



May 28, 2020

Ms. Nancy Malecha, City Administrator  
 City of Pequot Lakes  
 Pequot Lakes Economic Development Commission  
 4638 Main Street  
 Pequot Lakes, MN 56472

**RE: Xcel Energy Project**

Dear Ms. Malecha and Members of the EDC:

Based on comments at the last Pequot Lakes EDC Board meeting, I have been asked to provide some information regarding the proposed market value of the Xcel project and its impacts on the City taxes, along with the use of tax increment financing to support the future growth of the Heart of the Good Life Business Park. This letter will address both items.

**Market Value/Taxes**

Based on the Xcel proposal shared at the May EDC meeting, we requested the County Assessor to provide a determination of market value for the project. Based on the market value projection and 2020 tax rates for all local units, here as estimate of taxes generated by the project:

Proposed Market Value	291,284	
Projected Tax Capacity	5,076	
	2020	Taxes Generated
	Tax Rate*	By Project
City of Pequot Lakes	56.412%	2,863.29
Crow Wing County	33.154%	1,682.79
School District	12.170%	617.71
Other	2.008%	101.92
State	38.846%	1,971.70
Total	142.590%	7,237.41

One note to add is this is a conservative market value estimate provided by the County Assessor. We have a list of similar structures, use, and sized buildings in Minnesota from Xcel Energy. Based on this information, we would anticipate completed building value to be in the \$350,000 - \$400,000 range (summary attached).

**Tax Increment Financing**

Why TIF? Although Xcel is not requesting assistance, the business park is in need of infrastructure to support its future development. Setting up a TIF district, will allow the City to capture increment from the Xcel parcel, along with the other parcels in the park, to redirect it to support this needed infrastructure. This district would qualify as an economic development TIF district – small cities designated, with a term of 9 years. Here is a brief summary:

**Economic Development Districts**

Revenue derived from tax increment from an economic development district must be used to provide improvements, loans, subsidies, grants, interest rate subsidies, or assistance in any form to developments consisting of buildings and ancillary facilities, in which at least 85 percent of the buildings and facilities (determined on the basis of square footage) are used for any of the following purposes:

1. the manufacturing or production of tangible personal property, including processing resulting in the change in condition of the property;
2. warehousing, storage, and distribution of tangible personal property, excluding retail sales;
3. research and development related to the activities listed in clause (1) or (2);
4. telemarketing if that activity is the exclusive use of the property;
5. tourism facilities;
6. qualified border retail facilities;
7. space necessary for and related to the activities listed in clauses (1) to (6); or
8. A workforce housing project that satisfies the requirements of paragraph (d).

Based on comments from Taft Law Firm (City's Bond Counsel) the project would need to be designate the Small City Exemption under Economic Development TIF law to qualify (Counsel's opinion is the Xcel project does not meet the definition under the law). The Small City exemption is defined as: If the City has a population of 5,000 or less and is located ten miles or more from a City having a population of 10,000 or more (a "Small City"), revenues derived from tax increment from an economic development district may be used to provide improvements, loans, subsidies, grants, interest rate subsidies, or assistance in any form for up to 15,000 square feet of any separately owned commercial facility. These revenues may also be used If the revenues derived from increments are spent only to assist the facility directly or for administrative expenses, the assistance is necessary to develop the facility, and all of the increments, except those for administrative expenses, are spent only for activities within the district.

The City of Pequot Lakes currently meets these requirements, allowing for the use of the small cities exemption. If the district is created, all projects in the park will need to adhere to the 15,000 square foot limit during the life of the TIF district.

For your reference, attached is a TIF projection using the County's preliminary market value on the Xcel project, showing an estimated annual increment of \$4,800, with a potential to generate \$46,000 over the life of the TIF district. We can walk through the projection more formally at the meeting and the formal strategy using TIF for the future development of the park.

Thank you for the opportunity to assist the City and EDC with this project. I look forward to our dialogue with the EDC next week. Please let me know if you have any questions.

Respectfully,

A handwritten signature in black ink, appearing to read "Jason Murray". The signature is fluid and cursive, with a long horizontal stroke at the end.

Jason Murray  
Associate

**City of Pequot Lakes**  
**Tax Increment Financing District**  
**Heart of the Good Life**

**TIF PROJECTIONS**

**Valuations & Projected Increases**

	Market Value	Tax Capacity	Estimated TIF
Original Values	5,124	2,990	-
Development	286,700	4,907	4,779
Additional Phases	-	-	-
<b>TOTALS</b>	<b>291,824</b>	<b>7,897</b>	<b>4,779</b>

Assumed inflation rate: 1.00%

**Tax Rate Assumptions**

	2020 Tax Rate*	TIF Rate
City	56.412%	56.412%
County	33.154%	33.154%
School	12.170%	5.811%
Other	2.008%	2.008%
State	38.846%	0.000%
	<b>142.590%</b>	<b>97.385%</b>

**Projected Gross Tax Increment**

Payable Year	Original Tax Capacity	Projected Tax Capacity*	Net Captured Tax Capacity	Less Fiscal Disparities	Retained Net Captured Tax Capacity	Projected TIF Tax Rate	Gross Tax Increment
2021	2,990	2,990	-	-	-	-	-
2022	2,990	2,990	-	-	-	97.385%	-
2023	2,990	7,897	4,907	-	4,907	97.385%	4,779
2024	2,990	7,976	4,986	-	4,986	97.385%	4,856
2025	2,990	8,055	5,066	-	5,066	97.385%	4,933
2026	2,990	8,136	5,146	-	5,146	97.385%	5,012
2027	2,990	8,217	5,228	-	5,228	97.385%	5,091
2028	2,990	8,299	5,310	-	5,310	97.385%	5,171
2029	2,990	8,382	5,393	-	5,393	97.385%	5,252
2030	2,990	8,466	5,477	-	5,477	97.385%	5,334
2031	2,990	8,551	5,561	-	5,561	97.385%	5,416
							<b>45,843</b>

**Adjustments**

10.00% Admin. Retainage	0.36% State Auditor Fee	Projected Net TOTAL NET REVENUES
-	-	-
476	17	4,285
484	17	4,354
492	18	4,424
499	18	4,494
507	18	4,565
515	19	4,637
523	19	4,710
531	19	4,783
540	19	4,857
<b>4,568</b>	<b>165</b>	<b>41,110</b>

*Net Present Value 9 Years @ 4.0% interest* **32,524**

<b>Site</b>	<b>Building size (sf)</b>	<b>Parcel size (acres)</b>	<b>Building Age/In service date</b>	<b>2020 Land Value</b>	<b>2020 Building Value</b>	<b>Total Value</b>
Montrose Service Center	15,000	3.5	2012	222,500	1,000,000	1,222,500
Monticello Service Center	9,900	3.1	1974	291,700	365,300	657,000
Montevideo Service Center	13,000	4.2	1967	149,900	427,300	577,200
Red Wing Service Center	17,000	3.2	1977			923,200
Waconia Service Center	6,400	1.6	1978			476,700
Wyoming Service Center	11,577	5.7	1992			981,600
Winona Service Center	28,707	4.1	1981	301,900	1,482,000	1,783,900