

EAST BETHEL CITY COUNCIL WORK MEETING
September 19, 2012

The East Bethel City Council met on September 19, 2012 at 6:00 PM for a work meeting at City Hall.

MEMBERS PRESENT: Bob DeRoche Richard Lawrence Heidi Moegerle
 Steve Voss

MEMBERS ABSENT: Bill Boyer

ALSO PRESENT: Jack Davis, City Administrator

Call to Order **The September 19, 2012 City Council work meeting was called to order by Mayor Lawrence at 6:00 PM.**

Adopt Agenda **Lawrence made a motion to adopt the September 19, 2012 City Council work meeting agenda. Voss seconded; all in favor, motion carries.**

Stacie Kvilvang with Ehlers and Associates, your newly hired financial advisors, "There are few documents before you that, as we move forward with Aggressive Hydraulics project, that is going to be before you for final approval. And since you have never created a Tax Increment District there is a lot of stuff that you need to do. We are going to walk you through these documents and answer any questions to get you ready for the public hearings on October 3rd.

The three documents we are going to be reviewing are the Development Program, the Business Subsidy Policy, the TIF Plan and I am going to go over the detailed points which will be in the development agreement which will be a fourth document which you have not yet received. This will be drafted by your city attorney. Essentially the first three documents are pretty perfunctory, pretty standard. The majority of the language in there is statutorily required. There are some things we can modify and I will try and highlight those for you.

We will start with the Development Program. This is the document that is required for you to have to create or to provide any assistance programs in your community. So you are really setting the boundaries of where you want to promote development and redevelopment within your community. It states the following: Public Purpose; Objectives (this is where you have some flexibility to add things you may want to specifically do over time) it is about proving employment, streets and roadways, etc.; Funding of Projects and probably the other big one is Relocation Requirements (which typically doesn't come into play that often). Essentially those are the high points. The big one is defining those development boundaries. In your packet initially or the proposed boundaries are a ¾ mile each side along Hwy. 65 from 181st to 245th Avenue. Again, this is just your preliminary boundaries that you have and, sitting down with staff and looking to see what is going to be happening in the next five years, where you think development would be coming in is where you want to have that opportunity, if in fact any form of assistance was needed in order for those projects to move forward. So this is the recommendation that staff has come up with.

You can modify those boundaries, and many cities do modify those boundaries over time. We try to have them be a little bit bigger because you hate to have to come back and spend the money. It can cost anywhere from \$2,500 to \$5,000 to do that. So again, we just try to make it larger in that context. The secondary thing is, as you move forward, you can continue to expand that. Many communities do it one of two ways. Some do it that their development district is contagious with their corporate boundaries. There are other cities that are growth communities, like you, that may have older parts of the city. And if they have managed growth plans, they

may include portions of that. Moegerle, "Would we have to change our comprehensive plan to reflect that this is our development area?" Kvilvang, "I don't believe you would have to do an update in your comprehensive plan." Moegerle, "We haven't done our annual update to our comprehensive plan yet." Davis, "We wouldn't need to update our comprehensive plan with this. It may be something you want to incorporate in there once this is adopted."

Voss asked why such a large area? Davis, "This is what we discussed as a staff and to do this all at one time. Really, this is an overlay of the proposed sewer area. Then if a project comes up on the northern side, we don't need to do this again. It will save any expenses of doing it again." Voss said if this was started off smaller. In the future if we wanted to expand it, what is involved in expanding the area? Kvilvang, "It is going through the same process as establishing it. A full public hearing process and amendment and changes to your development program." Voss said which isn't necessarily bad. Kvilvang, "Not necessarily bad. But like anything that you are trying to project in the next five years, try to incorporate the areas that you see within that. That being said, just because you have that development program area, does not mean that you have to provide assistance to everyone that comes in and wants to go there. That is still a Council decision. But it provides Council the flexibility if something comes in that you don't have the additional expense for enlargements."

DeRoche, "Once these boundaries are set as a TIF District, that is what it is. I can see some problems if we let one in and not another." Voss said it is not a matter of letting them in. We came up with this approach to deal with the matter of Aggressive Hydraulics. Defining this broad area sends a message rather than defining a smaller area. Voss said if you start with one, then do you do every one. That is why a public hearing isn't necessarily a bad thing. DeRoche, "Public hearings aren't necessarily a bad thing. My understanding the TIF District was going to be for Aggressive Hydraulics." Moegerle, "I also agree this sends a message. That it is just 3/4 of a mile on each side of Hwy. 65. Residents want to know that. It says this is the limit, and valuable for our residents to know." Voss said it is not a limit, our comp plan does that. Moegerle, "I think they go hand in hand."

DeRoche, "But we already told people that we were doing the TIF District just for Aggressive Hydraulics." Kvilvang, "When we are talking about the Development District Area, that is a larger area in which you can create one or multiple TIF Districts. So, when we talk about the TIF District for Aggressive Hydraulics, it is this little parcel in black and it is only a portion of that in the TIF District. Just because you have a Development District doesn't mean that you have to give to everyone. They have to develop what you, as a Council, want to see happen in that area. Voss said it doesn't seem practicable that anyone coming in for a TIF anywhere a mile north of Viking, because there is not going to be water there, so why consider a TIF District there?"

Davis, "We have had a couple inquiries from developers about 221st since it is going to be signalized. And there would be a possibility of sewer service there. It was staff's original thought that it was better to do this Development boundary all the way around there. It doesn't commit the City to anything. We thought it might be something of a cost savings to do this right now and since it was in agreement with our existing comp plan, as far as the way we define growth along the corridor, that this might be the best approach to consider at this point." DeRoche, "We haven't even figured out or decided the whole TIF with Aggressive Hydraulics. We have already decided we just don't have a lot of money to give out to people to come in here." Davis, "That is a separate issue and will be decided in the Business Subsidy Plan that we will look at later. That will define criteria for eligible entrants for TIF projects. Keep in mind too that commercial projects are not eligible for TIF projects. These are confined to industrial or manufacturing projects." Voss said or it could also be high-density housing. Kvilvang, "It has to be job creation. If, in fact, you have a vacant piece of property and someone wants to put in

multi-family or high-density housing, you could create a housing district for that. But there are income restrictions on who can live there, that are required as part of that development. Likewise if you have an area in the City that you would like to redevelop that had blighted buildings.

Kvilvang, "Next is your Business Subsidy Policy. This is required by state statute for any assistance over \$150,000 that you provide. That can be Pay As You Go, Tax Increment, Up Front Tax Increment, Tax Abatement, Waiver of City Fees or Building Permits; anything that comes together and is over \$150,000 is going to have to meet your Business Subsidy Requirement. There are twenty-three exceptions that are out there. Basically, the Greenfield Development like this is going on, is never exempted because that really is about job creation that is out there. Typically housing is exempted, because you are doing a whole other precedent in providing affordable housing. Some other things that are out there are more related to redevelopment such as the cost to assemble and acquire land, the assessor's market value. So essentially the two things you must have in your business subsidy policy is a job creation goal and a wage floor. There were minimum requirements. It is a minimum requirement and right now we have one job in there as your minimum requirement. In many communities that is what they use and do in their policy because they may want businesses to come in for other reasons. Where you have more control is if someone is coming in and requesting assistance. You can always go higher than what your business subsidy policy says because you are providing assistance. This is just meeting the statutory requirement.

The secondary thing in there is the wage floor. We have proposed that at 150% of the minimum wage. That is a benchmark that many communities utilize. If we look at a minimum wage at \$7.25 an hour, that wage would be \$11.00 an hour. Typically this is for full-time creation. These are minimum standards that are out there for that and essentially you can always change that over time. It will require a public hearing.

A statement regarding public costs is the next item to discuss. Typically, most cities require an application fee and escrow. Typical escrow we see in the metro is around \$10,000. If it is not adequate to cover costs, the developer will have to put in additional funds. That is to cover the cost of creating a TIF District, the developer's agreement, and any ancillary requirements in regards to that. Also, a lot of cities charge an application fee that is non-refundable. That is to ferret out who is really serious about doing development. So, they may have a \$2,000 to \$3,000 fee. We threw in \$3,000 as a line item. Majority of cities don't have that fee, but most of the cities I work with do. We wanted to put that in there as an option if that is something that you would like to have. Average costs are \$15,000 to \$25,000. And then, you can update your policy at any time and you can deviate from it but, at the public hearing, your resolution has to state why you are deviating from your policy. In discussions with Aggressive Hydraulics, meeting these job creation and wage minimum will not be an issue at this level.

Moegerle, "On page 5 of the draft Business Subsidy Policy it talks about a look-back provision which brought to mind a claw-back provision. Are those the same or slightly different?" Kvilvang, "It is exactly the same. And that is what we recommend for a lot of communities to have. Essentially, at the time you are providing assistance for development, their contracts for construction may have not been entered into, they may not have tenants signed up or leased out. A look-back is (today when you approve a development agreement), today is our best knowledge of what is going to happen there. What we are going to do is, once you are constructed, leased up or occupied, we are going to get an audit of your financials and we are going to review that. If it provides better than anticipated, the assistance would be reduced accordingly. If it doesn't go as well as anticipated, that is tough luck, that is the developer's risk."

Moegerle, "I like that it is a flexible policy. It can be customized. That is very valuable."

DeRoche, "It looks like this is primarily geared towards manufacturing and industrial on Hwy. 65?" Kvilvang, "Yes, that is correct. Housing is exempt and redevelopment projects would likely be exempted from this as well." Moegerle, "With regard to restaurants and retail, this does not cover them. So what do we do to help get them to come here?" Kvilvang, "Other community's are using dollars in an Economic Development Fund to provide a loan. Or the help them by paying the SAC or WAC charges. Cities are doing things creatively if there is a specific niche they want to have. The other opportunity really is through tax abatement."

Kvilvang, "Move on the TIF Plan. A lot of this is perfunctory and standard. Required by statute. It states the type of district and the term. In this case, it is an Economic Development District with a 9 year term. It sets the boundaries for the TIF District. So it is describing the specific parcels that are in that district. It sets a maximum budget. So the budget will look a lot higher than what you are providing assistance to Aggressive Hydraulics. The budget has to be a maximum or higher because if, over time, the development performs better and you collect more tax increment, you essentially have a problem with your budget then. It also describes the project, outlines any property you may acquire as a city, it states the fiscal impacts to the county, city and school district and other miscellaneous items that are located within that."

Kvilvang, "I want to give you basics on Tax Increment. It is the ability to capture and use the most of the local property tax revenue from new development within a defined geographic area. A TIF District is where the increment is collected. Some of the misnomers that some people have are typically in TIF Districts you have the ability to give up to 90%. Most communities do 90% to 95%; some do less, if they don't need it, because they may be taking other dollars to help them fund other city programs. But, essentially just because you pay in your taxes doesn't mean you are going to get 90 cents on your dollar. Typically it is 32 to 36 cents on the dollar."

The main deal points of a development agreement with Aggressive Hydraulics are basically you are providing them a Pay as You Go Tax Increment Note for \$225,000 at 5% interest. As they pay the taxes in, the county gets it, then you will get paid distributions from the county and then you pay them. There will be two distributions a year. The TIF note will be assigned to Village Bank. They will receive 90% of TIF generated and the note can be prepaid at any time. The City receives about \$4,400 a year to pay administrative costs."

Andy Pratt, Eckberg Lammers, "[I'm] working with Ehlers on the development agreement. As the TIF note goes along in time, the City doesn't have any general fund obligation to pay for this. The city is purely a conduit. There is nothing the city has to dig in their pockets for. And the alternative was a bond obligation." Kvilvang, "The other thing in there is the requirement for an assessment agreement. So they will be signing an agreement with the county assessor that says the minimum value on that property is going to be \$3 million through the term of the district. So that means, for them, that they will not be able to petition the tax value below that amount. Construction to begin by December 31, 2012 and finish by June 1, 2013."

Lawrence, "When you make a TIF District like this, what is the average life span of a company that does this? We have had comments that, 'They take the TIF and then leave.'" Kvilvang, "I have dealt with manufacturers, housing and such that have been there the 20 years that I have been doing this. They don't come and get assistance and then leave. Some businesses have gone out of business or moved." DeRoche, "It sounds like Aggressive Hydraulics will be here for a long time." Moegerle, "The non-refundable application. (I know the whole staff has spent a lot of time on this.) I see value of having this non-refundable. Can you tell us reasons why we want it refundable?" Kvilvang, "The only reasons why you would want to make this refundable is, say someone puts in an application and there is hardly any staff time that goes into it, then you might want to say, 'We will refund a portion that is not utilized.'" Voss said I would suggest we start out at \$2,000 so that if we have smaller businesses. Do we add this to our fee

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schedule? Davis, "We will add it to our fee schedule and we will be bringing the 2013 fee schedule before you soon."

Adjourn **Voss made a motion to adjourn at 6:45 PM. Moegerle seconded; all in favor, motion carries.**

Attest:

Wendy Warren
Deputy City Clerk