

TO: HONORABLE MAYOR AND CITY COUNCIL
FROM: LAURA QAULEY, ECONOMIC DEVELOPMENT SPECIALIST
SUBJECT: TIF 2-10
DATE: AUGUST 3, 2021

BACKGROUND

The Economic Development Authority (the “EDA”) is actively working to attract and create new economic development opportunities across the city and fund future development activities. On the former Cannonball Truck Stop site, we are proposing to use tax increment financing (TIF) as a tool to establish and direct the proceeds into a fund for said development activities. The background information on TIF 2-10 is provided in your packet as well as an outline of the terms.

The District currently consists of one (1) parcel of land PID 52.730.0010 at 415 Hickory Drive, (Lot 1 Block 1, McCannonball Subdivision). The district will be created to facilitate the housing development of a 79 unit market rate apartment complex. Development for the facility is anticipated to begin in Winter 2021 or Spring 2022.

40% of the units will be reserved for families at 60% of the area median income. 2021 numbers provided below, subject to change annually. This means this is a limitation on incomes for certain units, but not rents. These units must be reserved for income qualified families. They must either be filled by such families or remain empty.

	FAMILY SIZE			
	1	2	3	4
60%	36,840	42,060	47,340	52,560
2021 Limits Goodhue County				

The unit mix for the project is as follows:

UNIT SIZE	# OF UNITS	RENT
Efficiency/1 Bathroom	10	\$ 875
Efficiency/1 Bathroom (40% AMI)	14	\$ 825
1 BR/1BA	17	\$1,175
1 BR/1BA (40% AMI)	16	\$1,125
2 BR/2 BA	13	\$1,275
2 BR/2 BA (40% AMI)	6	\$1,200
3 BR/2 BA	3	\$1,325

Developer shall provide income verification reports on forms prescribed by the City each year by July 1st. Failure to comply in any given year will result in no tax increment reimbursement for that year and will not be allowed to be recouped later.

City is proposing the following terms:

1. Sell the Development Site to the Developer for \$150,000
2. Pre-Construction Update Phase 1 Environmental Site Assessment Report and Response Action Plan (\$4,000)
3. Waive SAC/WAC fees (estimated at \$129,000).
4. Waive building permit fees (covered by County \$40,000 estimated).
5. Cost share up to \$70,000.00 of miscellaneous site and public improvements serving the Development Site via an interfund loan.
6. Establish Housing TIF District No. 2-10 to reimburse the Developer for eligible costs on a Pay-As-You-Go basis. Upon completion of the Project, issue a TIF Revenue Note in the amount of up to \$3.6 million at an interest rate of 3.75%. Initial payment will be August 1st, 2023 and final payment will be no later than February 1, 2049. Reimbursement amount will be 90% of the tax increment collected in the prior six months (assuming income compliance is documented as noted above).

This TIF Plan is expected to achieve many of the objectives outlined in the Development Program for Municipal Development District No. 2.

Mike Bubany from David Drown Associates, will be presenting the TIF details during the Council meeting on August 3rd, 2021 and will allow for any questions or clarifications regarding the TIF Agreement.

Staff Recommendation

The EDA Board approved TIF 2-10 at the monthly board meeting on June 3rd, 2021 and are making a recommendation to the Council to approve the TIF Agreement.

Requested City Council Action:

The EDA is respectfully requesting a motion to approve TIF Agreement 2-10.

City of Cannon Falls, Minnesota

Tax Increment Financing Plan for
Tax Increment Financing District No. 2-10
(Keller-Baartman Properties XIV, LLC Housing Project 2021)

Public Hearing: August 3, 2021



DDA

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Tax Increment Financing Plan for Tax Increment Financing District No. 2-10

Section 1 Definitions

The terms defined in this section have the meanings given herein, unless the context in which they are used indicates a different meaning:

"City" means the City of Cannon Falls, Minnesota.

"County" means Goodhue County, Minnesota.

"County Board" means the County Board of Commissioners.

"Developer" means any person undertaking construction or renovation of taxable property within the Project Area, including Keller-Baartman Properties XIV, LLC, their successors and assigns.

"Development Program" means the Development Program for Municipal Development District No. 2

"Project Area" means the geographic area of the Development District.

"Public Costs" means the costs of land acquisition, site improvements, and other eligible costs as set forth in the Development Program and Tax Increment Financing Plan(s).

"School District" means the Independent School District No. 252.

"State" means the State of Minnesota.

"TIF Act" means Minnesota Statutes, Sections 469.174 through 469.1794, both inclusive.

"TIF District" means Tax Increment Financing District No. 2-10.

"TIF Plan" means the tax increment financing plan for the TIF District (this document).

Section 2 Statement of Need and Public Purpose

See the Development Program for Municipal Development District No. 2, which is on file at the City Clerk's Office at City Hall in Cannon Falls.

Section 3 Statutory Authorization

The City is empowered under the provisions of the TIF Act to establish a tax increment financing district.

Section 4 Statement of Objectives

See the Development Program for Municipal Development District No. 2, which is on file at the City Clerk's Office at City Hall in Cannon Falls

Section 5 Specific Development Expected to Occur in the TIF District

Keller-Baartman Properties XIV, LLC (the "Developer") intends to acquire an approximate 3.25-acre parcel from the Cannon Falls Economic Development Authority and construct an apartment complex with an estimated 75 to 85 units. The Developer has indicated to the City that due to the escalating costs of construction, building affordable rental units would not be possible but for tax increment financing assistance. This finding is supported anecdotally by the lack of new rental units being built in the past 15 years. The City intends to provide the Developer tax increment assistance on a pay-as-you-go basis to reimburse the Developer for site acquisition and improvement costs. In return, the Developer agrees it will reserve a certain number of units for income-qualified families for the duration of the TIF District's life (see Section 12).

Section 6 Property to be Included in the TIF District

The TIF District will originally consist of a single parcel (527300010). A map showing the location of the TIF District is shown in Exhibit 1, and the parcel identification number and original value is summarized in Exhibit 2.

The area encompassed by the TIF District shall also include all street rights-of-way and utility or drainage easements located upon or adjacent to the property described in Exhibits 1 and 2.

Section 7 Estimated Sources and Uses of Funds (Public Costs)

The estimated costs of the proposed development in the TIF District which are eligible for reimbursement with tax increments and the projected sources of revenue available to fund these costs are summarized below.

Uses of Funds (Public Costs)

<u>Capital Costs:</u>	
Land Acquisition	150,000
Site Improvements	<u>3,519,248</u>
Subtotal Capital Costs	3,669,248
<u>Finance Costs:</u>	
Bond & Note Interest Payments	2,887,647
<u>Administrative Costs:</u>	
Administrative Costs	<u>728,543</u>
TOTAL USES OF FUNDS	7,285,438

Sources of Funds

Tax Increment	<u>7,285,438</u>
TOTAL SOURCES OF FUNDS	7,285,438

The City reserves the right to adjust the amount of Capital and Administrative line items listed above or to incorporate additional eligible items, so long as the total Capital and Administrative costs are not increased (\$4,397,791). Adjusting financing costs, principal or interest, will require a public hearing and formal TIF Plan modification process pursuant to Minnesota Statutes Section 469.175 Subd. 4. 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. Therefore, the total estimated costs to be financed with tax increments, including capital costs, administrative costs and financing costs (interest) is \$7,285,438.

Section 8 Estimated Impact on Other Taxing Jurisdictions

Exhibit 4 shows the estimated impact on other taxing jurisdictions if the projected Retained Captured Net Tax Capacity of the TIF District were hypothetically available to the other jurisdictions. The City believes that there will be no adverse impact on other taxing jurisdictions during the life of the TIF District, since only a limited market value increase would have occurred without the establishment of the TIF District and the provision of public assistance. A positive impact on other taxing jurisdictions will occur when the TIF District is decertified, and the development therein becomes part of the general taxbase.

Section 9 Fiscal and Economic Implications

M.S. Section 469.175 Subdivision (2b) requires a specific description of the fiscal and economic implications of the proposed TIF District on City-provided services, plus an estimate of the total TIF that will be generated over the life of the TIF District attributable to each taxing jurisdiction.

City Service Costs. The proposed project will result in an estimated 75 to 85 new apartment units, a percentage of which will be reserved for income-qualified families. Any necessary street and utility improvements within the subdivision are expected to be paid by the Developer or from tax increment revenues. The expected impact on general government and administration expenses will be minor as the project essentially provides for infill development within the City.

The City proposes to assist the Developer by financing the land acquisition and site improvement costs via the issuance of a pay-as-you-go contract. As such, the tax impact on existing taxpayers is expected to be minimal.

This type of assistance does not impede the City's ability to issue General Obligation bonds in the future.

TIF Attribution. The City projects TIF collections will total \$7,285,438 over the life of the TIF District. Assuming current tax rates remain unchanged, \$3,832,733 will come from the City share of taxes; \$2,505,399 from the County share, and \$902,361 from the School share. The balance is attributable to other jurisdictions.

Section 10 Property to be acquired in the TIF District

The Developer plans to acquire all land within the TIF District. See Exhibit 2 for a listing of parcel numbers.

Section 11 Estimated Amount of Bonded Indebtedness

The City reserves the right to issue G.O. TIF bonds, or any other type of allowable bonds (including interfund loans) in an amount not to exceed \$4,397,791.

Section 12 Designation of TIF District as a Housing District

The Tax Increment District qualifies as a housing district. A housing district is a type of tax increment financing district which consists of a project intended for occupancy, in part, by persons or families of low and moderate income. Low and moderate income is defined by federal, state, and sometimes local legislation. A housing district may contain and provide assistance to commercial, retail, or other nonresidential uses, as long as the square footage of these uses does not exceed 20% of the total square footage of buildings in the TIF District. No assistance may be provided to these uses, however.

Housing districts are subject to various income limitations. For owner occupied residential property, 95% of the housing units must be initially purchased and occupied by individuals whose family income is less than or equal to the income requirements for qualified mortgage bond projects under Section 143(f) of the Internal Revenue Code. Generally, the initial occupants must have incomes of 100% or less of statewide median income for families of two or less, and 115% of statewide median income for families of three or more. For residential rental property, the property must satisfy the income requirements for a qualified residential rental project as defined in Section 142(d) of the Internal Revenue Code. This requires that at least 40% of the units are rented to families with incomes at or below 60% of county median income, or 20% of the units rented to families with incomes at or below 50% of county median income, adjusted for family size. These requirements apply for the life of the TIF District.

The City will assure housing development within the TIF District meets the above criteria. The City reserves the right, however, to remove property from the TIF District to accommodate proposed housing development(s) that do not meet these criteria.

Section 13 Original Net Tax Capacity

The County Auditor shall certify the Original Net Tax Capacity of the TIF District, which will be the total Net Tax Capacity of all property in the TIF District as certified by the State Commissioner of Revenue. For districts certified between January 1 and June 30, inclusive, this value is based on the previous assessment year. For districts certified between July 1 and December 31, inclusive, this value is based on the current assessment year.

The Estimated Market Value of all property within the TIF District as of January 1, 2020 for taxes payable in 2021 is \$212,200. Based on this amount, the Original Net Tax Capacity of the TIF District is estimated at \$2,653. The actual Original Net Tax Capacity will likely be higher or lower than this number, however, as it is expected that the request for certification for this TIF District will occur on or after July 1, 2021 and before June 30, 2022. As such, the Original Net Tax Capacity will be based on estimated market value that exists on January 1, 2021 for taxes payable 2022.

Each year the County Auditor will certify the amount that the Original Net Tax Capacity has increased or decreased as a result of:

1. changes in the tax-exempt status of property;
2. reductions or enlargements of the geographic area of the TIF District;
3. changes due to stipulation agreements or abatements; or
4. changes in classification rates.

Section 14 Original Local Tax Rate

The County Auditor will also certify the Original Tax Capacity Rate of the TIF District. This rate is the sum of all local tax rates that apply to property in the TIF District. This rate must match the same taxes payable year as the Original Net Tax Capacity.

In future years, the amount of tax increment generated by the TIF District will be calculated using the lesser of (a) the sum of the current local tax rates at that time or (b) the Original Tax Capacity Rate of the TIF District.

The sum of all local tax rates that apply to property in the TIF District for taxes levied in 2020 and payable in 2021 is **127.729%**. The final Original Local Tax Rate may be higher or lower than this value due to the fact that the request for certification will take place on or after July 1, 2021 but before June 30, 2022. See Section 13. The Pay 2021 rates are used for estimation purposes only.

<u>Taxing Jurisdiction</u>	<u>Payable 2021 Tax Rate</u>
City of Cannon Falls	67.195%
Goodhue County	43.925%
ISD # 252*	15.820%
Other	0.788%
Total	136.260%

** The operating referendum market value tax rate for the School District is not captured by the TIF District. Also, Minnesota Statutes Section 469.177 Subd. 1a was amended in 2013 redefining what portion of the local school district tax capacity rate will be used in calculating tax increments. Specifically, this amendment now excludes that portion of the school rate attributable to the general education levy under Section 126C.13. The rate shown is an estimate of the applicable rate.*

Section 15 Projected Retained Captured Net Tax Capacity and Tax Increment

Each year the County Auditor will determine the current Net Tax Capacity of all property in the TIF District. To the extent that this total exceeds the Original Net Tax Capacity, the difference is known as the Captured Net Tax Capacity of the TIF District. It is the City's intention to retain 100% of the Captured Net Tax Capacity of the TIF District. Such amount shall be known as the Retained Captured Net Tax Capacity of the TIF District.

Exhibit 3 estimates the total amount of retained net captured tax capacity, gross tax increments, adjustments, and the net tax increment revenues which will be available annually and cumulatively over the life of the TIF District.

Section 16 Statutory Duration of the TIF District

Housing districts may remain in existence through the end of the 25th year following receipt of the first tax increment, resulting in 26 TIF collections. The City anticipates that the TIF District will receive the first increment payment in 2023 and elects to have the first collection year be 2023. The District is expected to remain in existence the maximum duration allowed by law (projected to be through 2048). Modifications of this plan (see Section 28) shall not extend these duration limits.

Section 17 Use of Tax Increments – Housing Districts

Tax increments derived from a housing district must be used solely to finance the costs of housing projects defined in Section 12. The cost of public improvements directly related to the housing projects and the allocated administrative expenses of the City may be included in the cost of a housing project.

Section 18 Use of Tax Increments – General

Each year the county treasurer will deduct an estimated 0.36% of the annual tax increment generated by the TIF District and pay such amount to the state general fund. Such amounts will be appropriated to the state auditor for the cost of financial reporting and auditing of tax increment financing information throughout the state. Exhibit 3 shows the projected deduction for this purpose over the anticipated life of the TIF District.

The City has determined that it will use 100% of the remaining tax increment generated by the TIF District for any of the following purposes:

1. pay for the estimated public costs of the TIF District (see Section 7) and City administrative costs associated with the TIF District (see Section 23);
2. pay principal and interest on tax increment bonds, notes or other financial obligations issued to finance the public costs of the TIF District;
3. accumulate a reserve securing the payment of tax increment bonds or other bonds issued to finance the public costs of the TIF District;
4. pay all or a portion of the county road costs as may be required by the County Board under M.S. Section 469.175, Subdivision 1a; or
5. return excess tax increments to the County Auditor for redistribution to the City, County and School District in proportion to their local tax capacity rates.

Tax increments from property located in one county must be expended for the direct and primary benefit of a project located within that county, unless both County Boards involved waive this requirement. Tax increments shall not be used to circumvent levy limitations.

Tax increment cannot be used to finance the acquisition, construction, renovation, operation, or maintenance of a building to be used primarily and regularly for conducting the business of a municipality, county, school district, or any other local unit of government or the State or Federal government. This prohibition does not apply to the construction or renovation of a parking structure, a common area used as a public park, or a facility used for social, recreational, or conference purposes and not primarily for conducting the business of the community.

If any type of agreement or arrangement exists providing for the developer, or other beneficiary of assistance, to repay all or a portion of the assistance that was paid or financed with tax increments, such payments shall be subject to all of the restrictions imposed on the use of tax increments. Assistance includes sales of property at less than the cost of acquisition or fair market value, grants, ground or other leases at less than fair market rent, interest rate subsidies, utility service connections, roads, or other similar assistance that would otherwise be paid for by the developer or beneficiary.

Section 19 “Green Acres”

A TIF District may NOT include parcels that qualified as “green acres” in any of the five (5) years preceding the request for certification, unless 85% of development in the district is restricted to qualified manufacturing or distribution facilities directly related to production of tangible personal property and paying at least 90% of its employee's wages equal to or greater than 160% of the federal minimum wage, or the development in the district is a qualified housing project

None of the property to be included in this TIF District has been enrolled in the Green Acres Program in the past five years.

Section 20 4-Year Knock-Down Rule

If after four years from certification of the TIF District no demolition, rehabilitation, renovation, or qualified improvement of an adjacent street has commenced on a parcel located within the TIF District, then that parcel shall be excluded from the TIF District and the Original Net Tax Capacity shall be adjusted accordingly. Qualified improvements of a street are limited to construction or opening of a new street, relocation of a street, or substantial reconstruction or rebuilding of an existing street. The City must submit to the County Auditor, by February 1 of the fifth year, evidence that the required activity has taken place for each parcel in the TIF District.

If a parcel is excluded from the TIF District and the City or owner of the parcel subsequently commences any of the above activities, the City shall certify to the County Auditor that such activity has commenced and the parcel shall once again be included in the TIF District. The County Auditor shall certify the Net Tax Capacity of the parcel, as most recently certified by the Commissioner of Revenue, and add such amount to the Original Net Tax Capacity of the TIF District.

Section 21 Tax Increment Pooling – 5-year Rule

At least 80 percent of tax increments from the Tax Increment Financing District No. 2-10 must be expended on activities in Tax Increment Financing District No. 2-10 or to pay bonds, to the extent that the proceeds of the bonds were used to finance activities within said district or to pay, or secure payment of, debt service on credit enhanced bonds, provided that in the case of a housing district, a housing project as defined in Minnesota Statutes, Section 469.174, Sub. 11, is deemed to be an activity in the District, even if the expenditure occurred after five years. Not more than 20 percent of said tax increments may be expended, through a development fund or otherwise, on activities outside of Tax Increment Financing District No. 2-10 except to pay, or secure payment of, debt service on credit enhanced bonds, provided that in the case of a housing district, a housing project as defined in Minnesota Statutes, Section 469.174, Sub. 11, is deemed to be an activity in the District, even if the expenditure occurred after five years. For purpose of applying this restriction, all administrative expenses must be treated as if they were solely for activities outside of Tax Increment Financing District No. 2-10.

Tax increments derived from Tax Increment Financing District No. 2-10 shall be deemed to have satisfied the 80 percent test set forth in the paragraph above only if the five year rule set forth in Minnesota Statutes, Section 469.1763, Sub. 3, has been satisfied; and beginning with the sixth year following certification of Tax Increment Financing District No. 2-10, 80 percent of said tax increments that remain after expenditures permitted under said five year rule must be used only to pay previously committed expenditures or credit enhanced bonds as more fully set forth in Minnesota Statutes, Section 469.1763, Sub. 5, provided that in the case of a housing district, a housing project as defined in Minnesota Statutes, Section 469.174, Subd. 11, is deemed to be an activity in the District, even if the expenditure occurred after five years.

The City elects the option provided by M.S. 469.1763 to increase the amount of expenditures permitted outside the District by up to an additional 10%. However, these expenditures are limited to assisting housing which meets the requirements of a low-income housing building defined under section 42(c) of the Internal Revenue Code.

Section 22 Excess Tax Increment

On December 31st of each year, the City must determine the amount of excess increments for the TIF District. See M.S. Section 469.176 subdivision 2 for a complete definition. Excess increments may only be used to:

1. prepay any outstanding tax increment bonds, notes or other obligations;
2. discharge the pledge of tax increments thereon.
3. pay amounts into an escrow account dedicated to the payment of the tax increment bonds, notes or other obligations; or
4. return excess tax increments to the County Auditor for redistribution to the City, County and School District in proportion to their local tax capacity rates. The County Auditor must report to the Commissioner of Education the amount of any excess tax increment redistributed to the School District within 30 days of such redistribution.

Allocation of excess increments must be completed by September 30th in the year following the year in which the excess increments were generated.

Section 23 Limitation on Administrative Expenses

Administrative expenses are defined as all costs of the City other than:

1. amounts paid for the purchase of land;
2. amounts paid for materials and services, including architectural and engineering services directly connected with the proposed development within the TIF District;

3. relocation benefits paid to, or services provided for, persons or businesses located within the TIF District; or
4. amounts used to pay principal or interest on, fund a reserve for, or sell at a discount, tax increment bonds.
5. amounts used to make payments on other financial obligations used to finance costs outlined above.

Administrative expenses include amounts paid for services provided by bond counsel, fiscal consultants, planning or economic development consultants, and actual costs incurred by the City in administering the TIF District. Tax increments may be used to pay administrative expenses of the TIF District up to the lesser of (a) 10% of the total estimated public costs authorized by the TIF Plan or (b) 10% of the total tax increment expenditures of the project.

Section 24 Prior Planned Improvements

The City shall accompany its request for certification to the County Auditor with a listing of all properties within the TIF District for which building permits have been issued during the 18 months immediately preceding approval of the TIF Plan. The County Auditor shall increase the Original Net Tax Capacity of the TIF District by the Net Tax Capacity of each improvement for which a building permit was issued.

Section 25 Development Agreements

If more than 10% of the acreage of a project (which contains a housing district) is to be acquired by the City with proceeds from tax increment bonds then, prior to such acquisition, the City must enter into an agreement for the development of the property. Such agreement must provide recourse for the City should the development not be completed.

The City is not acquiring any land within the TIF District.

Section 26 Exempt from Business Subsidy Laws

Minnesota Statutes 116J.991 requires a City providing a business with a subsidy worth \$150,000 to complete a subsidy approval process. Housing assistance, however, is exempt from the requirements.

Section 27 Assessment Agreements

The City may, upon entering into a development agreement, also enter into an assessment agreement with the developer, which establishes a minimum market value of the land and improvements for each year during the life of the TIF District.

The assessment agreement shall be presented to the County or City Assessor who shall review the plans and specifications for the improvements to be constructed, review the market value previously assigned to the land, and so long as the minimum market value contained in the assessment agreement appears to be a reasonable estimate, shall certify the assessment agreement as reasonable. The assessment agreement shall be filed for record in the office of the County Recorder of each county where the property is located. Any modification or premature termination of this agreement must first be approved by the City, and if the project is valued below the minimum market value, also approved by the County and School District.

Section 28 Modifications of the Tax Increment Financing Plan

Any reduction or enlargement in the geographic area of the Project Area or the TIF District; increase in the amount of bonded indebtedness to be incurred; increase in the amount of capitalized interest; increase in that portion of the Captured Net Tax Capacity to be retained by the City; increase in the total estimated public costs; or designation of additional property to be acquired by the City shall be approved only after satisfying all the necessary requirements for approval of the original TIF Plan. These restrictions do not apply if:

1. the only modification is elimination of parcels from the Project Area or the TIF District; and

2. the current Net Tax Capacity of the parcels eliminated equals or exceeds the Net Tax Capacity of those parcels in the TIF District's Original Net Tax Capacity, or the City agrees that the TIF District's Original Net Tax Capacity will be reduced by no more than the current Net Tax Capacity of the parcels eliminated.

The City must notify the County Auditor of any modification that reduces or enlarges the geographic area of the Project Area or the TIF District. The geographic area of the TIF District may be reduced but not enlarged after five years following the date of certification.

Section 29 Administration of the Tax Increment Financing Plan

Upon adoption of the TIF Plan, the City shall submit a copy of such plan to the State Auditor's Office. The City shall also request that the County Auditor certify the Original Net Tax Capacity and Net Tax Capacity Rate of the TIF District. To assist the County Auditor in this process, the City shall submit copies of the TIF Plan, the resolution establishing the TIF District and adopting the TIF Plan, and a listing of any prior planned improvements. The City shall also send the County Assessor any assessment agreements establishing the minimum market value of land and improvements in the TIF District and shall request that the County Assessor review and certify any assessment agreements as reasonable.

The County shall distribute to the City the amount of tax increment as it becomes available. The amount of tax increment in any year represents the applicable property taxes generated by the Retained Captured Net Tax Capacity of the TIF District. The amount of tax increment may change due to development anticipated by the TIF Plan, other development, inflation of property values, or changes in property classification rates or formulas.

In administering and implementing the TIF Plan, the following actions should occur on an annual basis:

1. Prior to July 1, the City shall notify the County Assessor of any new development that has occurred in the TIF District during the past year to ensure that the new value will be recorded in a timely manner.
2. If the County Auditor receives the request for certification of a new TIF District, or for modification of an existing TIF District, before July 1, the request shall be recognized in determining local tax rates for the current and subsequent levy years. Requests received on or after July 1 shall be used to determine local tax rates in subsequent years.

Each year the County Auditor shall certify the amount of the Original Net Tax Capacity of the TIF District. The amount certified shall reflect any changes that occur as a result of the following:

- a) the value of property that changes from tax-exempt to taxable shall be added to the Original Net Tax Capacity of the TIF District. The reverse shall also apply;
- b) the Original Net Tax Capacity may be modified by any approved enlargement or reduction of the TIF District;
- c) if the TIF District is classified as an economic development district, then the Original Net Tax Capacity shall be increased by the amount of the annual adjustment factor; and
- d) if laws governing the classification of real property cause changes to the percentage of Estimated Market Value to be applied for property tax purposes, then the resulting increase or decrease in Net Tax Capacity shall be applied proportionately to the Original Net Tax Capacity and the Retained Captured Net Tax Capacity of the TIF District.

The County Auditor shall notify the City of all changes made to the Original Net Tax Capacity of the TIF District.

Section 30 Financial Reporting and Disclosure Requirements

The City is responsible for information and financial reporting on the activities of the TIF District. These responsibilities include:

1. Prepare and Publish an Annual Statement. No later than August 1 of each year, the City must prepare and publish an annual statement which includes at least the following information:
 - (a) tax increment received and expended in that year
 - (b) Original Net Tax Capacity
 - (c) captured Net Tax Capacity
 - (d) amount of outstanding bonded indebtedness
 - (e) increments paid to other government bodies
 - (f) administrative costs
 - (g) increments paid directly or indirectly outside of the district
 - (h) if a fiscal disparities contribution is computed under section 469.177, Subd. 3(a), the increase in property tax imposed on other properties in the municipality as a result of the fiscal disparities contribution in the manner prescribed by the commissioner of revenue.

A copy of the annual statement must also be provided to the State Auditor, county board and county auditor, and the municipality.

2. Prepare an Annual Report. (469.175 Subds. 5 and 6) The State Auditor enforces the provisions of the TIF Act and has full responsibility for financial and compliance auditing of the City's use of tax increment financing. The State Auditor's office provides detailed tax increment reporting forms for use in complying with annual reporting requirements. On or before August 1 of each year, the City and/or the County must prepare a status and financial report for the TIF District and submit it to the state auditor, the county board, the county auditor, and the governing body of the municipality, if the municipality is not also the authority.

Section 31 Findings and Need for Tax Increment Financing

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

1. The TIF District qualifies as a housing district;
See Section 12 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;
The Developer has indicated that TIF assistance is necessary to control certain development costs such that the resulting rents can be maintained at affordable levels. Without assistance, the Developer believes that the acquisition and construction cost of the apartment complex will exceed affordable levels and the project will not be feasible.

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 included as Exhibit 5, and indicates that:

1. *The increase in estimated market value of the proposed developments is \$12,657,800; and*
 2. *The present value of expected tax increments collected over the maximum duration of the TIF District is \$4,076,942; and*
 3. *The expected increased estimated market value of the site without the use of tax increment is \$259,158, assuming the land remains mostly vacant; and*
 4. *No development is expected to occur that would create a market value increase of at least \$8,580,858 without TIF assistance (the amount in line 1 less the amount in line 2).*
3. The TIF Plan conforms to the general plan for development or redevelopment of the City as a whole.

The reasons and facts supporting this finding are that the housing developments proposed for the TIF District are generally consistent with the City's development plan and zoning ordinances and serves to promote the City's development objectives.

4. The TIF Plan will afford maximum opportunity, consistent with the sound needs of the City as a whole, for the development of the Project Area by private enterprise.

The reasons and facts supporting this finding are that the activities contemplated in this TIF Plan are necessary so that development and redevelopment by private enterprise can occur within the Development District.

Exhibits

Map of Financing District and Project Area..... Exhibit 1

Parcels and Valuations..... Exhibit 2

Tax Increment Projections..... Exhibit 3

Statement of Fiscal and Economic Impacts..... Exhibit 4

Market Value Analysis..... Exhibit 5

[illegible]

Exhibit 1

City of Cannon Falls, Minnesota
Housing Tax Increment Financing District No. 2-10

Keller-Baartman Properties XIV, LLC Housing Project

PARCEL INFORMATION

			2020/2021 Valuations					
#	PIN #*	Owner	Land	Building	Total M.V.	Taxable MV	Tax Cap.	Lot Area (Acres)
1	527300010	Cannon Falls EDA	212,200	-	212,200	212,200	2,653	3.25
					212,200	212,200	2,653	3.25

City of Cannon Falls, Minnesota
Housing Tax Increment Financing District No. 2-10

Keller-Baartman Properties XIV, LLC Housing Project

TIF PROJECTIONS

Valuations & Projected Increases

	Market	Tax Capacity
Estimated Original value	212,200	2,653
Completed Value after Initial Development	12,870,000	160,875
Captured / Increased Values	12,657,800	158,223

Tax Rate Assumptions:

	2020/2021 Tax Rate*	Est. Applicable TIF Tax Rate
City	67.196%	67.196%
County	43.925%	43.925%
School**	21.105%	15.820%
Other	0.788%	0.788%
	133.014%	127.729%

237,877 Estimated Property Taxes Upon Completion

School MV Rate >> 0.18563%

Projected Tax Increment

2.5% Assumed inflation rate:

Payable Year	Original Tax Capacity	Projected Tax Capacity	Net Captured Tax Capacity	Less Fiscal Disparities	Retained Net Captured Tax Capacity	Projected Tax Rate	0.36% Less OSA Fees	Gross Tax Increment
2021	2,653	2,653	-	-	-			-
2022	2,653	2,653	-	-	-	127.73%		-
2023	2,653	160,875	158,223	-	158,223	127.73%	(728)	201,369
2024	2,653	164,897	162,244	-	162,244	127.73%	(746)	206,488
2025	2,653	169,019	166,367	-	166,367	127.73%	(765)	211,734
2026	2,653	173,245	170,592	-	170,592	127.73%	(784)	217,112
2027	2,653	177,576	174,923	-	174,923	127.73%	(804)	222,624
2028	2,653	182,015	179,363	-	179,363	127.73%	(825)	228,274
2029	2,653	186,566	183,913	-	183,913	127.73%	(846)	234,065
2030	2,653	191,230	188,577	-	188,577	127.73%	(867)	240,001
2031	2,653	196,011	193,358	-	193,358	127.73%	(889)	246,086
2032	2,653	200,911	198,258	-	198,258	127.73%	(912)	252,322
2033	2,653	205,934	203,281	-	203,281	127.73%	(935)	258,715
2034	2,653	211,082	208,429	-	208,429	127.73%	(958)	265,267
2035	2,653	216,359	213,706	-	213,706	127.73%	(983)	271,983
2036	2,653	221,768	219,115	-	219,115	127.73%	(1,008)	278,867
2037	2,653	227,312	224,660	-	224,660	127.73%	(1,033)	285,923
2038	2,653	232,995	230,342	-	230,342	127.73%	(1,059)	293,156
2039	2,653	238,820	236,167	-	236,167	127.73%	(1,086)	300,569
2040	2,653	244,790	242,138	-	242,138	127.73%	(1,113)	308,168
2041	2,653	250,910	248,258	-	248,258	127.73%	(1,142)	315,956
2042	2,653	257,183	254,530	-	254,530	127.73%	(1,170)	323,939
2043	2,653	263,612	260,960	-	260,960	127.73%	(1,200)	332,122
2044	2,653	270,203	267,550	-	267,550	127.73%	(1,230)	340,510
2045	2,653	276,958	274,305	-	274,305	127.73%	(1,261)	349,107
2046	2,653	283,882	281,229	-	281,229	127.73%	(1,293)	357,919
2047	2,653	290,979	288,326	-	288,326	127.73%	(1,326)	366,951
2048	2,653	298,253	295,601	-	295,601	127.73%	(1,359)	376,210

Adjustments

10.00% Admin. Retainage	0.00% Other Deductions	TOTAL NET REVENUES
-	-	-
20,137	-	181,232
20,649	-	185,839
21,173	-	190,561
21,711	-	195,401
22,262	-	200,362
22,827	-	205,447
23,407	-	210,659
24,000	-	216,001
24,609	-	221,477
25,232	-	227,090
25,871	-	232,843
26,527	-	238,740
27,198	-	244,785
27,887	-	250,980
28,592	-	257,331
29,316	-	263,840
30,057	-	270,512
30,817	-	277,351
31,596	-	284,361
32,394	-	291,546
33,212	-	298,910
34,051	-	306,459
34,911	-	314,196
35,792	-	322,127
36,695	-	330,256
37,621	-	338,589
728,544	-	6,556,895

Present Value @ 4% >> 3,669,248

NOTES:

* Local tax rates are based upon taxes payable Year 2020/2021 and are subject to change as request for certification will take place AFTER July 1, 2021.
The actual original local tax capacity rate will be based upon rates associated with taxes payable 2022 which are unknown at this time.

** Due to changes of Minnesota Statutes Section 469.177 Subd. 1a, that portion of the school tax rate attributable to the general education levy is no longer included in determining the original local tax capacity rate for TIF Districts with certification request dates after April 15, 2013.

City of Cannon Falls, Minnesota
Housing Tax Increment Financing District No. 2-10

Keller-Baartman Properties XIV, LLC Housing Project

STATEMENT OF FISCAL AND ECONOMIC IMPACTS

Taxing Jurisdiction	Without TIF District		With TIF District					
	2020/2021 Taxable Net Tax Capacity ⁽¹⁾	Original Local TIF Tax Rate	2020/2021 Taxable Net Tax Capacity ⁽¹⁾	Projected Captured Net Tax Capacity	Hypothetical Tax Generated By TIF	New Taxable Net Tax Capacity	Hypothetical Adjusted Local Tax Rate	Hypothetical Decrease in Tax Rate
City of Cannon Falls	4,764,747	67.196%	4,764,747	158,223	106,319	4,922,970	65.036%	2.160%
Goodhue County	84,927,305	43.925%	84,927,305	158,223	69,499	85,085,528	43.843%	0.082%
School District	12,488,658	15.820%	12,488,658	158,223	25,031	12,646,881	15.622%	0.198%
Other ⁽²⁾	--	0.788%						
Totals		127.729%			200,850		124.502%	2.439%

Statement #1: If all of the projected captured net tax capacity of the project were hypothetically immediately available to each taxing jurisdiction if TIF were not used, the tax capacities of each jurisdiction would be increased by the amounts shown above, and the local tax rates of each jurisdiction would be decreased by the amounts shown.

Statement #2: As the projected captured tax capacity of the project would not be available without the use of TIF, the tax capacities and tax rates of each jurisdiction will not be affected.

Statement #3: The estimated amount of tax increment (gross increment less State Auditor's deduction) generated over the life of the TIF District is estimated to be \$7,272,168.

Statement #4: A description of the probable impact of the TIF District on City services as a result of the creation of this TIF District would include the following: The City will be collecting an estimated \$3,825,751 in city property tax revenue from the proposed project area and applying it to project related expenses rather than general services such as police, fire, and other services not paid by user fees.

Statement #5: The estimated amount of increment attributed to the school districts' tax levies and captured as a result of the creation of this TIF District is \$900,717 for School District 252.

Statement #6: The estimated amount of increment attributed to the county tax levy and captured as a result of the creation of this TIF district is \$2,500,835.

Statement #7: The final Original Net Tax Capacity and Local Tax Rate of the TIF District will be based upon data for taxes payable 2022 as the Authority intends to request certification of the TIF District after 7/1/2021 and prior to 6/30/2022.

3,832,733
2,505,399
902,361
44,946
7,285,438

⁽¹⁾ Taxable net tax capacity = total net tax capacity less value captured in TIF Districts and powerline value.

⁽²⁾ The impacts upon other taxing jurisdictions not included since they represent a small percentage of the total tax rate.

City of Cannon Falls, Minnesota

Housing Tax Increment Financing District No. 2-10

MARKET VALUE ANALYSIS

Increased Market Value of Site	12,657,800
Less Present Value of TIF Revenues	<u>4,076,942</u>
	8,580,858
Reasonably expected increase w/out TIF*	<u>259,158</u>
Net Value Increase	8,321,701

Present Value Calculation

Calculation Date	2021
Present Value Factor	4.00%

#	Year	Gross Tax Increment	Present Value
0	2021	-	-
1	2022	-	-
2	2023	201,369	186,177
3	2024	206,488	183,567
4	2025	211,734	180,991
5	2026	217,112	178,450
6	2027	222,624	175,943
7	2028	228,274	173,470
8	2029	234,065	171,029
9	2030	240,001	168,622
10	2031	246,086	166,247
11	2032	252,322	163,904
12	2033	258,715	161,593
13	2034	265,267	159,313
14	2035	271,983	157,063
15	2036	278,867	154,845
16	2037	285,923	152,657
17	2038	293,156	150,498
18	2039	300,569	148,369
19	2040	308,168	146,269
20	2041	315,956	144,198
21	2042	323,939	142,156
22	2043	332,122	140,141
23	2044	340,510	138,154
24	2045	349,107	136,194
25	2046	357,919	134,261
26	2047	366,951	132,355
27	2048	376,210	130,476
		<u>7,285,438</u>	<u>4,076,942</u>

* Without the use of TIF, market value increases would be expected to be limited to inflation only. No development is expected without the use of TIF. Inflation is estimated at 3% per year for 26 years.

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

HELD: August 3, 2021

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 3rd day of August 2021 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 2570

**APPROVING THE ESTABLISHMENT OF TAX INCREMENT FINANCING DISTRICT
NO. 2-10 WITHIN MUNICIPAL DEVELOPMENT DISTRICT NO 2
AND ADOPTION OF THE TAX INCREMENT FINANCING PLAN RELATING THERETO**

WHEREAS:

A. It has been proposed that the City of Cannon Falls, Minnesota (the "City"), create Tax Increment Financing District No. 2-10 within Municipal Development District No. 2 and adopt a tax increment financing plan with respect thereto, under the provisions of Minnesota Statutes, Sections 469.124 to 469.134 and 469.174 to 469.1794 (collectively, the "Act"); and

B. The City of Cannon Falls has investigated the facts and has caused to be prepared a tax increment financing plan for Tax Increment Financing District No. 2-10; and

C. The City has performed all actions required by law to be performed prior to the creation of Tax Increment Financing District No. 2-10 and the adoption of the tax increment financing plan relating thereto, including, but not limited to, notification of Goodhue County and Cannon Falls School District (ISD #252) having taxing jurisdiction over the property to be included in Tax Increment Financing District No. 2-10, and the holding of a public hearing upon published and required notice as required by law.

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

1. Tax Increment Financing District No. 2-10 within Municipal Development District No. 2. The City hereby approves the establishment of Tax Increment Financing District No. 2-10 within Municipal Development District No. 2, the boundaries of which are fixed and determined as described in the Tax Increment Financing Plan.

2. Tax Increment Financing Plan. The Tax Increment Financing Plan is adopted as the tax increment financing plan for Tax Increment Financing District No. 2-10, and the City Council makes the following findings;

- (a) Tax Increment Financing District No. 2-10 is a housing district as defined in Minnesota Statutes, Section 469.174, Subd. 12.

Section 12 of the TIF Plan gives the reasons and facts supporting this finding.

- (b) The proposed development in the opinion of the City Council, would not occur solely through private investment within the reasonably foreseeable future & that 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 Developer has indicated that TIF assistance is necessary to control certain development costs such that the resulting rents can be maintained at affordable levels. Without assistance, the Developer believes that the acquisition and construction cost of the apartment complex will exceed affordable levels and the project will not be feasible.

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. Such analysis indicates that:

1. the increase in estimated market value of the proposed development is \$12,657,800; and
2. the present value of expected tax increments collected over the maximum duration of the TIF District is \$4,076,942; and
3. the expected increased estimated market value of the site without the use of tax increment is \$259,158, assuming the land remains mostly vacant; and
4. even if some development other than the proposed development were to occur, the Authority finds that no alternative would occur that would produce a market value increase greater than \$8,580,858 (the amount in number 1 less the amount in number 2).

- (c) The Tax Increment Financing Plan for Tax Increment Financing District No. 2-10 conforms to the general plan for development or redevelopment of the City of Cannon Falls as a whole.

The reasons and facts supporting this finding are that the housing developments proposed for the TIF District are generally consistent with the City's development plan and zoning ordinances and services to promote the City's development objectives.

- (d) The Tax Increment Financing Plan will afford maximum opportunity, consistent with the sound needs of the City of Cannon Falls as a whole, for the development of the Project Area by private enterprise.

The reasons and facts 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 Tax Increment Financing Plan conforms in all respects to the requirements of the Act and will help fulfill a need to promote affordable housing

opportunities, increase tax base, and improve the general economy of the State and thereby serves a public purpose.

4. Interfund Loan. The City has determined that it may pay for certain costs (the “Qualified Costs”) identified in the Tax Increment Financing Plan 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 the 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 Qualified Costs are initially paid, the principal amount of \$4,397,791 (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 270C.40, 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 February 1 and August 1 commencing with the first February 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 the 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 increments.
 - (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.
- 5. Certification. The Auditor of Goodhue County is requested to certify the original net tax capacity of Tax Increment Financing District No. 2-10 as described in the Tax Increment Financing 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 Tax Increment District No. 2-10 for which building permits have been issued during the 18 months immediately preceding the adoption of this Resolution.
- 6. Filing. The City Administrator is further authorized and directed to file a copy of the Tax Increment Financing Plan with the Commissioner of Revenue and Office of the State Auditor.

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.

ADOPTED by the City Council of Cannon Falls this 3rd day of August, 2021.

CITY OF CANNON FALLS

John O. Althoff, Mayor

ATTEST: _____
Neil L. Jensen, 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. 2-10 within Municipal Development District No. 2 in the City.

WITNESS my hand this 3rd day of August 2021.

Neil L. Jensen, City Administrator