



Request for Action

TO: Economic Development Authority
FROM: Deanna Kuennen, Community & Econ Dev Director
MEETING DATE: April 15, 2021
SUBJECT: Business Subsidy – Incentive Programs Discussion Continuation

Background

On a regular basis Staff receives inquiries from a variety of businesses and industries looking to make an investment or move/relocate to the Faribault community. Typically the discussion includes questions about potential incentives. While the EDA and City of Faribault have different tools and resources available to assist with business growth and attraction efforts, there still seems to be a disconnect between what is available and what specifically business and industry need.

While the current programs have served the EDA well, in recent years Staff has seen limited interest in the existing revolving loan programs. Business/industry seem to be able to access capital at favorable rates, making local loan funds less attractive. Currently the EDA Revolving Loan fund has a balance of \$375,000, with no new loans in over six years.

In 2019 the EDA reviewed program guidelines and made modification to the overall loan limits, etc. for both the Industrial Development Loan Program and the EDA Revolving Loan program. Today Staff is recommending re-assessing the EDA Revolving Loan Program – so those funds can continue to work to increase economic development activity in Faribault. Based on current trends and discussions with business prospects, Staff is proposing a new program that would re-tool how these existing dollars are used to support economic development efforts with the overall goal of creating a more comprehensive and flexible “tool chest.” The goal would be to have resources available to better assist potential projects that would bring quality development and quality jobs to the community, supporting the mission of the EDA and the approved work plan.

Proposed Economic Development Incentive Fund

The Economic Development Incentive Fund (EDIF) would be a flexible program with dedicated dollars to support quality projects seeking to create or retain jobs in Faribault and add quality investments. The fund would provide forgivable loans and/or revolving loans with an emphasis on high-wage jobs and quality investment in Targeted Industries.

The following are the proposed Targeted Industries that would qualify for the EDIF:

- Advanced Manufacturing,
- Food Processing,
- Warehousing and Distribution, and
- Avionics.

Targeted Industries would potentially qualify for a forgivable loan based on the size of the project and jobs created (meeting certain wage criteria). It is recommended that the maximum size of the incentive be based on the following:

- *Up to 1.5% of Investment; and/or*
- *\$2,500 per job*
- *Increase in tax base*
- *Maximum Incentive not to exceed \$100,000*

The following is an example of how the EDIF could work:

Project	
Investment	
Facility Expansion	\$2,750,000
Capital Expenditures (building)	\$751,000
Capital Expenditures (equipment)	\$1,700,000
Recertification	\$140,000
Moving, Misc. Expenses	\$175,000
Job Creation	
Total New Jobs	20
Estimated NEW Taxes	
Existing building	EMV - \$6,247,800 Total Annual Taxes - \$202,122 Annual City Taxes - \$68,069
With 50,000 SF Expansion	EMV - \$8,412,300 (increase of \$2,164,500) Total Annual Taxes - \$261,869 (+\$59,747) Annual City Taxes - \$88,060 (+\$19,991)
Totals	
Investment	\$5,516,000
Job Creation	20 (Wages = \$16.00-\$33.00 per hour + benefits)
Maximum Incentive (1.5% + \$2,500/job)	\$82,740 (1.5% of project investment) \$50,000 (20 jobs)
Total Incentive	\$132,740
Maximum Incentive Recommended	\$100,000
ROI based on taxes	Approximately 5 years through city taxes

The EDA can choose to limit the total amount of an EDIF award – as the calculations would establish the maximum incentive limit. The EDA could also choose to place additional requirements/conditions on an award, such as a timeline limiting future requests for a dedicated window, etc. The award could also offer a traditional loan component – whereas the terms of any loan would generally include an interest rate based on City’s average rate of return at the time of the loan or a rate separately negotiated. A loan repayment schedule with interest will be negotiated separately for each project or program and incorporated into a Loan Agreement as part of the total economic incentive package offered.

The amount of EDIF assistance for a business recruitment or retention/expansion will be based on a determination of need for financial incentives to ensure the attraction, retention, and/or expansion of the eligible company or program. The purpose of these dollars and the EDIF is to create flexible incentives that provide parameters for consideration – based on pre-determined criteria, adding an additional economic development tool to the “toolbox”.

Requested Action

At this time, Staff is requesting continued discussion and feedback from the EDA regarding the proposed incentive package request and potential programming. It is the goal of Staff to create Programs that will spur economic activity and utilize the dollars dedicated to the initiatives in a fiscally responsible manner, meeting the needs of all project partners.

Based on these discussions, Staff will bring back dedicated Program guidelines and budget projections to a future EDA meeting for formal adoption – along with ideas regarding funding source for such program.