

Memorandum

Date: 11/06/2001
 To: The Honorable Mayor and City Council
 From: Tim Moerman, City Administrator
 Re: Introduction of the Northbridge Urban Renewal Project

Background

The City Council adopted developing a "Vibrant Downtown Area" in its Five-Year Goals this July. Additionally, the City Council adopted priorities for the next year that focus on downtown development. The accomplishment of these actions will ensure that the Five-Year Goals are achieved. *A copy of the City Council goals is attached.* The actions are to:

- Develop strategies for growth and development
- * Approve and implement a tax increment finance policy for economic and community development
- ↘ Review and implement the recommendations of the Downtown Development Strategy Committee *FORGIVEABLE LOANS FOR BLDG RESTORATIONS*
- Ensure that retail grocery services are offered in the downtown

Discussion

In response to the City Council goals and priorities, City staff has been working on several initiatives in the community. The first to be completed is the realignment of the Community Growth tax increment district that will encourage growth in the downtown. City staff has also been working on a major redevelopment project that will address the important priorities for improving the downtown through the strategies for growth and development and ensuring of retail grocery services.

The major redevelopment project City staff would like to introduce to the community is called the Northbridge Urban Renewal Project. This project involves the redevelopment of three and one-half blocks of property on Federal Avenue going north of 4th Street. It is the culmination of the efforts of many different people who shared a vision of how to make a stronger downtown. I appreciate their work to develop the concept of this project.

The project will provide opportunities for development of potential uses for housing, a grocery store, a pharmacy, a bank, a restaurant, or other retail services. The estimated investment in new property in the project area is \$9.2 million. The net increase in investment is \$7 million. *A copy of a design map is attached.* The project will require City acquisition of the property and removal of the structures. The estimated cost to acquire

the property, relocate owners and tenants and prepare the site is \$5.2 million.

The City has received a letter of intent from Fareway Stores for the construction of a new 25,000 square foot grocery store. City staff has met with persons interested in developing the property west of Federal Avenue and on the north portion of the property east of Federal Avenue. There is a strong interest in developing in the project area. Plans are to work with people interested in developing in the project area and accept development proposals for the property over the next few months. *A copy of the letter is attached.*

The development of the Northbridge Urban Renewal Project will be conducted in two phases. Phase I is the area east of Federal Avenue and Phase II is the area west of Federal Avenue. Property acquisition and site preparation for Phase I will begin in the next couple months. Design for the reconfiguration of the north bound Highway 65 will begin in early 2002. Plans are to have the site for Phase I of the project prepared by September 1, 2002 and the roadway reconstructed by late 2002. Phase II of the Northbridge Urban Renewal Project will begin in the Spring/Summer of 2002.

The Northbridge Urban Renewal Project will require a significant investment by the citizens of Mason City. There will also be some hardship on the persons who live or work in the project area. The City will try to minimize the negative impact on these people. However, the Northbridge Urban Renewal Project will create many benefits that will outweigh the costs. The Northbridge Urban Renewal Project will:

- ensure that there are retail grocery services in the downtown
- add new retail services and housing opportunities for both people on the north side of the community and throughout Mason City
- create a core of services that has the capacity to attract additional businesses that benefit from the increase in traffic
- increase the tax base of the City
- stabilize the valuations of properties near the project
- increase the potential of properties on Federal Avenue between Northbridge and Southbridge

The cost of acquiring the properties, relocating owners and tenants, preparing the sites for development, and making the roadway and utility improvements are estimated at \$5,200,000. The City will be marketing the property at a price similar to that in other parts of the community. The estimated revenues from the sale of land are \$800,000.

City staff has been working with the Iowa Department of Transportation on their participation in the cost of improving Highway 65 and estimate their contribution to the cost at \$500,000. Plans are to use \$300,000 from the Road Use Tax Fund toward the street improvements. The remaining amount of approximately \$3,400,000 will be financed through tax increment financing. The City will issue \$3,400,000 in bonds and make the payments with the tax increment property tax revenues from the new investment and from the rest of the Community Growth tax increment district. Every effort will be made to have signed development agreements for the entire project area prior to the sale of the bonds.

City staff has attempted to contact all of the property owners within the project area to inform them of the City's plans prior to the information being released to the public. Unfortunately, all property owners cannot be contacted simultaneously and news of the project was made to some property owners before others. I apologize to property owners who found out about the project before we could give them the details.

A project of this magnitude will require the City to acquire professional services for appraising the properties in the project area, property acquisition, demolition, and other associated services. The City has been working with Yaggy Colby Associates for some time on this project including time before I came to Mason City. Yaggy Colby Associates has the knowledge of the project and the ability to provide the necessary services. The estimated fees for professional services range from \$32,500 to \$43,000. However, fees will be based on a per hour basis. *Attached is a copy of the contract for professional services for the Northbridge Urban Renewal Project.*

Recommendation

I respectfully recommend City Council approval of the Northbridge Urban Renewal Project. Additionally, I recommend City Council approval of a professional services contract with Yaggy Colby Associates.


Tim Moerman

CC: H. P. Folkers, City Attorney
Ron Fiscus, Yaggy Colby Associates
Dirk Jablonski, Public Works Director
Kevin Jacobson, Finance Director

MINUTES
COUNCIL WORKSESSION

The City Council of the City of Mason City met in worksession pursuant to law and rules of said Council, in the Mason City Room of the Mason City Public Library, at 6:00 P.M., on November 19, 2002. The meeting was called to order by the Mayor and on roll being called there were present, William P. Schickel, Mayor in the Chair, and the following Council Members: Snell, Foster, Henry, Jaszewski, Nelson. Absent: Bang (arrived 6:08 P.M.)

ALSO PRESENT: Administrator Moerman, Finance Director Jacobson and Deputy Clerk Black.

The Mayor stated the purpose of the meeting was to hear a presentation on a Fund Reserve Policy and Guidelines on the use of Tax Increment Financing.

FUND RESERVE POLICY

Finance Director Jacobson outlined the five guidelines which were as follows:

General Fund

1. A positive cash balance should be shown in the general fund at the end of the fiscal year. At a minimum, the balance should be 40% of general fund appropriations for the succeeding fiscal year in order to provide adequate cash flow and emergency cash funding. Spending should be adjusted to maintain such a balance.
2. Restricted cash reserves should not be used to finance routine operating expenses that exceed budgeted levels.
3. Cash reserves should not be used to finance capital projects unless those reserves were specifically earmarked for that project.
4. Revenue will equal or exceed expenditures for each budget year. Expenditure estimates will be made equal to or less than expected revenues to accomplish that goal.
5. Unrestricted cash reserves, not to exceed 5% of the projected year end level, may be used to keep the tax levy rate from increasing in the net fiscal year.

Other Operating Funds:

1. The City will assemble sufficient cash reserves in operating funds for working capital so that short term cash flow financing is not required. The cash reserve will be no less than 30% of the next year's operating budget. Other operating funds are defined as the road use, employee benefit and enterprise funds.

Explanations were provided for each guideline and discussion followed regarding restricted, signature, and undesignated funds.

Jaszewski stated he would feel more comfortable with a 50% cash reserve policy. Bang referred to the signature funds and mentioned the restoration of the Park Inn/City National Bank building noting it was good to plan ahead and have reserve funds available. Nelson questioned what was available for non-budgeted items with Jacobson responding that since there was no formal policy what was available was the \$7 million dollars less restricted funds.

Moerman emphasized the idea of the signature fund was not to spend the money, rather to reserve the money for an opportunity.

Foster asked if Jacobson was comfortable with the percentages. Jacobson responded that he was conservative, like Moody's Investor Services and liked to see more money held back advising 40% was a good base. Moerman pointed out the goal of the fund balance was to make financial stability, not to accumulate as much money as possible, because it was all tax money, and staff felt 40% would provide solid, financial stability without taking more money from the taxpayers than should be.

Bang stated the City was in excellent financial condition due to the prudent financial management of this and previous administrations and thanked them for that. He understood the City could borrow 5% of the 100% assessed valuation which would be \$1.2 billion dollars. He stated the legal limit was approximately \$62 million dollars noting the City was currently around \$14 million, which would indicate the City was in excellent shape. He also stated he did not think there was anything wrong with appropriate use of debt.

Nelson asked if there was enough money set aside for the 12th Street Underpass and the other Capital Improvement Projects with Jacobson stating staff was reviewing setting aside an additional \$500,000 by the end of the fiscal year so there would be \$5 million available with plans to increase that a little each year. He also stated staff had identified approximately \$400,000 a year for five years towards capital projects and at the next budget session staff would bring forth additional projects that would be paid with those particular funds.

Snell asked what the percentages had been in the past with Jacobson stating anywhere from 55% to 65%.

It was the consensus of Council that staff work on three different options (different percentages) for review at the next Council Meeting.

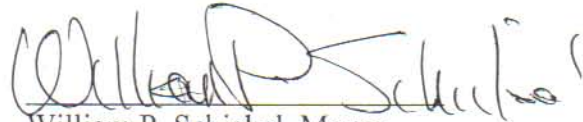
➔ **Guidelines on the Use of Tax Increment Financing:**

Moerman stated he had put together guidelines for making decisions which were as follows: Higher number of jobs, higher level of wages, increase in the number of industrial jobs, increase in the number of office jobs, increase in the number of technology related jobs, increase in the diversity of jobs to the community, increase in the amount of new payroll dollars that come from outside of the community, larger amount of capital investment, larger amount of taxable valuation, lower usage of City services, higher reuse of land near the core of the community, more competitive development cost on land near the core of the community and number of infrastructure improvements that prepare strategic areas for future development.

Foster requested more "teeth" in the guidelines such as assurance of financial stability and suggested following DED's example. Nelson concurred and mentioned the possibility of a rating system, evaluation, and formal application.


It was the consensus of Council that staff work on the guidelines (provide a narrative on what should apply and a logical rationale) and bring it back to the Council at a later date.

There being nothing further to discuss, the Mayor adjourned the meeting at 6:55 p.m.



William P. Schickel, Mayor

ATTEST:



Tim Moerman, City Clerk

Council Member Foster requested the Administrator's word that staff would follow the same guidelines already approved at other Council Meetings as far as the development end with Bird-sall's and Clausen's with Administrator Moerman stating if he (Foster) meant the same good faith effort or intentions about acquiring the property, then, absolutely, explaining staff's goal was to help people stay successful.

Council Member Bang asked if what was being approved tonight was basically the appraisal values with Administrator Moerman concurring.

The Mayor pro tem called the question and the following resolution was introduced:

Reso. 03-11, (ADOPTED):

Resolution No. 03-11, establishing fair market value and just compensation and authorizing staff to negotiate acquisition and relocation for the Realignment Phase of the Northbridge Urban Renewal Project in the City of Mason City, Iowa, was presented.

On roll call, the vote was as follows:

Yea: Jaszewski, Snell, Foster, Bang, Nelson, Henry
(Motion was declared carried.)



21. Guidelines for Use of TIF:

The following communication had been submitted regarding approval of the Guidelines for the use of Tax Increment Finance in Economic and Community Development Projects;

City Administrator Moerman:

"The City Council directed City staff to prepare guidelines for the City Council for use in determining the use of tax increment financing for economic and community development projects. A City Council work session on the topic was held on November 19, 2002 to review a draft of the guidelines and provide feedback for use in a final draft of the proposed guidelines. The primary feedback received from the City Council related to providing a level of comfort for the City Council that the company receiving the financial incentive package has the capacity to remain a going business in Mason City for the foreseeable future. Language has been included in the new draft that addresses this feedback. The guidelines for the use of tax increment finance for economic and community development projects includes the six major areas of:

1. Creation of Urban Renewal Districts
2. Goals of Urban Renewal Plans
3. Objectives of Urban Renewal Plans
4. Guidelines for Using Tax Increment Financing
5. Application of the Guidelines
6. Analysis of Financial Condition



Creation of Urban Renewal Districts: The Iowa Legislature enacted legislation that promotes economic development in cities through the use of Urban Renewal Districts for private or joint public and private investment involving the creation of new jobs and income or the retention of existing jobs and income that would otherwise be lost.

Goals of Urban Renewal Plans: The City of Mason City has established Urban Renewal Districts for the purpose of promoting and encouraging economic and community devel-

opment. The intent of the Urban Renewal Plan is to:

- foster economic development through public improvements
- encourage expansion of existing business and industry
- make land sales more competitive and marketable in the area of the urban renewal plan

Objectives of Urban Renewal Plans: The objectives for the development within the urban renewal areas are to:

- stimulate through public action and commitment, private investment in new industrial and commercial development and redevelopment
- plan for and provide sufficient land for new development in a manner that is efficient from the standpoint of providing municipal services
- help finance the cost of constructing street, water, storm sewer and sanitary sewer improvements in support of new development
- provide a marketable and attractive investment climate

Guidelines for Using Tax Increment Financing: The use of tax increment finance funds for the expansion of private business requires thoughtful consideration by the City Council. It is the obligation of the City Council to determine if (1) *the amount of funds provided for private businesses* or (2) *the investment on the preparation of property for future development will generate a greater amount of gains and benefits for the public*. The determination of whether the amount of public gain is greater than the cost to the public will vary for each development proposal. There will be projects that have a high capital investment that do not have a large number of jobs. A project may add diversity to the job mix in the community, but may not have high wages. Another project may not have identified job creation, but may prepare the community for future economic development opportunities. The City Council must consider if the amount of benefit to the community will be greater than the amount of the financial incentive package or the amount of investment in new infrastructure. The City Council has determined that there are several factors that are important in creating economic growth in the community. They are the foundation for City Council deliberation on whether an economic development incentive package is good for the citizens of Mason City. The City *Tax Increment Finance* that it values proposals for the use of tax increment Council has determined in developing the *"Guidelines for the Use of finance* in projects that produce some or all of the following benefits for the community through a (an):

- Higher number of *jobs*
- Higher level of *wages* *
- Increase in the number of *industrial jobs*
- Increase in the number of *office jobs*
- Increase in the number of *technology related jobs*
- Increase in the *diversity of jobs* to the community
- Increase in the amount of *new payroll dollars* that come from outside of the community
- Larger amount of *capital investment*
- Larger amount of *taxable valuation*
- Lower usage of City services
- Higher *reuse of land* near the core of the community
- More *competitive development cost* on land near the core of the community
- Number of infrastructure improvements that *prepare strategic areas* for future development

* The guidelines will use the State of Iowa's concept for awarding financial incentives for business development. The guidelines include a provision that the average wage or

compensation must be equal to or greater than 90% of the average income of Cerro Gordo County in order for a business to qualify for a City economic development incentive package. The State of Iowa's CEBA program has a wage requirement of 90% of the average income of the County. For 2003, the wage would be \$10.13 per hour. Like the State of Iowa, the business must also offer a comprehensive benefits package to employees. The level of the incentive package would potentially increase with higher levels of wages.

Application of the Guidelines: The City Council must consider how each economic development incentive proposal benefits the community. The City Council must determine how each proposal adopts the City Council's values as described above. The City Council should ask the question, "Does this economic development incentive package produce a: higher number of *jobs*, higher level of *wages*, increase in the number of *industrial jobs*, increase in the number of *office jobs*, increase in the number of *technology related jobs*, etc. The answers to the questions will provide the City Council guidance in weighing the benefits that are proposed in an economic development incentive package against the benefits to the community of the economic development project.

Analysis of Financial Condition: The City should have a reasonable assurance when it provides an economic development incentive package to a company that the company has the financial capacity to provide the new jobs to the community for the foreseeable future.

This reasonable assurance can be determined through one or more of the following actions:

- Dunn and Bradstreet credit analysis of the company
- Review of the business plan of the company
- Overview of activities of companies under the same corporation
- References/testimonials from customers of the company

The review would be provided in confidence to members of the City Council. I respectfully recommend City Council approval of the "Guidelines for the Use of Tax Increment Finance".

Administrator Moerman outlined the recommendation.

It was moved by Snell and seconded by Bang that Resolution No. 03-12, be adopted.

Council Member Nelson stated his main concern was the over-use of TIF which could extend the City's debt far into the future, create budget problems that would reduce City services, and ultimately affect the local property taxes.

Council Member Foster stated he thought the City should be using the same guidelines as the State, commenting on 'office jobs', with Administrator Moerman providing clarification.

Council Members Foster and Nelson expressed concern that the guidelines did not have a provision regarding documentation that would show the financial stability of a company with Council Member Bang suggesting a fifth bullet under the Analysis of Financial Condition, to read 'review of financial statement'.

It was moved by Bang and seconded by Snell to add a fifth bullet under the heading of Analysis of Financial Condition to read, "review of financial statement".

The Mayor pro tem called the question on the amendment. On roll call, the vote was as follows:

Yea: Bang, Snell, Foster, Henry, Jaszewski, Nelson
(Motion was declared carried.)

The Mayor pro tem called the question, and on roll call, the vote was as follows:

➔ **Reso. 03-12, (ADOPTED):**

Resolution No. 03-12, approving guidelines for the use of Tax Increment Finance in Economic and Community Development Projects for the City of Mason City, Iowa, was presented.

Yea: Snell, Bang, Henry, Nelson, Jaszewski, Foster
(Motion was declared carried.)

22. Corrections to the Water Rate Ordinance:

The following communication had been submitted regarding approval of corrections to the Water Rate Ordinance;

City Administrator Moerman:

"The City Council adopted changes to the water rates through an ordinance on November 5, 2002. The language of the ordinance did not reflect the intent of the City Council. There are three corrections that need to be made in the final language of the ordinance. The first is that the date of the ordinance needs to be changed to January 1, 2003. The second is that the final tier of the rate schedule for over 3,000 cubic feet of usage needs to be a net of \$.917 and a gross of \$1.019 for July 1, 2003 and a net of \$1.147 and a gross of \$1.274 for July 1, 2004. The third change is to have the water meter charge for a 1 ½ inch line to read \$53.52. I apologize for the needed corrections and respectfully recommend City Council approval."

It was moved by Jaszewski and seconded by Snell that the ordinance be received and placed on file, that the requirement of two previous receipts and filings be suspended and Ordinance No. 03-1, be adopted.

Council Member Foster asked what would happen if someone was out of town for a length of time and did not utilize water with Administrator Moerman advising there was a minimum bill of \$8.00 whether or not water was used.

The Mayor pro tem called the question and the following ordinance was introduced.

This ordinance had been posted in the foyer of City Hall.

Ord. 03-1, (ADOPTED):

Ordinance No. 03-1, repealing Ordinance No. 02-19 amending the 2000 City Code of the City of Mason City, Iowa, Subsection A and Paragraph 1, Subsection B, Title 6, Chapter 1, Article A, Section 1 in their entirety and adopting a new Subsection A and Paragraph 1, Subsection B in lieu thereof to establish new water rates and charges, was presented.

On roll call, the vote was as follows:

Yea: Jaszewski, Snell, Henry, Bang, Nelson, Foster
(Motion was declared carried.)