City of Duluth
Planning Commission – Special Meeting

August 12th, 2024 – Conference Room 430, City Hall
Meeting Minutes

Call to Order

The special meeting of the city of Duluth Planning Commission was called to order at 11:35 a.m. on Monday August 12th, 2024, in the Lakeside Conference Room 430 at Duluth City Hall.

Roll Call

Attendance:

Members Present: Chris Adatte, Jason Crawford, Gary Eckenberg, Margie Nelson, and Danielle Rhodes
Members Absent: Brian Hammond, Dave Sarvela, Andrea Wedul, and Jason Hollinday

Others Present: Chad Ronchetti, Tricia Hobbs, Amanda Mangan, Kelli Latuska, Ariana Dahlen, Sam Smith, Janet Kennedy, Dan Markham, Connor Randall, Roz Randorf, and Jason Aarsvold

Presentation – TIF Brown Bag Lunch and Learn with Ehlers Public Finance Advisors

Jason Aarsvold with Ehlers Public Finance Advisors introduced himself to the commissioners and gave a brief overview on the discussion agenda. His presentation would include public financing policies, providing financial assistance & protecting local resources, local financial tools such as tax increment financing plans (TIFs) are and how Duluth and other Minnesota cities use TIF plans to leverage private investment that delivers long-term benefits to their respective communities. He explained that it is important to consider why a city would want TIF in place, and how it would serve one's city. It's also important to have policies in place, such as application processes with fees, to guide staff to use this TIFs as a tool. Duluth has some policies in place already.

Aarsvold reiterated that when using any economic development tool, a city must consider the following: what the community goal/plan is, what problem the city is wanting to be solved, and what else competes for these limited resources. These are all important aspects to consider because projects that don't advance goals end up wasting limited resources.
To protect local resources, developers' application and financial information must be reviewed to ensured that the project qualifies for assistance, as well as establish an appropriate level of public assistance. Pro forma analysis is utilized here, and the default format is the "pay-as-you-go" method. The goals are to maximize private funding sources and minimize public assistance to make the project financially viable.

Fundamentally, financial barriers prevent the private market from developing a site in accordance with City vision. When using pro forma analysis, the idea is to find the financial gap. The city must compare the developer's numbers against the industry standards (land acquisition,

construction costs, developer fees, debt assumptions, etc.), and ensure development components are accounted for correctly (revenue, expenditures, debt service, etc.).
There are gaps because financial barriers prevent the private market from developing a site in accordance with City vision. Examples include contaminated land, blighted buildings, high construction costs & interest rates, high development fees, market rent is too low, infrastructure costs too high, cheaper alternatives elsewhere, or the city vision is incompatible with market.
When a city has a goal or plan they want to execute, knowing what tools are available to help facilitate development is crucial. Some local financial tools are listed below:

- EDA Levy Funds
- Local revolving loan funds
- TIF plans
- Tax abatement
- Other State and local resources

Tax Increment Financing (TIF) is the ability to capture and use most of the increase in local property tax revenue from new development within a defined geographic area for a defined period of time without the approval of the other taxing jurisdictions. Aarsvold provided a visual example of a graph that depicted how TIFs play a role in the increase of assessed values over time.

DEDA Commissioners and Planning Commissioners had questions about how these TIF values are calculated for an area. Aarsvold explained that new value happens over time, the TIF captures those value increases that happen over time. Then these taxes can be moved and utilized around the city where they are needed. Once an understanding of the base value of a property is determined, then it's possible to calculate the annual increment that will accrue. Inflation is also considered when creating a new TIF plan.

Aarsvold explained that a district captures what it will capture, and then an agreement must be made between the developer and the city to determine what will be paid out to which party. The taxes will be collected by the county, and they will give the settlements to the city. This payment usually happens twice a year. Commissioner Rhodes asked a clarifying question about when the payments could be made, as she had thought that there would be an up-front payment made. Aarsvold says this is possible, but then the city would collect on the increment stream. This is risky, because if the increment is less than what was originally expected, then the city is out of luck. There is not a need to finance project funds up front because there are other funding sources available for developers. Typically, the pay-as-you-go method is utilized by city's that have TIF plans.

TIF agreements can be broken via defaults, but they cannot be broken for no reason as it is a contract. Rhodes asked what a typical term for a TIF plan is, and Aarsvold responded that each district is different. Districts cannot just be created anywhere for no reason. The state created and continues to regulate the different district types and what is required for each one. The different TIF district types are as follows: Economic Development TIF District (9-year term), Housing TIF District (26-year term), Redevelopment TIF District (26-year term), Renewal & Renovation TIF District (16-year term), Soils TIF District (20-year term).

Aarsvold then went on to describe the process for establishing a TIF district. The process begins with the project plan and description, determining market value and tax rates, estimating the maximum budget as well as the potential financial impacts. A notice must be made to the county commissioner 30 days prior to hearing notice publication. Hearing notice publication must be made at least 10 days prior to hearing. TIFs do not dictate where the money will go after it is collected.

Aarsvold gave an example of a couple different TIF districts in Minnesota, noting the Birdtown Flats in Robbinsdale. This was a Redevelopment TIF District which created 152 new market rate housing units. He also presented the Capstone Industrial development in Burnsville, which was a 16.6-acre site with 231,760 sq ft industrial development. The challenge with this site was extraordinary site costs totaling $3.5 million.

Duluth currently has 16 active TIF Districts which includes 13 redevelopment TIF districts and 3 housing TIF districts. 3 of the 16 districts are "decertified".
There are 3 future TIF districts, however there is no activity with these districts yet. Those districts include:

- TIF district No. 36 – 1st Street Redevelopment
- TIF district No. 37 – Incline Plaza Phase 1
- TIF district No. 38 – Sofidel (consideration coming in August/September of 2024)

Aarsvold presented a table of all the existing TIF districts within the city of Duluth, as well as a table of captured TIF tax capacity for Duluth and how Duluth compares to other cities in Minnesota that utilize TIF. He also provided a graph of pooled TIF resources for future projects and what those numbers are projected to be over the next couple decades. His last slide was about administrative funds, which stated that TIF funds may be used to pay for ongoing administrative expenses. These funds are limited by statute and the TIF plan budget. Status report ensures compliance with requirements and budgets annual administrative amounts for staffing and third-party costs.

Adjournment

Meeting adjourned at 1:10 p.m.
Respectfully,

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Jenn Moses, Manager
Planning & Economic Development