

MEMORANDUM

TO: Sean Sullivan, Economic Development Manager
FROM: Jason Aarsvold, Ehlers
DATE: January 31, 2024
SUBJECT: Medart Financial Assistance Request

The City of Ramsey (the “City”) received a request for financial assistance from Medart, Inc. for construction of a new facility located at Bunker Lake Blvd. and Puma Drive. Medart proposes construction of an approximately 105,000 square foot warehouse/distribution facility. The project is expected to add 43 additional employees in the City with wages of \$18.00 to \$21.00 per hour or more. Some of these jobs will be transferred from another facility within Minnesota but qualify as new jobs created in Ramsey for purposes of determining this business subsidy.

Medart is requesting \$1.5 million in total tax increment assistance from the City to help offset project costs and to make the Ramsey site competitive with less expensive location alternatives. This is a present value of \$1,157,000 assuming a 5% interest rate. The project is eligible for inclusion in a 9-year economic development TIF district since it is primarily a warehouse / distribution use. The purpose of this memorandum is to provide a summary of Ehlers’ analysis and recommendation for TIF support related to Medart’s request.

TIF Projection

Based on current projections, a \$1.5 million TIF note (with 0% interest) could be repaid within the full 9-year duration of a new TIF district. This assumes a project valued at just over \$12.5 million (\$119 sq. ft.), pursuant to an estimate provided by the County Assessor. This also assumes that the fiscal disparities portion of Medart’s taxes are captured as TIF and available for payment on the note.

When a new TIF district is created, the City has the option to determine whether or not it will capture the fiscal disparities (FD) portion of the taxes for the development. If the City elects to capture the FD portion of the tax (known as the “a” election), there is more TIF available for the development. There will, however, be a tax impact to the remaining taxpayers since the City still needs to pay the FD portion of taxes to the State. If the City elects to not capture the FD portion of the tax (known as “b” election), there will be less TIF available for the development, but no impact to the other taxpayers in the City.

For purposes of this analysis, we have assumed the “a” election to maximize the amount of TIF available for the development. This adds approximately \$399,000 in available assistance. To estimate how this would impact other taxpayers, we determine how much the City’s tax rate would have to increase to capture the same amount of FD portion of taxes to pay into the State pool. Based on the preliminary pay 2024 levy and total tax capacity of the City, we estimate the

City’s tax rate would need to increase by 0.062% to make up for tax capacity captured as TIF in the “a” election scenario. This increase means the median value home in Ramsey (\$350,100) would have a tax bill that was \$2.08 higher annually.

Pro Forma Analysis

Since the facility will be owned by the company, this analysis treats the Medart project as an independent income producing real estate venture that might be built by a third party (developer) and leased back to the business. In this scenario, we explored whether the project costs and end sources of funds (rent paid by the business) would meet typical market returns to attract private financing from a bank and developer equity. From this analysis, we conclude TIF assistance up to \$1.5 million (\$1.157 million present value) is justified for the project.

The table below shows the proposed sources and uses of funds without any assistance and with the recommended level of assistance.

SOURCES	WITH ASSISTANCE		WITHOUT ASSISTANCE	
	Amount	Pct.	Amount	Pct.
Developer Financing - 1st Mortgage	8,205,421	70.00%	8,205,421	70.00%
Developer Financing - TIF	1,157,031	9.87%	0	0.00%
Developer Equity	2,359,578	20.13%	3,516,609	30.00%
TOTAL SOURCES	11,722,030	100.00%	11,722,030	100.00%

USES				
	Amount	% of Cost	Amount	% of Cost
Acquisition Costs	2,689,830	22.95%	2,689,830	22.95%
Construction Costs / Site Work	7,472,000	63.74%	7,472,000	63.74%
Financing Costs Prof. Services	0	0.00%	0	0.00%
Site Improvements	1,560,200	13.31%	1,560,200	13.31%
Machinery and Equipment	0	0.00%	0	0.00%
TOTAL USES	11,722,030	100.00%	11,722,030	100.00%

If this project were to be delivered by a developer on a for-lease basis to Medart in the current market, the developer may be expected to provide 30 percent equity to obtain debt financing for the remaining 70 percent of project costs. This is the assumption used in the analysis and included on the table above.

A developer building a project like this for lease back to a tenant would anticipate receiving a 10 percent Cash-on-Cash (“COC”) return. A COC rate of return is simply the annual net cashflow from the project (after expenses and debt service) divided by the initial equity investment. A 10 percent COC is standard for this type of project.

Based on the total development costs and proposed financing for this project, we estimate a business (like Medart) would need to pay a blended lease rate of approximately \$9.70 per square foot without any assistance for a developer to achieve an average 10 percent COC return for this

project over 9 years (the anticipated term of tax increment payments). We estimate that a blended market lease rate for Ramsey is in the \$7.50 to \$9.50 per square foot range.

This analysis indicates Medart would need to pay a lease rate that is higher than the market rate to occupy the property, demonstrating assistance for the project may be warranted. If we assume a developer receives the recommended \$1.5 million in total TIF assistance, Medart would need to pay a lease rate of approximately \$8.75 per square foot for the developer to achieve an average 10 percent COC return for this project within 9 years. This lease rate is within the appropriate market range for Ramsey, meaning no more than \$1.5 million should be necessary to support the project.

Providing the requested assistance is reasonable to help secure construction of the project within the City of Ramsey. Please contact me at 651-697-8512 if you have any questions or require further information.