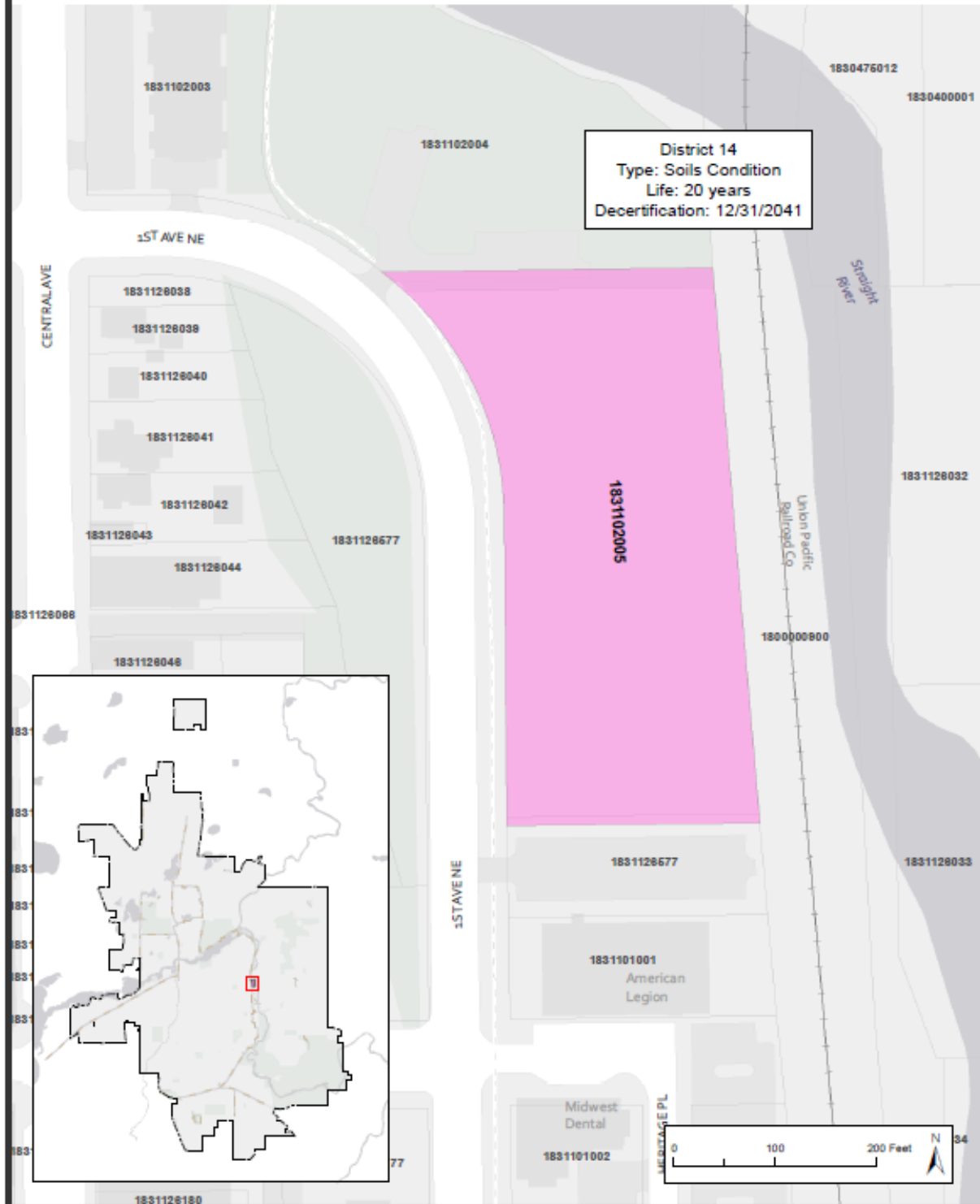
This district was created in 2020 for construction a 111-unit market rate apartment with underground parking, with an estimated total cost of \$12.8 million. The development was at the old Public Works site and has known contamination due to its previous use as a city dump. The costs associated with the cleanup of the site exceeded \$1.5 million. The cleanup grant of \$802,231 was an important funding source to help offset these costs and make the reuse of the site feasible. The extra costs associated with the contamination of the soils make the project eligible for a Soils Tax Increment Financing District.

The EDA will issue a Note estimated to be in a principal amount equal to the aggregate Qualifying Costs submitted by the Developer not to exceed \$2,086,340. Qualifying Costs shall consist of land acquisition, site preparation, including correction and removal or remediation of contaminated soils condition issues and demolition and utility installation, and other expenditures which are eligible for reimbursement with Tax Increment and which are incurred by the Developer in at least the principal amount of the Note. The Note will bear interest at the rate of 5.0% per annum. Principal and interest payments are estimated to begin on August 1, 2022. There will be no obligation to pay any unpaid balance of principal or accrued interest that may remain after the final payment on February 1, 2042.

Year	Increment Received	Amount Paid to Developer	10% Amount for Admin/Pooling	Admin/Pool/Other Spent	Fund Balance
2020	\$0	\$0	\$0	\$46,569	(\$46,569)
2020-2041 (Projected)	\$4,299,362	\$2,086,340	\$429,936	\$2,166,453	\$0

Tax Increment Financing Districts

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HOUSING DISTRICT No. 15

Lofts at Evergreen Knoll

Certified:	6/29/2020	Required Decertification Date:	12/31/2047
Term:	25 Years	First Increment Received:	07/01/2022

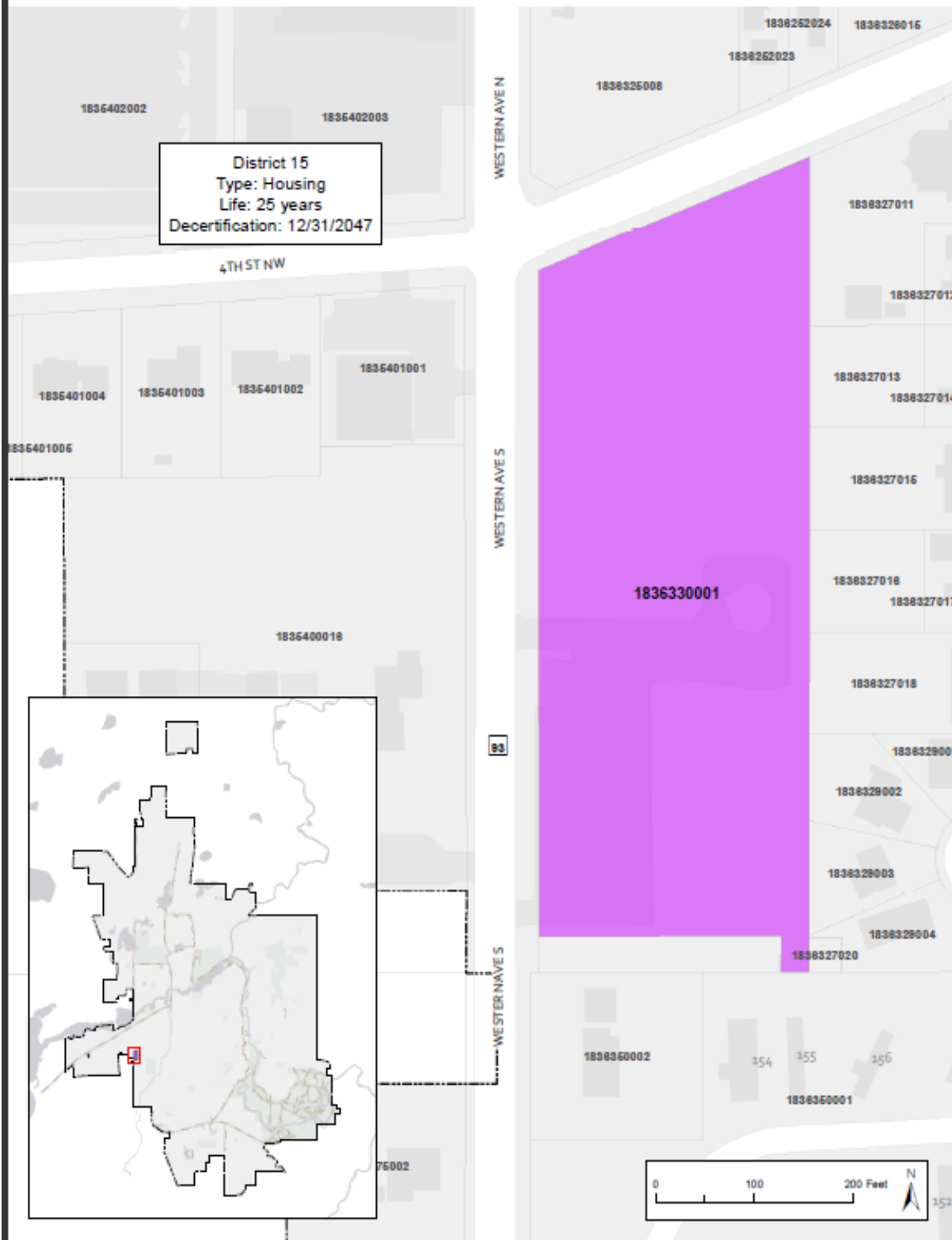
This district was created in 2020 for construction of a 76-unit apartment building at 405 Western Avenue South. This affordable housing development on the former Evergreen Knoll Supper Club site was awarded Low Income Housing Tax Credits (LIHTC) from the Minnesota Finance Agency and 100-percent of the units will be non-age restricted to households at or below 60-percent Area Media Income. The costs associated with the development are estimated to be \$17.3 million. The development consists of a 76-unit apartment with underground parking, community room, fitness room, controlled access, in-unit laundry, and on-site property management and maintenance. The costs of the land acquisition, site and public improvements, utilities, and construction makes the development infeasible without the tax increment assistance.

TIF funds will be reimbursed to the developer on a Pay-As-You-Go basis in an amount not to exceed \$528,000, or until February 1, 2047, whichever comes first, once the Note is executed. Simple interest shall be accrued at 4.25%. The developer will need to document the full amount of eligible costs available in this district. The developer will receive increment payments beginning in 2022 after receipt of the first increment from the County.

Year	Increment Received	Amount Paid to Developer	10% Amount for Admin/Pooling	Admin/Pool/Other Spent	Fund Balance
2020	\$0	\$0	\$0	\$	\$0
2021-2047 (Projected)	\$2,217,538	\$528,000	\$221,754	\$1,689,538	\$0

Tax Increment Financing Districts

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Summary of TIF Districts

Tax increment financing is an economic development tool that can be used to assist with development, redevelopment or housing projects. Each type of district has specific rules for the use of tax increment which are identified in Chapter 469 of the Minnesota Statutes. All districts may use up to 10% of the increment collected for Administrative costs, including County charges, consultant charges, and direct costs to the City.

Tax increment may be spent on qualified activities outside a district, which is known as pooling. Redevelopment districts may spend up to 25% of revenue derived from tax increment outside the district, but within the project area. Economic Development districts may spend up to 20% outside the district, but within the project area. The Project Area is defined as the City boundaries. The 10% Admin limit is included in the pooling amounts.

Pooled funds from redevelopment districts may be used for redevelopment purposes that include acquisition, demo, or remediation of blighted properties, and public improvements related or needed for redevelopment.

Tax increment generated in housing districts may be spent anywhere in the City as long as it is used for eligible expenditures for low- and moderate-income projects. Income limitations for owner-occupied housing and residential rental property must be satisfied, and the square footage that can be used for nonresidential uses is limited to no more than twenty percent.

The City's current TIF Districts provide pooling authority that could generate a small amount of optional funding for housing and redevelopment projects. All of Faribault's TIF Districts have been created with a PAYGo split of 90% to the developers and 10% to the City for Admin or Pooling. The City can choose to use the 10% for admin costs, provided there is detailed documentation for the full amount, or it can be used as part of the pooling amount to be used outside the districts for eligible costs. Over the past several years, the administrative costs were not properly documented and may be at risk to be returned if audited. The method of determining the City's administrative costs has been updated in 2021 and a method for additional documentation is being recorded by the Community Development and Finance Departments.

There are currently two housing districts in the City. District 6-1 currently has a fund balance of \$60,760. With the projected increment revenue and if the City chooses to use the accumulated 10% admin allotment along with the increment available after the PAYGo obligation is completed, there would be approximately \$107,035 available to be used for eligible housing projects within Faribault. These funds would have to be spent prior to the required decertification date of December 31, 2023 or returned to the County for distribution to all taxing authorities. The current plan document has \$88,429 budgeted for a transfer out for deficit pooling that has not been utilized. The Lofts at Evergreen Knoll is a new housing district certified in 2020. The projections for this district are in alignment with the original plan.

The combined redevelopment districts will generate approximately \$424,953 additional funds from the 10% not paid to the developer which may be used for administration or pooled for other redevelopment purposes. It is projected that River Ridge District will have excess increment and

fund balance estimated at \$487,045. These funds could be utilized prior to the December 31, 2028 decertification date.

The economic development district is to be decertified December 31, 2021. There remains \$2,134 available for Administrative costs and \$8,416 available for pooling. This fund is not projecting sufficient increment to support these eligible expenses but could utilize a portion of the \$88,429 District 6-1 has budgeted for deficit pooling.

The soils district was newly certified August 13, 2020 and is projected as planned.

City Staff should identify any potential housing or redevelopment projects that may be eligible to utilize the balances that will accumulate within the TIF Districts. Housing funds can be used within the City boundaries for any low- to moderate-income housing projects and redevelopment funds may be used for the acquisition, demolition, or remediation of blighted properties. If the City has no eligible projects, it is recommended that the administrative costs be analyzed and the maximum allotment transferred from the districts. The TIF Districts should be decertified and any remaining funds returned to the County for distribution among taxing authorities.

Tax Abatements

City of Faribault, MN

Tax Abatement is another tax incentive available, regulated through Minnesota State Statutes 469.1812-469.1815. Tax abatement is the ability to capture and use *all or a portion* of the local property tax revenues within a defined geographic area to assist with commercial or housing development. Abatement is structured so each major taxing jurisdiction is given the opportunity to choose, or not choose to contribute its share of the taxes for a particular project. Furthermore, each major taxing jurisdiction determines the structure (duration and amount) of the abatement as it deems appropriate. In general, tax abatement is a more flexible tool than tax increment financing, even allowing the jurisdiction to capture existing values.

Prior to abatement being awarded, each entity must hold a public hearing and adopt a resolution which contains the term of abatement, statement of public benefit expected as a result of the abatement, and a schedule of the repayment of deferred taxes. If the City, County, and School District all participate, the maximum term of the abatement is 15 years. If only 1 or 2 entities participate in the abatement, the maximum term is 20 years. In any one year, the total amount a political subdivision may abate may not exceed 10-percent of its net tax capacity (\$2,051,704), or \$200,000 – *whichever is greater*.

Tax abatements are special tax levies outside of levy limits, and the amount of abatement must be added to the total levy for the current year.

Why Use Tax Abatements?

Tax abatement is a development tool the City may use to capture some or all of the taxes it imposes on a parcel of property. It can apply those captured proceeds to specific, designated uses, so long as the benefits at least equal the costs to the city, and it is in the public interest as defined by the statute.

Summary of Tax Abatements

The City of Faribault has utilized Tax Abatement in recent years to support development and investment in the community. Currently five (5) tax abatements are active:

Mill City –

In 2016 the City approved an abatement in the cumulative amount of \$134,315 (not to exceed \$38,940) in any year, for a term of four (4) years. The abatement supported the construction of a new senior living community that helped address the needs for additional senior housing in the City. The project (Mill City Senior Living, located at 1738 Hulett Ave) was estimated at \$16.8 million, consisting of 88 units providing a mix of independent living, assisted living, and memory care. The project involved the demolition of an existing nursing home facility and structures. Rice County also participated in the project, providing a maximum tax abatement of \$97,578 over the term of the abatement.

Sage –

In 2010 as part of an overall incentive package to support the construction of a 300,000 square foot high volume manufacturing facility for the electrochromic glass manufacturer, on Park Avenue, along with the retention of 93 jobs and the creation of 114 jobs, the City offered tax abatement in the maximum principal amount of \$777,258. In 2018 the abatement structure was modified, to start the abatement one year earlier, and decrease the percentage of the abatement over time, but in no event exceeding tax abatement payments of \$777,258. With the new structure, it was anticipated that the abatement would end in the year 2035, however – the taxes generated by the project have been greater than anticipated, and the abatement will be satisfied in 2025, at which time the taxes generated will be on the tax rolls.

Stein Air -

Stein Air is a specialized avionics company that the City attracted to its airfield in 2018. The company required an on-airport location to expand its business by being able to install the instrument panels and components they manufacture and assemble into their client's aircraft. Clients are now able to fly into the Stein Air facility, have Stein Air install the assembled panels and harnesses, then fly out once the installation is complete. The project involved the construction of a 16,000 square foot facility and the creation of 25 new jobs. To support the development, the City awarded a total of \$57,712 of tax abatement over eight (8) years.

Daikin -

Tax abatement was one of the tools used to attract the \$40 million state-of-the-art manufacturing plant for a new Daikin product line, expanding the company's portfolio and ultimately positioning

the company to assume additional market share and become the number one market shareholder in the HVAC industry in the United States. The project involved property acquisition of an existing, underutilized 300,000 square foot warehouse, converting the warehouse to a build-to-order manufacturing facility for a new product line, creating 32 jobs within two (2) years, and 300 new jobs by 2026. The City agreed to provide 100-percent tax abatement for 10-years, in an amount not to exceed \$971,950 in total City tax abatement. Based on the existing taxes, it is projected that the tax abatement will reach its maximum in eight (8) years versus 10 years.

TryStar -

As a business retention tool, the City authorized tax abatement for TryStar to support the consolidation of their Faribault operations into a singular building. The project involved consolidating 140,000 square feet of operations and warehousing spread over four (4) separate facilities, renovating a 100,000 square foot warehouse located at 15765 Acorn Trail into a manufacturing facility, constructing a 20,000 square foot office addition, and retaining 150 permanent full-time positions. The tax abatement was structured as 100-percent of new taxes, over 10 year, not to exceed a total combined (City/County) abatement of \$452,895.

Projections -

Based on the current market values and the details of the various agreements the chart below indicates anticipated captured amounts to be remitted.

	2020	2021	2022	2023	2024	2025	2026	2027
Mill City	\$38,151.23	\$38,940.00	\$38,940.00	\$ 2,818.43	\$ -	\$ -	\$ -	\$ -
Sage	83,433.83	164,045.52	167,663.14	174,102.90	174,102.90	13,909.71	-	-
Stein Air	2,427.31	6,759.43	8,670.03	8,675.81	8,675.81	8,675.81	8,675.81	5,152.00
Daikin	47,748.51	122,365.62	156,199.78	156,199.78	149,234.21	149,234.21	149,234.21	55,664.82
Trystar	-	23,316.17	54,801.71	62,971.08	62,971.08	57,658.96		
TOTAL	\$171,760.88	\$355,426.74	\$426,274.66	\$404,768.00	\$394,984.00	\$229,478.69	\$157,910.02	\$ 60,816.81



Council Work Session
Tuesday, August 31, 2021

Tax Increment Financing & Tax Abatements

Economic
Development
Tools

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Tool

Tax Increment Financing 7 Active Districts

Tax Increment Financing

◦ Current Net Tax Capacity

Captured Increment

Minus

◦ Original Net Tax Capacity

Equals

◦ Captured Net Tax Capacity

Tax Increment Financing

Pay-As-You-Go (PAYGo)

- Costs Paid by Developer
- Substantiated
- Increment Generated
- Reimbursements
- Developer accepts risks

Tax Increment Financing

Dist.	Project	Type	Term (yrs)	Start Date Certify	End Date Decertify
6-1	Village at Park Ave	Housing	25	8/26/96	12/31/23
8	River Ridge	Redevelopment	25	12/26/00	12/31/28
9	Faribault Road	Redevelopment	25	4/24/07	12/31/33
11	Mike's Garage	Economic Development	8	7/12/11	12/31/21
13	Hamilton	Redevelopment	25	6/24/19	12/31/46
14	Straight River Apts.	Soils District	20	8/13/20	12/31/40
15	Lofts at Evergreen Knoll	Housing	25	8/11/20	12/31/47

Tax Increment Financing

Dist.	Project	Estimated Ending Fund Balance	Captured Net Tax Capacity	Decertification Date	Additional Levy w/ Capacity
11	Mike's Garage	\$0	\$10,100	12/31/21	\$675
6-1	Village at Park Ave	\$107,035	\$14,288	12/31/23	\$955
8	River Ridge	\$487,045	\$62,642	12/31/28	\$4,173
9	Faribault Road	\$0	\$100,132	12/31/33	\$6,660
14	Straight River Apts.	\$0		12/31/40	
13	Hamilton	\$0	\$13,233	12/31/46	\$884
15	Lofts at Evergreen Knoll	\$0		12/31/47	

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Tax Abatement 5 Active Agreements

Tax Abatement

- Some or all taxes
- City, county, & school district
- Added to total levy
- 10% net tax capacity or \$200,000

Tax Abatement

Project	Not to Exceed Abatement	Duration	Estimated Satisfaction Date	Additional Levy w/ Satisfaction
Mill City	\$134,315	4 Years	2022/23	\$ 38,940
Sage	\$777,258	15 Years	2024/25	\$167,663
Stein Air	\$ 57,712	8 Years	2026/27	\$ 8,670
Daikin	\$971,950	10 Years	2026/27	\$156,200
TryStar	\$452,895	10 Years	2026/27	\$ 54,802

Estimated Levy Impacts

Year	Tax Increment	Tax Abatement	Total Impact
2022	\$ 675	\$ -	\$ 675
2023	-	21,507	21,507
2024	955	9,784	10,739
2025	-	165,505	165,505
2026	-	71,569	71,569
2027	-	97,093	97,093
2028	-	60,817	60,817
2029	4,173	-	4,173
2034	6,660	-	6,660
2046	<u>884</u>	<u>-</u>	<u>884</u>
Total	\$ 13,347	\$ 426,275	\$ 439,622

Questions?

Tax Increment Financing
& Tax Abatements

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