



Special City Council Work Session Tuesday, August 16, 2022 at 6:00 PM Council Chambers

AGENDA

1. Call to Order/Roll Call

- A. City Council Call to Order/Roll Call
- B. Rice County Board of Commissioners Call to Order/Roll Call

2. Pledge of Allegiance

3. Items for Discussion

- A. Project Rock - Business Incentive Package Proposal

4. Future Discussion

5. Adjournment

- A. Rice County Board of Commissioners Adjournment
- B. City Council Adjournment

Please contact the City Administrator's Office if you need special accommodations while attending this meeting



Council Work Session Memorandum

TO: Mayor and City Council
THROUGH: Tim Murray, City Administrator
FROM: Deanna Kuennen, Community & Economic Development Director
MEETING DATE: August 16, 2022
SUBJECT: Project Rock - Business Incentive Package Proposal

Discussion:

Staff from both the City of Faribault and Rice County have been working on Project Rock - a confidential business expansion project - since March 2022. Project Rock involves the expansion of an existing business, automation of the manufacturing process, and upskilling of workforce for an existing employer. The project includes a 70,000 SF building expansion and a total investment of \$32m.

The company and its consultants evaluated various different expansion options and locations - and ultimately determined that the expansion of the Faribault facility is their preferred option based on a proposed incentive package. To support the expansion, the company is seeking city and county tax abatement of new taxes over the course of 10 years.

Public financing / tax incentives are at the discretion of the City Council and County Board. Working with the project consultant, and the Rice County Administrator, Staff evaluated the project scope and benefits, and prepared a tax abatement package that looks only at new taxes generated from the proposed project. These are increased taxes that would not be realized without the project. The tax abatement proposal would step the company into their new tax obligation over a period of time. This removes the potential new taxes as a burden to the company while the capital investments are being made, but still protects the existing taxes paid to the various different taxing jurisdictions .

The proposed 10-year tax abatement structure would consist of the following formula:

Years 1-5	100% abatement of new taxes
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Year 6	95% abatement of new taxes
Year 7	85% abatement of new taxes
Year 8	75% abatement of new taxes
Year 9	65% abatement of new taxes
Year 10	55% abatement of new taxes
Year 11	No Abatement

The project meets many of the economic growth goals established by the City in the business subsidy policy - including enhancing economic growth and opportunity, retaining quality jobs, and locating industrial development within established industrial parks. Prior to the company making their final decision on expansion, they are seeking support of the tax abatement proposal. If the City Council and County Board are supportive of utilizing tax abatement to support the expansion and automation of an existing employer, and the upskilling of existing workforce - all of the necessary actions to support formal consideration of the tax abatement, including the required public hearing, will be scheduled.

The City Council and County Board are asked to provide direction on utilizing tax abatement of new taxes only, to support Project Rock and its \$32m investment.

Attachments:

1. Signed - 6-7-22 Incentives Package Proposal from Faribault and Rice County



Date: June 7, 2022
 To: Rachel Gradner, CBRE
 Re: Project Rock

Dear Ms. Gradner,
 Business retention is a core function of economic development in both the City of Faribault and Rice County. Our elected officials value the corporations that have invested in our community, and seek out ways to support their continues presence and continued growth. While our comprehensive economic development strategies include business recruitment, “growing our own” is at the heart of our economic development missions. With this as our foundation, on behalf of the City of Faribault and Rice County we provide the following economic development incentive package for consideration to support Project Rock in Faribault:

Project Rock Overview:

- 70,000 SF expansion to support new technology and the automation of processes
- \$32m total investment over three (3) years
- Upskilling of existing workforce to support new processes

Tax Abatement:

In working with the Rice County Assessor, we have estimated the new positive tax impact that this project will have over time. Property Tax Abatement is one tool that the City and County are supportive of using to encourage investments. Understanding that tax abatement is a means to offset the fiscal impact to the company – the City and County are willing to work collaboratively to consider a tax abatement structure that would step the company into the new tax obligation overtime, removing the potential new taxes as a burden to the company while the capital investments are being made. The following is the 10-year tax abatement structure that the City and County are willing to consider:

Total Estimated “New” Taxes = \$133,600		
Tax Abatement	City of Faribault	Rice County
Years 1-5	100-percent abatement of increase in ad valorem / new taxes	100-percent abatement of increase in ad valorem / new taxes
Year 6	95-percent abatement	95-percent abatement
Year 7	85-percent abatement	85-percent abatement
Year 8	75-percent abatement	75-percent abatement
Year 9	65-percent abatement	65-percent abatement
Year 10	55-percent abatement	55-percent abatement
Year 11+	No abatement – assume full tax obligation	No abatement – assume full tax obligation

The abatement requires a public hearing of both the City Council and County Commissioners, which we propose to hold jointly to streamline the process associated with the tax incentive.

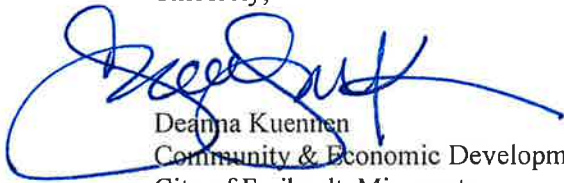
Economic Development Incentive Fund:

In addition, the Economic Development Authority of Faribault has developed a specific economic development incentive tool to encourage retention and to support projects and investments in the community that have a positive impact. The Economic Development Incentive Fund operates as a forgivable loan to offset overall project costs to include real property improvements and equipment. The company would be required to enter into a loan repayment agreement, whereby the loan would be forgiven once the conditions of the award were met. For Project Rock the conditions of forgiveness would focus on completion of one of the categories of capital expenditures as outlines in the project term sheet – building construction or acquisition of machinery and equipment. Staff would recommend the maximum award of \$100,000.

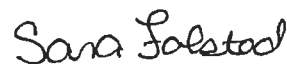
While we are confident that this proposal will be supported by the City Council and County Commissioners, the package does not become official until these bodies officially take action as required for all business subsidies of this nature per Minnesota State Statutes. Staff both supports these incentives for Project Rock, and recommends this overall package to support the continued investment of a valued local corporation. We recognize the importance of automation, especially in this era of workforce shortages, and we applaud the company for taking the initiative to invest in technology.

If you have additional questions, please reach out and together we will be happy to answer questions or provide additional information. We look forward to continuing to work with you on Project Rock, and ultimately supporting the significant investment in our community.

Sincerely,



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