

**MINUTES OF A REGULAR MEETING OF THE PRINCETON CITY COUNCIL HELD ON
DECEMBER 22, 2020 7:00 P.M.**

Mayor Brad Schumacher called the meeting to order and led the Pledge of Allegiance to the Flag. Council members present were Jack Edmonds, Jenny Gerold, Jules Zimmer and Jeff Reynolds. Others present: City Administrator Robert Barbian, Finance Director Steve Jackson, Police Chief Todd Frederick, Public Works Director Bob Gerold, Community Development Specialist Stephanie Hillesheim, Clerk Shawna Jenkins, Liquor Store Manager Nancy Campbell, Fire Chief Ron Lawrence, Wastewater Plant Manager Chris Klinghagen and Attorney Damien Toven.

AGENDA ADDITIONS/DELETIONS

Hillesheim would like to give a short report under miscellaneous, and Barbian will provide an Administration update as well.

J Gerold would like to remove item 17A, which is the closed session regarding marketing and sales of the Industrial Park Development.

Edmonds would like to vote on Resolution 20-82 separately so he can abstain from voting.

ZIMMER MOVED TO APPROVE THE AMENDED AGENDA. EDMONDS SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY

CONSIDERATION OF MINUTES

- A. Special budget Study Session of December 8, 2020
- B. Regular Meeting minutes of December 10, 2020

J Gerold stated in December 10th meeting, there was a correction to the minutes that didn't read quite right. Jenkins responded it is more difficult to take minutes while not in the room, and that she had gone back and watched the meeting and made the corrections to the motion.

J GEROLD MOVED TO APPROVE THE DECEMBER 8, 2020 SPECIAL BUDGET SESSION AND THE DECEMBER 10, 2020 REGULAR MEETING MINUTES. ZIMMER SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY.

CONSENT AGENDA

- A. Permits and Licenses
- B. Personnel
- C. Donations and Designations
 - 1. Resolution 20-79– accept donations for Light Up Princeton
 - 2. Resolution 20-80 – accept donation from Shield Services for Police K9 Dept

ZIMMER MOVED TO APPROVE DONATION RESOLUTIONS 20-79 AND 20-80. EDMONDS SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY.

- 3. Resolution 20-82 – accept donation from Edmonds Family for a Riverside-Riebe Bench

MOVED TO APPROVE DONATION RESOLUTION 20-82. SECONDED THE MOTION. VOTE 4:0:1 ZIMMER, REYNOLDS, J GEROLD AND SCHUMACHER IN FAVOR, EDMONDS ABSTAINED. THE

MOTION CARRIED.

OPEN FORUM

Tim Hennagir had questions regarding the proposed closed session regarding the Industrial Park Land which is mute now as the Council has pulled that item from the agenda.

PUBLIC HEARINGS –

PRESENTATIONS / SPEAKERS

A. Mayor Schumacher – Recap on his 2-year term

Schumacher thanked the City Council and City Staff for the last 2 years of things they accomplished in the City. He was the grand prize winner on the hockey drawing. He wanted to say how important is hockey is to the city, so he would like to give \$1000 back to the Hockey program and \$500 to the Flight Expo for the kids that are in the build a plane program. He had more graduation signs made for those graduating in 2021, and has dropped off 100 of those signs at City Hall for people to pick up.

B. Sherburne Village Annexation and Utilities discussion

Olin provided an update on their plans for their development and some details that they plan on working out with staff.

Schumacher asked if the Park Dedication fees could be paid in stages. Zimmer asked if the current homes would be annexed would pay the park fees. Olin plans on asking that the current homes be annexed without park fees, only the new development.

Olin added that they did presented their proposal to the PUC, and then met with Butcher, Daniels and the new Electric Supervisor.

Schumacher asked Olin if they are looking for a consensus from the Council to determine whether to continue working with their plans and request that the annexation petition move forward.

FYI – REPORTS, ANNOUNCEMENTS, CORRESPONDENCE AND BOARDS / COMMITTEES

PETITIONS, REQUESTS, AND COMMUNICATIONS

A. Trinity Crossing Special Event Request for Christmas Eve

Pastor Mike Pancoast from Trinity Lutheran Church is requesting the use of the City's public parking lot between 6th and 7th Ave North for a Drive-in Christmas Eve Worship. They are asking for setup time to be 3pm with the event from 5-6:30pm and then cleanup at 6:30pm.

B Gerold said the only concern he has is that lot is used for winter parking, but a short use should not be an issue.

ZIMMER MOVED TO APPROVE THE SPECIAL EVENT REQUEST FOR THE DRIVE IN CHRISTMAS EVEN WORSHIP IN THE CITY'S PUBLIC PARKING LOT. REYNOLDS SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

ORDINANCES AND RESOLUTIONS

A. Resolution 20-81 – Authorizing modification to Tax Increment Financing plan for TIF 9-2 & Execution of Development Agreements

Tammy Omdal from Northland Securities advised that the City is proposing to enter into two agreements with Rum River Residential Suites, LLC to provide tax increment financing assistance for the construction of two apartment buildings, constructed in two phases, to include approximately 49 rental units in each of the two buildings (the “Project”). The Project is proposed to be market rate with an affordable component.

The City Council approved the establishment of Tax Increment Financing District No. 9-2 (the “TIF District”) on September 24, 2020 (Resolution No. 20-53) providing the City the authority to consider assistance for the Project.

The first building will be located along First Street and the second building will be located just behind the first building, on a site that is owned by the Developer. The first building is proposed to be completed and at 50% occupancy by 2022 and full occupancy by 2023. The second building is proposed to be completed and at 50% occupancy by 2024 and full occupancy by 2025. The Developer’s plan and timing is contingent on receiving public financial assistance to assist with the affordable component of the market rate buildings, among other items.

The cost for the Project (inclusive of 98 units, both buildings) is estimated at approximately \$15.4million in today’s dollars. The Developer’s request for public financial assistance is to assist with the extraordinary costs, including land and site improvements, and the cost to be provide the affordable housing units. The Developer has represented that it will not undertake the Project as proposed without public financial assistance.

It is Northland’s opinion that the Project as proposed, which includes indoor parking, is unlikely to occur but for the proposed public financial assistance, inclusive of the tax increment financing. Without the assistance, the Project is not expected to achieve the level of debt service coverage and returns needed to secure the necessary private financing and equity.

Public Financial Assistance

Due to the extraordinary costs associated with acquisition and development of the Project, the Developer is seeking public financial assistance from the City in the form of pay-go tax increment financing assistance. The financial assistance will come from the tax increment revenue generated within the TIF District.

Exhibit A provides a summary of the estimated potential tax increment cash flow from the TIF District and assistance to the Developer, based on certain assumptions. State law provides that the increase in property taxes from the captured tax capacity (from the increase in market value) applied against the local tax capacity rates may be captured to assist the Project. Referendum market value taxes and the State of Minnesota property tax for commercial property (not applicable for residential property) are not captured for tax increment financing. To reimburse the eligible costs incurred by the Developer, the agreement for Phase I provides that the Developer will purchase a Tax Increment Financing Revenue Note (the “TIF Note”) in maximum principal

amounts of \$1,379,000. The agreement for Phase I provides for a maximum principal amount of \$1,151,000 for the TIF Note.

The TIF Notes are not a general obligation of the City. The TIF Notes are payable solely from net available semiannual tax increments from the Project. Net available semi-annual tax increments is estimated to be based on 90% of the tax increment collected from each of the two buildings within the TIF District.

The TIF Note will bear simple, non-compounding interest from the date that the City determines paid invoices, as paid by the Developer, in compliance with the terms of an agreement, at a rate of 4.25% from the date of issue per annum.

Review of Need for Assistance

Northland conducted a review of the Developer's application for financial assistance and pro forma as submitted to the City. Northland reviewed project cost estimates to ensure all anticipated sources and uses for the Project were properly included. Based on our review of the pro forma and under current market conditions, we find that the Project, as proposed, may not reasonably be expected to occur solely through private investment within the reasonably near future. Due to the costs associated with construction of the affordable housing units (among other extraordinary costs), the Project as proposed is feasible only through assistance, in part, from tax increment financing. This conclusion is supported by the following:

- The Developer plans for the estimated \$15.4 million cost for the Project to be funded from a combination of debt, equity, and deferred construction management and developer fees. The present value of the estimated future tax increment revenue from the TIF Note payments to the Developer reduces the effective cost of the Project by \$2,530,000. Based on estimated net operating income, the effective return without the public financial assistance is not at a level the Project, as proposed, would proceed.
- The total average cost per housing unit is estimated at approximately \$157,000 (in today's dollars) for the construction of the 98 units, including the cost of the parking. Each building for the Project will include 13 studio units, 22 one-bedroom units, and 14 two-bedroom units. Based on Northland's experience with similar projects and given the location of the Project, we would expect total development costs to range between \$97,000 and \$160,000 per unit. The total per unit project cost is generally within this range.
- The estimated average gross monthly rent per unit for the first building, in the first stabilized year of the Project, is estimated at approximately \$1,054 per month (in year 2023). The Project is estimated to include three stories, with indoor and surface parking. Monthly average gross rents are estimated at \$636-\$950 for the studios, \$1,075 for a one-bedroom unit to \$1,200 for a two-bedroom unit. A minimum of 20% of the units are planned to be affordable at 50% of the average median income (AMI) for Mille Lacs County as of fiscal year 2020 is \$72,600). The annual total gross rental income for the first building is estimated at approximately \$620,000 in the first year of stabilized occupancy, before adjusting for estimated apartment vacancy and rental loss of 5%.
- The total annual expense, operating and non-operating, is estimated at \$5,125 per unit (after completion of both buildings). This includes a 5% management fee and approximately \$265 per unit (2%) for replacement reserve. This includes an estimated average \$3,091 per unit for real estate taxes. The contribution to reserves is reasonable and the projected total annual expense is within industry standards.
- The estimated average debt service coverage with tax increment financing is estimated to

average 1.19X during the first five years of stabilized operations, and without tax increment assistance the average is 0.95X. The coverage for the mortgage without the tax increment is not at a level that we would expect the Project, as proposed, to proceed. The financing of this type of project would be expected to be at a minimum of approximately 1.2X coverage.

□ The deferred construction fee and developer fee is projected to be paid within the first ten years of operations. The beginning balance is estimated at \$1,025,000, and the pro forma assumes this balance will be repaid with interest.

□ The estimated annual cash on cash return (net annual operating income divided by total development project costs) with tax increment financing is estimated to average 5.4% during the first five years of stabilized operations and 4.2% without tax increment assistance. The cash-on-cash return is reasonable for this type of project and the proposed source of financing.

City Council Action

Should the City Council agree with the conclusions reached and wish to have the project proceed then the City Council will need to consider approval of the following:

□ Resolution Authorizing Modification to Tax Increment Financing Plan for Tax Increment Financing District No. 9-2 and Execution of Development Agreements

The proposed resolution includes modification to the Tax Increment Financing Plan for the TIF District in order to adjust the estimated line-item project costs within the adopted budget for the TIF District. The proposed modification does not change the total budgeted project costs for the TIF District. Exhibit B provides information on the proposed modification to the budget for the TIF District.

REYNOLDS MOVED TO APPROVE RESOLUTION 20-81. EDMONDS SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY.

B. Ordinance 800 – Fee Schedule Amendment – FIRST READING

Barbian said he did hear from one airport advisory member that felt that the increase was an exorbitant amount. J Gerold replied that she would have agreed, had it not been over 30 years since it was last increased.

ZIMMER MOVED TO APPROVE ORDINANCE 800, AMENDING THE FEE SCHEDULE. J GEROLD SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY.

B. Resolution 20-83 – Amendment to Resolution 20-16 for DEED BDPI Application

Hillesheim advised there was a change to the amount to Resolution 20-16 needs to be amended.

EDMONDS MOVED TO APPROVE RESOLUTION 20-83. SCHUMACHER SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY.

C. Resolution 20-78 – accepting annexation petition and calling for a public hearing

Barbian advised that the City has received the annexation petition and this is to call for a public hearing, which will be at the January 28th Meeting.

SCHUMACHER MOVED TO APPROVE RESOLUTION 20-78. J GEROLD SECONDED THE MOTION.

Zimmer asked how it works for water and sewer, as, if this property does not have water and sewer. Barbian said it will remain on private well and septic, until utilities were available.

THE MOTION CARRIED UNANIMOUSLY

J Gerold asked for clarification that there is no cost for annexation. Barbian confirmed that there is no fee in the fee schedule for Annexations.

UNFINISHED BUSINESS

A. 2021 Licenses

Jenkins stated that Frederick has done the background checks and they have all been approved.

ZIMMER MOVED TO APPROVE THE 2021 LICENSES. REYNOLDS SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY.

B. Joint city and PUC meetings

J Gerold reported that she spoke with the PUC and the joint meeting is scheduled for January 19th at 4:30pm. said best works for them is Jan 19th at 4:30pm. Location is yet to be determined, as there is a School Board meeting at City Hall that day at 6pm.

SCHUMACHER MOVED TO APPROVE THE JOINT CITY AND PUC MEETING FOR JANUARY 19TH AT 4:30PM. EDMONDS SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY.

NEW BUSINESS

A. Community Development Manager

Barbian advised that the position of Community Development Manager has been in place prior to the hiring of Stephanie Hillesheim. The Manager position is designed as an advanced supervisor level position with leadership responsibilities and a Specialist is an entry level position. The Manager position requires both a degree as well as experience and training working for a municipality in community development. When Ms. Hillesheim was hired it was determined that her enthusiasm and related experience qualified her for the entry level position of a Community Development Specialist.

Now that she has the education, training and experience with demonstrated successes in the field such as obtaining a Department of Natural Resources Park Improvement Grant, worked on implementation of the grant, obtained a Business Development Infrastructure Grant and worked with various projects benefiting Princeton advancement is appropriate.

The Community Development Manager Position description is similar to the previously although updated with the desired skills of an economic developer in order to bring about greater concentration on efforts to attract investments. In addition, the position involves greater involvement in the integration of communications and technology.

The position description was provided to the City Council for review.

Upon consideration and adoption of the revised position description it be appropriate to consider the promotion of Stephanie Hillesheim to the position starting January 1, 2021. The position is recommended as a Grade 8 step 4.

EDMONDS MOVED TO APPROVE THE REVISED POSITION DESCRIPTION AND TO PROMOTE STEPHANIE HILLESHEIM TO THE COMMUNITY DEVELOPMENT MANAGER POSITION AT A GRADE 8, STEP 4 POSITION EFFECTIVE JANUARY 1, 2021. J GEROLD SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY

BILL LIST

ZIMMER MOVED TO APPROVE THE BILL LIST WHICH INCLUDES THE MANUAL CHECKS AS LISTED ON THE MANUAL BILL LIST FOR A TOTAL OF \$669,377.03 AND THE ITEMS LISTED ON THE LIQUOR BILL LIST AND GENERAL CITY BILL LIST WHICH WILL BE CHECKS 82279 TO 82339 FOR A TOTAL OF \$566,750.74. REYNOLDS SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY

MISCELLANEOUS

Community Development – Hillesheim shared some photos and information about the luminary walk last night at Riebe Park. When she left there about 6:15 and there were about 35 cars.

Glenn Metalcraft donated the fire ring, and the rocks were donated by several groups and residents of the Visionary Committee.

Staff voted on the following Quote: “Keep your feet on the ground, and your eyes on the stars” By Theodore Roosevelt.

J Gerold added that she has seen so many great comments and people were so impressed with this event. The community just loved it, and we should keep doing these things. She thanked everyone for their hard work on this.

Schumacher stated that it really is a community wide effort. Hillesheim added that the Chamber had received a grant, and really helped the city advertise for the events.

Misc. Admin:

Staff is looking at closing the office on Christmas Eve and New Year’s Eve if that is okay with the Council. Staff will need to use a vacation day if they chose to not work those days.

Council Consensus was it was okay to post closed City Hall on Christmas Eve and New Year’s Eve.

***** CLOSED SESSIONS *****

A. ~~Industrial Park Development Marketing and Sales Minnesota Statutes Section 13D.05, Subd 3~~
(e)

B. City Administrator Review – Minnesota Statutes Section 13D.05 (a)

ZIMMER MOVED TO GO INTO CLOSED SESSION AT 8:26PM. EDMONDS SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY.

REYNOLDS MOVED TO ADJOURN THE CLOSED SESSION AND GO BACK INTO OPEN SESSION AT 11:53PM. ZIMMER SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY.

Barbian stated that the City Administrator Review was held and after much discussion, he has decided to resign his position and seek other options.

EDMONDS MOVED TO ACCEPT HIS RESIGNATION. REYNOLDS SECONDED THE MOTION. THE MOTION WAS CARRIED UNANIMOUSLY.

ADJOURNMENT

There being no further business:

ZIMMER MOVED TO ADJOURN THE MEETING AT 11:55PM. REYNOLDS SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY

Respectfully Submitted,

ATTEST:

Shawna Jenkins Tadych
City Clerk

Brad Schumacher, Mayor