

WORTHINGTON CITY COUNCIL

ADDENDUM

5:30 P.M., Monday, March 25, 2024

City Hall Council Chambers

PUBLIC HEARING

E. PUBLIC HEARING - THIRD AND FOURTH AVENUE STREET IMPROVEMENT - ENGINEERING CASE ITEM 1 (BLUE)

1. Open Hearing
2. Hearing Presentation
3. Testimony
4. Close Hearing
5. Action on Hearing

CASE ITEM

J.3. CITY COUNCIL DISCUSSION - COMMUNITY DEVELOPMENT (GRAY)

3. Commercial and Industrial Tax Abatement Program

ENGINEERING MEMO

DATE: MARCH 25, 2024
TO: HONORABLE MAYOR AND CITY COUNCIL
SUBJECT: ITEMS REQUIRING COUNCIL ACTION OR REVIEW

CASE ITEMS

1. PUBLIC HEARING ON THIRD AND FOURTH AVENUE STREET IMPROVEMENT

Travis Winter from Bolton & Menk, Inc., will give a presentation during the public hearing.

[PRESENTATION]

Construction plan and specification was approved at the February 26th 2024 council meeting. No council action is required.

COMMUNITY DEVELOPMENT MEMO

DATE: MARCH 25, 2024
TO: HONORABLE MAYOR AND CITY COUNCIL
SUBJECT: ITEMS REQUIRING COUNCIL ACTION OR REVIEW

CASE ITEM**3. CITY COUNCIL DISCUSSION - COMMERCIAL AND INDUSTRIAL TAX ABATEMENT PROGRAM**

In an effort to encourage development within the City of Worthington, the Economic Development Subcommittee has directed Staff to explore the possibility of a commercial tax abatement program. Tax abatement is common and is used by many other cities and counties for commercial and industrial development projects.

Minnesota Statute 469.1813 authorizes cities, counties, school districts and townships the ability to provide tax abatement. This is the same authority that is utilized for the City's residential tax abatement program. When considering a tax abatement program for commercial or industrial projects, it is important to understand the benefits, drawbacks, and limits that come with it.

- Tax abatement provides greater flexibility than other financial incentive tools such as tax increment financing (TIF). Unlike TIF, the City has significantly more power to decide what qualifies for tax abatement.
- Abatement carries less upfront costs and effort to implement. Upon deciding the program guidelines, the City can adopt a tax abatement program with relative ease. TIF requires the development of a plan, agreements, etc., that must be done for each district.
- Each taxing jurisdiction must individually choose to participate. The decision by one to not participate does not bar other jurisdictions from participating; however, no jurisdiction can force another to participate.
- The maximum term of an abatement permitted by State Statute is 15 years unless one or more jurisdictions choose not to participate. In that case, the maximum term may be up to 20 years. The City has discretion in choosing the length of the abatement up to those limits.
- The City may choose to utilize a tax abatement program in either a traditional abatement style, or it can operate it in a manner that is similar to tax increment financing.

Staff has identified a framework of a potential program for the Council's review. Below you will find possible criteria and guidelines for the program. Please note, this is intended to provide a high-level framework for Staff to gather feedback regarding the major components of the program, it is not inclusive of all requirements that may appear in a final draft of the program.

Possible Criteria

1. Abatement will be based on the captured tax capacity The City will retain the amount paid based on the original tax capacity.
2. Abatement may follow a sliding scale with decreasing rate:
 - Year 1 – 100%
 - Year 2 – 80%
 - Year 3 – 60%
 - Year 4 – 40%
 - Year 5 – 20%
3. Abatement will be issued on a pay-as-you-go basis. Specifically, payments will be issued upon the City’s receipt of property tax settlement from Nobles County.
4. Commercial and Industrial project are eligible.
5. Qualifying projects must meet, at a minimum, the following criteria:
 - A minimum capital investment of \$1 million.
6. In addition to ensuring projects meet the minimum qualifications identified in section 5, the City will consider the ability to achieve one or more of the following economic goals:
 - Increase the economic diversity of the City by attracting businesses or industries not currently located in the City.
 - The development creates a minimum of 5 full-time employees.
 - Providing wages at or above 200% of the State of MN Minimum Wage (equates to \$21.70/hour for a large employer or \$17.70 for others).
 - Provide opportunities for the attraction of destination-oriented uses.
 - Provide recreational and entertainment opportunities.
 - Provide new retail and dining opportunities.
 - Redevelop blighted property.
 - Introduce “new” dollars into the City.

In addition to the above criteria, the program will require that projects meet the goals specified by the City’s Comprehensive Plan and other plans that may be applicable. It will also require that projects demonstrate a financial need (generally must pass a “but for” test, though it should be noted this requirement for abatement is less restrictive than it is for tax increment financing), and meet all applicable local, State, and Federal standards.

Council is asked to provide input on the outline of the program, and consider whether to direct Staff to continue moving forward with the creation of such a program.