

TAX EXEMPT REVIEW COMMITTEE
Fargo, North Dakota

Regular Meeting

Tuesday, August 27, 2019

The July meeting of the Tax Exempt Review Committee of the City of Fargo, North Dakota was held in the City Commission Room at City Hall at 1:00 p.m., Tuesday, August 27, 2019.

The committee members present or absent are:

Present: Dave Piepkorn, Mayor Tim Mahoney, Bruce Grubb, John Cosgriff, Jessica Ebeling, Jim Gilmour, Erik Johnson, Jackie Gapp, Ben Hushka, Joseph Raso, Mark Lemer

Absent: Kent Costin, Jim Buus,

Others Present: John Machacek representing Greater Fargo Moorhead EDC, Bruce Burke and Michael Jennings representing Voxtelesys, Erin Anderson representing Commonwealth Development Corporation, Holly Hagen

Commissioner Piepkorn called the meeting to order at 1:00 p.m.

A motion was made by John Cosgriff to approve the minutes from the July meeting held on July 23, 2019. Bruce Grubb seconded. Motion carried.

New Industry Application by Computer Technology Innovations dba Voxtelesys

John Machacek of the Greater Fargo Moorhead EDC introduced the application project and presented information on the company, as he has been working with them to get their primary sector certification approved. They conduct most of their operations out of state (Nebraska), and have decided to expand in Fargo due to Fargo's business friendly environment. He introduced Bruce Burke and Michael Jennings from Voxtelesys.

Burke said they are a software development company that started in Nebraska, working with appointment reminders in the medical field. In 2015, they decided to move their headquarters and corporation to North Dakota and chose Fargo primarily because of access to NDSU graduates. They have partnered with NDSU and the North Dakota Center of Excellence on a research development project. He said they have outgrown their current space and have an opportunity to purchase a building that will give them a space to grow. They plan to increase their employees from 11 to 19, and the additional space will allow them to support this staff, so they don't have to move again.

Ben Hushka stated that they are a primary sector company, which is a requirement for the 5 year exemption and that with the number of jobs they have exceeded the 100 points (101.5) that makes them eligible for approval recommendation.

Commissioner Piepkorn pointed out that the tax exempt review committee promotes new job creation and that some of the positions at Voxtelesys are high-wage positions.

Mayor Mahoney expressed support based on their point valuation.

Piepkorn asked about future employment, as they have projected growth from 11 employees to 19 in year 1, and reaching 40 employees in year 5. He asked if the facility is bigger than their current needs with plans to grow into it.

Burke clarified that they have plans to grow their other location in Nebraska as well, so some of the growth will not be taking place in North Dakota. He said that about 1/3 of the growth will be support staff/accounting type work in Nebraska, with engineering staff growth in North Dakota.

A motion was made by Jessica Ebeling to approve the application as submitted. John Cosgriff seconded. Motion carried.

PILOT Application by City Flats, LLC for a Low-income Housing Project

Jim Gilmour presented the PILOT application for City Flats, LLC requesting a payment of about 22% of normal tax payment. This building will have restricted rents, so income stream will be lower than a typical apartment building. There are two main reasons why the exemption is needed to make project feasible:

1. Without the exemption, they would be paying \$82,000 in property taxes instead of \$18,000 with the exemption, which would be difficult with lower rents.
2. They are applying for an extremely competitive low-income housing tax credit, of which part of the scoring criteria is local support for the project. They applied last year for this project, but were not approved; however they were encouraged to apply again this year, as they came close. Last year, Cass County opted to not participate, which may have contributed to them not receiving the credit.

Without local support, they're less likely to get the credit/state funding that's crucial to the development of the project, and if they don't get property taxes lowered, it will not be feasible to for them to operate.

Erin Anderson from Commonwealth Development Corporation presented project details. This is the second phase to The Edge Artist Flats, which has been open a month and has seen really strong interest in development. This phase will be a mirror image of the first phase. This is affordable housing for low and moderate income families, ranging from 30% to 80% of area median income, which is a little different from the first phase, which only reaches 60% of the area median income. Some changes were made from the low-income tax credit application they submitted last year in regards to the unit mix, with more three-bedroom units and fewer two-bedroom units; reducing the rent on 80% county median income units in response to feedback from phase 1 lease up; and reducing unit count from 48 to 42 units due to financial feasibility. This phase will have 15 one-bedroom units, 13 two-bedroom units, and 14 three-bedroom units, with rents ranging from \$463 up to \$1000 including utilities; facility is intended to be for mixed incomes. Property tax incentive is critical, as the project would not be able to support a first mortgage with the current income stream/rent levels. North Dakota Housing Finance Agency has noted that this tax incentive is a critical piece for financial feasibility.

Anderson commented that they have encountered soil issues during the first phase and site conditions that make this site unattractive to other developers. It has known contamination and bad soils, so the costs of developing are elevated.

Piepkorn asked if the changes to income levels offer more flexibility and asked Anderson to speak more about this. Anderson responded that this opens a larger market. She mentioned that there are nine units in the second phase dedicated to permanent supportive housing, and that they are working with SENDCAA to evaluate the primary need, whether it be for those with disabilities or those who are homeless. This piece is also critical in getting the application to the state approved; last year most developments funded were 100% supportive housing for seniors. She noted that 40% of the units are for up to 80% median income level instead of 60% median income in the first phase, so there is a larger market, but still at affordable rents.

Piepkorn mentioned that they had discussed at city commission meeting that there is an importance to have different types of housing available in the downtown area. He asked Gilmour that if this PILOT is approved at the city level, if there was something that could be done to help get it approved at the county level. Gilmour responded that it would be valuable to point out that it is a 15 year exemption, which is the same as the affordability period. He noted that last year, the county supported two 20 year exemptions for low-income housing in West Fargo, and suggested that Fargo request equal treatment.

Mayor Mahoney suggested that Cass County misunderstood the initial low-income housing application, and it was presented at a time when there was public discussion about taxes and the commission was not ready to approve a 15 or 20 year exemption at that time. He asked Robert Wilson if they might look at this project differently now that they have more information on this project and how low-income housing tax credits work.

Wilson said that the Cass County commission did not feel they had enough information to make the decision to approve the PILOT at the time. He has reviewed the new application and has specific feedback and questions to elicit more information and address some of the concerns of the commission.

Piepkorn reiterated that this is a low-income housing project and expressed the need for more low-income housing in Fargo.

Anderson requested to obtain the feedback and questions from the Cass County commission to better respond to them, and avoid any similar misunderstandings that may have jeopardized their initial application to the Cass County commission. She reiterated that the average rent is \$600 per unit, so it is unlike other market-rate properties.

Mark Lemer asked what will happen to the property and if the project will be abandoned if the low-income housing tax credit does not get approved. Anderson stated that they are under contract with the Kilbourne Group for the purchase of the land, so if they are not successful in getting the funding, what will happen is ultimately up to the Kilbourne Group. She is unsure if they would be willing to try again or move forward with some other kind of plans for the property.

Mayor Mahoney noted that there is not a lot of state funding available, and hopes that the county would consider this project. He is supportive of this project, because there is a need of three-bedroom units for low-income families as they are often large families.

Gilmour pointed out that without the exemption, property taxes per month per unit would be about \$162, making it difficult to offer low-income housing. He also pointed out that this would be bringing in families and students into the north Fargo schools.

Piepkorn encouraged Cass County commission to recognize Fargo's extensive resources in the form of economic development professionals to evaluate and recommend these projects.

Jessica Ebeling suggested that if Cass County is coming across repeated concerns and questions regarding applications, they should bring them forward as soon as possible to allow the applicants to prepare comprehensive responses.

A motion was made by John Cosgriff to approve the application as submitted with a request to the Cass County commission to reconsider their previous denial. Jessica Ebeling seconded. Motion carried.

Presentation by Fargo Moorhead Economic Development Corporation

Jim Gilmour introduced Joseph Raso of the Greater Fargo Moorhead EDC to present a new expanding business economic impact analysis and provide information on the positive impact of primary sector businesses in Fargo, many of which utilize the tax-exemptions provided and approved by the tax-exempt review committee.

Raso wants to provide insight on the impact to the regional and industry sectors of the primary sector company projects that they bring to the city and county. He explained that there are about 13,000-14,000 businesses in our area, of which 3-5% are trying to distribute their products and services on a national and global level – meaning their revenue is not generated locally, but brings money into our area, so is important to bring in and keep primary sector businesses here. These businesses create tax revenue, but also impact local businesses that “churn the money within the economy.”

To provide an example, Raso explained that from 2014-2018, there was over \$100 million dollars of impact on the construction industry and \$176 million to real estate industry. He stated that the decisions the tax-exempt review committee makes to bring in and keep primary sector businesses in Fargo, do not only support city and government operations, but have induced impact on other sectors.

Mayor Mahoney highlighted the fact that the tax exemptions granted may mean less tax revenue, but still have economic impacts beyond property taxes, as the jobs created bring people in who need places to live, resources, etc. If tax exemptions are granted, property tax revenue may be exempt temporarily, there is still tax revenue and economic growth being created in other ways. He noted that Fargo is growing when a lot of other communities are not, and it would be helpful to see the economic impact of the growth due to bringing in new primary sector businesses.

Raso pointed out the growth is valuable, but also retaining these businesses is also important, because the revenue generated from them continuing business here provides economic stability. Raso used the recent exemption granted to Aldevron as an example, noting that payroll impact, sales tax, general taxes, new construction on their facility and other new construction related to

bringing new jobs cumulatively will bring in about \$5 billion over the course of five years. Continuing to support these primary sector businesses is continuing to support the regional economy.

Piepkorn asked how many of these businesses are organic versus recruited and what the retention rate is for each. Raso responded that about seven out of ten are going to originate here and the remaining 30% is going to be new company development or attraction to the area. He explained that retention is more pertinent than having an attraction strategy and that companies who have their origins here are more likely to continue here. However, if we focus our attraction strategy and target certain businesses based on the assets that our area can provide, we are more likely to have those companies come and stay over time.

Cosgriff stated that the tax-exempt review committee needs to be good partners with new businesses and existing businesses, and they should view property tax exemption as an investment, not as something that is being missed out on. Cosgriff referred to Gilmour on Renaissance Zone value increases since the mid 1990's. Gilmour noted that property values in downtown Fargo have increased from \$200 million to over \$600 million.

Raso reiterated that having conversations and analysis about return on investments is valuable and should continue, as it reflects the city's willingness to work with primary sector businesses and has the potential to attract new business to the city. Jessica Ebeling voiced her support of bringing analysis and models forward to reflect the impact of the tax-exemptions and hopes to revisit this again in the future to continue to show the benefits of the decisions of the tax-exempt review committee. Mark Lemer requested more information on how the economic modeler and analysis works to help substantiate the claims in the analysis.

Commissioner Piepkorn adjourned the meeting.