

CITY OF NORTHFIELD
3RD BUSINESS PARK

FINANCIAL IMPACT ANALYSIS

By
Community Development Department

for

NORTHFIELD ECONOMIC DEVELOPMENT AUTHORITY
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Background and Introduction

For a number of years the City of Northfield has been focused on finding additional land resources to support the expansion needs of existing businesses in the City as well as to provide development opportunities for new businesses seeking to locate in the City.

Numerous studies have been undertaken that have concluded that the City is in short supply of land resources to support the business community. These studies date back a number of years and include:

- Comprehensive Economic Development Plan - 2006
- Industrial Land and Physical Site Analysis - 1997
- Industrial Land Analysis - 1995

For the past two years, the Economic Development Authority (EDA) has been involved in the pursuit of securing additional land resources to support the growth needs of existing businesses and new business opportunities. The effort has been provided clarity and emphasis by the 2006 Comprehensive Economic Development Plan that the City Council adopted. In the broadest of terms the objectives of the Economic Development Plan are:

Active promotion of economic development by increasing the availability of commercial land, aggressive business recruitment, and talent attraction.

Re-positioning Northfield in relationship both to the Twin Cities and to its smaller neighboring communities.

The Planning Commission has recently added emphasis to this effort by incorporating the basic objectives of the Economic Development Plan into the proposed Comprehensive Plan of the City, which will state the following economic development goal:

Promote economic development by supporting existing businesses, by talent attraction, by aggressive business recruitment and by increasing the availability of commercial and industrial land. A further objective is to reposition Northfield to become more competitive in its economic development initiatives in relation to the Twin Cities, the Rochester Corridor and its neighboring communities.

3rd Business Park Location

The location for the proposed 3rd Business Park is west of the Northfield Municipal Hospital along North Avenue and either side of Garret t Avenue north of State Highway 19. The area being considered for the business park totals 530 acres and is currently owned by four owners of property who are listed as follows:

- Sorem Property - 265 acres
- Fink Property - 135 acres
- Lysne Property - 40 acres
- St Olaf Property - 90 acres (not interested in property development)

The map that follows as Figure 1 illustrates the individual properties that are being considered as part of an annexation request for the development of the 3rd Business Park.

Plan Consistency

The location that is being considered for a new business and industrial park, which is west of the Northfield Municipal Hospital, is consistent to a large degree with the existing Comprehensive Plan of the City that was adopted in 2001 and is also consistent with the Economic Development Plan of 2006 and the proposed Comprehensive Plan that is being reviewed by the Commission and will soon be forwarded to the City Council. Maps from these plan documents illustrating the area being considered for the 3rd Business Park and how this area is consistent with adopted plans are found in Figure 2, Figure 3 and Figure 4.

Rationale for the Development of the 3rd Business Park

The EDA's effort to analyze the feasibility of developing a 3rd Business Park has also included an effort to articulate the benefits that are to be obtained by the City as a result of the development of a 3rd Business Park. The following points have been generated as a basis to justify this initiative.

1. The City Council has established six major goals for 2008. One of these goals is to adopt and successfully implement the City's Economic Development Plan and to broaden the City's tax base.
 - Annexing the property west of the municipal hospital for a 3rd Business Park will serve to accomplish, in part, this major goal of the City Council and the development of the area as a business center will broaden the tax base of the City.
2. The adopted Comprehensive Economic Development Plan of the City of Northfield indicates that making land available for business expansion is the number one priority of the EDA.
 - Strategy 1A: The EDA should focus its efforts within this challenge on assembling land for a commercial/industrial center. Priority should be given to:
 - 1) The property surrounding Northfield Hospital, including lands owned by St. Olaf.... The focus of this work should be on development of a mixed-use, "blue ribbon" project that can help diversify the City's economic base while advancing Northfield's image in the region.
3. A portion of the area considered for annexation is currently within the priority growth area of the current and proposed Comprehensive Plan and almost all of the remaining area being considered for annexation is within the urban expansion area of the current and proposed Comprehensive Plan.
 - Infrastructure analysis has been undertaken and it has been determined that the City's infrastructure has sufficient capacity to serve the ultimate development of this area.
4. Annexing the area will result in the City being able to take advantage of the willingness of the property owners to support the economic development efforts of the City.
5. The ultimate development of the area as a business park will create the opportunity for job creation and tax base expansion which is vital to the goal of Northfield to remain as a City with its own distinct sense of place and will serve to balance the past trends of predominantly residential development.

A map illustrating the Concept Plan for the 3rd Business Park is found in figure 5.

3rd Business Park Financial Analysis- Public Infrastructure Cost Projections

THE COSTS AND THE REVENUES REPRESENTED IN THIS ANALYSIS ARE ESTIMATES AND MAY CHANGE DEPENDING ON ACTUAL DEVELOPMENT

For sometime, the EDA has been evaluating the financial feasibility of the development of a 3rd Business Park in the City. The EDA's effort first began by identifying a general area that was to be studied. This process was aided by the 2001 Comprehensive Plan of the City, the 2006 Economic Development Plan and previous industrial site analysis reports. From this process, it was determined that two areas should be evaluated for development feasibility. Conceptual development plans were created by staff for the two areas identified and construction estimates for infrastructure and street improvements were prepared to provide a conceptual cost basis for comparison purposes. Based on this comparative analysis, but most significantly based on property owner interest, the area west of the hospital has been identified as the area most feasible for development. The following table indicates the estimate of public infrastructure cost to develop the area west of the Northfield Municipal Hospital.

A	B	C	D	E	F
Area of Infrastructure Expense	Estimated Project Cost (2006 construction estimates)	10% contingency	Sub-total of Construction Cost (Column A + B)	25% Legal, Engineering Administration	TOTAL COST (Column D + E)
North Avenue Improvements ¹	\$2,659,461	\$265,946	\$2,925,497	\$731,352	\$3,656,759
Looping expense, over sizing elevated water storage	\$1,365,1551	\$136,516	\$1,501,671	\$375,418	\$1,877,088
TOTALS	\$4,024,616	\$402,462	\$4,427,078	\$1,106,769	\$5,533,847

*Estimates obtained from City Engineer with assistance from Bolton & Menk and W.S.B. & Associates

¹ North Avenue improvements assume a gravity main from the east side of the hospital in North Avenue to Garrett Avenue.

*Costs estimates are based on 2006 construction numbers

North Avenue Improvements were estimated assuming a gravity sewer main from a "drop main hole" east of the west property line of the municipal hospital to Garrett Avenue.

Sanitary Sewer and Street Improvement Assumptions

1. Sewer will be replaced in North Avenue from the hospital property to increase the depth of the sewer. Sewer along North Avenue will have to ultimately be evaluated to determine adequate depth. A portion of the development area will need to be served by a lift station. The ultimate service area should be considered.
2. Road improvements include an upgrade to an urban section (curb & gutter) with storm sewer. There would be a cost savings if the City decided to allow a rural road section in this area.
3. North Avenue improvements costs would be shared by the City and benefiting properties.

Assumptions on Water Main Looping, Upsizing and Water Storage

1. A 500,000 gallon elevated storage tank was assumed and the cost for this type of storage tank is estimated at \$700,000 (\$1.15 per gallon plus 15% for foundation, piping, and other expenses which was then rounded to the nearest \$50,000.)
2. Cost estimates include upsizing the water main from a 10" main to a 12" main along Garrett Avenue or \$5,500.
3. Costs would ultimately be shared by the City and the benefiting property owners

There are several methods available to the City to assist in the financing of these public improvement expenses for the 3rd Business Park. These include (in no particular order of applicability):

- General obligation bond debt financing
- Water and sewer revenue bond debt financing
- Water and sewer special assessment revenue bonds
- Tax Increment Financing
- Greater Minnesota Business Development Public Infrastructure Grant Program
- A combination of any and all of the previous financing mechanisms

3rd Business Park Financial Analysis - Real Estate Tax Holding Cost Analysis

The City Council has adopted a “rural service district” provision in the municipal code as a means to lower the tax burden to annexing property where there may be some time before final development will occur. This City has used this in the past and this provision has been made known to the property owners and they are expecting this type of tax treatment.

Since it is not likely that the development of the business park will occur immediately; thus, it should be expected that it will take a number of years for this entire area to develop. As a result of this time delay, there will be a holding cost associated with the payment of real estate taxes on the property until ultimate business development occurs. Clearly the property owners are currently paying these taxes, but it should be anticipated by the City Council that the Township would want some degree of tax repayment for the lost tax revenues as a result of the annexation. This tax repayment is typically negotiated as part of the annexation agreement.

Staff has analyzed the current tax stream from the property proposed for annexation and has also evaluated the effect of the “rural service district” designation and what effect this designation would have on keeping the tax burden to the property owners at a minimum. This analysis is illustrated in the following table:

TA Real Estate BLE 2 Holding Tax Tax Calculation for Rural Service District Designation*						
	2007 Taxes Paid in Township	2007 Taxes Paid (Rural) if in City	Difference	2008 Taxes in Township	2008 Taxes (Rural) if in City	Difference ¹
Fink Property	\$4,975.16	\$4,960.90	-\$14.26	\$5,316.40	\$5,337.48	\$21.08
Sorem Property	\$11,050.77	\$11,042.94	-\$7.83	\$11,117.22	\$11,187.25	\$70.03
St. Olaf Property	\$3,551	\$3,504.08	-\$46.95	\$4,484.56	\$4,469.97	-\$14.58
Lysne Property	\$3,256.20	\$3,268.85	\$12.64	\$3,563.69	\$3,595.39	\$31.70
TOTALS	\$22,833.16	\$22,776.78	\$12.64	\$24,481.86	\$24,590.09	\$109.23

*Tax calculations were developed by Ehlers and Associates

1. Differences in the future will vary.

By utilizing the “rural service district” designation, the City should be able to keep the real estate tax burden of the property owners after annexation very similar to the current tax burden while the property is in the Township. The City should expect that the tax revenues to the City would likely be repaid in most part back to the Township for a period of time after the annexation. This has been the history of the City as a result of the orderly annexation agreements.

On the surface it appears that the annexation can have a neutral effect to the property owners, the Township and the City from the standpoint of tax payments and tax revenues, for a period of time.

In actuality, there is a net cost to the City when the cost of maintaining the existing road network is taken into consideration. Based on experiences that the City has elsewhere, primarily along Spring Creek Road, the City experiences a cost of approximately \$10,000 per mile of road maintenance expense per year. With the annexation of the area that is proposed, there will be approximately an additional one-mile of rural road that the City will likely be responsible for. Given this, there could be a net cost of approximately \$10,000 per year associated with this annexation. All of this is yet to be negotiated with the Township as part of the orderly annexation agreement.

3rd Business Park- Financial Impact Analysis

Staff has analyzed the potential cost and revenues associated with the development of the 3rd business park. This analysis reflects the total estimate of public infrastructure expense and the total revenues that the City might experience if the 3rd business park is developed. This impact analysis has been created to reflect the expenses and revenues for each phase of the park based on the phasing sequence from the Concept Plan that has been submitted as part of the annexation request.

The initial expenditure of funds to install the public infrastructure represents a significant investment by the city. Conversely, the potential revenues that may be generated by utility revenues and tax revenues represents a significant stream of revenue to the City as well. The table that follows represents a summary of these public infrastructure expenses in comparison to the potential revenue that may be generated from the 3rd business park. These expenses and revenues are based strictly on the assumptions that are listed in this impact analysis.

Expense and Revenue Assumptions

Expenses- General

- ***Estimates obtained from City Engineer with assistance from Bolton & Menk and W.S.B. & Associates**
- North Avenue improvements assume a gravity main from the east side of the hospital in North Avenue to Garrett Avenue.
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Expenses- Sanitary Sewer and Street Improvement Assumptions

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Expenses- Water Main Looping, Upsizing and Water Storage Assumptions

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Revenue

- Development revenues from WAC/SAC fees are based on the assumption that only 75% of the total area of Phases 1 through 4 will develop, or 331 acres. The WAC fee is assumed to be \$1,600 per developed acre and the SAC fee is assumed to be \$4,735 per developed acre, which assumes a 3% increase over the fees that were adopted by Council in January of 2007.
- Development revenues assume the use of TIF financing or special assessment financing equal to the total amount of the assigned development expense related to the 3rd Business Park.

- Water and sewer rate revenues were based on an assumption that 1,200 gallons per acre per day would be consumed for business and industrial land area and 1,000 gallons per acre per day for commercial land area as derived from the Comprehensive Water and Sewer Plans adopted by City Council. Water rates were assumed to be \$1.49 per 100 cubic feet of water consumed. Sewer rates were assumed to be \$3.34 per cubic feet of discharge. Water consumed was assumed to equal wastewater discharged.
- Storm water rate revenues assumed \$262.20 per acre per year for commercial/business and industrial land uses derived from the Storm Water Utility Fee Justification report approved by City Council.
- Real estate taxes have been estimated on the basis of the following assumptions:
 - 75% of the total area of the business park would develop. The remaining 25% would be devoted to roads, open space, storm water improvements and other non-taxable property.
 - The developed portion of the business park would generate tax revenue on a per acre basis similar to all other business and industrial properties located within the City of Northfield in Rice County. *(Dakota County was not used since there is only one business parcel in Northfield that is in Dakota County).*
 - The City will receive taxes from the remaining undeveloped portion of the 3rd Business Park during the time that the remaining area remains undeveloped.
 - Average per acre tax revenues have been estimated by staff at 80 cents per square foot based on the following methodology:
 - The taxes paid by all business and industrial parcels (333 parcels) in Rice County was calculated to determine the taxes paid on a square foot basis (i.e. total taxes paid divided by total square footage of all parcels).
 - The percentage of the total tax for the City was calculated at 24.33% and the School at 27.65% and the County at 15.13% was used to determine the tax revenues for each of the three taxing jurisdictions. The remaining taxes are paid to the State of Minnesota and to other taxing jurisdictions.
 - Rate revenues and taxes have assumed a build out rate of 1/5 of each phase developing in any given year with no change in the utility rate being assumed and no tax change in the tax rate being assumed.

