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City Council Public Hearing

Tax Increment Finance (TIF) Redevelopment District 1-14

Voyageur Capital Group, LLC and the City of Grand Rapids

November 28, 2022



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Project Background

- **Voyageur Capital Group, a Delaware limited liability company, based in International Falls, MN (VCG), filed an application for TIF Business Assistance on September 2 of this year requesting Tax Increment Financing (TIF) in the amount of \$425,000.**
- **Project Scope**
 - **VCG purchased the site of the former Ainsworth OSB Plant in September 2020.**
 - **VCG plans to renovate the existing industrial building, located on the 138-acre site, converting it to a mixed use, multi-tenant, warehousing and light manufacturing use.**
 - **The project's initial phase will support the location of Arbor Wood Co. through the buildout of approximately 48,000 sq. ft. of the larger industrial building.**
 - **Major components of the buildout include: extending sanitary sewer and water service to the proposed Arbor Wood space, new electrical and mechanical systems, a demising wall, roof repairs, fire suppression system, doors, restrooms and office/conference area construction.**



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Project Background



- **Arbor Wood Co. – is a supplier of thermally modified siding, decking and dimensional lumber. The Arbor Wood manufacturing process, which is currently outsourced, uses heat and steam to improve the aesthetics and durability of the building materials, across a range of wood species.**
- **The Grand Rapids project will bring the production process in-house for Arbor Wood. Control of the process will improve delivery speed, quality control and increase production capacity.**
- **Arbor Wood will utilize the built out space for raw and finished material storage, production and modification (milling). Arbor Wood will purchase and install approximately \$3.0MM of equipment for their process, including a \$1.8MM autoclave.**
- **Project Timeline –**

Timeline	Description	Capital Investment
12/22 - 5/23	Renovation of building/tenant buildout: demising wall, electric and lighting upgrades, fire suppression system, roof repair, mechanical, overhead doors, and office buildout	\$2,509,300
2/23 - 7/23	Civil/Site Improvements: sanitary and water service, fire loop and CT cabinets and feeder	\$875,900
4/23 - 7/23	Equipment Delivery and Installation: Autoclave, Optimizer Line, Moulder Line, End Matcher Line, Gang Rip Saw, Dust Collections System, Air Compressor, Combi Lift, and 7500 Fork Lift.	\$2,981,900
	Total:	\$6,367,100



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- **Employment** – The Arbor Wood project will create the following full time positions within the first two years of operation:

Positions	Base Wage
1 Production Manager	\$81,080/year
3 Technicians	\$25/hour
3 General Laborer	\$17/hour
Estimated annual net increase in payroll after full implementation, including benefits	\$430,000

- **Arbor Wood provides health care and retirement benefits, the value of which is an average of \$6.00/hour**
- **We estimate the renovation, site improvements and internal building layout modifications will employ approximately 15 full-time temporary jobs for the duration of the project.**



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- **Project Location** – The project is proposed to be located on a 138-acre industrial zoned area, owned by Voyageur Capital Group, consisting of six parcels:

91-019-2201, 91-019-2202, 91-019-2300, 91-019-2403, 91-019-3200, 91-019-3102

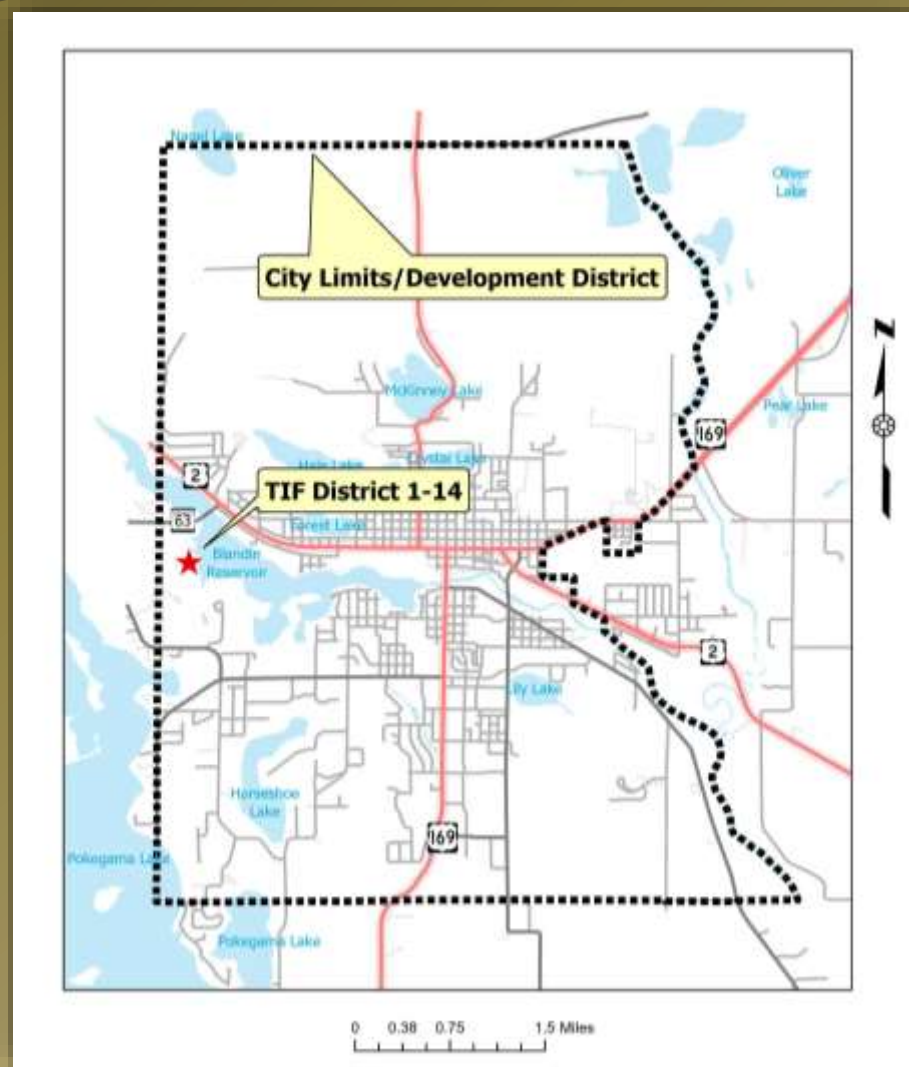
- The address for the project is 502 W. Co. Rd. 63, Grand Rapids.





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Project Background





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Project Sources and Uses:

Sources/Revenue:		Uses/Development Costs:	
Bank Loan	\$2,500,000	Site Acquisition	\$1,321,061
Equity	\$1,514,122	Construction Costs – Site Development	\$875,900
IRRR Dev. Infrastructure	\$500,000	Construction Costs – Tenant Buildout	\$2,509,300
TIF	\$425,000	A & E	\$35,000
		Development Fee	\$153,304
		Cash Accounts/Escrows/Reserves	\$44,557
Total:	\$4,939,122	Total:	\$4,939,122

This Project Sources and Uses does not include Arbor Wood's \$2,981,800 investment in equipment nor the GREDA MIF loan of \$212,000 and IRRR Bank Participation Loan of up to \$1,200,000 for those equipment purchases.



Project Background

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Current and Future Assessed Value Estimate:

	Current (Itasca County Assessor)	Future (Itasca County Assessor)
Land Value (138 acres)	\$722,600	\$2,920,600
Building Value	\$1,130,100	\$2,689,300
Total Value	\$1,862,700	\$5,609,900
Annual Property Taxes (Pay 2022 Rate)	\$70,901	\$187,429



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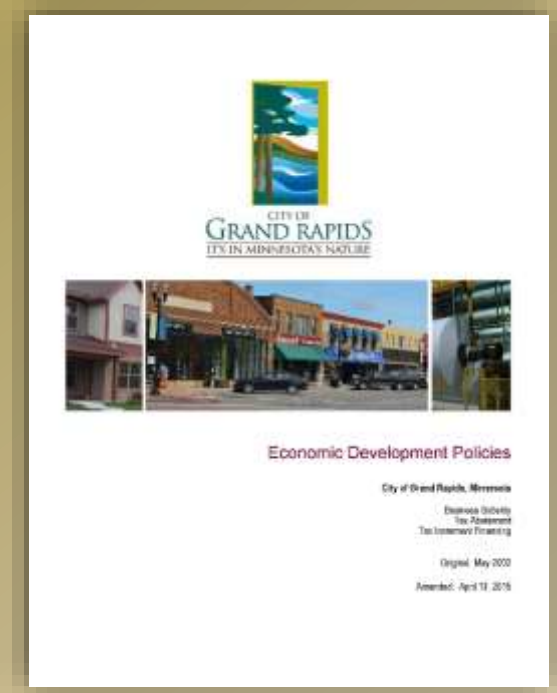
- **The proposed TIF district would be a Redevelopment District**
 - **Minnesota Statutes, Section 469.174, Subd. 10 lists criteria for a qualified Redevelopment TIF District which include:**
 - **Parcels consisting of 70% of the area of the district are occupied by buildings, streets, utilities or parking lots; and**
 - **More than 50% of the buildings are structurally substandard to a degree requiring substantial renovation or clearance; and**
 - **That the substandard buildings must be reasonably distributed throughout the district.**
 - **GREDA contracted with LHB Architects to conduct an inspection of the proposed district. Their report, dated November 7, 2022, confirms that the statutory criteria is met with the proposed district.**
- **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 for both purposes.**



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- **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.**
 - **To enhance and/or diversify the City's economic base.**
 - **To encourage additional unsubsidized private (re)development**
 - **To remove blight and/or encourage (re)development of commercial and industrial areas.**





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- **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
- Only the increase in taxes resulting from the new development (increment) is delayed until the TIF commitment is satisfied.
- Upon that satisfaction, all property taxes resume full distribution to the taxing entities.



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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 assistance in the amount of \$425,000 is required to achieve the Developers desired return on investment of ranging between 5.4% and 6.3% for this project. This cash-on-cash ROI is below industry standard, however VCG expects to earn a greater return on future phases.
 - On November 3, bids were opened for the Grand Rapids/Cohasset Infrastructure Project, which will serve the project site and adjacent undeveloped industrial property. The low bid of \$4,697,800 was \$776,587 greater than the project budget. With the City’s contribution to the project leveraged by \$3,507,703 in federal, state and local partner contributions, staff has worked with Ehlers and the City Finance Department to explore utilizing excess TIF capacity for this project to fund the City cost, including the overrun, while also pursuing additional cost participation from the GRPUC.
 - An additional \$869,380 of TIF revenue will fund the cost for the City share of the public infrastructure, bringing the total amount of TIF need to \$1,294,380.
 - The structure of the assistance, including the term for the VCG \$425,000 PAYGO Note are being negotiated and will be brought to the City Council for review at a future date.



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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 it's 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.**
- **Redevelopment districts have a maximum duration of 26 years. As said, the final structure of the PAYGO note to the developer is being negotiated. Those discussions will determine if the increment revenue is shared between the City and VCG at first or if we structure payment to the City occurring after VCG note is satisfied. Regardless of the approach, the full TIF amount can be paid prior to the maximum term for the District.**



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Process

At their November 17, 2022 meeting, GREDA:

- 1. GREDA reviewed the request for business assistance 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.**

At today's meeting, the City Council will hold a public hearing to consider this request for TIF Business Assistance. Actions that will be considered immediately following the Public Hearing will include:

- 1. Adoption of a resolution approving the establishment of TIF District No. 1-14 and approving the TIF Plan for the District.**

At an upcoming meeting, the City Council will consider:

- 1. Adoption of a resolution approving a Contract for Private Development between the City and Voyageur Capital Group and awarding the sale of, and providing the form, terms, covenants and directions for the issuance of its tax increment revenue note.**



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Questions?