

MEMORANDUM

TO: Council Members, City of Grand Rapids
Board Members, Itasca County Board of Commissioners
Board Members, Grand Rapids Economic Development Authority

FROM: Rebecca Kurtz, Ehlers

DATE: January 17, 2023

SUBJECT: Proposed Tax Abatement for ASV Development

The City of Grand Rapids and Itasca County received a request for tax abatement (“abatement”) from ASV Holdings, Inc. (“ASV”) to assist with an expansion of their Grand Rapids production facility.

Company Background Information

ASV manufactures compact track loaders and skid steers. It was founded in a garage in Marcel, MN, in 1983, and in 1995 expanded to a new facility in the City of Grand Rapids. Since then, ASV has continued to grow and employs approximately 253 full-time employees and occupies 300,000 square feet of production and warehouse space. In 2019 ASV was acquired by Yanmar Group, and the Yanmar Compact Equipment North America (“YCENA”) is based in Grand Rapids.

Proposed Project

ASV is planning an expansion of its Grand Rapids production facility to meet increased production of Compact Track Loaders, the anticipated launching of new products, and the relocation of the production of mini excavators from Japan to Grand Rapids. The proposed expansion includes construction of a 32,000 square foot addition to the paint system along with related site improvements and equipment.

The project is anticipated to cost \$9.4 million and has a variety of funding sources, including an equity contribution of over 71 percent of the project costs. ASV anticipates adding at least 115 permanent, full-time jobs over the next two years with average hourly wages of \$37.18, exclusive of benefits. Over a five-year term, ASV has plans to grow employment by over 300 employees.

The project is estimated to have a completed market value of \$7,150,200, per the County Assessor. This is an increase in value of \$1,545,900. Based on Pay 2022 tax rates, it is estimated to generate an additional \$45,259 in total taxes.

Tax Abatement Request

ASV has requested \$234,000 in tax abatement assistance from the City of Grand Rapids and \$196,566 in tax abatement assistance from Itasca County to assist with the construction of the proposed expansion.

Tax Abatement Summary

Minnesota Statutes 469.1813 allow political subdivisions to abate their share of all or a portion of a parcel's property taxes to help finance projects, including economic development projects. Abatement, under the Statute and contrary to the definition of the word, does not exempt the property owner from paying real estate taxes or reduce the total amount owed. During the term of the tax abatement, the taxing authority collects the abatement amount and distributes it per the terms of an agreement.

To create a tax abatement, each taxing entity participating in the abatement must hold a public hearing. After the public hearing the entity must make a finding that the abatement expects the benefits to the political subdivision to at least equal the costs to the political subdivision **and** that the project is in the public interest because it will:

- Increase or preserve tax base;
- Provide employment opportunities;
- Provide or help acquire or construct public facilities;
- Help redevelop or renew blighted areas;
- Help provide access to services for residents; and/or
- Finance or provide public infrastructure.

Proposed Tax Abatement for ASV

After review of the project information submitted by ASV, we conclude the tax abatement requests of \$234,000 from the City and \$196,566 from the County can be justified for this project. This total request equates to about 5 percent of the total project cost.

If the City and/or County move forward with providing tax abatement, it is recommended that the abatement be based on the increase over the current tax capacity. Therefore, the taxing jurisdiction would continue to receive the taxes on the current value throughout the term of the abatement. It is estimated that the annual taxes abated by the City would be \$22,659, and the annual taxes abated by the County would be \$16,452.

It is recommended that assistance be provided through the issuance of pay-as-you-go notes issued by the participating jurisdictions. Under this scenario, ASV would pay their taxes, and semi-annual payments would be made by the City and/or County until the note is paid including 4.25% interest. The term of the abatement would be the lesser of the full payment of the note or 20 years.

Next Steps

At the City Council and County Board meetings on January 23 and 24, a resolution will be considered to establish a public hearing related to the proposed tax abatement. If the Council and/or Board move choose to move forward, notices of public hearings will be published on February 1.

The Grand Rapids Economic Development Authority will review the request on February 9 and provide a recommendation for the Council to consider.

The Council could hold a public hearing on February 13, and the County Board could hold a public hearing on February 14 to consider the abatement request.

If the abatement is approved, the participating entities will enter into a Contract for Development with ASV, which will outline the terms of the assistance.

I plan to attend both of the public hearings to answer questions related to tax abatement and the requested assistance.