

To: HONORABLE MAYOR AND CITY COUNCIL.

FROM: Dave Maroney, Director of Economic Development and Planning.

SUBJECT: TIF Plan for Strike Tool, Inc.

DATE: November 29, 2016.

BACKGROUND.

With the assistance of tax increment financing (TIF), Bob and Marlene Banks propose to redevelop part of the former “bus garage building/property” to accommodate their plans to expand Strike Tool, Inc. adjacent to the existing operations. On December 6th the Council will conduct a public hearing (required) and thereafter consider approval of the TIF Plan itself and creation of TIF District No. 2-6.

To generally explain the tax increment financing program, the following “excerpts” from the TIF Plan (November 23, 2016) for TIF District No. 2-6 (Strike Tool, Inc.) are enclosed for your review: (a) Exhibit II (Page 14) - Map of TIF District No. 2-6; (b) Section I (Page 3) explaining the development project; (c) Sections K and L (Page 5) presents the authorized budget; (d) Exhibit IV (Page 16) – Projected Tax Increment Report; and (e) Exhibit VII (Page 18) – Projected PAYG Note Report.

In simplest terms, the tax increment program allows future property tax revenue (maximum 9-year term) created by the proposed 32,000 square foot expansion of Strike Tool, Inc. to be used to assist with paying costs incurred by Bob and Marlene Banks to demolish the existing building and prepare the site for new development (up to a maximum of \$138,925, plus interest). The information presented in items (a) – (e) above will be more fully discussed during the public hearing on Tuesday evening. If you would like to review a copy of the entire TIF Plan document please let me know!

The Economic Development Authority has discussed this project and recommends that the City Council approve tax increment financing to facilitate redevelopment of the property and the proposed expansion of Strike Tool, Inc.

REQUESTED COUNCIL ACTION.

Following the public hearing, the City Council is asked to approve the accompanying Resolution adopting the Tax Increment Financing (TIF) Plan for TIF District No. 2-6 (Strike Tool, Inc.). Costs incurred to prepare, process and administer the TIF program will be paid by the Developer and/or by tax increments generated from the project. If the TIF Plan is approved, a Development Agreement for the project will likely be presented to the City Council for their consideration and approval on December 20, 2016.

TIF District No. 2 - 6



Section H Property to be Acquired in the TIF District

The City may acquire and sell any or all of the property located within the TIF District. The City currently does not own any property within the TIF District, and does not anticipate acquiring any property.

Section I Specific Development Expected to Occur Within the TIF District

The proposed development is expected to consist of the demolition of an existing building and the construction of an approximately 32,000 square foot manufacturing and warehouse facility.

At least 85% of the facility will be used for warehousing and distribution, with less than 15% available for office space. The development will result in increased employment within the City, in compliance with statutory requirements. It is anticipated tax increment will be used to finance a portion of the TIF eligible costs related to the undertaking of the project including, but not limited to, demolition of existing structures and site preparation including fill, grading, and drainage improvements necessary to the development of the site. In addition, the City anticipates using available tax increment for related administrative expenses, potential pooling for TIF-eligible improvements outside of the boundaries of the district but within the Project Area for eligible purposes set forth in Minn. Stat. section 469.176 subd. 4c., and any other eligible expenditures associated with the development of the site.

The project is expected to be fully constructed in 2017, and be 100% assessed and on the tax rolls as of January 2, 2018 for taxes payable in 2019. The facility is anticipated to generate the receipt of first increment in 2019.

At the time this document was prepared there were no signed construction contracts with regards to the above described development.

Section J Findings and Need for Tax Increment Financing

In establishing the TIF District, the City makes the following findings:

- (1) The TIF District qualifies as an economic development district;

See Sections E and I of this document for the reasons and facts supporting this finding.

- (2) The proposed development, in the opinion of the City, would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future, and the increased market value of the site that could reasonably be expected to occur without the use of tax increment would be less than the increase in market value estimated to result from the proposed development after subtracting the present value of the projected tax increments for the maximum duration of the TIF District permitted by the TIF Plan.

Factual basis:

Proposed development not expected to occur:

The proposed development is expected to consist of a 32,000 square foot manufacturing and warehousing facility. At least 85% of the facility will be used for warehousing and distribution, with less than 15% available for office space. The proposed developer of the site has submitted information to the city demonstrating that the development of the site is not financially feasible without the assistance provided in this TIF Plan, due to the cost of demolishing the existing buildings on the site, and the site work improvements necessary to facilitate the project.

The City has determined that the proposed development would not occur but for the financial assistance provided in this TIF Plan because of the increased costs related to the demolition and redevelopment of the

(4) The TIF Plan conforms to general plans for development of the City as a whole.

Factual basis: The City Planning Commission has determined that the development proposed in the TIF Plan conforms to the City comprehensive plan.

Section K Estimated Public Costs

The estimated public costs of the TIF District are listed below. Such costs are eligible for reimbursement from tax increments of the TIF District.

Demolition, Site Improvements/Preparation Costs, and other Eligible Improvements	138,925
Pay-go Note Interest Payments	54,110
Administrative expenses	21,449
Total	\$214,484

The City reserves the right to administratively adjust the amount of any of the items listed above or to incorporate additional eligible items, so long as the total estimated public cost (\$214,484) is not increased. The City also reserves the right to fund any of the identified costs with any other legally available revenues, but anticipates that such costs will be primarily financed with tax increments.

Section L Estimated Sources of Revenue

Tax increment revenue*	\$214,484
Interest on invested funds	0
Other	0
Total	\$214,484

** Net of State Auditor Deduction*

The City anticipates providing financial assistance to the proposed development through the use of a pay-as-you-go note. As tax increments are collected from the TIF District in future years, a portion of these taxes will be distributed to the developer/owner as reimbursement for public costs incurred (see Section K).

The City reserves the right to finance any or all public costs of the TIF District using pay-as-you-go assistance, internal funding, general obligation or revenue debt, or any other financing mechanism authorized by law. The City also reserves the right to use other sources of revenue legally applicable to the Project Area to pay for such costs including, but not limited to, special assessments, utility revenues, federal or state funds, and investment income.

Section M Estimated Amount of Bonded Indebtedness

The maximum principal amount of bonds (as defined in the TIF Act) secured in whole or part with tax increment from the TIF District is \$214,484. The City currently plans to finance the improvements and eligible reimbursable costs in the form of one or more pay-as-you go revenue notes, but reserves the right to issue bonds in any form, including without limitation any interfund loan with interest not to exceed the maximum permitted under Section 469.178, subd. 7 of the TIF Act.

Section N Original Net Tax Capacity

The County Auditor shall certify the original net tax capacity of the TIF District. This value will be equal to the total net tax capacity of all property in the TIF District as certified by the State Commissioner of Revenue. For districts certified

Projected Tax Increment Report

City of Cannon Falls, Minnesota
 Tax Increment Financing (Economic Development) District No. 2-6
 Strike Tool, Inc. Project
 TIF Projections - \$1,120,000 Total EMV - 10% Admin

Annual Period Ending (1)	Total Market Value (2)	Total Net Tax Capacity (3)	Less: Original Net Tax Capacity (4)	Retained Captured Net Tax Capacity (5)	Times: Tax Capacity Rate (6)	Annual Gross Tax Increment (7)	Less: State Aud. Deduction 0.360% (8)	Subtotal Net Tax Increment (9)	Less: Admin. Retainage 10.00% (10)	Annual Net Revenue (11)
12/31/17	256,700	5,134	5,134	0	131.537%	0	0	0	0	0
12/31/18	256,700	5,134	5,134	0	131.537%	0	0	0	0	0
12/31/19	1,120,000	22,400	5,134	17,266	131.537%	22,711	82	22,629	2,263	20,366
12/31/20	1,131,200	22,624	5,134	17,490	131.537%	23,006	83	22,923	2,292	20,631
12/31/21	1,142,512	22,850	5,134	17,716	131.537%	23,303	84	23,219	2,322	20,897
12/31/22	1,153,937	23,079	5,134	17,945	131.537%	23,604	85	23,519	2,352	21,167
12/31/23	1,165,476	23,310	5,134	18,176	131.537%	23,908	86	23,822	2,382	21,440
12/31/24	1,177,131	23,543	5,134	18,409	131.537%	24,214	87	24,127	2,413	21,714
12/31/25	1,188,903	23,778	5,134	18,644	131.537%	24,524	88	24,436	2,444	21,992
12/31/26	1,200,792	24,016	5,134	18,882	131.537%	24,837	89	24,748	2,475	22,273
12/31/27	1,212,800	24,256	5,134	19,122	131.537%	25,152	91	25,061	2,506	22,555
						\$215,259	\$775	\$214,484	\$21,449	\$193,035

Projected Pay-As-You-Go Note Report

City of Cannon Falls, Minnesota
 Tax Increment Financing (Economic Development) District No. 2-6
 Strike Tool, Inc. Project
 TIF Projections - \$1,120,000 Total EMV - 10% Admin

Note Date: 12/06/16
 Note Rate: 5.00%
 Amount: \$138,925

Date (1)	Principal (2)	Interest (3)	P & I (4)	Cumulative Interest Due (5)	Unpaid Accrued Interest (6)	Semi-Annual Net Revenue (7)	Loan Balance Outstanding (8)
							138,925.00
02/01/19	0.00	0.00	0.00	14,953.73	14,953.73	0.00	138,925.00
08/01/19	0.00	10,183.00	10,183.00	18,426.86	8,243.86	10,183.00	138,925.00
02/01/20	0.00	10,183.00	10,183.00	11,716.99	1,533.99	10,183.00	138,925.00
08/01/20	5,308.38	5,007.12	10,315.50	5,007.12	0.00	10,315.50	133,616.62
02/01/21	6,975.08	3,340.42	10,315.50	3,340.42	0.00	10,315.50	126,641.54
08/01/21	7,282.46	3,166.04	10,448.50	3,166.04	0.00	10,448.50	119,359.08
02/01/22	7,464.52	2,983.98	10,448.50	2,983.98	0.00	10,448.50	111,894.56
08/01/22	7,786.14	2,797.36	10,583.50	2,797.36	0.00	10,583.50	104,108.42
02/01/23	7,980.79	2,602.71	10,583.50	2,602.71	0.00	10,583.50	96,127.63
08/01/23	8,316.81	2,403.19	10,720.00	2,403.19	0.00	10,720.00	87,810.82
02/01/24	8,524.73	2,195.27	10,720.00	2,195.27	0.00	10,720.00	79,286.09
08/01/24	8,874.85	1,982.15	10,857.00	1,982.15	0.00	10,857.00	70,411.24
02/01/25	9,096.72	1,760.28	10,857.00	1,760.28	0.00	10,857.00	61,314.52
08/01/25	9,463.14	1,532.86	10,996.00	1,532.86	0.00	10,996.00	51,851.38
02/01/26	9,699.72	1,296.28	10,996.00	1,296.28	0.00	10,996.00	42,151.66
08/01/26	10,082.71	1,053.79	11,136.50	1,053.79	0.00	11,136.50	32,068.95
02/01/27	10,334.78	801.72	11,136.50	801.72	0.00	11,136.50	21,734.17
08/01/27	10,734.15	543.35	11,277.50	543.35	0.00	11,277.50	11,000.02
02/01/28	11,000.02	275.00	11,275.02	275.00	0.00	11,275.02	0.00
	\$138,925	\$54,107.52	\$193,032.52	\$78,839.10	\$24,731.58	\$193,032.52	
					Surplus Tax Increment	2.48	
					Total Net Revenue	\$193,035.00	

EXTRACT OF MINUTES OF A MEETING OF THE
CITY COUNCIL OF THE CITY
OF CANNON FALLS, MINNESOTA

HELD: December 6, 2016

Pursuant to due call and notice thereof, a regular meeting of the City Council of the City of Cannon Falls, Goodhue County, Minnesota, was duly called and held on the 6th day of December, 2016, at 6:30 p.m.

The following members of the Council were present:

and the following were absent:

Member _____ introduced the following resolution and moved its adoption:

RESOLUTION NUMBER 2241

**RESOLUTION APPROVING PROPOSED ESTABLISHMENT OF
TAX INCREMENT FINANCING DISTRICT NO. 2-6 WITHIN DEVELOPMENT
DISTRICT NO. 2 AND APPROVING THE TAX INCREMENT FINANCING PLAN
THEREFOR**

WHEREAS:

A. The City of Cannon Falls, Minnesota (the "City") has previously created Development District No. 2 (the "Development District") and adopted a Development Program, as amended, therefor (the "Development Program"), pursuant to and in accordance with Minnesota Statutes, Sections 469.124 through 469.133, both inclusive, as amended; and

B. It has been proposed that the City establish Tax Increment Financing District No. 2-6 within Development District No. 2 (the "TIF District"), and adopt a Tax Increment Financing Plan relating thereto (the "TIF Plan"), pursuant to Minnesota Statutes, Sections 469.174 through 469.1794, both inclusive, as amended (the "TIF Act"); and

C. The City Council has investigated the facts and has caused to be prepared the TIF Plan; and

D. The City has performed all actions required by law to be performed prior to the approval of the establishment of the TIF District therein and the TIF Plan therefor, including, but not limited to notification of Goodhue County and Independent School District No. 252 having taxing jurisdiction over the property to be included in the TIF District and the holding of a public hearing upon published and mailed notice as required by law; and

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Cannon Falls as follows:

1. TIF District No. 2-6. There is hereby established in the City within the Development District, Tax Increment Financing District No. 2-6 therein, the initial boundaries of which are fixed and determined as described in the TIF Plan.

2. Tax Increment Financing Plan. The TIF Plan is adopted as the Tax Increment Financing Plan for the TIF District, and the City Council makes the following findings:

(a) The TIF District is an "economic development district" as defined in Minnesota Statutes, Section 469.174, Subd. 12, the specific basis for such determination being that the proposed development financed by tax increments from the TIF District will increase employment in the State, help prevent the emergence of blight and result in the preservation and enhancement of the tax base of the State and is in the public interest.

(b) The proposed development in the opinion of the City Council, would not occur solely through private investment within the reasonably foreseeable future. The reasons supporting this finding are that:

(i) The Developer has represented to the City that private investment will not finance these development activities because of prohibitive costs. It is necessary to finance these development activities through the use of tax increment financing so that this and other development by private enterprise will occur within the Development District.

(ii) A comparative analysis of estimated market values both with and without establishment of the TIF District and the use of tax increments has been performed as described above. Such analysis is found in Exhibit VI of the TIF Plan, and indicates that the increase in estimated market value of the proposed development (less the indicated subtractions) exceeds the estimated market value of the site absent the establishment of the TIF District and the use of tax increments.

(c) In the opinion of the City Council, the increased market value of the site that could reasonably be expected to occur without the use of tax increment financing would be less than the increase in the market value estimated to result from the proposed development after subtracting the present value of the projected tax increments for the maximum duration of the TIF District permitted by the TIF Plan. The reasons supporting this finding are that:

(i) The estimated amount by which the market value of the site will increase without the use of tax increment financing is \$-0-;

(ii) The estimated increase in the market value that will result from the development to be assisted with tax increment financing is \$956,100 (from \$256,700 to \$1,212,800); and

(iii) The present value of the projected tax increments for the maximum duration of the TIF District permitted by the TIF Plan is \$154,919.

(d) The TIF Plan for the TIF District conforms to the general plan for development or redevelopment of the City of Cannon Falls as a whole. The reasons for supporting this finding are that:

(i) The TIF District is properly zoned; and

(ii) The TIF Plan will generally compliment and serve to implement policies adopted by the City.

(e) The TIF Plan will afford maximum opportunity, consistent with the sound needs of the City as a whole, for the development or redevelopment of the Development District by private enterprise. The reasons supporting this finding are that:

The development activities are necessary so that development and redevelopment by private enterprise can occur within the Development District.

3. Public Purpose. The adoption of the TIF Plan for the TIF District therein conform in all respects to the requirements of the Act and will help fulfill a need to develop an area of the State which is already built up to provide employment opportunities to improve the tax base and to improve the general economy of the State and thereby serves a public purpose.

4. Certification. The Auditor of Goodhue County is requested to certify the original net tax capacity of the TIF District as described in the TIF Plan, and to certify in each year thereafter the amount by which the original net tax capacity has increased or decreased in accordance with the Act; and the City Administrator is authorized and directed to forthwith transmit this request to the County Auditor in such form and content as the Auditor may specify, together with a list of all properties within the TIF District for which building permits have been issued during the 18 months immediately preceding the adoption of this Resolution.

5. Filing. The City Administrator is further authorized and directed to file a copy of the Development Program Modification and TIF Plan for the TIF District with the Commissioner of Revenue and the Office of the State Auditor.

6. Administration. The administration of the Development District is assigned to the City Administrator who shall from time to time be granted such powers and duties pursuant to Minnesota Statutes, Sections 469.130 and 469.131 as the City Council may deem appropriate.

7. Interfund Loan. The City has determined to pay for certain costs (the "Qualified Costs") identified in the TIF Plan consisting of certain administrative expenses, which costs may be financed on a temporary basis from the City's general fund or any other fund from which such advances may be legally made (the "Fund"). Under Minnesota Statutes, Section 469.178, Subd. 7, the City is authorized to advance or loan money from the Fund in order to finance the Qualified Costs. The City intends to reimburse itself for the payment of the Qualified Costs, plus interest thereon, from tax increments derived from the TIF District in accordance with the following terms (which terms are referred to collectively as the "Interfund Loan"):

(a) The City shall repay to the Fund from which the Qualified Costs are initially paid, the principal amount of \$15,000 (or, if less, the amount actually paid from such fund) together with interest at 4.00% per annum (which is not more than the greater of (i) the rate specified under Minnesota Statutes, Section 270.75, or (ii) the rate specified under Minnesota Statutes, Section 549.09) from the date of the payment.

(b) Principal and interest on the Interfund Loan ("Payments") shall be paid semi-annually on each April 1 and August 1 commencing with the first April 1 or August 1 occurring after the date the tax increments from the TIF District are available and not otherwise pledged to and including the earlier of (a) the date the principal and accrued interest of the Interfund Loan is paid in full, or (b) the date of last receipt of tax increment from the TIF District ("Payment Dates") which Payments will be made in the amount and only to the extent of available tax increments. Payments shall be applied first to accrued interest, and then to unpaid principal.

(c) Payments on the Interfund Loan are payable solely from the tax increment generated in the preceding six (6) months with respect to the TIF District and remitted to the City by Goodhue County, all in accordance with Minnesota Statutes, Sections 469.174 to 469.1794, as amended. Payments on this Interfund Loan are subordinate to any outstanding or future bonds, notes or contracts secured in whole or in part with tax increment, and are on parity with any other outstanding or future interfund loans secured in whole or in part with tax increment.

(d) The principal sum and all accrued interest payable under this Interfund Loan are pre-payable in whole or in part at any time by the City without premium or penalty. No partial prepayment shall affect the amount or timing of any other regular payment otherwise required to be made under this Interfund Loan.

(e) The Interfund Loan is evidence of an internal borrowing by the City in accordance with Minnesota Statutes, Section 469.178, Subd. 7, and is a limited obligation payable solely from tax increment pledged to the payment hereof under this resolution. The Interfund Loan and the interest hereon shall not be deemed to constitute a general obligation of the State of Minnesota or any political subdivision thereof, including, without limitation, the City. Neither the State of Minnesota, nor any political subdivision thereof shall be obligated to pay the principal of or interest on the Interfund Loan or other costs incident hereto except out of tax increment, and neither the full faith and credit nor the taxing power of the State of Minnesota or any political subdivision thereof is pledged to the payment of the principal of or interest on the Interfund Loan or other costs incident hereto. The City shall have no obligation to pay any principal amount of the Interfund Loan or accrued interest thereon, which may remain unpaid after the termination of the TIF District.

(f) The City may amend the terms of the Interfund Loan at any time by resolution of the City Council, including a determination to forgive the outstanding principal amount and accrued interest to the extent permissible under law.

The motion for the adoption of the foregoing resolution was duly seconded by member _____ and upon vote being taken thereon, the following voted in favor thereof:

and the following voted against the same:

Whereupon said resolution was declared duly passed and adopted.

BY: _____
Lyman M. Robinson, Mayor

ATTEST: _____
Ronald S. Johnson, City Administrator

STATE OF MINNESOTA
COUNTY OF GOODHUE
CITY OF CANNON FALLS

I, the undersigned, being the duly qualified and acting Administrator of the City of Cannon Falls, Minnesota, DO HEREBY CERTIFY that I have compared the attached and foregoing extract of minutes with the original thereof on file in my office, and that the same is a full, true and complete transcript of the minutes of a meeting of the City Council of said City, duly called and held on the date therein indicated, insofar as such minutes relate to the establishment of Tax Increment Financing District No. 2-6 therein.

WITNESS my hand this 6th day of December, 2016.

City Administrator