

**SPECIAL MEETING OF THE PEQUOT LAKES  
ECONOMIC DEVELOPMENT COMMISSION  
TUESDAY, JUNE 1, 2020**

Members Present: Chair Lindholm; Commissioners Crochet, Holley, Lelwica, Lubke, and Rieck attended virtually via Zoom

Members Absent: Commissioner Becklin

Others Present: Nancy Malecha, City Administrator & Angie Duus, City Clerk/Treasurer attended in person; Tim Houle, City Engineer (virtually via Zoom); Tyler Glynn, BLAEDC (virtually via Zoom) and Mark Jurchen (virtually via Zoom)

1. Call Meeting to Order

The meeting was called to order by Chair Lindholm at 8:01 a.m.

2. Consider Agenda

**THE AGENDA WAS APPROVED THE AGENDA AS PRESENTED.**

3. Consider an Offer for the Purchase of Real Property in the Heart of the Good Life Development

Commissioner Holley joined the meeting.

Nancy Malecha stated that at the May 19, 2020 EDC meeting the Commission reviewed and discussed the business proposal from Xcel Energy to purchase four acres in the Heart of the Good Life Development directly west of the City's Public Works Facility. She stated that the EDC requested pictures of how the facility may look and Tim Mauseth from Xcel Energy presented pictures of existing Xcel facilities. He stated that the Montrose facility is more the size that they are proposing with the office space up front and the service garage in the back. He stated that it also has the drive in and drive out layout that they are proposing. Mr. Mauseth stated they would work with the local governing jurisdiction as far as following the design code of the Patriot Development Ordinance.

Ms. Malecha stated that a Commission member had asked a question on the weights of vehicles and to answer that Mr. Mauseth had supplied information in the packet. He informed the EDC that the heaviest vehicles will be the 2 Freightliner trucks and they have a gross vehicle weight of 33,000 pounds which comes out to be 8.25 tons per axle.

Tim Houle explained how they obtained a per acre and per foot cost related to the possible Xcel energy development. He stated phase 1 is south of Derksen Road and consists of lots 1, 2, and 3, which are fictitious lot arrangements. He stated that Xcel is looking at lots 2 and 3 but it will go a little to the south too. He

explained how the infrastructure would need to be brought in from Morehouse and Derksen Roads to the south and to the new road that would go about 425 feet into the Heart of the Good Life.

Mr. Houle presented the potential phasing map to the EDC and stated that they updated the estimated costs on the map. He said he did a couple per acre approaches. He stated one was just the Xcel site and the other was the Xcel site and the lot to the west by the Paul Bunyan Trail. He said the cost worked out to about \$44,000 to \$45,000 per acre which is close to the overall development of around \$42,000 to \$43,000 per acre.

Mr. Houle said that somebody asked about a per foot cost and he said it turned out to about \$150,000 per foot. He stated that his guess from an infrastructure cost distribution standpoint is that the price Xcel Energy is offering does appear to cover the City's infrastructure costs.

Mr. Houle reminded the EDC that Derksen Road was overlaid for the Highway 371 project and used as a detour road therefore he does not have concerns about bigger trucks being on that road. He also said that they would set the new roadway in the Heart of the Good Life up for business park/industrial park traffic. He discussed what he heard from a financial advisor that you may have to make a deal to sell the first couple of lots and then slowly ratchet up the asking price.

Commissioner Lubke asked if they will be coming in on the service road that has not been built yet or coming in from Derksen. Mr. Mauseth stated that they will be using both roads. He stated that the trucks will exit onto Derksen.

Jason Murray from David Drown Associates presented a financial analysis to the EDC regarding market value, tax impact, and tax increment financing for this potential project. He stated that they reached out to the County for a determination of market value based on plans and specs and they came back with roughly about \$291,000, which equates to about a \$5,000 projected tax capacity. He said by taking that tax capacity times all the local, county, and State tax rates it will show about \$7,200 of taxes would be potentially generated by this project. He said even though he is not an appraiser his experience is after the building is constructed they will look at comparable buildings or alternatives in setting the value. He feels that the City will see a value in the potential property of about \$350,000 to \$400,000 you will see that market value go up.

Mr. Murray informed the EDC Commission that they can set up tax increment financing to support the overall development of the business park. He said that Xcel is not requesting TIF but the City could certainly use it to support the needed infrastructure. He stated hopefully the City can get at least half of the cost with the Business Development Public Infrastructure (BDPI) Funding Assistance and then based on Mr. Houle's calculations that the City will need to come up with about \$150,000 on the local side of things to help infrastructure expansion and TIF could be used for that. He said the City can use TIF as a local

contribution and as a revenue stream over the next potential nine years to help with that infrastructure.

He explained the TIF projection spreadsheet in the packet to the EDC Commission. He said looking at the building value multiplying that with a local tax rate of 97%, not capturing the state's portion in this calculation, you can see that roughly generates about \$5,000 per year with a 1% inflationary calculation included. He said the state does allow for some admin retention and they charge a small fee therefore he included the total net revenues in the chart.

Mr. Murray stated from a strategy standpoint he thinks the EDC should think about the use of TIF and it is a nine potentially of a nine year TIF district. He said the City would end up putting the entire Business Park in this first TIF district but it may take 20 years to develop. He stated as it develops you may see a TIF district in the first and second phases develop in those first nine years and then towards the back half if there are additional lots that are vacant in 10 years after the first TIF district the City may consider creating another TIF district for those later phases. He asked the EDC to look at TIF as an opportunity to help supplement those increments of the infrastructure.

Commissioner Rieck asked if there any disadvantages to having a TIF district or starting it now. Mr. Murray stated that it is really not a disadvantage and the City will not lose on the land value from a taxing standpoint. He explained what you are doing as a community is foregoing the potential taxes on that building to help redirect it to help with the payments on the infrastructure. He said it is not a revenue loss from day one if you establish this because you still have the base and you are just potentially redirecting the City, County, and School Districts portion of tax to help with those infrastructure costs. He stated this is a very common practice in Minnesota to help with Industrial Park or Business Park expansions.

Mr. Murray stated that the School District is always a concern and their current rate is 12%. He informed the EDC that there was a law enacted in 2013 that protected schools and general operation levies from increments. He stated that the two prominent providers is going to be the City and County. He confirmed that what he is doing is essentially earmarking the revenue for a purpose. Discussion ensued about if the money is better in the general fund or earmarked for the development of the Heart of the Good Life.

Commissioner Lelwica asked why the City has not considered this funding for the Heart of the Good Life before. Mr. Murray stated that this is the first private developer in that area and the City would want to time the TIF with the development otherwise you do not have the tax base needed. He stated that his understanding is Xcel is going to potentially look at building next spring therefore we will probably set the TIF district up the winter in the first part of 2021. He said that it has to be in play before construction happens.

Commissioner Rieck stated that she would rely on Ms. Malecha's advice as far as what she feels would be the most beneficial for the City. Ms. Malecha stated that she is in favor of creating a TIF district for the Heart of the Good Life Development. She thinks it is a forward thinking process for the City to embark upon and as Mr. Murray alluded to if you do not create a TIF district and you do not earmark those funds, those funds go into the City's general funds. She stated as leadership changes the thoughts and ideas change. She said if we want to continue to grow the Heart of the Good Life Development and expand that infrastructure we have to be forward thinking and start putting money aside to help pay for that infrastructure. Ms. Malecha stated that if the Xcel Energy proposal is accepted that is a great first anchor to have in the development and that it will continue to grow. She said they should be mindful and forward thinking with the City finances and she thinks this is a great idea for the City.

Tyler Glynn stated that in the majority of the developments that they see it is typically the business itself that is asking to recapture the increment in this scenario the City's able to capture that increment and hold it into a fund to help pay for further infrastructure. He said in most cases a company that is coming into a development is asking for TIF to make their project viable and that money would go back to the company and would not come to the City. He stated that it is usually an incentive to the developer from the City to bring that developer into a certain area. Mr. Glynn stated that this is not what Xcel is asking for here therefore the City has the ability to earmark this money and leave it into a fund for infrastructure moving forward.

Commissioner Lelwica asked if this handcuffs the City in providing the TIF to other businesses or developers that come in and asks about funding. Mr. Murray said that EDC and City Council will have the ability to have the same conversation on future projects. He stated that maybe the businesses will ask them for a little bit of help to make the project viable and the EDC and Council will have that right to say we want to give you 50% of the increment or even up to 90%. He said they have that flexibility in the future on a case by case basis to negotiate that with potential businesses.

Nancy Malecha stated the Planning Commission had their regular meeting on May 21<sup>st</sup> and Mr. Mauseth from Xcel Energy presented via Zoom their business proposal. She stated the Planning Commission discussed the proposal and provided feedback to Mr. Mauseth and Xcel Energy. They suggested that the fenced in storage area be along Derksen road so it does not show to the South lot, discussed the appearance of the location, operations of the building, and also what is stored in the storage area. Ms. Malecha stated the consensus of the Planning Commission was that the proposal is a good idea for the Heart of the Good Life Development. She said the Planning Commission and Xcel are aware that there will be a lot of discussions going forward regarding the site plan because of the new zoning standards for the Heart of the Good Life Development. She stated the Planning Commission will work with them as this moves forward to meet those standards.

Nancy Malecha reminded that EDC of a conversation at the March EDC meeting with Nate Grotzke from Close Converse that Brainerd and Baxter are both offering land at \$1 per square foot. She said he noted that the pricing for the Heart of the Good Life is good but a potential buyer may use other cities as leverage on their offer. Ms. Malecha asked them to keep that in mind and consider what other entities are also offering for their respective land. Tim Houle clarified that an acre is 43,560 square feet.

Mr. Mauseth provided the EDC with information on how they came up with the \$42,000 per acre proposal or offer. He said they got an opinion of a broker's value on the land and the first one that they got came in at a \$40,000-\$45,000 per acre. He said that he received a second opinion from a local broker and he thought the \$65,000 per acre was high and noted that the City of Brainerd was selling shovel-ready sites at \$45,000 per acre. He stated that he also conducted research on prices for state wide shovel ready sites and he found 11 sites ranging from \$25,000 per acre in Duluth to \$83,000 per acre in Becker. He said he feels their offer is reasonable.

Ms. Malecha stated that she and Mr. Glynn have had some discussions regarding the following information and just wanted to make the EDC aware of it. She stated that the current City water and sewer utilities are in very close proximity to the proposed site. She asked them to keep in mind that existing Xcel Energy employees may be leaving the amenities and services and the Brainerd and Baxter areas to utilize Pequot Lakes amenities. She said that Xcel Energy would be an exceptional anchor company to kick off the Heart of the Good Life Development and the potential economic development opportunities in our area. She stated based on all of the above information presented her and Mr. Glynn are recommending to the EDC to accept the business proposal from Xcel energy and recommend as such to the City Council.

Mr. Glynn stated that Xcel Energy is a tremendous company and they are not asking the City for anything in regards to assistance to build. He said it is great that additional employees are coming into town and there is always hope that they make Pequot their home. He stated it is a great opportunity for the City to bring in an anchor into the Heart of the Good Life and it is his recommendation as well that the EDC moves forward with this.

Commissioner Rieck stated that she is very excited about Xcel coming in to Pequot Lakes and she agrees that we accept the offer. She stated that she would like to see a small profit and asked if Xcel Energy would accept \$45,000 per acre. Mr. Mauseth accepted that offer. Commissioner Lelwica said that she had concerns about this setting a precedence to what they Heart of the Good Life will be but she said they will be a good community partner.

**COMMISSIONER RIECK MOVED TO ACCEPT THE BUSINESS PROPOSAL FROM XCEL ENERGY FOR FOUR ACRES IN THE HEART OF THE GOOD LIFE DEVELOPMENT, IMMEDIATELY WEST OF THE CITY'S PUBLIC WORKS FACILITY, AT A PRICE OF \$45,000 PER ACRE.**

**COMMISSIONER HOLLEY SECONDED THE MOTION. MOTION CARRIED 6-0.**

Ms. Malecha informed the Commission that this presentation will be on the City Council agenda tomorrow night. She stated that it will be in a closed session for them to consider the EDC's recommendation and she will keep them posted as to what is discussed.

4. Adjournment

There being no further business, Chair Lindholm adjourned the meeting at 8:41 a.m.

Respectfully submitted,

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Angie Duus  
City Clerk/Treasurer

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