

Watertown Economic Development AuthorityApril 25th, 2019**Agenda Item: Business Subsidy Application****Request for Action: Adopt the Business Subsidy Application****Department: Shane Fineran, City Administrator****Background:**

Early in 2018 the EDA and City Council adopted the Business Subsidy Criteria policy. This document is a necessary statement to have in order for the City to consider and provide for business subsidy such as Tax Increment Financing, Tax Abatement, direct cash investment or assistance, etc. in to private development projects within the community.

In addition, as part of the ordinance update for the 2019 Fee Schedule the City Council approved a \$5,000 escrow fee be paid by businesses or individuals seeking municipal assistance through our Business Subsidy Criteria policy. This fee covers the professional consultant services from the City's municipal advisor and legal counsel in the evaluation, creation, and execution of business subsidy projects and documents.

In order to effectively tie this process together and to gather a consistent and effective amount of information to begin the business subsidy evaluation process staff is recommending the adoption of the attached application document. This document will be used by staff and decision-making bodies to evaluation requests for municipal assistance in various commercial, industrial, and housing projects within the community.

Funding Source:

N/A

Attachments:

Business Subsidy Criteria

DRAFT Business Subsidy Application



**ECONOMIC DEVELOPMENT AUTHORITY OF WATERTOWN, MINNESOTA
AND
CITY OF WATERTOWN, MINNESOTA
BUSINESS SUBSIDY CRITERIA**

Purpose

This document sets forth the business subsidy policies and specific criteria to be considered by the Economic Development Authority of Watertown, Minnesota (the “Authority”) and the City of Watertown, Minnesota (the “City,” and together with the Authority, the “Grantor”) in evaluating requests for business subsidies. In adopting these criteria, it is the intent of the Grantor to comply with Minnesota Statutes, Sections 116J.993 through 116J.995, as amended (the “Act”). The governing bodies of the Grantor have adopted this policy and these criteria (collectively, the “Policy”) after a duly noticed public hearing held in accordance with the Act. All capitalized but undefined terms in this Policy shall be defined as in the Act.

Unless specifically excluded by the Act, “Business Subsidy” or “Subsidy” means a state or local government agency grant, contribution of personal property, real property, infrastructure, the principal amount of a loan at rates below those commercially available to the Recipient, any reduction or deferral of any tax or any fee, any guarantee of any payment under any loan, lease, or other obligation, or any preferential use of government facilities given to a business.

Goals and Objectives

It is the Grantor’s intent to advance the following goals and objectives in granting Business Subsidies:

- a) A Business Subsidy may only be awarded to a Recipient for a public purpose.
- b) Recipients must enter into a Business Subsidy Agreement with the Grantor that is consistent with the Act. In a Business Subsidy Agreement, the Recipient of a Business Subsidy must (i) commit to continue operations in the City for five (5) years after the Benefit Date of the Subsidy; (ii) meet a specific wage floor for the wages to be paid for the jobs created, as further defined in this Policy; and (iii) set and meet specific wage and job goals, unless the public purpose of the Business Subsidy is not the creation or retention of jobs, in which case after a public hearing before the governing bodies of the Grantor, wage and job goals may be set at zero, but the Business Subsidy Agreement must specify other tangible goals consistent with this Policy.

Business Subsidy Criteria

As stated in this Policy, every Business Subsidy must meet a public purpose, which may include, but may not be limited to, increasing the tax base. A Business Subsidy will not be provided to Recipients who have the financial feasibility to proceed without the benefit of the Business Subsidy. In effect, Business Subsidies will not be provided solely to increase a Recipient's profit margin on a project. The following criteria shall be used to evaluate a request for a Business Subsidy, although meeting these criteria does not create a contractual right to a Business Subsidy, and the Grantor may later modify these criteria, as permitted by the Act.

- a) *Increase in Tax Base.* While the Act provides that an increase in the tax base cannot be the sole grounds for granting a Business Subsidy, the Grantor gives a strong preference to proposed Business Subsidies that increase the tax base.
- b) *Jobs and Wages.* Except as provided in paragraph (d), every Recipient must create or retain the maximum number of jobs feasible for the proposed project, and these jobs must pay at least state minimum wage per hour, exclusive of benefits. The jobs to be created by a Recipient may include jobs to be retained, but only if job loss is specific and demonstrable. The job and wage goals may also specify wage goals, consistent with the minimum wage floor described above, for any jobs to be enhanced through increased wages. The minimum number of jobs to be created by a project is one (1) full time equivalent job or the minimum number of jobs retained is one hundred percent (100%) of those on the business payroll thirty (30) days prior to application with the Grantor for a Business Subsidy.
- c) *Zoning.* Any project benefitted by a Business Subsidy must be consistent with the City's Comprehensive Plan and Zoning Ordinance.
- d) *Other Goals.* If, after a public hearing, it is determined by the governing bodies of the Grantor that creation or retention of jobs is not a goal, the wages and jobs required of a Recipient may be set to zero. If creation of jobs is not a goal, the Recipient must achieve at least one of the following measurable, specific and tangible goals:
 - i. The Business Subsidy must result in improvements to public infrastructure or public facilities, including without limitation roads, parks, recreational facilities, and other City facilities; or
 - ii. The Business Subsidy must remove physical impediments to development of land, including without limitation poor soils, abundance of wet lands, hazardous materials, bedrock conditions, steep slopes, or similar geotechnical problems.
- e) *Economic or Redevelopment.* Business Subsidies should promote one or more of the following goals within the City:
 - i. Creation of higher paying jobs, jobs with increased benefits, or jobs with available opportunities for career advancement and training;
 - ii. Provision of significant economic impact through the attraction of other business, jobs or investment;

- iii. Encouragement of economic and commercial diversity, including through the range of goods and services available;
- iv. Contribution to commercial development within a specific area in the City;
- v. Provision of basic goods and services to residents within the City;
- vi. Encouragement of fast-growing business;
- vii. Promotion of redevelopment objectives and removal of blight;
- viii. Remediation of pollution; or
- ix. Use of existing or planned infrastructure improvements.

The Grantor may deviate from these criteria in granting Business Subsidies if the reasons for the deviation are documented in writing and reported to the Department of Employment and Economic Development, pursuant to the Act.

Compliance and Reporting Requirements

- a) A public hearing is required for every Business Subsidy granted by the Grantor that exceeds \$150,000. A public hearing is not required if a hearing on the Business Subsidy is otherwise required by law.
- b) Every Recipient must enter into a Business Subsidy Agreement fulfilling the requirements of the Act.
- c) Every Business Subsidy Agreement must be approved by the governing bodies of the Grantor.
- d) Both the Recipient and the Grantor must comply with the reporting and monitoring requirements of the Act.
- e) If a Recipient fails to meet the goals as set forth in the Business Subsidy Agreement within two (2) years of the Benefit Date, the Business Subsidy assistance plus interest must be paid back to the Grantor, provided that repayment may be prorated to reflect partial fulfillment of the goals. Interest to be repaid must be set at no less than the implicit price deflator for government consumption expenditures and gross investment for state and local governments prepared by the Bureau of Economic Analysis of the United States Department of Commerce for the twelve-month period ending March 31 of the previous year.
- f) A Recipient that fails to meet the terms of a Business Subsidy Agreement may not receive a Business Subsidy from the Grantor for a period of five years from the date of failure or until the Recipient satisfies its repayment obligation under the Business Subsidy Agreement, whichever occurs first.
- g) The Grantor may, after a public hearing, extend the time for compliance with Business Subsidy job and wage goals by up to one (1) year. The Grantor may extend the period of time for meeting other goals specified in the Business Subsidy Agreement by

documenting in writing the reason for the extension and attaching a copy of the document to its next annual report to the Department of Employment and Economic Development.

Process for Awarding Business Subsidies

The proposed Recipient of a Business Subsidy will enter into negotiations with the Grantor and may enter into a proposed Business Subsidy Agreement to be drafted by the Grantor and its consultants. The Grantor may in its discretion charge a fee for consideration of the Business Subsidy Agreement, which fee may be based on the type of Subsidy provided. The proposed Recipient of a Business Subsidy must agree to pay the fee, if any, and provide any other information as requested by the Grantor.

Prior to approval of a Business Subsidy, the proposed Recipient of a Business Subsidy shall provide any required market and financial feasibility studies, appraisals, soil boring analysis, information provided to private lenders, credit reviews, and other information or data that the Grantor or its consultants may require in order to proceed with the Business Subsidy application process. The Grantor may undertake such a review on its own accord, to be paid from the fee paid by the Business Subsidy applicant. A proposed recipient of a Business Subsidy should be able to demonstrate past successful general development capability as well as specific capability in the type and size of development proposed.

Before the Grantor signs a Business Subsidy Agreement with a proposed Recipient, the Grantor must check with the compilation and summary report compiled by the Department of Employment and Economic Development to determine if the proposed Recipient is eligible to receive a Business Subsidy.

After review of the Business Subsidy application, the governing bodies of the Grantor shall hold a public hearing pursuant to the Act and consider final approval of the granting of the Business Subsidy. All application and supporting materials shall become the property of the Grantor.

Adopted by the City Council of the City of Watertown, Minnesota, this 13th day of February, 2018.

APPLICATION FOR BUSINESS SUBSIDY



Return Application To:

**Shane Fineran, City Administrator
City of Watertown
309 Lewis Avenue S
Watertown MN 55388
(952) 955-2681**

Email: sfineran@ci.watertown.mn.us

Overview

The City of Watertown provides assistance for businesses either located in, or relocating to, the City of Watertown and that meet the goals and criteria of the City of Watertown's Business Subsidy Criteria policy. Eligible uses of funds include land & building purchase, building construction, site improvements, building renovation or expansion, machinery, equipment, and improvements to or construction of public infrastructure beneficial to the site.

Application Procedure

The Watertown City Administrator serves as the contact for business subsidy assistance. The City Administrator will gather all necessary information on the project from the interested business or individual and verify that the proposed project is eligible for consideration of business subsidy assistance.

Approval Considerations

A refundable escrow of \$ 5,000.00 shall accompany the application to cover initial legal, administrative, and planning costs.

Following a review by City Administrator the application shall be referred to the Economic Development Authority or City Council for further action. The applicant is responsible for all costs incurred by the City and will be invoiced for administrative and consultant costs over the escrow fee.

The application for business subsidy requests information relating to the applicant; a detailed description of the project; a preliminary site plan; the amount of business subsidy requested; the public purpose of the project; the number and types of jobs to be created; the wages and benefits to be paid new employees; verifiable funding sources and uses; and a "but for" analysis which demonstrates the need for public assistance.

The City Administrator will evaluate all submitted information, specifically looking at 1) strengths & weaknesses of the business 2) potential for success 3) overall credit worthiness 4) how well the project supports the economic development goals of the community.

Generally, the following criteria will be used in reviewing subsidy applications:

- Job and wage creation
- Adherence to business subsidy criteria and goals
- Collateral coverage
- Credit worthiness of applicant
- Economic impact
- Equity or cash commitment
- Leveraging of other funds

Application Requirements

The following items must be provided before the City can proceed with their review:

1. Completed Application
2. Copies of the applicant's most recent business plan along with all applicable attachments (see description starting on page 8).
3. Supplemental Attachments (Please contact the City Administrator to verify which particular exhibits are required)

APPLICANT'S INFORMATION

Information will be used for internal purposes and will be used in accordance with the Minnesota Governmental Data Practices Act.

Business Name & Address

Phone Number

Fax Number

Cell Phone

Email Address _____

Website _____

Federal Tax ID # _____

State Tax ID # _____

Name & Address of Business Owner(s)

1. _____

Title _____

% of Ownership _____

SSN _____

2. _____

Title _____

% of Ownership _____

SSN _____

3. _____

Title _____

% of Ownership _____

SSN _____

Please attach a separate page if there are more than three owners.

Name & Address of Bank

Contact _____

Phone _____

Name & Address of Accountant

Contact _____

Phone _____

STRUCTURE OF BUSINESS

___ Sole Proprietorship ___ Partnership ___ S-Corporation ___ C-Corporation

Name of Business: _____

PROJECT SUMMARY

Requested Subsidy Amount

\$

Type of Project

_____ Construction / New Business

_____ Expansion of Existing Business

Project Start Date _____

Completion Date _____

Briefly Describe Project: _____

PROJECT COST DETAIL

Land & Site Improvements

(For improvements include a cost breakdown on the back page)

\$ _____

Use of Subsidy Funds

\$ _____

Buildings

(Attach plan & cost estimates)

\$ _____

\$ _____

Machinery & Equipment

(Describe in detail on back page)

\$ _____

\$ _____

Working Capital

\$ _____

\$ _____

Other Project Costs

(Provide detail on back page)

\$ _____

\$ _____

Total Project Cost

\$

\$

Total Subsidy



FINANCING DETAIL

	Equity	Bank	City	Other	Other
Loan Amount	\$	\$	\$	\$	\$
% of Total	%	%	%	%	%
Term of Loan	yrs.	yrs.	yrs.	yrs.	yrs.
Interest Rate	%	%	%	%	%
Monthly Pmt.	\$	\$	\$	\$	\$
Lien Position (i.e. 1st, 2nd, 3rd)					
Approved?					

COLLATERAL DETAIL

Collateral Provided (Describe)	Position of City (i.e. 1st, 2nd, 3rd)	Dollar Amount
		\$
		\$
		\$
		\$
		\$

Total Collateral: \$ _____

EXISTING BUSINESS FINANCING OBLIGATIONS

Creditor Name & Contact Information	Original Amount	Current Balance	Monthly Payment	Maturity Date
	\$	\$	\$	
	\$	\$	\$	
	\$	\$	\$	
	\$	\$	\$	
	\$	\$	\$	
	\$	\$	\$	
	\$	\$	\$	

JOB CREATION DETAIL

Applicant agrees to create the following jobs as a direct result of this assistance:

Position	Total Jobs	Annual Hours / Job	Salary / Wage Rate
			\$
			\$
			\$
			\$
			\$

			\$
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Total number of full-time& equivalent (2,080 hours / year) positions:_____

Will this project retain any jobs?_____ If so, how many?_____

NOTES

ATTACHMENTS

The following items should be enclosed with this subsidy request application:

1) Business Plan - This should be as recent as possible and include:

A) History & Description of the Business

Briefly describe the past operation of the business and / or events leading up to its creation. Include information on the product lines or services, industry, management and key employees as well as the operation’s growth and affiliates.

B) Project Summary

Briefly describe the project you are proposing. Indicate the part of the project the loan would be used for. Include information on any existing financial or legal situations of the applicant that might affect the credit worthiness of this application.

C) Marketing Plan

Detail the marketing strategy and describe how it will support the planned business expansion or start-up. Include information on the following:

- Current customers and target markets (provide copies of any contracts, purchase orders, etc. that relate to the loan request).
- Manufacturing process and materials.
- Major suppliers.
- Competition and comparison of products.
- Pricing, distribution & promotion.

D) Business Financial Statements

Provide balance sheets, income statements and statements of cash flow for the past three fiscal years.

E) Projections

Provide pro-forma balance sheets, income statements and statements of cash flow (in both a monthly & annual basis) for the next three years. Define the assumptions used to derive the projections.

F) Personal Resumes & Financial Statements

Provide resumes of all principals as well as current, signed and dated personal financial statements on all principals with a financial interest in the business.

Include notes indicating the basis of value on the assets (market value or acquisition cost) and explanations of other entries (notes payable, receivables, stocks, etc.). Financial statements should be dated within 90 days of filing this application.

Personal financial statements will be returned to the applicant(s) once the subsidy application has been reviewed and acted upon by the City Council.

2) Income Statements

Provide balance sheets, income statements and statements of cash flow that are less than 90 days old, if the business plan does not contain information this current.

3) Commitment Letters

Include firm commitments from banks and other participating lenders stating the terms and conditions of their financing.

4) Other Required Attachments

- A letter from the County Auditor or Treasurer verifying that there are no outstanding judgments or tax liens against the business, property or owners of the business.
- Evidence of payment of last quarter's payroll and sales taxes.
- Evidence of Worker's Compensation coverage.

SUPPLEMENTAL ATTACHMENTS

The following attachments may be required, if applicable:

Appraisals / Proposed Lease / Purchase Options or Agreements

An independent appraisal paid for by the applicant may be required for any real estate which is a subject of the proposed financing, or which is offered as a major source of collateral to secure the subsidy. Also, include copies of existing or proposed lease(s), purchase options or agreements, or other financial arrangements.

Affiliates

Provide a description of any affiliates or subsidiaries of business or principles requesting assistance, as well as balance sheets, income statements, and statements of cash flow for the past three years for those entities.

APPLICANT AGREES TO THE FOLLOWING:

1. All jobs must be created within the period specified in the development agreement.
2. Subsidy reduction of the “per job cost” (plus interest) will be made for each job described above that is not created within the agreed upon period.
3. Immediate discontinuance of subsidy assistance will occur if the business relocates outside the corporate limits of the City of Watertown.
4. Documentation must be provided to the City of Watertown showing the number and types of jobs created by each anniversary of the effective date of the subsidy.
5. Company financial documents will be available for inspection by the City of Watertown designated staff.

I certify that the firm known as _____ agrees to abide by all the requirements of this application and that all information provided to the City of Watertown for this project is true and correct. Applicant has been given a copy of the Watertown Business Subsidy Criteria.

An initial escrow fee of \$5,000.00 accompanies this application as defined in the Watertown Municipal Subsidy Policy & Guidelines. Applicant understands that all costs of developing a subsidy program for their projects that exceed the initial fee will be passed through and billed on a monthly basis.

Authorized Signature / Title

Date