



CITY COUNCIL MEETING

AGENDA ITEM

Prepared By: <i>Allie Polsfuss, City Administrator</i>	Meeting Date: <i>June 1, 2026</i>	Item Name: <i>Tax Assistance Application</i>
--	---	---

BACKGROUND

On March 1, 2026, the City received a pre-application for tax assistance from Whitebirch for the proposed Northstar Apartment Complex. The development site is located south of Agate Way and west of Ranchette Drive. Staff has been working with the developer and advisor on items in the application.

The proposed project includes:

- A 74-unit apartment building with associated garages
- Construction in two phases:
 - Phase 1: 38 units
 - Phase 2: 36 units
- Estimated construction costs: \$13–\$14 million

Representatives from the development team and the City’s municipal advisor, Todd Hagen, will be present at the meeting to answer questions regarding the request and financing options.

Attachment A includes the submitted pre-application materials.

OVERVIEW OF PRE-APPLICATION PROCESS

At this stage, the Council is conducting a preliminary review of the request. No formal application has been submitted or acted upon.

If the Council provides favorable direction, staff would proceed with:

1. Working with the developer to prepare a formal application for future consideration, collect deposit; and
2. Providing preliminary direction on the type of tax assistance preferred.

If the Council chooses not to advance the request, the tax assistance process will not move forward. The developer may still proceed through the Planning Commission and land use process independently of financial assistance.

A draft timeline outlining potential next steps is included as Attachment B.

TYPES OF TAX ASSISTANCE

The City has several tools available for consideration. All options require that the project meet the statutory “but-for” test, meaning the project would not proceed, would be delayed, or would be significantly altered without public assistance.

1. Tax Increment Financing (TIF) – Housing Development

TIF for housing allows the City to use future property tax increases generated by the project to help finance eligible project costs.

Key Requirements:



CITY COUNCIL MEETING

AGENDA ITEM

- Income-limits (see attachment C):
 - At least 40% of units at or below 60% of Area Median Income (AMI), OR
 - At least 20% of units at or below 50% of AMI
- No approval required from County or School District (notification only)
- Maximum duration: up to 26 years

2. Tax Increment Financing (TIF) – Workforce Housing

This economic development TIF tool supports housing tied directly to workforce needs and business recruitment.

Key Requirements:

- The below findings must be met:
 - The City is located outside of the metro area
 - The average vacancy rate for rental housing located in the city and in any other city located within 15 miles or less of the city has been three percent or less for at least the preceding two year period
 - One or more businesses who employ at least 20 full-time equivalent employees in the city provide a written statement to the city that the lack of rental housing has created a barrier to the business hiring employees. Project must qualify as workforce housing under state statute
- Approval required from County and School District
- Maximum duration: up to 8 years

3. Tax Abatement

Local governments may abate local property taxes to encourage local economic growth

Key Requirements

- Maximum duration: up to 15 years
- Annual City abatement limit applies (may not exceed the greater of \$200,000 or 10% of net tax capacity)
- Abated taxes must be included in the City's levy and the burden shifts to the overall levy
- County and School District participation requires separate approval

HOW TIF WORKS

Tax increment financing is a way cities help pay for new development without raising City taxes. When the new development is built, the property becomes more valuable. At the end of the term of the TIF, the additional property value are now included in the City's tax capacity, and the owner is now taxed on the new value.

With TIF

- The city "locks in" the current tax amount.
- The additional taxes created by the development (the increment) is captured
- Those funds are used to help pay for the eligible costs of the project
- Following decertification, the City no longer collects the increment, and the property is taxed at the current market value like any other property.

Attachment C includes the estimated TIF district cashflow for this specific project.

- Page 1 includes the current rates and base market value information
- Page 2 includes the project information, tax capacity, and tax calculations
- Page 3 includes the tax increment cash flow with the annual gross increment estimated at about \$80,000



CITY COUNCIL MEETING

AGENDA ITEM

IMPORTANT CONSIDERATIONS

As the Council considers the request for tax assistance, it is important for them to consider some additional items:

Wastewater Infrastructure

Based on the City's wastewater facility study, system capacity is anticipated to require expansion at approximately 80 ERUs. The proposed development would accelerate this timeline.

- Without proposed development: expansion planning estimated around 2030 with construction by 2032
- With apartment complex development: planning may need to begin in 2027–2028, with construction by approximately 2029-2030.
- Accelerated timing may require earlier investment and additional financing considerations. It is unlikely this project could be paid for in cash if completed on the expedited timeline.
- If directed to proceed, a more in depth analysis would be conducted.

City Resources

New residential development increases demand on City infrastructure and services, including utilities, public safety, personnel, and maintenance. During periods of tax assistance, a portion of the new tax capacity is either deferred or redirected, meaning the City may experience increased service demand prior to receiving full property tax revenue.

Fiscal Planning

Although there will be additional demand on city resources without collecting tax revenue for the duration of the term, once the development expires, the full market value of the development is added to the City's tax capacity. Once the tax assistance sunsets, the City's levy is spread among a larger tax capacity which in turn could lead to a lower tax rate.

Housing Needs

As BLADEC stated in their presentation to the council late last year, there is a significant need in Crow Wing County for housing. Tax assistance could encourage development that may not otherwise occur.

SUMMARY

The Council is being asked to provide preliminary direction on whether to:

1. Advance the proposal to formal application stage, and
2. Indicate a preferred form of tax assistance, if any

If no direction is provided to proceed, the tax assistance process will not move forward, though the developer may continue with land use approvals independently.