

# **Request for City Council Committee Action from the Department of Community Planning & Economic Development**

Date: November 27, 2007

To: Council Member Lisa Goodman, Chair, Community Development Committee  
Council Member Paul Ostrow, Chair, Ways and Means Committee

**Subject: Approval of Coloplast North American headquarters office expansion project (1601 West River Road): Proposed Redevelopment Plan and TIF Plan, Issuance of Pay-As-You-Go TIF Note, and proposed redevelopment contract business terms**

## **Recommendation:**

1. Approve the attached City Council Resolution adopting Modification No. 15 to the North Washington Industrial Park Plan, Modification No. 110 to the Common Plan and the Coloplast Redevelopment Tax Increment Finance Plan;
2. Approve the attached City Council Resolution authorizing the issuance of a Limited Revenue Pay-As-You-Go Tax Increment Financing Note to Coloplast in a principal amount not to exceed \$2,935,000;
3. Approve the proposed redevelopment contract business terms as described in this report;
4. Authorize the appropriate City officials to execute the redevelopment contract with Coloplast Corp. and all other necessary documents related to the above recommended actions.

## **Previous Directives:**

- On August 3, 2007, the City Council authorized staff to continue analysis of the Coloplast project proposal, negotiate terms and conditions of a redevelopment contract, and prepare a redevelopment plan and tax increment financing plan.
- On August 3, 2007, the City Council accepted and appropriated Environmental Remediation Grants awarded by the Minnesota Department of Employment and Economic Development (DEED) Contamination Clean Up and Investigation Grant Program and Metropolitan Council Livable Communities Tax Base Revitalization Account (TBRA) Grant Program totaling \$944,500 for the Coloplast project.
- On April 27, 2007, the City Council authorized staff to submit applications for remediation grant funds for various projects, including Coloplast, to the Minnesota Department of Employment and Economic Development (DEED) Contamination Clean Up and Investigation Grant Program, The Metropolitan Council Livable Communities Tax Base Revitalization Account (TBRA) Grant Program, and the Hennepin County Environmental Response Fund (ERF).

Prepared by: Carrie Flack, Sr. Project Coordinator, 612-673-5010

Approved by: Charles T. Lutz, Deputy Director\_\_\_\_\_

Jack Kryst, Director, Development Finance\_\_\_\_\_

Presenter in Committee: Carrie Flack, Sr. Project Coordinator

### **Financial Impact**

- No financial impact

### **Community Impact**

- Neighborhood Notification: Notification of this project was sent to the neighborhoods prior to the City Planning Commission hearing on July 16, 2007. This project was previously presented to the Above the Falls Citizen Advisory Committee on May 22, 2007, and the North Washington Jobs Park Committee on June 19, 2007. Both groups have submitted letters of support. The Northside Residents Redevelopment Council has also indicated support for the Coloplast project.
- City Goals: One Minneapolis - Equal Access, Equal Opportunity, Equal Input
- Comprehensive Plan: 2.8 Minneapolis will develop the existing economic base by emphasizing business retention and expansion; 2.9 Minneapolis will strengthen long-term confidence in the economy by building innovative public to private sector partnerships; 9.6 Minneapolis will work with private and other public sector partners to invest in new development that is attractive, functional, and adds value to the physical environment.
- Zoning Code: The proposed project is currently in compliance with zoning code and will follow all required City processes for new construction and the campus expansion portion of the project. The Coloplast project received approval of its application from the City Planning Commission on July 16, 2007.
- Sustainability Targets: NA
- Living Wage/Business Subsidy Agreement - Yes\_\_X\_\_ No\_\_\_\_\_(This will be executed on or before the redevelopment contract and loan closing date)
- Job Linkage - Yes\_\_\_\_\_ No\_\_X\_\_
- Other

### **SUPPORTING INFORMATION**

#### **Background**

On August 3, 2007, the City Council granted Project Analysis Authorization to allow staff to analyze Coloplast's request for tax increment assistance for its North American headquarters expansion project. Coloplast is located at 1601 West River Road in Ward 5 on property owned by a company it acquired known as the Mentor Corporation. Mentor Corporation was founded in Minneapolis in 1969 to manufacture urology products. In 1972, Mentor moved to the West River Road site in Minneapolis. The original building included research and development, manufacturing, sales and administration. As the company grew, it purchased additional property along West River Road, including buildings at 1525, 1601 and 1615 West River Road.

In 1985, Mentor purchased a medical device company in Santa Barbara, California, and moved the headquarters to California. The West River Road site then became the research and development and manufacturing site for Mentor Urology, specializing in continence management devices as well as implantable devices to cure erectile dysfunction.

In June 2006, Coloplast A/S of Denmark bought the urological business of Santa Barbara - based Mentor Corporation, including the facilities on West River Road in Minneapolis. Coloplast is not new to the United States. Since 1990, sales and distribution facilities

have been located in Marietta, Georgia. Once the purchase of Mentor Corporation took place, a search began to determine the preferred site for a new North American headquarters. The headquarters location is important because Coloplast is projecting significant growth in the US market.

In July 2006, Coloplast announced that they would like Minneapolis to be the site of their North American headquarters. The reasons included: the existing Mentor labor force of approximately 300 employees; the presence of a strong medical device industry; the availability of a well educated and trained labor force; and, the belief that Minneapolis can accommodate long-term growth projections of Coloplast for the next 50 years.

### **Development Project**

Coloplast occupies 140,000 square feet at the West River Road location. The scope of the current project is to construct a new six-story, 90,000 sq. ft. "first-class" headquarters office building and 40,000 sq. ft. of new product development. The existing manufacturing space will be renovated with a portion of the warehouse space in the building being converted to a research and development use. There are two buildings on the site that will be demolished: a 14,975 sq. ft. two-story office building located at 1601 West River Road and a 67,275 sq. ft. single-story manufacturing building located at 1615 West River Road. With the existing building and new construction, the total amount of square footage on the site will be 197,050 sq. ft. with approximately 284 on-site parking spaces.

Coloplast is relocating a portion of its healthcare manufacturing operations (approximately 100 jobs) to a facility in Vadnais Heights. This move is to accommodate the new construction on the site and to satisfy the parking need. It is the intent of Coloplast to relocate the displaced healthcare manufacturing back to the West River Road Headquarters location upon the acquisition of additional land in the area as a potential second phase of the project.

The new office tower will accommodate 200 new headquarters employees with room for significant growth. Coloplast will also make improvements to the existing manufacturing area by increasing the space dedicated to research and development. These improvements represent the first of their expansion projects proposed over the next eleven years. A site plan and elevation are attached as **Exhibit 1**.

### **TAX INCREMENT FINANCING ASSISTANCE**

The total development cost (TDC) of the project is currently projected to be approximately \$48.5 million. Coloplast's application requested 25 years of tax increment financing (TIF) assistance to fund \$3.5 million in upfront demolition, rehabilitation and other TIF-eligible project costs. Initially their application also requested TIF assistance through the City's issuance of a TIF revenue bond. However, this request was subsequently revised to request TIF assistance through the City's issuance of a TIF pay-as-you-go revenue note, which is the more typical form of TIF financing provided to commercial projects in the City of Minneapolis.

**Estimated Development Costs:** Project costs are as follows:

Current Land & Buildings	\$8,722,500
Relocation	60,000
Design	2,360,090
Construction	32,330,000
Development & Misc.	692,732
Surgical Production Equipment	750,000
Furniture, Fixtures & Equipment	2,015,000
IT Systems	250,000
Contingency	1,264,178
<b>TOTAL</b>	<b>\$48,444,500</b>

**Estimated Development Sources:** Project sources are as follows:

Private Financing	\$44,065,000	91%
Tax Increment Financing	2,935,000	6%
DEED & Met Council Grants	944,500	2%
MIF Grant	500,000	1%
<b>TOTAL</b>	<b>\$48,444,500</b>	<b>100%</b>

A blight analysis was completed which determined that the subject site is blighted and will qualify as a redevelopment TIF district. The proposed development project will eliminate blight and provide 200 new jobs. The proposed development would not occur at this location without public financial assistance due to the extraordinary costs involved in the redevelopment of an industrial urban location when compared to other available development sites considered by Coloplast.

In addition, as this property is currently in the North Washington Industrial Park Tax Increment District, the City must first decertify these parcels in order to establish a new tax increment district. The City received approval from the bond insurer, MBIA, to release the three parcels from the NWIP plan area.

CPED has determined that up to \$2,935,000 in tax increment financing assistance is justifiable. Such assistance will be provided to the project through the issuance of a TIF pay-as-you-go revenue note. The note will carry an annual interest rate of 7.25%, and it is currently projected that the note will be paid off utilizing 21 years of tax increment collection. The note will reimburse Coloplast for the following TIF-eligible upfront costs:

- Site Improvements \$1,780,000
- Public Improvements/Utilities 475,000
- Streets/Sidewalks/Parking Lots 680,000

## **ADDITIONAL PUBLIC ASSISTANCE**

### **Public Financing**

In addition to the environmental remediation grants awarded to the Coloplast project totaling \$944,500, the City will apply, accept and appropriate funds from the Minnesota Department of Employment and Economic Development (DEED) Minnesota Investment Fund (MIF) in the amount \$500,000 for equipment related to the Coloplast campus expansion project. This set of actions is described more fully in a companion report. Furthermore, DEED has up to \$400,000 through the Minnesota Job Skills Partnership Program that Coloplast may elect to apply for as well which will help deliver the workforce committed to with the awarding of these public funds.

In accordance with the City's wage and job criteria under the Business Subsidy Act, for every \$25,000 of subsidy in a project, one living wage job must be created. Thus, Coloplast must create 140 new living wage jobs for the \$2,935,000 in TIF assistance received from the City and \$500,000 in MIF funds received from DEED. Coloplast will enter into a business subsidy agreement with the City requiring repayment of a proportional amount of the assistance if these wage and job goals are not met by August 28, 2008. The environmental grants are exempt from this requirement.

In addition, Coloplast has worked with the City to establish employment goals in excess of the City requirements. These goals are specifically defined in the redevelopment contract business terms section below. The City will recapture a portion of the TIF assistance in the event that these goals are not met.

### **Proposed Redevelopment Contract Business Terms**

1. Minimum Improvements: Coloplast must construct minimum improvements consisting of rehabilitation of an existing building and new construction of a 6-story, 90,000 square foot office building, 40,000 square feet of research and development space and related improvements on the 1601 West River Road site within 18 months after closing.
2. TIF Assistance: City will provide a pay-as-you-go TIF note not to exceed \$2,935,000 (annual interest rate of 7.25%)

#### TIF eligible expenses

Site Improvements	\$1,780,000
Public Improvements/Utilities	475,000
Streets/Sidewalks/Parking Lots	<u>680,000</u>
<b>Total</b>	<b>\$2,935,000</b>

3. TIF Recapture: Coloplast agrees that the total number of Coloplast employees, the number of employees who are Minneapolis residents, and the number of North Minneapolis residents shall at a minimum, be as follows as of August 28, 2011:

- Total Twin Cities Employees = 458  
Minneapolis Residents = 91  
North Minneapolis Residents = 25
- Total Headquarters Employees = 338  
Minneapolis Residents = 63  
North Minneapolis Residents = 15

If a shortfall in jobs exists in any category on August 28, 2011, and such shortfall is not cured within 180 days then the principal amount of the TIF note shall at that time be permanently reduced by \$25,000 per job below the minimums listed above. The maximum recapture amount is \$600,000.

4. Business Subsidy Agreement: 120 jobs for TIF; 20 jobs for MIF; start date is August 28, 2006. Two-year measurement date is August 28, 2008.

By Goodman and Ostrow

**Adopting the Coloplast Redevelopment Tax Increment Finance (TIF) Plan, and Modification 15 to the North Washington Industrial Park (NWIP) Redevelopment Plan and Modification 110 to the Common Development and Redevelopment and Common TIF Plan.**

**Resolved by The City Council of The City of Minneapolis:**

1.1 Pursuant to Laws of Minnesota 2003, Chapter 127, Article 12, Sections 31-34, and Minneapolis Code of Ordinances, Chapter 415, the City of Minneapolis (the "City") has been granted the authority to propose and implement city development districts, housing and redevelopment projects and tax increment financing ("TIF") districts, all pursuant to Minnesota Statutes, Sections 469.001 through 469.134, and 469.174 through 469.179, as amended, and other laws enumerated therein (collectively, the "Project Laws").

1.2 By Resolution duly adopted on August 31, 1973, the City approved the creation of the NWIP Redevelopment and TIF Plan, which was subsequently modified by Modifications 1 through 14. Further, by Resolution No 89R-530 duly adopted December 15, 1989 and approved December 21, 1989, the City approved the Common Development and Redevelopment and Common TIF Plan (the "Common Plans"). The project area established by the NWIP Redevelopment Plan (the "Project Area") is geographically located within the Project Area established by the Common Plans (the "Common Project"). The parcels included in the new Coloplast Redevelopment TIF District are being removed from the existing TIF District No 8 in order that those parcels can be included in the new Coloplast TIF District and will remain within the existing NWIP Redevelopment Project Area; however, the new TIF district is not being incorporated into the Common Project and will not be subject to the existing Common Project obligations and commitments. Rather, it is being created as a free-standing TIF district.

1.3 It has been proposed and the City has prepared, and this Council has investigated the facts with respect to, a proposed new Coloplast Redevelopment TIF Plan, and Modification 15 to the NWIP Redevelopment Plan and Modification 110 to the Common Plans ("collectively, the Plans"). The Plans create a redevelopment TIF district to accommodate the activities and financing related to the proposed Coloplast project, all pursuant to and in accordance with the Project Laws. The Plans describe property to be included within the boundaries of the TIF district, contain a budget for expenditures, reflect project activities and costs, and remove parcels from an existing TIF district, all pursuant to and in accordance with the Project Laws.

1.4 The City has performed all actions required by law to be performed prior to the adoption of the Plans, including, but not limited to, a review of the proposed Plans by the affected neighborhood groups and the City Planning Commission, transmittal of the proposed Plans to the Hennepin County Board of Commissioners and the School Board of Special School District No 1 for their review and comment, and the holding of a public hearing after published and mailed notice as required by law.

1.5 The Council hereby determines that it is necessary and in the best interest of the City at this time to approve the Plans.

## **Section 2. Findings for the Adoption of the Plans**

2.1 The Council hereby finds, determines and declares that the actions authorized by the Plans are all pursuant to and in accordance with the Project Laws.

2.2 The Council hereby finds, determines and declares that the Plans will afford maximum opportunity, consistent with the sound needs of the City as a whole, for the development or redevelopment of the project by private enterprise, as additional public benefits will include tax base enhancement, job retention and expansion, blight removal, environmental remediation, and public and private sector partnerships.

2.3 The Council further finds, determines and declares that the TIF district consists of three parcels, all exhibiting signs of blighting influences such as inability to meet existing State Energy Code regulations, and building and accessibility codes. The structures are substandard and contain defects in structural elements, are in need of major repair, in deteriorated condition, and are functionally obsolete. The roof mechanical systems are unscreened and some are at or near the end of service life. It is determined by City staff that all subject properties are substandard and meet the criteria for blighted condition due to the substantial cost to remedy the existing code violations noted at each property. None of the structures could be modified to satisfy building codes at a cost of less than 15% of the cost of constructing a new structure of the same square footage and type on the site. All properties were found to be detrimental to the safety, health, morals or welfare of the community by reason of dilapidation, obsolescence, overcrowding, faulty arrangement or lack of ventilation and structural damage as documented by the differential settlement and shifting due to poor soil conditions that exist under bearing points. Furthermore, the site was historically used as a sawmill and occupied by railroad tracks. Soil impacted with polynuclear aromatic hydrocarbons and resource conservation and recovery act metals was detected at the site at levels exceeding MPCA Industrial Soil Reference Values in areas proposed for redevelopment throughout the site.

2.4 The Council further finds, determines and declares that the Coloplast Redevelopment TIF District is a redevelopment TIF district pursuant to Minnesota Statutes, Section 469.174, Subdivision 10. Further, more than 70% of the area of the proposed redevelopment TIF district is occupied by buildings, streets, utilities, paved or gravel parking lots and other similar structures and more than 50% of the structures (100%) are structurally substandard to a degree requiring substantial renovation or clearance as noted in 2.3 herein.

The proposed redevelopment TIF district is located within the NWIP Redevelopment Project, in accordance with the provisions of Minnesota Statutes Sections 469.001 through 469.047.

2.5 The Council further finds, determines and declares that the Plans conform to the general plan for the development or redevelopment of the City as a whole. Written comments of the Planning Commission with respect to the Plans were issued, are incorporated herein by reference, and are on file in the office of the City Clerk.

2.6 The Council further finds, determines and declares that the use of tax increment financing is deemed necessary as the proposed development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future, and the increased market value of the site that could reasonably be expected to occur without the use of tax increment financing would be less than the increase in the market value estimated to result from the proposed development after subtracting the present value of the projected tax increment for the maximum duration of the district permitted by the TIF plan. Because it is the opinion of the City that the proposed project to be financed, in part, by the TIF District would not occur solely through private investment at this time, the City projects that the estimated market value of the site without the use of tax increment would remain at its present level. The calculations necessary to pass this test are contained in the TIF Plan. The public redevelopment activity, expenditures, and market values associated with the development proposed in the TIF Plan results in a series of calculations and figures that clearly pass the market value test.

2.7 The Council further finds, determines and declares that the entire fiscal disparity contribution required of the City for development occurring within this district be taken from outside the Coloplast TIF District. Due to the level of required subsidy for this project, using a portion of the tax increment generated from this project to pay fiscal disparities is not financially viable and would stop the proposed project from developing. The election provided in the Minnesota Statutes Section 469.177, Subdivision 3, paragraph (a) is elected for the Coloplast TIF district.

2.8 The Council further finds additional public benefits will include tax base enhancement, environmental remediation, job retention and creation of additional living-wage jobs, expansion of new and existing services, and elimination of blighting influences.

2.9 The Council further finds, determines and declares that it is necessary and in the best interest of the City at this time to approve the Plans.

### **Section 3. Approval of the Plans; Creation of Redevelopment TIF District**

3.1 Based upon the findings set forth in Section 2 hereof, the Plans presented to the Council on this date are hereby approved and shall be placed on file in the office of the City Clerk.

## **Section 4. Implementation of the Plans**

4.1 The officers and staff of the City, and the City's consultants and counsel, are authorized and directed to proceed with the implementation of the Plans, and for this purpose to negotiate, draft, prepare and present to this Council for its consideration, as appropriate, all further modifications, resolutions, documents and contracts necessary for this purpose.

4.2 As provided under Minnesota Statutes, Section 469.1781, Subd. 7, this Council hereby authorizes the advance of revenues from other available development revenues of the City in the principal amount needed to offset any negative fund balances incurred with respect to the district as a result of expenditures incurred prior to or in excess of the collection of tax increment revenue. The interest rate paid on such advances shall be equal to the rate of interest those revenues would have generated in their fund. The term of this advance shall end upon the termination of the district, although as revenues are available in the fund for the district, the advance shall be offset by such amounts.

By Goodman and Ostrow

**Adopting the Coloplast Redevelopment Tax Increment Finance (TIF) Plan, and Modification 15 to the North Washington Industrial Park (NWIP) Redevelopment Plan and Modification 110 to the Common Development and Redevelopment and Common TIF Plan.**

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1.4 The City has performed all actions required by law to be performed prior to the adoption of the Plans, including, but not limited to, a review of the proposed Plans by the affected neighborhood groups and the City Planning Commission, transmittal of the proposed Plans to the Hennepin County Board of Commissioners and the School Board of Special School District No 1 for their review and comment, and the holding of a public hearing after published and mailed notice as required by law.

1.5 The Council hereby determines that it is necessary and in the best interest of the City at this time to approve the Plans.

## **Section 2. Findings for the Adoption of the Plans**

2.1 The Council hereby finds, determines and declares that the actions authorized by the Plans are all pursuant to and in accordance with the Project Laws.

2.2 The Council hereby finds, determines and declares that the Plans will afford maximum opportunity, consistent with the sound needs of the City as a whole, for the development or redevelopment of the project by private enterprise, as additional public benefits will include tax base enhancement, job retention and expansion, blight removal, environmental remediation, and public and private sector partnerships.

2.3 The Council further finds, determines and declares that the TIF district consists of three parcels, all exhibiting signs of blighting influences such as inability to meet existing State Energy Code regulations, and building and accessibility codes. The structures are substandard and contain defects in structural elements, are in need of major repair, in deteriorated condition, and are functionally obsolete. The roof mechanical systems are unscreened and some are at or near the end of service life. It is determined by City staff that all subject properties are substandard and meet the criteria for blighted condition due to the substantial cost to remedy the existing code violations noted at each property. None of the structures could be modified to satisfy building codes at a cost of less than 15% of the cost of constructing a new structure of the same square footage and type on the site. All properties were found to be detrimental to the safety, health, morals or welfare of the community by reason of dilapidation, obsolescence, overcrowding, faulty arrangement or lack of ventilation and structural damage as documented by the differential settlement and shifting due to poor soil conditions that exist under bearing points. Furthermore, the site was historically used as a sawmill and occupied by railroad tracks. Soil impacted with polynuclear aromatic hydrocarbons and resource conservation and recovery act metals was detected at the site at levels exceeding MPCA Industrial Soil Reference Values in areas proposed for redevelopment throughout the site.

2.4 The Council further finds, determines and declares that the Coloplast Redevelopment TIF District is a redevelopment TIF district pursuant to Minnesota Statutes, Section 469.174, Subdivision 10. Further, more than 70% of the area of the proposed redevelopment TIF district is occupied by buildings, streets, utilities, paved or gravel parking lots and other similar structures and more than 50% of the structures (100%) are structurally substandard to a degree requiring substantial renovation or clearance as noted in 2.3 herein.

The proposed redevelopment TIF district is located within the NWIP Redevelopment Project, in accordance with the provisions of Minnesota Statutes Sections 469.001 through 469.047.

2.5 The Council further finds, determines and declares that the Plans conform to the general plan for the development or redevelopment of the City as a whole. Written comments of the Planning Commission with respect to the Plans were issued, are incorporated herein by reference, and are on file in the office of the City Clerk.

2.6 The Council further finds, determines and declares that the use of tax increment financing is deemed necessary as the proposed development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future, and the increased market value of the site that could reasonably be expected to occur without the use of tax increment financing would be less than the increase in the market value estimated to result from the proposed development after subtracting the present value of the projected tax increment for the maximum duration of the district permitted by the TIF plan. Because it is the opinion of the City that the proposed project to be financed, in part, by the TIF District would not occur solely through private investment at this time, the City projects that the estimated market value of the site without the use of tax increment would remain at its present level. The calculations necessary to pass this test are contained in the TIF Plan. The public redevelopment activity, expenditures, and market values associated with the development proposed in the TIF Plan results in a series of calculations and figures that clearly pass the market value test.

2.7 The Council further finds, determines and declares that the entire fiscal disparity contribution required of the City for development occurring within this district be taken from outside the Coloplast TIF District. Due to the level of required subsidy for this project, using a portion of the tax increment generated from this project to pay fiscal disparities is not financially viable and would stop the proposed project from developing. The election provided in the Minnesota Statutes Section 469.177, Subdivision 3, paragraph (a) is elected for the Coloplast TIF district.

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3.1 Based upon the findings set forth in Section 2 hereof, the Plans presented to the Council on this date are hereby approved and shall be placed on file in the office of the City Clerk.

### **Section 4. Implementation of the Plans**

4.1 The officers and staff of the City, and the City's consultants and counsel, are authorized and directed to proceed with the implementation of the Plans, and for this purpose to negotiate, draft, prepare and present to this Council for its consideration, as appropriate, all further modifications, resolutions, documents and contracts necessary for this purpose.

4.2 As provided under Minnesota Statutes, Section 469.1781, Subd. 7, this Council hereby authorizes the advance of revenues from other available development revenues of the City in the principal amount needed to offset any negative fund balances incurred with respect to the district as a result of expenditures incurred prior to or in excess of the collection of tax increment revenue. The interest rate paid on such advances shall be equal to the rate of interest those revenues would have generated in their fund. The term of this advance shall end upon the termination of the district, although as revenues are available in the fund for the district, the advance shall be offset by such amounts.