

City of Brainerd
Economic Development Authority
Meeting Agenda

Council Chambers
October 31, 2019
7:30 A.M.

_____ E. Menk
_____ J. Sinner
_____ K. Bevans
_____ G. Johnson
_____ W. Erickson
_____ Y. Campbell

- I. Call to order
- II. Roll call
- III. Industrial Lots Discussion
- IV. Adjournment

MEMO



TO: EDA Board of Commissioners
FROM: Industrial Park Subcommittee
DATE: October 29, 2019
RE: Industrial Park Lots Discussion

Background: In 2006, the EDA purchased 198 acres to create Phase IV and Wright Street Extension of the Industrial Park of which 85.26 acres were available for development and 112.74 acres being out lots and roads. In 2015, 8.57 acres in Phase IV was sold to FedEx for \$56,251.42 per acre. The net proceeds from this sale went to make up the deficit that was in the debt service fund.

The EDA purchased the land, borrowing \$646,427 from the State MIF Revolving Loan Fund (RLF) and paying \$353,307 in cash. The City put in the infrastructure and made the sites shovel ready with bonds and grants. The City borrowed \$3,020,000 and paid a total of \$4,030,000 in principal and interest. The debt issue has been paid off. The note from the RLF appears to be interest free and for an unspecified period.

Following breaks down the funding:

	Phase IV	Wright Street	Total
EDA	\$265,307	\$88,000	\$353,307
State MIF RLF	514,427	132,000	646,427
Principal & Interest	2,265,600	1,764,400	4,030,000
Total	\$3,045,334	\$1,984,400	\$5,029,734
	61%	39%	

In April of 2019, the EDA Commission agreed to form a subcommittee to review the industrial lots and the possibility of allowing incentives to move the lots. Based on the work of the committee, the committee brings forward the following recommendations to the Commission for consideration to forward to the Council.

- 1. Request the City to transfer ownership of the land in the Industrial Park when a developer is ready to purchase.**

Facts: The Industrial Park property is currently under the ownership of the City of Brainerd. An EDA can hold property for 7 years tax-free and then the property goes on the tax rolls. We have spoken with Legal Counsel and it appears the

transfer is a simple filing of a quitclaim deed. However, we would need to review our City Charter.

Pros:

- An EDA can put a *Right of Reverter* in a contract/development agreement, whereas a City cannot.
- If the City agrees to transfer the land when it is ready to be purchased, the EDA will not have to pay taxes on the property.

Cons:

- The property is tax-exempt as long as it is in the City's name. If the property was taxable, it would change the way the levy is allocated among all taxpayers.

2. Request authorization to sell the lots for a dollar per acre.

Facts: The last price the lots were listed at was \$62,225 an acre. The City has not received any offers since 2015.

Pros:

- Increase in interest in the property and the possibility of the lots being sold which would create jobs and tax base for the City.
- Even if the developer purchases the lots and defaults, the entity holding the mortgage will be responsible for paying the property taxes.
- No matter the sales price per acre, the property will go on the tax rolls.

Cons:

- The City and the EDA would not recoup its investment.
- This creates a business subsidy, which result in the creation of subsidy agreement, and is subject to a public hearing, and annual reporting to DEED.

3. Request authorization to create TIF (or Tax Abatement) District(s).

Facts: The EDA and the City can create a TIF or Tax Abatement District(s) and capture the increment itself. TIF Districts would allow the City and EDA to recapture a larger dollar amount. The duration of the TIF District would be 9 years since the district contains undeveloped land. Tax Abatement District would have a longer duration.

Pros:

- The maximum duration of the district is 9 years.
- Multiple TIF Districts can be created when each parcel is developed.
- Funds collected from increment could be used for things like making the Wright Street Development Shovel Ready Certified.
- Up to 10% of the increment collected can be used to offset EDA administrative staff time for administration the TIF District; as well as the costs incurred by the EDA for its creation.

Cons:

- The development would not be on the tax rolls for 9 years.
- The amount of the increment collected is unknown as it would be dependent on several factors the City does not control. Examples are:
 - The payment of property taxes
 - The assessed value of the property
 - The City may grant a developer TIF or Tax Abatement if the development needs it, then the City wouldn't be able to capture all the increment.
- This also creates a business subsidy, and costs would be incurred for the development agreement, creation of the district and so on, as well as annual reporting to the OSA.

4. A deposit will be required from the developer to fund all costs associated with the sale and development of the property.

Facts: It is a policy decision for the developer to pay the associated cost. The policy has been that the developer submits a deposit based historical costs of agreements to be created.

Pros:

- There is no cost/risk to the City to enter into a development agreement.

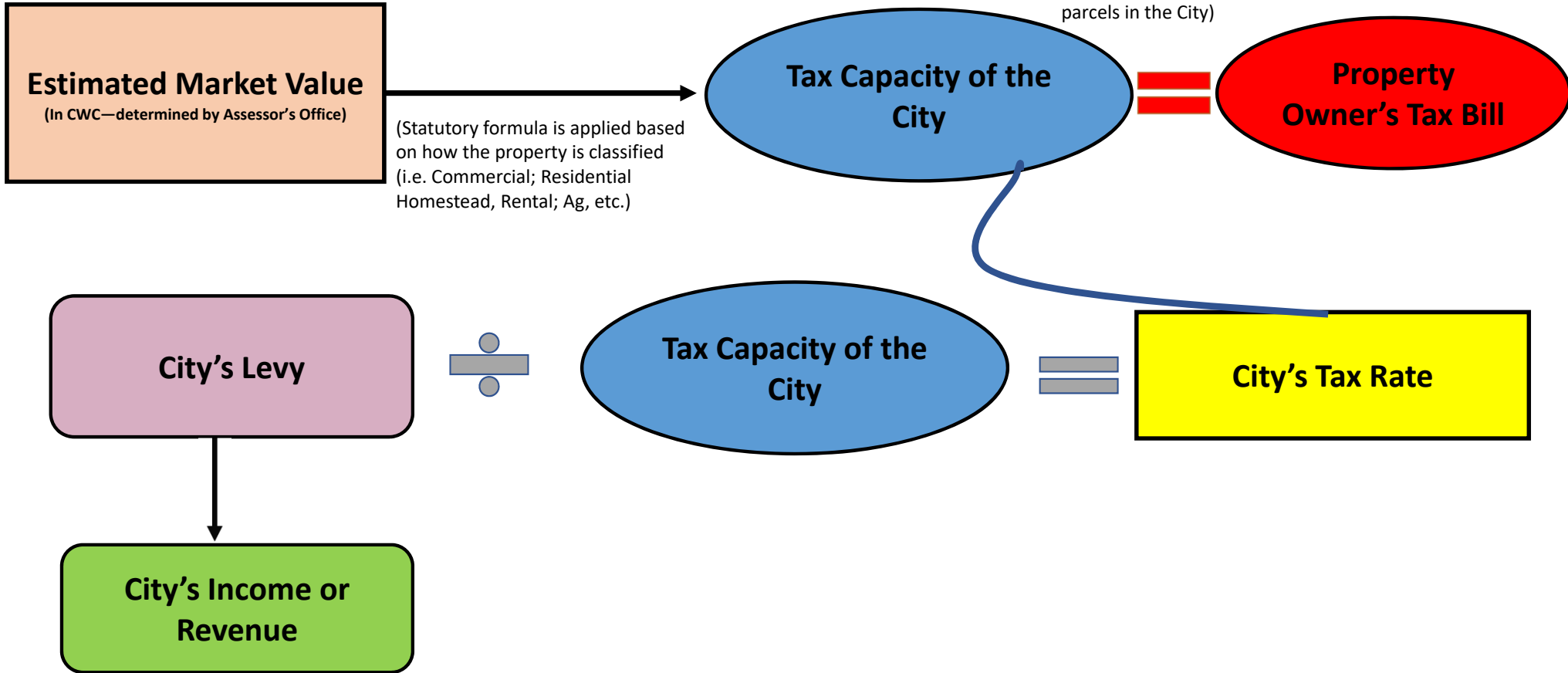
Cons:

- The development may not occur.

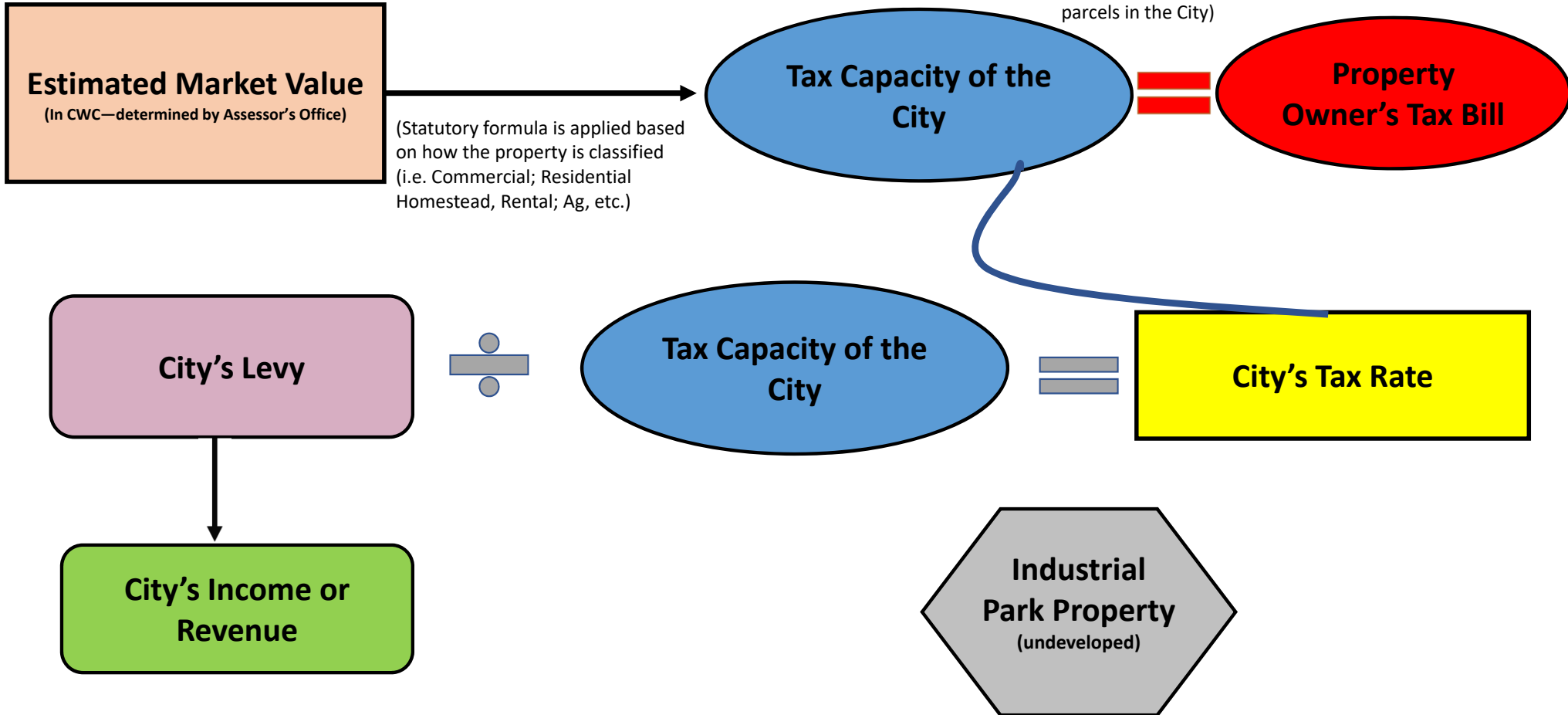
TAXES AND TIF

EDA – October 31, 2019

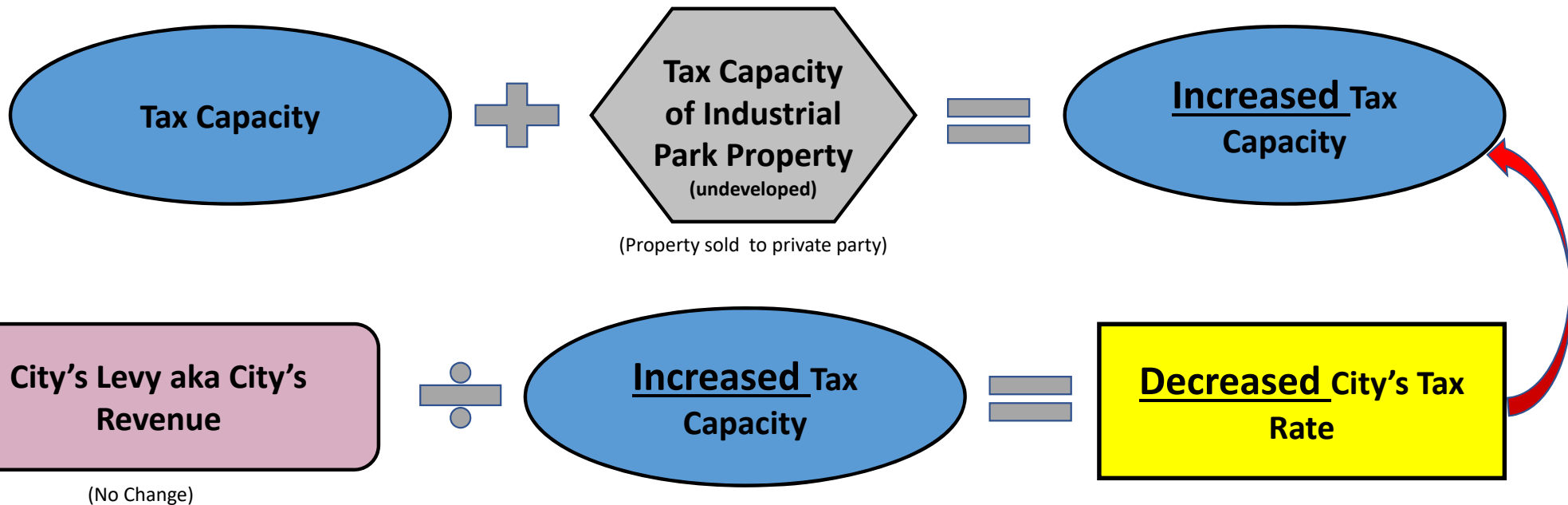
PROPERTY TAXES 101



PROPERTY TAXES 101



EXAMPLE OF WHAT HAPPENS WHEN NON-TAXABLE PROPERTY BECOMES TAXABLE

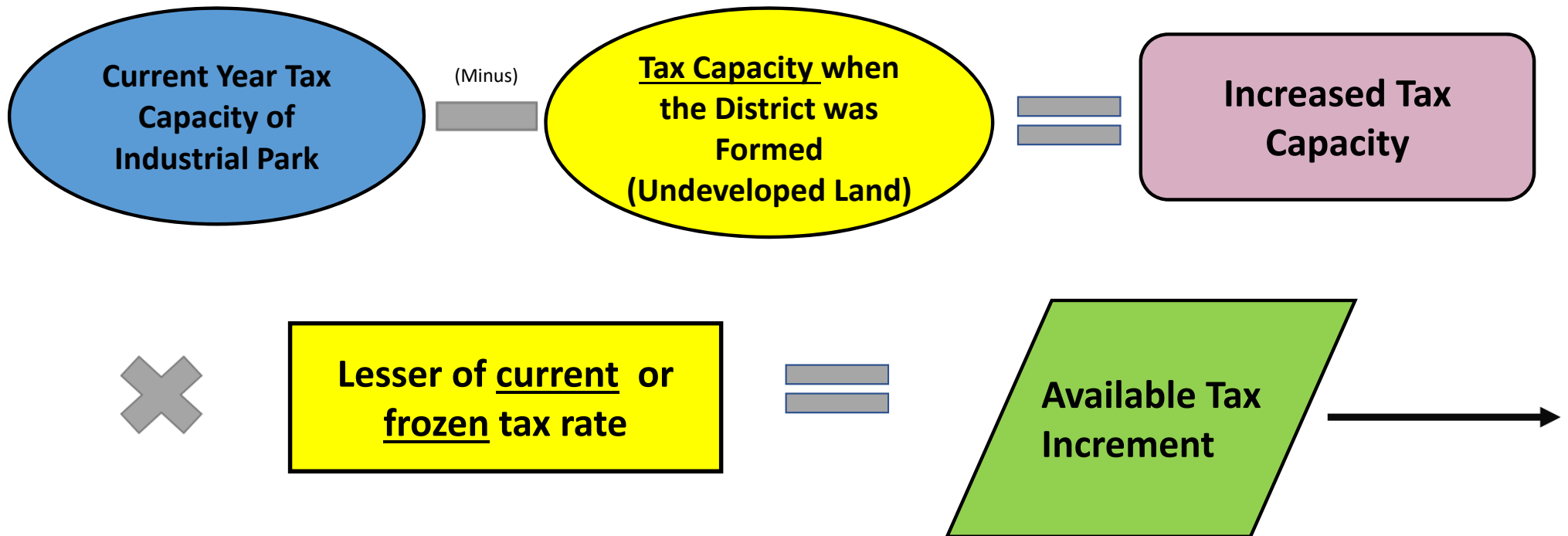


****** REMINDER ****** Tax Capacity is the EMV after the statutory formula is applied based on the property's calculation

Basic Explanation of TIF

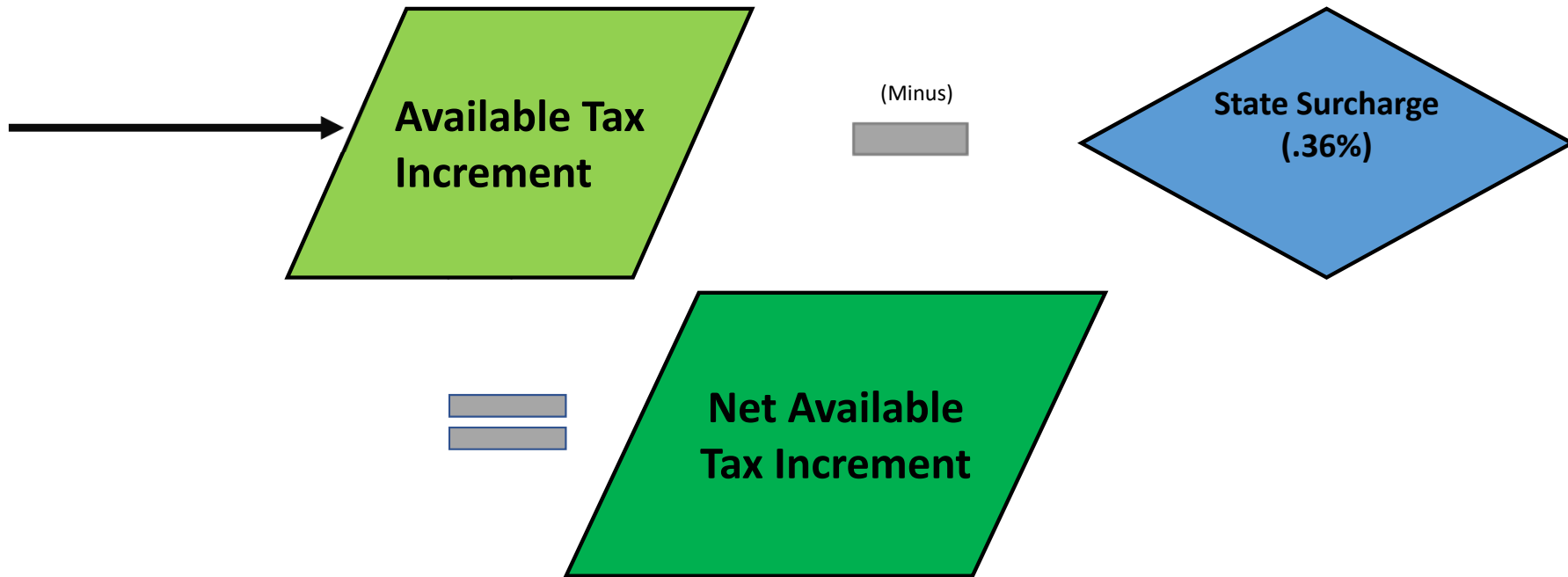
When a TIF District is formed:

Both the **Tax Rate** and the **Tax Capacity** of the property in the District are **FROZEN**



****** REMINDER ****** Tax Capacity is the EMV after the statutory formula is applied based on the property's calculation

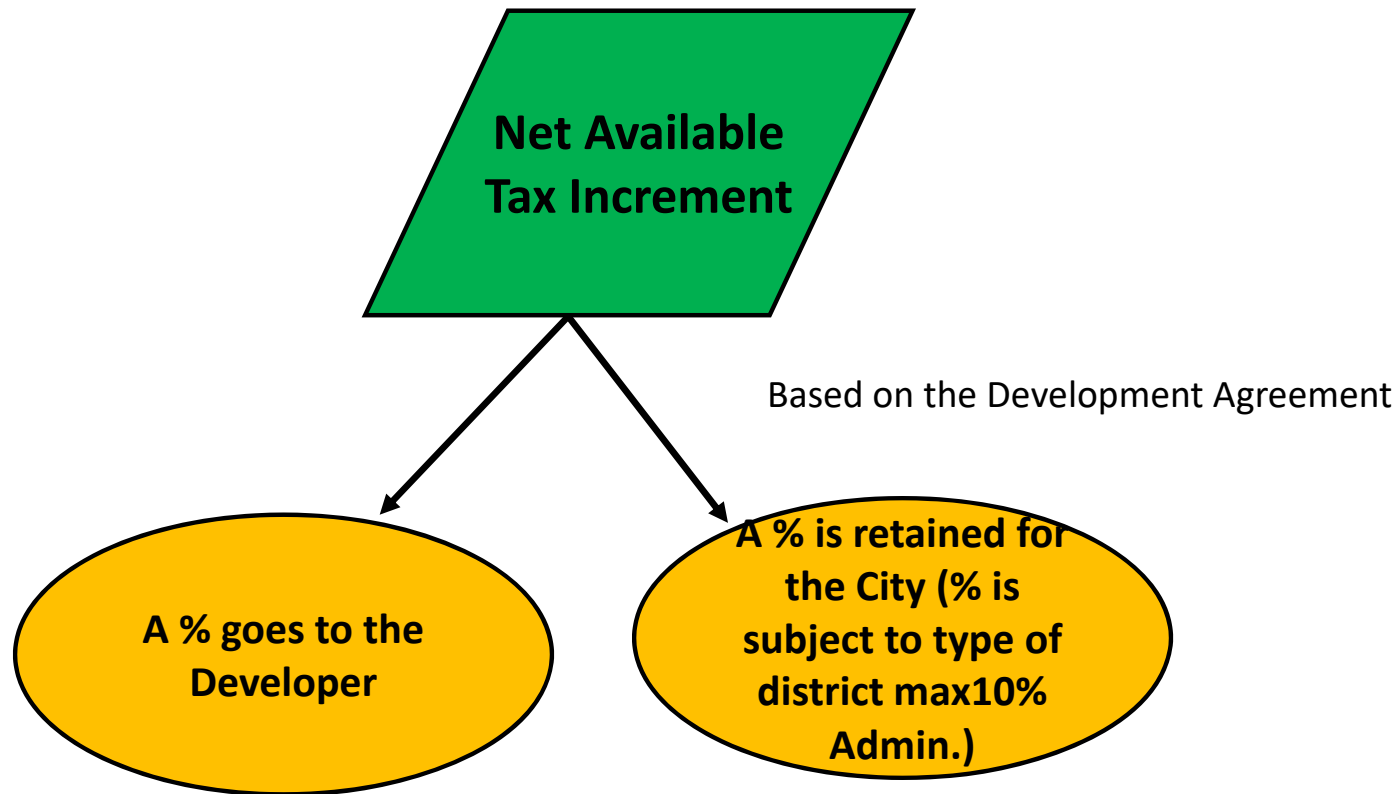
Basic Explanation of TIF



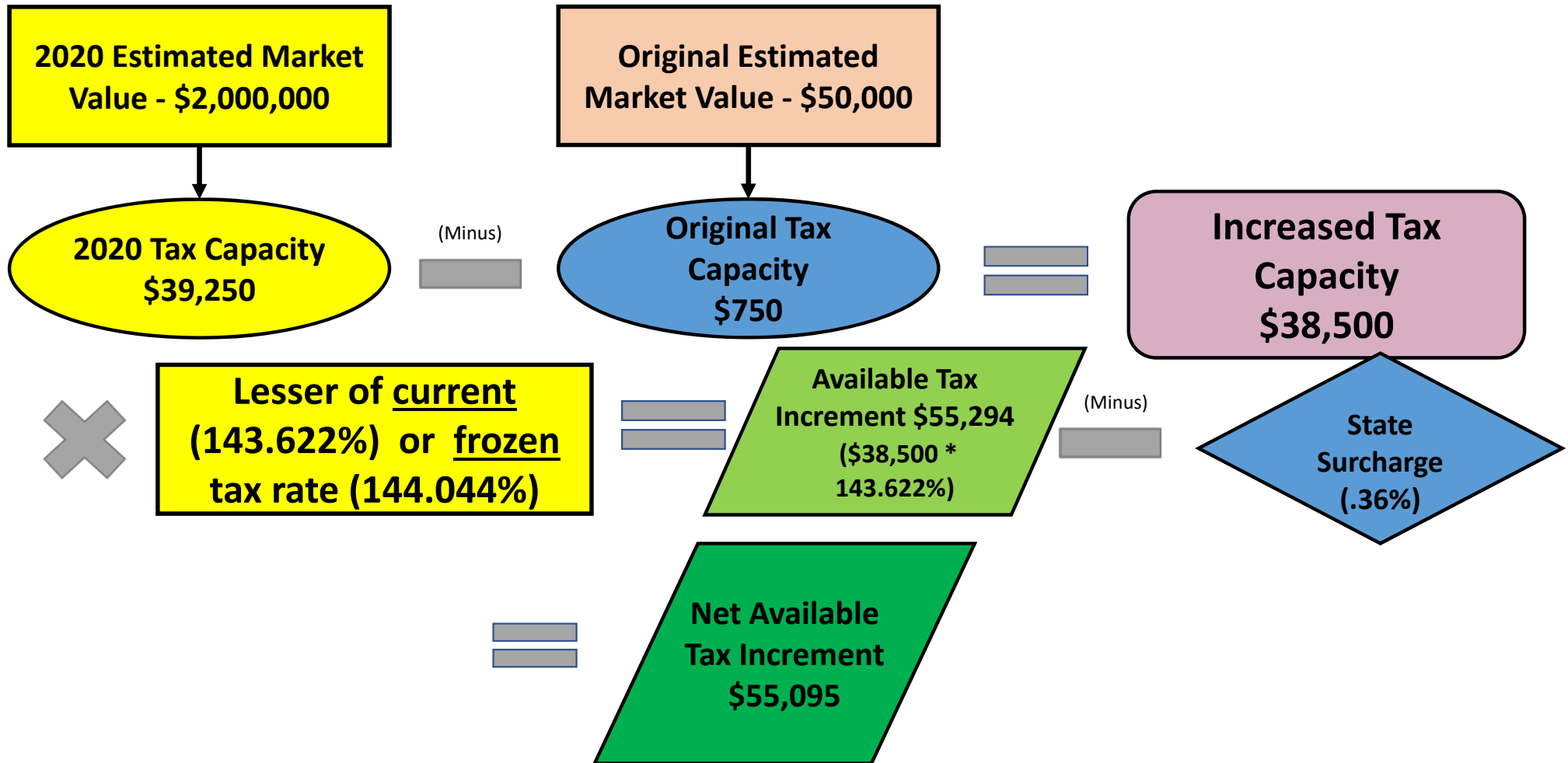
*The County calculates the “**Net Available Tax Increment**” and it is reported separately on the statement the City gets from the County with the tax settlement.*

*There is a line of the owner’s tax statement that says **TIF**.*

Basic Explanation of TIF

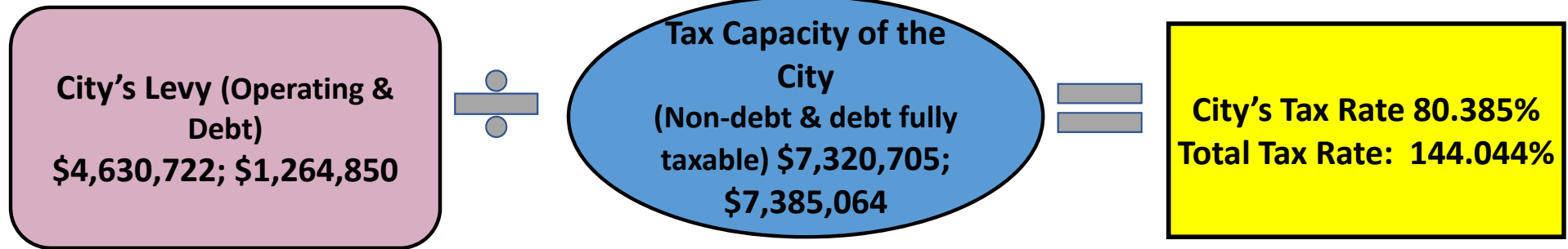


Explanation of TIF - Example

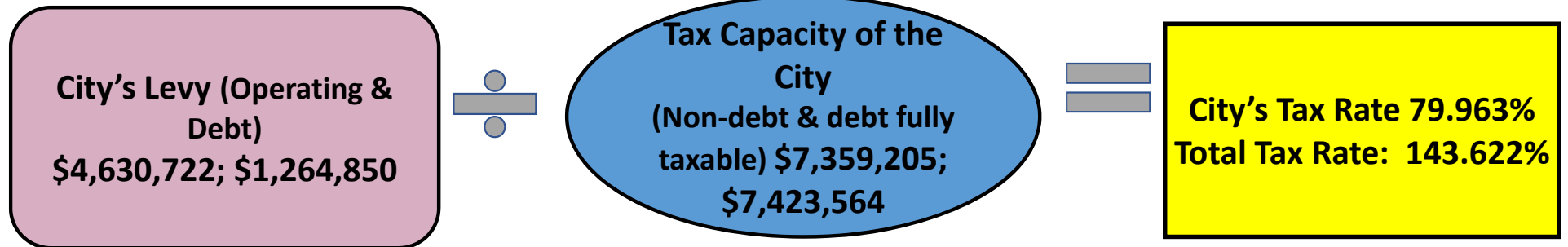


ASSUMED IMPACT TO TAX RATE

2019



2020



Explanation of TIF - Example

