

MEMORANDUM

TO: Ben Martig, City of Northfield
FROM: Nick Anhut, Ehlers
DATE: September 25, 2024
SUBJECT: Joint Tax Abatement for the Loon Liquors Property Acquisition

Downtown Property Sale

The City has acquired property located at 115 5th Street W (the “Property”) with the aim to enhance and revitalize its downtown. A party has approached the city to purchase the property in order to relocate and expand their existing business. Loon Liquor Distillery is outgrowing its existing space and desires to acquire the Property for expansion in 2025. Loon Liquor Distillery has stated that it desires a site with high visibility for customer traffic, space for its current and growing production and storage needs, as well as a new commercial kitchen and associated hospitality space. They are planning for a substantial internal buildout to update and potentially reinforce the structure of the building, and secure the necessary equipment and inventory for new operations. The City entered into a purchase agreement with Loon Liquors in 2024 at a discounted price with the intent to adopt a cooperative tax abatement with Rice County in order to incentivize the redevelopment. This memo is intended to provide the City of Northfield and Rice County an overview of the proposed Tax Abatement.

City Investment in Property Acquisition

The City acquired the Property in 2022 as part of an effort to assemble property to facilitate a potential liquor store expansion and downtown revitalization opportunity. In addition to the City’s \$1.2 million acquisition expense, it has also incurred various tax, legal and other miscellaneous holding costs. A summary follows:

City Acquisition / Holding Investment	
City Acquisition Expense:	1,202,993.96
Holding Costs:	43,057.99
Other Misc.:	2,887.50
Total Recoverable Cost:	1,248,939.45

Loon Liquor Distillery offered to pay fair market price subject to an updated appraisal for the property. An appraisal was obtained at the fair market value of \$960,000. The parties entered into a purchase agreement for the amount of \$960,000, representing a written down cost of \$288,940.

Cost Recovery Through Tax Abatement

The City has authority to sell property at cost, fair market value or even at a discount as a redevelopment or business subsidy incentive. Cities will often “write-down” the cost of land in exchange for a private developer or business agreeing to improve property, provide new tax base or create or retain employment within the community. In those circumstances, the City would

declare as a policy objective that the cost, or foregone value, of the write-down is offset by the benefit of the public objectives.

The write-down amount can be recovered financially through the use of Tax Abatement. Loon Liquors Distillery have provided estimates of their anticipated buildout expense and use of the property. Ehlers used this information in discussion with the Rice County Assessor’s office to come up with the potential new taxable market value for the improved property and associated property tax implications. The assessor’s preliminary estimates for the improved property after buildout and starting operation is \$1,300,000. The property is also currently designated as tax-exempt due to the City’s ownership. We have used the estimate and existing tax rates within the City to come up with an estimate of the new property taxes anticipated.

Tax Abatement for economic development relies on the property taxes generated from a designated property. Each of the City, County and School District are able to adopt an abatement for their own share of the local property taxes and allocate those revenues toward financing the cost of economic development. Rice County has proposed to pool its abatement of the property together with the City to help finance the purchase price write down amount.

Using the new assessed value estimate of \$1,300,000 and assuming a taxable use of the property as commercial, the allocation of property taxes available to each jurisdiction is:

Annual Property Tax Abatement	
	Total
Taxable Value:	1,300,000
City Taxes:	15,712
County Taxes:	8,870

Applying the annual tax amounts from the table above, an abatement by the City and Rice County is anticipated to recover the full write-down expense.

Rice County’s abatement policy calls for a 10-year abatement with a sliding scale formula as follows:

Rice County Abatement		
Annual Tax Assumption:		\$ 8,870.00
<u>Policy Example</u>		
100%	Year 1	\$ 8,870.00
100%	Year 2	\$ 8,870.00
100%	Year 3	\$ 8,870.00
100%	Year 4	\$ 8,870.00
100%	Year 5	\$ 8,870.00
95%	Year 6	\$ 8,428.00
85%	Year 7	\$ 7,540.00
75%	Year 8	\$ 6,654.00
65%	Year 9	\$ 5,766.00
55%	Year 10	\$ 4,880.00
		\$ 77,618.00

The maximum term for an abatement is limited to 15 years if all three taxing jurisdictions participate. If one of the three opts out in writing, the maximum limit is extended to up to 20 years. Using the assumptions above, we believe that a joint abatement between Rice County, under the terms of their adopted policy, and the City of Northfield will be able to recover the full land write-down expense within these term constraints.

The City of Northfield proposes to adopt an abatement to help recover the remaining write-down expense. Using an annual abatement amount of \$15,712, it is estimated that a 14-year abatement would be necessary to recover the full amount.

Sale with Proposed Abatement		
	<u>Tax Abatement</u>	<u>Total Funding</u>
Sale Price:	-	960,000.00
14-year City Abatement:	219,968.00	219,968.00
County Abatement:	<u>77,618.00</u>	<u>77,618.00</u>
Recovery:	297,586.00	1,257,586.00
Surplus / (Shortfall):		8,646.55

We at Ehlers look forward to continuing to help the city review its financing options and develop an abatement agreement to complete the financing for this important objective.