

City of Madelia
City Council Meeting
Monday, August 8, 2016

PUBLIC HEARING – TAX ABATEMENT PUBLIC HEARING

A Public Hearing was opened on August 8, 2016 by Mayor Mike Grote at 7:00 pm. Those present for the meeting were; Andy Gappa, John Nelson, Dave Whitney and Mike Grote, Larry Schickling, Ed Tschida, Matt Gunderson, Ryan Visser, Tom and Joanne McCabe and Rob Prescher.

Ed Tschida presented the following information:

To: Madelia City Council

From: Ed Tschida, Advance Resources for Development, Inc.

Re: Tax Abatement Public Hearing – Replacement Structure for Buildings Destroyed in February 3, 2016 Fire in Madelia, Minnesota

Date: August 1, 2016

On February 3, 2016, the fire in downtown Madelia destroyed several properties. The property owners have begun rebuilding at this location. To assist in this effort, the property owners are requesting abatement of local property taxes. Following is information regarding valuation and property taxes pre-fire and a post fire analysis of the proposed replacement project.

| EXISTING VALUATIONS AND TAXES | | | | |
|-------------------------------|-----------------|---------------------|------------------|------------------------------|
| Parcel Number | 2015 Land Value | 2015 Building Value | 2015 Total Value | 2016 Proposed Property Taxes |
| 17.326.0620 | 13,500 | 56,400 | 69,900 | 2,095 |
| 17.326.0640 | 14,200 | 44,200 | 58,400 | 1,678 |
| 17.326.0650 | 15,300 | 62,600 | 77,900 | 2,329 |
| 17.326.0660 | 8,200 | 21,400 | 29,600 | 907 |
| 17.326.0670 | 8,200 | 24,300 | 32,500 | 993 |
| 17.326.0680 | 8,700 | 22,000 | 30,700 | 939 |
| 17.326.0690 | 8,400 | 21,100 | 29,500 | 905 |
| Totals | \$76,500 | \$252,000 | \$328,500 | \$9,846 |

Rice Building Systems (the general contractor in charge of the building project) estimates the building

cost according to the following table:

| ESTIMATED RECONSTRUCTION COSTS | | | |
|--------------------------------|---------------|---------|--------------------|
| Business | Area (SF) | Cost/SF | Cost |
| Culligan Soft Water | 7,800 | \$125 | \$975,000 |
| Hope & Faith Floral and Gifts | 7,800 | \$125 | \$975,000 |
| American Family Insurance | 4,160 | \$125 | \$520,000 |
| Gunderson Vacant Space | 3,900 | \$125 | \$487,500 |
| La Plaza Restaurant/Grocery | 7,540 | \$150 | \$1,131,000 |
| Totals | 31,200 | | \$4,088,500 |

Based upon proposed 2016 building plans provided by the general contractor, the County Assessor has estimated the potential impact that the project would have on property taxes. The Assessor's analysis recognizes that project costs exceed taxable market value because of the economic conditions existing within rural Watonwan County. The Assessor has assumed completion of the project by December 31, 2016 at a taxable market value of \$2,148,135.

The following table provides the valuation assumptions that were used to arrive at a taxable market value for the completed project:

| ASSESSOR'S ESTIMATE OF TAXABLE MARKET VALUE AND PROPERTY TAXES | | | | | | |
|---|--------------------|---------------------------------|-----------------|---------------------------------|-----------------------------------|--|
| Business | Building Valuation | | Land Cost | Total Market Value ² | Taxable Market Value ³ | Property Taxes Payable 2018 ⁴ |
| | Builder Cost | Assessor Valuation ¹ | | | | |
| Culligan Soft Water | \$975,000 | \$828,750 | \$14,500 | \$843,250 | \$511,750 | \$19,543 |
| Hope & Faith Floral and Gifts | \$975,000 | \$828,750 | \$9,800 | \$838,550 | \$507,050 | \$19,351 |
| American Family Insurance | \$520,000 | \$442,000 | \$14,500 | \$456,500 | \$279,700 | \$10,041 |
| Gunderson Vacant Space | \$487,500 | \$414,375 | \$10,100 | \$424,475 | \$258,725 | \$9,182 |
| La Plaza Restaurant/Grocery | \$1,131,000 | \$961,350 | \$14,100 | \$975,450 | \$590,910 | \$22,785 |
| Totals | \$4,088,500 | \$3,475,225 | \$63,000 | \$3,538,225 | \$2,148,135 | \$80,901 |
| Footnotes: ¹ Assessor Valuation is calculated at 85% of Builder Cost in order to account for contractor profit. | | | | | | |

² Total Market Value is the sum of Assessor Building Valuation and Land Cost.

³ Taxable Market Value is equal to 60% of Total Market Value. In this instance the taxable market value has been determined by estimating the value of the land as if it was vacant, and adding the value of the improvements, less an allowance for economic depreciation, to arrive at an estimate of Taxable Market Value.

⁴ The estimate of property taxes for 2018 is based upon the estimated 2016-tax capacity and 2016-tax rates, which include the City at 78.577%, County at 43.093%, School District at 17.166%, Region Nine at .161%, HRA at .449%, and State at 49.000% for a total tax rate of 188.446%. In addition, the referendum market value rate of .32616% is also included.

Based on the valuation and tax rate assumptions the estimated property tax breakdown on the completed project is presented in the table below:

| Pre-Fire/Post-Development Property Tax Comparison | | |
|---|----------|-----------------|
| | Pay 2016 | Pay 2018 |
| Annual Property Tax | \$9,846 | \$80,901 |
| Net Property Tax Increase | | \$71,055 |

ABATEMENT ANALYSIS

The City of Madelia, Watonwan County and the School District may abate all or a portion of its current or prospective property tax on a parcel of property for economic development purposes. These abatements are subject to a duration limit and a limit on the amount of the abatements.

The City, County and School can grant an abatement only by adopting an abatement resolution. The resolution must specify the terms of the abatement, including the form of the abatement, amount of the abatement, the method of determination of the abatement, the duration limit and the effective date. The City, County and School may approve the abatement resolution only after conducting a public hearing on the proposed abatement.

The City, County and School can abate its portion of the net tax capacity based property taxes on a parcel of property, which includes the tax on land and buildings. Market value based taxes cannot be abated under this law. Special assessments are also not subject to abatement. For any particular property, the annual abatement granted by the City, County or School cannot be greater than that subdivision's total net tax capacity on the property. Abatements may reduce all or part of the qualifying property tax amounts on a property.

If the City, County and School all grant an abatement, the maximum duration of the abatement is 15 years, although the duration can be shorter than 15 years. The duration period begins in the year, which the abatement is paid or retained.

The City, County or School when proposing an abatement for property may request that the other political subdivisions in which the property is located also grant abatements. If one of the other subdivisions declines or fails to respond, the duration limit for abatements on the parcel is increased to 20 years. In this situation, the property owners are seeking 20-year abatement of the City and County portion of the property taxes. The School is not being requested to participate in the abatement program.

The following table shows a 20-year schedule that includes the city and county.

| 20-YEAR ABATEMENT SCENARIO | | | | |
|--|--------------------------------|---------------------------------------|---|---|
| Year | Estimated Local Property Taxes | City's Share of Abated Property Taxes | County's Share of Abated Property Taxes | School's Share of Abated Property Taxes |
| 2016 | 0 | 0 | 0 | 0 |
| 2017 | 0 | 0 | 0 | 0 |
| 2018 | 73,895 | 30,812 | 16,898 | 0 |
| and continuing through | | | | |
| 2037 | 73,895 | 30,812 | 16,898 | 0 |
| TOTAL | \$1,477,895 | \$616,243 | \$337,959 | \$0 |
| NPV ¹ | | \$367,027 | \$201,284 | \$0 |
| ¹ NPV is the net present value of the annual abatements that have been discounted at 4.50%, which is the current prime rate (3.5%) plus 1%. | | | | |

ABATEMENT REQUEST

Due to the extraordinary expenses associated with redeveloping after the fire and the significant increases in property taxes, the property owners are requesting that the City approve 20-year property tax abatement.

EXEMPTION FROM BUSINESS SUBSIDY LAW, MINNESOTA STATUTES, SECTION 116J.993 - 116J.995

The proposed tax abatement program is exempt from the provisions of the Business Subsidy Law pursuant to Minnesota Statutes, section 116J.994, subdivision 3, paragraphs (2) and (17).

Paragraph (2) states “assistance that is generally available to all businesses or to a general class of similar businesses, such as a line of business, size, location, or similar general criteria” is not a business subsidy. In this instance, the several businesses share similar general criteria including all were destroyed in the February 3, 2016 fire, and all are within downtown Madelia.

Paragraph (17) states “redevelopment when the recipient’s investment in the purchase of the site and in site preparation is 70 percent or more of the assessor's current year's estimated market value” is not a business subsidy. According to Watonwan County records, the assessor's current year’s (2016) estimated market value of the seven parcels included in the abatement program is \$328,500. The recipient’s investment in the purchase of the site and in site preparation is more than 70% (\$229,950) of the assessor's current year's estimated market value. Site improvements, including demolition and disposal of the existing burned structures containing hazardous materials, occurred at a cost of approximately \$500,000.

A Motion was made by John Nelson and seconded by Larry Schickling to adopt Resolution 2016-14 A Resolution approving a Property Tax Abatement for the City of Madelia Downtown Redevelopment Project. Voting for said Motion, Mike Grote, Andy Gappa, John Nelson, Dave Whitney and Larry Schickling. Motion was approved.

A Motion was made by John Nelson and seconded by Larry Schickling to Close the Public Hearing. Voting for said Motion, Mike Grote, Andy Gappa, John Nelson, Dave Whitney and Larry Schickling. Motion was approved.

City of Madelia
City Council Meeting
Monday, August 8, 2016

A regular meeting of the Madelia City Council was held on August 8, 2016 at 7:00 pm. The meeting was called to order by Mayor Mike Grote. Those present for the meeting were; Andy Gappa, John Nelson, Dave Whitney and Larry Schickling.

A Motion was made by Dave Whitney and seconded by John Nelson to approve the agenda with three additional agenda items; EDA requests. Voting in favor of said motion, Mike Grote, Andy Gappa, John Nelson, Larry Schickling and Dave Whitney. Voting against none, motion carried.

A Motion was made by Larry Schickling and seconded by Andy Gappa to approve the minutes of the July 25, 2016 meeting. Voting in favor of said motion, Mike Grote, Andy Gappa, John Nelson, Larry Schickling and Dave Whitney. Voting against none, motion carried.

A Motion was made by Dave Whitney and seconded by Larry Schickling to approve the bills as listed. Voting in favor of said motion, Mike Grote, Andy Gappa, Dave Whitney, Larry Schickling and John Nelson. Voting against none, motion carried.

A Motion was made by Larry Schickling and seconded by Andy Gappa to approve advertising for additional members for the Madelia Fire Department. Voting for said motion; Mike Grote, John Nelson, Andy Gappa, Larry Schickling and Dave Whitney. Voting against none, motion carried.

A Motion was made by Andy Gappa and seconded by Dave Whitney to approve a "meeting" leave of absence for Councilman John Nelson. John Nelson will be attending EMT Classes starting Monday, August 22, 2016 through December 7, 2016. Voting in favor of said motion, Mike Grote, Andy Gappa, Larry Schickling and Dave Whitney with John Nelson abstaining from the motion. Motion carried.

A Motion was made by Dave Whitney and seconded by Larry Schickling to approve a loan change for Tony Perrine, Owner of Fox's Pizza Den who addressed the Council in regard to the interest rate of his current business loan. The initial loan amount was \$25,000.00 with an interest rate of 3% and a current loan balance of \$23, 071.97. This loan was approved on September 15, 2015. Tony was current on his monthly payments. A change for the interest rate of 3% to 1%. Voting for said Motion; Mike Grote, Andy Gappa, John Nelson, Larry Schickling and Dave Whitney. Motion was approved.

A Motion was made by Larry Schickling and seconded by John Nelson to approve a loan change for Ryan Visser, Owner of Hope and Faith Floral, who addressed the Council in regard to the interest rate of his current business loan. The initial loan amount was \$29,000.00 with an interest rate of 2.5% and a current loan balance of \$13,499.03. This loan was approved on May 1, 2013. Ryan was current on his monthly payments. A change the for the interest rate of 2.5% to 1% and to extend the number of loan payments from 60 to 120. Voting for said Motion; Mike Grote, Andy Gappa, John Nelson, Larry Schickling and Dave Whitney. Motion was approved.

A Motion was made by Andy Gappa and seconded by Larry Schickling to approve a loan change for Matt Gunderson, Madelia Lumber, who addressed the Council in regard to the interest rate of his current business loan. The initial loan amount was \$70,000.00 with an interest rate of 3% and a current loan balance of \$40,456.42. This loan was approved on January 6, 2012. Matt was current on his monthly payments. A change for the interest rate of 3% to 1%. Voting for said Motion; Mike Grote, Andy Gappa, John Nelson, Larry Schickling and Dave Whitney. Motion was approved.

Mayor Mike Grote thanked Region 9 for their assistance the past year.

With no further business before the City Council, a Motion was made by Larry Schickling and seconded by Andy Gappa to adjourn the meeting. Voting in favor of said motion, Mike Grote, Andy Gappa, John Nelson, Larry Schickling and Dave Whitney. Voting against none, motion carried.

Meeting was adjourned.

Jane Piepgras,
City Administrator, City of Madelia

Typed this 15th day of August 2016.

**All Madelia City Council Meetings are video taped and are available for review during normal business hours in the Madelia City Hall. Meeting minutes are typed as a general synopsis of the meetings and are provided as a general guide of the discussions and decisions for the Madelia City Council. The video of all meetings controls over any typed minutes, and any discrepancy shall be determined in favor of the recorded meeting.