

**CITY OF PARK RAPIDS
CITY COUNCIL WORKSHOP
AUGUST 28, 2012, 6:00 PM
Park Rapids Public Library-Lower Level
Park Rapids, Minnesota**

1. CALL TO ORDER: Mayor Nancy Carroll called the City Council Workshop for August 28th, 2012, to order at 6:00 p.m.

2. ROLL CALL: Present: Mayor Nancy Carroll, Councilmembers Dave Konshok, Pat Mikesh, and Sue Tomte. Paul Utke arrived at 6:15 p.m. Absent: None. Staff Present: Administrator Bill Smith, Treasurer Angela Brumbaugh, and Clerk Margie Vik. Others Present: Rusty Fifield, David Collins, Dick Rutherford, Mike Munsrud, and Tracy Ryan.

3. BUSINESS:

3.1. Tax Increment Financial Advisor's Proposals: Rusty Fifield, Director of Public Finance for Northland Securities, stated I've been consulting with the League of Minnesota Cities for fourteen years. I'd like to continue to serve the City of Park Rapids in the role to provide economic assistance for what is a very exciting project, the establishment of a dialysis unit here in Park Rapids. I'm looking for you to be comfortable that we are the right fit with you to help you create a partnership to make this project happen.

Fifield questioned why would you want to continue working with us? We're a proven commodity. We've been your financial advisor being selected in 2010 to provide economic development services to you by going through a request for proposal process in advance of the armory project. We were fortunate enough that you picked us to provide tax increment (TIF) assistance for the armory project. I hope we demonstrated our capacity to serve you in a variety of different ways. I think that takes a little risk out of the decision. We start with a working knowledge of tax increment financing in Park Rapids as part of developing a new TIF district. We did a thorough review of TIF 1-9 with its scattered site downtown, which will have some important relevance to the possibility of creating a new TIF district or expanding that TIF district for the dialysis center. We have substantial experience in TIF financing as a firm. Personally, I've worked on over a hundred projects involving the use of TIF in all settings. Some similar to this, and some much larger. I bring to you a thorough understanding of both the TIF and tax abatement statutes. All of that means that we are well positioned to get this work done correctly and efficiently in a complicated environment of TIF financing. We'll move quickly from a decision to proceed to coming up with a plan to partner with the doctor's group to get this dialysis center built. We will cap our costs and services so that you're not doing this with an open checkbook.

Fifield stated when you think about this project, going through the process itself, we've done a lot of this. There are any number of consultants that can lead you through this process. It's a question of doing the homework that leads you to what goes into the

TIF plan that is the key. That's the work that has to happen up front in a relatively short time. The key factors are the value from the project and what's going to get built, working with the county assessor, what kind of value would be added as a result of the project. That's the key to the economic decision. The value of new development creates the TIF district. Those factors lead to a Council decision as to what's the right way to go about this. We need to connect that as to how would you use that. What sort of assistance does the doctor's group look for under public improvements that you would like to undertake as a result of this project going at the southern end of the downtown, and then trying to match that up with the economic capacity and then match that up with the tools. Those are the two big puzzle pieces that you need to get out on the table soon. Then you can go through the analysis of the options.

Fifield stated you have four distinct options to consider. You can expand the existing TIF 1-9. The map shows the existing parcels in TIF 1-9. The two parcels that they are proposing to develop that are outside of the district, when you expand the boundaries of the TIF district, and you certainly have the statutory authority to do that, you have to make the same findings that you did when you created the district in the first place. Just looking at the property and its tax records, you have two houses, two attached garages, and a mobile home there. It appears that you would have the basics for creating a TIF district. But as we found out in doing the homework for TIF 10, you have to have it inspected, you have to make the findings that the structures are substandard to the degree to require substantial renovation according to state law. That appears to be within the realm of possibility. The issues for expanding the TIF district go beyond that. Part of the question will be is there an asset of amending the existing district and using that broader TIF district as a resource or do you want to create a new TIF district. The statutory findings for doing that are relatively simple.

Fifield stated we could also say for timing purposes, for use of funds purposes, you might be better off doing tax abatement. We've not had a chance to talk about tax abatement before. Tax abatement is probably the worst title on the books. When most people think of abatement they think of not paying something. That you make it go away, you abate it. Tax abatement is really more tax increment-like. You calculate the taxes that you could capture from new development including the existing value of the property, and you levy a tax based on that. If it's levied on just the new value that's added it's a zero sum. What you're doing is capturing the tax revenue that would come in as the value increases and you choose not to increase your tax rate. I'd be happy to explain that further.

Fifield stated one of the differences between tax abatement and TIF and the decision to participate in that is independent with each taxing jurisdiction. With TIF the county and the school district have no say whether or not you capture taxes that would have gone to them through the TIF district. With tax abatement they each have to agree separately to abate the property taxes. We have done several in recent years. Cities in greater Minnesota, taxing jurisdictions, have become more interested in collaborating on projects. Those things take a little more time. You have to explain and negotiate and there are separate procedures to go through. Those options are on the table, and our job is to inform you of what the options are and their strengths and weaknesses. So when you make a decision, it will be an informed decision.

Fifield stated I've laid out an optimistic calendar for how we would go about this, as to where we're at now. You will recognize that you will be willing to have special meetings. For TIF, the quickest we could move, to get the homework done in the next couple of weeks leading up to your Council meeting on September 11th where you would make a decision as to how you would like to proceed, we would then be looking at a public hearing to create the TIF district no sooner than October 23rd. We might be able to get it done a week sooner, but things really start to get out of sync, for really nothing more than the statutory process if you start pushing it any sooner than that. I've prepared a similar calendar for tax abatement. It would allow you to have the public hearing about two weeks earlier, on October 9th. That's about the timing you would need to look at those factors, to give you a recommendation, to allow you to make a decision, and then move forward.

Carroll questioned when we get to the public hearing date, I've heard that no building permit should be issued until you have the district set up. Fifield stated that's correct. Carroll questioned is that at the October 23rd date then on, or when you file with the state and wait for approval? Fifield stated you have to approve the plan. What happens in the TIF plan, is you have to report any building permits that are issued in the district over the eighteen months preceding the TIF district, which allows the county to consider that activity that would have gone on but may not be in place, so that gets back to the base value of the TIF district. You're absolutely correct. You should not issue a building permit until the plan is approved, but the City Council sets that.

Dick Rutherford stated this is a good project for Park Rapids. Why are you jumping on it now after it's already been announced that they are going to do it. The paper said they are going to build. You're coming on board now for your business. Fifield stated we're here at the request of the city to go through this process. Rutherford stated why did they put it in the paper and say we're going to build after the fact. Konshok stated can we defer that question. It's not for Fifield, it's for the Council.

Fifield stated that is a question that we will have to answer as we go through this process. For tax increment financing there is clearly a statutory requirement that says a finding that the Council has to make that but-for the use of TIF project as proposed would not occur. We need to develop that rational going forward. It's a matter of practice making similar findings for tax abatement, but tax abatement is not as formal as TIF, nor is the timing of the building permit quite as strict. If we really got stretched on time, tax abatement has a lot more flexibility and the findings and the process compared to TIF financing. The trade off, besides the economics of it, is that a TIF district other than the reports that you have to submit to the state basically functions on autopilot once you set it up. The county collects the tax increment and sends it to you, and you figure out what to do with it according to the developer's agreement that you established. With tax abatement you have to calculate a levy every year over the life that you agreed to do tax abatement. It creates a little more administrative effort for the city and anybody else that would abate the property taxes.

Carroll stated if we went with TIF, October 23rd would be the ending date for approvals for the TIF and then they could apply for a building permit and begin to demolish or do work on the site at that time. Can they do any demolition ahead of time? Fifield stated you raise another interesting point. Do you need to issue a building permit for the construction of a building on October 24th or do you simply need to issue a permit for the demolition of the existing structure? You can under state law make the findings for

establishing the redevelopment criteria and by resolution preserve those up to three years so that you could actually create the findings that allow you to create a redevelopment district or expand an existing district and pass a resolution and create the TIF district somewhere down the road within three years.

Carroll stated there are lots of timing issues. Fifield stated there are. I had the opportunity to meet with the League of Minnesota Cities Improving Local Economies Policy Committee today. What do you as local officials try to do? One comment I made about TIF financing is that an unfortunate part about it is the legislature tried to kill it by making it so complicated that no one would try to use it. That's really unfortunate because it is an incredible useful tool. I think particularly in the post-recession economy where you're creating public/private collaboration to make good things happen in a community, you cause redevelopment to happen in a way that benefits the community, you need those tools to do it. A better dialog with the legislators on how to do that is important. Because something like TIF shouldn't be as complicated as it is particularly when it's for redevelopment. But it is.

Konshok stated I get frustrated on the but-for finding and whether or not we would do this. Clearly we established a development district which all of these parcels are a part of. We actually established a TIF district that has part of these parcels in it. To me it's very clear that our intent to develop this area predates this particular project. Is there any way that gains us anything in terms of fast tracking this or solidifying the claim to satisfy the but-for condition? What does the establishment of a development district do for us because to me it doesn't seem like it did anything for us. We still have to go through the full TIF process and answer all the same questions.

Fifield stated the development district is a broad area within which you can create TIF districts. It used to be important because you could spend money with some freedom outside of TIF districts but within the boundaries of a development district. That ability has been constrained by the legislature. If that yellow square had been wider we'd be having a fundamentally different discussion because the parcels would have already been within the TIF district and you would have said we have the ability to do this, to capture TIF from these parcels. We want to redevelop these parcels. I agree that the point that you made is valid. It's clear that you planned to cause the redevelopment to this area when you created this district back in 2008. You just didn't draw the square right. Redevelopment is a messy business. Four years ago we knew exactly where redevelopment was going to occur. Well, you were off a couple of parcels. There are good questions to ask, why do you need to participate in this financially, you need answers to those questions, and then put those into the record. There is also a basis for saying you've met the but-for finding in causing redevelopment to happen. I think there is a very clear basis for saying existing properties add to the cost of development. In a perfect world, the dialysis center could say we're going to go build on a corn field. We want to build on a vacant piece of land, and we don't want these additional costs for demolition. If they want to be adjacent to the hospital, there are additional costs that are not present on a vacant parcel, which is why there is such a thing as a redevelopment tax increment district.

Fifield stated the time constraint is not necessarily making all the findings, the time constraint is the statutory process that you have to go through. You have all the public hearings. You have to publish notice of the hearing at least ten days prior to the hearing. At least thirty days prior to the hearing you have to give a draft of the plan to the county

and the school district. At least thirty days prior to the publication of the notice you have to get a letter to your county commissioner saying we're going to create a redevelopment TIF district. That creates the foundation of the timing that's in that calendar. Everything else we squeezed as tightly as possible and still provide you with reasonable and accurate information on which to make a decision on how you want to proceed.

Konshok questioned are we making this new proposal big enough. We can establish this and then they want something bigger. Fifield stated we have to answer that question over the next couple of weeks before this gets done. If you're going to the trouble of creating this you have to have some degree of farsightedness in understanding what their plans are and how you can facilitate not just what they want to do today but what they aspire to do tomorrow. Tomte stated we aren't going down one path making a decision. We're still looking at both options of whether we're expanding a district or creating a new one. Fifield answered exactly.

David Collins questioned with the tight timeframe, creating the ideal district could take longer and slow the process down because of all the additional inspections. Fifield stated I would be loath to speak for the building inspector on how long it takes to do those inspections. We did go through a careful instruction with the inspections related to the armory. You're looking at residential property and evaluating them as it relates to the building code and making the economic test that goes along with that for the purpose of saying I don't see that as being.....Collins stated depending upon how big you make the district. Fifield stated one of the things that are important to remember is that you can use a combination of built-upon and vacant property. That statute only requires that 70% of the area of the parcels be occupied by buildings and more than 50% of those buildings need to be structurally substandard. So to look at a district that is more than just the three parcels, if there is a reasonable public policy for doing that, you may look at this and say from a community development perspective this will be a catalyst for other things to happen. You may also say, we have a bird in the hand, let's not mess around trying to make the bush bigger.

Konshok stated my concern is we run the meter up every time we do one of these. We end up creating a TIF district for each project. It seems inefficient. Fifield stated it is. That is one of the issues that came up in our committee discussion. We've come down to making these postage size districts. You're spending thousands of dollars every time that you create one. It is very inefficient. We're happy that you keep us in business, but as a matter of good stewardship of public money, it's a waste. The system today is focused on project specific TIF districts. That's the way the legislature has decided to write the laws. I hope that we can have a reasonable dialog with the legislature about what's the role of local government in participating in economic development and how do we create the tools that reasonably empower you to do that. Given the last couple of sessions I don't see that happening. But I hope that we can have that discussion because it's important.

Fifield stated should I be fortunate enough to work with you again, we are ready to go because we understand that the clock is ticking and there are things to be done. Konshok questioned do you have a quote for your services. Fifield stated I provided that to Mr. Smith and he will share that with you.

Tracy Ryan stated I am a public financial advisor and TIF consultant with David Drown Associates. I was contacted by David Collins on reference from a couple of other

cities that we do work with. David Drown is a relatively small firm with offices in Minneapolis, Sauk Center, Spring Valley, and Waconia. We have four associates. Each of us have our own offices in our own communities to help keep us closer to our clients. That gives us the opportunity to be responsive to our client's needs. If they have last minute meetings we can respond quickly and effectively. That will save you a little money. I don't know of too many consultants that don't charge mileage. We're a couple of hours closer to you than most of our competition. My satellite office is in Sauk Center, which is two hours away from you, as opposed to the four hours to the cities.

Ryan stated David Drown Associates was formed in 1997. We are a relatively small firm. We have a different philosophy than the other firms. There are four major firms in the state that do the amount of tax increment financing that we do, yet we have our feet on the ground in the communities that we serve. David Drown has worked very close with the State of Minnesota in drafting TIF law, and works with the state auditor's office in resolving issues that come up with the translation of TIF law. All of our associates bring a little something different to the table. I serve a lot of communities in central Minnesota. The thing that differentiates David Drown from the other firms is that our philosophy is common sense problem solving, building long term relationships, understanding where the city's been, and we'll take the time in learning more about you, your financial and development history, where you're at today, and it's with that information that we work with you into the future. When there's TIF issues that come up we help you through them. You're not going to see hourly billings. We are not going to nickel and dime you to death. We'll show up for meetings when there are preliminary projects being talked about, and if they don't come to fruition you don't see a bill. It's all about building a relationship, knowing and understanding what's going on, and being responsive to what your needs are.

Ryan stated I'm not sure what you all know about your current TIF district's situation. TIF is a huge animal with pages of legislation being interpreted by bond attorneys and TIF consultants. To not understand it is acceptable, but at the same time somebody needs to be in your corner, understanding what's going on with TIF. I did a little homework on Park Rapids. Smith sent me your annual TIF reports. Annual reports are due once a year to the state auditor by August 1st. The way the reports are formulated right now are complicated to do if you don't understand TIF law. But they're fairly simple for me to take a look at to see what's going on with the city's TIF districts. Looking at your reports, the city currently has seven TIF districts outstanding. They are all either redevelopment districts or housing districts. The first one was created back in 1985, and the most recent one was created in 2010. These are all active districts because they are reporting to the state. There's good and bad news. This demonstrates my point very clearly about how a city needs to have somebody in their corner that has a relationship with them to communicate what's going on with their TIF districts.

Ryan stated there are a number of compliance issues that popped up with these TIF reports. Your first district has spent more money than the plan has allowed. That is a compliance issue and the State of Minnesota will be contacting you shortly about that. There are a couple of other districts, particularly TIF 7 and 8 where administrative expenses have exceeded the legal limit. It's all manageable, but there are issues that when your TIF reports are done, your auditor can complete these reports, but they don't understand TIF financing. They can put the dollars and cents in the right columns but they don't understand when you're blowing through some TIF compliance issues. City staff can

complete the TIF reports, honestly I'm not certain who completed them. You can take numbers from the audit and put them into the report and it's just not reasonable to expect city staff with all of the work that they do and their responsibilities that they understand TIF financing. We do those reports for people and being involved with the city's TIF financing we'd make it our business to understand all of the time, every year, what's going on with your TIF districts. We'd talk to you about it so you'd know year to year what's going on, and if there are opportunities or problems. We'd also work to make sure you stayed in compliance and identify opportunities.

Ryan stated while there are a couple of issues with the reports as they have been submitted, you'll notice there's about \$420,000.00 of cash that's sitting in your TIF funds. This is a cursory look. I did not see any development agreements, or any other documentation or transcripts. That tells me a couple of things. Number one, there's a huge asset there that should be managed and managed well. It also tells me we just missed an opportunity. There are some changes in the 2010 TIF law that allowed you to utilize those assets outside of the rules of TIF and it was called TIF Authority to Stimulate Construction. It was a rule that was put in place and then it sunset on July 1st, 2012. That opportunity has been missed. Someone should be in your corner watching for those kinds of issues and opportunities. That's what we know how to do. We are experts with that and that's what we'd like to do for the City of Park Rapids.

Ryan stated you understand our background and our approach. We're ready to move forward if the city is ready to aggressively put together a TIF district to address the opportunity of developing a dialysis project. I've put together a couple of schedules. There's one schedule that says we could accomplish this very quickly if we go through a process of requesting waivers from the county and school district. I really don't like to approach work where we're asking people to waive their ability to review information. If the city is poised to at least get the ball rolling with the project, I have a resolution to call a public hearing setting a TIF hearing to put the tool in place to allow that development to happen and have it wrap up by October 9th. That wouldn't require any waivers whatsoever. The reason that I say put the tool in place, normally I'd say create a TIF district, is that I'd like to be given the opportunity to get a little closer look at what's going on in TIF district 1-9 and see if it makes sense to do some modifications of existing districts to take advantage of some of the assets that are in those accounts. If the Council is poised and prepared to at least start the process, and you're comfortable passing a resolution, we would be setting a hearing to address the TIF structure that's recommended. I'm not in a position tonight to tell you if we're going to modify or create a district. It's the same cost either way, and basically the same process.

Carroll questioned a November start date is not a problem at all with your calendar as far as you can tell? Tomte stated that would be based on a decision today. Ryan answered correct, to call for a public hearing. Carroll questioned if we hire you, you start, what staff do you work with? Who do you contact and coordinate things with? Ryan stated when we do TIF work we do everything from start to finish and we coordinate that with city staff and certainly Collins has a role in the development project. I consider it our responsibility to keep everybody coordinated to what's going on. The city is the one that would be retaining us for those services, so our primary responsibility is to the city, and making sure the administrator and staff is informed of what we are doing, and communicating with anyone else involved.

David Collins stated they want to do this project in town. The final project has not been totally defined. One of the questions they asked when they came to town was would the community consider TIF or tax abatement. We started looking at fourteen different properties. There were three final sites. One of the reasons they want to be by the hospital was there is the possibility of the hospital leasing space from them to combine some entities under one roof. They only need 600 square feet for their operation. They were originally looking at a 10,000 square foot footprint, with some space on the first floor to rent and doing a second floor. They announced 12,000 or 18,000, and that is yet to be determined, partially they have the but-for test, and how TIF abatement might impact it, and their total construction costs. They are putting this together fairly quickly. They have to be able to have a finished product where they can lease space to a hospital or another entity. Right now the hospital has stuff spread around. The dollars and cents are going to matter for this project.

Collins stated when they came to us they heard stories of how difficult it is to do things in Park Rapids. Whether that is earned or not goes back a lot of years. We need to do this efficiently and get it done to prove that we can do it. The cost that we are talking about are actually paid by the developer. The developer will put money into escrow. Time is an issue. Ideally they wanted to break ground in September but besides the city process, there are some state processes that they have to go through for permitting and licensing. Now they are hoping to break ground as early as they can. The possibility exists that they could start in early October. They have a lot of balls in the air at the same time. It's not a done deal.

Collins questioned why was it announced before all these proceedings? There's the change of zoning, the vacation of an alley, and a number of other things. As soon as they filed the paperwork for the city a couple of weeks ago to get the hearings with the Planning Commission, that information goes into a public notice in the newspaper and people start asking questions. They wanted to be proactive in announcing it and making sure their patients were the first ones to know about it. That's typical for any project like this. They make an announcement but they still have details to work out.

Collins stated we're not reinventing the wheel with TIF and abatement. There's dozens of these done yearly. The last process that was done with the armory cost \$31,000.00 and took a long time to get done. In defense of Rusty Fifield, I don't think the costs were all on his end. What we're looking at tonight is not Fifield or Ryan, but it's the team that's going to handle the TIF for us. The other part of it is the legal counsel. You guys used Martha Ingram on the last one. I think that's where our costs came from. Fifield was willing to cap his fee at \$5,000.00. My experience is that this whole process should not cost more than \$8,000.00 to \$10,000.00. Ingram said it might cost \$5,000.00, but if we have problems with the developer it might cost \$15,000.00. To me a range like that is unacceptable. I started calling other communities. My inquires kept coming back in that \$10,000.00 range. David Drown Associates and Briggs & Morgan's name came up most frequently. I visited with the two firms. Mary Ippel from Briggs & Morgan said her cost would be \$3,000.00 and not to exceed \$5,000.00. So we're looking at a \$10,000.00 range.

Collins stated it's important that the TIF advisor has experience with the other half of the team that they'll be working with. Drown has done a lot of work with Briggs & Morgan. That's why I'm recommending them together as a team, as opposed to Kennedy & Graven

and Northland Securities. This is a partnership between all of us to get this done. There's a lot of partners to make sure that this becomes a reality and to avoid any delays. We have a tight timeframe. We have to be flexible with the schedule. Ryan has handed out a very aggressive schedule, but one that will save us some time on the front end and get this done as early as October 9th. The other thing is how we interact with the developer. Tracy Ryan will basically handle it all. She will direct things to make sure things stay on line. It will also be her responsibility that if things get out of line, to bring all the parties together and stop it early instead of letting it drag on. The armory process got out of control. There were probably a lot of reasons why. Alan Zemek likes to write his own agreements and that took time and money. But it got out of hand.

Collins stated the \$427,000.00 in TIF funds that were brought up to us, I pressed Ryan as to how those funds can be best utilized and why we didn't know about that before. We missed that window to utilize the funds. Her approach on annual reports, year round, not on the clock, keeping track of things, maintaining the dialog with the Council, with the developer, and everybody, is important. Communication, coordination, transparency, initiative to get it done, experience, management, and education are key parts of it. Ryan has done her homework. She's ready to start tonight. She has a resolution to introduce tonight to get the process started to help keep that time schedule in line. We have to have a partnership between all parties to keep the timeline going. I think Drown and Associates and Briggs & Morgan are the right team to work with. They will get it done. I strongly recommend that we go with them

Konshok questioned what are the total costs between the two proposals? Smith stated the basic difference between the quotes from the legal counsel and the financial advisors are this, the financial advisors are the same, they both capped their fee at \$5,000.00. For the legal counsels, the Briggs team are saying \$3,000.00 to \$5,000.00. When we talked to Ingram about it, she said if everything goes smooth it would be \$5,000.00. But if things go awry it would be more. Ingram's quote is more cautionary whereas Briggs is saying they'll do it for \$3,000.00 to \$5,000.00. I haven't seen anything in writing.

Konshok questioned when Ingram is saying \$15,000.00 she's including Northland Securities fee? Smith answered no. They are separate fees. Konshok stated so she's saying \$3,000.00 to \$15,000.00.

3.2. Resolution Calling Public Hearing on Modification #1 of Tax Increment Financing District No.1-9 and the Adoption of Modified Tax Increment Financing Plan Relating Thereto:

Tracy Ryan stated I have a resolution I'd like to leave with you. Should you decide to move forward you should consider this. I also have building inspections lined up for next week if we're ready to go. In order to start this process a letter needs to go out to your county commissioners by tomorrow afternoon to meet this deadline.

Carroll stated I think we need to make a decision and go as fast as possible. We have such a short building season. Every day makes a difference. Utke stated we need to help the project move forward.

A motion was made by Mikesh, seconded by Konshok, and unanimously carried to appoint Tracy Ryan from David Drown and Associates as the TIF financial consultant, and Briggs & Morgan as the legal counsel, for the dialysis project.

Ryan stated this is a resolution calling for a public hearing on October 9th, 2012 at 7:00 p.m. for the purpose of addressing a tax increment financing district. We will fill in the appropriate language. **A motion was made by Utke, seconded by Mikesh, and unanimously carried to approve Resolution #2012-135 Calling Public Hearing on Modification #1 of Tax Increment Financing District No. 1-9 and the Adoption of Modified Tax Increment Financing Plan Relating Thereto.**

4. ADJOURNMENT: A motion was made by Mikesh, seconded by Utke, and unanimously carried to adjourn the workshop at 6:58 p.m.

[seal]

Mayor Nancy J. Carroll

ATTEST:

Margie M. Vik
City Clerk