WRIGHT COUNTY
Economic
Development
Authority

MEETING MINUTES

ECONOMIC DEVELOPMENT AUTHORITY

JUNE 20, 2022 & JUNE 29, 2022

DATE APPROVED: JULY 18

Darek Vetsch, President
Christine Husom, Vice-President
Mark Daleiden
Mary Wetter
Michael Kaczmarek
Phil Kern
Josh Gehlen

Members Present: Darek Vetsch, Christine Husom, Mark Daleiden, Mary Wetter, Mike Kaczmarek, Josh Gehlen, and Phil Kern

Others Present: Clay Wilfahrt, Elizabeth Karels, Andi Gayner, Greg Kryzer, Erin Walsh

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* Agenda Items held for the meeting continuation Wednesday, June 29.

I. Approve Previous Meeting Minutes

The meeting was called to order at 8:30 a.m. Monday, June 20 by Economic Development Authority (EDA) President Darek Vetsch. Vetsch introduced the Monday, May 16, 2022, EDA meeting minutes. Commissioner Michael Kaczmarek requested that Item III be removed, and the recommendation be voted on separate from the vote to approve the minutes. Commissioner Mark Daleiden agreed and said he too wanted this vote separated out. Vetsch clarified that recommendation from Item III was already approved and the recommendation was not up for a vote. EDA Vice President Christine Husom clarified her remarks on Page 4. She said since people might be pressed for time, it would be good to have food. Vetsch wanted to ensure Kaczmarek was comfortable with the loan approval discussed in Item III of the minutes. Kaczmarek stated he was comfortable moving forward with the approval of the minutes as the votes were clearly stated and showed his opposition.

Husom moved to approve the minutes from the Monday, May 16, 2022, EDA meeting with her suggested edit. Daleiden seconded the motion. The motion carried 7-0.

Daleiden moved to approve the minutes from the Wednesday, June 8, 2022, EDA Annual meeting. The motion was seconded by Commissioner Mary Wetter. The motion carried 7-0.

II. Review of Annual Meeting

Vetsch said the Annual EDA meeting was well attended with approximately 30 in attendance. He said the attendees were a good cross section of the cities and townships in the county. There was a good discussion had about different projects the county could partner with cities and townships. The consensus for the small cities and townships would be for the county to continue to provide education for its staff and residents on economic development and giving cities and townships the tools to continue economic growth on their own. The larger cities and townships were looking for help with grant writing and creating programs, or developing a tax abatement policy, and to help guide the growth of their city or township when projects were presented to them.

III. Tax Abatement and TIF Overview

Ehlers Public Finance Advisors Senior Municipal Advisor Bruce Kimmel gave a presentation on Tax Increment Financing (TIF) and tax abatement. The presentation was in part a response to one the EDA's directives in 2022 which was to develop a tax abatement policy that spelled out some of the EDA's priorities and goals for using abatement. Kimmel explained that this would make it clear to local entities what projects the EDA would be more likely to take on as a partner. Kimmel said he came away from the Annual EDA meeting with a good idea of the achievable items for the board to take on that would also match the capacity of the EDA. These goals would also enable staff to have a measurable effect in the coming year.

Kimmel said that TIF and tax abatement were two of the most used tools in Minnesota for advancing economic development or redevelopment. He said many in the industry believed the free market should do everything itself. While this independency may be right at times, Kimmel said the free market failed occasionally or had financing gaps where a developer needed assistance with projects or developments in specific areas. Kimmel said incentives were a key part in the overall economic development strategy, especially when it came to job creation and retention. Incentives were also key for redeveloping blighted areas, remediating polluted sites, constructing affordable housing, increasing the tax base and changing market conditions. All incentives were presented with the intention of attracting projects to local communities. Kimmel said the biggest aspect of looking at the need for cash assistance was whether there was a financing gap. There should be a demonstrable need or a reasonable basis for TIF, abatement or some other income mechanism. To determine the need, Kimmel used the "but for" test, notably "but for some level of EDA assistance would this project happen?" Kimmel said financing gaps occurred not only because developers decided they needed to make a higher rate of return. Fundamentally, financial gaps were barriers preventing the private market from developing a site in accordance with the local governing body's vision. This would be caused by contaminated land and/or the existence of blighted buildings, high development fees, low market rents, high infrastructure costs, cheaper alternatives elsewhere, and at times the local governing body's plans being incompatible with the market.

Kimmel said there were two ways to look at a financing gap. First, there was the situation where debt, equity, and cash were a funding source and the total development costs outweighed these. The second situation would be when the projected revenues were less than the loan costs of the developer. In that case there would not be enough cash flow. Kimmel said that Minnesota had the most convoluted TIF laws in the country. TIF is financing that gives a governmental entity the ability to capture and use most of the increases in local property tax revenues from new developments within a defined geographic area. This would then provide a defined period without the approval of the other taxing jurisdictions. Within a TIF district the baseline property value or existing value would go to the taxing jurisdictions as per normal. When development started to create new property value, this additional and incremental tax would be captured by the TIF district for its stated purpose. After the TIF district expired, the taxing jurisdictions would receive the base tax money and the increased amount previously captured by the TIF district.

With abatement, entities could choose to abate down to zero to include the taxes from the existing value. However, very few entities would do this in part because publicly the agency would want to show it was capturing only incremental value. Kimmel said if the project was larger abating to zero would not work since the original tax capacity would need to be remunerated, the project would still need to be adjusted as it may not be a value to abate to zero. Kimmel presented a fictional scenario that showed how the process of incremental tax value was captured and the various deductions and percentages that could come from it. When figuring in the tax increment to be captured, it was important to note that the state taxes, roughly 40 percent, were not included in the tax increment to be captured as it went only to the state. Additionally, the state auditor received .36 percent of the captured tax value to cover its cost in auditing the TIF. There was 10 percent that the EDA board could take to cover costs in setting up and administering the TIF district provided the EDA had proof of its expenses. Kimmel said market value taxes, fiscal disparity adjustments and base value taxes were also not captured.

Daleiden asked if Kimmel could define market value taxes. Kimmel said there were taxes levied based on Referendum Market Value (RMV) as opposed to Net Tax Capacity (NTC). Vetsch said an RMV was a snapshot freezing the value of the building at the time of referendum. Kimmel said the market value was a smaller piece of the total tax bill. Kimmel addressed how the TIF could be translated into money for a future project. He said there were three different ways that cities, counties and EDA translate TIF into money. The most common, Kimmel said, was a pay as you go note (Paygo), which was a placeholder stating that the EDA would reimburse the developer for up to a maximum of a specific number of dollars with or without an interest rate on that note. This was also the least expensive route to take. Kimmel gave the example of a Paygo note for $1 million reaching its set term of 15 years without hitting the $1 million principal payment. The developer and the government entity shake hands and shut down the TIF district. With Paygo, the developer was assuming the risk and upfront payment for the project, while the EDA could provide reimbursement up to the amount or length of the note.

Kimmel explained that the second form available would be a revenue bond. With this second option the developer would monetize through an underwriter and the city would issue a tax-exempt or taxable bond. With a revenue bond, the EDA would be pledging on the TIF to fund the project. The buyers would have a much higher interest rate and the EDA would have more market risk. The revenue bond would incentivize the EDA to become more engaged in the development to ensure a positive financial outcome. The third form was a General Obligation (GO) bond. This was the least common and only leveraged when there was a major issue to address. The GO bond would be secured by the issuing agency's pledge to use all available resources to repay the holders of the bond. Vetsch said that revenue bonds were often seen with high value projects, due in part to the promise of a large return on investment but a large overhead cost. Kimmel said it was important to ensure the correct type of assistance was pursued, he mentioned the "but for" test as a useful tool in determining if the assistance was right for the project. While a developer may insist on a TIF, it was important to do the market research to see if a TIF would be an option.

Kimmel said there may be other forms of assistance that would be appropriate to pursue. Daleiden asked if the EDA was able to create a TIF district. Kimmel confirmed the EDA was able to create TIF districts while stipulating that the county board must approve any TIF district. Kimmel said it was important to look at the proposal and maximum terms of a TIF before selecting one for a project. Kimmel saw five different scenarios where a TIF may be the right tool for a project. Substandard or obsolete buildings may be eligible for a redevelopment TIF with a 26-year maximum term. A renovation and renewal TIF with a 16-year maximum term or a tax abatement with an eight-year to 20-year maximum term were also available for this scenario. Affordable housing projects could use a housing TIF with a 26-year maximum term, an economic development-workforce housing TIF with a nine-year maximum term or a tax abatement. A project for job and tax base creation could utilize either an economic development TIF with a nine-year maximum term, or a tax abatement. The last two possible purposes, business retention and public facilities and parks, could only utilize a tax abatement. Kimmel said it was important to not necessarily inform a developer the maximum terms of a TIF depending on the project as the EDA may choose to vary the term. Vetsch said this was where the discussion could get political.

Kimmel warned that TIF districts could be seen negatively by the public. The agency that created the TIF could be seen as unfairly providing revenues to the developer. Kimmel said that TIF funds could only financially cover development of the ground and down. The building cost could be used with the "but for" test. Abatement could be used for buildings but there were self-imposed restrictions. Kimmel said that a good policy should have priorities and guidance and be appropriately permissive looking to future projects. While redevelopment TIFs were based on the property as was, prior to any work being done, housing TIFs were based on what developers were proposing. Housing TIFs require either 20 percent of the units be rented to low to moderate income families under 50 percent of area median income (AMI), or 40 percent be rented to low to moderate income families who were 60 percent under AMI. Owner occupied housing TIFs had much higher requirements for first time homeowners only. Economic development TIFs sought to create tax bases and jobs over a nine-year term. Examples would be new manufacturing, warehouses, distribution and telemarketing. Kimmel said there was a new economic development TIF designed to create more workforce housing. This change was a result of trying to bridge the gap between luxury housing and low to medium income housing. The requirement was 3 percent or lower vacancy rate and employers documenting need for housing.

Abatements were used to encourage development, retain business, and develop public facilities and parks. Abatements were more flexible than tax increment and simpler to establish. However, abatements did require approval from each participating taxing jurisdiction. Abatements would be ideal for public facilities and parks. Daleiden asked who made up the financial difference in what was abated. Kimmel said the abatement would be spread out to the city or township. EDA Board Member Phil Kern said there were different types of TIFs directly tied to a specific project. There was another type that would generate new taxes in a community. Civic projects that asked for assistance would utilize a TIF to incrementally pay back the loan.

Wetter asked Kimmel if a new business needed a special road built specifically for the business, would that be a TIF or abatement. Kimmel said there were three aspects of the project to look at. First, the county would look at the project from a land use or planning perspective. Second, the county would look at the project from the EDA perspective, and then finally the "but for" question. Kimmel said that in the case where all three perspectives seemed to agree the project fit, ultimately it was the EDA that would decide. Wetter asked Kimmel what the county could do to reclaim money after the completion of the TIF if the company were to abandon the location. Kimmel said many cities built in a claw back mechanism where, if a company were to abandon the property, the community would have a legal right to recuperate a portion of the investment back.

Kimmel said the process of approving abatement or TIF was similar with developing a business assistance policy and application process. Kimmel said after the applicant completed the application and provided escrow, the agency would conduct a gap analysis. Based on this, a development agreement would be drafted and agreed upon by all parties. Only once the agreement had been agreed to by the agency would the TIF district be established and approved. Kimmel said the public process for TIF and abatement started with gathering project information, values, and tax rates. Kimmel said Ehlers would work with the county to gather the information needed to draft documents, resolutions, and notices. Next, a hearing notice would be published, and a public hearing would be held to consider the resolution to establish the assistance. Daleiden said in the scenario Wetter brought up the building would still be there so there could still be revenue to be made. The process of tax abatement was to first develop a business assistance policy and application process. The developer then will complete the application and provide escrow. Next, the city would conduct a gap analysis and draft the terms sheet and development agreement. Finally, with the TIF district created, all parties would approve the agreement.

Husom asked how many cities had TIF districts. Kern said Delano had 14 active or recently expired TIF districts. He said it was important for the EDA to get ahead of city requests. If TIF was available to use, cities would go ahead and create them on their own. Abatement required all tax entities to get involved. Kimmel said TIFs were more complicated. Many cities and school districts have used abatement to help raise needed funds. Daleiden asked to clarify if a county could issue an abatement without the approval of the school district or city. Kimmel said that the county could go alone on an abatement, but the county had to ask the city and applicable school district if they wanted to participate in the abatement. If neither city nor school district wanted to be involved the county could go solo with a maximum of a 20-year term. Either the city or school district could agree to join the abatement and the length of term could still be 20 years. If all taxing entities participated, then the maximum length would only be 15 years. Kimmel said the agency that would create the abatement must get rejection letters from taxing entities not participating. Kern said a city or township could request a tax abatement from the county to upgrade a road needed to help new local business. New development taxes could easily have been used to pay for upgrading county roads to support new business without having the rest of the county pay for the project. Instead of using GO reconstruction bonds or GO state aid bonds, the city or township could use GO abatement bonds and base it off new value. Assistant County Attorney Greg Kryzer asked what the benefit would be. Kimmel said, in part, perception. Kern said GO bonds were limited in what they could pay for. Kimmel said any improvements to a road, for example, would have to need those improvements.

Assistant County Administrator Clay Wilfahrt said due to time crunch and the upcoming Committee of the Whole meeting, he recommended moving Items III, IV, and V to a future EDA meeting. He requested the EDA review claims that needed approval that were inadvertently left off the agenda. Kaczmarek asked if the claim being paid was the last invoice from that professional service, Project Administrator Elizabeth Karels said there would be one more invoice.

Daleiden moved to add the approval of claims to the current agenda and remove Items III, IV, and V from the agenda to be discussed at a future meeting. Husom seconded the motion. The motion carried 7-0.

***III. EDA Bylaws**

***IV. Central MN Manufacturing Month**

***V. Human Services Center Update**

VII. Government Center Steering Committee Update

Vetsch said there was a final meeting of the Steering Committee resulting in bringing forth a Request for Proposal (RFP) to put a bid out for the development of the downtown Government Center in Buffalo. He said it was a collaborative effort between the Steering Committee and the City of Buffalo and that both agencies agreed on the potential usages and verbiage for the RFP. Gehlen asked if there was a developer in mind. Vetsch said the committee did not have any developer in mind as it would go out to the general public. Gehlen said with only six weeks for developers to be able to review the site, do their due diligence, come up with a plan including renderings, and several more items he was concerned there would not be enough time. Vetsch said this was discussed when looking at the pros and cons of moving the process quickly to see what the market could produce. He said there was a good chance it would get sent out for a second round if the initial developer requests were not satisfactory. Gehlen said he understood the sense of urgency this RFP would create. Wilfahrt said a concept level plan for what a company could bring to the table would be considered. Vetsch said this would be a first step in the larger process. Daleiden asked about the property on the proposed map that was not currently owned by the county. Wilfahrt said these properties were not owned by the county and were the subject of the closed portion of the meeting. He said it was mentioned in the RFP that there were properties that were not owned by the county but could potentially be owned by the county when the project began. Vetsch said the county did not want to bumper developers out. Daleiden asked for clarification on the map. He wanted to see lines defining the county's currently-owned properties versus possible future owned properties. Daleiden asked if CSAH 35 would be moved. Vetsch said the current property was lined out in the map given to the commissioners and if the properties were to be secured as proposed than County Road 35 would be moved. Kern asked if the City of Buffalo was involved in the decision that would designate what the land would be used for or if the Steering Committee made the decision. Vetsch said the Steering Committee deciding how the land in question would be designated was considered ensuring the City of Buffalo's vision was honored. Kern said the city should have had the discussion on designating the type of development, not the county. Kern said the county should help make the site available while it was protecting the economic interests of the county. Vetsch said the hope was to not get caught up in a red tape battle with the city over what the land was used for. He said it was in the county's best interest to work with the city to get the property liquified quickly. Vetsch said the Steering Committee's concern was whatever was in the best interest of the county.

Kaczmarek brought up that not everyone was on the steering committee to know what was happening. He added that on Page Four there was a narrative under "Vision" that addressed supporting Buffalo's Downtown 2040 Plan's vision statement which would create jobs in downtown Buffalo. He also said that the City of Buffalo was well represented in the Steering Committee, and he did not hear any protests to the county's plans. Kaczmarek asked how soon the board would get a clean copy if this was approved. Karels said a clean copy would go out by Wednesday, June 22. Kern said he was concerned with the six-week deadline. Gehlen said a 60-day deadline seemed to make more sense. Daleiden and Vetsch agreed this was a reasonable request. Wilfahrt said the RFP would be sent out to developers.

Daleiden moved to approve staff to send out the RFP with the 60-day deadline. The motion was seconded by Husom. The motion carried-0.

***VIII. Closed Session to Develop and Consider Offers and Counteroffers for the Sale of Real Property, MINN Stat. 13D.05 Subd. 3. PIDs: 103026002011, 103026001061, 103026002010, 103026001050, 103026001040, 103026001010.**

***IX. Action Items/Agenda for Next Meeting**

Wilfahrt requested the meeting be continued at a future date. Daleiden moved to set the continued EDA meeting for 8:30 a.m. Wednesday, June 29. Kaczmarek seconded the motion. The motion carried 7-0.

Meeting put on hold Tuesday, June 20 at 10:16 a.m.
Meeting continued Wednesday, June 29 at 8:30 a.m.
Economic Development Authority Minutes submitted by Phil Hodges, Administrative Specialist.