



Meeting Location:
Farmington City Hall
430 Third Street
Farmington, MN 55024




CITY COUNCIL WORK SESSION MEETING AGENDA

January 3, 2023

5:00 PM

- 1. CALL TO ORDER**
- 2. APPROVE AGENDA**
- 3. DISCUSSION ITEMS**
 - (a) Tax Increment Financing (TIF) Overview (1 hour)
 - (b) 2040 Comprehensive Plan Update - Process Update (15 minutes)
 - (c) Annual Organizational Matters (20 Minutes)
- 4. CITY ADMINISTRATOR UPDATE**
- 5. ADJOURN**



 430 Third St., Farmington, MN 55024
 651-280-6800
 FarmingtonMN.gov

TO: Mayor, Councilmembers and City Administrator
FROM: Deanna Kuennen, Community Development Director
SUBJECT: Tax Increment Financing (TIF) Overview (1 hour)
DATE: January 3, 2023

INTRODUCTION

Tax Increment Financing (TIF) is a powerful tool available for use to support development/redevelopment in the community. Jason Aarsvold, Senior Municipal Advisor from Ehlers will present an overview of TIF and answer questions.

DISCUSSION

Tax Increment Financing is an economic development, redevelopment, and housing development tool that was authorized by the State of Minnesota in 1979 for cities, counties and other local authorities to use to offset certain development and redevelopment costs. While a number of tests must be met to determine that the project qualifies for TIF and that the project wouldn't proceed without this type of assistance - once in place a TIF captures the "new" taxes associated with the development to offset development costs and the local government forgoes the new taxes associated with a development for a set number of years.

When utilizing TIF to encourage development/redevelopment - each project is reviewed based on its own merits and facts. Through this review a number of factors are analyzed to determine the minimum amount of public financing assistance needed for the project to proceed.

Jason Aarsvold, Senior Municipal Advisor from Ehlers will present a TIF overview, discuss the different types of TIF districts, and review the analysis process and how recommendations for the amount of TIF is determined. He will also lead a discussion on how public assistance such as TIF can be used to support city goals.

BUDGET IMPACT

None.

ACTION REQUESTED

None at this time. This is for informational purposes only, with anticipation that future TIF requests will be brought forward to support development/redevelopment projects.



TIF Basics Discussion

City of Farmington

1-3-2023

Today's Discussion

- Planning & Policies
- Providing Financial Assistance and Protecting Local Resources
- Local Financial Tools
 - ✓ Tax Increment Financing (TIF)
 - ✓ Tax Abatement
- Project Examples

Why Provide Financial Assistance?

- **Fundamentally:** Existence of financial barriers preventing the private market from developing a site in accordance with City vision
 - ✓ Contaminated land and/or existence of blighted buildings
 - ✓ High development fees
 - ✓ Market rents too low
 - ✓ Infrastructure costs too high
 - ✓ Cheaper alternatives elsewhere
 - ✓ City vision incompatible with market

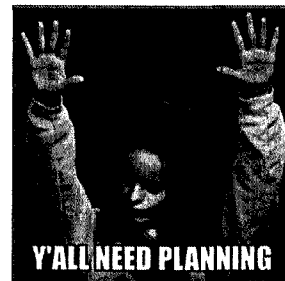


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Preparing for Success

Establish an economic development/redevelopment plan!

- Helps unite staff & policy makers
- Provides foundation for a successful project
- Ensures you're prepared when opportunity knocks
- Sets priorities for limited resources
- Farmington has plans in place



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Preparing for Success

Adopt policies to set parameters for public involvement

- Business subsidy policy
 - ✓ Required per MN statues 116J.993 - 116J.995
 - ✓ Include additional local goals
- Developer fee policy
- Application for assistance
- Farmington has a policy and procedure in place



Protecting Local Resources

- Review developer's application & financial information to establish appropriate level of public assistance
 - ✓ *pro forma* analysis
- Ensure project qualifies for proposed type of assistance
 - ✓ Default format is Pay-As-You-Go
- Maximize private funding sources
- Minimize public assistance needed to make a project financially feasible

The “But For” Test

- Required TIF finding: The development would not be possible *but for* the use of tax increment
 - ✓ Increased market value greater than alternatives - net of assistance
 - ✓ Likelihood of similar development in the foreseeable future without assistance - evidenced by pro forma analysis
- Captured tax revenues would not exist if TIF was not used to assist the project
- Elected body must make this finding



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LOCAL FINANCIAL TOOLS



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Development Tools

Know the tools available to help facilitate development.



EDA LEVY FUNDS



LOCAL REVOLVING
LOAN FUNDS



TAX INCREMENT
FINANCING (TIF)



TAX ABATEMENT



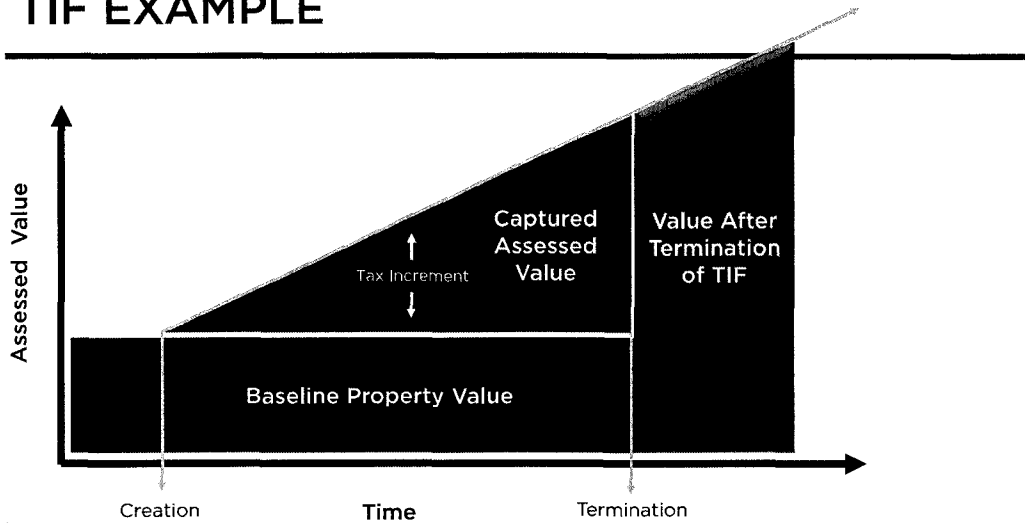
STATE & LOCAL
RESOURCES (DEED,
COUNTY, ETC.)

What is Tax Increment Financing?

Tax Increment Financing (TIF):

The ability to capture and use most of the increased local property tax revenues from new development within a defined geographic area for a defined period of time without approval of the other taxing jurisdictions.

TIF EXAMPLE



Types of TIF Districts

- Redo substandard / obsolete buildings
 - ✓ Redevelopment TIF District (26 year maximum)
 - ✓ Renewal and Renovation TIF District (16 year maximum)
- Affordable housing
 - ✓ Housing TIF District (26 year maximum)
- Job and tax base creation
 - ✓ Economic Development TIF District (9 year maximum)

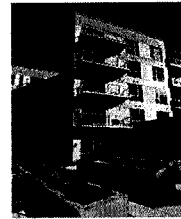
Redevelopment TIF District - 26 Years

Parcels consisting of 70% of area must be improved

More than 50% of buildings must be substandard

90% of TIF must be used to correct redevelopment issues

Reasonable distribution of conditions



Renewal and Renovation District - 16 Years

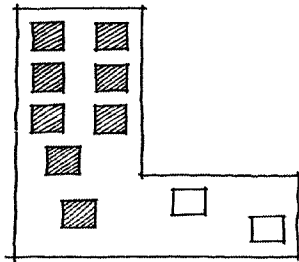
Parcels consisting of 70% of area are improved

Only 20% of buildings are structurally substandard

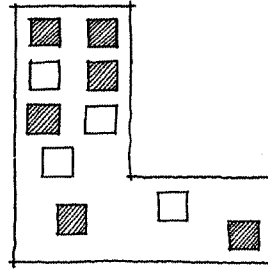
30% of other buildings require substantial renovation or clearance:

remove inadequate street layout, incompatible uses or land use relationships, overcrowding of buildings, excessive dwelling unit density, obsolete buildings not suitable for improvement or conversion, etc.

Reasonable Distribution



80% Substandard
buildings
80% Coverage



60% Substandard
buildings
80% Coverage

Housing TIF District - 26 Years

Affordable Housing

Income test is main qualification

TIF law references federal rules on income limitations

More liberal rules on pooling

100% tax increment used for affordable housing; but 20% of project's value can include commercial/industrial development (mixed-use)

Housing TIF District - Rental

Income Requirements:

40% of units restricted to 60% of county median income, OR

20% of units restricted at 50% of county median income

Annual test for income compliance for life of TIF assistance



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Housing TIF District - Owner Occupied

Income requirements:

95% of first buyers is limited to:

- 100% of the greater of State or local median income for a family of 2 or fewer
- 115% of the greater of State or local median income for a family of 3 or more

First buyer test ONLY for income compliance



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Economic Development District - 9 Years

At least 85% of new building space must be:

- Manufacturing
- Warehousing, storage, distribution
- Research and development
- Telemarketing
- Space necessary and related to the above



TIF Process: Notices



Notice to County
Commissioner 30
days prior to hearing
notice publication



TIF Plan with fiscal
impacts to County &
School Districts 30
days prior to public
hearing



Hearing notice
publication at least
10 days prior to
hearing

TIF Process: Public Hearing

- Council holds public hearing, considers resolution to adopt TIF plan

- ✓ Type of district
- ✓ But-for finding
- ✓ District conforms to general development plan
- ✓ Plan affords maximum opportunity for city's development needs



Tax Abatement

- Working Definition of Tax Abatement:

The ability to capture and use all or a portion of the property tax revenues within a defined geographic area for a defined period of time - typically to assist with housing or commercial development.

- Uses:

- ✓ When a TIF district can't be created
 - Market rate rental housing
 - Business retention
 - Office/retail

How Tax Abatement Works

Allows each major taxing jurisdiction to choose to contribute its share of the taxes and limit abatement in any manner it determines appropriate

Duration limit varies

- ✓ Participation by all 3 entities - 15 years
- ✓ Participation by 1 or 2 entities - 20 years
- ✓ Resolution is silent as to the term - 8 years

Can use to retain business by abating existing taxes



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TIF / Abatement Financing Options

- **Pay-as-you-go TIF Note**
 - ✓ No up-front funds from the City
 - ✓ Developer funds eligible expenses and is repaid with interest, over time, from available tax increment / abatement
 - ✓ No risk to TIF / abatement authority if term expires before note is retired
- **G.O. or Revenue Bonds**
 - ✓ Bond proceeds fund up-front project costs and TIF revenue is used to repay bonds
 - ✓ Higher-risk to City for G.O. debt



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PROJECT EXAMPLES



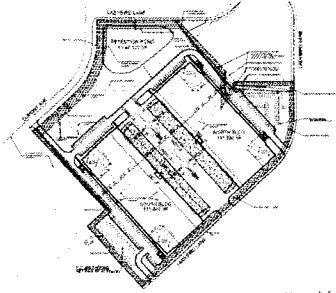
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Capstone Industrial - Burnsville

- 16.6-acre site
- 231,760 sq. ft. Industrial Development
- Challenge: Extraordinary site costs totaling \$3.5 million
- \$27 million project cost (\$196,000/unit)



Capstone Industrial - Burnsville



- Review of developer pro forma
 - ✓ Land assembly costs
 - ✓ Construction costs
 - ✓ **Market rents** - need to ensure projections are high enough
 - ✓ Proposed financing (debt, equity, rate, term)
 - ✓ Developer fee
 - ✓ Rate of return target



Capstone Industrial - Burnsville

Developer's yield on cost projected at 5.3% without TIF

- 6.5%-7% desired

Located within existing City TIF district

\$1.76 in City TIF, plus outside grant sources

- Yield on cost reaches 6.3%

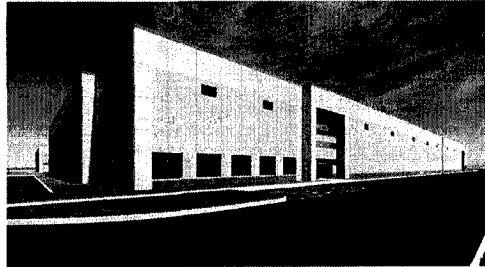


SOURCES		
	Amount	Pct.
Developer Financing - First Mortgage	15,399,378	56.63%
Developer Financing - TIF Note	1,760,143	6.47%
Developer Equity	8,291,973	30.49%
Subtotal	25,451,494	93.59%
DEED Grants	950,000	3.49%
Dakota County RIG	250,000	0.92%
Met Council	430,000	1.58%
Dakota County ELF	111,871	0.41%
Subtotal	1,741,871	6.41%
TOTAL SOURCES	27,193,365	100.00%

USES			
	Amount	% of Cost	Per Bldg. Sq/Ft
Acquisition Costs	3,000,000	11.03%	12.94
Remediation Costs	3,502,014	12.88%	15.11
Construction Costs	17,458,445	64.20%	75.33
Professional Services	1,117,439	4.11%	4.82
Financing Costs	1,073,702	3.95%	4.63
Developer Fee	902,805	3.32%	3.90
Cash Accounts	138,960	0.51%	0.60
TOTAL USES	27,193,365	100.00%	117.33

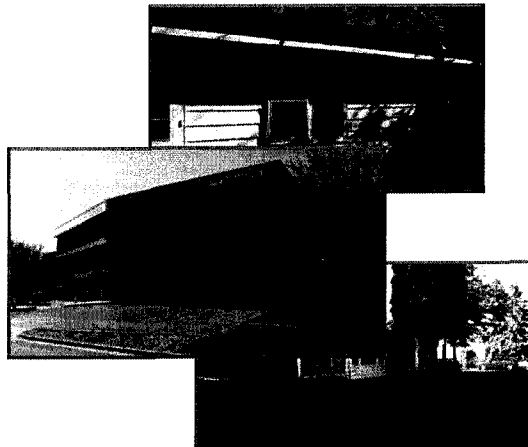
Capstone Industrial - Burnsville

- P.C. consideration on July 26
- City Council consideration on August 2
- TIF is approved
- Grant applications in process



Birdtown Flats - Robbinsdale

- **Challenge:** Redevelopment; land assembly; market rents too low to support new construction
- Beard Group identified a gap of \$4.5 million (24 years of TIF assistance)
- Qualifies as a redevelopment TIF District



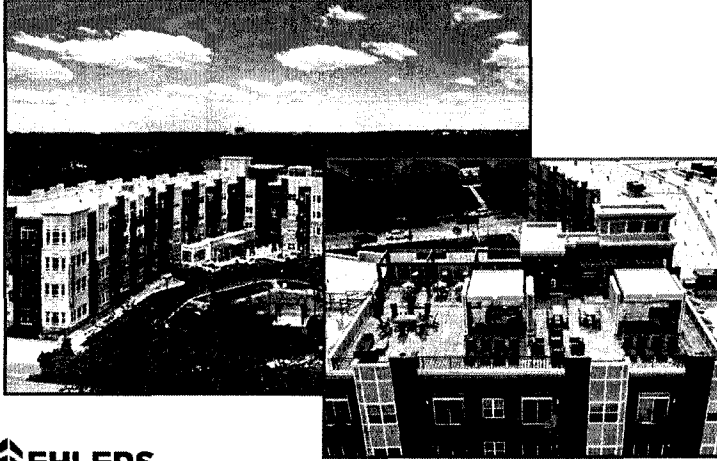
Birdtown Flats - Analysis

- Review of developer pro forma
 - ✓ Land assembly costs
 - ✓ Construction costs
 - ✓ **Market rents** - need to ensure projections are high enough
 - **Required review of detailed market study**
 - ✓ Proposed financing (debt, equity, rate, term)
 - ✓ Developer fee
 - ✓ Rate of return target






SOURCES						
	TIF Request	Pct.	Per Unit	Analysis	Pct.	Per Unit
First Mortgage	22,332,658	74.9%	146,925	22,332,658	74.9%	146,925
City TIF Note	4,500,000	15.1%	29,605	2,500,000	8.4%	16,447
Developer Equity	3,000,000	10.1%	19,737	4,141,600	13.9%	27,247
TOTAL SOURCES	29,832,658	100%	196,267	28,974,258	97%	190,620
USES						
	TIF Request	Pct.	Per Unit	Analysis	Pct.	Per Unit
Acquisition Costs	1,794,000	6.0%	11,803	1,794,000	6.2%	11,803
Construction Costs	22,415,400	75.1%	147,470	22,415,400	77.4%	147,470
Permits/Fees	907,029	3.0%	5,967	907,029	3.1%	5,967
Professional Services	1,539,560	5.2%	10,129	1,539,560	5.3%	10,129
Financing Costs	918,269	3.1%	6,041	918,269	3.2%	6,041
Developer Fee	2,258,400	7.6%	14,858	1,400,000	4.8%	9,211
TOTAL USES	29,832,658	100%	196,267	28,974,258	100%	190,620
RETURN ON INVESTMENT						
	Year 3	Year 15		Year 3	Year 15	
Average Annual Cash on Cash (Annual Cash Flow / Equity)	8.3%	14.0%		8.6%	11.5%	

Birdtown Flats - After



- Redevelopment of underutilized site
- 152 new market rate housing units
- 10 years of TIF rather than 24 years



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TO: Mayor, Councilmembers and City Administrator
FROM: Deanna Kuennen, Community Development Director
SUBJECT: 2040 Comprehensive Plan Update - Process Update (15 minutes)
DATE: January 3, 2023

INTRODUCTION

Last summer the city issued a Request for Proposal (RFP) seeking qualified consultants to update the land use and transportation components of the 2040 Comprehensive Plan. Staff will provide an update on that process and propose a path forward to complete the update to the Comprehensive Plan, incorporating a community vision component.

DISCUSSION

In August 2022, the city issued a Request for Proposal (RFP) seeking qualified consultants to update the land use and transportation components of the 2040 Comprehensive Plan. The initiative was to focus on undeveloped land within the city, in order to provide clear direction to developers and landowners regarding future development expectations that will meet the needs of the community.

The city received several responses, at which time the project was put on hold due to staffing changes. This unplanned pause provided necessary time to fill open leadership positions and reassess the project. Staff is now ready to reengage upon this process – but is recommending moving forward with a slight twist. It is still the goal to revisit land use and transportation planning for the undeveloped areas of the city and have an implementable and attainable plan. But Staff sees benefit and importance in establishing and defining a community vision first, which will then serve as a foundation to build a blueprint for future growth by guiding and informing the comprehensive plan update. This change in scope requires City Council consideration as it is anticipated that the completion of a combined vision and comprehensive plan amendment will have added expense and a slightly longer timeframe for completion.

If the City Council also sees value in using this opportunity to incorporate a planning activity that will lead to articulating the community’s vision – the following draft process and timeline is recommended:

- January 3, 2023 – City Council Work Session – discuss the proposed change in the 2040 Comprehensive Plan Update: 2023 Amendment to include a “community vision” component.
- January 4, 2023 – Based on City Council feedback, contact list of consultants who submitted proposals in August 2022, informing them of the new plan for the project. This will include a schedule for the consultants to submit an updated proposal.
- February 17, 2023 – Due date for updated proposals from consultants, incorporating into the project scope a community vision process.

- March 1, 2023 – Conduct interviews with finalists.
- March 6, 2023 - City Council Meeting – present recommendation on consultant, seeking authorization to execute contract.
- March 20, 2023 – City Council Meeting – appoint vision task force/steering committee.
- April 10, 2023 – Project Kick-Off Meeting
- July/August 2023 – City Council approval of Community Vision
- March 2024 – City Council approval of final 2040 Comprehensive Plan Update




BUDGET IMPACT

The Comprehensive Plan Update is being funded by ARPA dollars. ARPA dollars are available to fund the anticipated additional (yet to be determined) costs associated with adding a visioning component to the Comprehensive Plan Update: 2023 Amendment.

ACTION REQUESTED

Provide direction on the proposed updated Comprehensive Plan Update: 2023 Amendment and Vision Plan process and funding.



 430 Third St., Farmington, MN 55024
 651-280-6800
 FarmingtonMN.gov

TO: Mayor, Councilmembers and City Administrator
FROM: Lynn Gorski, City Administrator
SUBJECT: Annual Organizational Matters (20 Minutes)
DATE: January 3, 2023

INTRODUCTION

Annually at the first City Council meeting of the year, appointments are made to a variety of committees and assignments.

DISCUSSION

State law requires that the City Council address annual organizational matters during its first regular meeting of the year to make certain designations and appointments.

The attached supporting documentation identifies the 2023 organizational matters.

BUDGET IMPACT

N/A

ACTION REQUESTED

Discuss appointment to all of the committees and assignments for 2023.

ATTACHMENTS:

Type	Description
<input type="checkbox"/> Backup Material	2023 Annual Organizational Matters
<input type="checkbox"/> Backup Material	2022 Council Committee Assignments

**COUNCIL MEETING
ANNUAL ORGANIZATIONAL MATTERS
JANUARY 3, 2023**

MOTION by _____, second by _____ as follows:

(1). That Councilmember _____ be designated as *Acting Mayor* from January 3, 2023, through December 31, 2023.

(2). That the Dakota County Tribune be designated as the *official publication* from January 3, 2023, through December 31, 2023.

(3). Continue the Agreement for Legal Services with Campbell Knutson, as *City Attorney* for 2023.

(4). That Old National Bank of Farmington, Oppenheimer & Co., Inc., RBC Capital Markets and Castle Rock Bank, be designated as the *Official Depositories* from January 3, 2023, through December 31, 2023.

(5). That all sworn personnel in the Farmington Police Department be designated as *process servers* for the calendar year 2023.

(6). Approve a \$1,000,000 Faithful Performance bond for the City Clerk.

(7). **ORDINANCE NO. 022-770** *Establishing Fees and Charges* for licenses and permits for 2023 was adopted December 5, 2022.

(8). *Appointments to Boards and Commissions* – Candidates were interviewed December 12, 2022, and appointments will be made at the January 17, 2023, Council Meeting.

(9). Appoint Councilmember _____ as the primary and Councilmember _____ as the alternate representative to the *ALF Ambulance Board*.

(10). Appoint Councilmember _____ as Director and Councilmember _____ as the Alternate Director to the *Dakota 911 Board of Directors* through December 31, 2024.

(11). Appoint Councilmember _____ as the City's representative to the *CEEF Committee*.

(12). Appoint Councilmember _____, Staff member Lynn Gorski and a Planning Commission member to the *Farmington/Empire Planning Advisory Committee*.

(13). Appoint Councilmember _____, Staff member Lynn Gorski and a Planning Commission member to the *Farmington/Castle Rock Discussion Group*.

(14). Appoint Councilmember _____, Staff member Lynn Gorski, and a Planning Commission member to the *Eureka/Farmington Planning Advisory Committee*.

(15). Appoint Councilmembers _____ and _____ to the *MUSA Review Committee*.

(16). Appoint Councilmembers _____ and _____ to the *Liquor Operations Committee*.

(17). Appoint Councilmember _____ as a member and Councilmember _____ as alternate to the *Dakota Broadband Board*.

(18). Appoint Peter Gilbertson as Primary and Lynn Gorski as alternate to the *Dakota Broadband Executive Committee*.

(19). Councilmember Wilson serves as the primary representative and Councilmember Porter serves as the alternate through December 31, 2023, on the *Airlake Airport Advisory Commission*.

(20). Appoint Councilmember _____ to serve on the *Fire Relief Board of Trustees* as an elected municipal official and City Administrator Lynn Gorski as the municipal representative and Justin Elvestad as Fire Chief.

(21). Appoint Jim Constantineau as Director and Chris Regis as Alternate to LOGIS for 2023.

(22). Appoint by **RESOLUTION R -23** Lynn Gorski as the Responsible Authority for data practices and Julie Flaten as Data Practices Act Compliance Officer and Gary Rutherford as Responsible Authority for law enforcement for 2023.

(23). Approve City Council By-laws as presented.

(24). Approve the Council Policies as presented or advise of any desired changes.

APIF, MOTION CARRIED.

Council Committees

Committee	Meeting Date / Time	Location	2022 Council Representatives
ALF Ambulance Apple Valley/Lakeville/Farmington	4 th Thurs Jan, April, July, Oct	Rotates	Steve Wilson – Primary Nick Lien - Alternate
Dakota 911 Board of Directors Formerly known as Dakota Communication Center	8 a.m., 3 rd Thurs, Feb, May, Sept, Nov	Dakota 911 Training Room	Katie Bernhjelm – Primary Katie Porter - Alternate
CEEF Castle Rock/Empire/Eureka/Farmington	As needed		Joshua Hoyt – Primary Steve Wilson - Alternate
EFPAC Empire/Farmington Planning Advisory committee	As needed		Katie Bernhjelm
Farmington/Castle Rock Discussion Group	As needed		Steve Wilson
Eureka/Farmington Planning Advisory Committee	As needed		Joshua Hoyt
MUSA Review Committee Municipal Urban Service Area	As needed		Katie Bernhjelm Steve Wilson
Liquor Operations Committee	Once a year	Liquor Store(s)	Katie Porter Katie Bernhjelm
Dakota Broadband Board	Monthly, 2 nd Wed, 4 pm	Apple Valley	Joshua Hoyt – Primary Katie Porter – Alternate
Airlake Airport Advisory Commission	Twice a year		Steve Wilson – Primary Katie Porter – Alternate

Fire Relief Board	Quarterly	City Hall	Joshua Hoyt – Elected Lynn Gorski – Elected or Appointed official
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Acting Major

City Council By-Laws: Section 1 Meetings: SUBD. 3 - At the first regular city council meeting in January of each year, the city council shall: (1) designate the depositories of city funds; (2) designate the official newspaper; (3) pursuant to this section, choose an Acting Mayor from the trustees, who shall perform the duties of the Mayor during the disability or absence of the Mayor from the city, or in case of a vacancy in the office of Mayor, until a successor has been appointed and qualifies. The Acting Mayor shall be selected as follows: **Odd Numbered Year - Member serving third year of term who received the most votes when elected;** Even Numbered Year - Member serving fourth year of term who received the second most votes when elected.

2022 – Katie Bernhjelm

2023 -Steve Wilson