



**Inver Grove Heights City Council**  
**Monday, May 6, 2024 at 7:30 PM**  
**8150 Barbara Ave, Inver Grove Heights, MN 55077**

## **AGENDA**

**NOTICE TO RESIDENTS:** Individuals may submit written public comments in advance of the meeting by emailing comments to Rebecca Kiernan ([rkiernan@ighmn.gov](mailto:rkiernan@ighmn.gov)). Comments received prior to 4:00 p.m. on Monday, May 6, 2024, will be provided to the Council at or before the May 6, 2024 meeting.

1. **Call to Order**
2. **Roll Call**
3. **Public Hearing**
  - A. Public Hearing for Body Art License Renewal
4. **Regular Business**
  - A. Request for Financial Assistance for Proposed Multi-Family Residential Development - Agate Trail and 70th St. (*continued from April 22 meeting*)
5. **Adjourn**

This document is available upon a three (3) business day request in alternate formats such as braille, large print, audio recording, etc. Please contact Rebecca Kiernan, City Clerk, at 651.450.2513 or [rkiernan@ighmn.gov](mailto:rkiernan@ighmn.gov).



## Request for Council Action

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**SUBJECT:**        **Public Hearing for Body Art License Renewal**

**MEETING DATE:**    May 6, 2024

**ITEM TYPE:**        Public Hearing

**CONTACT:**         Rebecca Kiernan, City Clerk, 651.450.2513

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### **ACTION REQUESTED**

The Council is asked to conduct a public hearing and consider renewing the Body Art License for MN Beauty Studios LLC.

### **BACKGROUND**

The City has received an application from the following Body Art business seeking to renew its license:

<b>Doing Business As:</b>	<b>Business Address:</b>
MN Beauty Studios LLC	5300 Robert Trl S, Suite 700

The license application submitted by the above-listed business has been reviewed by staff and found to be complete and qualified.

### **FISCAL IMPACT**

N/A

### **RECOMMENDATION**

Staff recommends holding a public hearing and then approving the body art license renewal listed above.

### **ATTACHMENTS**

None



## Request for Council Action

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**SUBJECT:**        **Request for Financial Assistance for Proposed Multi-Family Residential Development - Agate Trail and 70th St. *(continued from April 22 meeting)***

**MEETING DATE:**    May 6, 2024

**ITEM TYPE:**        Regular Business

**CONTACT:**         Kris Wilson, City Administrator, 651.450.2511

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### **ACTION REQUESTED**

The Council is asked to consider a request for financial assistance, in the form of a reduction in utility connection fees, to advance a proposed multi-family housing development on land located at the southwest corner of 70th St. and Agate Trail.

### **BACKGROUND**

**NOTE:** This item was considered at the Council's April 8, 2024 meeting and at its April 22nd meeting before being continued to this meeting to provide staff time to gather additional information requested by the Council.

### **Original Background Information**

The City Council previously approved a Planned Unit Development (PUD), often referred to as the "Peltier Development", that includes a number of single family residential units, a small city park and an apartment building on land east of Argenta Trail and south of 70th St. in the northwest area (NWA) of Inver Grove Heights. Some of the single-family housing units have been built, and the city park was substantially completed in 2023. The developer of the land - Builders Lot Group - is now looking to sell the lot platted and approved for an apartment building to a company called Yellow Tree Development, who is proposing to build on the site. However, Yellow Tree Development is seeking financial assistance, in the form of a fee reduction, to make the project financially viable. They are noting the substantially higher than normal utility connection fees established for the NWA of Inver Grove Heights as the reason the project would not be built "but for" some type of financial assistance. This has been common feedback to City staff over numerous years - that the utility connection fees established for the NWA - particularly for multi-family residential development - are cost prohibitive.

At its January 8, 2024 meeting, the Council received a presentation from staff regarding this ongoing issue and discussed the possibility of providing some form of financial assistance to multi-family residential projects in the NWA in acknowledgment of the fee impacts. That discussion included an overview of tax abatement, which is a form of financial assistance utilized by the City when the Crossings apartment building was constructed on 80th Street, as well as examples of the fee differential between the NWA and the remainder of Inver Grove Heights. The staff memo from that meeting is attached for reference.

Following the January 8 meeting, and based on feedback received from the Council at that time, staff

communicated to multi-family developers actively looking at projects in the NWA that the City may be open to some form of financial assistance and that they should complete the City's application for financial assistance and have it reviewed by the City's financial advisors at Ehlers if they wanted a more formal consideration of such a request. Ehlers evaluates the proposed cost of the development, including those for land acquisition, construction, financing and government fees, and the projected revenue (i.e. rents collected over time) that the project would yield. Ehlers then issues an analysis of whether there is a financial gap likely to prevent the project from advancing and possible reasons why.

Two such applications for financial assistance have been received by the City to date - one of which is from Yellow Tree Development for development of an apartment on the site within the Peltier Development. Ehlers has completed their financial analysis of the project and their report to the City is attached. (The second such application - from a different developer proposing a different project within the NWA - is scheduled to come before the Council at its April 22 meeting.)

The Council is asked to consider the request and provide direction for any next steps. If the Council is supportive of the requests and decides to provide a fee reduction, staff and the City Attorney would prepare a formal resolution for a vote at the next Council meeting.

### **Additional Background Information**

At the April 8, 2024 City Council meeting, the Council asked for additional information regarding:

1. The City's utility connection fees and their relationship to comparable fees charged by other metro cities. *Data the City had hired its financial advisors to collect on this subject back in 2021 is attached to this document.*
2. The status of the City's Water, Sewer and Stormwater Capital Funds, to which the utility connection fees in question are deposited when received. *Five-year projections on both the Water and Sewer Capital Funds are attached.*
3. Data on the sale price of land that is not served by municipal utilities. *Staff was unable to identify valid comparable data of this type.*

At the April 22, 2024 City Council meeting, the Council asked for additional information regarding whether Yellow Tree Development was the subject of any pending lawsuits.

*The City Attorney has reviewed both Minnesota State and Federal District Court records and found that Yellow Tree Development (which is the assumed name of Black Tree, LLC) is not a defendant in any open cases in either Minnesota Federal District Court or State District Court.*

*Yellow Tree Construction Services, LLC, which is a separate legal entity but has the same address and manager as Black Tree LLC, per the Minnesota Secretary of State's Office, has been the subject of complaints to and inspections by the Minnesota Department of Labor and Industry, Minnesota Occupational Health and Safety Administration, and has received citations and penalties as a controlling employer, for 2021 violations of an OSHA fall protection standard and power line safety crane operation standard which were challenged through an administrative hearing at the Office of Administrative Hearings. After the hearing, the Administrative Law Judge affirmed two Citations and Notifications of Penalty in conjunction with two inspections for violations on July 8, 2021, and August 31, 2021, and rescinded the citation and notification of penalty in conjunction with a third inspection. The case status on these two citations remains open per the OSHA website.*

*With respect to matters related to concerns regarding the payment of employees of subcontractors*

*on Yellow Tree Construction job sites, it is worthwhile to note that in 2023, the Minnesota legislature enacted Minnesota Statutes, Section 181.165 which established new wage protection for construction workers. Known as the "wage theft law," the statute holds contractors entering into construction contracts liable for any unpaid wages, fringe benefits, penalties, and resulting liquidated damages owed to a claimant or third party acting on the claimant's behalf by a subcontractor at any tier acting under, by, or for the contractor or its subcontractors for the claimant's performance of labor. A "claimant" is defined as any person claiming unpaid wages, fringe benefits, penalties, or resulting liquidated damages that are owed as required by law. This law makes contractors directly liable for nonpayment of wages by subcontractors, and applies to all construction contracts except those specifically excluded in the statute, which include prevailing wage projects and union projects. A copy of this statute is included in the packet.*

## **FISCAL IMPACT**

Any form of financial assistance would have a fiscal impact to the City, but so would construction of the project.

If constructed, the proposed project would provide homes for approximately 240 new households. This brings new tax base to the City as well as new customers for area businesses.

Financial assistance to the project could come in several forms, but what is evaluated in the attached report from Ehlers is a reduction in utility connection fees to the amount that an equivalent project would pay if built outside the NWA. This results in a \$2,556,447 "reduction" in revenue for the City's Water, Sewer and Stormwater Capital Funds. However, if the project doesn't get built, those funds would receive no revenue at all.

## **RECOMMENDATION**

If the Council wishes to provide the fee reduction requested, it is asked to adopt the attached Resolution.

## **ATTACHMENTS**

1. Resolution Granting Fee Modifications (Yellow Tree Development)
2. Ehlers 2021 Fee Comparison
3. Water Capital Fund 5 year Projection
4. Sewer Capital Fund 5 year Projection
5. Ehlers Memo - Results of Financial Analysis for YellowTree (3-25-24)
6. 2024-01-08 City Council Regular Meeting Memo
7. Minnesota Statutes, Section 181.165

**CITY OF INVER GROVE HEIGHTS  
DAKOTA COUNTY, MINNESOTA**

**RESOLUTION NO. \_\_\_\_\_**

**RESOLUTION APPROVING MODIFIED UTILITY CONNECTION FEES FOR  
THE RESIDENTIAL DEVELOPMENT ON LOT 1, BLOCK 13 IN THE PLAT OF PELTIER RESERVE**

**WHEREAS**, Yellow Tree Development (the “Developer”) has filed a Planned Unit Development Application for Lot 1, Block 13 in the plat of Peltier Reserve; and

**WHEREAS**, Yellow Tree Development intends to develop a single 242 unit apartment building on Lot 1, Block 13, in the plat of Peltier Reserve; and

**WHEREAS**, the property to be developed lies within the Northwest Area of the City and is therefore subject to the utility connection fees for the Northwest Area; and

**WHEREAS**, the proposed plat and development of the land is consistent with the City’s adopted 2040 Comprehensive Plan, without need for amendment; and

**WHEREAS**, the Developer has requested that the City provide financial assistance for the Housing Development in the form of either tax abatement or a reduction in fees to be paid in conjunction with the Housing Development, and

**WHEREAS**, Developer has submitted financial information related to the Housing Development, including development-related costs and the anticipated return on investment, which was requested by the City in connection with the Developer’s application for financial assistance; and

**WHEREAS**, Developer has advised the City that but for the receipt of the requested financial assistance, the Housing Development would not move forward as it would not be financially viable; and

**WHEREAS**, the information supplied by the Developer has been reviewed and analyzed by the City’s financial advisor, Ehlers, and the analysis finds that financial assistance is justified in order to make the Housing Development financially viable; and

**WHEREAS**, the City Council finds that it is unlikely that the property would develop in conformance with the City’s Comprehensive Plan at this time but for receipt of the requested financial assistance; and

**WHEREAS**, the City Council, having reviewed the information provided by the Developer and the report prepared by Ehlers, has determined that the provision of financial assistance in the form of a reduction of certain sewer and water plat and building connection fees for the Housing Development will serve a public purpose, namely facilitation of the Housing Development and related retail side development.

**NOW THEREFORE, BE IT RESOLVED** by the Inver Grove Heights City Council as follows:

1. The utility connection fees for the Housing Development to be located Lot 1, Block 13, in the plat of Peltier Reserve, namely the: 1) water plat connection fees; 2) water building permit connection fees; 3) sanitary sewer plat connection fees; 4) sanitary sewer building permit connection fees; and 5) stormwater plat connection fees shall be charged at the rates found in the City Code and Fee Schedule for Land Outside the Northwest Area. The rates charged to the Developer shall be those in effect at the time that the Developer is required to pay the fee.
2. All other fees required to be paid with respect to the development of Lot 1, Block 13 in the plat of Peltier Reserve shall be at the applicable rates as established by City Code, Resolution or Council-adopted fee schedule.
3. This fee reduction shall be incorporated into a Development Contract for Lot 1, Block 13 in the plat of Peltier Reserve
4. This fee reduction shall apply only to the development of Lot 1, Block 13 in the plat of Peltier Reserve by the Developer in accordance with the approved Preliminary Plat and Plan Unit Development Plan, and the Final Plat and Final Planned Unit Development Plan and is nontransferable.
5. This fee reduction shall expire and be of no further effect unless a Development Contract for Lot 1, Block 13 in the plat of Peltier Reserve between the City and the Developer is executed and the fees outlined in Paragraph 1 above have been paid on or before May 1, 2026.

Approved by the City Council of the City of Inver Grove Heights, Minnesota this 22<sup>nd</sup> day of April, 2024.

\_\_\_\_\_  
Brenda Dietrich, Mayor

ATTEST:

\_\_\_\_\_  
Rebecca Kiernan, City Clerk

# Memo

**TO:** Mayor and City Council  
**FROM:** Kris Wilson, City Administrator  
**CC:** Amy Hove, Finance Director; Brian Connolly, PW Director  
**DATE:** April 12, 2024  
**RE:** 2021 Comparison of IGH Development Fees



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In 2021, the City asked its financial advisors at Ehlers to put together the attached comparison of the City's development fees with those charged by other cities in the metro-area. The analysis looked at Inver Grove Heights's fees both inside and outside the NWA compared to nine other communities:

1. Apple Valley
2. Burnsville
3. Chanhassen
4. Cottage Grove
5. Eagan
6. Hastings
7. Lakeville
8. Rosemount
9. Woodbury

The fees examined were:

1. Water Connection Fees
2. Sanitary Sewer Connection Fees
3. Stormwater Connection Fees
4. Park Dedication Fees (when \$ is accepted in lieu of land)

The effort examined the fees a developer would pay in these categories for each of the nine comparison cities, plus inside and outside the NWA of Inver Grove Heights, using three hypothetical developments:

1. Single Family Residential
2. 150-unit Multi-Family Residential
3. 100,000 sq. ft. Industrial

If the Council is interested in updated comparison data in preparation for setting the City's 2025 connection fee amounts, staff would suggest two changes:

1. Add a fourth hypothetical development related to a townhome development, to provide information on the full spectrum of residential development types commonly seen in the IGH.

2. Remove one or two of the more fully developed cities in Dakota County (such as Apple Valley and Burnsville) from the list of comparison cities and replace them with a developing city or two in the north metro.

Ehlers has indicated that such an update would cost approximately \$2,700.

## Appendix A

### Comparison of 2021 Development Fees for a Single Family Home

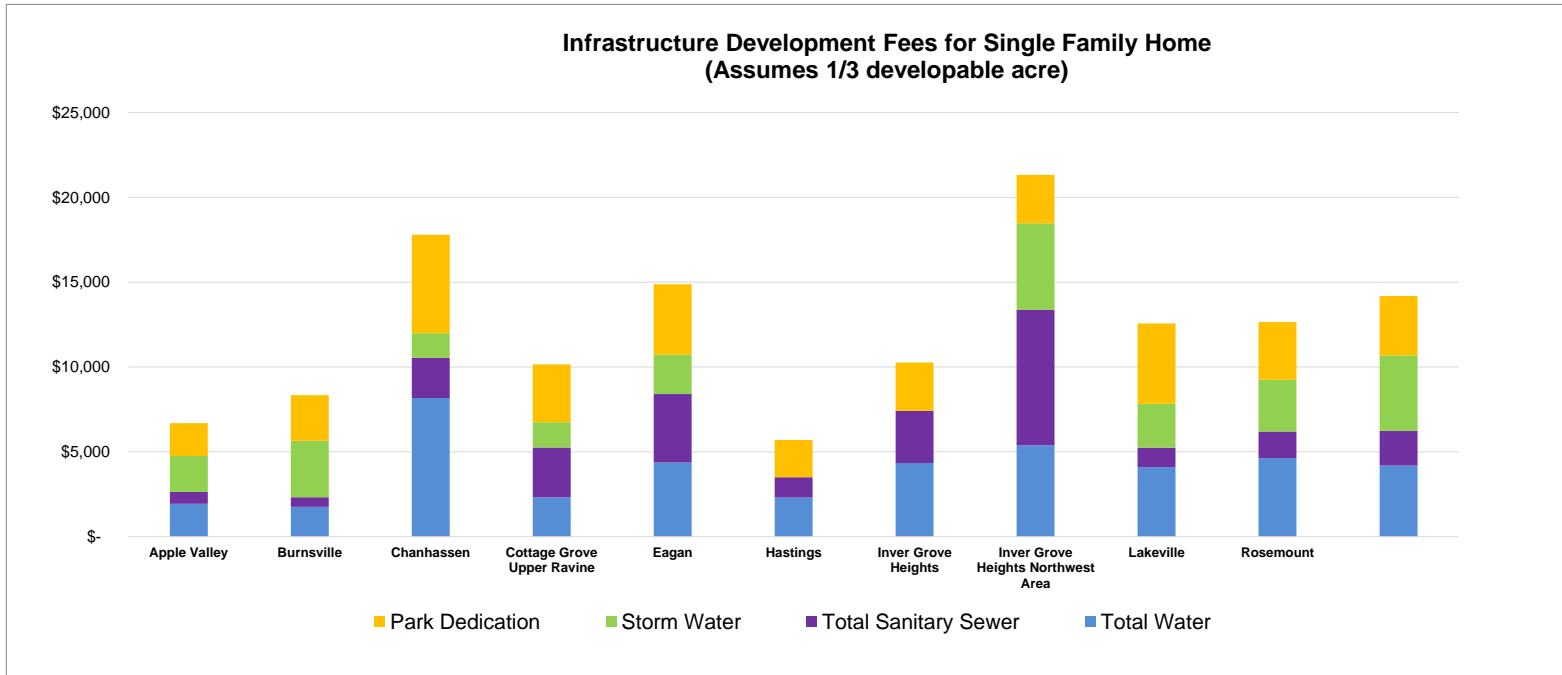
Assumes one single family home on one-third of an acre. Assumes .5 gross acres.  
Assumes a <1" meter. Excludes lateral installation, permit fees and meter costs

	Water Trunk Fee*	Water Connection Fee**	Total Water	Sanitary Sewer Trunk Fee*	Sanitary Sewer Connection Fee**	Total Sanitary Sewer	Storm Water	Park Dedication	Total Fees	Total Fees per Unit	Comments
Apple Valley	\$ 948	\$ 995	\$ 1,943	\$ 325	\$ 367	\$ 692	\$ 2,122	\$ 1,935	\$ 4,757	\$ 4,757	A minimum of 5% of land area must be dedicated for stormwater ponding
Burnsville	\$ -	\$ 1,755	\$ 1,755	\$ -	\$ 567	\$ 567	\$ 3,336	\$ 2,685	\$ 8,343	\$ 8,343	
Chanhassen	\$ 2,392	\$ 5,777	\$ 8,169	\$ 691	\$ 1,686	\$ 2,377	\$ 1,442	\$ 5,800	\$ 17,788	\$ 17,788	Assumes development receives 50% credit for stormwater fee for on-site ponding
Cottage Grove Upper Ravine	\$ 1,107	\$ 1,212	\$ 2,319	\$ 2,561	\$ 376	\$ 2,937	\$ 1,492	\$ 3,400	\$ 10,148	\$ 10,148	
Eagan	\$ 1,790	\$ 2,583	\$ 4,373	\$ 1,716	\$ 2,320	\$ 4,036	\$ 2,321	\$ 4,147	\$ 14,877	\$ 14,877	Park Dedication Fees include Trailway Dedication. If developer does not construct stormwater pond on-site, additional Water Quality Dedication Fee is due.
Hastings	\$ -	\$ 2,306	\$ 2,306	\$ 485	\$ 709	\$ 1,194	\$ -	\$ 2,200	\$ 5,700	\$ 5,700	
Inver Grove Heights	\$ 2,538	\$ 1,810	\$ 4,348	\$ 2,538	\$ 530	\$ 3,068	\$ -	\$ 2,850	\$ 10,265	\$ 10,265	
Inver Grove Heights Northwest Area	\$ 892	\$ 4,500	\$ 5,392	\$ 1,558	\$ 6,430	\$ 7,988	\$ 5,092	\$ 2,850	\$ 21,322	\$ 21,322	
Lakeville	\$ -	\$ 4,100	\$ 4,100	\$ 327	\$ 825	\$ 1,152	\$ 2,582	\$ 4,734	\$ 12,568	\$ 12,568	*For purposes of comparison when with Residential (High Density) Park Dedication Fee.
Rosemount	\$ 2,165	\$ 2,475	\$ 4,640	\$ 358	\$ 1,200	\$ 1,558	\$ 3,056	\$ 3,400	\$ 12,654	\$ 12,654	
Woodbury Water District No. 2 and Sanitary Sewer District No. 12	\$ 2,989	\$ 1,200	\$ 4,189	\$ 1,006	\$ 1,045	\$ 2,051	\$ 4,447	\$ 3,500	\$ 14,187	\$ 14,187	All fees vary by district. Assumed SWWD Central Draw (Within 2030 MUSA) for storm water district.
Average	\$ 1,347	\$ 2,610	\$ 3,958	\$ 1,051	\$ 1,460	\$ 2,511	\$ 2,354	\$ 3,409	\$ 12,055	\$ 12,055	
Average Excluding the Northwest Area	\$ 1,393	\$ 2,421	\$ 3,814	\$ 1,001	\$ 962	\$ 1,963	\$ 2,080	\$ 3,465	\$ 11,129	\$ 11,129	

\* For purposes of comparison, fees that other cities charge at time of plat are characterized as water trunk fees.

\*\* For purposes of comparison, fees that other cities collect at time of building permit are characterized as water connection fees.

### Infrastructure Development Fees for Single Family Home (Assumes 1/3 developable acre)



## Appendix B

### Comparison of 2021 Development Fees for a 150-unit Multi-Family Housing Development

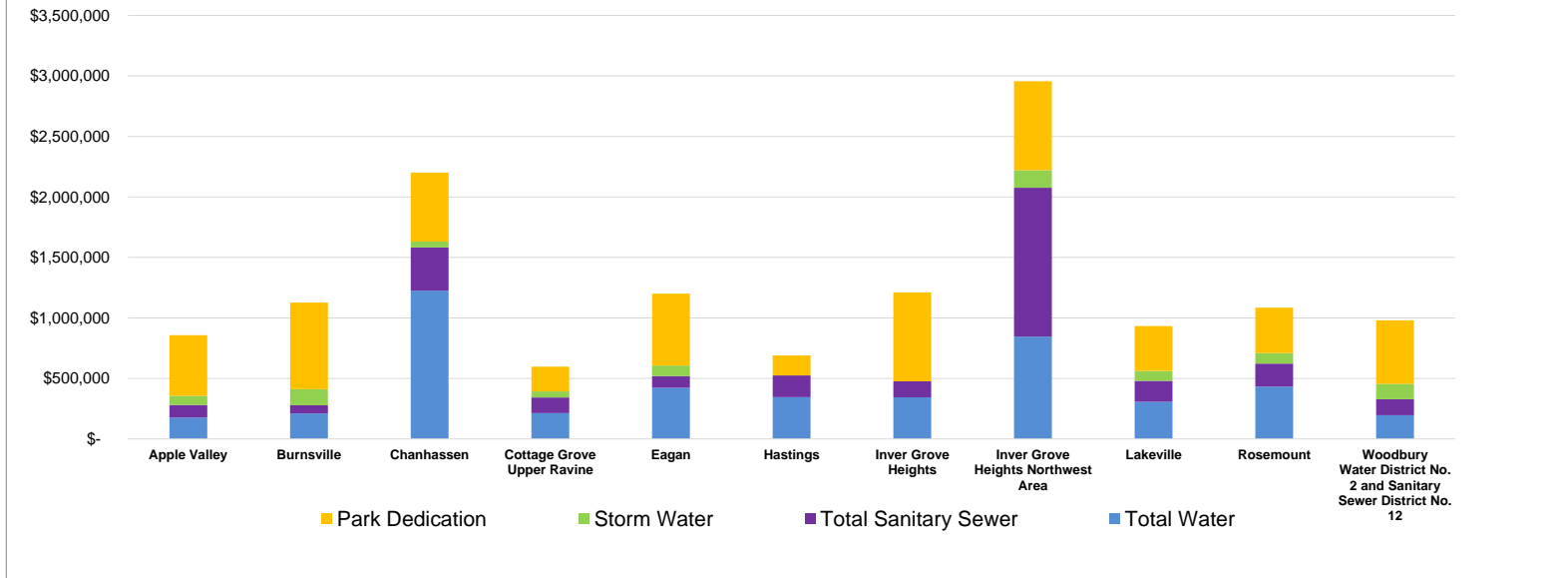
Assumes 16 multi-family units per net developable acre for a total site of 9.5 net developable acres. Assumes 10.5 gross acres.  
Excludes lateral installation, permit fees and meter costs. Assumes a 3" meter.

	Water Trunk Fee*	Water Connection Fee**	Total Water	Sanitary Sewer Trunk Fee*	Sanitary Sewer Connection Fee**	Total Sanitary Sewer	Storm Water	Park Dedication	Total Fees	Total Fees per Unit	Comments
Apple Valley	\$ 27,037	\$ 149,250	\$ 176,287	\$ 48,750	\$ 55,050	\$ 103,800	\$ 75,630	\$ 501,375	\$ 355,717	\$ 2,371	A minimum of 5% of land area must be dedicated for stormwater ponding
Burnsville	\$ -	\$ 210,450	\$ 210,450	\$ -	\$ 68,040	\$ 68,040	\$ 132,422	\$ 716,400	\$ 1,127,312	\$ 7,515	
Chanhassen	\$ 358,800	\$ 866,550	\$ 1,225,350	\$ 103,650	\$ 252,900	\$ 356,550	\$ 49,353	\$ 570,000	\$ 2,201,253	\$ 14,675	Assumes development receives 50% credit for stormwater fee for on-site ponding
Cottage Grove Upper Ravine	\$ 31,578	\$ 181,800	\$ 213,378	\$ 73,074	\$ 56,400	\$ 129,474	\$ 50,360	\$ 204,000	\$ 597,212	\$ 3,981	
Eagan	\$ 35,433	\$ 387,375	\$ 422,808	\$ 33,561	\$ 62,833	\$ 96,394	\$ 86,902	\$ 594,450	\$ 1,200,554	\$ 8,004	Park Dedication Fees include Trailway Dedication. If developer does not construct stormwater pond on-site, additional Water Quality Dedication Fee is due.
Hastings	\$ -	\$ 345,938	\$ 345,938	\$ 72,750	\$ 106,313	\$ 179,063	\$ -	\$ 165,000	\$ 690,000	\$ 4,600	
Inver Grove Heights	\$ 53,288	\$ 290,420	\$ 343,708	\$ 53,288	\$ 79,500	\$ 132,788	\$ -	\$ 735,000	\$ 1,211,495	\$ 8,077	
Inver Grove Heights Northwest Area	\$ 152,760	\$ 692,580	\$ 845,340	\$ 266,760	\$ 964,500	\$ 1,231,260	\$ 145,255	\$ 735,000	\$ 2,956,855	\$ 19,712	
Lakeville	\$ -	\$ 307,500	\$ 307,500	\$ 49,050	\$ 123,750	\$ 172,800	\$ 81,936	\$ 370,500	\$ 932,736	\$ 6,218	
Rosemount	\$ 61,750	\$ 371,250	\$ 433,000	\$ 10,213	\$ 180,000	\$ 190,213	\$ 86,783	\$ 375,000	\$ 1,084,995	\$ 7,233	
Woodbury Water District No. 2 and Sanitary Sewer District No. 12	\$ 86,070	\$ 109,500	\$ 195,570	\$ 28,975	\$ 103,500	\$ 132,475	\$ 126,873	\$ 525,000	\$ 979,918	\$ 6,533	Fees vary based on districts within City. Storm water based on SWWD Central Draw Within 2030 MUSA District
Average	\$ 73,338	\$ 355,692	\$ 429,030	\$ 67,279	\$ 186,617	\$ 253,896	\$ 75,956	\$ 499,248	\$ 1,212,550	\$ 8,084	
Average Excluding the Northwest Area	\$ 65,396	\$ 322,003	\$ 387,399	\$ 47,331	\$ 108,829	\$ 156,160	\$ 69,026	\$ 475,673	\$ 1,038,119	\$ 6,921	

\* For purposes of comparison, fees that other cities charge at time of plat are characterized as water trunk fees.

\*\* For purposes of comparison, fees that other cities collect at time of building permit are characterized as water connection fees.

**Infrastructure Development Fees for Sample Multifamily Project  
(Assumes 150 units on 9.5 developable acres)**



## Appendix C Comparison of 2020 Development Fees for a 100,000 sq. ft. Industrial Property

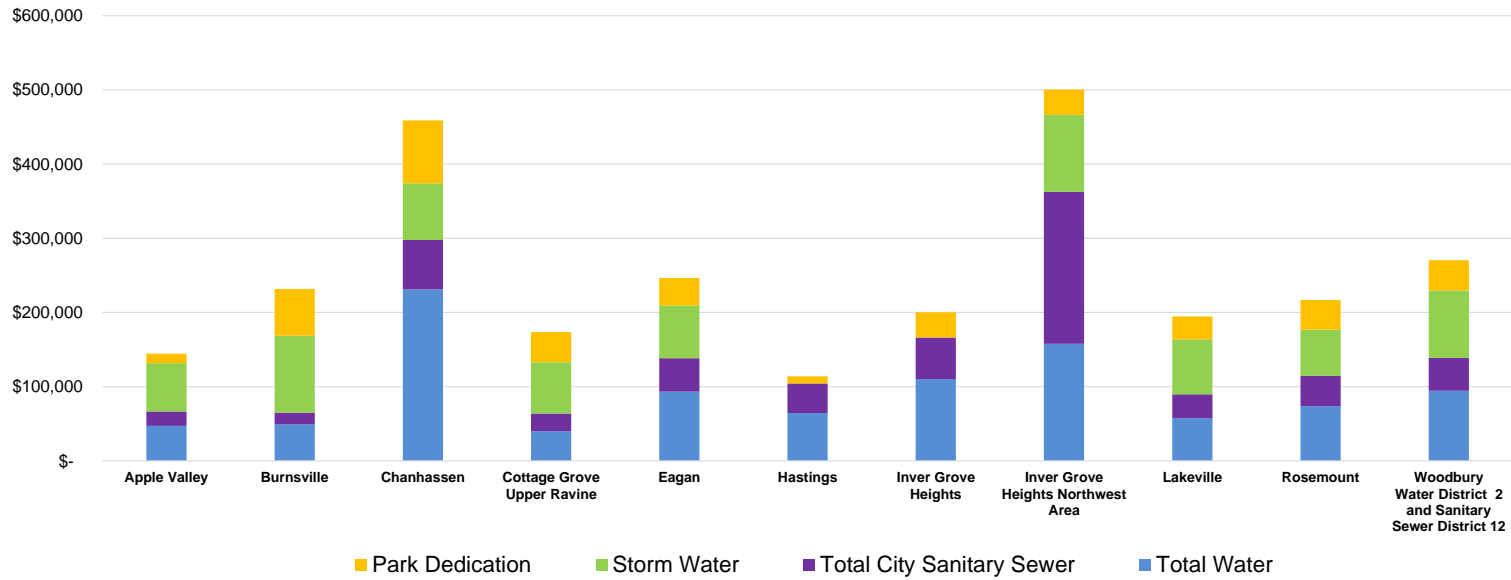
Assumes 6.8 net developable acres, 8 gross acres and 28 SAC units.  
Excludes lateral installation, permit fees and meter costs. Assumes a 3" meter.

	Water Trunk Fee*	Water Connection Fee**	Total Water	Sanitary Sewer Trunk Fee*	Sanitary Sewer Connection Fee**	Total City Sanitary Sewer	Storm Water	Park Dedication	Total Fees	Total Fees per Square Foot	Comments
Apple Valley	\$ 19,353	\$ 27,860	\$ 47,213	\$ 9,100	\$ 10,276	\$ 19,376	\$ 65,028	\$ 12,800	\$ 131,617	\$ 2.19	A minimum of 5% of land area must be dedicated for stormwater ponding
Burnsville	\$ -	\$ 49,140	\$ 49,140	\$ -	\$ 15,876	\$ 15,876	\$ 103,673	\$ 62,900	\$ 231,589	\$ 3.86	
Chanhassen	\$ 69,328	\$ 161,756	\$ 231,084	\$ 19,348	\$ 47,208	\$ 66,556	\$ 76,330	\$ 85,000	\$ 458,970	\$ 7.65	Assumes development receives 50% credit for stormwater fee for on-site ponding
Cottage Grove Upper Ravine	\$ 22,583	\$ 17,367	\$ 39,950	\$ 14,362	\$ 9,608	\$ 23,970	\$ 68,932	\$ 40,800	\$ 173,652	\$ 2.89	
Eagan	\$ 25,363	\$ 67,854	\$ 93,217	\$ 23,961	\$ 21,121	\$ 45,082	\$ 71,090	\$ 37,086	\$ 246,475	\$ 4.11	Park Dedication Fees include Trailway Dedication. If developer does not construct stormwater pond on-site, additional Water Quality Dedication Fee is due.
Hastings	\$ -	\$ 64,575	\$ 64,575	\$ 19,788	\$ 19,845	\$ 39,633	\$ -	\$ 9,600	\$ 113,808	\$ 1.90	
Inver Grove Heights	\$ 40,600	\$ 69,600	\$ 110,200	\$ 40,600	\$ 15,480	\$ 56,080	\$ -	\$ 34,000	\$ 200,280	\$ 3.34	
Inver Grove Heights Northwest Area	\$ 14,176	\$ 143,580	\$ 157,756	\$ 24,755	\$ 180,040	\$ 204,795	\$ 103,972	\$ 34,000	\$ 500,522	\$ 8.34	
Lakeville	\$ -	\$ 57,400	\$ 57,400	\$ 9,156	\$ 23,100	\$ 32,256	\$ 74,052	\$ 30,994	\$ 194,702	\$ 3.25	
Rosemount	\$ 44,200	\$ 29,450	\$ 73,650	\$ 7,310	\$ 33,600	\$ 40,910	\$ 62,118	\$ 40,000	\$ 216,678	\$ 3.61	
Woodbury Water District 2 and Sanitary Sewer District 12	\$ 94,520	\$ -	\$ 94,520	\$ 44,302	\$ -	\$ 44,302	\$ 90,814	\$ 40,800	\$ 270,436	\$ 4.51	All fees vary by district. Assumed SWWD Central Draw (Within 2030 MUSA) for storm water district.
Average	\$ 30,011	\$ 62,598	\$ 92,609	\$ 19,335	\$ 34,196	\$ 53,531	\$ 65,092	\$ 38,907	\$ 248,975	\$ 4.15	
Average Excluding the Northwest Area	\$ 31,595	\$ 54,500	\$ 86,095	\$ 18,793	\$ 19,611	\$ 38,404	\$ 61,204	\$ 39,398	\$ 223,821	\$ 3.73	

\* For purposes of comparison, fees that other cities charge at time of plat are characterized as water trunk fees.

\*\* For purposes of comparison, fees that other cities collect at time of building permit are characterized as water connection fees.

**Infrastructure Development Fees for Sample Industrial Project  
(Assumes 100,000 sq. ft. building with 28 SAC units on 6.8 developable acres)**



**CITY OF INVER GROVE HEIGHTS, MINNESOTA**  
**Capital Improvement Financing Plan**  
**Water Capital Fund (Fund 511)**

<b>FUND 511 - WATER CAPITAL FUND</b>		<b>Actual</b>	<b>Budget</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
		<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>
<b>REVENUE</b>							
Development-Related Connection Fees							
Plat Connections	170,621	25,000	25,000	25,000	25,000	25,000	25,000
Permit Connections	386,390	350,000	250,000	250,000	250,000	250,000	250,000
Core Connections	217,560	200,000	150,000	150,000	150,000	150,000	150,000
Water Treatment Plant Fee	113,110	150,000	100,000	100,000	100,000	100,000	100,000
Interest	139,054	75,000	75,000	75,000	75,000	75,000	75,000
Other Fees & Reimbursements							
<b>TOTAL REVENUE</b>	<b>1,026,735</b>	<b>800,000</b>	<b>600,000</b>	<b>600,000</b>	<b>600,000</b>	<b>600,000</b>	<b>600,000</b>
<b>TRANSFERS IN</b>							
Water Operating (Fund 510) - PY residual balances	6,126,369						
NWA Water Capital Fund Balance (Fund 513)	4,140,588						
Water Operating (Fund 510) - annual depreciation (tied to AE2S utility rate study modeling)	463,962	1,123,500	1,157,205	1,191,921	1,227,679	1,264,509	
<b>TOTAL TRANSFERS IN</b>	<b>10,730,919</b>	<b>1,123,500</b>	<b>1,157,205</b>	<b>1,191,921</b>	<b>1,227,679</b>	<b>1,264,509</b>	
<b>MPFA LOAN PROCEEDS - Water Treatment Plant</b>		2,706,000					
<b>ARPA Funds - Water Treatment Plant</b>		2,500,000					
<b>TOTAL REVENUES &amp; TRANSFERS IN</b>	<b>11,757,654</b>	<b>7,129,500</b>	<b>1,757,205</b>	<b>1,791,921</b>	<b>1,827,679</b>	<b>1,864,509</b>	
<b>NON-CAPITALIZED EXPENSES</b>							
Pump Inspections	25,000	60,000	65,000	35,000	35,000	38,000	
Water Management System Plan & Studies					70,000		
Watermain Breaks & Street Patching	90,000						
<b>CAPITAL PROJECTS - WATER SYSTEM</b>							
Water Treatment Plant Repair & Rehabilitation		5,206,000					
Automated Metering Infrastructure (AMI)			200,000	1,600,000	1,600,000	1,600,000	
Well Pump & Service Rehabilitations	125,000	130,000	135,000	140,000	150,000	160,000	
Rehab Northside Booster Pumps	75,000						
Water Treatment Plant Sludge Pump Replacement			35,000	40,000	45,000	45,000	
Northside Water Tower Painting				100,000	950,000		
SCADA System Upgrade					100,000		
<b>CAPITAL PROJECTS - FACILITY</b>							
Dehumidifier		125,000					
Make Up Unit & Roof Top Unit			80,000				
Exhaust Unit #2				13,000			
<b>DEBT SERVICE</b>							
MPFA G.O. Loan (20 yr @ 3.0% int., level principal)				216,480	212,421	208,362	204,303
<b>TOTAL EXPENSES</b>	<b>315,000</b>	<b>5,521,000</b>	<b>731,480</b>	<b>2,140,421</b>	<b>3,158,362</b>	<b>2,047,303</b>	
<b>TRANSFERS OUT</b>							
Local Street Projects (Fund 440)	900,000	910,089	1,897,944	851,616	1,013,195	638,515	
Partnership Projects (Fund 441)		10,750	34,500	-	25,000	30,000	
Parks Capital Replacement (Fund 401)	100,000						
<b>117th Street Project (FUND 436)</b>							
<b>TOTAL TRANSFERS OUT</b>	<b>1,000,000</b>	<b>920,839</b>	<b>1,932,444</b>	<b>851,616</b>	<b>1,038,195</b>	<b>668,515</b>	
<b>TOTAL EXPENSES &amp; TRANSFERS OUT</b>	<b>1,315,000</b>	<b>6,441,839</b>	<b>2,663,924</b>	<b>2,992,037</b>	<b>4,196,557</b>	<b>2,715,818</b>	
<b>ENDING CASH BALANCE</b>	<b>12,084,093</b>	<b>12,771,754</b>	<b>11,865,035</b>	<b>10,664,919</b>	<b>8,296,041</b>	<b>7,444,732</b>	

CASH FLOW ANALYSIS

**CITY OF INVER GROVE HEIGHTS, MINNESOTA**  
**Capital Improvement Financing Plan**  
**Sewer Capital Fund (Fund 521)**

FUND 521 - SEWER CAPITAL FUND		Actual 2023	Budget 2024	Projected 2025	Projected 2026	Projected 2027	Projected 2028
<b>REVENUE</b>							
Development-Related Connection Fees							
Plat Connections	186,747	45,000	45,000	45,000	45,000	45,000	45,000
Permit Connections	600,930	500,000	355,000	355,000	355,000	355,000	355,000
Core Connections	68,891	75,000	50,000	50,000	50,000	50,000	50,000
Interest	53,934	35,000	25,000	25,000	25,000	25,000	25,000
Other Fees & Reimbursements	-	-	-	-	-	-	-
<b>TOTAL REVENUE</b>	<b>910,502</b>	<b>655,000</b>	<b>475,000</b>	<b>475,000</b>	<b>475,000</b>	<b>475,000</b>	<b>475,000</b>
<b>TRANSFERS IN</b>							
Sewer Operating (Fund 520) - PY residual balances	5,547,485						
Sewer Operating (Fund 520) - annual depreciation	721,845	800,000	800,000	800,000	800,000	800,000	800,000
Closed Bond Fund - Remaining Balance					900,000		
<b>TOTAL TRANSFERS IN</b>	<b>6,269,330</b>	<b>800,000</b>	<b>800,000</b>	<b>800,000</b>	<b>1,700,000</b>	<b>800,000</b>	<b>800,000</b>
<b>TOTAL REVENUES &amp; TRANSFERS IN</b>	<b>7,179,832</b>	<b>1,455,000</b>	<b>1,275,000</b>	<b>1,275,000</b>	<b>2,175,000</b>	<b>1,275,000</b>	<b>1,275,000</b>
<b>NON-CAPITALIZED EXPENSES</b>							
Sanitary Sewer Cleaning & Televising	200,000	350,000	365,000	375,000	390,000	410,000	
<b>CAPITAL PROJECTS - SEWER SYSTEM</b>							
Lift Station Rehabilitation	-	150,000	-	175,000	-	-	-
Sanitary Sewer Rehabilitation	200,000	240,000	270,000	300,000	330,000	365,000	
<b>DEBT SERVICE</b>							
Sewer Debt Administration	2,975	2,975	2,975	2,975	2,975	2,975	2,975
2015B Sewer Bonds	357,700	356,700	361,675	356,250	360,525	360,925	360,925
2017A Sewer Bonds	421,325	422,475	418,781	420,256	416,525	417,588	417,588
2021A Sewer Bonds	259,250	263,400	262,325	261,100	264,650	262,975	262,975
<b>TOTAL EXPENSES</b>	<b>1,441,250</b>	<b>1,785,550</b>	<b>1,680,756</b>	<b>1,890,581</b>	<b>1,764,675</b>	<b>1,819,463</b>	
<b>TRANSFERS OUT</b>							
Local Street Projects (Fund 440)	616,545	707,419	1,488,728	578,549	715,309	425,542	
Partnership Projects (Fund 441)	-	7,750	12,000	-	-	46,000	
NWA Sewer Capital Fund (Fund 523) - to close fund	229,416						
<b>TOTAL TRANSFERS OUT</b>	<b>845,961</b>	<b>715,169</b>	<b>1,500,728</b>	<b>578,549</b>	<b>715,309</b>	<b>471,542</b>	
<b>TOTAL EXPENSES &amp; TRANSFERS OUT</b>	<b>2,287,211</b>	<b>2,500,719</b>	<b>3,181,484</b>	<b>2,469,130</b>	<b>2,479,984</b>	<b>2,291,005</b>	
<b>ENDING CASH BALANCE</b>	<b>6,794,767</b>	<b>5,749,048</b>	<b>3,842,564</b>	<b>2,648,434</b>	<b>2,343,450</b>	<b>1,327,445</b>	

CASH FLOW ANALYSIS

# MEMORANDUM

TO: Kris Wilson, City Administrator  
 FROM: Jason Aarsvold, Ehlers  
 DATE: March 25, 2024  
 SUBJECT: Yellow Tree Development Request for Financial Assistance

The City of Inver Grove Heights (the “City”) received a request for assistance from Yellow Tree Development (the “Developer”) to construct a 242-unit market rate rental project located at southwest intersection of 70<sup>th</sup> St. W. and Agate Trail. Citing a financial gap in the project related to higher fees in the NW area of the City, the Developer is requesting a fee reduction to make the project financially feasible.

This memo reviews the need for fee reduction based on our analysis of the developer’s project budget and projections, generally known as a pro forma. We have reviewed the project based on general industry standards for construction, land, and project costs; market rate rents; operating expenses; developer fees; underwriting and financing criteria; and return on investment. The table below depicts the Developer’s proposed sources and uses for the project assuming full fees in the NW area.

SOURCES			
	Amount	Pct.	Per Unit
First Mortgage	43,177,181	65.0%	178,418
Equity	23,249,251	35.0%	96,071
<b>TOTAL SOURCES</b>	<b>66,426,432</b>	<b>100%</b>	<b>274,489</b>

USES			
	Amount	Pct.	Per Unit
Acquisition Costs	3,600,000	5.4%	14,876
Construction Costs	46,984,697	70.7%	194,152
Permits / Fees	4,562,235	6.9%	18,852
Professional Services	4,924,500	7.4%	20,349
Financing Costs	3,555,000	5.4%	14,690
Developer Fee	2,500,000	3.8%	10,331
Cash Accounts/Escrows/Reserves	300,000	0.5%	1,240
<b>TOTAL USES</b>	<b>66,426,432</b>	<b>100%</b>	<b>274,489</b>

## Pro Forma Analysis

- Project Financing: The Developer proposes to finance the project with a mortgage in the amount of \$43.2 million, which is 65% of the total development costs. Based on current underwriting conditions, the Developer is maximizing its amount of first mortgage debt. The Developer is proposing to bring \$23.25 million in equity, which is 35% of total project costs. The proposed financing meets expectations for a project of this nature.

- Total Development Costs (TDC): The TDC of the project is \$66.4 million or \$274,489 per unit. Projects like this one are generally ranging between \$275,000 and \$325,000 per unit. The project is generally within the expected range.
- Land Acquisition Costs: The proposed land acquisition cost is \$3.6 million or approximately \$14,876 per unit. We would expect the cost of land to be between \$7,000 and 15,000 per unit for a site served by infrastructure. The land cost is at the higher end of market price for a utility-served site.
- Rents: Proposed rents range between \$1,125 per month for a studio unit, to \$3,800 per month for a 3-bedroom unit. On a per square foot basis, rents range between \$1.84 to \$2.68, averaging \$2.11. Projected rents for recent suburban market rate rental projects are ranging between \$2.00 and \$2.35 per square foot depending on location, unit size and amenities.
- Operating Expenses: The operating expenses of approximately \$5,083 per unit per year are slightly above the typical range of \$3,500 to \$4,500 per unit per year (before management fees, property taxes, and replacement reserves).
- Management Fee: The management fee is projected at 4% of effective gross income (EGI). Management fees typically range between 3% to 5% of EGI. The proposed fee is within the acceptable range.
- Developer Fee: The developer fee of \$2.5 million is 3.8% of total development costs. This is within the typical industry range of 3-5% for rental projects.
- Return on Investment - The project's yield on cost return on investment (net operating income / total development costs) at stabilization is 5.2%. Yield on cost is a return on investment metric commonly used by multi-family housing developers. Developers typically need a yield on cost approaching 6.5% for feasibility. Based on this, we can conclude that providing City assistance is warranted for the project.

## Recommendation:

Based on our review of the Developer's pro forma, the project is being represented appropriately for the market. Since the projected return on investment is below market expectations, assistance from the City is justified to make the project financially feasible. Through this analysis and as a matter of policy, we recommend setting the fees for this project at the same level as other projects in Inver Grove Heights, outside of the NW area. This would mean a fee reduction of \$2,556,447 based on the City's calculations attached to this memorandum. The table on the following page shows the proposed revised sources and uses.

<b>SOURCES</b>			
	<b>Amount</b>	<b>Pct.</b>	<b>Per Unit</b>
First Mortgage	41,515,490	65.0%	171,552
Equity	22,354,495	35.0%	92,374
<b>TOTAL SOURCES</b>	<b>63,869,985</b>	<b>100%</b>	<b>263,926</b>

<b>USES</b>			
	<b>Amount</b>	<b>Pct.</b>	<b>Per Unit</b>
Acquisition Costs	3,600,000	5.6%	14,876
Construction Costs	46,984,697	73.6%	194,152
<b>Permits / Fees</b>	<b>2,005,788</b>	<b>3.1%</b>	<b>8,288</b>
Professional Services	4,924,500	7.7%	20,349
Financing Costs	3,555,000	5.6%	14,690
Developer Fee	2,500,000	3.9%	10,331
Cash Accounts/Escrows/Reserves	300,000	0.5%	1,240
<b>TOTAL USES</b>	<b>63,869,985</b>	<b>100%</b>	<b>263,926</b>

Reducing city fees for the project by \$2,556,447 brings down the total development cost to \$63.87 million, or \$263,926 per unit. A reduction in development cost helps improve the Developer’s yield on cost return on investment. Based on current projections, the developer’s yield on cost will increase to 5.6% with the fee reduction at stabilization. This is approaching, but not exceeding, the returns necessary for financial feasibility. The Developer indicated that the project can proceed with this level of assistance.

Please contact me at 651-697-8512 if you have any questions or comments.

**2024 UTILITY CONNECTION FEES, CITY OF INVER GROVE HEIGHTS**

**Proposed YellowTree Apartment Project**

**4.44 acres / 242 units / R-3C Zoning**

<b>Inside the NWA - @ PLAT</b>	<b>Base</b>	<b>Density Factor</b>	<b>Net Developable Acres</b>	<b>Total Fee</b>
Sewer Plat Connection Fee	\$2,710	12	4.44	\$144,389
Water Plat Connection Fee	\$1,505	12	4.44	\$80,186
Stormwater Plat Connection Fee	\$16,567		4.44	\$73,557
			<b>@PLAT TOTAL</b>	<b>\$298,133</b>

<b>Inside the NWA - @ BLDG PERMIT</b>	<b>Base</b>	<b>Units</b>	<b>Total Fee</b>	
Sewer Bldg Permit Connection Fee	\$7,310	242	\$1,769,020	
Water Bldg Permit Connection Fee	\$4,095	242	\$990,990	
			<b>@ BLDG PERMIT TOTAL</b>	<b>\$2,760,010</b>

<b>GRAND TOTAL</b>			<b>\$3,058,143</b>
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<b>IF Outside the NWA - @ PLAT</b>	<b>Base</b>	<b>Density Factor</b>	<b>Net Developable Acres</b>	<b>Total Fee</b>
Sewer Plat Connection Fee	\$1,805	3.5	4.44	\$28,050
Water Plat Connection Fee	\$1,805	3.5	4.44	\$28,050
Stormwater Plat Connection Fee	\$9,337		4.44	\$41,456
			<b>@PLAT TOTAL</b>	<b>\$97,556</b>

<b>IF Outside the NWA - @ BLDG PERMIT</b>	<b>Base</b>	<b>Units</b>	<b>Total Fee</b>	
Sewer Bldg Permit Connection Fee	\$610	242	\$147,620	
Water Bldg Permit Connection Fee	\$1,060	242	\$256,520	
			<b>@ BLDG PERMIT TOTAL</b>	<b>\$404,140</b>

<b>GRAND TOTAL</b>			<b>\$501,696</b>
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## Request for Council Action

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**SUBJECT:**        **Discussion of Potential Tax Abatement or Other Assistance for Multi-Family Development in the NWA**

**MEETING DATE:**    January 8, 2024  
**ITEM TYPE:**        Regular Business  
**CONTACT:**         Kris Wilson, City Administrator, 651.450.2511

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### **ACTION REQUESTED**

The Council is asked to receive a presentation and engage in a discussion regarding its interest in considering tax abatement for multi-family residential development in the northwest area (NWA).

### **BACKGROUND**

Over the last few months, City staff have received multiple inquiries from developers wanting to know the Council's appetite for considering tax abatement for multi-family residential development in the northwest area (NWA). In order to provide accurate feedback to these inquiries, staff seeks to engage the Council in a discussion of the subject and gather some preliminary feedback to inform possible next steps.

### **Tax Abatement**

In Minnesota, tax abatement is a property-tax based tool available to local governments to spur economic development or redevelopment. Unlike tax increment financing, which is another property-tax based economic development tool, a tax abatement approved by a city impacts only the city-portion of a property tax bill. Counties and school districts have the authority to enter into tax abatement agreements for their own portions of a property tax bill or be a party to the City's tax abatement agreement if they so choose, but in my experience, this is uncommon, at least within the metro-area.

Tax abatement can take several different forms and be used for several different types of economic development projects. To grant a tax abatement, the City Council must find that the proposed project (1) will produce benefits to the City at least equal to the cost of the abatement; and (2) is in the public interest because it will (a) increase or preserve the City's tax base, (b) provide employment opportunities in the City, (c) provide or help acquire public facilities, (d) help redevelop blighted areas, (e) help provide access to services for City residents, (f) finance or provide public infrastructure or (g) phase in a certain property tax increases. The purpose of providing a tax abatement is not to simply make a project less expensive for the developer, or to enhance their profit margin, but to make possible a project that is desirable to the City and would not otherwise proceed in the foreseeable future.

### **Tax Abatement Process**

To initiate the process, a developer or property owner submits an application for tax abatement, which includes information about the property, the developer, the proposed project and its financial pro forma. That application is reviewed and analyzed by the City's financial advisor, Ehlers. Ehlers

reviews the application to evaluate: 1) the background, experience and creditworthiness of the developer; 2) the economic viability of the project, with and without assistance from the City; and 3) the amount of new property tax revenue the proposed development would generate for the City and that could possibly be available for abatement. The results of Ehlers' analysis are then presented to the City Council.

When evaluating a tax abatement request, the City Council should consider whether the financial analysis demonstrates, and the Council believes, that the proposed development, or a similar and equally desirable development, would not occur without the assistance of abatement. If that is the case, and the Council desires to see the development proceed, then offering a tax abatement would be reasonable.

Next, if there is support for proceeding with a tax abatement, City attorneys draft an abatement agreement. The tax abatement agreement details how much tax abatement revenue will be provided to the developer and under what conditions it will be provided. The City may choose the dates of the abatement term, and whether to abate all or a portion of City taxes during that term. The agreement is the mechanism for the City to ensure its development goals are met, and could include such things as affordable housing requirements, design elements, environmental standards, or job creation requirements. Depending on the amount and use of the tax abatement funds, the tax abatement agreement may need to include a business subsidy agreement under Minnesota Statutes, 116J.113-.115.

To adopt the tax abatement, the City Council holds a public hearing and adopts an abatement resolution. The City Council may approve the tax abatement agreement at that same meeting, or at a different one.

After approval and execution of the tax abatement and abatement agreement, the developer constructs the development, paying all applicable development fees and costs as any other project would. This includes utility connection fees, park dedication fees and building permit fees. The property owner is then required to pay their property tax bill in full in each year, with the tax amount calculated on the taxable market value established in accordance with state law, just like any other property. The City then "abates", or returns back to the property owner, all or a part of the city-portion of that property tax payment that is attributable to the value increase generated by the development in accordance with the abatement agreement.

The abatement is paid out to the property owner incrementally, with payments made approximately every six months, as the City receives its property tax revenues from the County. Abatement payments continue in accordance with the abatement agreement until the total amount of the abatement has been received by the property owner or the timeframe on the abatement has expired, whichever comes first.

### **Crossings at Inver Woods**

As noted above, the City has one existing/outstanding tax abatement which is for the Crossings at Inver Woods, a 152-unit, market-rate apartment building constructed in 2021-2022. The tax abatement agreement for this project was entered into by the City Council in October of 2020. Once the project was deemed "substantially complete" in late 2022, abatement payments to the developer/property owner began in July of 2023.

The Crossings' tax abatement agreement provides for an abatement of \$1.6 million over 10 years. For that time period, the City will be providing services (police, fire, snowplowing, parks and recreation, etc.) to the residents of the Crossings, while only retaining the property tax revenue equivalent to what was paid when that site was vacant land. However, the City did receive full utility

connection and park dedication fees upfront, which can and will be used toward the City's obligations and projects in those areas. The County and school district are receiving their full property tax payments from the development, which likely would not have occurred without the assistance of abatement. And finally, when the abatement agreement expires in 10 years, the City will receive the full property tax payment on the apartment building for decades to come. Furthermore, the apartment project has created a housing option for those not seeking or not able to afford a single-family home in the NWA and those households create additional customers and provide a potential workforce for businesses in the area.

### **Impact of Fees in the NWA**

Utility connection fees are the primary reason IGH may wish to consider tax abatement for multi-family development in the NWA, as such development may not occur without the assistance.

When the boundaries of the NWA were officially established and water and sewer service was extended into the area, the City Council at the time elected not to assess the benefiting property owners. Instead, the Council opted to use a combination of utility funds on hand and new debt issuance to pay the upfront costs, with the intent to repay those funds, and make the debt payments, through fees paid at the time of development. The City established utility connection fees specific to the NWA area which are intentionally higher than the fees charged elsewhere in the city, in order to raise the funds to pay back that upfront investment. The City currently has debt service payments totaling just over \$1 million due annually through 2031 and somewhat smaller payments due annually through 2036, to pay off the debt taken on to extend sewer service to the NWA. If sufficient revenue is not collected from utility connection fees paid by development, the City is obligated to make these debt service payments through other revenues. Higher sewer rates for all IGH customers or higher property taxes for all property owners are the most likely means of raising the needed funds, if development fees do not come through in time.

This NWA fee structure is not only higher than the fees charged elsewhere in the City, it follows a somewhat different structure – which impacts multi-family development more than single-family development. Outside the NWA, the water and sewer plat connection fees are a set dollar amount (\$1,805 each for 2024) multiplied by a density factor of 3.5, multiplied by the number of net developable acres. This is the formula for all types of development, including single-family, multi-family, commercial, industrial, etc. However, within the NWA, the set dollar amount is lower for water (\$1,505 compared to \$1,805) but is multiplied by an escalating density factor, depending on the zoning of the project. R-1 and R-2 development has a density factor of times 2, R-3A has a density factor of times 4, R-3B is times 6, and R-3C is times 12. Sanitary sewer plat connection fees see the same escalating density factors, but also have a higher set dollar amount as the basis (\$2,710 inside the NWA, compared to \$1,805 outside the NWA for 2024). When starting with this higher base, and then applying one of the higher density factors, the final fee for a multi-family project in the NWA is significantly larger than the fee for an equivalent project outside the NWA.

Examples of the fee differential for both multi-family and single-family development, inside and outside the NWA, are attached for reference.

Since the NWA overlay district was established, there has been only one apartment building constructed – the Crossings at Inver Wood – and it required tax abatement to make the project viable. Several other sites in the NWA that are guided and/or zoned for multi-family residential development have sat undeveloped. The one apartment project that has advanced to the construction phase in IGH since the Crossings at Inver Wood, is Trident Development's Avalon Apartments and Townhomes. This project is being constructed near the intersection of Hwy 3 and Diffley Rd, which is outside the NWA and therefore subject to the lower fee amounts.

There are certainly numerous factors that impact whether a development project proceeds, including the seller's desired price for their land, topography and site preparation costs, the cost of construction materials and labor, current interest rates and financing terms, development fees charged by the city and competing opportunities in other communities. Ehlers' analysis of tax abatement applications attempts to isolate the various factors to determine, for example, whether the land price is competitive with the market or the financing terms are reasonable, before the City takes action on an abatement application.

Approval of a tax abatement request is always a discretionary act by a City Council. There are no factors or situations that would legally require the Council to approve an economic development tax abatement. However, a Council may wish to consider abatement in order to facilitate certain types of development, the development of certain areas of the city, or the development of projects that would yield particular fee revenues for the City.

Alternatively, if the Council desires to do something, but does not wish to support a tax abatement, it may wish to consider reducing or restructuring the connection fees charged in the NWA. This could be expected to facilitate further development, especially the multi-family residential development that is particularly impacted by the current fee structure. It would also generate property tax revenue for the city, county and school district, without delay. However, a likely result of such development paying lower fees is a shortfall of revenue to repay the debt taken on by the City to extend utilities to the NWA and that shortfall would have to be made up from another, yet-to-be identified source. That said, if nothing is done and no development occurs, that will mean no fee revenue at all, and the City will also have to turn to other sources of funds to make its debt payments.

## **FISCAL IMPACT**

## **RECOMMENDATION**

This is a discussion item. Staff is not recommending a particular action at this time.

## **ATTACHMENTS**

1. Comparison of Connection Fees (inside vs outside the NWA) (2024 fees)

**26 acres**  
**48 single family homes**  
**R-1C zoning**

<b>Inside the NWA</b>	<b>Base</b>	<b>Density Factor</b>	<b>Net Developable Acres</b>	<b>Total Fee</b>
Sewer Plat Connection Fee	\$2,710	2	26	\$140,920
Water Plat Connection Fee	\$1,505	2	26	\$78,260
Stormwater Plat Connection Fee	\$14,412		26	\$374,712
	<b>Base</b>	<b>Units</b>		<b>Total Fee</b>
Sewer Bldg Permit Connection Fee	\$7,310	48		\$350,880
Water Bldg Permit Connection Fee	\$4,095	48		\$196,560
<b>TOTAL</b>				<b>\$1,141,332</b>

<b>Outside the NWA</b>	<b>Base</b>	<b>Density Factor</b>	<b>Net Developable Acres</b>	<b>Total Fee</b>
Sewer Plat Connection Fee	\$1,805	3.5	26	\$164,255
Water Plat Connection Fee	\$1,805	3.5	26	\$164,255
Stormwater Plat Connection Fee	\$7,182		26	\$186,732
	<b>Base</b>	<b>Units</b>		<b>Total Fee</b>
Sewer Bldg Permit Connection Fee	\$610	48		\$29,280
Water Bldg Permit Connection Fee	\$1,060	48		\$50,880
<b>TOTAL</b>				<b>\$595,402</b>

difference \$545,930

*1.9 times higher in NWA*

**6.3 acres**  
**152 unit apartment bldg**  
**R-3C zoning**

<b>Inside the NWA</b>	<b>Base</b>	<b>Density Factor</b>	<b>Net Developable Acres</b>	<b>Total Fee</b>
Sewer Plat Connection Fee	\$2,710	12	6.3	\$204,876
Water Plat Connection Fee	\$1,505	12	6.3	\$113,778
Stormwater Plat Connection Fee	\$16,567		6.3	\$104,372
	<b>Base</b>	<b>Units</b>		<b>Total Fee</b>
Sewer Bldg Permit Connection Fee	\$7,310	152		\$1,111,120
Water Bldg Permit Connection Fee	\$4,095	152		\$622,440
<b>TOTAL</b>				<b>\$2,156,586</b>

<b>Outside the NWA</b>	<b>Base</b>	<b>Density Factor</b>	<b>Net Developable Acres</b>	<b>Total Fee</b>
Sewer Plat Connection Fee	\$1,805	3.5	6.3	\$39,800
Water Plat Connection Fee	\$1,805	3.5	6.3	\$39,800
Stormwater Plat Connection Fee	\$9,337		6.3	\$58,823
	<b>Base</b>	<b>Units</b>		<b>Total Fee</b>
Sewer Bldg Permit Connection Fee	\$610	152		\$92,720
Water Bldg Permit Connection Fee	\$1,060	152		\$161,120
<b>TOTAL</b>				<b>\$392,264</b>

difference \$1,764,323

*5.5 times higher in NWA*

**181.165 WAGE PROTECTION; CONSTRUCTION WORKERS.**

Subdivision 1. **Definitions.** (a) For purposes of this section, the following terms have the meanings given.

(b) "Claimant" means any person claiming unpaid wages, fringe benefits, penalties, or resulting liquidated damages that are owed as required by law, including any applicable statute, regulation, rule, ordinance, government resolution or policy, contract, or other legal authority.

(c) "Commissioner" refers to the commissioner of labor and industry.

(d) "Construction contract" means a written or oral agreement for the construction, reconstruction, erection, alteration, remodeling, repairing, maintenance, moving, or demolition of any building, structure, or improvement, or relating to the excavation of or development or improvement to land. For purposes of this section, a construction contract shall not include a home improvement contract for the performance of a home improvement between a home improvement contractor and the owner of an owner-occupied dwelling, and a home construction contract for one- or two-family dwelling units except where such contract or contracts results in the construction of more than ten one- or two-family owner-occupied dwellings at one project site annually.

(e) "Contractor" means any person, firm, partnership, corporation, association, company, organization, or other entity, including a construction manager, general or prime contractor, joint venture, or any combination thereof, along with their successors, heirs, and assigns, which enters into a construction contract with an owner. An owner shall be deemed a contractor and liable as such under this section if said owner has entered into a construction contract with more than one contractor or subcontractor on any construction site.

(f) "Owner" means any person, firm, partnership, corporation, association, company, organization, or other entity, or a combination of any thereof, with an ownership interest, whether the interest or estate is in fee, as vendee under a contract to purchase, as lessee or another interest or estate less than fee that causes a building, structure, or improvement, new or existing, to be constructed, reconstructed, erected, altered, remodeled, repaired, maintained, moved, or demolished or that causes land to be excavated or otherwise developed or improved.

(g) "Subcontractor" means any person, firm, partnership, corporation, company, association, organization or other entity, or any combination thereof, that is a party to a contract with a contractor or party to a contract with the contractor's subcontractors at any tier to perform any portion of work within the scope of the contractor's construction contract with the owner, including where the subcontractor has no direct privity of contract with the contractor. When the owner is deemed a contractor, subcontractor also includes the owner's contractors.

Subd. 2. **Assumption of liability.** (a) A contractor entering into a construction contract shall assume and is liable for any unpaid wages, fringe benefits, penalties, and resulting liquidated damages owed to a claimant or third party acting on the claimant's behalf by a subcontractor at any tier acting under, by, or for the contractor or its subcontractors for the claimant's performance of labor.

(b) A contractor or any other person shall not evade or commit any act that negates the requirements of this section. No agreement by an employee or subcontractor to indemnify a contractor or otherwise release or transfer liability assigned to a contractor under this section shall be valid. However, if a contractor has satisfied unpaid wage claims of an employee and incurred fees and costs in doing so, such contractor may

then pursue actual and liquidated damages from any subcontractor who caused the contractor to incur those damages.

(c) A contractor shall not evade liability under this section by claiming that a person is an independent contractor rather than an employee of a subcontractor unless the person meets the criteria required by section 181.723, subdivision 4.

Subd. 3. **Enforcement.** (a) In the case of a complaint filed with the commissioner under section 177.27, subdivision 1, or a private civil action by an employee under section 177.27, subdivision 8, such employee may designate any person, organization, or collective bargaining agent authorized to file a complaint with the commissioner or in court pursuant to this section to make a wage claim on the claimant's behalf.

(b) In the case of an action against a subcontractor, the contractor shall be jointly and severally liable for any unpaid wages, benefits, penalties, and any other remedies available pursuant to this section.

(c) Claims shall be brought consistent with section 541.07, clause (5), for the initiation of such claim under this section in a court of competent jurisdiction or the filing of a complaint with the commissioner or attorney general. The provisions of this section do not diminish, impair, or otherwise infringe on any other right of an employee to bring an action or file a complaint against any employer.

Subd. 4. **Payroll records; data.** (a) Within 15 days of a request by a contractor to a subcontractor, the subcontractor, and any other subcontractors hired under contract to the subcontractor shall provide payroll records, which, at minimum, contain all lawfully required information for all workers providing labor on the project. The payroll records shall contain sufficient information to apprise the contractor or subcontractor of such subcontractor's payment of wages and fringe benefit contributions to a third party on the workers' behalf. Payroll records shall be marked or redacted to an extent only to prevent disclosure of the employee's Social Security number.

(b) Within 15 days of a request of a contractor or a contractor's subcontractor, any subcontractor that performs any portion of work within the scope of the contractor's construction contract with an owner shall provide:

(1) the names of all employees and independent contractors of the subcontractor on the project, including the names of all those designated as independent contractors and, when applicable, the name of the contractor's subcontractor with whom the subcontractor is under contract;

(2) the anticipated contract start date;

(3) the scheduled duration of work;

(4) when applicable, local unions with which such subcontractor is a signatory contractor; and

(5) the name and telephone number of a contact for the subcontractor.

(c) Unless otherwise required by law, a contractor or subcontractor shall not disclose an individual's personal identifying information to the general public, except that the contractor or subcontractor can confirm that the individual works for them and provide the individual's full name.

Subd. 5. **Payments to contractors and subcontractors.** Nothing in this section shall alter the owner's obligation to pay a contractor, or a contractor's obligation to pay a subcontractor as set forth in section 337.10, except as expressly permitted by this section.

Subd. 6. **Exemptions.** (a) Nothing in this section shall be deemed to diminish the rights, privileges, or remedies of any employee under any collective bargaining agreement. This section shall not apply to any contractor or subcontractor that is a signatory to a bona fide collective bargaining agreement with a building and construction trade labor organization that: (1) contains a grievance procedure that may be used to recover unpaid wages on behalf of employees covered by the agreement; and (2) provides for collection of unpaid contributions to fringe benefit trust funds established pursuant to United States Code, title 29, section 186(c)(5)-(6), by or on behalf of such trust funds.

(b) This section does not apply to work for which prevailing wage rates apply under sections 177.41 to 177.44.

**History:** *2023 c 53 art 10 s 6*