



Sent Via Email

June 14, 2022

Michele McPherson
City Administrator
City of Princeton
705 Second Street North
Princeton, MN 55371

RE: 2021 TIF Reporting

Dear Michele:

At your direction, Northland has prepared the 2021 Annual Reporting Forms for the following Tax Increment Financing (TIF) Districts:

1. TIF District 1-1
2. TIF District 1-2
3. TIF District 3-5
4. TIF District 3-7
5. TIF District 6-1
6. TIF District 8-1 (Kwik Trip)
7. TIF District 8-2 (Caseys)
8. TIF District 7-1 (West Birch Estates)
9. TIF District 9-1 (Princeton Industrial Park)
10. TIF District 9-2 (Rum River Estates)*

*This is the first reporting year for TIF District 9-2 (Rum River Estates, described as Briggs Apartment Project for the plan for the TIF district). The certification date for TIF District 9-2 is July 27, 2022. A note is included in the annual reporting form requesting the name of the district be updated by the Office of the State Auditor.

The Forms have been prepared with information provided by the City and with materials on file at Northland. For your records, the Forms in the Excel format required by the Office of the State Auditor (the "OSA") accompany this letter.

OSA Filing

The Forms were filed electronically with the OSA on June 14, 2022. The confirmations of filing with the OSA accompany this letter.

Annual Disclosure Form

State Law (Minnesota Statutes 469.175, Subdivision 5) requires that the City publish an annual statement disclosing information regarding the TIF districts located within the City. We have prepared this statement, inclusive of the districts listed above, and it is provided to you along with this letter. The

City will need to submit a disclosure form to the newspaper for publication. The notice must be published in the newspaper before August 15, 2022. Please retain the affidavit of publication in your files.

Disclosure to Other Units

The City is responsible to provide a copy of the annual disclosure form to the County Auditor and County Board, and any other documentation the County Auditor may request.

TIF Management

We believe that the Forms are complete and accurate based on our knowledge of the districts and the information available to Northland. We requested certain documents (i.e., development agreements, executed TIF notes, etc.) from the City, which have been provided to me. If after upon your review of the forms and the items below you find that changes are needed to the annual reporting forms, I will work with you to make any adjustments and file amended forms if necessary.

TIF District 1-1 (Dwntwn Redv)

Background

- The district was established November 9, 1978, and certified November 10, 1978. The district is what is referred to as a “Pre-1979 District”. Year 1980 was the first year of tax increment collected. The decertification date is August 1, 2009.
- The district has no outstanding obligations.
- The only reported activity in 2021 was receipt of lease revenue from Sherburne State Bank for parking spaces and administrative costs.
- The Five-Year Rule date for the District is not applicable because the district was established before the Five-Year Rule was adopted into law.

Observations / Recommendations

- The City should consider options to close the fund established to account for the district.
- The contractual relationship with Sherburne State Bank for the parking should be reviewed to determine obligations of the City and the Bank that may impact the ability of the City to close the fund.
- The potential options to close the fund may include returning the remaining balance of cash to the county for redistribution to the respective taxing jurisdictions; or spending the remaining balance on tax increment eligible project costs. Eligible project costs may include street and utility improvements, land acquisition for redevelopment, among other project costs. The December 31, 2022, year-end cash balance is reported at \$33,003.
- The City may also determine to return the funds to the county, and then the county will redistribute to the City a proportionate share which could then be deposited into the City’s General Fund.

TIF District 1-2 (Armory Proj)

Background

- The district was established August 14, 1997, and certified May 29, 1998, as a redevelopment district. Year 1999 was the first year of tax increment collection. The decertification date is October 22, 2020. The district was decertified early, as required by statute, because the TIF note final maturity date of February 1, 2019 was reached and there are no other outstanding obligations of the district.
- The state auditor's office sent an email communication to the City on November 23, 2021, inquiring about the authority for payments made on the TIF note to Wilco 6 Limited Partnership after the final maturity date of the TIF note. See Exhibit I that follows with the general ledger details. Based on the final maturity date of February 1, 2019, of the TIF note, the City should not have made payments to Wilco on the following dates and amounts listed below. The 2021 Annual Reporting Form for TIF 1-2 includes an adjustment to prior year interest paid for these payments (total adjustment of \$6,568 for 2019 and \$3,284 for 2020 or a combined total of \$9,852).
 - \$3,284 paid on July 25, 2019
 - \$3,284 paid on December 26, 2019
 - \$3,284 paid on July 23, 2020
- In prior year annual reporting forms to the OSA, and in the City's records for amortization of the TIF note, the City reported that interest on the TIF note compounded; this is not correct. Northland has reviewed the executed TIF note, and it clearly states that unpaid interest on the TIF note shall not be added to the principal amount and no interest shall be paid on such unpaid interest. The City appears to have made payment based on 90% of the tax increment revenues distributed from the county, which is consistent with terms of the TIF note. However, it is unclear from the information available to Northland if the City would have repaid the TIF note earlier if payments had been properly applied to principal and interest not compounded in the City's amortization schedules.

Observations / Recommendations

- The City must return tax increment from the district to the county for redistribution to the respective taxing jurisdictions (city, county, and school district) in the amount of \$14,271. The amount to be returned includes the following:
 - \$7,703 of tax increment distributed from the county in 2021, after the district was decertified
 - \$6,568 of tax increment paid to Wilco after the final maturity date of the TIF note
- The 2021 Annual Reporting Form for the district includes this expenditure and accounts payable amount for this tax increment to be returned to the county.
- After accounting for the return of excess increment to the county, there is not sufficient funds available in the district to cover the administrative costs incurred in 2021 for the district. The 2021 Annual Reporting Form reports \$303 of administrative costs paid from the district. This is less than the \$1,400 the City recorded in the general ledger for administrative costs paid in 2021. The City will need to use other revenue (that is not tax increment) to pay the administrative costs not paid from tax increment from the district.

- The 2021 Annual Reporting Form will not be the final reporting form required for the district. The City will need to continue to report to the OSA on the district until such time \$0 balances are reported for fund balance and the balance sheet.
- The City should consult with its attorney to determine options to seek reimbursement from Wilco for the payments made by the City to Wilco in 2020 and 2021 (combined total of \$9,852), paid after the final maturity date of the TIF note.

TIF District 3-5 (Railroad Corridor)

Background

- The district was established April 27, 2000, and certified July 11, 2000, as a redevelopment district. Year 2002 was the first year of tax increment collected. The decertification date is December 31, 2027.
- The district has one outstanding obligation, a note payable to Great Northern Land Corporation. The outstanding balance as of December 31, 2021 is \$1,444,439.

Observations / Recommendations

- The City reported to the OSA in prior year reporting forms that expenditures were made for housing or public infrastructure purposes permitted by Minnesota Statute 469.1763, subd. 3 (a) (5). Northland does not have a copy of the adopted TIF Plan to confirm this is correct. Without confirmation, we suspect this is not correct. This should be reviewed, and the reporting form updated, if needed, in the next reporting year.
- The City reports that interest on the TIF note compounds; this needs to be confirmed by review of the executed TIF note. Northland does not have a copy of the executed TIF note to review.
- The City reported to the OSA that the TIF note was issued to Great Northern Land Corporation. However, the City is making payment to "Ronald G. Stratton". The City should confirm that an assignment of the TIF note to Ronald G. Stratton was approved by the City.
- Northland prepared an amortization schedule for the TIF note for the City's review and use. The terms for the TIF note needs to be reviewed and updated based on the executed TIF note. The payment made to Ronald G. Stratton on December 26, 2019, was calculated based on 100% of the tax increment revenues distributed from the county. This does not appear to be correct (i.e., should have been calculated at 90% of the tax increment revenue received). Northland does not have a copy of the executed TIF note to confirm the terms.
- The City reported to the OSA an issue date of the TIF note of April 27, 2000. Subject to review of the executed TIF note, this does not appear to be correct as it is the same date the District was established. The TIF note should not have been issued until after the developer incurred and provided evidence of the site improvement, utilities, and other public improvement costs.

TIF District 3-7 (Sterling Pointe)

Background

- The district was established March 11, 2010, and certified April 1, 2011, as a housing district. Year 2002 was the first year of tax increment collected. The decertification date is December 31, 2027.
- The district has one outstanding obligations, a note payable to Sterling Pointe Senior Living, LLC. The outstanding balance as of December 31, 2021 is \$612,874.
- The property must submit compliance certificates that provide documentations that the developer is income qualifying tenants pursuant to the requirements in the statutes that govern the use of tax increments for housing. The City should confirm it has the compliance certificates for year 2020, and prior years, on file. Northland has requested from the City a copy of the TIF Plan for the District and a copy of the executed development agreement and TIF note. These documents should include language with respect to the requirements for income qualification. Without this documentation, Northland is not able to confirm if the project was for rental or owner-occupied housing.

Observations / Recommendations

- Northland prepared an amortization schedule for the TIF note for the City's review and use. The terms for the TIF note have been reviewed and updated based on the copy of the executed TIF note the City provided to Northland.
- The City should make payments on the TIF note based on the agreed to payment dates of February 1 and August 1 of each year. In the past, the City has made payments in July and December. The final payment date is 2/1/2032, payable from the second half tax distribution to be received in 2022.
- The City is required to collect annual income certification from the developer for compliance with the income requirements for a housing TIF district pursuant to terms in the development agreement.

TIF District 6-1 (MN Industrial Coatings Expansion District)

Background

- The district was established May 8, 2014, and certified May 30, 2014, as an economic development district. Year 2016 was the first year of tax increment collected. The decertification date is December 31, 2024.
- The district has one outstanding obligations, a note payable to Glenn Properties, LLC. The outstanding balance as of December 31, 2021 is \$124,249.

Observations / Recommendations

- The City should make payments on the TIF note based on the agreed to payment dates of February 1 and August 1 of each year. In the past, the City has made payments in July and December. The final payment date is 2/1/2025, payable from the second half tax distribution to be received in 2024.

- The general ledger reports for TIF 6-1 reports an outstanding balance in an account described as “Glenn Properties TIF Escrow”. The balance was reduced from \$12,000 to \$11,505 in 2021. The escrow fund is not included in the annual reporting form. The purpose of this escrow should be confirmed.

TIF District 8-1 (Kwik Trip)

Background

- The district was established February 22, 2018, and certified May 2, 2019, as an economic development district. The first year of tax increment collection was 2019. The required decertification date is 12/31/2028.
- The District has no outstanding obligation as of year-end 2021.
- In 2019, the City made a draw on the interfund loan for the district from the Capital Improvements Fund in the amount of \$6,373, which was repaid in 2020. The City Council adopted Resolution No. 18-61 authorizing the loan in the maximum amount of \$16,851. The loan is payable with interest at 4.0%.
- The Five-Year Rule date for the District is May 2, 2023. This is an important date. The City must expend or commit future projected tax increments by this date. After this date, there are certain limitations that will apply to future use of tax increments, including pooling limitations. Tax increment may be spent only to assist the commercial facility directly and, except for administrative costs, must be spent on activities within the district. No pooling, or expenditures on activities outside the district (other than administrative costs), may occur.

Observations / Recommendations

- The City should consider its plans for use of tax increment from the district. If the City does not have a plan for use of the increment, subject to the limitations, then the City should consider early decertification of the district. The City would need to approve a resolution authorizing the early decertification and file the necessary documentation with the county and OSA.

TIF District 8-2 (Caseys)

Background

- The district was established February 22, 2018, and certified May 2, 2019, as an economic development district. The first year of tax increment collection was 2020. The required decertification date is 12/31/2028.
- The district has one outstanding obligation as of year-end 2021 for an interfund loan to the Capital Improvements Fund in the amount of \$7,929. The prior year balance was restated to equal \$8,013. The City Council adopted Resolution No. 18-62 authorizing the loan in the maximum amount of \$18,908. The loan is payable with interest at 4.0%. Payments should be applied first to accrued interest and then to unpaid principal.

- The Five-Year Rule date for the District is May 2, 2023. This is an important date. The City must expend or commit future projected tax increments by this date. After this date, there are certain limitations that will apply to future use of tax increments, including pooling limitations. Tax increment may be spent only to assist the commercial facility directly and, except for administrative costs, must be spent on activities within the district. No pooling, or expenditures on activities outside the district (other than administrative costs), may occur.

Observations / Recommendations

- The City should consider its plans for use of tax increment from the district. If the City does not have a plan for use of the increment, subject to the limitations, then the City should consider early decertification of the district. The City would need to approve a resolution authorizing the early decertification and file the necessary documentation with the county and OSA.

TIF District 7-1 (West Birch Estates)

Background

- The district was established May 24, 2018, and certified June 14, 2018, as a housing district. If tax increment is first collected in year 2022 then the required decertification date is 12/31/2047. The annual TIF reporting form will need to be updated after the first year of tax increment collection to correct the decertification date on the form. This request can be made to the OSA to update the reporting form (the field is controlled by the OSA).
- The district has reported outstanding obligation as of year-end 2021 for interfund loans payables to the Capital Improvements Fund in the combined amount of \$15,133 related to administrative costs and utilities.
 - The City Council adopted Resolution No. 18-59 authorizing an interfund loan in the maximum amount of \$50,000 to reimburse administrative costs.
 - The City Council adopted Resolution No. 18-32 authorizing the loan in the maximum amount of \$130,000 for reimbursement of special assessment payments by the developer. The loan is payable with interest at 4.0%. The 2021 annual TIF reporting form reports a prior-year's draw amount of \$8,000. The City confirmed the draw was related to financial assistance provided to the developer from a reduction in the Water Availability Charge (WAC) charged to the developer compared to the standard rate charge by the Public Utility Commission.

Observations / Recommendations

- The annual reporting form does not report issuance of a TIF note to the developer. The City needs to confirm whether the TIF note has been executed and in what amount. Northland will need a copy to add to the transcript of documents for the district.
- The City is required to collect annual income certification from the developer for compliance with the income requirements for a housing TIF district pursuant to terms in the development agreement.

TIF District 9-1 (Princeton Industrial Park)

Background

- The district was established October 25, 2018, and certified March 5, 2019, as an economic development district. The first year of tax increment collection is reported as 2020; which is a year earlier than originally anticipated. There was \$549 reported as tax increment revenues distributed from the County in 2020. The required decertification date is 12/31/2028, eight years after the first year of tax increment collection.
- The district has no outstanding obligation as of year-end 2021.
- The district had reported a prior year draw on an interfund loan that was repaid in 2021 from tax increments. The City Council adopted Resolution No. 18-58 authorizing an interfund loan in the maximum amount of \$50,000 to reimburse administrative costs.
- The Five-Year Rule date for the District is March 5, 2024. This is an important date. The City must expend or commit future projected tax increments by this date. After this date, there are certain limitations that will apply to future use of tax increments, including pooling limitations.

Observations / Recommendations

- The City should consider its plans for use of tax increment from the district. If the City does not have a plan for use of the increment, subject to the limitations, then the City should consider early decertification of the district. The City would need to approve a resolution authorizing the early decertification and file the necessary documentation with the county and OSA.

TIF District 9-2 (Rum River Estates)

Background

- This is the first year an annual TIF reporting form is required for this district.
- The district was established September 24, 2020, and certified July 27, 2021, as a housing district. The first year of tax increment collection is elected to be year 2023. The required decertification date is 12/31/2048.

Observations / Recommendations

- The City did not provide any general ledger activity reports to Northland for the district. The City should confirm whether transactions were recorded, and if so, Northland will update the 2021 Annual TIF Reporting Form to include this activity.
- The City should confirm the status of the execution of the development agreement and issuance of the TIF note. Northland does not have copies of these documents.
- The City is required to collect annual income certification from the developer for compliance with the income requirements for a housing TIF district pursuant to terms in the development agreement.

Other Comments

- City should consider updating the description of its funds as reported in the City's financial statements to include reference to the specific TIF district number. This would help to clearly identify which fund is used to account for which TIF district.
- The City's financial statements as of December 31, 2020, included a fund for TIF District 8-4 (Chino Development), reported as Fund No. 319. TIF District 8-4 appears to have been decertified and the OSA is no longer requiring annual TIF reporting. It appears this Fund should be closed out. Northland has not reviewed the financial statements for year 2021 or prior year annual TIF reporting for TIF District 8-4, or any other related documents, but it would appear there may have been an interfund loan for which tax increments were not sufficient to repay and the loan balance should be written off and the Fund closed. The City should review and take the appropriate actions.

Please contact me with any questions you may have regarding on-going TIF management of the City's TIF districts.

Sincerely,

NORTHLAND SECURITIES, INC.



Tammy Omdal
Managing Director

Attachments

Exhibit A
 TIF District 1-2

ACCOUNTS PAYABLE		1/1/2019 (00/19) Balance	398,204					
7/25/2019 AP	402	Summary Transactions from AP System						
7/25/2019 CDA	79688	WILLCO 6 LIMITED PARTNERSHIP	3,284.00					
		7/31/2019 (07/19) Period Totals and Balance	3,284.00 *	3,284.00 -*				.00
8/8/2019 AP	211	Summary Transactions from AP System						
8/8/2019 CDA	79717	ECM PUBLISHERS, INC	28.01					
		8/31/2019 (08/19) Period Totals and Balance	28.01 *	28.01 -*				.00
12/28/2019 AP	381	Summary Transactions from AP System						
12/28/2019 CDA	80496	WILLCO 6 LIMITED PARTNERSHIP	3,284.00					
		12/31/2019 (12/19) Period Totals and Balance	3,284.00 *	3,284.00 -*				.00
		12/31/2019 (1/1/19) Period Totals and Balance	.00 *	.00 *				.00
		1/1/2020 (00/20) Period Totals and Balance	.00 *	.00 *				.00
7/23/2020 AP	420	Summary Transactions from AP System						
7/23/2020 CDA	81547	WILLCO 6 LIMITED PARTNERSHIP	3,284.00					
		7/31/2020 (07/20) Period Totals and Balance	3,284.00 *	3,284.00 -*				.00