# Economic Development Authority

Monday, May 20, 2024
5:30 PM
Elk River City Hall

## Regular Meeting
## &
## Work Session
## Agenda

- Regular meeting in Council Chambers
- Work Session meeting in Upper Town Conference Room immediately following regular meeting

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1. CALL MEETING TO ORDER

2. PLEDGE OF ALLEGIANCE

3. CONSIDER AGENDA

4. CONSENT AGENDA

   Considered to be routine and noncontroversial and will be approved by one motion. There will be no separate discussion of these items unless there is a request to remove the item from the consent agenda to the regular agenda.

   4.1 Minutes

   4.2 Check Register

   4.3 Balance Sheet

   4.4 Revenue/Expenditure Reports

5. OPEN FORUM

   An opportunity to provide comments and feedback regarding items not on the agenda. Information provided in Open Forum will not be discussed at this meeting; rather, the information will be referred to staff and/or scheduled for discussion at a future meeting.

6. PUBLIC HEARINGS

   An opportunity for the public to express their opinions and raise questions pertaining to the agenda item. All comments become part of the official public record. For this reason, all comments must be made at the podium so they can be heard and recorded. Comments may also be provided in writing. There will not be deliberations, discussions, or answers to questions until the hearing is closed. It is important to be courteous and allow each presenter to comment before adding additional testimony.

7. GENERAL BUSINESS

   Items in which the information is presented by city staff or consultants, then deliberation and action occur. General Business items are not opportunities to receive or provide public input. However, the presiding officer may, at its sole discretion, solicit public feedback.

   7.1 Heritage Millwork Tax Increment Financing

   7.2 Heritage Millwork Energy Incentive Program

   7.3 General Updates

8. MOTION TO ADJOURN REGULAR MEETING

# Meeting of the Economic Development Authority
# Held at the Elk River City Hall
# Monday, April 15, 2024

| | |
|---|---|
| Members Present: | Chair Dan Tveite, Commissioners Cory Grupa, Jeff Hartwig, Mike Beyer, Jennifer Wagner, and Charlie Blesener |
| Members Absent: | Commissioner Westgaard |
| Staff Present: | Economic Development Director Brent O'Neil, Economic Development Specialist Joshua Mollan, and City Clerk Tina Allard |

1. CALL MEETING TO ORDER

   Pursuant to due call and notice thereof, the meeting was called to order at 5:30 p.m.

2. PLEDGE OF ALLEGIANCE

   The Pledge of Allegiance was recited.

3. CONSIDER AGENDA

   **Moved by Commissioner Wagner and seconded by Commissioner Beyer to approve the agenda. Motion Carried 6-0.**

4. CONSENT AGENDA

   **Moved by Commissioner Grupa and seconded by Commissioner Blesener to approve the consent agenda as outlined in their respective staff reports. Motion Carried 6-0.**

   4.1 Minutes

   4.2 Check Register

   4.3 Balance Sheet

   4.4 Revenue/Expenditure Reports

   4.5 Updated Agreement with OrangeBall Creative

5. OPEN FORUM

No one appeared for Open Forum.

6. PUBLIC HEARINGS

6.1 Sale of Property at 13530 and 13566 185th Avenue NW (continued from March 18, 2024)

Mr. O'Neil presented the staff report.

Chair Tveite opened the public hearing. There being no one to speak to this matter, Chair Tveite closed the public hearing.

**Moved by Commissioner Wagner and seconded by Commissioner Beyer to adopt, by motion, Resolution 24-02 authorizing the execution of a purchase agreement for the sale of property at 13530 and 13566 185th Avenue NW to Java Companies. Motion Carried 6-0.**

7. GENERAL BUSINESS

7.1 Committee Updates and Member Appointment

Mr. Mollan presented the staff report. He noted with the Beautification and Public Art Committee's merging, the group is discussing a more appropriate name change that will come forward at a future EDA meeting. He discussed temporary signage, proposed by the Together Elk River Committee, to be located on the Main Street & Gates Avenue EDA-owned property, that will promote visiting the Carson Avenue businesses during construction season.

**Moved by Commissioner Wagner and seconded by Commissioner Blesener to appoint Tamara Ackerman to serve on the Together Elk River Committee. Motion Carried 6-0.**

7.2 Placer.ai Renewal

Mr. Mollan presented the staff report highlighting how valuable this tool is, and they are finding more ways to utilize it. He stated he would do another presentation at an upcoming meeting.

Commissioner Wagner stated this tool is a good use of marketing funds for business retention and growth.

7.3 General Updates

There were no updates.

8. MOTION TO ADJOURN REGULAR MEETING

**Moved by Commissioner Beyer and seconded by Commissioner Grupa to adjourn the meeting. Motion Carried 6-0.**

The meeting adjourned at 5:45 p.m.

Minutes prepared by Tina Allard.

9. WORK SESSION – UPPER TOWN CONFERENCE ROOM
The work session began at 5:49 p.m.

9.1 Introduction - Acumen Business Solutions

Mr. O'Neil introduced Vinita Patil, with Acumen Business Solutions

Ms. Patil discussed what it would look like to bring a hotel to the community. She stated, per marketing research, analysis, and site selection, there is a need in the area for a hotel. She noted they have a feasibility study in progress currently. She stated there is community support to have a hotel here. Her company would provide acquisition and negotiation for a project. She noted there are still some questions to be answered:

- how can we have partners and investors
- attracting people to the area
- are there residents who would want to be owners
- are there local banks willing to assist with funding.

Commissioner Wagner asked what other locations we might be familiar with that were implemented by Acuman and the type of hotel that would be built; whether chain or boutique style.

Ms. Patil discussed her company's experience with over 30 years in business. She mentioned a hotel in Baxter that they own and manage and that they are currently looking at other sites. She stated there is very much a need for hotel rooms as growth is coming in this direction. She stated a hotel style hasn't been determined but they are lookIng at both options and it will depend on the outcome of the study. She stated they are considering around 80 rooms.

Commissioner Beyer asked what the number one reason is to have a hotel.

Ms. Patil stated it's about the events held in the area. She asked if the commission was interested in extended stay hotels, a full service hotel with a restaurant, or event center space.

The Authoirty concurred no on having event center space and extended stay, but liked having a restaurant on site.

Chair Tveite suggested a newspaper article solicting for investors when ready. Commissioner Grupa stated feedback could be solicited on social media to see how people feel about it.

9.2 Projects Update

Mr. O'Neil presented the staff report. He highlighted the 120 acres on Jarvis Street, a mile north of Highway 10, noting potential industrial opportunities at this location. He further discussed Project Hinge looking to locate, expand, and apply for a micro loan in the Nature's Edge development.

10. MOTION TO ADJOURN
**Moved by Councilmember Wagner and seconded by Councilmember Beyer to adjourn the work session. Motion Carried 6-0.**

The meeting adjourned at 6:09 p.m.

Minutes prepared by Tina Allard.

______________________ ______________________

Dan Tveite, EDA President Tina Allard, City Clerk

4.2.

| VENDOR SORT KEY | DESCRIPTION | FUND | DEPARTMENT | AMOUNT |
|---|---|---|---|---|
| ELK RIVER AREA CHAMBER OF COM | ERACC GOLF TOURNAMENT-O'NE | EDA | Economic Development | 225.00 |
| | ANNUAL SUBSCRIPTION-GROW M | EDA | Economic Development | 500.00 |
| | | | TOTAL: | 725.00 |
| CITY OF ELK RIVER | REIMB SALARIES APR, SUPPLI | EDA | Economic Development | 9,453.04 |
| | REIMB SALARIES APR, SUPPLI | EDA | Economic Development | 1,050.00 |
| | REIMB SALARIES APR, SUPPLI | EDA | Economic Development | 716.48 |
| | REIMB SALARIES APR, SUPPLI | EDA | Economic Development | 582.17 |
| | REIMB SALARIES APR, SUPPLI | EDA | Economic Development | 138.34 |
| | REIMB SALARIES APR, SUPPLI | EDA | Economic Development | 2,392.20 |
| | REIMB SALARIES APR, SUPPLI | EDA | Economic Development | 28.40 |
| | | | TOTAL: | 14,360.63 |
| KENNEDY & GRAVEN CHARTERED | LEGAL SVCS - EDA | EDA | Economic Development | 29.00 |
| | LEGAL SVCS - EDA | EDA | Economic Development | 585.00 |
| | | | TOTAL: | 614.00 |
| JOSHUA MOLLAN | REIMB MILEAGE 4/18 | EDA | Economic Development | 41.94 |
| | | | TOTAL: | 41.94 |
| US BANK | EDA CC PAYMENT | EDA | Economic Development | 131.45 |
| | | | TOTAL: | 131.45 |

=============== FUND TOTALS ================

| | | |
|---|---|---|
| 920 | EDA | 15,873.02 |
| | GRAND TOTAL: | 15,873.02 |

TOTAL PAGES: 1

BALANCE SHEET

AS OF: APRIL 30TH, 2024

4.3.

920-EDA

| ACCOUNT # | ACCOUNT DESCRIPTION | BALANCE | | |
|---|---|---|---|---|
| ASSETS | | | | |
| ====== | | | | |
| 920-1010 | Cash - EDA | 1,844,936.99 | | |
| 920-1610 | Land Held for Resale | 175,000.00 | | |
| | | | 2,019,936.99 | |
| | TOTAL ASSETS | | | 2,019,936.99 |
| | | | | ============== |
| LIABILITIES | | | | |
| =========== | | | | |
| EQUITY | | | | |
| ====== | | | | |
| 920-2400 | Fund Balance | 1,867,515.88 | | |
| | TOTAL BEGINNING EQUITY | 1,867,515.88 | | |
| | TOTAL REVENUE | 219,925.97 | | |
| | TOTAL EXPENSES | 67,504.86 | | |
| | TOTAL REVENUE OVER/(UNDER) EXPENSES | 152,421.11 | | |
| | TOTAL EQUITY & REV. OVER/(UNDER) EXP. | | 2,019,936.99 | |
| | TOTAL LIABILITIES, EQUITY & REV.OVER/(UNDER) EXP. | | | 2,019,936.99 |
| | | | | ============== |

REVENUE & EXPENSE REPORT (UNAUDITED)

AS OF: APRIL 30TH, 2024

4.4.

920-EDA

FINANCIAL SUMMARY

33.33% OF YEAR COMP.

| | CURRENT BUDGET | CURRENT PERIOD | YEAR TO DATE ACTUAL | % OF BUDGET | BUDGET BALANCE |
|---|---|---|---|---|---|
| REVENUE SUMMARY | | | | | |
| EDA | 434,950.00 | 7,157.29 | 219,925.97 | 50.56 | 215,024.03 |
| TOTAL REVENUES | 434,950.00 | 7,157.29 | 219,925.97 | 50.56 | 215,024.03 |
| EXPENDITURE SUMMARY | | | | | |
| Economic Development | | | | | |
| Economic Development | 434,950.00 | 27,405.75 | 67,504.86 | 15.52 | 367,445.14 |
| TOTAL Economic Development | 434,950.00 | 27,405.75 | 67,504.86 | 15.52 | 367,445.14 |
| TOTAL EXPENDITURES | 434,950.00 | 27,405.75 | 67,504.86 | 15.52 | 367,445.14 |
| REVENUES OVER/(UNDER) EXPENDITURES | 0.00 | ( 20,248.46) | 152,421.11 | | ( 152,421.11) |

REVENUE & EXPENSE REPORT (UNAUDITED)

AS OF: APRIL 30TH, 2024

920-EDA

33.33% OF YEAR COMP.

| REVENUES | CURRENT BUDGET | CURRENT PERIOD | YEAR TO DATE ACTUAL | % OF BUDGET | BUDGET BALANCE |
|---|---|---|---|---|---|
| EDA | | | | | |
| === | | | | | |
| Taxes | | | | | |
| 920-3-0000-3111 Property Taxes | 415,950.00 | 0.00 | 8,528.95 | 2.05 | 407,421.05 |
| TOTAL Taxes | 415,950.00 | 0.00 | 8,528.95 | 2.05 | 407,421.05 |
| Intergovernmental Rev | | | | | |
| Other Revenue | | | | | |
| 920-3-0000-3621 Interest Income | 15,000.00 | 7,157.29 | 24,129.67 | 160.86 | ( 9,129.67) |
| TOTAL Other Revenue | 15,000.00 | 7,157.29 | 24,129.67 | 160.86 | ( 9,129.67) |
| Other Financing Sources | | | | | |
| 920-3-0000-3910 Sale of Assets | 0.00 | 0.00 | 187,267.35 | 0.00 | ( 187,267.35) |
| TOTAL Other Financing Sources | 0.00 | 0.00 | 187,267.35 | 0.00 | ( 187,267.35) |
| Transfers In | | | | | |
| 920-3-0000-3949 Transfer-HRA | 4,000.00 | 0.00 | 0.00 | 0.00 | 4,000.00 |
| TOTAL Transfers In | 4,000.00 | 0.00 | 0.00 | 0.00 | 4,000.00 |
| TOTAL EDA | 434,950.00 | 7,157.29 | 219,925.97 | 50.56 | 215,024.03 |
| TOTAL REVENUE | 434,950.00 | 7,157.29 | 219,925.97 | 50.56 | 215,024.03 |

REVENUE & EXPENSE REPORT (UNAUDITED)

AS OF: APRIL 30TH, 2024

920-EDA

Economic Development 33.33% OF YEAR COMP.

Economic Development

| DEPARTMENTAL EXPENDITURES | CURRENT BUDGET | CURRENT PERIOD | YEAR TO DATE ACTUAL | % OF BUDGET | BUDGET BALANCE |
|---|---|---|---|---|---|
| Personal Services | | | | | |
| 920-4-6210-4101 Regular Pay | 123,900.00 | 14,179.57 | 28,359.13 | 22.89 | 95,540.87 |
| 920-4-6210-4103 Part-time Pay | 12,600.00 | 1,050.00 | 3,150.00 | 25.00 | 9,450.00 |
| 920-4-6210-4104 PERA | 9,500.00 | 1,070.97 | 2,149.44 | 22.63 | 7,350.56 |
| 920-4-6210-4105 FICA | 8,350.00 | 875.22 | 1,799.78 | 21.55 | 6,550.22 |
| 920-4-6210-4107 Medicare | 2,000.00 | 206.83 | 427.42 | 21.37 | 1,572.58 |
| 920-4-6210-4108 Insurance | 24,300.00 | 2,392.20 | 7,176.60 | 29.53 | 17,123.40 |
| 920-4-6210-4109 Workers Comp | 550.00 | 215.63 | 362.63 | 65.93 | 187.37 |
| TOTAL Personal Services | 181,200.00 | 19,990.42 | 43,425.00 | 23.97 | 137,775.00 |
| Supplies | | | | | |
| 920-4-6210-4201 Office Supplies | 2,500.00 | 0.00 | 78.42 | 3.14 | 2,421.58 |
| 920-4-6210-4212 Fuels & Lubes | 50.00 | 0.00 | 0.00 | 0.00 | 50.00 |
| TOTAL Supplies | 2,550.00 | 0.00 | 78.42 | 3.08 | 2,471.58 |
| Services & Charges | | | | | |
| 920-4-6210-4304 Legal Fees | 10,000.00 | 651.50 | 1,078.00 | 10.78 | 8,922.00 |
| 920-4-6210-4319 Professional Services | 27,000.00 | 0.00 | 0.00 | 0.00 | 27,000.00 |
| 920-4-6210-4321 Telephone | 400.00 | 0.00 | 0.00 | 0.00 | 400.00 |
| 920-4-6210-4322 Postage | 200.00 | 0.00 | 0.00 | 0.00 | 200.00 |
| 920-4-6210-4331 Travel, Conferences & Schools | 10,450.00 | 1,197.03 | 1,847.74 | 17.68 | 8,602.26 |
| 920-4-6210-4349 Advertising/Marketing | 67,200.00 | 3,040.00 | 9,671.50 | 14.39 | 57,528.50 |
| 920-4-6210-4359 Publishing | 350.00 | 111.80 | 189.20 | 54.06 | 160.80 |
| 920-4-6210-4361 Insurance | 250.00 | 25.00 | 50.00 | 20.00 | 200.00 |
| 920-4-6210-4404 Software Services | 11,100.00 | 0.00 | 3,600.00 | 32.43 | 7,500.00 |
| 920-4-6210-4433 Dues & Subscriptions | 4,750.00 | 2,390.00 | 4,565.00 | 96.11 | 185.00 |
| 920-4-6210-4440 Miscellaneous | 73,500.00 | 0.00 | 3,000.00 | 4.08 | 70,500.00 |
| TOTAL Services & Charges | 205,200.00 | 7,415.33 | 24,001.44 | 11.70 | 181,198.56 |
| Capital Outlay | | | | | |
| Transfers Out | | | | | |
| 920-4-6210-4721 Transfer-General Fund | 46,000.00 | 0.00 | 0.00 | 0.00 | 46,000.00 |
| TOTAL Transfers Out | 46,000.00 | 0.00 | 0.00 | 0.00 | 46,000.00 |
| TOTAL Economic Development | 434,950.00 | 27,405.75 | 67,504.86 | 15.52 | 367,445.14 |
| TOTAL Economic Development | 434,950.00 | 27,405.75 | 67,504.86 | 15.52 | 367,445.14 |
| TOTAL EXPENDITURES | 434,950.00 | 27,405.75 | 67,504.86 | 15.52 | 367,445.14 |
| REVENUES OVER/(UNDER) EXPENDITURES | 0.00 | ( 20,248.46) | 152,421.11 | | ( 152,421.11) |

# Request for Action

**To**
Economic Development Authority

**Item Number**
7.1

**Meeting Date**
May 20, 2024

**Prepared By**
Brent O'Neil, Economic Development Director

**Item Description**
Heritage Millwork Tax Increment Financing

**Reviewed by:**
Cal Portner

**Action Requested**
Adopt, by motion, a recommendation to the City Council for the approval of the Tax Increment Financing (TIF) plan for Heritage Millwork.

**Background/Discussion**
Heritage Millwork is a provider of pre-hung doors and other millwork products to the building materials industry. Heritage presently operates out of two facilities in Ramsey and a small facility in Elk River. The company has been looking to consolidate operations in a single facility that allows for operational efficiencies and the ability to expand in the future. The selected site is a 14.06 acre portion of city-owned property in the Nature's Edge Business Park. The city has negotiated a proposed sale of the property to PLM Properties, an associated entity of Heritage, which is planned for Council consideration in June.

The project will be a great addition to Elk River and meets many of the goals of the city and EDA. In addition to retaining eight Elk River positions, the company will locate 70 positions in Elk River in total at project completion with seven more within two years. Further, with adequate land for future expansion, the company anticipates more job growth in five to 10 years. The project will entail an investment of over $20,000,000 including a building of 113,000 square feet and new machinery.

In order to facilitate the development of the project, Heritage has requested participation of incentive programs, including TIF. The attached memo from Baker Tilly provides further information on the project and an analysis of the TIF request. In short, the project proposes to utilize TIF to write down the price of the land for the project. This analysis supports the purchase price of the city land of approximately $1,375,000 through proceeds of TIF.

Staff will provide a detailed presentation on the project and the TIF proposal during the meeting. The EDA is asked to submit a recommendation to the City Council for its consideration of the TIF request at its June 3rd meeting. The EDA may recommend approval, denial, or approval with modifications.

**Financial Impact**
An affirmative recommendation of the EDA would forward to the City Council a proposal to use approximately $1,375,000 in future tax increments to support the Heritage Millwork project.

**Mission/Policy/Goal**
Attract new business to Elk River, creating jobs, and increasing tax base.

**Attachments**
1. HMI Draft TIF Plan
2. TIF Summary Financial Analysis Memo
3. 04-30-2024 JFC Staff Report HMI Incentives
4. 04-30-2024 JFC Meeting Minutes
5. Heritage Millwork Concept Site Plan

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May 3, 2024

Baker Tilly Municipal Advisors, LLC
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St. Paul, MN 55101
United States of America

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F: +1 (651) 223 3046
bakertilly.com

Ms. Diane Arnold, County Auditor/Treasurer
Sherburne County Government Center
13880 Business Center Drive NW, Suite 100
Elk River, MN 55330
Email: Diane.Arnold@co.sherburne.mn.us

Re: City of Elk River, Minnesota
Public Hearing on Proposed Establishment of Tax Increment Financing (Economic Development) District No. 29 for Heritage Millwork Project
Estimated Fiscal and Economic Impact

Dear Ms. Arnold:

The City of Elk River is commencing the process for consideration of the establishment of a new economic development tax increment financing district. Pursuant to Minnesota Statutes section 469.175, subdivision 2, please find enclosed a draft copy of the Tax Increment Financing Plan for the proposed TIF District and the "fiscal and economic implications of the plan" as listed below:

1. The total amount of tax increment that will be generated over the life of the TIF district is estimated to be $2,016,791.

2. To the extent the facility in the proposed TIF District generates any public cost impacts on city-provided services such as police and fire protection, public infrastructure, and borrowing costs attributable to the district, such costs will be levied upon the taxable net tax capacity of the City, excluding that portion captured by the District. The City does not anticipate issuing tax increment revenue bonds in conjunction with this project but reserves the right to issue bonds as necessary to facilitate development.

3. The amount of tax increment over the life of the TIF District that would be attributable to school district levies, assuming the School District's share of the total local tax rate for all taxing jurisdictions remained the same, is estimated to be $480,843.

4. The amount of tax increment over the life of the TIF District that would be attributable to county levies, assuming the County's share of the total local tax rate for all taxing jurisdictions remained the same is estimated to be $735,555.

The City Council is scheduled to hold a public hearing on this proposal on Monday, June 3, 2024, at approximately 6:30 pm at the Elk River City Hall, 13065 Orono Parkway NW, Elk River, MN 55330. Your attendance at this meeting and comments concerning the proposed TIF district are welcomed. If you have any questions or if you would like to meet with a representative(s) of the City prior to the public hearing, please contact me at 651-223-3036 or Mikaela.Huot@bakertilly.com.

BAKER TILLY MUNICIPAL ADVISORS, LLC

Mikaela R Huot

Mikaela Huot, Director

Enclosure
CC: Brent O'Neil, City of Elk River

# Tax Increment Financing Plan

# for

# Tax Increment Financing (Economic Development) District No. 29

# within

# Development District No. 1

## (Heritage Millwork Project)

**City of Elk River, Minnesota**

Prepared by

Baker Tilly Municipal Advisors, LLC

Draft Dated: May 3, 2024

Public Hearing Scheduled: June 3, 2024
Anticipated Approval by City Council: June 3, 2024

## TABLE OF CONTENTS

## SECTION I – MODIFICATION TO THE DEVELOPMENT PROGRAM FOR DEVELOPMENT DISTRICT NO. 1

**Foreword**
The following text represents a Modification to the Development Program for Development District No. 1. This modification represents a continuation of the goals and objectives set forth in the Development Program for Development District No. 1. The changes generally include the Establishment of Tax Increment Financing (Economic Development) District No. 29.

For further information, a review of the Development Program for Development District No. 1 is recommended. It is available from the City Administrator in the City of Elk River. Other relevant information is contained in the Tax Increment Financing Plans for the Tax Increment Financing Districts located within Development District No. 1.

## SECTION II –TAX INCREMENT FINANCING PLAN

## FOR TAX INCREMENT FINANCING (ECONOMIC DEVELOPMENT) DISTRICT NO. 29

### Introduction
The following text represents the Tax Increment Financing Plan for Tax Increment Financing District No. 29.

**Section A Definitions**

The terms defined in this section have the meanings given herein, unless the context in which they are used indicates a different meaning:

"City" means the City of Elk River, Minnesota; also referred to as a "Municipality".

"City Council" means the City Council of the City.

"County" means Sherburne County, Minnesota.

"Development District" means Development District No. 1 in the City, which is described in the corresponding Development Program.

"Development Program" means the Development Program for the Development District.

"Project Area" means the geographic area of the Development District.

"School District" means Independent School District No. 728, Minnesota.

"State" means the State of Minnesota.

"TIF Act" means Minnesota Statutes, Sections 469.174 through 469.1794, both inclusive.

"TIF District" means Tax Increment Financing (Economic Development) District No. 29.

"TIF Plan" means the tax increment financing plan for the TIF District (this document).

**Section B Statutory Authorization**

See the Development Program for the Development District.

**Section C Statement of Need and Public Purpose**

See the Development Program for the Development District.

**Section D Statement of Objectives**

See the Development Program for the Development District.

**Section E Designation of Tax Increment Financing District as an Economic Development District**

Economic development districts are a type of tax increment financing district which consist of any project, or portions of a project, which the City finds to be in the public interest because:

(1) it will discourage commerce, industry, or manufacturing from moving their operations to another state or municipality;

(2) it will result in increased employment in the state; or

(3) it will result in preservation and enhancement of the tax base of the state; or

(4) it satisfies the requirements of a workforce housing project as defined below.

The TIF District qualifies as an economic development district in that the proposed development described in this TIF Plan (see Section I) meets the criteria listed above in (1) through (3).

Tax increments from an economic development district must be used to provide improvements, loans, subsidies, grants, interest rate subsidies, or other assistance in which at least 85% of the square footage of the facilities to be constructed are used for any of the following purposes:

(1) manufacturing, production, or processing of tangible personal property;

(2) warehousing, storage and distribution of tangible personal property, excluding retail sales;

(3) research and development related to the activities listed in (1) or (2) above;

(4) telemarketing if that activity is the exclusive use of the property;

(5) tourism facilities (see M.S. Section 469.174, Subd. 22);

(6) space necessary for and related to the activities listed in (1) through (5) above;

(7) a workforce housing project that satisfies the requirements under Minnesota Statutes, Section 469.176, subdivision 4c, paragraph (d).

Tax increments from the TIF District will be used to provide financial assistance to the proposed development (see Section I) as related to the construction of an approximate 113,000 square foot manufacturing/warehouse/distribution building with the potential for a 40,000 square foot expansion, which meets the definition as required.

**Section F Duration of the TIF District**

Economic development districts may remain in existence 8 years from the date of receipt by the City of the first tax increment. The City anticipates that the TIF District will remain in existence for the maximum duration allowed by law (projected to be through the year 2034, due to anticipated receipt of first increment in 2026). Modifications of this plan (see Section AA) shall not extend these limitations.

**Section G Property to be Included in the TIF District**

The TIF District is an area of land comprising of the parcels listed below that is located within the Project Area. A map showing the boundaries of the TIF District is shown in Exhibit I.

| Parcel ID Number * | Legal Description * |
|---|---|
| 75-00929-0020 | Sec.11 T32N R26W<br>OUTLOT B |

** portion of property identified by existing identification and legal description will be new project*

The area encompassed by the TIF District shall also include all street or utility right-of-ways located upon or adjacent to the property described above.

**Section H Property to be Acquired in the TIF District**

The City may acquire and sell any or all of the property located within the TIF District. It will not be acquiring any property at this time and will be selling the property to facilitate development.

**Section I Specific Development Expected to Occur Within the TIF District**

The proposed project is anticipated to include the construction of an approximate 113,000 square foot industrial facility (Phase 1) with a possibility of an additional 40,000 square foot expansion (Phase 2). Tax increment is a financing tool the City is planning to use for financing of a portion of the eligible costs associated with construction of the project. The square footage of the completed building will comply with the requirements of an economic development district in which the project will be with a qualifying purpose.

It is anticipated that the City will use the tax increment to finance all or a portion of the land acquisition costs, plus potential for related site development and other related costs that are necessary for this project to proceed. In addition, the city may use tax increment for related administrative expenses, and any other eligible expenditures associated with development of the site that may include additional necessary public improvements.

Construction of Phase 1 of the project is expected to commence in 2024 and be 50% assessed and on the tax rolls as of January 2, 2025, for taxes payable in 2026. 100% of construction is to be completed in 2025, assessed 2026 for taxes payable in 2027. Phase 2 that would include the 40,000 square foot expansion, if it proceeds would be constructed 2-3 years later and could be completed in 2026, assessed 2027 for taxes payable in 2028.

## Section J Findings and Need for Tax Increment Financing

In establishing the TIF District, the City makes the following findings:

(1) The TIF District qualifies as an economic development district;

See Section E of this document for the reasons and facts supporting this finding.

(2) The proposed development, in the opinion of the City, 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 increments for the maximum duration of the district permitted by the TIF Plan.

**Factual basis:**

*Proposed development not expected to occur:*

The proposed development consists of the construction of an approximately 113,000 square foot industrial facility with a possibility of an additional 40,000 square foot expansion. The Developer has requested financial assistance to finance the land acquisition costs and portion of the site development costs associated with development of the site and construction of the project. The Developer has provided supplemental financial information demonstrating that the development of this site would not occur without the assistance provided in this TIF Plan.

Therefore, the City has determined that the proposed development would not occur but for the financial assistance provided in this TIF Plan because of the increased costs related to development within the TIF District and construction of the project. The cost of construction of the project and availability of revenues to support repayment of debt has created a financial gap that requires a level of public assistance.

*No higher market value expected:*

The project to be constructed within TIF District No. 29 requires significant investment. To commence construction of the new industrial facility, assistance with financing a portion of those costs will be necessary. The financial assistance provided under this TIF Plan will help offset the upfront land acquisition costs. Given the nature of this project, there is no reasonable expectation of any development occurring that would generate as much market value increase as is estimated to be generated by the proposed development by the new business. Therefore, the City has concluded that substantial development at this particular site--and hence any significant increase in market value--is not reasonably expected to occur unless the City provides tax increment assistance as described in this Tax Increment Plan.

To summarize the basis for the City's findings regarding alternative market value, in accordance with Minnesota Statutes, Section 469.175, Subd. 3(d), the City makes the following determinations:

a. The City's estimate of the amount by which the market value of the site will increase without the use of tax increment financing is $0 (for the reasons described above), except some unknown amount of appreciation.

b. If the proposed development to be assisted with tax increment occurs in the District, the total increase in market value would be approximately $13,770,718, including the value of the building (See Exhibit II).

c. The present value of tax increments from the District for the maximum duration of the district permitted by the TIF Plan is estimated to be $1,613,824 (See Exhibit V).

d. Even if some development other than the proposed development were to occur, the Council finds that no alternative would occur that would produce a market value increase greater than $12,156,894 (the amount in clause b less the amount in clause c) without tax increment assistance.

(3) The TIF Plan will afford maximum opportunity, consistent with the sound needs of the City as a whole, for development of the Project Area by private enterprise.

**Factual basis:** The proposed development is the construction of a new industrial facility in the Project Area that is expected to create and retain up to 70 new jobs in the City and State, plus create new tax base for the City and the state. The development meets the City's community development goals in terms of land use, tax base growth and diversification and employment opportunities.

(4) The TIF Plan conforms to general plans for development of the City as a whole.

**Factual basis:** The City Council has determined that the development proposed in the TIF Plan conforms to the City comprehensive plan.

## Section K Estimated Public Costs

The estimated public costs of the TIF District are listed below. Such costs are eligible for reimbursement from tax increments of the TIF District.

| Estimated Public Costs | Estimated Amount |
|---|---|
| Land/Building acquisition | $1,372,140 |
| Site Improvements/Preparation costs | $264,520 |
| Utilities | $0 |
| Other public improvements | $0 |
| Construction of affordable housing | $0 |
| Administrative expenses | $100,477 |
| Total Estimated Public Costs | $1,737,137 |
| | |
| Interest expenses | $272,395 |
| | |
| Total Costs | $2,009,532 |

The City reserves the right to administratively adjust the amount of any of the items listed above or to incorporate additional eligible items, so long as the total estimated public costs ($2,009,532) do not increase. The City also reserves the right to fund any of the identified costs with any other legally available revenues, such as grants and/or loans, but anticipates that such costs will be primarily financed with tax increments.

**Section L Estimated Sources of Revenue**

| Estimated Sources of Revenue | Estimated Amount |
|---|---|
| Tax Increment revenue | $2,009,532 |
| Interest on invested funds | |
| | |
| Total | $2,009,532 |

The City anticipates providing financial assistance to the proposed development through upfront financing for land acquisition costs and potential pay-as-you-go financing for site improvement costs. As revenues are generated and collected from the TIF District in future years, they will be retained by the City for repayment of the upfront land costs plus any administrative or other expenses. Any remaining available funds may be provided as reimbursement to the Developer for certain identified costs as necessary within the TIF District to assist with financing the public costs incurred (see Section K).

The City reserves the right to finance any or all public costs of the TIF District using pay-as-you-go assistance, internal funding, general obligation or revenue debt, or any other financing mechanism authorized by law. The City also reserves the right to use other sources of revenue legally applicable to the Project Area to pay for such costs including, but not limited to, special assessments, utility revenues, federal or state funds, and investment income. The projected tax increment report is included as Exhibit III.

**Section M Estimated Amount of Bonded Indebtedness**

The maximum principal amount of bonds (as defined in the TIF Act) secured in whole or part with tax increment from the TIF District is $2,009,532. The City currently plans to finance the public costs through upfront financing. The City reserves the right to issue an interfund loan or issue bonds in any form, including without limitation any interfund loan with interest not to exceed the maximum permitted under Section 469.178, subd. 7 of the TIF Act.

**Section N Original Net Tax Capacity**

The County Auditor shall certify the original net tax capacity of the TIF District. This value will be equal to the total net tax capacity of all property in the TIF District as certified by the State Commissioner of Revenue. For districts certified between January 1 and June 30, inclusive, this value is based on the previous assessment year. For districts certified between July 1 and December 31, inclusive, this value is based on the current assessment year.

The Estimated Market Value of all property within the TIF District as of January 2, 2023, for taxes payable in 2024, is $110,095. Upon establishment of the TIF District, it is estimated that the original net tax capacity of the TIF District will be $1,651, upon classification as commercial/industrial.

Each year the County Auditor shall certify the amount that the original net tax capacity has increased or decreased as a result of:

(1) changes in the tax-exempt status of property;

(2) reductions or enlargements of the geographic area of the TIF District;

(3) changes due to stipulation agreements or abatements; or

(4) changes in property classification rates.

**Section O Original Tax Capacity Rate**

The County Auditor shall also certify the original tax capacity rate of the TIF District. This rate shall be the sum of all local tax rates that apply to property in the TIF District. This rate shall be for the same taxes payable year as the original net tax capacity.

In future years, the amount of tax increment generated by the TIF District will be calculated using the lesser of (a) the sum of the current local tax rates at that time or (b) the original tax capacity rate of the TIF District.

It is anticipated the request for certification of the District will occur before June 30, 2024, and the local tax rates for taxes levied in 2023 and payable in 2024 will apply. For purposes of estimating the tax increment generated by the TIF District, the sum of the local tax rates for taxes levied in 2023 and payable in 2024 of 100.344% have been used and are shown below:

| Taxing Jurisdiction | 2023/2024 Local Tax Rate |
|---|---|
| City of Elk River | 37.817% |
| Sherburne County | 36.597% |
| ISD 728 | 23.924% |
| Other | 2.006% |
| Total | 100.344% |

**Section P Projected Retained Captured Net Tax Capacity and Projected Tax Increment**

The City anticipates that the facility construction will be completed 50% completed by December 31, 2024, creating a total tax capacity for TIF District No. 29 of $81,750 as of January 2, 2025. The captured tax capacity as of that date is estimated to be $80,099 and the first full year of tax increment is estimated to be $80,374 payable in 2026. 100% of the facility will be completed by December 31, 2025, creating a total tax capacity will be $166,725 as of January 2, 2026. The captured tax capacity as of that date is estimated to be $165,074 and the second full year of tax increment is estimated to be $165,641 in 2027. If the expansion occurs it will be completed by December 31, 2026, creating a total tax capacity will be $231,749 as of January 2, 2027. The captured tax capacity as of that date is estimated to be $230,098 and the third full year of tax increment is estimated to be $230,889 in 2028. A complete schedule of estimated tax increment from the TIF District is shown in Exhibit III.

The estimates shown in this TIF Plan assume that commercial/industrial class rates remain at 1.5% up to $150,000 and 2% above $150,000 and assume 3% annual increase in market values.

Each year the County Auditor shall determine the current net tax capacity of all property in the TIF District. To the extent that this total exceeds the original net tax capacity, the difference shall be known as the captured net tax capacity of the TIF District.

The County Auditor shall certify to the City the amount of captured net tax capacity each year. The City may choose to retain any or all of this amount. It is the City's intention to retain 100% of the captured net tax capacity of the TIF District. Such amount shall be known as the retained captured net tax capacity of the TIF District.

Exhibit II gives a listing of the various information and assumptions used in preparing a number of the exhibits contained in this TIF Plan, including Exhibit III which shows the projected tax increment generated over the anticipated life of the TIF District.

### Section Q Use of Tax Increment

Each year the County Treasurer shall deduct 0.36% of the annual tax increment generated by the TIF District and pay such amount to the State's General Fund. Such amounts will be appropriated to the State Auditor for the cost of financial reporting and auditing of tax increment financing information throughout the state. Exhibit III shows the projected deduction for this purpose over the anticipated life of the TIF District.

The City has determined that it will use 100% of the remaining tax increment generated by the TIF District for any of the following purposes:

(1) pay for the estimated public costs of the TIF District (see Section K) and County administrative costs associated with the TIF District (see Section T);

(2) pay principal and interest on tax increment bonds or other bonds issued to finance the estimated public costs of the TIF District;

(3) accumulate a reserve securing the payment of tax increment bonds or other bonds issued to finance the estimated public costs of the TIF District;

(4) pay all or a portion of the county road costs as may be required by the County Board under M.S. Section 469.175, Subdivision 1a; or

(5) return excess tax increments to the County Auditor for redistribution to the City, County and School District.

Tax increments from property located in one county must be expended for the direct and primary benefit of a project located within that county, unless both county boards involved waive this requirement. Tax increments shall not be used to circumvent levy limitations applicable to the City.

Tax increment shall not be used to finance the acquisition, construction, renovation, operation, or maintenance of a building to be used primarily and regularly for conducting the business of a municipality, county, school district, or any other local unit of government or the State or federal government, or for a commons area used as a public park, or a facility used for social, recreational, or conference purposes. This prohibition does not apply to the construction or renovation of a parking structure or of a privately-owned facility for conference purposes.

If there exists any type of agreement or arrangement providing for the developer, or other beneficiary of assistance, to repay all or a portion of the assistance that was paid or financed with tax increments, such payments shall be subject to all of the restrictions imposed on the use of tax increments. Assistance includes sale of property at less than the cost of acquisition or fair market value, grants, ground or other leases at less then fair market rent, interest rate subsidies, utility service connections, roads, or other similar assistance that would otherwise be paid for by the developer or beneficiary.

**Section R Excess Tax Increment**

In any year in which the tax increments from the TIF District exceed the amount necessary to pay the estimated public costs authorized by the TIF Plan, the City shall use the excess tax increments to:

(1) prepay any outstanding tax increment bonds;

(2) discharge the pledge of tax increments thereof;

(3) pay amounts into an escrow account dedicated to the payment of the tax increment bonds; or

(4) return excess tax increments to the County Auditor for redistribution to the City, County and School District. The County Auditor must report to the Commissioner of Education the amount of any excess tax increment redistributed to the School District within 30 days of such redistribution.

**Section S Tax Increment Pooling and the Five-Year Rule**

At least 80% of the tax increments from the TIF District must be expended on activities within the district or to pay for bonds used to finance the estimated public costs of the TIF District (see Section E for additional restrictions). No more than 20% of the tax increments may be spent on costs outside of the TIF District but within the boundaries of the Project Area, except to pay debt service on credit enhanced bonds. All administrative expenses are considered to have been spent outside of the TIF District. Tax increments are considered to have been spent within the TIF District if such amounts are:

(1) actually paid to a third party for activities performed within the TIF District within five years after certification of the district;

(2) used to pay bonds that were issued and sold to a third party, the proceeds of which are reasonably expected on the date of issuance to be spent within the later of the five-year period or a reasonable temporary period or are deposited in a reasonably required reserve or replacement fund.

(3) used to make payments or reimbursements to a third party under binding contracts for activities performed within the TIF District, which were entered into within five years after certification of the district; or

(4) used to reimburse a party for payment of eligible costs (including interest) incurred within five years from certification of the district.

Beginning with the sixth year following certification of the TIF District, at least 80% of the tax increments must be used to pay outstanding bonds or make contractual payments obligated within the first five years. When outstanding bonds have been defeased and sufficient money has been set aside to pay for such contractual obligations, the TIF District must be decertified.

The City does not anticipate that any portion of tax increments will be spent outside of the TIF District (except allowable administrative expenses); but the City reserves the right to allow for tax increment pooling from the TIF District in the future.

**Section T Limitation on Administrative Expenses**

Administrative expenses are defined as all costs of the City other than:

(1) amounts paid for the purchase of land;

(2) amounts paid for materials and services, including architectural and engineering services directly connected with the physical development of the real property in the project;

(3) relocation benefits paid to, or services provided for, persons residing or businesses located in the project;

(4) amounts used to pay principal or interest on, fund a reserve for, or sell at a discount bonds issued pursuant to section 469.178; or

(5) amounts used to pay other financial obligations to the extent those obligations were used to finance costs described in clause (1) to (3).

Administrative expenses include amounts paid for services provided by bond counsel, fiscal consultants, planning or economic development consultants, and actual costs incurred by the County in administering the TIF District. Tax increments may be used to pay administrative expenses of the TIF District up to the lesser of (a) 10% of the total tax increment expenditures authorized by the TIF Plan or (b) 10% of the total tax increments received by the TIF District.

### Section U Limitation on Property Not Subject to Improvements - Four Year Rule

If after four years from certification of the TIF District no demolition, rehabilitation, renovation of property or other site preparation, including qualified improvement of an adjacent street, has commenced on a parcel located within the TIF District, then that parcel shall be excluded from the TIF District, and the original net tax capacity shall be adjusted accordingly. Qualified improvements of a street are limited to construction or opening of a new street, relocation of a street, or substantial reconstruction or rebuilding of an existing street. The City must submit to the County Auditor, by February 1 of the fifth year, evidence that the required activity has taken place for each parcel in the TIF District.

If a parcel is excluded from the TIF District and the City or owner of the parcel subsequently commences any of the above activities, the City shall certify to the County Auditor that such activity has commenced, and the parcel shall once again be included in the TIF District. The County Auditor shall certify the net tax capacity of the parcel, as most recently certified by the Commissioner of Revenue, and add such amount to the original net tax capacity of the TIF District.

### Section V Estimated Impact on Other Taxing Jurisdictions

Exhibit IV shows the estimated impact on other taxing jurisdictions if the maximum projected retained captured net tax capacity of the TIF District was hypothetically available to the other taxing jurisdictions. The City believes that there will be no adverse impact on other taxing jurisdictions during the life of the TIF District, since the proposed development would not have occurred without the establishment of the TIF District and the provision of public assistance. A positive impact on other taxing jurisdictions will occur when the TIF District is decertified, and the development therein becomes part of the general tax base.

The fiscal and economic implications of the proposed tax increment financing district, as pursuant to Minnesota Statutes, Section 469.175, Subdivision 2, are listed below.

1. The total amount of tax increment that will be generated over the life of the district is estimated to be $2,016,791.

2. To the extent the facility in the proposed TIF District generates any public cost impacts on city-provided services such as police and fire protection, public infrastructure, and borrowing costs attributable to the district, such costs will be levied upon the taxable net tax capacity of the City, excluding that portion captured by the District. The City does not anticipate issuing tax increment revenue bonds in conjunction with this project but reserves the right to issue bonds as necessary to facilitate development.

3. The amount of tax increments over the life of the district that would be attributable to school district levies, assuming the school district's share of the total local tax rate for all taxing jurisdictions remained the same, is estimated to be $480,843.

4. The amount of tax increments over the life of the district that would be attributable to county levies, assuming the county's share of the total local tax rate for all taxing jurisdictions remained the same is estimated to be $735,555.

5. No additional information has been requested by the county or school district that would enable it to determine additional costs that will accrue to it due to the development proposed for the district.

**Section W Prior Planned Improvements**

The City shall accompany its request for certification to the County Auditor (or notice of district enlargement), with a listing of all properties within the TIF District for which building permits have been issued during the 18 months immediately preceding approval of the TIF Plan. The County Auditor shall increase the original net tax capacity of the TIF District by the net tax capacity of each improvement for which a building permit was issued.

There have been no building permits issued in the last 18 months in conjunction with any of the properties within the TIF District.

**Section X Development Agreements**

If within a project containing an economic development district, more than 10% of the acreage of the property to be acquired by the City is purchased with tax increment bonds proceeds (to which tax increment from the property is pledged), then prior to such acquisition, the City must enter into an agreement for the development of the property. Such agreement must provide recourse for the City should the development not be completed.

The City anticipates entering into an agreement with the Developer relating to the project but does not anticipate acquiring any property located within the TIF District.

**Section Y Assessment Agreements**

The City may, upon entering into a development agreement, also enter into an assessment agreement with the developer, which establishes a minimum market value of the land and improvements for each year during the life of the TIF District.

The assessment agreement shall be presented to the County or City Assessor who shall review the plans and specifications for the improvements to be constructed, review the market value previously assigned to the land, and so long as the minimum market value contained in the assessment agreement appears to be an accurate estimate, shall certify the assessment agreement as reasonable. The assessment agreement shall be filed for record in the office of the County Recorder of each county where the property is located. Any modification or premature termination of this agreement must first be approved by the City, County and School District.

The City does not anticipate entering into an assessment agreement.

**Section Z Modifications of the Tax Increment Financing Plan**

Any reduction or enlargement in the geographic area of the Project Area or the TIF District; increase in the amount of bonded indebtedness to be incurred; determination to capitalize interest on the debt if it was not part of original plan; increase in that portion of the captured net tax capacity to be retained by the City; increase in the total estimated public costs; or designation of additional property to be acquired by the City shall be approved only after satisfying all the necessary requirements for approval of the original TIF Plan. This paragraph does not apply if:

(1) the only modification is elimination of parcels from the TIF District; and

(2) the current net tax capacity of the parcel eliminated equals or exceeds the net tax capacity of those parcels in the TIF District's original net tax capacity, or the City agrees that the TIF District's original net tax capacity will be reduced by no more than the current net tax capacity of the parcels eliminated.

The City must notify the County Auditor of any modification that reduces or enlarges the geographic area of the TIF District. The geographic area of the TIF District may be reduced but not enlarged after five years following the date of certification.

**Section AA Administration of the Tax Increment Financing Plan**

Upon adoption of the TIF Plan, the City shall submit a copy of such plan to the Minnesota Department of Revenue. The City shall also request that the County Auditor certify the original net tax capacity and net tax capacity rate of the TIF District. To assist the County Auditor in this process, the City shall submit copies of the TIF Plan, the resolution establishing the TIF District and adopting the TIF Plan, and a listing of any prior planned improvements. The City shall also send the County Assessor any assessment agreement establishing the minimum market value of land and improvements in the TIF District and shall request that the County Assessor review and certify this assessment agreement as reasonable.

The County shall distribute to the City the amount of tax increment as it becomes available. The amount of tax increment in any year represents the applicable property taxes generated by the retained captured net tax capacity of the TIF District. The amount of tax increment may change due to development anticipated by the TIF Plan, other development, inflation of property values, or changes in property classification rates or formulas. In administering and implementing the TIF Plan, the following actions should occur on an annual basis:

(1) prior to July 1, the City shall notify the County Assessor of any new development that has occurred in the TIF District during the past year to ensure that the new value will be recorded in a timely manner.

(2) if the County Auditor receives the request for certification of a new TIF District, or for modification of an existing TIF District, before July 1, the request shall be recognized in determining local tax rates for the current and subsequent levy years. Requests received on or after July 1 shall be used to determine local tax rates in subsequent years.

(3) each year the County Auditor shall certify the amount of the original net tax capacity of the TIF District. The amount certified shall reflect any changes that occur as a result of the following:

(a) the value of property that changes from tax-exempt to taxable shall be added to the original net tax capacity of the TIF District. The reverse shall also apply;

(b) the original net tax capacity may be modified by any approved enlargement or reduction of the TIF District;

(c) if laws governing the classification of real property cause changes to the percentage of estimated market value to be applied for property tax purposes, then the resulting increase or decrease in net tax capacity shall be applied proportionately to the original net tax capacity and the retained captured net tax capacity of the TIF District.

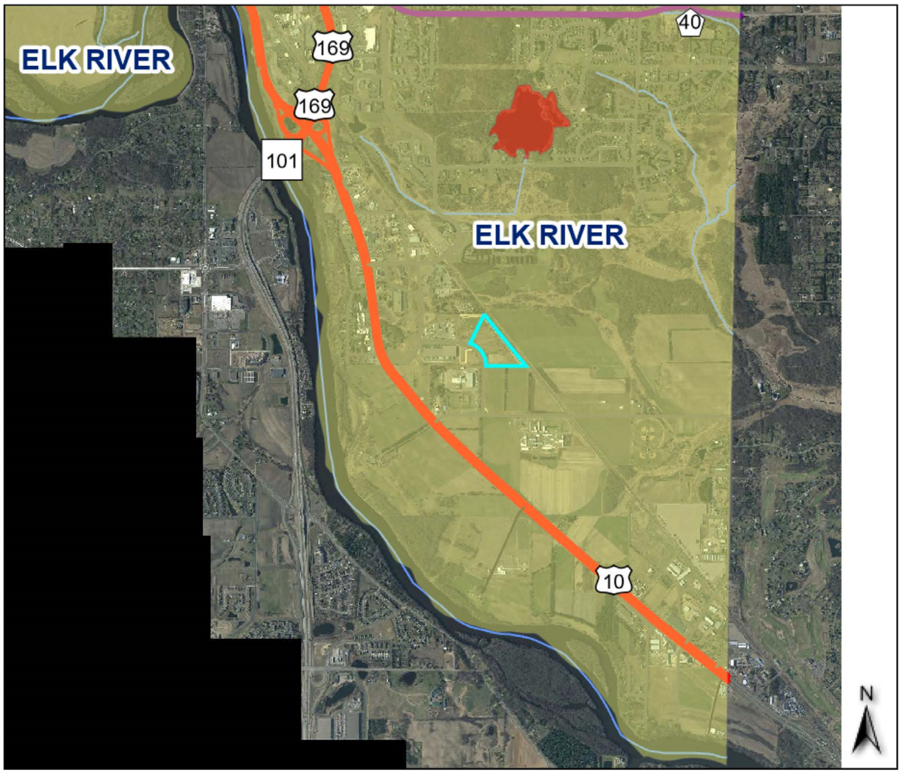
The County Auditor shall notify the City of all changes made to the original net tax capacity of the TIF District.

**Section AB Filing TIF Plan, Financial Reporting and Disclosure Requirements**

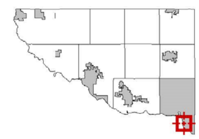
The City will file the TIF Plan, and any subsequent amendments thereto, with the Commissioner of Revenue and the Office of the State Auditor pursuant to Minnesota Statutes, Section 469.175, subdivision 4A. The City will comply with all reporting requirements for the TIF District under Minnesota Statutes, Section 469.175, subdivisions 5 and 6.

**Map of**
**Tax Increment Financing (Economic Development) District No. 29**

Beacon™ Sherburne County, MN




**Overview**



**Legend**

**Public Water Inventory**
- Not Classified
- General Development
- Natural Environment
- Recreational Development

**Roads**
- MN Highway; US Highway
- Municipal-State Aid Street
- Municipal Street
- Township Road
- State Forest Road
- Bureau of Fish and Wildlife Road
- Connector (Ramp)
- Privately Maintained Public Access Road
- County Road
- County-State Aid Highway

**Streams**

| | | | | | |
|---|---|---|---|---|---|
| **Parcel ID** | 75-00929-0020 | **Alternate ID** | n/a | **Owner Address** | CITY OF ELK RIVER |
| **Sec/Twp/Rng** | 11-32-26 | **Class** | 776-Municipal - All Other | | 13065 ORONO PKWY NW |
| **Property Address** | | **Acreage** | 21.02 | | ELK RIVER MN 55330 |

**District** ELK RIVER CITY
**Brief Tax Description** n/a
(Note: Not to be used on legal documents)

Date created: 5/2/2024
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## Assumptions Report

**City of Elk River, Minnesota**
**Tax Increment Financing (Economic Development) District No. 29**
**Heritage Millwork Inc Proposed Industrial Project**
**Draft TIF Plan Exhibits based on Phase 1 and 2 (150k SF) $11.2M**

| | |
|---|---|
| Type of Tax Increment Financing District | Economic Development |
| Maximum Duration of TIF District | 8 years from 1st increment |

| | | |
|---|---|---|
| Projected Certification Request Date | 06/30/24 | |
| Decertification Date | 12/31/34 | (9 Years of Increment) |

| | 2023/2024 |
|---|---|
| Base Estimated Market Value | $110,095 |
| Original Net Tax Capacity | $1,651 |

| | Assessment/Collection Year | | | |
|---|---|---|---|---|
| | 2024/2025 | 2025/2026 | 2026/2027 | 2027/2028 |
| Base Estimated Market Value | $110,095 | $110,095 | $110,095 | $110,095 |
| Estimated Increase in Value - New Construction | 0 | 4,014,905 | 8,263,655 | 11,514,867 |
| Total Estimated Market Value | 110,095 | 4,125,000 | 8,373,750 | 11,624,963 |
| Total Net Tax Capacity | $1,651 | $81,750 | $166,725 | $231,749 |

| | | |
|---|---|---|
| City of Elk River | 37.817% | |
| Sherburne County | 36.597% | |
| ISD #728 | 23.924% | |
| Other (HRA) | 2.006% | |
| Local Tax Capacity Rate | 100.344% | Pay 2024 |
| Fiscal Disparities Contribution From TIF District | NA | |
| Administrative Retainage Percent (maximum = 10%) | 5.00% | |
| Pooling Percent | 0.00% | |

| Interfund Loan at 3.5% | | | Interfund Loan at 5% | |
|---|---|---|---|---|
| Loan Dated | 06/30/24 | | Note Dated | 06/30/24 |
| Loan Rate | 3.50% | | Note Rate | 5.00% |
| Loan Amount | $1,372,140 | | Note Amount | $1,372,140 |
| Present Value Date & Rate | 06/30/24 | 3.50% | PV Amount | $1,527,614 |

Notes
Projections assume no future changes to classification rates and current tax rates remain constant
Projections are based on pay 2024 tax rates
Projections assume Phase 1 commences in 2024 and completed in 2025
Projections assume Phase 2 commences in 2026 and completed in 2026
Projections assume 3% market value inflation

## Projected Tax Increment Report

**City of Elk River, Minnesota**
**Tax Increment Financing (Economic Development) District No. 29**
**Heritage Millwork Inc Proposed Industrial Project**
**Draft TIF Plan Exhibits based on Phase 1 and 2 (150k SF) $11.2M**

| Annual Period Ending (1) | Total Market Value (2) | Total Net Tax Capacity (3) | Less: Original Net Tax Capacity (4) | Retained Captured Net Tax Capacity (5) | Times: Tax Capacity Rate (6) | Annual Gross Tax Increment (7) | Less: State Aud. Deduction 0.360% (8) | Subtotal Net Tax Increment (9) | Less: City Retainage 5.00% (10) | Annual Net Revenue (11) | P.V. Annual Net Rev. To 06/30/24 3.50% | P.V. Annual Net Rev. To 06/30/24 5.00% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 12/31/24 | 110,095 | 1,651 | 1,651 | 0 | 100.344% | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12/31/25 | 110,095 | 1,651 | 1,651 | 0 | 100.344% | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12/31/26 | 4,125,000 | 81,750 | 1,651 | 80,099 | 100.344% | 80,374 | 289 | 80,085 | 4,004 | 76,081 | 71,022 | 69,008 |
| 12/31/27 | 8,373,750 | 166,725 | 1,651 | 165,074 | 100.344% | 165,641 | 596 | 165,045 | 8,252 | 156,793 | 141,418 | 135,444 |
| 12/31/28 | 11,624,963 | 231,749 | 1,651 | 230,098 | 100.344% | 230,889 | 831 | 230,058 | 11,503 | 218,555 | 190,458 | 179,806 |
| 12/31/29 | 11,973,711 | 238,724 | 1,651 | 237,073 | 100.344% | 237,888 | 856 | 237,032 | 11,852 | 225,180 | 189,596 | 176,434 |
| 12/31/30 | 12,332,923 | 245,908 | 1,651 | 244,257 | 100.344% | 245,097 | 882 | 244,215 | 12,211 | 232,004 | 188,735 | 173,125 |
| 12/31/31 | 12,702,910 | 253,308 | 1,651 | 251,657 | 100.344% | 252,522 | 909 | 251,613 | 12,581 | 239,032 | 187,877 | 169,876 |
| 12/31/32 | 13,083,998 | 260,930 | 1,651 | 259,279 | 100.344% | 260,170 | 937 | 259,233 | 12,962 | 246,271 | 187,021 | 166,686 |
| 12/31/33 | 13,476,518 | 268,780 | 1,651 | 267,129 | 100.344% | 268,048 | 965 | 267,083 | 13,354 | 253,729 | 186,169 | 163,556 |
| 12/31/34 | 13,880,813 | 276,866 | 1,651 | 275,215 | 100.344% | 276,162 | 994 | 275,168 | 13,758 | 261,410 | 185,318 | 160,483 |
| | | | | | | $2,016,791 | $7,259 | $2,009,532 | $100,477 | $1,909,055 | $1,527,614 | $1,394,418 |

| | | | |
|---|---|---|---|
| *Land Purchase Price* | $1,372,140 | $1,372,140 | $1,372,140 |
| *City developer upfront payment* | $0 | $0 | $0 |

(1) *Total estimated market value based on information provided by City*
*Includes 3% annual market value inflator.*

(2) *Total net tax capacity based on commercial-industrial class rate of 1.5% first $150,000 value and 2% value above $150,000*

(3) *Original net tax capacity based on existing land value for the property to be included in the development*

(4) *Total local tax capacity rate for taxes payable 2024*

**Estimated Impact on Other Taxing Jurisdictions Report**

**City of Elk River, Minnesota**
**Tax Increment Financing (Economic Development) District No. 29**
**Heritage Millwork Inc Proposed Industrial Project**
**Draft TIF Plan Exhibits based on Phase 1 and 2 (150k SF) $11.2M**

| | Without Project or TIF District | | With Project and TIF District | | | | | |
|---|---|---|---|---|---|---|---|---|
| Taxing Jurisdiction | Final 2023/2024 Taxable Net Tax Capacity (1) | 2023/2024 Local Tax Rate | 2023/2024 Taxable Net Tax Capacity (1) + | Projected Retained Captured Net Tax Capacity = | New Taxable Net Tax Capacity | Hypothetical Adjusted Local Tax Rate (*) | Hypothetical Decrease In Local Tax Rate (*) | Hypothetical Tax Generated by Retained Captured N.T.C. (*) |
| City of Elk River | 42,671,578 | 37.817% | 42,671,578 | $275,215 | 42,946,793 | 37.575% | 0.242% | 103,411 |
| Sherburne County | 164,917,675 | 36.597% | 164,917,675 | 275,215 | 165,192,890 | 36.536% | 0.061% | 100,553 |
| ISD #728 | 66,175,265 | 23.924% | 66,175,265 | 275,215 | 66,450,480 | 23.825% | 0.099% | 65,570 |
| Other (2) | - | 2.006% | - | - | - | 2.006% | - | - |
| Totals | | 100.344% | | | | 99.942% | 0.402% | |

* **Statement 1:** If the projected Retained Captured Net Tax Capacity of the TIF District was hypothetically available to each of the taxing jurisdictions above, the result would be a lower local tax rate (see Hypothetical Adjusted Tax Rate above) which would produce the same amount of taxes for each taxing jurisdiction. In such a case, the total local tax rate would decrease by 0.402% (see Hypothetical Decrease in Local Tax Rate above). The hypothetical tax that the Retained Captured Net Tax Capacity of the TIF District would generate is also shown above.

**Statement 2:** Since the projected Retained Captured Net Tax Capacity of the TIF District is not available to the taxing jurisdictions, then there is no impact on taxes levied or local tax rates.

(1) Taxable net tax capacity = total net tax capacity - captured TIF - fiscal disparity contribution, if applicable.
(2) The impact on these taxing jurisdictions is negligible since they represent only 2.00% of the total tax rate.

## Market Value Analysis Report

**City of Elk River, Minnesota**
**Tax Increment Financing (Economic Development) District No. 29**
**Heritage Millwork Inc Proposed Industrial Project**
**Draft TIF Plan Exhibits based on Phase 1 and 2 (150k SF) $11.2M**

| | |
|---|---|
| Assumptions | |
| Present Value Date | 06/30/24 |
| P.V. Rate - Gross T.I. | 3.50% |

| | |
|---|---|
| Increase in EMV With TIF District | $13,770,718 |
| Less: P.V of Gross Tax Increment | 1,613,824 |
| Subtotal | $12,156,894 |
| Less: Increase in EMV Without TIF | 0 |
| Difference | $12,156,894 |

| | Year | Annual Gross Tax Increment | Present Value @ 3.50% |
|---|---|---|---|
| 1 | 2026 | 80,374 | 75,030 |
| 2 | 2027 | 165,641 | 149,399 |
| 3 | 2028 | 230,889 | 201,206 |
| 4 | 2029 | 237,888 | 200,295 |
| 5 | 2030 | 245,097 | 199,387 |
| 6 | 2031 | 252,522 | 198,480 |
| 7 | 2032 | 260,170 | 197,576 |
| 8 | 2033 | 268,048 | 196,675 |
| 9 | 2034 | 276,162 | 195,776 |
| | | $2,016,791 | $1,613,824 |

# Memo – Draft for Review

| | |
|---|---|
| To: | Brent O'Neil, City of Elk River |
| From: | Mikaela Huot, Director |
| Date: | April 25, 2024 |
| Subject: | Preliminary Tax Increment Revenue Projections for Proposed Heritage Millwork Inc Economic Development Project |

**Executive Summary**

Baker Tilly Municipal Advisors has undertaken a review of the request for TIF assistance by Heritage Millwork Inc. ("HMI" and the "developer") for construction of an approximate 110,000 square foot new industrial building on approximately 14 acres of City-owned property in the Nature's Edge Business Center (Phase 1). The construction plans also include the potential for a 40,000 square foot expansion in a future year (Phase 2). The total development cost of Phase I is estimated to be $21,169,472 and the request for financial assistance is in the form of land write down for the estimated land purchase price of $1,372,140. A revised application also includes a request for additional $264,520 as pay-as-you-go reimbursement for site improvements. Construction of the proposed development is expected to begin in 2024 and be completed in 2025. The developer has also applied for the City's Energy Incentive Program and Economic Development Microloan Program.

Prior to establishing a tax increment financing district, there are findings that need to be made by the City that include: 1) determination that the project qualifies as a TIF district, 2) determination that the project as proposed would not proceed without public assistance (meeting the "but-for" test), and 3) the increased market value of the property to be developed is greater with tax increment than if no public assistance is provided. When reviewing requests for financial assistance it is important to understand how the level of financial assistance would impact the ability of the project to proceed as proposed and maximize new value created on the current project site.

Review of the financial projections and statements provides an understanding of financial feasibility for this project and need for public assistance. The purpose of the analysis is to test the level of assistance that may be needed and if the recommended structure is reasonable while remaining consistent with the City's objectives for providing assistance.

Based on the financial analysis and available financing assumptions, without financial assistance, the project would not be feasible due to the extraordinary development costs mixed with current market conditions. Without assistance, the projected debt coverage ratios and annual/cumulative rates of return to the developer is projected to be below industry standards for this type of project. The debt coverage and rate of return analyses indicates that the provided financing structure would not be financially viable without one or more of the following: 1) reduction in project costs 2) additional annual cash flow (tax increment revenues), and/or 3) additional funding sources (workforce housing grant program). With annual public assistance, the project is projected to be more financially feasible by providing additional cash flow (annual tax increment revenues) to the project. The level of public assistance is projected to have a positive impact on what the projected debt coverage and returns for the project could be as compared to no assistance.

The purpose of the memorandum is to provide a summary of the financial review of the request for tax increment financing assistance as submitted by the developer, including estimated tax increment revenue projections. to assist the City with making a determination 1) if the project as proposed would be unlikely to proceed "but-for" the requested Tax Increment Financing (TIF) assistance, and 2) if assistance is necessary, to determine an appropriate level of public assistance that may be considered.

**Background**
The City of Elk River has been working with Heritage Millwork Inc. ("HMI" and the "developer") on the anticipated sale of City-owned property in the Nature's Edge Business Center for the construction of an approximate 110,000square foot new industrial building. Construction of the new facility would reduce the current business operations from three buildings to one, as well as incorporating relocation of Traditions Finishing Inc (TFI), the wholly owned finishing company, to also be housed within same building to reduce handling and overhead costs and improve lead time. HMI has also indicated there is a possibility of expanding the business and building in the future that would include an additional 40,000 square feet. HMI has stated there will be a financial gap related to acquisition of the property and construction of the new building to house their full business operations. PLM Properties (PLM) is the real estate holding entity who is purchasing the property and will be leasing the land to the business entity. HMI would be the business operating entity and lease the building from PLM. The ownership of both entities is the same and would be on the bank financing documents. To assist with financing of the project, HMI has submitted applications for public assistance to the City.

**Developer Request for Assistance**
HMI has submitted applications to the City for public assistance through the City's tax increment financing program, energy incentive program and economic development microloan program. The total development costs of the project are approximately $21,169,472. Funding sources to support development costs include first mortgage, SBA loan 504, developer equity, City/EDA microloan and land write down (to be repaid through future tax increment revenues). The loans (first mortgage and SBA) are approximately 83% of total funding sources, equity is 10%, microloan is 1% and TIF is 6.5%. The primary debt financing structure will be subject to availability of net income from the building to support debt repayment and the lease rate between PLM and HMI will be limited to no more than 10% of the principal, interest and taxes.

Typical extraordinary development costs that cannot be supported solely by the project alone could justify the need for public financial assistance and allow the project to proceed as proposed. In addition, current market conditions of increased interest rates requiring reduced debt financing and increased equity amounts have resulted in higher funding gaps. Tax increment financing from the City provides an additional funding source to the project that allows the developer to obtain an appropriate level of upfront funding and meet minimum debt coverage and investor return metrics. The microloan is an additional source of funds to close the financing gap with eligible expenses related to construction of the project and in addition to costs that would be supported by TIF. Summary of the sources and uses of funds is illustrated in Table 1 below.

The recommendation for a reasonable level of public assistance is balanced by a combination of extraordinary costs and projected financial cash flow performance of the project, public policy guidelines/considerations and potential financial parameters as further outlined below:

- Return on Investment: *(City benefits)*
- Purchase price and other development costs: *(reasonable ranges and supported by project)*
- Public to private investment: *(public participation 10% or less)*
- Public assistance (TIF) and private equity: *(public does not exceed private equity)*
- Extraordinary costs: *(development)*
- Financial gap: *(limit on private debt and equity)*
- Market conditions *(financing limitations)*
- Term of district collection: *(economic development term of up to 9 years)*
- Other identified public improvements: *(case by case basis to be determined)*

**Sources and Uses of Funds**

The proposed total development cost of the project is estimated to be $21,169,472. The developer did not provide a breakout of individual line items as it relates to the building hard cost construction estimate of $12,000,000. However, this amount equates to approximately $109 per square foot and generally a reasonable level. The purchase price of property is $1,372,140 is based on 14 acres and per square foot sales price of $2.25 and are all generally reasonable and lower range for this type of project.

The developer has identified the sources of funds for the proposed project, including debt, equity, a grant and TIF assistance. The developer is seeking TIF assistance of $1,372,140 based on the per square foot sales price and potential reimbursement of 9 years of tax increment revenues.

Table 1: Projected Sources and Uses of Funds

| Sources | Amount | Uses | Amount |
|---|---|---|---|
| Bank/SBA 504 | $17,480,385 | Land | $1,372,140 |
| Cash Equity | $2,116,947 | Site improvements | $177,125 |
| TIF | $1,372,140 | Building Construction | $12,000,000 |
| City/EDA Microloan | $200,000 | SAC/WAC fees | $104,727 |
| | | Machinery & Equipment | $5,160,500 |
| | | Office Furniture and Fixtures | $200,000 |
| | | Contingency | $1,300,000 |
| | | Professional Fees | $255,000 |
| | | Other (Interest Reserve) | $600,000 |
| Total | $21,169,472 | Total | $21,169,472 |

**<u>Tax Increment Revenue Assumptions and Estimates</u>**

Certain assumptions were used to estimate the projected available tax increment revenues outlined below:

- Total new taxable value
  - $75 per square foot taxable value estimated
  - Phase 1: 110,000 square foot building total of $8,250,000
  - Phase 2: 40,000 square foot expansion additional $3,000,000
- Parcel ID: 75-929-0020
  - Existing land (tax exempt) value of $165,300
  - Total land acreage of 21.02
  - Land required for development of approximately 14.4 acres
  - Base value assumed to be $110,095 (14/21.02 as allocation)
  - Original net tax capacity of $1,651
    - Property reclassified as commercial-industrial with relevant class rates
- Maximum term of economic development district (9 total years)
  - Projected maximum term for project is 9 years
  - First year collection payable 2026 and final year payable 2034
- Increment based on difference between existing value
  - Very preliminary and to be evaluated as project proceeds
- Construction commences in 2024 and complete by December 31, 2025
  - 50% complete for assess January 2025, taxes payable 2026
  - 100% complete for assess January 2026 for taxes payable 2027
- Payable 2024 combined tax rate of 100.344%
- 2% annual market value inflator
- 5% retained by City for admin
  - *Maximum 10% for admin*
  - 95% pledged to project financing
- Present value rate: range of 0%, 3.5% and 5% and 6/30/24 present value date

*Table 1a: Tax Increment Revenue Projections (Phase 1)*

| Tax Increment Revenue Estimates | |
|---|---|
| Estimated Building Size | 110,000 SF |
| | |
| Existing Land Value | $110,095 |
| Original Net Tax Capacity (Base) | $1,651 |
| | |
| Estimated Total Completed Value | $8,250,000 |
| Total Tax Capacity | $165,900 |
| Captured Tax Capacity (Total less Original) | $164,249 |

| | |
|---|---|
| x 2024 Local Capacity Rate | 100.344% |
| | |
| Estimated Total Gross Tax Increment Revenue at Completion (less OSA deduction of 0.36%) | $164,221 |
| | |
| Less: 5% for Administrative Expenses | $8,211 |
| Estimated Net Annual Available Revenue | $156,010 |
| | |
| Total Estimated Gross Tax Increment over Maximum Term of Collection (9 years) | $1,490,982 |
| Estimated City Retained (5%) | $74,550 |
| **Total Estimated Net Tax Increment and Present Value with 0% interest rate** | **$1,416,432** |
| | |
| **Total Estimated Net Tax Increment Present Value with 3.5% interest rate** | **$1,126,637** |
| | |
| **Total Estimated Net Tax Increment Present Value with 5% interest rate** | **$1,025,957** |

*Table 1b: Tax Increment Revenue Projections (Phase 2 Only)*

| **Tax Increment Revenue Estimates** | |
|---|---|
| Estimated Building Size (expansion constructed in **2026**) | 40,000 SF |
| | |
| Estimated Total Completed Value | $3,000,000 |
| Total Tax Capacity | $59,250 |
| Captured Tax Capacity (Original - $0 included in Phase 1) | $59,250 |
| x 2024 Local Capacity Rate | 100.344% |
| | |
| Estimated Total Gross Tax Increment Revenue at Completion (less OSA deduction of 0.36%) | $59,240 |
| | |
| Less: 5% for Administrative Expenses | $2,962 |
| Estimated Net Annual Available Revenue | $56,278 |
| | |
| Total Estimated Gross Tax Increment over Remaining Term | $440,732 |
| Estimated City Retained (5%) | $22,036 |
| **Total Estimated Net Tax Increment and Present Value with 0% interest rate** | **$418,696** |
| | |
| **Total Estimated Net Tax Increment Present Value with 3.5% interest rate** | **$324,468** |
| | |
| **Total Estimated Net Tax Increment Present Value with 5% interest rate** | **$292,055** |

*Table 1c: Tax Increment Revenue Projections (Combined Phase 1 and Phase 2)*

| | |
|---|---|
| Total Estimated Gross Tax Increment over Remaining Term | $1,951,823 |
| Estimated City Retained (5%) | $97,591 |
| **Total Estimated Net Tax Increment and Present Value with 0% interest rate** | **$1,854,232** |
| | |
| **Total Estimated Net Tax Increment Present Value with 3.5% interest rate** | **$1,466,353** |
| | |
| **Total Estimated Net Tax Increment Present Value with 5% interest rate** | **$1,331,916** |

**Project Financing**

There are generally two ways in which assistance can be provided for most projects, either upfront or on a pay-as-you-go basis. With upfront financing, the City would finance a portion of the applicant's initial project costs through the issuance of bonds or as an internal loan. Future tax increments would be collected by the City and used to pay debt service on the bonds or repayment of the internal loan. With pay-as-you-go financing, the applicant would finance all project costs upfront and would be reimbursed over time for a portion of those costs as revenues are available.

Pay-as-you-go-financing is generally more acceptable than upfront financing for the City because it shifts the risk for repayment to the applicant. If tax increment revenues are less than originally projected, the applicant receives less and therefore bears the risk of not being reimbursed the full amount of their financing. However, in some cases pay as you go financing may not be financially feasible. With bonds, the City would still need to make debt service payments and would have to use other sources to fill any shortfall of tax increment revenues. With internal financing, the City reimburses the loan with future revenue collections and may risk not repaying itself in full if tax increment revenues are not sufficient. The City has historically financed projects as pay-as-you-go for reimbursement to the developer of eligible costs, but in certain instances financed with internal loans to be repaid with future tax increments. It is important to note the request for financial assistance for this project does not include any City bond issuance or upfront funding requirements. The City would be acting more like a lender of its own funds and collecting future tax increments to pay the developer's land purchase price.

The developer has requested assistance for the project through upfront land write down. The City would not be paid for the land at closing and would collect future tax increment revenues generated by the new project to reimburse itself for the land. The repayment may include interest subject to availability of tax increments to repay the land purchase price in full. The estimated purchase price for the property assuming approximately 14 acres is $1,372,140 and based on $2.25 per square foot. The estimated tax increment revenues that may be generated from Phase 1 of the project (110,000 square foot building), potential Phase 2 (40,000 square foot expansion) and combined for Phases 1 and 2 are all summarized in the tables on the previous page. Tax increment revenues from Phase 1 are expected to be sufficient to reimburse the City for the land write of $1,372,140 but would be less than what would be necessary to include an interest repayment component over the maximum 9-year term of the TIF District. Should Phase 2 be constructed, additional tax increment revenues would be generated and expected to provide sufficient revenues to support interest repayment on the City's land write down.

Because the City owns the land and is taking the role as lender, it may have some flexibility and ability to consider alternate repayment structures of the land write down. The City may consider requiring a portion of the land be paid upfront, subject to the availability of tax increment revenues to repay principal plus interest at a rate to be determined on the interfund loan, or require a shortfall agreement that could be structured on either an annual basis or upon completion of the district. The developer has also included in the application for tax increment assistance an additional request for pay-as-you-go financing for reimbursement of site improvements of $264,520 and further analysis regarding this request is expected prior to finalizing the repayment structure.

*Table 2: Land Repayment Options*

| Financial Feasibility of Land Repayment Options | |
|---|---|
| | |
| **Total Estimated Net Tax Increment and Present Value with 0% interest rate** | **$1,416,031** |
| | |
| **Portion of Land Purchase Price Required Upfront** | **$0** |
| **Portion of Land Purchase Price as Write Down** | **$1,372,140** |
| **Estimated Interest Payments** | **$0** |
| | |
| **Total Estimated Net Tax Increment Present Value with 3.5% interest rate** | **$1,141,921** |
| | |
| **Portion of Land Purchase Price Required Upfront or via Shortfall Agreement** | **$272,140** |
| **Portion of Land Purchase Price as Write Down** | **$1,100,000** |
| **Estimated Interest Payments** | **$272,978** |
| | |
| **Total Estimated Net Tax Increment Present Value with 5% interest rate** | **$1,058,720** |
| | |
| **Portion of Land Purchase Price Required Upfront or via Shortfall Agreement** | **$347,140** |
| **Portion of Land Purchase Price as Write Down** | **$1,025,000** |
| **Estimated Interest Payment** | **$379,662** |
| | |

The developer has also indicated the potential for a 40,000 square foot building expansion. Should the building expansion occur during the term of the TIF District and generate additional revenues sufficient to repay the City's interfund loan in full plus interest at 3.5% or 5% (actual interest rate TBD), there may be consideration to increase the interfund loan amount at that time to reimburse the developer for the initial upfront purchase. Additional discussion on potential feasibility anticipated to occur.

An alternate option to adjusting the upfront purchase price based on availability of tax increment revenues would be to incorporate a shortfall payment formula that could be calculated on either an annual basis or at a future determined time (tied to construction of expansion and/or completion of TIF District). As illustrated in the table below, construction of the building expansion is expected to generate additional increment that is expected to be sufficient to support repayment of the full land write down amount of $1,372,140 plus interest (TBD).

*Table 3: Additional Land Repayment Options*

| | |
|---|---|
| **Land Purchase Price** | **$1,372,140** |
| | |
| **Total Estimated Net Tax Increment and Present Value with 0% interest rate** | **$1,854,232** |
| | |
| **Total Estimated Net Tax Increment Present Value with 3.5% interest rate** | **$1,466,353** |
| ***Total Estimated Interest Payments (3.5%)*** | ***$339,593*** |
| **Total Estimated Net Tax Increment Present Value with 5% interest rate** | **$1,331,916** |
| ***Total Estimated Interest Payments (5%)*** | ***$532,953*** |

**City Policy Considerations**

The City has a tax increment financing policy to ensure that projects receiving assistance are consistent with the city's comprehensive plan, strategic plan, *Mississippi Connections* plan and most recent housing study (as applicable for housing projects). Pursuant to the public purpose considerations of the policy, the City will consider TIF for projects that achieve one or more of the following:

1. Demonstrate long-term benefits to the community.
2. Retain local jobs and/or increase the number and diversity of jobs that offer stable employment and/or attractive wages and benefits through:
    a. Diversification of the local economy
    b. Significant addition of permanent, high-wage, full-time jobs
    c. Addition of jobs attractive to those unemployed or underemployed
3. Significantly increases the city's commercial and industrial tax base
4. Demonstrates the ability to encourage unsubsidized private development through "spin off" development.
5. Facilitates the development process and achieves development on sites that would not develop "but for" the use of TIF.
6. Removes blight and/or encourages redevelopment of commercial and industrial areas resulting in high quality redevelopment and private reinvestment.
7. Offsets redevelopment costs (i.e. contaminated site cleanup) over and above the costs normally incurred in development.
8. Aids the implementation of the *Mississippi Connections* Plan

Based on the extent to which the project achieves the policy statements (1-6 above), the city will consider TIF for projects in the following categories:

- Manufacturing
- Major office warehouse/production facilities
- Research and development
- Commercial projects encouraging substantial redevelopment of substandard properties
- Housing needs identified in the most recent city housing study

Assistance for TIF is required to meet the uses identified by statute including, but not limited to the following:

- Public improvements
- Land acquisition and land write down
- Loans
- Site preparation and improvement
- Demolition
- Legal, administration, and engineering

The preferred method of TIF is pay-as-you-go for eligible costs as reimbursement, upfront financing maybe considered on a case-by-case basis.

*Policy Considerations*
Each project is required to meet the "but-for" test to determine the need for and level of assistance. This test and the amount of tax increment generated determines the district's term. It is difficult to facilitate a redevelopment, housing or soils condition district for less than the maximum term as the extraordinary costs involved are usually significant. Consideration: the developer has stated the assistance is necessary for the project to proceed and has stated that without the upfront land write down assistance, the project would not proceed.

The term of the district could coincide with the amount of tax increment the city has to spend on its priorities within a project area. Consideration: the full term of the district would be necessary to repay land write down.

Of all TIF districts, the Economic Development District is most often the one limited to a lesser term. Economic Development Districts are really "incentive" districts where it is not so much the extraordinary costs as it is an "incentive" to get a business to locate in a community. In the other districts, the costs are easily identifiable and usually significant such as demolition, relocation, environmental remediation, and the cost differential between market rate and income/rent restricted housing. Consideration: The developer has stated the project would not happen 'but-for' the assistance. The assistance will also facilitate the creation/retention of a minimum 70 jobs and wage levels consistent with the City's business subsidy policy. As the City has also received an application for other City forms of assistance, including a business microloan, the City may consider assigning within the business subsidy agreement a portion of the jobs as applicable to the TIF assistance and a portion to the microloan.

Developers receiving TIF assistance shall provide a minimum of ten percent (10%) cash equity investment in the project. TIF will not be used to supplant cash equity. Consideration: the developer will have at least 10% equity investment. Most of the required equity will come from the sale of existing building property. The owner/business will provide initial cash down payment for the project at the closing of the land and construction financing and will be reimbursed when the property sells. The developer will also be using land as equity for securing financing.

TIF will not be used in circumstances where land and/or property price is in excess of fair market value. A third-party appraiser agreed upon by the city and developer will determine the fair market value of the land. Consideration: the City hired a commercial broker to help it determine listing price and fair market value. This sales price would meet expectations of fair market value.

The developer shall demonstrate a market demand for a proposed project. TIF shall not be used to support purely speculative projects. Consideration: existing business operations.

The developer shall adequately demonstrate, to the city's sole satisfaction, an ability to complete the proposed project based on past development experience, general reputation, and credit history, among other factors, including the size and scope of the proposed project. Consideration: the developer and related business entities have shared financials representing sufficient resources to complete the project.

For the purposes of underwriting the proposal, the developer shall provide any requested market, financial, environmental, or other data requested by the city or its consultants.

The City of Elk River shall only use TIF to encourage economic growth and development within the city limits.

**Financial Needs Analysis)**
Upon approval of a TIF district and project, the City must make several findings, including the "but for" test: that the proposed development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future. The developer has stated that without assistance being provided as upfront through land write down, the project would not be able to secure the structure and level of debt financing necessary for the project to be viable due to the following factors: 1) using equity to pay for upfront land costs would impact HMI's working capital. It would rely on higher cost funding and potential hinder future abilities to remain price competitive and subject it to less reliable source of working capital to support operations, 2) the bank would require higher equity investment from PLM properties if upfront assistance were not provided. This may strain or limit the project scope due to capital constraints, 3) there are limitations on the level of bank financing the project can secure due to the size of the capital investment and project. The developer's submittals have indicated that the upfront land write would alleviate the financing risks and concerns, provide PLM with the necessary financial stability to secure a more favorable loan structure with a lower debt burden that would allow HMI to maintain sufficient cash flow to meet operational needs, and to ensure business continuity during construction of the project. Additionally, reduced equity requirements from the bank resulting from land write down and availability of more working capital may allow PLM properties to accelerate the possibility of constructing the 40,000 square foot expansion.

Based on the developer's stated position relative to the need for tax increment financing assistance, the City could make its "but for" finding and provide tax increment assistance. We recommend, however, that the City review the provided assumptions to consider if the project meets the but-for test and, if so, what an appropriate level and type of TIF assistance may be based on the information submitted by the developer.

Following thorough evaluation of the project as provided allows the City to be prepared to make an informed decision based on the likelihood of the project needing assistance, as well as the appropriate level of assistance. To complete this analysis, we reviewed the developer's provided financial data showing a result if the project received financial assistance as requested and did not receive assistance. Analysis of the project includes a review of the development budget, projected lease rates and operating income and the project's capacity to support annual debt service on the new debt financing. The purpose of evaluating the operating revenues is to understand the potential cash flow performance through initial development of the project and the annual operations of the project to assist with determining if the project is financially feasible and in need of public participation.

Measuring project feasibility is typically accomplished by analyzing a combination of 1) projected rate of return – both annual and cumulative and 2) estimated debt coverage ratio (DCR). Rate of return (IRR) analysis illustrates the projected return to the investor(s) using the available cash flow after payment of operating expenses and debt repayment as a measurement to the initial equity investment. Industry standards for certain development types indicate the level of investment a developer is willing to make based on projected returns from the project. Should the projected annual and cumulative returns fall below those standards, the project would require a reduced level of equity participation and/or increased cash flow to be feasible. Debt Coverage Ratio (DCR) is a calculation detailing the ratio by which operating income exceeds the debt payments for the project. If the DCR is greater than 1.0 it indicates the project has operating income that is greater than the debt-service payment by some margin; conversely if the DCR is less than 1.0, it indicates the project is incapable of meeting its debt-service payment and would need to seek additional revenue sources in order to pay its debt.

For a project to be considered financially feasible and likely to secure private financing, lenders are going to want to see a project with an estimated net operating income that exceeds the debt-service amount by a specific threshold or more. This is a test based on a stabilized year of revenue. Typically, we see lenders identifying a desired threshold for DCR of 1.10-1.20 or greater, meaning an expectation that the stabilized net income of the project will exceed debt service by 1.10 to 1.20. We anticipate additional review as related to the updated request that includes an additional request for pay-as-you-go assistance as related to site improvements in the amount of $264,520.

**Conclusion**

The developer has requested financial assistance to facilitate construction of a new 110,000 square foot industrial building on approximately 14 acres of City-owned property. The request is for a reduction in upfront costs through a City land write down. Pursuant to the City's tax increment financing policy, assistance for this type of project would be consistent with policy considerations. The request for a land write down in which the City would use future tax increments to pay for the land costs is also a consideration that is approved on a case-by-case basis. Through submission of the tax increment financing request and supporting financial information, the developer has indicated that the project would not occur as proposed without financial assistance from the City due to the significant capital investment needs and limitation on level of debt financing that may be achieved.

Based on the developer's financing assumptions and considerations of current market environment, without financial assistance, the project would not be financially feasible. The requested assistance would allow for additional working capital needed by the company to complete Phase 1 of the project as proposed, with potential acceleration of Phase 2. With public assistance through tax increment assistance and supplemental city programs, the project is projected to achieve feasibility.

The developer has requested tax increment assistance to close a financial gap in the project. An additional test to assist with understanding 1) if the project would proceed without assistance and 2) if assistance is required, what a reasonable level of assistance would be, is to adjust the upfront project costs and net income for debt payments to test feasibility of the project and potential reduction in tax increment assistance. The viability of these scenarios is subject to additional financial review and is intended to provide an illustration of what adjustments may be needed to reduce and/or eliminate the assistance. The additional analysis has verified the assistance as requested to include land write down due to debt financing constraints and need for sufficient working capital.

Considered parameters for level of public assistance include the following:

- Return on Investment: *(City benefits)*
- Purchase price and other development costs: *(reasonable ranges and supported by project)*
- Public to private investment: *(public participation 10%)*
- Public assistance (TIF) and private equity: *(public does not exceed private equity)*
- Extraordinary costs: *(development)*
- Financial gap: *(limit on private debt and equity)*
- Market conditions *(financing limitations)*
- Term of district collection: *(up to 9 years for economic development)*
- Other identified public improvements: *(case by case basis to be determined)*

The assistance would also constitute as a business subsidy and would be required to comply with the City's business subsidy policy requirements that includes certain wage and job goals as outlined in the policy.

Thank you for the opportunity to be of assistance to the City of Elk River. We look forward to discussing the project and financing assumptions in greater detail.

## Projected Tax Increment Report

**City of Elk River, Minnesota**
**Tax Increment Financing (Economic Development) District No. 29**
**Heritage Millwork Inc Proposed Industrial Project**
**Prelim TIF Revenues based on Phase 1 (110K SF) $8.2M new taxable value with 2% annual inflator**

| Annual Period Ending (1) | Total Market Value (2) | Total Net Tax Capacity (3) | Less: Original Net Tax Capacity (4) | Retained Captured Net Tax Capacity (5) | Times: Tax Capacity Rate (6) | Annual Gross Tax Increment (7) | Less: State Aud. Deduction 0.360% (8) | Subtotal Net Tax Increment (9) | Less: City Retainage 5.00% (10) | Annual Net Revenue (11) | P.V. Annual Net Rev. To 06/30/24 3.50% | P.V. Annual Net Rev. To 06/30/24 5.00% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 12/31/24 | 110,095 | 1,651 | 1,651 | 0 | 100.344% | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12/31/25 | 110,095 | 1,651 | 1,651 | 0 | 100.344% | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12/31/26 | 4,125,000 | 81,750 | 1,651 | 80,099 | 100.344% | 80,374 | 289 | 80,085 | 4,004 | 76,081 | 70,052 | 67,674 |
| 12/31/27 | 8,332,500 | 165,900 | 1,651 | 164,249 | 100.344% | 164,814 | 593 | 164,221 | 8,211 | 156,010 | 138,789 | 132,163 |
| 12/31/28 | 8,499,150 | 169,233 | 1,651 | 167,582 | 100.344% | 168,158 | 605 | 167,553 | 8,378 | 159,175 | 136,816 | 128,423 |
| 12/31/29 | 8,669,133 | 172,633 | 1,651 | 170,981 | 100.344% | 171,569 | 618 | 170,951 | 8,548 | 162,403 | 134,870 | 124,788 |
| 12/31/30 | 8,842,516 | 176,100 | 1,651 | 174,449 | 100.344% | 175,049 | 630 | 174,419 | 8,721 | 165,698 | 132,953 | 121,257 |
| 12/31/31 | 9,019,366 | 179,637 | 1,651 | 177,986 | 100.344% | 178,598 | 643 | 177,955 | 8,898 | 169,057 | 131,061 | 117,824 |
| 12/31/32 | 9,199,753 | 183,245 | 1,651 | 181,594 | 100.344% | 182,218 | 656 | 181,562 | 9,078 | 172,484 | 129,196 | 114,488 |
| 12/31/33 | 9,383,748 | 186,925 | 1,651 | 185,274 | 100.344% | 185,911 | 669 | 185,242 | 9,262 | 175,980 | 127,357 | 111,246 |
| 12/31/34 | 9,571,423 | 190,678 | 1,651 | 189,027 | 100.344% | 189,677 | 683 | 188,994 | 9,450 | 179,544 | 125,543 | 108,094 |
| | | | | | | $1,496,368 | $5,386 | $1,490,982 | $74,550 | $1,416,432 | $1,126,637 | $1,025,957 |

| | | | |
|---|---|---|---|
| *Land Purchase Price* | $1,372,140 | $1,372,140 | $1,372,140 |
| *City developer upfront payment* | $0 | $272,140 | $347,140 |

[(1)] *Total estimated market value based on information provided by City*
*Includes 2% annual market value inflator.*

[(2)] *Total net tax capacity based on commercial-industrial class rate of 1.5% first $150,000 value and 2% value above $150,000*

[(3)] *Original net tax capacity based on existing land value for the property to be included in the development*

[(4)] *Total local tax capacity rate for taxes payable 2024*

## Projected Tax Increment Report

**City of Elk River, Minnesota**
**Tax Increment Financing (Economic Development) District No. 29**
**Heritage Millwork Inc Proposed Industrial Project**
**Prelim TIF Revenues based on 40K SF expansion only $3.0M new taxable value with 2% annual inflator**

| Annual Period Ending (1) | Total Market Value (2) | Total Net Tax Capacity (3) | Less: Original Net Tax Capacity (4) | Retained Captured Net Tax Capacity (5) | Times: Tax Capacity Rate (6) | Annual Gross Tax Increment (7) | Less: State Aud. Deduction 0.360% (8) | Subtotal Net Tax Increment (9) | Less: City Retainage 5.00% (10) | Annual Net Revenue (11) | P.V. Annual Net Rev. To 06/30/24 3.50% | P.V. Annual Net Rev. To 06/30/24 5.00% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 12/31/24 | 0 | 0 | 0 | 0 | 100.344% | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12/31/25 | 0 | 0 | 0 | 0 | 100.344% | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12/31/26 | 0 | 0 | 0 | 0 | 100.344% | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12/31/27 | 0 | 0 | 0 | 0 | 100.344% | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12/31/28 | 3,000,000 | 59,250 | 0 | 59,250 | 100.344% | 59,454 | 214 | 59,240 | 2,962 | 56,278 | 48,373 | 45,405 |
| 12/31/29 | 3,060,000 | 60,450 | 0 | 60,450 | 100.344% | 60,658 | 218 | 60,440 | 3,022 | 57,418 | 47,684 | 44,119 |
| 12/31/30 | 3,121,200 | 61,674 | 0 | 61,674 | 100.344% | 61,886 | 223 | 61,663 | 3,083 | 58,580 | 47,004 | 42,868 |
| 12/31/31 | 3,183,624 | 62,922 | 0 | 62,922 | 100.344% | 63,139 | 227 | 62,912 | 3,146 | 59,766 | 46,334 | 41,654 |
| 12/31/32 | 3,247,296 | 64,196 | 0 | 64,196 | 100.344% | 64,417 | 232 | 64,185 | 3,209 | 60,976 | 45,673 | 40,473 |
| 12/31/33 | 3,312,242 | 65,495 | 0 | 65,495 | 100.344% | 65,720 | 237 | 65,483 | 3,274 | 62,209 | 45,021 | 39,325 |
| 12/31/34 | 3,378,487 | 66,820 | 0 | 66,820 | 100.344% | 67,050 | 241 | 66,809 | 3,340 | 63,469 | 44,379 | 38,211 |
| | | | | | | $442,324 | $1,592 | $440,732 | $22,036 | $418,696 | $324,468 | $292,055 |

| | | | |
|---|---|---|---|
| *Land Purchase Price* | $1,372,140 | $1,372,140 | $1,372,140 |
| *City developer upfront payment* | $0 | $0 | $0 |

(1) *Total estimated market value based on information provided by City*
*Includes 2% annual market value inflator.*

(2) *Total net tax capacity based on commercial-industrial class rate of 1.5% first $150,000 value and 2% value above $150,000*

(3) *Original net tax capacity based on existing land value for the property to be included in the development*

(4) *Total local tax capacity rate for taxes payable 2024*

## Projected Tax Increment Report

**City of Elk River, Minnesota**
**Tax Increment Financing (Economic Development) District No. 29**
**Heritage Millwork Inc Proposed Industrial Project**
**Prelim TIF Revenues based on Phase 1 and 2 (150k SF) $11.2M new taxable value with 2% annual inflator**

| Annual Period Ending (1) | Total Market Value (2) | Total Net Tax Capacity (3) | Less: Original Net Tax Capacity (4) | Retained Captured Net Tax Capacity (5) | Times: Tax Capacity Rate (6) | Annual Gross Tax Increment (7) | Less: State Aud. Deduction 0.360% (8) | Subtotal Net Tax Increment (9) | Less: City Retainage 5.00% (10) | Annual Net Revenue (11) | P.V. Annual Net Rev. To 06/30/24 3.50% | P.V. Annual Net Rev. To 06/30/24 5.00% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 12/31/24 | 0 | 0 | 0 | 0 | 100.344% | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12/31/25 | 0 | 0 | 0 | 0 | 100.344% | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12/31/26 | 4,125,000 | 81,750 | 0 | 81,750 | 100.344% | 82,031 | 295 | 81,736 | 4,087 | 77,649 | 71,496 | 69,069 |
| 12/31/27 | 8,332,500 | 165,900 | 0 | 165,900 | 100.344% | 166,471 | 599 | 165,872 | 8,294 | 157,578 | 140,184 | 133,491 |
| 12/31/28 | 11,499,150 | 229,233 | 0 | 229,233 | 100.344% | 230,022 | 828 | 229,194 | 11,460 | 217,734 | 187,150 | 175,668 |
| 12/31/29 | 11,729,133 | 233,833 | 0 | 233,833 | 100.344% | 234,637 | 845 | 233,792 | 11,690 | 222,102 | 184,448 | 170,659 |
| 12/31/30 | 11,963,716 | 238,524 | 0 | 238,524 | 100.344% | 239,345 | 862 | 238,483 | 11,924 | 226,559 | 181,787 | 165,794 |
| 12/31/31 | 12,202,990 | 243,310 | 0 | 243,310 | 100.344% | 244,147 | 879 | 243,268 | 12,163 | 231,105 | 179,164 | 161,068 |
| 12/31/32 | 12,447,050 | 248,191 | 0 | 248,191 | 100.344% | 249,045 | 897 | 248,148 | 12,407 | 235,741 | 176,578 | 156,475 |
| 12/31/33 | 12,695,991 | 253,170 | 0 | 253,170 | 100.344% | 254,041 | 915 | 253,126 | 12,656 | 240,470 | 174,029 | 152,013 |
| 12/31/34 | 12,949,911 | 258,248 | 0 | 258,248 | 100.344% | 259,137 | 933 | 258,204 | 12,910 | 245,294 | 171,517 | 147,679 |
| | | | | | | $1,958,876 | $7,053 | $1,951,823 | $97,591 | $1,854,232 | $1,466,353 | $1,331,916 |

| | | | |
|---|---|---|---|
| *Land Purchase Price* | $1,372,140 | $1,372,140 | $1,372,140 |
| *City developer upfront payment* | $0 | $0 | $0 |

(1) *Total estimated market value based on information provided by City*
*Includes 2% annual market value inflator.*

(2) *Total net tax capacity based on commercial-industrial class rate of 1.5% first $150,000 value and 2% value above $150,000*

(3) *Original net tax capacity based on existing land value for the property to be included in the development*

(4) *Total local tax capacity rate for taxes payable 2024*

# Request for Action

| To | | | Item Number |
|---|---|---|---|
| Joint Finance Committee | | | 4.2 |
| **Agenda Section** | **Meeting Date** | **Prepared by** | |
| General Business | April 30, 2024 | Brent O'Neil, Economic Development Director | |
| **Item Description** | | **Reviewed by** | |
| Heritage Millwork Project and Incentive Applications | | Joshua Mollan, Economic Development Specialist | |
| | | **Reviewed by** | |

## Action Requested

Review and discuss the Tax Increment Financing (TIF), and adopt, by motion, an official recommendation on utilization of TIF for Heritage Millwork.

## Background/Discussion

Heritage Millwork is a wholesale building materials supplier, primarily offering several door products through distribution throughout the Midwest. The company currently operates out of three facilities, two in Ramsey, and one in Elk River, and are looking to gain efficiencies and plan for growth by consolidating in a single facility. A property owned by the City of Elk River has been identified as the preferred site for the new facility and Heritage has been actively working through plans to develop the site.

The site is 14 acres in the Nature's Edge Business Park, owned by the City of Elk River, at an offer of $2.25 per foot, or about $1,375,000. The total project costs total in excess of $21MM of which $12 MM is estimated for construction of a 113,000 ft. building. The project will result in the location of 70 jobs in an Elk River facility, with near-term growth of head count to 75 to 80. In the mid-term, Heritage is designing the facility and site plan to accommodate an additional 40,000 ft. for growth of its operations.

Heritage has requested participation in three city programs to make this project a reality: 1) TIF, 2) Business Microloan, and 3) Energy Incentive.TIF has been discussed with the company and we received an application in early 2024. While the loan and energy programs were also discussed, those applications were received in April and will need sufficient review prior to requesting action of the committee. They are attached for your review, however.

To assist in the TIF review, the City's financial advisor Baker Tilly has provided an analysis of the TIF application and supporting information. Mikaela Huot is Baker Tilly's chief representative on this project. Her analysis is provided in the attached memo. Staff and Ms. Huot will discuss the project and analysis at the meeting. It is anticipated the project would be presented to the EDA May 20, and to the City Council in June. Staff is requesting the committee adopt a recommendation on utilization of TIF on this project for EDA and Council consideration.

## Financial Impact

TIF has been requested to write-down the price of a land purchase of $1,375,000.

## Mission/Policy/Goal
Attract new business to Elk River.

## Attachments
- Site and Floor Plans
- TIF Application
- TIF Memo – Baker Tilly
- Business Microloan Application
- Energy Incentive Application
- IMPLAN Summary

# Special Meeting of the Elk River Joint Finance Committee Held at Elk River City Hall Tuesday, April 30, 2024

| | |
|---|---|
| Members Present: | Charlie Blesener, Ryan Hardin, Jim Gromberg, Chad Vitzthum, Dan Tveite, Tony Sofio, Rhonda Magnussen (7:34 a.m.), and Nate Ovall (8:12 a.m.) |
| Members Absent: | Lynn Caswell |
| Staff Present: | Economic Development Director Brent O'Neil and Economic Development Specialist Joshua Mollan |
| Others Present: | Pat Menth – Heritage Millwork (HMI), Dave Menth – Heritage Millwork, Annie Deckert – All Day Companies, and Mikaela Huot – Baker Tilly |

## 1. Call Meeting to Order

Pursuant to due call and notice thereof, the meeting of the Elk River Joint Finance Committee was called to order at 7:33 a.m. by Chair Tveite.

## 2. Consider Agenda

**Moved by Blesener and seconded by Gromberg to approve the agenda. Motion carried 5-0.**

## 3. Consent Agenda

**Moved by Hardin and seconded by Gromberg to approve the August 29, 2023, meeting minutes. Motion carried 5-0.**

(Rhonda Magnussen joined at 7:34 a.m.)

## 4.1 Appoint New Member

Mr. O'Neil presented the staff report.

Sofio introduced himself to the committee.

**Moved by Vitzthum and seconded by Hardin to approve the appointment of Tony Sofio to the Joint Finance Committee. Motion carried 6-0.**

## 4.2 Heritage Millwork Project (HMI) and Incentive Applications

Mr. O'Neil presented the staff report.

Pat and Dave Menth introduced themselves and the project to the committee.

Ms. Huot presented Baker Tilly's financial analysis on the $1,375,000 land write down on 14 acres of city owned land. Ms. Huot advised that the developer stated that without assistance being provided upfront through a land write down, the project would not be viable due to the following factors:

- Using equity to pay for upfront land costs would impact HMI's working capital.
- Bank would require higher equity investment from PLM Properties if upfront assistance were not provided.
- Limitations on the level of bank financing the project can secure due to the size of the capital investment and project.

Ms. Huot shared that after Baker Tilly's analysis, upfront assistance with the support of TIF would be necessary for this project to proceed as proposed.

Mr. O'Neil advised that the Council will consider interest rates of the TIF at their upcoming meeting.

Pat Menth advised that they would be interested in starting the phase two expansion in three to five years.

**Moved by Blesener and seconded by Gromberg to approve the recommendation to the EDA and City Council on the utilization of TIF for Heritage Millwork. Motion carried 6-0. Chad Vitzthum abstained.**

Mr. O'Neil advised that Chad Vitzthum has had a past banking relationship with HMI and this project and may be considered a non-interested party in this discussion.

(Nate Ovall joined at 8:12 a.m.)

The committee discussed potential interest rates for the TIF.

## 4.3 Open Discussion

Mr. O'Neil asked if the committee would be able to meet outside of the regularly scheduled meeting to discuss HMI's loan request prior to the May 20th EDA meeting.

The committee was in favor of meeting again on Tuesday, May 14th at 7:30 a.m.

Mr. O'Neil asked the committee for their feedback on the interest rate that is set forth on the policy: 3% or 2% below prime, whichever is higher. Staff's loan discussions with HMI have been built around a 3% interest rate.

The committee was in favor of supporting a 3% interest rate.

## 5. Motion to Adjourn

**Moved by Gromberg and seconded by Ovall to adjourn the special of the Joint Finance Committee. Motion carried 8-0.**

The meeting adjourned at 8:27 a.m.

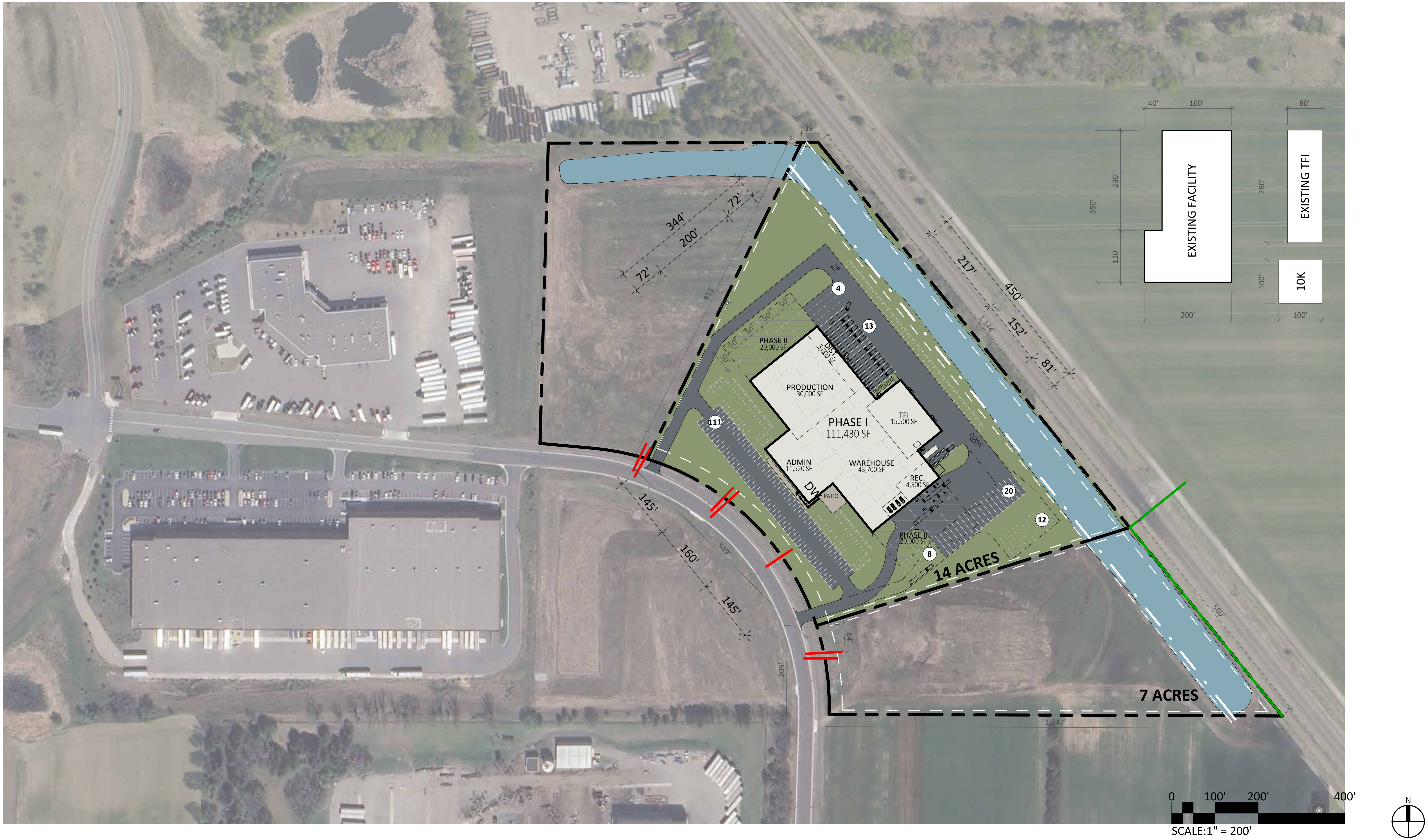
Minutes prepared by Joshua Mollan.

____________________

Brent O'Neil
Economic Development Director

______________________

Tina Allard
City Clerk




CONCEPT 9
ELK RIVER, MN
02/26/2024

**HERITAGE MILLWORK**

MOHAGEN HANSEN
Architecture | Interiors

# Request for Action

**To**
Economic Development Authority

**Item Number**
7.2

**Meeting Date**
May 20, 2024

**Prepared By**
Joshua Mollan, Economic Development Specialist

**Item Description**
Heritage Millwork Energy Incentive Program

**Reviewed by:**
Brent O'Neil
Cal Portner

## Action Requested

Adopt, by motion, a recommendation of approval of the Heritage Millwork Energy Incentive application to the City Council.

## Background/Discussion

In addition to its TIF and microloan applications, Heritage Millwork has also applied for the Economic Development Energy Incentive Program. This program offers savings to qualified applicants on their Elk River Municipal Utilities (ERMU) electric bills for up to two years. The total incentive provided to the applicant shall not exceed $149,999. Project Hinge meets all the requirements set forth in the policy: for-profit corporation, partnership limited liability company, or sole proprietorship; new construction, expansion, or addition project; located within eligible ERMU electric service territory within the City of Elk River; peak electric demand greater than 50kW per month; minimum new job creation of 30 FT employees within two years; wage level greater than $18/hr; project size greater than 25,000 sq ft; Implan (analysis provided by Sherburne County) calculated economic output greater than $5,000,000; and total annual property taxes of at least $60,000.

This program is new and this project is the first applicant for the program. The program allows the city to rebate the PILOT (Payment in Lieu of Taxes) which is charged to electrical customers. The 4% fee is eligible for a full rebate for 24 months following a project's certificate of occupancy. EDA review is required prior to forwarding it to the City Council for consideration. Based on the project's ability to satisfy the requirements of the Energy Incentive Program Policy, staff recommends supporting this application, and recommending approval to the City Council.

## Financial Impact

Based on anticipated electricity usage, the value of the incentive will be $10,000 to $15,000 in the form of a rebate.

## Mission/Policy/Goal

Attract new business development to Elk River to build the City's economic vibrancy, job offerings, and tax base.

## Attachments

1. Energy Incentive Application
2. Equipment Demand Loads
3. ERMU Electric Service Load Sheet
4. Sherburne County Economic Impact Results

# Elk River Economic Development
# Energy Incentive Program Application

## 1. Contact Information

Legal Name of Business: Heritage Millwork

Project Site Address: Approximately 14.06 acres of PID 75-00929-0020 in NEBCII

City / State / Zip: Elk River, MN 55330

Contact Person(s): Annie Deckert, All Day Companies

Business Phone: 319-214-5858 Fax: ____

Home Phone: ____ Email: ____

Check One: ____ Proprietor X Corporation ____ Partnership

Federal ID #: 41-1864718 State ID #: 3129323

## 2. Nature of Request

Please give a brief summary of your business and its products or service:

Established in the Spring of 1997 in Ramsey, Mn, Heritage Millwork Inc (HMI) has been servicing the Upper Midwest Market as a distributor of moldings, millwork, interior doors, exterior entry doors and stair parts. HMI supplies to more than 450 dealers in MN, WI, SD and IA Originally stocking only a few interior door designs in two wood species, HMI ow offers over 25 door designs, with unlimited special-order options. In addition to a wide selection of interior doors, HMI also offers over 30 molding profiles in seven species including MDF, with special-order molding profiles and a broad selection of stair parts. HMI provides wholesale products to retail lumber dealers.

Please give a brief summary of the project and a construction timeline for the project:

HMI is proposing to acquire approximately 14 acres in city-owned Nature's Edge Business Park II to construct a 113,000 square foot facility with room to expand another 40,000 sf. (estimated 3-5 years after receiving CO). Currently located in Ramsey, MN, HMI has outgrown it's current facility (leased) and would like to relocate to Elk River. It currently has two offsite warehouses for excess material and product which causes inefficiencies and lost revenue. Proposed groundbreaking is Summer '24, with estimated project completion Q1 '25.

Please describe how this program will impact your project:

The rebate will improve overall cashflow of the business, helps reduce costs and increase efficiency. A positive cash flow helps create a buffer for unexpected expenses, fluctuation in sales, changes in the market, and allows us to make informed decisions, plan for future growth (we have the potential to expand up to an additional 40,000 square feet from our proposed 113,000sf facility.).

## 3. Proposed Peak Electric Demand and Energy Usage

Please see attached

## 4. Job & Wage Goals

*This project will bring 70.5 FTE to Elk River, averaging $37.66/hr, and will create an additional 6.5FTE, averaging $28.25/hr*

**Jobs to be Created***

Please provide the following information on jobs you expect to create within 2-years.

| Job Title | Number of Jobs | Average Hourly Wage | Annual Salary | Are the Jobs Permanent or Temporary? | Expected Hiring Date |
|---|---|---|---|---|---|
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## 5. Project Contacts

**Attorney**

Name Nathan J. Allen, Gries Lenhardt Allen PLLP

Address 12725 43rd St NE, St. Michael, MN 55376

Phone 763-497-3099, nate@glalawfirm.com

**Accountant**

Name Tom Barton, Barton Walker & Krier CPA

Address 6885 Sycamore Lane N., Maple Grove, MN 55369

Phone 763-367-7300

**Financing Sources (lenders, partners, etc…)**

Name Chad Vitzthum, First Bank Elk River

Address 812 Main Street Elk River, MN 55330

Phone 763-241-3600, cvitzthum@elkriver.bank

Name

Address

Phone

**Parent Company**

Name

Address

Phone

**Others**

Name Jake Zander, Collins Electrical Construction

Address 278 State Street, St. Paul, MN 55107

Phone jzander@collinsmn.com, 763-227-0993

Name Neil Missling, Mohagen Hansen Architecture

Address 1000 Twelve Oaks Center Drive, Suite 200, Wayzata, MN 55391

Phone 952-426-7426

## 6. Attachment Checklist

Please attach the following:

_x____ A) Application

_x____ B) Projected Electric Usage as calculated by ERMU

_x____ C) Economic Impact Analysis (from Sherburne County)

_x____ D) Proposed Increase in Property Taxes

_x____ E) Certificate of Good Standing and Applicant's Organizational Documents (for example, articles of incorporation and bylaws)

_x____ F) Resume of Owner/Management

_x____ G) Letter of Commitment from Applicant Pledging to Complete During the Proposed Project Duration

B. See attached Electric Service Information Load Sheet from ERMU, dated 4-17-24 and attached Load Sheet dated 3-29-24

C. Attached from Sherburne County

D. Proposed property tax increase: $234,311+ (110,000 sf building), $288,082 (with 40,000 sf expansion)

E. City has on file from TIF application and Microloan application

F. City has information from TIF application and Microloan application

G. Will be provided with TIF and Microloan application

## 7. AGREEMENT

I/We certify that all information provided in this application is true and correct to the best of my/our knowledge. I/We authorize the City of Elk River to check credit references and verify financial and other information. I/We agree to provide any additional information as may be requested by the City and the EDA.

APPLICANT SIGNATURE Patrick W. Merritt

BY______________________________

DATE 4-23-24

## Heritage Millwork Equipment Date: 4-17-24

| Description | VA |
|---|---|
| Double End Saw | 6117 |
| Hydrovane Air Compressor 25hp | 22000 |
| QCV 40 hp Aircompressor | 41520 |
| Time Saver | 19791 |
| Time Saver | 1295 |
| Powermatic table saw | 4982 |
| | 4982 |
| **990 Line** | |
| Handler | 27000 |
| | 600 |
| 555 | 4784 |
| | 600 |
| 990 | 9776 |
| | 4320 |
| Wrapper | 4152 |
| Magnum | 6240 |
| | 10795 |
| W/B Radial Arm | 2912 |
| Powermatic | 4982 |
| Shaper | 1661 |
| Jet Table Saw | 1200 |
| Plainer | 3120 |
| **994 Door line** | |
| Drop 1 | 13369 |
| Drop 2 | 13120 |
| Drop 3 | 8968 |
| **Exterior Door Line** | |
| Handler | 27000 |
| DL-2 | 1664 |
| Acrobat | 240 |
| 700 | 360 |
| Powermatic 14" Table Saw | 2657 |
| Annie | 12456 |
| Radial Arm | 1728 |
| Radial Arm | 2304 |
| | 0 |
| Dust Collector | 39859 |
| Fork lift Charger (5) | 10795 |
| Wrapper | 4152 |
| **Additional Equipment** | |
| 994 wrapper | 0 |
| Efx | 39859 |
| Trash compactor | 0 |
| | |
| Air Dryer | 3322 |
| Table saw | 2496 |
| Table saw | 3328 |
| | |
| **Flat line** | |
| EP1 | 26573 |
| EP2 | 24912 |
| EP3 | 24912 |
| EP4 | 207600 |
| EP5 | 332160 |
| Door finishing | 332160 |
| Paint Booth | 2496 |

| | |
|---|---|
| 1321322 | Total connected VA |
| 830 | at 480v/3ph |
| 1592 | Amps |

| | |
|---|---|
| 858860 | Total demand VA 65% |
| 830 | at 480v/3ph |
| 1035 | Amps |

**Mechanical equipment heating/motors/air conditioning**

| | | |
|---|---|---|
| RTU (4) 7.5 ton | 15778 | VA |
| (2) PRV | 1920 | VA |
| Split system | 6240 | VA |
| Gas water heater | 120 | VA |
| Gas water heater | 6240 | VA |
| (8) cabinet unit heaters | 11080 | VA |
| (15) gas unit heaters | 9000 | VA |
| (12) destratification fans | 49824 | VA |
| | 951 | VA |

Elk River Municipal Utilities

# ELECTRIC SERVICE INFORMATION LOAD SHEET

Project Name & Address: Heritage Millwork Date: 4-17-24
Projected Date of Permanent Service: ______
Customer Contact Name: ______ Phone: ______
Address: ______
Electrician's Name: Jake Zander (Office project Manager) Phone: 763-227-0993

**PROJECT LOAD DATA** DEMAND WINTER

| | | | |
|---|---|---|---|
| Indoor Lighting | 27 | KVA | 27 KVA |
| Outdoor Lighting | 5 | KVA | 5 KVA |
| Electric Heating | 51 | KVA | 51 KVA |
| Motor Loads | 55 | KVA | 55 KVA |
| Air Conditioning | 22 | KVA | 0 KVA |
| Receptacles 6 KVA PRODUCTION/ WAREHOUSE/FINISHING 57 KVA OFFICE AREA | 63 | KVA | 37 KVA |
| Computers | 5 | KVA | 3 KVA |
| Misc. Equipment SEE ATTACHMENT | 1,321 | KVA | 859 KVA |
| Cooking | 13 | KVA | 8 KVA |
| Other ______ | 0 | KVA | |
| Total Conn. Load | 1562 | KVA | 1045 KVA TOTAL DEMAND |
| Est. Future Load | | KVA | |

**AIR CONDITIONING**

| | |
|---|---|
| # 4 of Units | Size in 7.5 Tons |
| # 1 of Units | Size in 3 Tons |
| # ______ of Units | Size in ______ Tons |
| # ______ of Units | Size in ______ Tons |

Largest Motor: ______ HP

**MOTORS** (MECHANICAL ONLY)
Continuous Operation 2 HP
Semi-Continuous Oper. 24 HP
General Purpose 5 HP
(Elevators, Machine Shop, etc.)

**SERVICE CHARACTERISTICS**
Voltage: ☐ 120/240 ☐ 208Y/120 ▣ 480Y/277 Phase: ☐ Single ▣ Three
Service Entrance Size: 2000 Amperes Connection Cabinet: 2000
Service Conductors Size: 600 No. Per Phase: 6
Metering: ▣ Single ☐ Multiple
If Multiple, number of meters and size of services: ______

**TEMPORARY SERVICE**
Voltage: ☐ 120/240 ☐ 208Y/120 ☐ 480Y/277 Phase: ☐ Single ☐ Three
Service Entrance Size: ______ Amperes
Date Requested: ______

**BUILDING CRITERIA**
Type: ☐ Commercial ▣ Industrial ☐ Residential
Building Area: New ______ Sq. Ft. Existing 0 Sq. Ft.
Site Plan: ☐ Enclosed ☐ Separate Cover ▣ Not Available until later
Remarks: ______

# Impact Results Overview

Dollar Year is 2024 Run ID is 386060

## Economic Indicators by Impact

| Impact | Employment | Labor Income | Value Added | Output |
|---|---|---|---|---|
| 1 - Direct | 75.50 | $4,816,363.11 | $4,574,018.18 | $14,029,323.80 |
| 2 - Indirect | 12.35 | $624,437.33 | $1,019,473.08 | $2,264,575.23 |
| 3 - Induced | 8.81 | $363,829.16 | $818,655.55 | $1,400,298.44 |
| Totals | 96.66 | $5,804,629.61 | $6,412,146.82 | $17,694,197.46 |

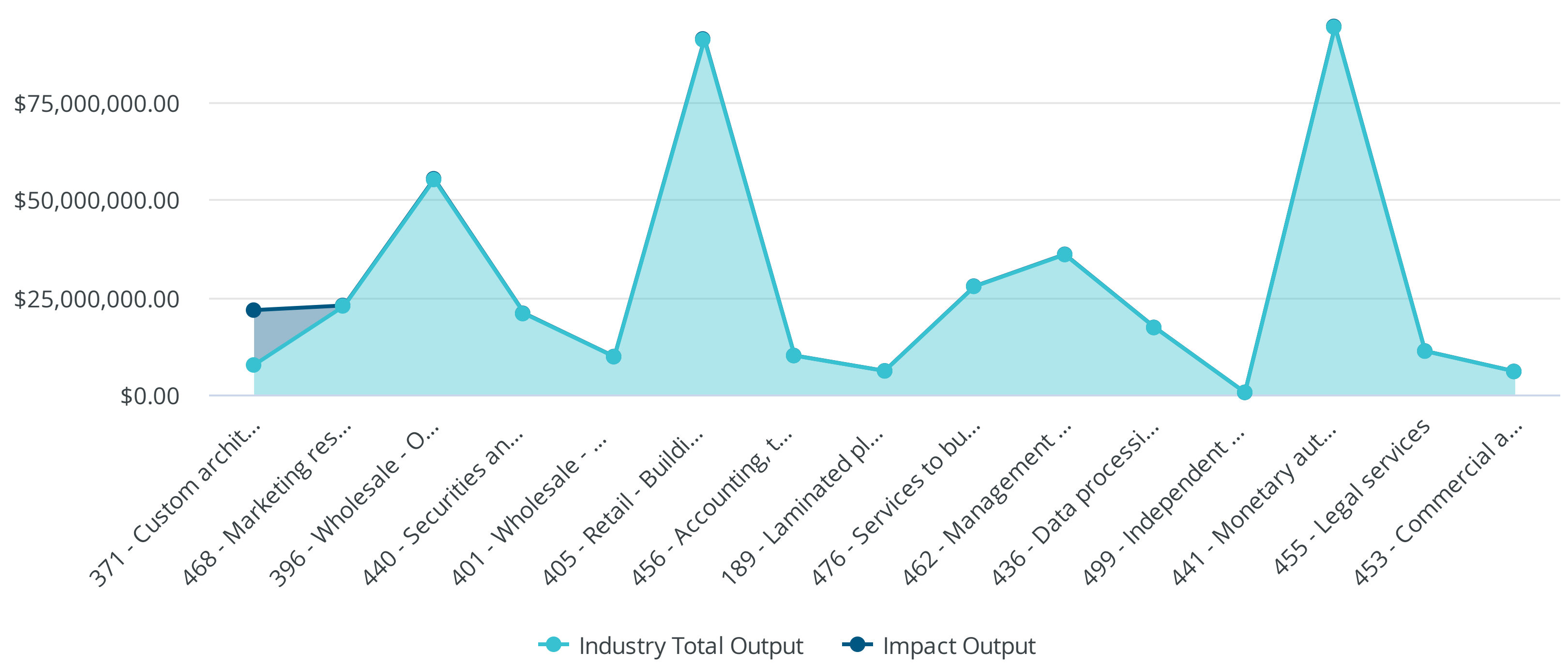
## Tax Results

| Impact | Sub County General | Sub County Special Districts | County | State | Federal | Total |
|---|---|---|---|---|---|---|
| 1 - Direct | $7,294.21 | $13,034.47 | $9,677.20 | $115,200.12 | $897,250.06 | $1,042,456.05 |
| 2 - Indirect | $14,077.27 | $24,792.13 | $18,416.75 | $80,784.48 | $132,442.45 | $270,513.07 |
| 3 - Induced | $13,382.56 | $23,557.56 | $17,499.97 | $74,282.31 | $86,876.89 | $215,599.29 |
| Totals | $34,754.04 | $61,384.16 | $45,593.91 | $270,266.90 | $1,116,569.40 | $1,528,568.41 |

## Direct Leakages

| Institutional Commodity Sales | Margin | Imports to Region |
|---|---|---|
| N/A | N/A | N/A |

## Top 15 Industries by Estimated Growth Percentage




## Industries by Estimated Growth Percentage

| | Display Code | Display Description | Industry Total Output | Impact Output | Estimated Growth Percentage |
|---|---|---|---|---|---|
| 1 | 371 | Custom architectural ... | $7,553,413.47 | $14,030,200.90 | 185.75% |
| 2 | 468 | Marketing research a... | $22,652,439.06 | $119,796.85 | .53% |
| 3 | 396 | Wholesale - Other dur... | $54,972,939.98 | $194,061.63 | .35% |
| 4 | 440 | Securities and commo... | $20,686,254.21 | $72,369.29 | .35% |
| 5 | 401 | Wholesale - Wholesal... | $9,669,869.48 | $28,603.31 | .30% |
| 6 | 405 | Retail - Building mater... | $90,732,379.21 | $187,525.56 | .21% |
| 7 | 456 | Accounting, tax prepa... | $9,953,490.16 | $18,962.82 | .19% |
| 8 | 189 | Laminated plastics pla... | $6,038,605.16 | $10,988.61 | .18% |
| 9 | 476 | Services to buildings | $27,652,254.98 | $48,966.04 | .18% |
| 10 | 462 | Management consulti... | $35,777,058.80 | $61,270.06 | .17% |
| 11 | 436 | Data processing, hosti... | $17,123,054.14 | $29,182.10 | .17% |
| 12 | 499 | Independent artists, w... | $543,402.34 | $882.22 | .16% |
| 13 | 441 | Monetary authorities ... | $93,973,014.85 | $144,304.32 | .15% |
| 14 | 455 | Legal services | $11,106,157.48 | $16,659.60 | .15% |
| 15 | 453 | Commercial and indus... | $5,890,198.12 | $8,475.81 | .14% |
| 16 | 447 | Other real estate | $123,386,414.35 | $174,752.08 | .14% |
| 17 | 463 | Environmental and ot... | $4,025,990.09 | $5,700.89 | .14% |
| 18 | 393 | Wholesale - Professio... | $10,513,155.05 | $14,632.00 | .14% |
| 19 | 450 | Automotive equipmen... | $3,379,702.03 | $4,441.71 | .13% |
| 20 | 515 | Commercial and indus... | $8,572,820.23 | $10,710.48 | .12% |
| 21 | 465 | Advertising, public rel... | $12,470,284.02 | $15,289.83 | .12% |
| 22 | 469 | Management of comp... | $39,229,430.81 | $47,953.22 | .12% |

# Request for Action

**To**
Economic Development Authority

**Item Number**
7.3

**Meeting Date**
May 20, 2024

**Prepared By**
Brent O'Neil, Economic Development Director

**Item Description**
General Updates

**Reviewed by:**
Cal Portner

**Action Requested**
Item presented for information and discussion purposes.

**Background/Discussion**
This item is an opportunity to discuss relevant topics and other non-action items of the board.

**Financial Impact**
N/A

**Mission/Policy/Goal**
Support existing Elk River businesses and attract new businesses.

**Attachments**
None