



CITY OF
GRAND RAPIDS
IT'S IN MINNESOTA'S NATURE

City Council Public Hearing

Tax Increment Finance (TIF) Redevelopment District 1-14

SE 7th Ave. Distribution, LLC



September 25, 2023



Project Background

Company Background

- **L&M Supply, Inc.** is a privately held retail company with 12 stores located across Northern Minnesota, Wisconsin, and the upper peninsula of Michigan. L&M was founded in 1959 in Grand Rapids and is currently led by the third generation of family owners.
- Presently, L&M Fleet Supply employs 245 in the Grand Rapids area, including 62 administrative/professional, 81 in distribution and 102 in retail.
- L&M also operates an e-commerce platform where items are shipped to online customers across the United States. L&M has established itself as a strong competitor in the e-commerce space, especially when it comes to serving home heating and outdoor recreation customers with both small parcel and LTL delivery methods.
- With continued same-store sales growth, the addition of new stores across the northland and plans for future expansion of retail locations, L&M has exhausted their current distribution space, which is in their prior retail space in LaPrairie.
- Coupled with the supply chain challenges of needing to buy in larger quantities and hold them until the selling season, increased distribution capability is critical.



Project Background

SE 7th Ave. Distribution, LLC (Developer), a Minnesota limited liability company related to L&M Supply Inc., filed an application for Business Assistance on June 30th requesting Tax Increment Financing (TIF) in the amount of \$2,178,210 and \$2,073,572 of City tax abatement.

- **Project Scope**

- **The proposed project involves the Developer's construction of a new, 210,000 square foot, state of the art distribution center to serve their expanding network of retail stores.**
- **Location – 45-acres of Industrial zoned property, generally located on the east side of 7th Ave. SE (aka Airport Rd.) at its intersection with 29th Street S. GREDA has secured purchase agreements with three private landowners, which will be sold to L&M at a discounted price.**



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Project Background



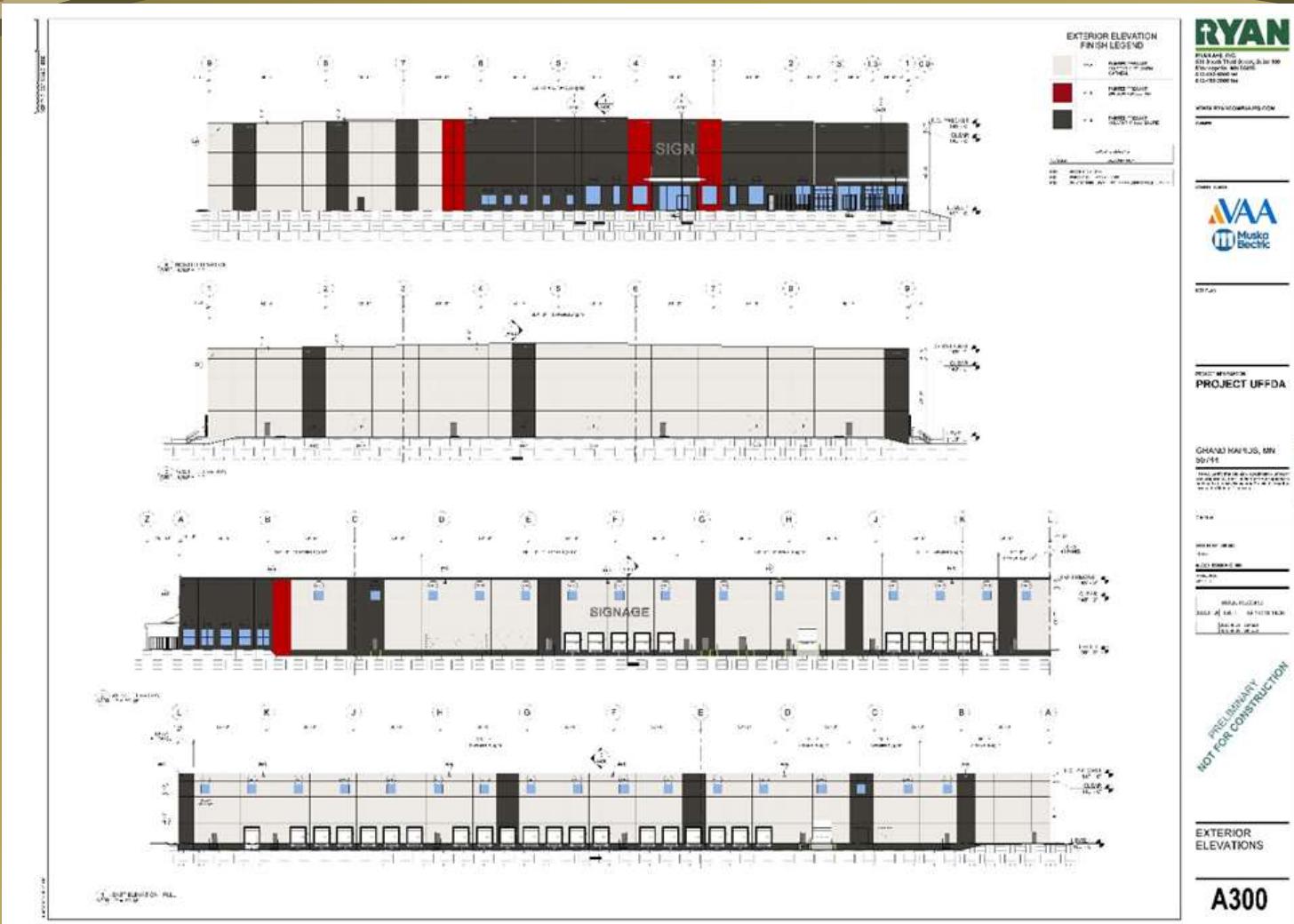
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Grand Rapids Warehouse • Concept Site Plan • 08.01.2023



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Project Background





Project Background

Project Timeline

Timeline	Description
5/2024	Start of Construction
8/2024	Purchase Equipment
12/2024	Complete Construction
3/2025	Begin Operations



Project Background

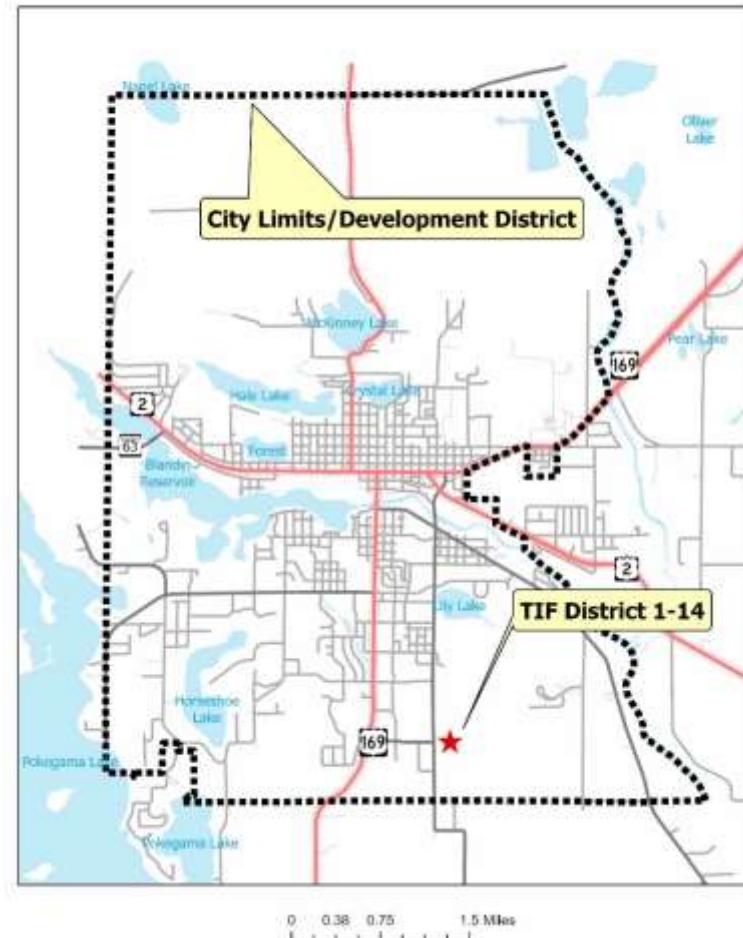
Employment – The L&M Distribution Center Project will retain the 81 FTE positions currently employed in the existing distribution facility in LaPrairie. In addition, the project will create the following 31 full-time positions within the first two years of operation:

Positions	# of Positions	Hourly Cash Wage w/out Benefits	Hourly Value of Benefits	Total Hourly Compensation
DC General Manager	1	\$45.00	\$26.00	\$71.00
DC Supervisor	4	\$22.00	\$15.00	\$37.00
Specialized Equipment Operators	6	\$19.00	\$14.00	\$33.00
General Pallet Movers	4	\$19.00	\$14.00	\$33.00
Warehouse Workers	10	\$18.00	\$14.00	\$32.00
DC Admin	3	\$18.00	\$14.00	\$32.00
WMS Supervisor	1	\$22.00	\$15.00	\$37.00
Human Resources Lead	1	\$25.00	\$16.00	\$41.00
Director	1	\$60.00	\$28.00	\$88.00
Average:		\$21.55	\$15.06	\$36.61



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Project Background





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- **Project Location** – The project is proposed to be located on a 47-acre industrial zoned area.
- **91-033-1410, 91-033-1430, 91-033-1406, 91-033-4120**

TIF District 1-14





▪ Project Cost/Sources/Uses of Funds

- The following represents the anticipated sources of funds and their proposed use. (Not all sources of economic development assistance shown have been applied for or secured, to date)

Expense Description	MN IRRR	MN DEED/GRED A	Equity	Bank	City	Itasca County	Total
Property Acquisition		486,500	121,600	364,900			973,000
Site Work Construction			1,189,600	3,568,800			4,758,400
Building Construction			2,632,700	24,856,400	4,251,800	1,401,100	33,141,800
Purchase of M&E	2,500,000	2,000,000		10,452,000			14,952,000
FFE and Software			537,500	1,612,500			2,150,000
Total Project Cost	\$2,500,000	\$2,486,500	\$4,517,400	\$40,854,600	4,251,800	1,401,100	\$56,001,400

- In addition, MN DEED has proposed the Job Creation Fund program which would provide rebates to L&M for building construction expenses and per job created. The estimate value of the job creation rebates is \$850,000 over 7 years.



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Project Background

Current and Future Assessed Value Estimate:

	Current (Itasca County Assessor)	Future (Itasca County Assessor)
Land Value (47 acres)	\$464,600	\$1,367,600
Building Value	\$203,300	\$16,609,400
Total Value	\$667,900	\$17,977,000
Annual Property Taxes (Pay 2023 Rate)	\$8,510	\$729,942



TIF Business Assistance

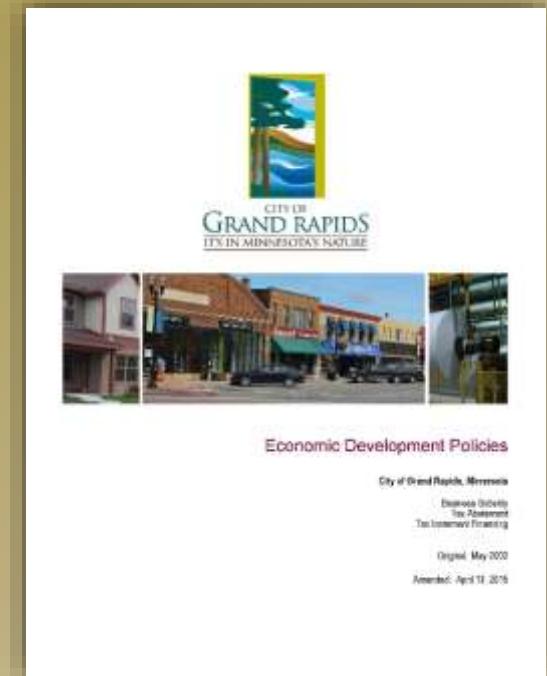
- **The proposed TIF district would be an Economic Development District which has a maximum term of 9 years.**
- **The proposed Tax Abatement would commence upon completion of the TIF district term and would continue until the amount of the request is provided. The maximum term for the Abatement is 15 years if the City is the only political subdivision that approves an abatement. The developer has made a request to Itasca County for an abatement, as well. If that is approved, the maximum term of the Abatement can extend to 20 years.**
- **In Minnesota, TIF can be used for two purposes:**
 - **To finance public infrastructure that is related to the development, or**
 - **To induce or cause a development or redevelopment that otherwise would not occur. (The economics of the development won't work without the assistance, for reasons such as; added cost of building acquisition and renovation, development costs won't allow for market rate rents, added cost of site cleanup, etc.)**
 - **For this project, it will be used to induce or cause development as no public infrastructure is needed.**



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TIF Business Assistance

- **The Public Purpose Objectives, within the City's *Economic Development Policies*, which this project aligns with are:**
 - To retain local jobs and/or increase the number and diversity that offer stable employment and/or attractive wages and benefits.
 - To enhance and/or diversify the City's economic base.
 - To encourage additional unsubsidized private (re)development
 - To accomplish other public policies which may be adopted, projects that are consistent with those community values and objectives described within the Comprehensive Plan.
- **Staff completed the Review Worksheet in the Policy, which assigns a score based upon the Projects economic impact under the established criteria. (see attached) This Project's score is 52, which puts it in the High category.**





TIF Business Assistance

- **TIF But-for Test**
 - Under Minnesota statute, before a City can establish a TIF district for a project, the developer must demonstrate and the City must verify that, but-for the use of TIF, the project would not occur in the foreseeable future.
- **TIF Basics:**



- **Important to note that the property taxes collected currently are still received and retained by the City during the term of the TIF and Tax Abatement**
- **Only the increase in taxes resulting from the new development (increment) is delayed until the TIF and Tax Abatement commitment is satisfied.**
- **Upon that satisfaction, all property taxes resume full distribution to the taxing entities.**



TIF Business Assistance

- **TIF Need Analysis – the City's fiscal consultant Ehlers has analyzed and evaluated the Developer's updated project budget and pro forma based upon industry standards and market ranges for rate of return, as well as development costs and revenues. (Ehlers memo attached)**
 - Based upon that analysis, it was determined that TIF and Tax Abatement assistance in the requested amount is required to achieve a market rate least of \$8.00/square foot triple net. The rents, otherwise, are insufficient to pay for the principal and interest on the first mortgage.
 - Bases upon this finding, the proposed development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future.



TIF Business Assistance

- **TIF Plan**
 - **When approving a TIF Plan, the City Council must find (among other things) that:**
 - The proposed development would not reasonably be expected to occur solely through private investment in the reasonably foreseeable future; and
 - The increased market value of the site that could reasonably be expected to occur without the use of TIF would be less than the increase estimated to result from the proposed development.
 - **The Draft Resolution, TIF Plan and its Appendix C address these required findings and describe the basis of the determined need for this public assistance to advance the public purpose objectives previously outlined.**
 - **The proposed TIF involves pay-as-you-go financing, which means the Developer will pay the costs of creating the private improvements with their funds, and the increments, as they are generated by the new development, will be used to reimburse the developer for these costs over time.**



Process

At their September 14 meeting, GREDA reviewed the application and adopted a resolution supporting a modification to the Development Program for the City's Development District No. 1, establishing TIF District 1-14 and adopting a TIF Plan

The City Council is holding this public hearing on September 25, 2023, to consider this request for TIF and Tax Abatement Business Assistance. Actions that will be considered immediately following the Public Hearing will include consideration of three resolutions:

- 1. Modification to the Development Program for Municipal Development District 1 and the proposed establishment of Tax Increment Financing District No. 1-14: L&M Supply; and**
- 2. Approval of tax abatement for L&M Supply after decertification of the TIF District**
- 3. Approval establishing an inter fund loan in connection with the TIF District.**

The adoption of a resolution approving a Development Contract with SE 7th Ave, Distribution and awarding the sale of, and providing the form, terms, covenants and directions for the issuance of its tax increment revenue note, will be considered at an upcoming meeting.



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Questions?