CITY OF COLUMBUS
ECONOMIC DEVELOPMENT AUTHORITY MEETING
April 10, 2013

The April 10, 2013 Economic Development Authority meeting for the City of Columbus was called to order at 6:04 p.m. by President Dave Povolny at the City Hall. Present were EDA Commissioners Tracie Wilson, Denny Peterson, Jessie Messina, Bill Krebs; and Jeff Duraine, Executive Director Elizabeth Mursko; Attorney Bill Griffith, Jr., Planner Dean Johnson, Engineer Larry Bohrer and Assistant Secretary Emmy Robinson.

Also in attendance: Tammy Omdal, Northland Securities, Pat Preiner, Jesse Preiner.

Absent: None.

APPROVAL – MINUTES March 13, 2012
Motion by Peterson to approve the Minutes of the March 13**,** 2012 EDA meeting as written. Second by Krebs. Motion carried.

AGENDA APPROVAL
Motion by Krebs to approve the Agenda presented. Second by Peterson. Motion carried.

NEW BUSINESS
Presentation: Fiscal Disparities (FD) Memo **(Pages 1-4)** (Northland Securities - Tammy Omdal)

The City Administrator introduced Tammy Omdal and explained that she is the City's financial expert. Ms. Omdal previously worked at a city and understands both sides of the financial picture. The purpose of the presentation is to clarify how fiscal disparities are calculated and how population and market value (commercial vs. residential growth) impacts this.

A memo dated February 12, 2013 regarding Impact of Fiscal Disparities was included in the agenda packet. Tammy Omdal reviewed the plan at this time. (A copy of the memo follows the minutes.)

Ms Omdal began by explaining that she was asked to address two questions posed by the City Administrator.

1. What impact if any does a change in population have on the city's local property tax rate and that is impacted by fiscal disparities? How does this impact the city's contribution and distribution for the city.

The per capita value for a city is a factor and makes a difference in respect to distribution. For Columbus, compared to other metro cities, the per capita value is higher. Therefore the distribution (dollars the city gets back) is less than what the city contributes. The change in population does matter in the tax rate, but it is relative to what else happens to population across the other metro cities that are within the fiscal disparities pool.

2. **What impact does an increase in CI value have on the city's local property tax rate compared to a similar increase in residential value? (Impact in change of property values on fiscal disparities)**

The amount contributed (40%) is static for all cities that are in the fiscal disparities pool. If there is residential development, increased value and increased population growth that goes along with increased value, assuming what happens in the rest of the cities in the pool, may help the city get more back.

The following graph was displayed at this time and reviewed by Ms. Omdal.

PRELIMINARY - For discussion purposes only

City of Columbus, MN
Estimated Impact of Fiscal Disparities on City Tax Rate
Comparison of Base Year (2012) to Different Scenarios

Calculation of City Property Tax Rate	Base Year	No Fiscal Disparities Program	Commercial Example	Residential Examples	
			$5M of Additional CI Value	$5M of Additional Res Value and No Change in Population	$5M of Additioanl Res Value and Population Increase of 80
Population	3,914	3,914	3,914	3,914	3,994
Certified Levy	$1,999,270	$1,999,270	$1,999,270	$1,999,270	$1,999,270
Less FD Distribution	($152,241)	$0	($150,862)	($150,847)	($157,063)
Spread Levy	$1,847,029	$1,999,270	$1,848,408	$1,848,423	$1,842,207
Original Gross Tax Capacity	$5,033,928	$5,033,928	$5,033,928	$5,033,928	$5,033,928
Plus Gross Tax Capacity from New Vaue	$0	$0	$99,250	$50,000	$50,000
Less FD Contribution	($787,479)	$0	($827,179)	($787,479)	($787,479)
Net Tax Capacity	$4,246,449	$5,033,928	$4,305,999	$4,296,449	$4,296,449
City Tax Rate (Spread Levy/Net Tax Capacity)	0.4350	0.3972	0.4293	0.4302	0.4288
% Incr/(Decr) from Base Yr		-8.69%	-1.31%	-1.09%	-1.42%

Note:
Figures above are approximate and intended for comparative purposes. Metropolitan area-wide factors were held constant for the purposes of estimating impact of changing value and population for the purpose of the scenarios above. Changes that occur in other cities in the metropolitan area does impact the fiscal disparity distribution to the City of Columbus.

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2/11/2013

The Base Year column has real figures for pay 2012. Population is not a factor with respect to calculating the property tax rate. The City certifies it's levy and that certification gets reduced by the distribution for fiscal disparities. The gross tax capacity is reduced by the FD resulting in the "net tax capacity"; this is how the City Tax rate is calculated, which is .4350% and was the real number for 2012.

The other examples "Commercial" vs. Residential were reviewed at this time. Business owners pay based on the same local tax rate, but a portion of their value isn't taxed locally it gets taxed at the fiscal disparities rate. The city then gets a portion of that back, however the city contributes more tax base than is received from the pool. This scenario resulted in a city wide tax reduction of 1.31%. The following columns were residential examples, the first with no population change vs. a population increase of 80.

In the example the same Gross Tax capacity was used yet it results in different city tax rates as there is a difference between how much of the total value is taxable for residential vs. commercial property because of class rates.

Ms Omdal summarized the charts as follow:
Does Change in population have any impact on FD?
Yes it does, because it impacts the per capita value.

Does adding commercial value have a greater impact on the city's local tax rate than adding residential value?
The residential value with population growth would have a greater impact reduction on the city's local tax rate than adding a similar value increase for commercial property.

The Attorney added that many cities who are net contributors go through this exercise and determine they should have a balanced tax base between residential and commercial and there might not be much benefit in adding commercial, however this example shows there is significant benefit to adding commercial even though the city has to export some of that to the pool.

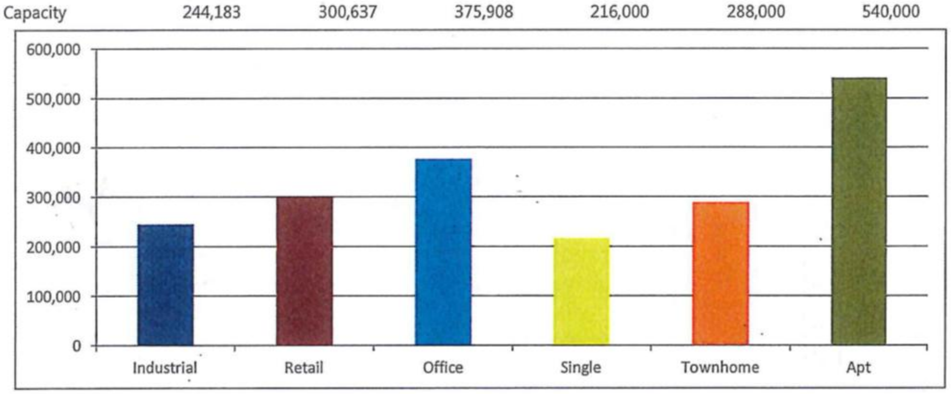
Ms Omdal added that there are other economic development reasons to look at other land uses, commercial development, jobs and other aspects of residential development and not looking at fiscal disparities alone.

The following chart was displayed at this time and reviewed.

Estimates Provoided to City of Columbus, MN, For Illustration Only

Tax Capacity From Alternative Land Uses

	Industrial	Retail	Office	Single	Townhome	Apt
Acres	24	24	24	24	24	24
Lot Coverage/Density	30%	30%	30%	3	6	12
Development (SF or Units)	313,632	313,632	313,632	72	144	288
EMV per SF or Unit	65	80	100	300,000	200,000	150,000
EMV	20,386,080	25,090,560	31,363,200	21,600,000	28,800,000	43,200,000
Tax Capacity	406,972	501,061	626,514	216,000	288,000	540,000
Fiscal Disparities	40%	40%	40%	0%	0%	0%
Net Local Tax Capacity	244,183	300,637	375,908	216,000	288,000	540,000



Ms Omdal explained that this chart illustrates tax capacity from Alternative land uses and uses 24 acres of land for development.

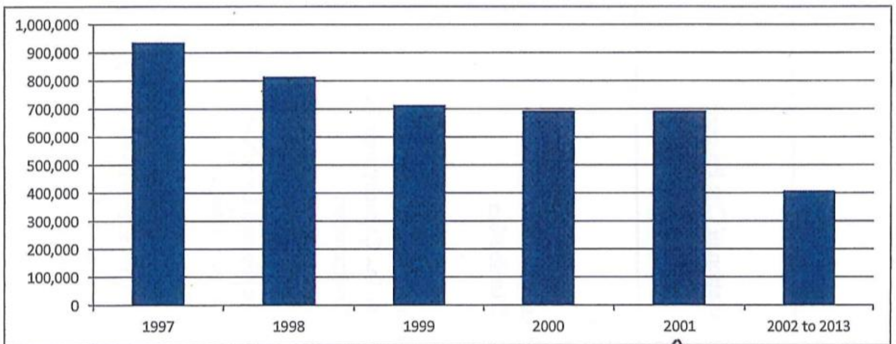
The illustration shows that developing CI property even with FD is clearly a local benefit to the city. In addition single family housing results in the lowest net local tax capacity even without FD.

The Attorney added that the residential densities above reflect properties where utilities are available (sewer/water). In the 5 acre septic/well sites the density is much lower, and the number of units would be much less.

The next chart focuses on commercial industrial property only.

Changes in Commercial-Industrial Tax Rates/Values

	1997	1998	1999	2000	2001	2002 to 2013
Acres	24	24	24	24	24	24
Lot Coverage/Density	30%	30%	30%	30%	30%	30%
Development Area (SF)	313,632	313,632	313,632	313,632	313,632	313,632
EMV/SF	65	65	65	65	65	65
EMV	20,386,080	20,386,080	20,386,080	20,386,080	20,386,080	20,386,080
Tax Capacity Rates						
Threshold	150,000	150,000	150,000	150,000	150,000	150,000
Tier 1	3.00%	2.70%	2.45%	2.40%	2.40%	1.50%
Tier 2	4.60%	4.00%	3.50%	3.40%	3.40%	2.00%
Tax Capacity Value	935,360	813,493	711,938	691,627	691,627	406,972



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The legislature has changed classification rates which changes the amount of value commercial/industrial property is subject to taxes. In 2001 there were major changes at the legislature and that is when state property tax was introduced. Commercial property is subject to local property taxes plus the state property taxes, residential property is not subject to the state property tax.

Questions:

When do commercial taxes take affect if an area is rezoned from residential to commercial?

The change occurs when the use changes. If a house is in a commercial zoned area the use is still residential and the use would be based on a residential formula, but the value of the land is based on zoning (at a commercial rate). A residential home in the commercial district would not be paying fiscal disparities. The tax (on the land portion) is based on the highest and best use of the land. (Not the use)

Does it hurt us to have the 5 acre minimum?

That has no impact on fiscal disparities. A goal that has been discussed in the past was getting to a population of 5,000 to allow the city to recover monies for gas tax.

There was discussion and examples given at this time regarding the effects on tax payers if the FD program was eliminated. It was explained that even without the program the tax owed would not be significantly reduced for Columbus businesses because Columbus has been a net contributor, however in other communities that are net gainers, those tax payers would see a significant increase in their tax bill.

A comment was made that if another business comes into Columbus all the other businesses would be penalized and their FD taxes would increase.
Ms. Omdal said that is possible, but this is dependent on what happens in the other cities in the pool.

The pool is sensitive to factors such as what cities are growing, not growing, declining populations, etc. The calculation is fluid and dependant on these other factors within the pool cities. It was re-iterated that the calculation is dollars per capita.

Council Member Messina asked whether the increase of fiscal disparities is due to the short sell by the casino (Running Aces Harness Park Race Track)?
This changed the city's tax capacity. A tax appeal was filed, which any property owner can do. There was discussion regarding how the tax appeal for the race track occurred. The Attorney explained that this happened when there was a change in ownership (not a short sell) and when the facility was compared to other race tracks the value was decreased. It had nothing to do with a short sell. Every year the values are reviewed. The population adjusts every 10 years.

The EDA is trying to figure out how to proceed and how to balance commercial and residential. Should the city add apartments, etc.?
Growing value through residential property with population growth would benefit the city, however will not benefit the overall economic development goals for the city. Economic Development planning doesn't simply revolve around fiscal disparities.

The Attorney added that an Economic Development principal that developed over time is cities that grow consistently and mange their infrastructure and their debt, grow in a balanced approach, and develop commercial areas manage to do better than those that grow residentially only. Being a net contributor should not stop the city from adding growth commercially (CI) and residentially.
There is a set area wide rate (that fluctuates from year to year) for the pool and is different than residential and commercial tax rates. Property values are higher in Columbus partly because of the larger acreage lots, some cities have high value homes with very little commercial but may have higher need for services resulting in higher taxes.

A tax statement sample was displayed at this time that showed a FD line. It was noted that if fiscal disparities didn't exist the amount on the FD line would be distributed between the other taxing authorities. (not necessarily dollar for dollar but very close to the same amount). The fiscal disparities amount would be distributed over the other taxing entities and the 40% that would have gone to FD would go to the other levy authorities.

The EDA Thanked Ms. Omdal for the examples and her work. The City Administrator said Ms Omdal will be back next meeting for the TIF discussions.

OPEN BUSINESS

Business Retention & Expansion Program Update **(Handout at Meeting)**

At the last EDA meeting the EDA asked for an alternative to the full BR&E program due to the amount of time and volunteers needed for the program. The City Administrator spoke with Hugo regarding hours they put into their BR&E and they had an intern and for 1 year half their time was dedicated to the BR&E program.
The Planner, City Administrator, Mike Darger with the University of Minnesota and Duane Arens with Connexus had a conference call and decided a tool program would be appropriate. The City Administrator distributed a handout for an alternative BR&E program which resulted from the conference call and reviewed it at this time. There would be four group meetings, the U of M would be the organizer of the meetings and would consolidate the data from these meetings. The

EDA would then prioritize the goals from the focus group meetings data. This could also include residents. The budget was outlined in the handout.

Motion HRA 00500 by Peterson to adopt the proposal for the BR&E program presented in the handout distributed tonight. Second by Messina. Votes as follows: Wilson - aye; Peterson - aye; Messina - aye; Duraine - aye; Krebs - aye; Povolny - aye. Motion Carries.

Website Production

EDA members should schedule time with LATV for their videotaping sessions.

2013 Goals **(Page 5)**

An updated 2013 EDA Goals sheet was included in the agenda packet.

Entrance Columbus Signs

This topic will be continued to the next meeting.

COMMISSION OPEN DISCUSSION

No other topics were discussed.

EXECUTIVE DIRECTOR'S REPORT

Treasurer's Report

100 EDA General Fund Loan	$617,167.17
240 EDA Fund	$18,131.81
480 EDA Quad 35 Project Fund	$3,096,224.00 (Land Value)
481 EDA Quad 35 Bond Fund	$25.78
482 EDA Quad 35 RESERVE Fund	$419,344.00

Next Meeting Date: May 8, 2013

ADJOURNMENT

Motion by Messina to adjourn. Second by Duraine.

Meeting adjourned at 7:10 p.m.

Respectfully Submitted:

Emilia S. Robinson
Assistant Secretary EDA

NORTHLAND SECURITIES

MEMORANDUM

To: Elizabeth Mursko

From: Tammy Omdal

Date: February 12, 2013

Re: Impact of Fiscal Disparities

The City of Columbus has asked Northland for assistance in analyzing the impact of fiscal disparities on the City's local property tax rate. The City has asked that the following questions be addressed:

1. What impact, if any, does a change in population have on the City's local property tax rate?
2. What impact does an increase in commercial property value have on the City's local property tax rate compared to a similar (same value) increase in residential property value?

To address these questions different scenarios were developed and compared to the base tax year of 2012. The Table in the attachment to this memorandum provides a summary of different scenarios for changing valuation for commercial and residential values and population with a comparison to the base year of 2012.

Impact of Population Change on Fiscal Disparities

A change in population could impact the distribution index for the purpose of calculating the City's distribution of net tax capacity from the fiscal disparities pool. For example, an increase in the City's population, if it decreases the City's per capita property value compared to the metro average, could result in an increase in distribution from the fiscal disparities pool and therefore a reduction in the City's local property tax rate.

Redistribution is based on population and the value of all property relative to the metro average. The smaller the per capita property value compared to the metro average, the larger the distribution. The larger the per capita property value compared to the metro average, the smaller the distribution.

The City's redistribution is impacted by changing population across the metropolitan area. For simplicity of analysis, the analysis shown in the attachment assumes the area-wide population for all other metro cities holds constant. In reality the area-wide population for all other metro cities does change and does impact the calculation of the distribution index for the City of Columbus.

Impact of Change in Property Values on Fiscal Disparities

An increase in property value for the City from new development, whether commercial or residential, will impact the city's local property tax rate. Increased value for residential property accompanied with an increase in population could have a greater impact (reduction) on the City's tax rate compared to the same value increase for commercial property with no change in population; this assumes all other factors are held constant. The benefit or significance of the impact on the tax rate depends on a number of factors, with one of the factors being the growth in population associated with the increase in residential value. It is important to note that the fiscal disparities calculation is a complex one with many factors that influence the outcome, including metropolitan wide factors that are outside of the control of the City.

Under the fiscal disparities program, the City contributes 40% of the growth in commercial/industrial property tax base since 1971 into an area-wide pool. Shared tax base is then redistributed back to the City (as described above in the section on population impact), reducing fiscal disparities.

For taxes payable in 2012, the City of Columbus contributed more tax base to the fiscal disparities pool than it received back in redistribution of tax capacity from the pool. The City has a higher per capita property value compared to the metro average, and therefore receives a smaller distribution. For comparison purposes, adjusting out the impact of the fiscal disparities program, the City's local property tax rate would have been approximately 39.72 compared to 43.50.