

## Memorandum

To: Chair Johnson and Economic Development Authority  
From: Dan Mahli, Assistant City Manager  
Amy Thorpe, Economic Development Program Administrator  
Date: 9/24/2018  
Re: Citywide Incentive Policy

### Background and Key Information

The last major revision of the City's commercial-industrial incentives was in 2011. At that time, the City Council and EDA found that "granting property tax exemptions increases the community's long term economic vitality through the creation of new jobs, increasing employment opportunities for Moorhead residents and expanding Moorhead's property tax base. Further, that existing businesses will benefit by increasing the total number of businesses in Moorhead, thereby positioning Moorhead as a destination to more customers."<sup>1</sup> A couple draft scenarios are included on page 3. The existing incentive table is on page 2.

It was also at that time that Moorhead added an incentive for multi-family residential housing. The incentive provides a more even playing field to offset construction costs for Minnesota building code standards versus North Dakota standards. The goal is to create additional housing choices for Moorhead residents by increasing the number and types of housing options. This is a valuable tool to help grow Moorhead's residential market and provide additional customers for business.<sup>2</sup> The Urban Progress Zone (UP Zone) was added to the incentive family in 2015. Essentially, it used the same scale as the commercial-industrial property tax exemption and added additional years to ramp-up public investment. The UP Zone also treated multi-family residential uses the same as a commercial, however, job creation was a limiting factor.<sup>3</sup>

### Summary of Moorhead's Incentives

#### 1. DOWNTOWN

- a. Moorhead Renaissance Zone – The City Council approved the Moorhead Renaissance Zone on 9.10.2018. This is a property tax exemption where the exemption term is based on meeting certain investment thresholds and goals/objects outlined in the policy. It is intended to encourage economic development and investment opportunities in the downtown area.
- b. Urban Progress Zone – The Urban Progress Zone is a program available through 3/31/2019. The exemption period is based on new building value and jobs created for commercial and multi-family residential projects.

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<sup>1</sup> Resolution 2011-0912-03; 2014-0113-D; 2015-0608-J

<sup>2</sup> Resolution 2011-0912-03; 2014-0623-K; 2015-0608-J

<sup>3</sup> Resolution 2015-0608-J; 2017-0313-3

2. CITY-WIDE

a. Property Tax Exemption

- i. Commercial and Industrial – The exemption term is based on the New Building Value as determined by the City Assessor and the jobs created. The current scale is below.

**Table A:** Current Commercial and Industrial Scale

New Building Value	Estimated Tax Rate	Term	Tax Benefit	Public Participation
\$150,000 – 249,999	1.6%	2	\$4,800-8,000	3.2%
\$250,000-499,999	1.6%	3	\$12,000-24,000	4.8%
\$500,000-999,999	1.6%	4	\$32,000-64,000	6.4%
\$1 – 1.99 million	1.6%	5	\$80,000-160,000	8.0%
\$2 – 2.99 million	1.6%	6	\$192,000-288,000	9.6%
\$3 – 3.99 million	1.6%	7	\$336,000-448,000	11.2%
\$4 – 4.99 million	1.6%	8	\$512,000-640,000	12.8%
\$5 – 5.99 million	1.6%	9	\$720,000-864,000	14.4%
\$6 – 6.99 million	1.6%	10	\$960,000-1,120,000	16.0%
\$7 – 7.99 million	1.6%	11	\$1,232,000-1,408,000	17.6%
\$8 – 8.99 million	1.6%	12	\$1,536,000-1,728,000	19.2%
\$9 – 9.99 million	1.6%	13	\$1,872,000-2,080,000	20.8%
\$10 – 10.99 million	1.6%	14	\$2,240,000-2,464,000	22.4%
\$11 – 11.99 million	1.6%	15	\$2,640,000-2,880,000	24.0%
\$12 – 12.99 million	1.6%	16	\$3,072,000-3,328,000	25.6%
\$13 – 13.99 million	1.6%	17	\$3,536,000-3,808,000	27.2%
\$14 – 14.99 million	1.6%	18	\$4,032,000-4,320,000	28.8%
\$15 – 15.99 million	1.6%	19	\$4,560,000-4,864,000	30.4%
\$16 – 16.99 million	1.6%	20	\$5,120,000-5,440,000	32.0%

**Opportunities**

- + As the investment and number of jobs increase, so does the amount of the incentive

**Limitations**

- High degree of public participation, narrow bands of new building value, scale ramps up quickly, and the potential for property to be off the tax role too long

ii. Multi-Family Residential

1. *Standard Apartments* – Property tax exemption of \$25,000, per unit, per year, for a term of 2 years for a standard apartment (4+ units). The term is extended to 4 years if the project includes structured parking (below grade garage or ramped parking, not at-grade garages.) This incentive reduces the disparity costs between North Dakota and Minnesota building code standards.
2. *Housing with Health-related Services* – An employee credit of \$1,500, per full-time equivalent employee, per year during the 4-year term. Program cap of \$50,000 for a single or multi-phased project. This program is subject to the availability of State allocations to the Border City Enterprise Zone account.

iii. New or Expanding Restaurants

1. *Citywide “Expansion/Remodel/Rebrand”* – Available City-wide and doubles the term of exemption from the standard Commercial Industrial. The schedule is extended to \$1 million in New Building Value.

2. *Within Downtown or Holiday Center TIF Districts* – Provides for a Sales Tax Credit up to \$25,000 for construction materials and new equipment and an Employee Credit of \$1,500 per full-time equivalent employee up to \$25,000.

3. SINGLE-FAMILY

- a. Make Moorhead Home Rebate Program – This 2-year property tax rebate is for new single family homes constructed in Moorhead. The newly constructed property is automatically enrolled at the time the building permit is issued. There are no restrictions for first-time home buyers and no income limits. The program approved through 12/31/2020.

4. MINNESOTA BORDER CITY – MN Border City legislation is not addressed in this discussion.

### Discussion – Commercial-Industrial Properties

At the August meeting of the EDA, Chair Charley Johnson requested that staff begin review of the Citywide Incentives and bring back recommendations for the EDA Board to review. Staff focused its review on the Commercial-Industrial Property Tax Exemption program which has been in place since 2011. During the discussions, two issues rose to the top: 1) the amount of public participation a project receives in the current scale (Table A) and 2) The complexity of the current scale. To understand how much a property tax exemption (public participation) contributes to a private development project, consider these formulas:

- New Building Value NBV x Effective Tax Rate ETR (1.6%) = Tax Benefit for 1 year
- Tax Benefit for 1 year x **Term of Exemption** = Total Tax Benefit
- Total Tax Benefit / New Building Value = Public Participation as a Percent of NBV

It is the Term of Exemption that determines the Public Participation as shown in these tables below.

Table B – Multi-Tier Term

NBV	ETR	Term	Tax Benefit	Public Participation
\$100,000	1.6%	2	\$3,200	3.2%
\$200,000	1.6%	3	\$9,600	4.8%
\$300,000	1.6%	4	\$19,200	6.4%
\$400,000	1.6%	5	\$32,000	8.0%
\$500,000	1.6%	6	\$48,000	9.6%

Table C – Constant Term

NBV	ETR	Term	Tax Benefit	Public Participation
\$100,000	1.6%	5	\$8,000	8%
\$200,000	1.6%	5	\$16,000	8%
\$300,000	1.6%	5	\$24,000	8%
\$400,000	1.6%	5	\$32,000	8%
\$500,000	1.6%	5	\$40,000	8%

## For Consideration

The art of creating a great incentive policy is to provide enough public participation to allow the business to move forward without over-incentivizing. In the current policy (Table A) you can see that as years increase, so does the level of public participation. To a point where nearly 1/3 of a development project is a public subsidy. Staff recommends choosing one of the following options to be inserted into the current policy.

### Option 1: One-Tier (5-year) Term

The consideration is to provide a single term for all qualifying projects city-wide, not including the Moorhead Renaissance Zone area.

New Building Value	Estimated Tax Rate	Job Goal*	Term	Tax Benefit	Public Participation
\$150,000 +	1.6%	1 job / \$500,000	5 years	\$8,000+	8%

\*1 job minimum; 1 job per \$500,000 NBV

#### Opportunities

- + Simple, all businesses receive the same level of public participation, retains a modest job requirement

#### Limitations

- Does not encourage greater investment in projects and may over-incentivize small projects which may unintentionally encourage underutilization of property

### Option 2: Multi-Tier (3 & 5 years) Terms

Another option is to set up a multi-tier term, such as the tables below. In this scenario, the new building value determines the exemption term. In addition, the term of Exemption determines the amount of public participation.

NBV	ETR	Job Goal*	Term	Tax Benefit	Public Participation
\$150,000 – 999,999	1.6%	1-2	3 years	\$24-48,000	4.8%
\$1,000,000+	1.6%	3+	5 years	\$80,000+	8.0%

\*1 job minimum; 1 job per \$500,000 NBV

#### Opportunities

- + Simple, recognizes larger investment which may encourage larger projects, provides incentive for smaller projects without over-incentivizing, and retains a modest job requirement

#### Limitations

- Lack of flexibility for large projects, which could be addressed with a waiver option.<sup>4</sup>

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<sup>4</sup> The Moorhead Renaissance Zone policy contains language which allows the City Council deviate from the approved threshold schedule described above. For certain projects with significant investment and highly desirable jobs, a developer could request a waiver by providing in writing why such request is deemed warranted. The City Council would retain the right to deny such a request but it does allow flexibility.



## PROPERTY TAX EXEMPTION POLICY Commercial & Industrial Property



*The Moorhead City Council and Moorhead Economic Development Authority find that granting property tax exemptions pursuant to the program requirements set forth herein, increases the community's long term economic vitality through the creation of new jobs, increasing employment opportunities for Moorhead residents and expanding Moorhead's property tax base. Further, that existing business will benefit by increasing the total number of businesses in Moorhead, thereby positioning Moorhead as a destination to more customers. The property tax exemption program is available to new business seeking to locate in Moorhead and to existing Moorhead business looking to expand in Moorhead.* (Resolution #2011-0912-03; 2014-0113-D; 2014-1124-N; 2015-0608-J)

**HOW IT WORKS:** The project must be new construction or a substantial expansion/rehabilitation of an existing building and meet minimum project requirements for new building value and jobs. Only building improvements are eligible for the exemption. Land and existing improvements (unless demolished) remain taxable.

**ELIGIBLE BUSINESS:** Any for-profit or non-profit business that pays property taxes and is classified as commercial/industrial for property tax purposes.

A warehouse project is eligible to receive an incentive subject to the following:

- The project is owned, operated, or utilized by a *primary sector* business located in the City.
- If the project is undertaken by a third party pursuant to a lease with a *primary sector* business, the term of the lease must equal or exceed the total number of years of the property tax exemption as set forth in the schedule of exemption. The existing employment base of the primary sector business serves to satisfy job and wage goal requirements.

A commercial **or industrial** multi-tenant project in which the Project Operator intends to sell units to Qualified Businesses is eligible to receive an incentive subject to the following:

- The "aggregate new building value" for all units meets the minimum new building requirements.
- Length of exemption for each unit is based on the aggregate new building value.
- The Project Operator agrees to sell units only to Qualified Businesses under Minnesota Statute 469.171 Subd. 6a.

**INELIGIBLE BUSINESS:** A property tax exemption, tax increment financing, or a combination thereof, will not be considered or provided if the business, business owner or operator meets any of the following:

- The business is prohibited under Minnesota Statute 469.171 Subd. 6a., **self-service storage units, adult uses (defined in City Code title 10, Ch. 23), or salvage yards.**
- The project does not comply with the City's Comprehensive Plan and/or Zoning Ordinance.
- The project will likely place an extraordinary demand on City services.
- The project has been constructed or is currently under construction.
- The property is located in a tax increment district established on or before July 1, 2011.

**APPLICATION PROCESS:** The City will accept applications at any time. A \$525 application fee must accompany the application. A notice to competitors is placed in the City's official newspaper and a public hearing set before City Council. The City Council has final authority to grant the project a property tax exemption. Please allow up to 8 weeks for approval process.

**SCHEDULE OF EXEMPTION:** A project which meets the minimum qualifications for jobs and new (assessed) building value shall receive a property tax exemption for the term shown on the table below. Land and existing improvement value remain taxable throughout the term. ~~The first five years receive a 100% exemption and years 6 through 20 receive a 99% exemption (also known as payment in lieu of taxes – PILOT).~~

**CITY-WIDE COMMERCIAL-INDUSTRIAL “DEVELOPMENT” PROJECT**

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*Insert approved schedule here.*

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**Waiver.** The City Council reserves the right to deviate from the approved threshold schedule described above. A Project Developer may request in writing that the City Council deviate from the approved schedule. The Project Developer may include with its written request any information it deems necessary to support its request. The City of Moorhead will review the Project Developer’s request and may require additional information from the Project Developer. A request may warrant additional incentives based upon: 1) extraordinary economic impact to the City’s commercial-industrial tax base; or 2) desired economic activity within the city, jobs to be created, industry development, or critical industry development; or 3) primary business sector development and any other matter deemed necessary by the City of Moorhead. City Council deviation from the approved schedule is considered discretionary and may or may not be approved.

**MOORHEAD ECONOMIC DEVELOPMENT**

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