Tax Increment Finance (TIF) Business Assistance Application

HWY 35, LLC
Cannabis Grow and Manufacturing Project

April 11, 2024

Project Background

- **HWY 35 Properties, LLC of Minneapolis, MN (Developer) filed an application for Business Assistance requesting Tax Increment Financing (TIF) to partially address a financial gap in a proposed redevelopment of the former Ainsworth manufacturing site at 502 W. Co. Rd. 63 in Grand Rapids.**

- **Project Scope – Acquisition of the 135-acre site and existing abandoned industrial buildings, renovation and conversion of 240,000 sq. ft. of the main building, in two equal phases into a cannabis grow and state-of-the-art cannabis extraction (manufacturing) lab.**

- **Project Timeline and Cost – Phase 1 of the project buildout is proposed to begin in the first half of 2024, with occupancy of a portion of Phase 1 in the last half. Phase 2 is expected to begin immediately after with a substantial completion of both Phase by the end of 2026. The estimated total development cost is approximately $71.1MM, which includes $28.2MM of equipment.**

Project Background
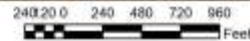

Map of City Development District

Project Background

Project Background

Project Background

Project Sources and Uses:

Sources/Revenue:		Uses/Development Costs (Both Phases):	
IRRR Financing	$10,000,000	Property Acquisition	$4,500,000
DEED Financing	$10,000,000	Construction Costs	$29,971,800
Equity	$49,148,340	Professional Fees and Permits	$3,500,000
TIF	$2,000,000	Equipment	$28,176,540
		Working Capital	$5,000,000
Total:	$71,148,340	Total:	$71,148,340

Project Background

Current and Future Assessed Value Estimate:

	Base Value (Itasca County Assessor)	Future (Itasca County Assessor)
Land Value (135.0 acres)	$724,100	$4,041,879
Building Value	$1,138,700	$16,263,615
Total Value	$1,862,800	$20,305,494
Annual Property Taxes (Pay 2023 Rate)	$62,000	$765,000

Project Background

Jobs and Wages:

- The HWY 35 project is expected to create approximately 200 full time jobs for each of the two phases of the project.

- The current state law requires that these jobs, exclusive of management, be union represented positions.

- The base wages for the 400 jobs will range from $40,000 to $130,000 annually.

TIF & Abatement Business Assistance

- The proposed TIF district would be a Redevelopment District which has a maximum term of 26 years.

  - Based upon the assumptions within Ehlers projection of revenue from the District, and if it were to be apportioned as most often is with 90% of the increment going to the Developer and 10% being retained by the City for administration of the District, it is estimated that the request of $2,000,0000 in today's dollars would be captured in 8 years.

  - It is proposed by staff, in consultation with the Developer, Ehlers, City Administration and Finance, that the City consider the use of TIF Pooling, which allows a portion of tax increment to be collected for use outside of this TIF district, for other redevelopment projects. The pooling option for this project would be apportion the increment by providing 75% to the Developer, 10 % for the City's administration and 15% in a pooling fund. This will extend the expected term of the District from 8 to 10 years. This would generate approximately $413K, present value for use on other redevelopment projects.

- 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.

TIF Business & Abatement 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.

  - To enhance and/or diversify the City's economic base.

  - To remove blight and/or encourage (re)development of commercial and industrial areas.

  - 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.
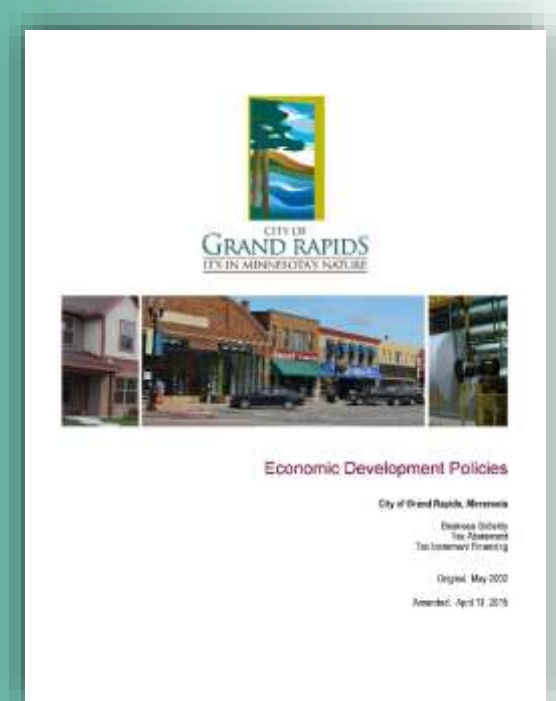
TIF & Abatement Business Assistance

- **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:**

Total Tax Capacity (Post Development)	−	Original Tax Capacity (Pre Development)	=	Captured Tax Capacity

Captured Tax Capacity	X	Local Tax Rate	=	Tax Increment

  - Important to note that <u>the property taxes collected currently are still received and retained by the City during the term of the TIF</u>
  - 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.

TIF & Abatement Business Assistance

- **TIF Need Analysis** – the City's fiscal consultant Ehlers has analyzed 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.

    - Based upon that analysis, it was determined that TIF business assistance in the amount of $2,000,000 is justified to achieve a reasonable yield on cost (net operating income / total development costs).

    - Because of Yield on Cost being independent of debt and equity, it is appropriate to use to analyze this unique project. Yield on Cost at the rent levels that the Developer is assuming are at the low end of the normal market range with TIF assistance and would be at the higher end of normal with 20% higher rents. Without assistance, Yield on Cost would be well below market ranges.

TIF Business Assistance

- 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 appendices address these required findings and describe the basis of the determined need for this public assistance in furthering the public purposes of: creating housing opportunities for senior and low to moderate income families, providing a diversity of life cycle housing adjacent to cultural, recreational, economic, natural, education and transportation systems, and to improve the tax base and to improve the general economy.

- The proposed TIF involves pay-as-you-go financing, which means the developer will pay the costs of creating the 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 this meeting, GREDA will review the application and consider adoption of a resolution supporting a modification to the Development Program for the City's Development District No. 1, establishing TIF District 1-14 therein and adopting a TIF Plan, therefore.

The City Council will hold a public hearing on April 22, 2024, 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.

2. Approval establishing an inter fund loan in connection with the TIF District.

3. Adoption of a resolution approving the Contract for Private Redevelopment with HWY 35 Properties, LLC and awarding the sale of, and providing the form, terms, covenants and directions for the issuance of its tax increment revenue note.

Questions?