



## MEMORANDUM

**To:** City of Princeton  
**From:** Tammy Omdal  
**Date:** December 5, 2023  
**Re:** Tax Increment Financing Assistance for Housing Project, TIF District 9-4

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The City received an application from Briggs Companies, Inc. (the “Developer”) to provide tax increment financing assistance for the construction of two apartment buildings to include approximately 166 total rental units (the “Project”). The Project will complete development of Phases 3 and 4 of the Princeton Residential Suites plat. Phases 1 and 2 of the Rum River Suites plat were included within the established Tax Increment Financing (Housing) District No. 9-2, approved by the City on September 24, 2020.

The Phase 3 building will include approximately 66 units and the Phase 4 building approximately 100 units. The Project will be constructed in two phases. The construction on the first building (Phase 3) will commence construction no later than June 30, 2025, and the second building (Phase 4) will commence construction no later than June 30, 2027.

The Developer’s plan and timing for the Project is contingent on receiving tax increment financing assistance to assist with the affordable component of the Project. The Developer is proposing that at least 20% of the residential units in the Project will be occupied or available for occupancy by persons whose incomes do not exceed 50% of the County median income.

The estimated cost for the Project (in today’s dollars) is approximately \$12.8 million for Phase 3 and \$19.8 million for Phase 4, a total combined cost of approximately \$32.6 million. See Exhibit A for more information. The Developer’s request for tax increment financing assistance is to assist with the extraordinary costs, including site improvements. The Developer has represented that it will not undertake the Project 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.

### **Tax Increment Financing (TIF) Assistance**

Due to the extraordinary costs associated with 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 property taxes from the Project to be captured as tax increment within the proposed Tax Increment Financing (Housing) District No. 9-4 (the “TIF District”).

The TIF District will include approximately 7.26 acres of land, and immediate adjacent roads, and right-of-way, and area that is currently within the existing, approximate 57.98-acre parcel (PID 24-032-0800). This parcel is currently located within the boundaries of the established Tax Increment Financing District No. 9-2. The City will need to approve a modification to the established TIF District 9-2 to remove PID 24-032-0800 from TIF District 9-2 before including a portion of the land within this PID (approximately 7.26 acres) within TIF District 9-4.

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Exhibit B provides the estimated potential tax increment cash flow from the TIF District and assistance to the Developer. 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 general property tax levy for commercial property (not applicable for residential property) cannot be captured as tax increment. The Project is not subject to the state general property tax levy.

To reimburse the eligible costs incurred by the Developer, the proposed agreement for Phases 3 and 4 will provide that the City will issue to the Developer two Tax Increment Financing Revenue Notes (the "TIF Notes") with the following terms:

- Phase 3: \$844,133 par amount to reimburse TIF eligible project costs, with simple, non-compounding, 7.5% interest, payable from 90% of the tax increment from Phase 3, first payment 8/1/2027 and final payment no later than 2/1/2053
- Phase 4: \$1,262,831 par amount to reimburse TIF eligible project costs, with simple, non-compounding, 7.5% interest, payable from 90% of the tax increment from Phase 4, first payment 8/1/2029 and final payment no later than 2/1/2053

The TIF Notes will not be general obligations of the City. The Developer will need to meet certain requirements, including providing evidence of eligible costs to be reimbursed through TIF, among other contractual requirements, before the City will issue the TIF Notes.

The TIF Notes will be payable solely from the respective net available semi-annual tax increments from each of the two buildings constructed as part of Phases 3 and 4. Net available semi-annual tax increments is estimated to be based on 90% of the tax increment collected from each of building within the TIF District.

Payments on the TIF Notes shall be an amount equal to the TIF pledged and received by the City during the six-month period preceding the agreed to payment dates shall first be applied to accrued interest and then to principal. The TIF Notes will be prepayable by the City, in whole or in part, on any date.

### **Review of Request for TIF Assistance**

Northland conducted a review of the Developer's application, and other information as provided, for financial assistance and the pro forma for Phase 3 and Phase 4. 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 site improvements and affordable housing units, the Project as proposed is feasible only through assistance, in part, from tax increment financing. This conclusion is supported by the following:

#### ***Phase 3***

- The Developer plans for the estimated \$12.8 million cost for Phase 3 to be funded from a combination of debt (\$8.3 million) and equity (\$4.5 million). 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 \$844,133. 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 \$193,421 (in today's dollars) for the construction of the approximate 66 units in Phase 3, including the cost of the parking. Phase 3 building is anticipated to include 14 studio units, 38 one-bedroom units, and 14 two-bedroom units.
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- The estimated average gross monthly rent per unit for the Phase 3 building in the first stabilized year is estimated at approximately \$1,407 per month (in year 2027). The Project is estimated to include three stories, with indoor and surface parking. Monthly average gross rents are estimated at \$900-\$1,200 for the studios, \$1,350 to \$1,475 for the one-bedroom units, and \$1,500 to \$1,600 for the two-bedroom units. A minimum of 20% of the units will be affordable at 50% of the average median income (AMI). The AMI for Mille Lacs County as of fiscal year 2023 is \$81,700 (source: Department of Housing and Urban Development). The annual total gross rental income, including all sources, is estimated at approximately \$1,114,000 in the first year of stabilized occupancy (year 2027), before adjusting for estimated apartment vacancy and rental loss of 5%.
  - The total annual expense, operating and non-operating, is estimated at \$5,695 per unit after stabilization in year 2027. This includes a 4% management fee (\$641 per unit) and approximately and 2% for replacement reserve (\$337 per unit). This includes an estimated average \$1,316 per unit for real estate taxes.
  - The estimated average debt service coverage with TIF is estimated to average 1.09X during the first five years of stabilized operations, and without tax increment assistance the average is 0.99X. 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. Developer has indicated financing will be secured by increasing the Developer down payment if necessary.
  - The estimated annual cash on cash return (net cash flow divided by cash from Developer) with tax increment financing is estimated to average 2.9% during the first five years of stabilized operations and a negative 0.3% without TIF. The ten-year average is 5.0% with TIF and 1.6% without TIF.
  - The estimated annual cash on cost return (net income divided by development cost) with tax increment financing is estimated to average 6.3% during the first five years of stabilized operations and 5.7% without TIF. The ten-year average is 6.5% with TIF and 5.9% without TIF.

#### ***Phase 4***

- The Developer plans for the estimated \$19.8 million cost for Phase 4 to be funded from a combination of debt (\$14.2 million) and equity (\$5.6 million). 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 \$1,262,831. 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 \$198,212 (in today's dollars) for the construction of the approximate 100 units in Phase 4, including the cost of the parking. Phase 4 building is anticipated to include 22 studio units, 58 one-bedroom units, and 20 two-bedroom units.
  - The estimated average gross monthly rent per unit for the Phase 4 building in the first stabilized year is estimated at approximately \$2,335 per month (in year 2029). The Project is estimated to include three stories, with indoor and surface parking. Monthly average gross rents are estimated at \$1,100 to \$1,350 for the studios, \$1,250 to \$1,650 for the one-bedroom units, and \$1,695 to \$1,850 for the two-bedroom units. A minimum of 20% of the units will be affordable at 50% of AMI. The annual total gross rental income, including all sources, is estimated at approximately \$1,849,097 in the first year of stabilized occupancy (year 2029), before adjusting for estimated apartment vacancy and rental loss of 5%.
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- The total annual expense, operating and non-operating, is estimated at \$7,374 per unit after stabilization in year 2029. This includes a 4% management fee (\$1,064 per unit) and approximately 2% for replacement reserve (\$560 per unit). This includes an estimated average \$2,035 per unit for real estate taxes.
- The estimated average debt service coverage with TIF is estimated to average 1.09X during the first five years of stabilized operations, and without tax increment assistance the average is 1.00X. 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. Developer has indicated financing will be secured by increasing the Developer down payment if necessary.
- The estimated annual cash on cash return (net cash flow divided by cash from Developer) with tax increment financing is estimated to average 2.1% during the first five years of stabilized operations and a negative 0.1% without TIF. The ten-year average is 2.9% with TIF and 0.9% without TIF.
- The estimated annual cash on cost return (net income divided by development cost) with tax increment financing is estimated to average 11.2% during the first five years of stabilized operations and 10.3% without TIF. The ten-year average is 11.6% with TIF and 10.7% without TIF.

### **Process for Approval of TIF**

The proposed calendar for establishment of the TIF District is as follows:

- November 21, 2023                      City Council call for public hearing to consider establishment of TIF District 9-4
  - November 28, 2023                      Notice sent to County Commissioner of public hearing
  - December 12, 2023                      Notice sent to County and School District of public hearing along with copy of draft Tax Increment Financing Plan for the TIF District (the "TIF Plan")
  - December 18, 2023                      Planning and Zoning Commission to review TIF Plan and consider resolution adopting findings
  - January 11, 2023                         Public hearing and City Council to consider resolution approving removal of parcels from TIF District 9-2 and resolution establishing TIF District 9-4 and adoption of the TIF Plan
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**EXHIBIT A**  
**City of Princeton**  
**Briggs Company Affordable Housing Project - Phase 3 and Phase 4**  
**Developer Sources and Uses of Funds for Construction**

	Phase III	Phase IV	Total	% of Total	Per Unit Average
<b>Sources of Funds</b>					
First Mortgage	8,250,000	14,200,000	22,450,000	68.9%	135,241
Developer Equity	4,515,759	5,621,150	10,136,909	31.1%	61,066
<b>Total Sources of Funds</b>	<b>12,765,759</b>	<b>19,821,150</b>	<b>32,586,909</b>	<b>100.0%</b>	<b>196,307</b>
<b>Uses of Funds</b>					
Land	595,000	725,000	1,320,000	4.1%	7,952
Construction	10,126,933	16,195,250	26,322,183	80.8%	158,567
General Conditions	365,500	590,000	955,500	2.9%	5,756
<i>Soft Costs and Contingency</i>			-		-
Survey	5,000	8,500	13,500	0.0%	81
Civils	25,800	35,800	61,600	0.2%	371
Structuals	75,000	85,000	160,000	0.5%	964
Architectual/Design	135,000	155,000	290,000	0.9%	1,747
Drafting	12,500	20,000	32,500	0.1%	196
Environmental Assessment	4,000	7,500	11,500	0.0%	69
Legal	12,000	15,000	27,000	0.1%	163
Soil Boring/Testing	10,000	14,000	24,000	0.1%	145
Closing Cost	120,000	170,000	290,000	0.9%	1,747
Interim Financing	325,000	475,000	800,000	2.5%	4,819
Developers Fee	360,000	450,000	810,000	2.5%	4,880
County Charges	814	2,100	2,914	0.0%	18
Contingency	350,000	563,451	913,451	2.8%	5,503
<i>City Fees and Charges:</i>			-		-
City Applications	15,000	15,000	30,000	0.1%	181
TIF Application	10,000		10,000	0.0%	60
City WAC and SAC	24,600	24,600	49,200	0.2%	296
City of Princeton Miscellaneous	15,000	15,000	30,000	0.1%	181
Storm Sewer Inspection	2,500	2,500	5,000	0.0%	30
Building Permit (incl Plan review and State Surcharge)	57,312	72,449	129,761	0.4%	782
Park Dedication	118,800	180,000	298,800	0.9%	1,800
<b>Total Uses of Funds</b>	<b>12,765,759</b>	<b>19,821,150</b>	<b>32,586,909</b>	<b>99.1%</b>	<b>196,307</b>
Number of Units	66	100	166		
Average Per Unit	193,421	198,212	196,307		

**Note:**

All amounts are in today's dollars.

Source of data is from the Developer application, with the exceptio of the city fees and charges amounts which are based on information provided or confirmed by the City.

**EXHIBIT B**

City of Princeton

Tax Increment Financing District No. TIF District No. 9-4 (Housing)

Briggs Apartment Project Phases 3 and 4

											ESTIMATED CASH FLOW FOR TIF NOTE					
											PHASE 3		PHASE 4			
											100.0%	10.0%	90.0%	7.50%	90.0%	7.50%
TIF District Year	Taxes Payable Year	Total Taxable Market Value (TMV)	Phase 3 TMV	Phase 4 TMV	Tax Capacity	Less Base Tax Capacity	Captured Tax Capacity	Original Tax Rate	Total TIF after State Auditor Fee	TIF Retained by City	TIF to Developer	PV of TIF to Developer (Principal)	TIF to Developer	PV of TIF to Developer (Principal)		
1	2027	3,465,000	3,465,000	-	43,313	149	43,163	140.81%	60,561	6,056	54,505	49,115				
2	2028	4,666,200	4,666,200	-	58,328	149	58,178	140.81%	81,629	8,163	73,466	110,616				
3	2029	10,068,387	4,712,862	5,355,525	125,855	149	125,706	140.81%	176,374	17,637	74,296	168,397	84,440	76,089		
4	2030	11,972,098	4,759,991	7,212,107	149,651	149	149,502	140.81%	209,762	20,976	75,040	222,615	113,746	171,311		
5	2031	12,091,819	4,807,591	7,284,228	151,148	149	150,999	140.81%	211,862	21,186	75,792	273,488	114,884	260,658		
6	2032	12,212,737	4,855,666	7,357,070	152,659	149	152,510	140.81%	213,983	21,398	76,550	321,223	116,034	344,494		
7	2033	12,334,864	4,904,223	7,430,641	154,186	149	154,037	140.81%	216,125	21,612	77,317	366,015	117,195	423,158		
8	2034	12,458,213	4,953,265	7,504,947	155,728	149	155,579	140.81%	218,288	21,829	78,091	408,043	118,368	496,970		
9	2035	12,582,795	5,002,798	7,579,997	157,285	149	157,136	140.81%	220,477	22,047	78,873	447,479	119,553	566,229		
10	2036	12,708,623	5,052,826	7,655,797	158,858	149	158,709	140.81%	222,680	22,268	79,662	484,482	120,749	631,216		
11	2037	12,835,709	5,103,354	7,732,355	160,446	149	160,297	140.81%	224,909	22,491	80,460	519,203	121,958	692,194		
12	2038	12,964,066	5,154,388	7,809,678	162,051	149	161,902	140.81%	227,160	22,716	81,266	551,782	123,178	749,411		
13	2039	13,093,707	5,205,932	7,887,775	163,671	149	163,522	140.81%	229,433	22,943	82,079	582,352	124,411	803,098		
14	2040	13,224,644	5,257,991	7,966,653	165,308	149	165,159	140.81%	231,730	23,173	82,901	611,036	125,656	853,473		
15	2041	13,356,890	5,310,571	8,046,319	166,961	149	166,812	140.81%	234,049	23,405	83,731	637,951	126,913	900,741		
16	2042	13,490,459	5,363,677	8,126,783	168,631	149	168,482	140.81%	236,392	23,639	84,569	663,206	128,183	945,093		
17	2043	13,625,364	5,417,313	8,208,051	170,317	149	170,168	140.81%	238,758	23,876	85,416	686,903	129,466	986,710		
18	2044	13,761,617	5,471,486	8,290,131	172,020	149	171,871	140.81%	241,147	24,115	86,271	709,138	130,762	1,025,759		
19	2045	13,899,234	5,526,201	8,373,032	173,740	149	173,591	140.81%	243,561	24,356	87,134	730,002	132,070	1,062,399		
20	2046	14,038,226	5,581,463	8,456,763	175,478	149	175,329	140.81%	245,999	24,600	88,007	749,579	133,392	1,096,780		
21	2047	14,178,608	5,637,278	8,541,330	177,233	149	177,084	140.81%	248,461	24,846	88,888	767,948	134,727	1,129,039		
22	2048	14,320,394	5,693,651	8,626,744	179,005	149	178,856	140.81%	250,948	25,095	89,778	785,184	136,075	1,159,308		
23	2049	14,463,598	5,750,587	8,713,011	180,795	149	180,646	140.81%	253,459	25,346	90,676	801,357	137,437	1,187,711		
24	2050	14,608,234	5,808,093	8,800,141	182,603	149	182,454	140.81%	255,996	25,600	91,584	816,533	138,812	1,214,361		
25	2051	14,754,317	5,866,174	8,888,143	184,429	149	184,280	140.81%	258,558	25,856	92,501	830,772	140,201	1,239,367		
26	2052	14,901,860	5,924,836	8,977,024	186,273	149	186,124	140.81%	261,145	26,115	93,427	844,133	141,604	1,262,831		
<b>TOTAL =</b>									<b>5,713,439</b>	<b>571,344</b>	<b>2,132,279</b>	<b>844,133</b>	<b>3,009,816</b>	<b>1,262,831</b>		

Key Assumptions for Cash Flow:

- Original Tax Capacity Rate estimated based on Taxes Payable Year 2023.
- Election for captured tax capacity is 100.00%
- Captured Tax Capacity is net of Base Tax Capacity calculated based on estimated TMV for 7.26 acres (portion of existing parcel) = \$11,921.
- Present value (PV) is calculated based on semi-annual payments, 7.50%, and date of 6/1/2026 for Phase 3 and 6/1/2028 for Phase 4.
- Payment dates to the Developer are Aug 1 and Feb 1. Feb 1 payment is made from second half tax settlement collected in prior year.
- All amounts are estimates. Actual amounts will vary.
- TMV is based on estimated housing units per phase at average taxable market value of \$70,000 per unit (in today's dollars). Phase 3 includes 66 units and Phase 4 includes 100 units.
- TMV average value per unit is estimated to increase (inflationary) by 1.0% annually.
- State Auditor fee is 0.36% of the total tax increment collected within the TIF District.
- Phase 3 is assumed to commence in 2025, with 75% completion and 100% completion in 2026. Phase 4 is assumed to commence in 2027, with 50% completion and 100% completion in 2028.
- City to elect year 2027 as the first year of tax increment collection.