

TO: HONORABLE MAYOR AND CITY COUNCIL.
FROM: Laura Qualey, Economic Development Authority
SUBJECT: Data Center Tax Analysis Engagement Letter
MEETING DATE: December 17th, 2024

BACKGROUND.

As our community continues to evaluate the potential development of a data center, it is crucial to ensure that the economic and tax implications are thoroughly analyzed. The financial impact of such a project could have long-term consequences for our tax base, public services, and overall economic health. To this end, I recommend retaining the services of David Drown Associates as the Tax Advisor to review and verify the assumptions and findings in the tax analysis currently being conducted.

Purpose of Retaining a Tax Advisor:

1. Validation of Tax Analysis:

- Ensure the accuracy of revenue projections, including property taxes, potential exemptions, and incentives tied to the data center.
- Assess the estimated economic benefits versus potential costs, such as infrastructure demands and public service requirements.

2. Identification of Risks and Opportunities:

- Highlight any financial risks, such as fluctuating property values or long-term maintenance costs.
- Identify opportunities for optimizing tax revenues and structuring agreements that benefit the community.

3. Expert Insight for Decision-Making:

- Provide independent, expert analysis to inform policy decisions and public discussions.
- Equip the Council with robust data to address questions or concerns from stakeholders.

Scope of Services:

The Tax Advisor's review would include, but not be limited to:

- Assessment of tax assumptions, including depreciation schedules and revenue estimates.
- Evaluation of the impact of proposed tax abatements or incentives.
- Analysis of comparable projects in similar communities.
- Recommendations for structuring agreements with the developer.

Process and Cost:

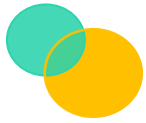
The City of Cannon Falls entered into an Escrow Agreement with MNLCO Dakota County Two, LLC and MNLCO Dakota County Three, LLC on December 3, 2024 to reimburse the City for any reasonable costs as the data center project is reviewed; this engagement with David Drown Associates as our tax advisor would fall under this agreement. The estimated cost for these services will depend on the scope of work.

Conclusion:

Engaging a Tax Advisor, such as David Drown Associates, is an investment in our community's economic future. Their expertise will help ensure that the data center project, if pursued, provides maximum benefit while minimizing financial risks.

REQUESTED COUNCIL ACTION.

Staff recommends that the Council approve this initiative and authorize the necessary steps to engage with David Drown Associates for the financial analysis for the proposed data center.



December 9, 2024

ENGAGEMENT LETTER

VIA EMAIL

Mayor & City Council
Jon Radermacher, City Administrator
City of Cannon Falls, Minnesota

RE: Municipal Advisor

Dear Council Members and Mr. Radermacher:

We are writing this letter as required under the new Municipal Advisor rules of the Municipal Securities Rulemaking Board (the "MSRB") and the Securities and Exchange Commission (the "SEC.") As a registered municipal advisor working with you, we are required to provide a written description of our advisory relationship and to make certain other disclosures.

Our Role as Municipal Advisor

As your municipal advisor, we are held to the very highest standard of loyalty and care with an **explicit fiduciary duty** to act in your best interests. This means several important things:

- We have a duty to exercise due care in performing municipal advisory activities.
- We have a duty of loyalty, requiring us to act in your best interest without regard to our own financial or other interests.
- We must have the knowledge and expertise needed to provide you with informed advice.
- We have a duty understand you and your specific situation and to follow your directions, so our advice is suitable for you.
- We are required to make reasonable inquiries and investigations as to the facts supporting our recommendations and work products.
- We have a duty to discuss with you material risks, benefits, and alternatives we considered when determining what might serve your interests best.

Disclosure of Conflicts of Interest

A municipal advisor may not legally provide advice if certain **unmanageable conflicts** exist, such as providing financial advice and then purchasing related securities or engaging in kickback arrangements. Other **potential, yet manageable** conflicts of interest must be disclosed to you in writing, with sufficient detail and explanations of how we intend to manage or mitigate each conflict. There are several potential conflicts of interest that may apply to our engagement with you:

Compensation. All forms of compensation are viewed to represent a potential conflict of interest by the MRSB. Our Standard Fee Schedule incorporates several forms of compensation:

- **Fixed Fee.** This form of compensation represents a potential conflict of interest because, if the transaction requires more work than originally contemplated, the financial advisor may suffer a loss. Thus, the advisor may recommend less time-consuming alternatives or fail to do a full analysis of alternatives.
- **Fee Based upon Principal Amount.** This form of compensation presents a conflict of interest because the advisor may have an incentive to advise the client to increase the size of the

securities issue for the purpose of increasing the advisor's compensation.

- **Hourly Fee.** An hourly fee form of compensation presents a potential conflict of interest if the client and advisor do not agree on a reasonable maximum amount at the outset of each engagement, because the advisor does not have a financial incentive to recommend alternatives that would result in fewer hours worked.
- **Contingent Fee.** This form of compensation presents a potential conflict of interest because the advisor may have an incentive to recommend unnecessary financings or financings that are disadvantageous to the client. When facts or circumstances arise that could cause the financing to be delayed or fair to close, an advisor may have an incentive to discourage a full consideration of such facts and circumstances.

Our plan to mitigate conflicts of interest regarding compensation is to assure our standard fees reasonably reflect the expected costs of standard services, and to avoid a transaction-based relationship with our clients such that compensation on any one transaction is of secondary importance to maintaining a long-term relationship.

Executive Search Services. David Drown Associates, Inc. has a sister company which provides executive search services to units of government in Minnesota. In situations where an Administrator was hired through our recruitment efforts and/or recommendations, we may be in a position to unduly influence that Administrator's financial judgments or future decisions.

We have mitigated this conflict by instituting procedures which require review and approval by another senior level advisor of all written recommendations.

MN Rural Water Association. David Drown Associates, Inc. serves as the financial advisor for MRWA's MIDI, MICRO, MEGA and Interim Funding Programs. In that capacity, we process loan requests and serve as municipal advisor to borrowers seeking to utilize these funding programs. This relationship with MRWA represents a potential conflict of interest in that we have an incentive to recommend the use of these funding programs and to exclude due consideration of other options or alternatives.

We have mitigated this conflict of interest by agreement with MRWA that we will not process loans where other financing mechanisms are clearly superior, and we maintain internal procedures that explicitly include a review of other funding options before acting upon a loan request.

Scope of Service & Compensation

It is our intention for this Letter of Engagement to evidence a general, long-term relationship with you, as opposed to a relationship that is specific to only one transaction. We provide you a full range of customary financial advisory services without exclusion or limitation and will honor our fiduciary duties to you in all aspects of our work. In cases where either of us wishes to limit the scope of our engagement – for example, where you have already reached a decision on a particular financing, or where we lack availability or expertise in a specific area – we will address this limitation by supplemental, written communication to you.

All compensation will be based upon the rates shown on the attached Standard Fee Schedule (as may be amended from time to time).

For Professionals seeking the “Issuer has hired an independent municipal advisor exemption”

Professionals such as attorneys, engineers and accountants and underwriters provide you with financial advice from time to time. To guard against being considered an unregistered municipal advisor, these professionals may ask you to confirm in writing that you are represented by and will rely on the advice of an *independent registered municipal advisor*.

David Drown Associates, Inc. hereby certifies we are a registered municipal advisor in good standing, with no associations or affiliations that will reasonably affect our independent judgment in evaluating proposals or advice you may receive from us or from other entities.

If the City is asked to provide written confirmation that the City has an independent registered municipal advisor, we suggest the following written response:

RE: Designation of Independent Registered Municipal Advisor

The City of Cannon Falls has retained David Drown Associates, Inc. as our registered independent municipal advisor. Your firm provides or seeks to provide professional services and advice to the City with regard to the following project:

(insert general description of the project or transaction)

The City of Cannon Falls is represented by and will rely upon the financial advice of David Drown Associates, Inc. with regard to this project or transaction. You are authorized and directed to copy David Drown Associates, Inc. on all communications with the City having to do with financial matters.

You are reminded of your requirement to provide a written disclosure to both the City and to David Drown Associates, Inc. that, because the City is represented by a registered independent municipal advisor, your firm is not subject to the fiduciary duty established in Section 15B(c)(1) of the Exchange Act with respect to the municipal financial product or issuance of municipal securities.

I would be happy to discuss any aspect of this letter and MSRB rules with you at your convenience.

Respectfully Submitted,



Mike Bubany, Associate
David Drown Associates, Inc.
mike@daviddrown.com

Acknowledgement

The undersigned hereby acknowledges receipt of this disclosure and that the governing board has been given the opportunity to raise questions and discuss the foregoing matters with the advisor.

City of Cannon Falls, Minnesota

City Administrator

Date

STANDARD FEE SCHEDULE

January 1, 2023

General Obligation Bond Issues:

<i>Principal Amount</i>	<i>Fiscal Fee</i>
0 to \$250,000	7,500
\$250,000 to \$500,000	10,000
\$501,000 to 1,000,000	13,000
\$1,000,000 to 2,000,000	16,000
\$2 to \$3 million	19,000
\$3 to \$4 million	22,000
\$4 to \$5 million	25,000
\$5 to \$10 million	30,000
\$10 to \$15 million	35,000
Over \$15 million	35,000 plus \$750 per million

Fees are for a single G.O. bond issue. Fees for multiple issues sold concurrently are based on combined principal amount plus \$2,000 per additional issue. Client is responsible for other costs of issuance including but not limited to bond counsel, pay agent, rating agency, underwriter's fee, certificate fees and out-of-pocket expenses.

Revenue and Lease-Purchase Financings:

Revenue bonds or lease-purchase transactions are generally charged 125% of above rates.

Tax Increment Finance/Tax Abatement Projects/TIF Reporting:

Standard fee to research, draft, process, and certify a TIF plan is \$5,500. Fees for redevelopment districts are generally \$1,000 to \$2,500 higher, depending upon the numbers of parcels involved. Basic fee to negotiate the terms of a development agreement is \$1,500. Annual TIF report fee is \$1,000 plus \$500 for each TIF District. Standard fee to process a Tax Abatement project is \$3,500. The client shall be responsible for out of pocket expenses and expenses of other professionals, such as bond counsel and building inspection.

Continuing Disclosure:

Full Disclosure: Annual fee is \$1,500 per year for each class of issues (G.O. bonds are one class) plus \$300 for each bond issue within that class up to an annual maximum of \$3,000 per class. The annual fee is waived if the Client has a recent Official Statement containing required information. Client is responsible for costs of a county auditor certificate, if required.

"Limited" Disclosure and/or Significant Event Reporting: Annual fee of \$300 per issue capped at \$750 for the filing of Audited Financial Statements with MSRB/EMMA.

Hourly Service Rates:

	<i>Hourly Rate</i>
Principal	\$200
Senior Advisor	150
Associate	100
Clerical	50

Expenses: Actual cost, except mileage is billed at Federal Mileage Rate (for 2023 this is 62.5 cents/mile)



DDA

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Public Finance Advisors

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