EDIC MEETING
With Renaissance Zone Authority

Tuesday, February 22, 2022 – 1:00 p.m. City Commission Chambers, Fargo City Hall

AGENDA

1. **Economic Incentive Program White Paper** [Page 1-25]

2. **Review and Recommendation Sale of 419 3rd St North** [Page 26-37]

AGENDA
Economic Development Incentive Committee

1. **Approve EDIC Meeting Minutes of 01/25/2022**
    - January 25, 2022 [Page 38-40]
2. **Dakota Specialty Milling** [Page 41-50]
    - 5 year Property Tax Exemption
3. **J-Street Properties** [Page 51-70]
    - Renewal Plan and Developer Agreement

THE CITY OF Fargo FAR MORE

February 22, 2022

To: **Economic Development Incentives Committee**
Fr: **Michael Redlinger, Assistant City Administrator**
Re: **TischlerBise Economic Incentive Program White Paper Presentation**

Background: In April 2021, TischlerBise was identified as a consultant with specialized expertise in economic development analysis for municipal governments that utilize economic development and redevelopment incentives. TischlerBise assists local governments by creating studies and models that evaluate short-, medium-, and long-term economic impacts and return on investment scenarios for projects. A scope of work for the City of Fargo was developed by TischlerBise and approved on September 7, 2021 by the City Commission.

At the February 22, 2022 City Commission meeting, Colin McAweeney from TischlerBise will provide a presentation on the findings of the firm and their evaluation of Fargo's economic development incentives program. The Economic Development incentives Committee will receive a similar report at its February 22, 2022 meeting.

Study Tasks: Below is a summary of the study tasks TischlerBise developed in response to the City's request for services. These tasks included:

- **Task 1**: Project Initiation – Establishing a baseline of City of Fargo data and land use information for the study.
- **Task 2**: Preparation of a White Paper on Economic Development Incentives. This will be a comparative analysis of the City of Fargo's economic development incentives and how these compare to other cities (with an emphasis on Midwest cities).
- **Task 3**: Develop Economic Impact Model – The development of a modeling tool to evaluate the performance of Fargo's tax incentives.
- **Task 4**: Implement Economic Impact Model – A training session for City staff on the functionality and features of the model.

The February 22, 2022 City Commission and Economic Development Incentives Committee presentations will focus on Task 2 – the comparative White Paper. TischlerBise will also meet with City staff to review Tasks 3 and 4 and provide training on the Economic Impact Model described above.

Recommended Action: Receive presentation from TischlerBise on the Economic Incentive Program White Paper.

Attachment: City of Fargo Economic Incentive Program White Paper

Economic Incentive Program White Paper

Prepared for:

City of Fargo

February 1, 2022

Prepared by:

TischlerBise
FISCAL | ECONOMIC | PLANNING

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Executive Summary

TischlerBise has taken a multifaceted approach to examine Fargo's current economic development incentives and provide policy recommendations for the City to continue supporting local business development while also preserving public dollars. The white paper includes a survey of academic research regarding local development incentives, survey of comparable cities, case studies of successful and failed programs, and our industry leading experience in development impact analysis and municipal finance.

Currently, the City offers a comprehensive portfolio of development incentives. There have been years of success encouraging suburban growth with the special assessment districts and a complete transformation of downtown that was facilitated largely by the City's Renaissance Zone, PILOT programs, and other TIFs and incentives. Specifically, in the Renaissance Zone, over the past 20 years the total assessed value has gone up by $349 million, more than twice as fast as inflation and faster than the appreciation of the city's housing market. However, there are still nearly 30 sites that have been identified in the Renaissance Zone that could be potential candidates for redevelopment and, conservatively, would add another million square feet of new development.

Academic research and case studies provide a number of different possibilities; however, every city's culture and values are different and development incentives need to match. For example, in Paducah, KY there is a long history of cultural heritage, trade, and artists. To encourage the purchase and renovation of decaying homes in a blighted area, Paducah established an incentive program encouraging artists to move to Paducah and create live/work studios. There was natural synergy between the existing residents, the history of the town, and the program's applicants. With that said, there are a few general keys to success highlighted in research:

- Target industries with a high job multiplier
- Target exporters of products and services
- Target certain areas of a community

Found through research, direct tax incentives tend to have a higher cost than programs that provide business services, especially to small- and medium-size businesses. There are a variety of actions a locality can undertake to encourage business and remove barriers. This includes events for entrepreneurs, business incubators, job training, and assistance in the development review process. Success will come from understanding the current needs for local businesses.

When examined from different perspectives, Fargo has been very successful strategically implementing a variety of incentive programs and has one of the most comprehensive toolkits to encourage development. Fargo's economic and planning policies have encouraged significant single family and multifamily development; rejuvenated the downtown; and have battled against blighting neighborhoods. However, there are still unmet economic and housing goals for the downtown and progress needed in other Core Neighborhoods. Additionally, TischlerBise did not find significant evidence that residential and commercial growth will continue in the future at the same pace without incentives. However, evaluation of public subsidies to private business is a prudent policy and indicative of Fargo's balance and level-headed decision making. To preserve the positive momentum of growth in Fargo while being stewards of the taxpayers' dollars TischlerBise does not recommend a total overhaul of the City's policies. Rather, TischlerBise recommends a few adjustments be made. Below is a summary, but a further explanation can be found in the body of this report.

- **Limitations to incentive packages.** Businesses tend to be shortsighted when forecasting revenues, so current incentive packages should be shortened from a maximum of 20 years to better reflect the business decision process. Also, Fargo should target industries that have a high job multiplier or will generate significant retail sales. In both cases, additional revenue will be generated to the City's budget allowing for a portion of the incentive package to be mitigated.
- **Removal of the new residential housing exemption.** Although a benefit to residents of new construction, the benefit is quite small relative to overall housing costs, so it does not appear to influence the buyer's decision, while limiting the City revenues. The exemption is available in neighboring communities, but the strength of Fargo's market will outweigh the value of the tax incentive to new home buyers.
- **Explore new parking opportunities, land banking, and waterfront development programs.** Previous parking structure projects have provided necessary space for office, commercial, and residential growth while freeing up surface parking for redevelopment. Downtown parking was reaching capacity before the covid-19 pandemic and as the downtown continues to grow its full-time residential population and commercial development the City should explore any opportunities that would bring further parking into the downtown. Land banking and waterfront development would be new to the City and require further analysis to understand its impact. However, a third-party land trust has just formed in the Fargo area and these policies can be a low-risk approach to providing affordable housing in blighted neighborhoods. Additionally, other communities have had tremendous success developing and commercializing their waterfront, providing a potential playbook for Fargo. Large capital funding is necessary, but state, federal, and private investments have a history of cooperation towards the goal of waterfront development.

Lastly, following this white paper, TischlerBise will be developing and implementing an economic impact model for the City. The model will be available to staff to understand the direct, indirect (spin-off) and induced economic impacts, such as jobs, and retail sales from proposed developments applying for development incentives. This model will provide a framework from which the City can begin to measure the economic return on its investment.

Fargo Economic Incentives

The City of Fargo has been taking advantage of several different incentive programs to encourage a wide variety of development for decades. Such programs existed nationally well before being introduced in Fargo. However, the City has been a trailblazer in the State of North Dakota. Incentive programs foster a pro-business environment and have the ability to shape a community's economic future. By many accounts, Fargo's incentive programs have assisted residents and local businesses. Nevertheless, economic incentive programs do not always end in success stories and are ripe for political controversies at the cost of public tax dollars. Furthermore, incentives may be perceived as the public subsidizing private business development, especially if the growth is thought to occur without being incentivized. With that said, it is important for communities to periodically evaluate their incentive programs to understand the effectiveness and if incentives are still necessary for economic development.

The following chapter provides a summary of incentives that the City of Fargo currently has in its toolbox. It should be noted that regional, state, or federal incentive programs are not included in this report. The chapter will also provide a deeper dive into the City's Renaissance Zone program.

Current City Incentives

Much of the following summary has been made available by the City in the recently adopted *Economic Development Incentive Polices & Guidelines Report (December 2021)* and the *Fargo Renaissance Zone Development Plan (2020)*.

Residential New Housing Exemption

This exemption promotes the construction of dwelling units thereby encouraging the volume of employment, enhancing living conditions, and increasing the tax base.

Summary of guidelines:

- This exemption allows for a two-year exemption of up to $150,000 in value on newly constructed residential dwellings, duplexes, townhomes, and condominiums,
- Exemptions are available to builders, as well as the initial owners after the builder.

Remodeling Exemption

This exemption provides an incentive to property owners to invest private capital in order to remodel and rehabilitate buildings and structures to prevent the properties from decay. It is at the discretion of the City Commission to grant this exemption to properties. The exemption encourages investment of private capital to improve properties to encourage the production of wealth, improve the volume of employment, enhance living conditions, and increase the property tax base.

Summary of guidelines:

- The five-year remodeling exemption is available to all commercial properties and residential buildings that are at least 25 years old,

- This provides for an exemption of buildings' increased values improved by means of renovation, remodeling, alteration, or additions,
- It does not apply to the replacement of one building with another.

New or Expanding Business Exemption/PILOT

The purpose of this policy is to establish the City's position relating to the use of business property tax exemptions and Payment in Lieu of Taxes (PILOT) in support of creating new primary sector jobs. The fundamental purpose is to create primary sector jobs that will expand the economy and diversify the existing economic base.

Summary of guidelines:

- A point system is be used as a guide in evaluating primary sector projects for possible incentive programs. A total of 120 points is required for recommended approval. There is a multi-point evaluation: project type, jobs created (initial year), jobs created (Year 3), hourly salaries, local competition, company safety experience rating, value of proposed building, and startup firms.

Lower Income Rental Housing PILOT

The purpose is to encourage housing developers to build housing to meet the needs of very low-income households. "Lower-Income Housing" is defined a housing for "low-income households" as defined by the U.S. Department of Housing and Urban Development, with rents not to exceed 30 percent of household income. Incentives may be for 1-20 years and for 100 percent of new buildings and substantial rehabilitation improvements.

Summary of guidelines:

- Lower income apartments are those where the developer is required to rent to lower income households at below market rent

Core Neighborhood Housing PILOT

The purpose is to encourage desirable development or redevelopment that would not otherwise occur but for the assistance. The City will consider using PILOT to assist private housing development projects to achieve affordable housing, remove blighted areas in core neighborhoods, to offset increased cost of redevelopment, and other environmental concerns. For projects without affordable housing, the maximum PILOT incentive will be a 100 percent exemption for the first five years and a 50 percent exemption for an additional five years. For projects with affordable housing, the maximum PILOT incentive will be a 100 percent exemption for a maximum of 20 years. The value of the PILOT is limited to the extraordinary costs of development.

Summary of guidelines:

- Developer must provide at least 10 percent of total capital costs as developer's equity in the project,
- Financial plans of the project will be reviewed by the City financial consultant to determine the feasibility and level of public assistance that is appropriate,

- The project must be consistent with the City's Comprehensive Plan, the Core Neighborhood Land Use Plan, and the Land Development Code.

Downtown Housing PILOT

The purpose is to encourage housing developers to build new housing downtown to create new opportunities to live downtown, bring new customers for downtown businesses, create a safer downtown with increased numbers of people downtown, and use existing infrastructure as alternative to continued apartment development on the edge of the city.

Summary of guidelines:

- Years 1-5 – 100 percent exempt on the increased value of the improvements,
- Years 6-15 – The percentage exempt will be based on a financial review and "but for" test. The amount exempt will be no more than 90 percent of the improved value,
- If market rate apartments include at least 10 percent of the housing to be what the City considers "affordable," the City may approve up to a 100 percent exemption based on a financial review and "but for" test for up to 20 years.

Tax Increment Financing (TIF)

The intent is to encourage desirable development or redevelopment of brownfield sites, slum areas, or a blighted area that would not otherwise occur but for the assistance provided through TIF. This may be provided in one of three ways: a tax exemption, the issuance of a promissory note to the project applicant, the issuance of bonds to be paid by the City from tax increment proceeds.

Summary of guidelines:

- The City has established multiple objectives that should be met to qualify for TIF. Since there are different types of developments, the objectives for each of the development types are different. The four types of anticipated projects include:
  - Housing,
  - Commercial or industrial,
  - Downtown,
  - Mixed use (commercial and housing in same development).

Renaissance Zone Incentives

The Renaissance Zone Program encourages private investment to rehabilitate or redevelop Downtown Fargo through the use of property tax, state income tax, and historic preservation & renovation tax credit incentives. The Fargo Renaissance Zone Authority administers these incentives, but all are subject to Fargo City Commission approval.

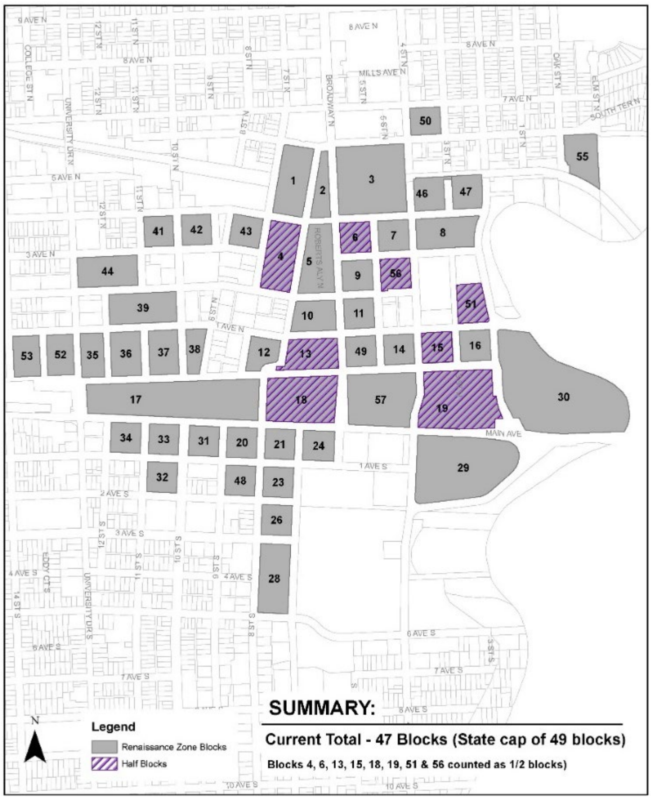
Summary of guidelines:

- Developments must be within the eligible targeted areas of the Renaissance Zone boundary,
- Minimum investment thresholds based on project type,
- Incorporate urban design that encourages street activation and historic preservation,

- Financial summary shall be submitted concurrent with application and shall document costs and the anticipated total capital investment.

Enabled in 1999 by the North Dakota Legislature, the Fargo Renaissance Zone has gone through several iterations, including expansion and modification of the boundary eight times. Through 2019, there have been 242 projects approved with the majority coming from residential purchases, commercial/mixed use rehabilitation, and tenant leases. There have been substantial new construction projects as well. The figure below illustrates the current boundaries and city blocks that are included in the Renaissance Zone.

Figure 1. Current City of Fargo Renaissance Zone[1]



Along with the incentives under the Renaissance Zone program the City has taken steps to further promote the downtown. According to City staff three other initiatives helped attract businesses downtown.

- Broadway Street was improved with road improvements, new streetscape, and building façade upgrades.
- The City constructed three parking structures allowing for other surface parking to be redevelopment without the worry of parking capacity.
- Zoning ordinances were adjusted to allow for less bureaucracy and a quicker business development timeline.

These strategies made the downtown physically and economically attractive for development. Importantly, the three parking structures expanded the capacity for more downtown employment and commercial spending. The additional parking also freed up surface parking lots to be developed. Cumulatively, the assessed value of the Renaissance Zone boundary has risen from $197 million to $546 million ($349 million increase). On average, this is a 5.23 percent increase annually. However, the increase in value is partially a product of inflation. Based on the Bureau of Labor Statistics Consumer Price Index (CPI), inflation from 1999 to 2019 averaged an annual increase of 2.15 percent. Thus, the assessed value of the Renaissance Zone has increased by nearly double the rate of inflation.

[1] City of Fargo.

Furthermore, the housing market in Fargo has been consistently strong and competitive. When the Renaissance Zone is compared to the housing market, we find that the average annual increase in assessed value in the Renaissance Zone is five percent higher than the average annual increase in median housing value in Fargo.[2] Although this is a simplified comparison of the two different property markets, it indicates that the Zone's success of promoting higher property values has been just as good, if not slightly better, than the City's housing market.

However, a component of the incentive program is property tax exemptions. The incentive package made available to redevelopment is examined on a case-by-case basis and span multiple years. As of 2021, there is $137 million in property value exemptions, or about 40 percent of the value increase since 1999. These exemptions will eventually be added to the City's tax roll based on each development's incentive package, but, until then, this represents property that is not contributing to the City's property tax revenue.

The Renaissance Zone accomplishes more than purely increasing property values. By all accounts, the past decade of effort has completely changed the public perception of downtown Fargo. Feeling safe and excited by the atmosphere, residents now spend their evenings and weekends enjoying the new shopping and entertainment, while visitors have amenities once reserved for larger cities. The quality-of-life improvements help keep the young talent studying in Fargo and attracts outside professionals. Additionally, much needed housing has been constructed downtown with the Renaissance Zone program and other incentive programs, establishing a unique and attractive urban market to Fargo.

With that said, the City has identified 16 surface parking lots and 12 redevelopment sites/buildings in the Renaissance Zone as potential future candidates for the program. The surface parking lots total 160,000 square feet which could be developed into multilevel buildings and the existing buildings total 830,000 square feet of floor area. This is a potential of over a million square feet of redevelopment downtown of undeveloped or underutilized properties. Along with providing tax base value, redevelopments have the potential to expand upon the new lifestyle experiences in the downtown and address goals that have not yet been accomplished among those being more downtown housing. Although there has already been progress in increasing the housing mix downtown, following the Downtown InFocus Plan, the City has a goal of at least 1,000 more households downtown.

Importantly, the City of Fargo collects a one-cent sales tax for infrastructure capital improvements that has benefitted from the commercial development that has occurred downtown. Sales tax revenue generation from a specific development comes in a number of forms. The most significant being if the development is a retailer. In this case, it is safe to assume that one percent of the retailer sales will be sales tax revenue to the City. When new jobs are generated, the new household income provides new retail sales tax to the City as well. This is especially true for high income earners with substantial disposable income. Furthermore, there are indirect retail sales from economic growth. These indirect sales occur when the spin-off jobs bring further spending to the economy and the business-related industries expand

[2] U.S. Census American Community Survey, 2000 and 2019 mean value of owner-occupied home estimates.

to support the new development. If the retail spending is significant enough, sales tax from the new development will be able to mitigate property tax incentives. However, this is only understood on a case-by-case analysis with sophisticated modeling. As part of TischlerBise's scope of work, an economic impact model will be constructed for the City of Fargo which will provide estimated direct, indirect (spin-off), construction phase spending, and induced economic impacts, along with estimates of retail sales.

Special Assessment Financing for Infrastructure

The City of Fargo, along with other jurisdictions in the Fargo-Moorhead region, use special assessment districts to finance new infrastructure to support growth. Traditionally, this is implemented in new subdivisions where new roads and utilities are required before homes can be constructed. Although not titled or entirely perceived as an incentive, the financing tool is a unique and successful program that shifts infrastructure cost from the developer to the future homeowners through a property assessment. However, the City of Fargo absorbs the risk since the infrastructure costs are fronted by the City when bonds are issued. The City recoups its costs when the new homeowners pay their annual property assessment. In communities without special assessments, local infrastructure costs and risk are generally the responsibility of the developer with the costs being recouped when the homes are sold. The special assessment districts do not function in the traditional sense of a tax incentive, but do provide a unique benefit to development. For that reason, they are included in the white paper.

There are four general stages of the special assessment. First, the development is proposed with an infrastructure plan included. If accepted, the City determines which infrastructure costs are directly benefitting the new residents of the development and which costs are benefitting citywide demand. The special assessment district is established along with locally benefitting projects being constructed and funded through a city-issued bond. Lastly, the bond is paid back by the future homeowner's annual property assessments.

Incentives by Comparable Cities

The figure below provides a list of local incentive programs by comparable cities. From eight comparable cities, tax increment financing (TIF), tax abatements, and land banking are the most common programs. Schaumburg provides a unique small business grant to eligible firms, while Bentonville is still building its incentive policies. However, based on the survey of the websites for each locality, the City of Fargo has a more comprehensive and thoughtful approach to economic incentives relative to its comparables.

Not listed in Figure 2 are the county, regional, and state programs available to development and businesses. Non-local programs do contribute to the profile which businesses consider when making location decisions. However, some non-local programs (such as income tax incentives) are not applicable to the City of Fargo and should only be considered at the respective governmental authority.

Figure 2. Economic Development Incentive Programs in Comparable Cities

Locality	Local Incentive Programs*	2020 Census Population
Bentonville, AR	City is currently exploring incentive options	54,164
Des Moines, IA	TIF, Tax Abatements, Land Banking	214,133
Edmond, OK	Permit Waivers, Façade/Infrastructure/ Payroll Reimbursement	94,428
Fort Collins, CO	TIF	169,810
Lee's Summit, MO	TIF, Tax Abatements, Land Banking	101,108
Lincoln, NE	TIF, Land Banking	291,082
Olathe, KS	TIF, Land Banking, Neighborhood Revitalization	141,290
Schaumburg, IL	Small Business Grants, TIF	78,723

Source: information listed is from the locality and economic development organization's website.

*Note: only the local incentive programs are listed. County, regional, and state programs are not included.

Survey of Academic Research

There is a long history of academic research and analysis regarding public economic development incentives. Although it is important to understand past successes and failures, programs should be evaluated within its own context. General conventions may not be applicable in specific instances, but the following summary will help Fargo construct its best practices when examining current and future incentive programs.

- Although there have been mixed results from case study analysis and meta-analysis, there is a rough consensus that local tax incentives have a positive impact. However, when local incentive programs nationally are analyzed cumulatively, those impacts have generally been observed to be "minor at best."[3]

- With that said, there are several elements a community can implement in their incentive program to ensure a more successful future:
  - Target industries with a high job multiplier. In these cases, the direct jobs created by the new business have a high spill-over effect which then supports other jobs. For example, high paying jobs will bring new spending to the local economy or the presence of a business attracting other associated businesses.[4] [5]
  - Target exporters of products and services. Companies that sell their products to external markets will inject new dollars to the local economy compared to being a direct competitor to an already existing local firm. For example, a business providing a service that is already being provided in the community will merely be cannibalizing the market.[6]
  - Target certain areas of a community. Property tax incentives are most successful in areas with high unemployment, low income, and/or under-utilized infrastructure. In these cases, there is a potential for immediate increases to household incomes and the locality will have to invest less in infrastructure improvements.[4]

- A leader in the field, Timothy Bartik, recommends that for an incentive package to be beneficial to the community there should be a limit between $10,000 to $20,000 in incentive funding per new job created. Additionally, Bartik considers most firms to be myopic and focused more on

[3] Fisher and Peters. "The Failures of Economic Development Incentives." *Journal of the American Planning Association*. Vol. 70. No. 1. Winter 2004.

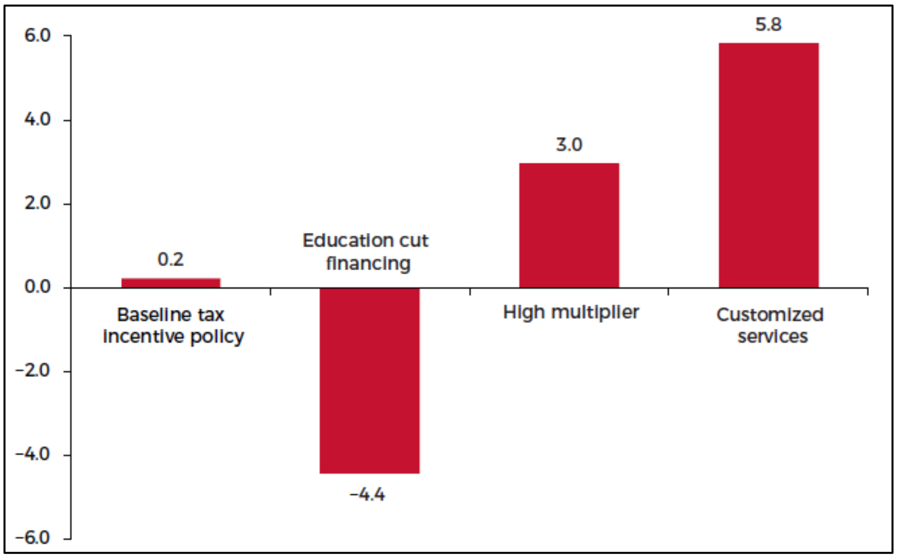
[4] Bartik, Timothy J. 2018. "Who Benefits From Economic Development Incentives? How Incentive Effects on Local Incomes and the Income Distribution Vary with Different Assumptions about Incentive Policy and the Local Economy." Upjohn Institute Technical Report No. 18-034. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. https://doi.org/10.17848/tr18-034.

[5] Bartik, Timothy J. 2018. "Improving Economic Development Incentives." Policy Brief. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. https://doi.org/10.17848/pb2018-1.

[6] Pew Charitable Trusts. "What Factors Influence the Effectiveness of Business Incentives?" April 2019.

short-term gains, so an incentive program should not be very lengthy and restricted to just a few years.[7]

Figure 3. How Four Different Incentive Policies Affect State Residents: Percentage Effects on Per Capita Income[8]



- Bartik constructed an academic economic impact model to understand hypothetical incentive scenarios' effect on long-term (80 years) impact on the local household income. A few of the results are shown in Figure 3. When a baseline tax incentive program is compared to different incentive policies, several alternatives create a much greater benefit to the community's prosperity. Additionally, there is tremendous negative impact when education funding is cut to fund the incentive package.[9] Specifically, the baseline created a 0.2 percent increase to income per capita. While education funding cut to finance the incentive program resulted a -4.4 percent impact to income, targeting high multiplier industries resulted a 3.0 percent increase to income, and customized services instead of tax incentives resulted a 5.8 percent increase to income.

- The Bartik analysis highlights the success of tax alternative programs. Localities providing business services can help reduce barriers that are restricting the success of local firms. This is especially the case for small to medium business.[10] These services come in many forms, but for example, the locality can provide custom job training, be a labor market intermediary, provide regulatory assistance, or establish an incubator.[11]

[7] Timothy, Bartik. Interview with Richard Florida. "How Cities and States Can Stop the Incentive Madness." Bloomberg CityLab. November 12, 2019.
[8] Bartik, Timothy J. 2018. "Improving Economic Development Incentives." Policy Brief. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. https://doi.org/10.17848/pb2018-1.
[9] Bartik, Timothy J. 2018. "Who Benefits From Economic Development Incentives? How Incentive Effects on Local Incomes and the Income Distribution Vary with Different Assumptions about Incentive Policy and the Local Economy." Upjohn Institute Technical Report No. 18-034. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. https://doi.org/10.17848/tr18-034.
[10] Pew Charitable Trusts. "What Factors Influence the Effectiveness of Business Incentives?" April 2019.
[11] Kenyon, Langley, Paquin. "Rethinking Property Tax Incentives for Business." Lincoln Institute of Land Policy. 2012.

- Custom job training has been found to be 10-25 times more effective in creating jobs than tax incentives.[11] For example, in manufacturing-intense communities, tax incentives had an annual cost of $16,000 per job created while custom job training incentive had an annual cost of $3,000 per job created.[12]
- From Bartik, credible studies found that average sized tax incentives have ultimately only been the deciding factor in one-fifth of business location decisions.[13]
- Although positive impacts have been observed from tax incentive programs, the practice has been found to have limitations on tipping the scale when attracting businesses. One reason is the magnitude of tax abatements compared to other business expenses. For example, the wage costs for manufacturing firms average about 11 times the value of its property tax bill. For that reason, the local salaries have more of an influence than tax incentives when a firm is making location decisions.[14] There are a multitude other location decision factors such as state/federal incentive programs, location within trade routes, connectivity to metropolitan areas, and the local ecosystem of industry and innovation.

[12] Berkaw and Desai. "Wooing Companies to Move: Are Business Incentives Worth the Cost?" Entrepreneurship Issue Brief, January 2012, Ewing Marion Kauffman Foundation, Kansas City.
[13] Bartik, Timothy J. 2018. "Improving Economic Development Incentives." Policy Brief. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. https://doi.org/10.17848/pb2018-1
[14] Fisher and Peters. "The Failures of Economic Development Incentives." *Journal of the American Planning Association*. Vol. 70. No. 1. Winter 2004.

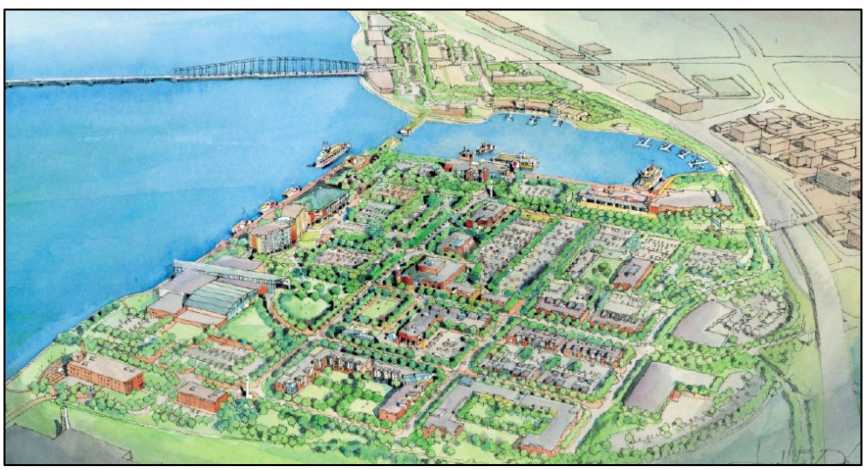
Case Studies

The City of Fargo has been promoting economic development for decades. To support discussions around reviewing the current incentive programs and future policies in Fargo, the following chapter provides two case studies of successful incentive programs and a third case study of a program gone wrong.

Riverfront Development – Dubuque, Iowa

By 1990, the City of Dubuque had turned its back on its Mississippi River waterfront. Although adjacent to the downtown, a history of heavy industrial uses had led to brownfields with environmental issues, underutilized properties, and shuttered businesses.[15] The first step to addressing the riverfront's economic future, and the future of the city at-large, was the *Vision 2000 Long-Range Comprehensive Plan.* The comprehensive plan included elements of connecting it residents physically and psychologically with the river. Following that initiative, a partnership including the City, Dubuque County Historical Society, Greater Dubuque Development Corporation, and others produced the *Port of Dubuque Master Plan*. The Master Plan was a culmination of a ten-month community planning and design effort including a variety of committee, public, and stakeholder participation. The final design was a "Central Green" concept that would resemble a downtown pattern of interconnected streets, a high degree of development flexibility, and able to leverage current and upcoming investments.[16]

Figure 4. Port of Dubuque Master Plan Illustration of North Port[17]



Critically, funding surpassed initial goals. The America's River project initially had a fundraising goal of $25 million for revitalization of the North Port area, but that was eclipsed with a $40 million State of Iowa Vision grant. The US Environmental Protection Agency (EPA) also contributed under its brownfield revitalization program to assess and mitigate the environmental concerns. Overall, the America's River project generated $188 million in revitalization funding coalescing into five landmark achievements: the Mississippi Riverwalk, the

[15] US EPA. February 2021. *The Brownfields Broadcast: Brownfields Program Helps Dubuque, IA Leverage Investment, Reinvigorate Community*. October 2021. https://www.epa.gov/brownfields/brownfields-broadcast-brownfields-program-helps-dubuque-ia-leverage-investment.

[16] URS Corporation, Leland Consulting Group, EDG, Ltd. *Port of Dubuque Master Plan.* March 2002.

[17] Ibid.

National Mississippi River Museum and Aquarium, the Grand River Center, the Grand Harbor Resort, and the Star Brewery. All of which are celebrating historical, environmental, educational, and recreational majesty of the Mississippi River and attracting a million tourists a year.[18]

Along with State and Federal incentive programs, developments in the Port were eligible for tax incremental financing (TIF), property tax exemptions, façade grants, design grants, and land acquisition discounts. Since the inception, $400 million in public and private investment has gone towards the riverfront. Presently, the original tax exemptions have sunsetted, now contributing to the City's coffers.[19]

The success of the America's River project has been followed up by two other phases that included expanding the trail system along the water, a performing arts center, and restoration of a river tributary to a park and flood mitigation system. The economic and social benefits have expanded beyond the riverfront as well to an adjacent neighborhood, the Historic Millwork District, an old warehouse core that has been revitalized into a mixed-use neighborhood, attracting a thousand new residents and new businesses including IBM, bringing a thousand new jobs. Progress continues in the North Port riverfront as well. A recently approved mixed-use development will be bringing in much needed housing and was made possible by the City of Dubuque's TIF agreement and land acquisition grant.[20]

The riverfront development has brought important educational, cultural, and economic drivers to Dubuque that would not have occurred without the efforts and investments from both the public and private communities. North Port transformed the city's inward and outward identity by engaging in economic initiative and in turn the quality of life of residents benefited. Ultimately, the City has accomplished its goal from decades ago, reconnecting its residents to the river.[21]

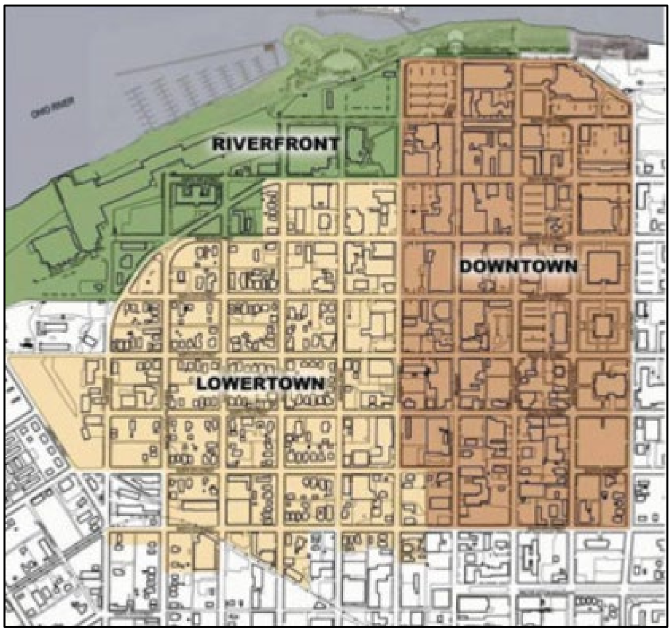
Targeting Talent – Paducah, Kentucky

Direct payments and other financial support have grown in popularity. There is an increasing number of municipalities using cash and other promotions to incentive talent to relocate. Incentivizing talented workers, especially remote workers that make more the local median income, helps drive the local economy and rejuvenate neighborhoods. In Paducah, Kentucky that was exactly the intent of the Artist Relocation Program.

[18] City of Dubuque. *Dubuque History*. October 2021. https://www.cityofdubuque.org/1060/History.
[19] US EPA. *How Small Towns and Cities Can Use Local Assets to Rebuild Their Economies: Lessons from Successful Places.* May 2015.
[20] Allison Wong. October 2019. Proposed Port of Dubuque development hopes to attract young professionals. *KCRG. https://www.kcrg.com/content/news/Proposed-Port-of-Dubuque-development-hopes-to-attract-young-professionals-562480841.html.*
[21] US EPA. October 2020. *Redevelopment Goals in Dubuque, Iowa, Come Alive by Strengthening Central Neighborhoods*. October 2021. https://www.epa.gov/ia/redevelopment-goals-dubuque-iowa-come-alive-strengthening-central-neighborhoods.

Paducah sits along the Ohio River, centrally located near five states. Historically, the city's location has been advantageous for a trade center. In 2000, there were about 26,000 residents[22] and the downtown had an outsized art and cultural presence with the William Clark Market House Museum, Market House Theater, and National Quilt Museum which drew 40,000 visitors a year.[23] However, while the downtown was thriving an adjacent neighborhood, Lowertown, was struggling and by 2002 it was considered to be in an overall blighted state with dilapidated buildings, high poverty, and high crime.[24] Figure 5 is an illustration of Paducah's downtown and Lowertown.

Figure 5. Paducah Renaissance Area Master Plan Map[25]



In 2002, Lowertown was at a crossroads and that is when the City introduced the Artist Relocation Program. Under the program, the City created a land trust which purchased 55 vacant or foreclosed buildings. Those lots were then sold to eligible artists, who met certain application requirements like a business plan, for as low as $1 with the promise that they would renovate the home. Critically important, special affordable financing options were made available by Paducah Bank which allowed investors to borrow more than the assessed value of the lot. There were reimbursements for architectural and professional services and marketing campaigns funded by Paducah. The City also made changes to its ordinances to allow for the new residents to live and work in the same residents creating an irresistible live/work environment. Maintenance and improvements were made to the roads, street lighting, and vacant lots to create a safer neighborhood as well.

In the first five years of the program, the City spent about $3 million while there was a total of $35 million in private investment, attracting more than one hundred artists.[26] By 2010, 234 new businesses were started in the art district, 119 buildings were renovated, vacancy rate fell from 70 to 14 percent, and

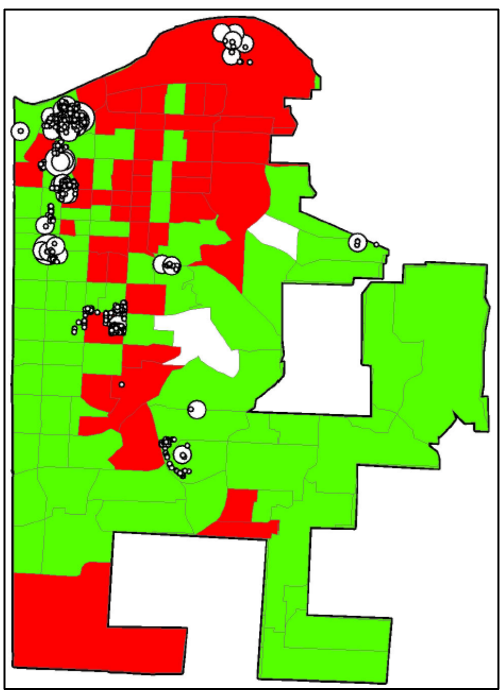
[22] US Decennial Census, 2000.
[23] US EPA. *How Small Towns and Cities Can Use Local Assets to Rebuild Their Economies: Lessons from Successful Places.* May 2015.
[24] CityVisions Associates, AECOM, ConsultEcon, HNTB. *Renaissance Area Master Plan (RAMP), Paducah, Kentucky*. December 2011.
[25] Ibid.
[26] US EPA. *How Small Towns and Cities Can Use Local Assets to Rebuild Their Economies: Lessons from Successful Places*. May 2015.

Paducah won the Great American Main Street Award by the National Trust for Historic Preservation. The arts and culture industry draws more than 400,000 annual event attendees, generating $200 million in tourism income, $39.9 million in local economic activity, $3.6 million in local and state revenue.[27] And finally in 2013, the City of Paducah was recognized by UNESCO as the world's seventh City of Crafts and Folk Art, making it a member of the UNESCO Creative Cities Network. In an NPR interview, a Paducah city planner attributes all the success to the Artist Relocation Program.[28]

Tax Increment Financing (TIF) Misused and Unguided – Kansas City & St. Louis

Tax increment financing (TIF) ultimately targets site specific capital improvements with new property tax revenue from that same development. Arguably, TIFs can have a snowball effect when increased property values are in turn used to improve infrastructure that will further increase values. This cycle can have spill-over effects to adjacent properties and neighborhoods as well. When implemented appropriately, rejuvenating development, which would not have occurred without the program, can be successful in blighted areas. However, without proper guardrails and oversight a TIF may result in public subsidies going towards development projects that benefit already successful and wealthy neighborhoods. This was observed in both Kansas City and St. Louis.

Figure 6. Kansas City Census Tracts and TIF Location[29]



A 2014 study, completed by the Show-Me Institute, examined the location of TIFs in Kansas City.[30] The analysis produced the map illustrated in Figure 6. Kansas City census tracts in Jackson County are highlighted either red for 30 percent of more residents in poverty or green for less than 30 percent of residents in poverty. Layered on top of the census tracts is the location and value of TIFs. It was found that $34.5 million of public subsidy went to impoverished areas, while $276 million of public subsidy went to affluent areas. Or eight times the value of TIFs went to affluent areas. The study further highlighted a case where the City redirected $42 million for an existing Kansas City company to build a new headquarters immediately next to its existing headquarters, a project that has very little benefit to the surrounding community.

[27] Main Street America. Great American Main Street Award. Paducah, Kentucky. 2010.
[28] Noah Adams. August 2013. *In Paducah, Artists Create Something From Nothing.* NPR. https://www.npr.org/2013/08/09/210130790/in-paducah-artists-create-something-from-nothing
[29] Tuohey and Rathbone. *Urban Neglect: Kansas City's Misuse of Tax Increment Financing*. November 2014. Show-Me Institute.
[30] Ibid.

A similar analysis and outcome were found in St. Louis. In 2017, the Show-Me Institute found that $57 million of public TIF spending went to impoverished areas while $207 million of public TIF spending went to affluent areas. Or over three times the value of spending went to affluent areas compared to impoverished areas.[31] Additionally, the study found that 7,572 jobs were attributed to the TIFs, resulting in $35,000 in subsidies per job, at best.

The St. Louis analysis continued by examining the prevalence of poverty and found that there was an overall increase in poverty throughout city and often in areas in which TIFs had been applied. Although poverty is influenced by a myriad of factors, the study found it hard to make an argument that TIFs in St. Louis are having a net positive impact at addressing prosperity for all residents. Lastly, the study highlighted a luxury apartment building that was provided a $10 million TIF, but it was unclear to the author how the project was in the public's best interest.

There were three resounding recommendations from the studies on how the cities should adjust their tax increment financing program. First, in both cities the "but-for" test is completed by the applicant. The "but-for" examines to what extent the project needs public assistance and is intended to demonstrate that but for assistance the project would not move forward. There is an obvious conflict when the applicant is supposed to be demonstrating an objective assessment of the needed assistance. Both studies recommended that a third party be responsible for the but-for evaluations. Secondly, there needs to be a more rigorous standard used to qualify projects. Projects that received public assistances under the TIF need to be in blighted areas and demonstrate that they will be an overwhelming benefit to the neighborhood. Lastly, there is a need for more accurate reporting of the jobs and other benefits produced by TIF projects. Without measurable indicators, there is no understanding of the success of the project and program. Additionally, the results of the reporting would be the first step in implementing a "clawback," where if the project fails to deliver the promised economic impact the developer would be forced to pay back a portion or all the TIF benefits.

[31] Tuohey, Highsmith, and Tuttle. *Tax-Increment Financing in Saint Louis*. September 2017. Show-Me Institute.

Recommendations

The following are recommendations regarding the future of economic development incentives in Fargo. The recommendations are based on the survey of impacts from the current incentive programs, analysis of available future development, review of academic research, understanding of successes and failures in other jurisdictions, and TischlerBise's industry-leading experience in local economic development analysis and local revenue strategies. Furthermore, the TischlerBise economic impact model developed for the City will provide empirical analysis and understanding of economic impacts of specific development proposals including spin-off job generation and sales tax revenue to the City.

Arguably, Fargo has been very successful strategically implementing a variety of incentive programs and has one of the most comprehensive toolkits to encourage development and redevelopment. Empirically and aesthetically, the downtown has been transformed by redevelopment which would not have occurred at such a quick pace without City incentives. Similarly, there has been consistent suburban growth that have been supported by its incentives and financing strategies. While further examination is needed for a few of the following recommendations, the following should be affirmation that with just a few adjustments, the City of Fargo will continue promoting a sustainable development incentive environment.

- TischlerBise recommends that the City continue with its special assessment district financing tool. Although the City takes over the risk of the infrastructure costs between the time of construction and when property assessments are collected. The financing tool allows for a more comprehensive approach to infrastructure construction and, importantly, more homes are able to be constructed by local developers and home builders since the oversized cost burden of infrastructure is shifted with the bond issuance. Additionally, the City has been strategically financing the accrued debt and able to mitigate some of the risk with revenue from interest rate margins.
- To address housing needs and goals, TischlerBise recommends continuing the PILOT housing programs and the Renaissance Zone. Housing is a crucial need for a thriving downtown and a policy goal for the City. Although not as severe as in other cities, it is important for Fargo to incentivize affordable/attainable/workforce housing to head off a housing crisis. Downtown housing programs should focus on dense multifamily projects to maximum housing buildout as well. Along with providing support to housing projects, the Renaissance Zone has been able to turn the course of Fargo's commercial and entertainment downtown. TischlerBise has not found substantial evidence that the previous development would have occurred without the City's incentives nor substantial evidence that positive redevelopment will occur without City incentives.
- Furthermore, the development proposal "but for" tests are being conducted by a third party and as along as the third party has no interest in the proposal the City should continue this policy.

- With that said, TischlerBise recommends adjusting the maximum length of City incentive programs. As highlighted by leading researchers, a typical business is more concerned with short-term profitability and plans operations around a short-term forecast. While a long-term incentive package (i.e., 15-20 years) is providing a subsidy to a development project which has proven to be successful. TischlerBise did not examine specific past incentive packages, but ultimately, shorter timeframes will benefit the City's bottom line. However, since the nature of development varies, maximums should be based on the type of project. For example, job creation projects could be limited to ten years, while on the other hand, if there is a project that addresses other community goals that require long term incentives to be successful (i.e., affordable housing) extending maximums would be justified.

- Furthermore, TischlerBise recommends the City include a requirement that eligible candidates for the Renaissance Zone and other programs be targeted industries which have high multiplier effects (i.e., generate a high number of spin-off jobs) and/or generate a high level of retail sales. In both cases, the targeted industry will generate additional revenue to the City which will help offset the incentive package. In some cases, the additional revenue, especially through new retail sales tax, will completely offset the incentive package and the development will be an immediate net positive to the City's bottom line. Such requirements could be implemented with the economic impact model that is being programmed by TischlerBise and will be presented to City Commission following this white paper.

- TischlerBise recommends that the City removes the 2-year new residential construction exemption. Although there is a slight benefit to residents, the lesser property tax (only the City's portion) is overshadowed by the overall housing cost and mortgage for a new home; thus, the exemption is most likely not an important element in the buyer's considerations. Fargo would be the first city in the metro area to remove this exemption. However, the City is already supporting new residential construction through its financing of subdivision infrastructure, so removing the 2-year property tax exemption on new housing would not alter the perception of City priorities.

- TischlerBise recommends furthering the City's focus on job training and business services. Proven through academic research and case studies, a locality providing business services to small to medium size businesses lowers obstacles for the business while being a relative low-cost program to the locality. Fargo is already supporting entrepreneurs and small businesses through the regional economic development organization and business events. However, the City could further its policies by tackling the issues businesses are facing post the covid-19 pandemic. For example, the City could invest in a job training and employment intermediary office to support local businesses looking to hire and expand.

- The City of Fargo should continue to monitor the need for parking downtown. An important factor in the past growth downtown was new parking structures and before the covid-19 pandemic parking was reaching capacity. Although, at least in the short-term, employment trends may favor remote working, the downtown continues to expand its full-time residential population and commercial attraction. Development of parking structures requires long-term planning so the City should continue its strategic planning and explore any opportunities that would bring more parking to the downtown.

- Developing river boardwalks and parks has been successful for many communities across the country. Waterfronts present a natural asset to cities which can bring cultural, recreation, and entertainment benefits to its residents. Additionally, Fargo has an untapped commercial and economic resources in the Red River. Although there has been tremendous development when a city capitalizes its waterfront, there is a need for substantial funding to mitigate environmental issues and construct infrastructure. While there are flooding concerns and a mitigation program is being currently examined, TischlerBise recommends that Fargo explores in detail the economic potential of the Red River. There are a number of different limitations such as land capacity and funding availability (i.e., regional, state, and federal) that need to be understood, but there could very well be cooperation between the flood mitigation initiative and economic development. For example, coordination with the City of Moorhead could amplifying efforts.
- This year the Cass Clay Community Land Trust is anticipating adding the first homes to its portfolio. This is the only land trust in the Fargo area and aims to support affordable housing by providing the land and other financial support to eligible homeowners. Land trusts generally target areas that have a history of disinvestment and have deteriorating or vacant lots. TischlerBise recommends that the City of Fargo take a proactive role in the land trust, or develop its own, to address blighting areas and support its Core Neighborhoods. If strategically planned, leveraging publicly held, developable land can be a particularly low-risk program for blighted neighborhoods since the land trust keeps ownership of a stable, or in some cases appreciating asset, and can set standards for redevelopment.

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THE CITY OF Fargo FAR MORE

City Administration
225 4th Street North
Fargo, ND 58102

MEMORANDUM

TO: **Economic Development Incentives Committee**
Renaissance Zone Authority

FROM: **Jim Gilmour, Director of Strategic Planning and Research**

DATE: **February 17, 2022**

SUBJECT: **419 3rd Street North**

I am attaching additional information on the 419 3rd Street North property. This includes:

- An updated summary of the four options.
- Report from the City's financial adviser on the Authentic Housing request.
- Changes submitted by Authentic Housing on its proposal.

MEMORANDUM

Date: February 17, 2022

To: James Gilmour
City of Fargo, ND

From: Matt Schnackenberg & Fred Eoff
PFM Financial Advisors LLC

Re: Proposed Multifamily Housing Project

pfm

1200 Fifth Avenue
Suite 1220
Seattle, WA 98101
206.264.8900

pfm.com

Jim:

We have reviewed the material you forwarded from Jason Nguyen of Authentic Housing regarding the proposed Fargo project. The goal with this brief memorandum is to provide you with a summary overview of our observations and questions the answers to which we believe would help further the understanding of the Project and the prospects for a successful financing and ongoing operation.

This appears to be a straightforward new construction affordable multifamily property to be located in Fargo. This project would provide housing for a wide array of tenants from single individuals to families as it is configured with a unit mix consisting of studios through 4-bedroom units. We do not often see this wide mix of unit configurations in a single project.

The project is to be located on a site which the City apparently owns as Authentic Housing is seeking to obtain the land as a donation from the City. Excerpts from their presentation to the City on January 18, 2022, note a ROI of 61.09% to the City in the form of property taxes received. Without questioning the accuracy of that ROI calculation over time an alternative calculation which generates an internal rate of return (IRR) might be more useful as it would be a better comparison to alternative investment strategies the City may choose were it to simply sell the property to the highest bidder. This comment does not at all imply that furthering the development of additional affordable housing in Fargo is not a commendable goal.

From the formatting and content of the Authentic Housing proformas we believe they have a decent level of understanding of financing affordable housing properties with a combination of tax-exempt debt and the federal Section 42 4% Low-Income Housing Tax Credit (LIHTC) program. They are also blending in 15 units supported by HUD project-based housing vouchers. Project based vouchers are permanently attached to the subject property and provide a long-term form of assured rental income.

We find nothing in the proposed housing concept or their proforma(s) which give us any significant concern. There are some areas which could use additional input to assist a decision by the City since donating a valuable property site doesn't happen often. Input on the following items would be useful.

- The debt is proposed as long-term fixed rate. But there is no detail as to what form the debt will take and there are numerous alternatives we commonly see with affordable housing financings. If the Project comes together as proposed, we believe it should be appealing to lenders. We do believe the 3.0% interest rate used in the proforma is aggressive, especially considering recent market interest rate trends. Some greater detail on planned form of debt and indication of preliminary discussions with lenders would be important here. Also, there is no detail provided regarding the conduit issuer of the tax-exempt debt and what their issuance and ongoing fees would be. This is an often a significant component of the all-in interest rate.
- The formulaic determination of tax-credit eligible basis and the estimated pricing from an investor seems reasonable and is consistent with other transactions in which we have participated. Like the question regarding debt, some input regarding target investors and/or preliminary discussions would be useful.

- A discussion of the process and likelihood of success with achieving an allocation of the 15 units of HUD project-based housing vouchers would be helpful. These are normally very competitive.

- A better description of the Project construction schedule and timing of conversion from construction financing to the permanent loan would be helpful.

- There is no detail provided regarding property management upon completion. Who will fill this role? Will Authentic Housing provide active management, or will they contract with one of the established property management firms? The property management fee at 8% of effective income is higher than typical. This fee normally is 3.5-4.0% but we have not reviewed the Fargo or North Dakota market for comparables.

We hope this provides some useful insight into the proposal from Authentic Housing. If there are specific areas or topics you would like to pursue in greater detail please let us know.

Sincerely,

PFM Financial Advisors LLC

Exhibit A: Project Overview and Operating Proforma

City of Fargo, North Dakota
Beloved Housing Project

Table A: Sources and Uses of Funds

Sources of Funds	Construction Phase	Permanent Phase	$/Unit
Permanent Financing		$ 24,106,097	$ 133,183
Construction Loan 1	$ 24,688,084		$ -
Construction Loan 2	$ 6,400,553		
LIHTC Equity	$ 3,287,582	$ 16,437,909	$ 90,817
Solar Credit		$ 217,800	$ 1,203
Deferred Developer Fee		$ 385,000	$ 2,127
	$ 34,376,219	$ 41,146,806	$ 227,330

Uses of Funds			$/Unit
Land Cost	$ -	$ -	$ -
Construction Hard Costs	$ 26,403,617	$ 26,403,617	$ 145,876
Soft Costs	$ 3,358,590	$ 3,358,590	$ 18,556
Contingencies	$ 2,757,800	$ 2,757,800	$ 15,236
Construction Period Interest	$ 1,856,212	$ 1,856,212	$ 10,255
Operating & Repair Reserves		$ 1,403,891	$ 7,756
Developer Fee		$ 5,366,696	$ 29,650
	$ 34,376,219	$ 41,146,806	$ 227,330

0

# Units	181
Eligible Basis (est)	$ 38,428,696
TE Debt/Basis	64.2%

pfm

City of Fargo, North Dakota
Beloved Housing Project

Table B: Project Unit & Rent Profile

Unit Mix	Number Units	Unit Size (SF)	Allowable Monthly Rent [1]	Proposed Monthly Rent	Total Monthly Revenue	Total Annual Revenue
Studio/Efficiency						
<60% AMI	20	355	$ 960	$ 597	$ 11,940	$ 143,280
<60% PBV	15	355	$ 960	$ 960	$ 14,400	$ 172,800
1-Bedroom						
<60% AMI	37	500	$ 1,028	$ 705	$ 26,085	$ 313,020
High HOME						
2 Bedroom						
<60% AMI	31	675	$ 1,233	$ 859	$ 26,629	$ 319,548
3-Bedroom						
<60% AMI	36	835	$ 1,425	$ 1,220	$ 43,920	$ 527,040
4-Bedroom						
<60% AMI	42	1,000	$ 1,590	$ 1,470	$ 61,740	$ 740,880
Total Project Units	**181**				**$ 184,714**	**$ 2,216,568**
						$ 21,720

[1] 2021 LIHTC Income Limits (Cass County, ND MSA)

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Multifamily Housing Revenue Bonds
Beloved Housing Apartments
Series 2022

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
INCOME												
Annual Gross Rental Income	$ 2,216,568	$ 2,260,899	$ 2,306,117	$ 2,352,240	$ 2,399,284	$ 2,447,270	$ 2,496,216	$ 2,546,140	$ 2,597,063	$ 2,649,004	$ 2,701,984	$ 2,756,024
Other: Ancillary Revenue	$ 21,720	$ 22,154	$ 22,597	$ 23,049	$ 23,510	$ 23,981	$ 24,460	$ 24,949	$ 25,448	$ 25,957	$ 26,477	$ 27,006
Total Residential Income	**$ 2,238,288**	**$ 2,283,054**	**$ 2,328,715**	**$ 2,375,289**	**$ 2,422,795**	**$ 2,471,251**	**$ 2,520,676**	**$ 2,571,089**	**$ 2,622,511**	**$ 2,674,961**	**$ 2,728,461**	**$ 2,783,030**
Less: Residential Vacancy	$ (156,680)	$ (159,814)	$ (163,010)	$ (166,270)	$ (169,596)	$ (172,988)	$ (176,447)	$ (179,976)	$ (183,576)	$ (187,247)	$ (190,992)	$ (194,812)
Proforma Gross Income	**$ 2,081,608**	**$ 2,123,240**	**$ 2,165,705**	**$ 2,209,019**	**$ 2,253,199**	**$ 2,298,263**	**$ 2,344,229**	**$ 2,391,113**	**$ 2,438,935**	**$ 2,487,714**	**$ 2,537,468**	**$ 2,588,218**
Adjusted Gross Income	**$ -**	**$ -**	**$ 1,082,852**	**$ 2,209,019**	**$ 2,253,199**	**$ 2,298,263**	**$ 2,344,229**	**$ 2,391,113**	**$ 2,438,935**	**$ 2,487,714**	**$ 2,537,468**	**$ 2,588,218**
EXPENSES												
General Administrative	$ 67,218	$ 69,235	$ 71,312	$ 73,451	$ 75,654	$ 77,924	$ 80,262	$ 82,670	$ 85,150	$ 87,704	$ 90,335	$ 93,045
Utility Expenses	$ 29,039	$ 29,910	$ 30,807	$ 31,732	$ 32,684	$ 33,664	$ 34,674	$ 35,714	$ 36,786	$ 37,889	$ 39,026	$ 40,197
Operating & Maintenance	$ 201,181	$ 207,216	$ 213,433	$ 219,836	$ 226,431	$ 233,224	$ 240,221	$ 247,427	$ 254,850	$ 262,496	$ 270,370	$ 278,482
Taxes, Insurance & Miscellaneous	$ 461,398	$ 475,240	$ 489,497	$ 504,182	$ 519,308	$ 534,887	$ 550,933	$ 567,461	$ 584,485	$ 602,020	$ 620,080	$ 638,683
Property Management	$ 166,529	$ 169,859	$ 173,256	$ 176,722	$ 180,256	$ 183,861	$ 187,538	$ 191,289	$ 195,115	$ 199,017	$ 202,997	$ 207,057
Replacement Reserves		$ -	$ 72,400	$ 74,572	$ 76,809	$ 79,113	$ 81,487	$ 83,931	$ 86,449	$ 89,043	$ 91,714	$ 94,466
Proforma Operating Expenses	**$ 925,365**	**$ 951,460**	**$ 1,050,705**	**$ 1,080,494**	**$ 1,111,142**	**$ 1,142,673**	**$ 1,175,115**	**$ 1,208,493**	**$ 1,242,835**	**$ 1,278,169**	**$ 1,314,524**	**$ 1,351,929**
Adjusted Operating Expenses	**$ -**	**$ -**	**$ 525,353**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Effective Net Operating Income	**$ -**	**$ -**	**$ 557,500**	**$ 1,128,525**	**$ 1,142,058**	**$ 1,155,590**	**$ 1,169,114**	**$ 1,182,620**	**$ 1,196,100**	**$ 1,209,545**	**$ 1,222,945**	**$ 1,236,288**
	44.5%											
Senior Debt Service			$517,776	$1,035,553	$1,035,553	$1,035,553	$1,035,553	$1,035,553	$1,035,553	$1,035,553	$1,035,553	$1,035,553
BND FlexPACE Interest Buydown			($61,301)	($122,601)	($112,905)	($103,273)	($93,713)	($84,235)	($74,849)	($65,562)	($56,388)	($47,338)
Net Debt Service			$456,476	$912,952	$922,648	$932,280	$941,840	$951,318	$960,704	$969,991	$979,165	$988,215
Debt Service Coverage			1.22x	1.24x	1.24x	1.24x	1.24x	1.24x	1.25x	1.25x	1.25x	1.25x
Residual Receipts	**$ -**	**$ -**	**$ 39,723**	**$ 92,972**	**$ 106,505**	**$ 120,037**	**$ 133,561**	**$ 147,067**	**$ 160,548**	**$ 173,992**	**$ 187,392**	**$ 200,735**
LP Asset Mgt Fee			$ 10,000	$ 10,300	$ 10,609	$ 10,927	$ 11,255	$ 11,593	$ 11,941	$ 12,299	$ 12,668	$ 13,048
DDF Payments			$ 29,723	$ 82,672	$ 95,896	$ 109,110	$ 67,599	$ -	$ -	$ -	$ -	$ -
DDF Balance	$ 385,000	$ 385,000	$ 355,277	$ 272,605	$ 176,709	$ 67,599	$ -	$ -	$ -	$ -	$ -	$ -
Surplus Cash	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 54,706**	**$ 135,474**	**$ 148,607**	**$ 161,694**	**$ 174,724**	**$ 187,688**

Revenue Escalation:	2.00%
Expense Escalation:	3.00%
Vacancy Assumption:	7.00%
Property Management	8.00%
Deferred Developer Fee :	$385,000
GAHP Loan:	$0

Permanent Loan Amount	$24,106,097
Loan Term	40
Core Loan Rate	3.00%
NHD & Trustee Factor	0.00%
Total Loan Rate	3.00%
Annual Debt Service	$1,035,553

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Multifamily Housing Revenue Bonds
Beloved Housing Apartments
Series 2022

	2034	2035	2036	2037	2038	2039	2040	2041	2042
INCOME									
Annual Gross Rental Income	$ 2,811,144	$ 2,867,367	$ 2,924,714	$ 2,983,209	$ 3,042,873	$ 3,103,730	$ 3,165,805	$ 3,229,121	$ 3,293,703
Other: Ancillary Revenue	$ 27,546	$ 28,097	$ 28,659	$ 29,232	$ 29,817	$ 30,413	$ 31,022	$ 31,642	$ 32,275
Total Residential Income	**$ 2,838,690**	**$ 2,895,464**	**$ 2,953,373**	**$ 3,012,441**	**$ 3,072,690**	**$ 3,134,144**	**$ 3,196,826**	**$ 3,260,763**	**$ 3,325,978**
Less: Residential Vacancy	$ (198,708)	$ (202,682)	$ (206,736)	$ (210,871)	$ (215,088)	$ (219,390)	$ (223,778)	$ (228,253)	$ (232,818)
Proforma Gross Income	**$ 2,639,982**	**$ 2,692,782**	**$ 2,746,637**	**$ 2,801,570**	**$ 2,857,601**	**$ 2,914,754**	**$ 2,973,049**	**$ 3,032,510**	**$ 3,093,160**
Adjusted Gross Income	**$ 2,639,982**	**$ 2,692,782**	**$ 2,746,637**	**$ 2,801,570**	**$ 2,857,601**	**$ 2,914,754**	**$ 2,973,049**	**$ 3,032,510**	**$ 3,093,160**
EXPENSES									
General Administrative	$ 95,837	$ 98,712	$ 101,673	$ 104,723	$ 107,865	$ 111,101	$ 114,434	$ 117,867	$ 121,403
Utility Expenses	$ 41,403	$ 42,645	$ 43,924	$ 45,242	$ 46,599	$ 47,997	$ 49,437	$ 50,920	$ 52,448
Operating & Maintenance	$ 286,836	$ 295,441	$ 304,304	$ 313,433	$ 322,836	$ 332,522	$ 342,497	$ 352,772	$ 363,355
Taxes, Insurance & Miscellaneous	$ 657,843	$ 677,579	$ 697,906	$ 718,843	$ 740,408	$ 762,621	$ 785,499	$ 809,064	$ 833,336
Property Management	$ 211,199	$ 215,423	$ 219,731	$ 224,126	$ 228,608	$ 233,180	$ 237,844	$ 242,601	$ 247,453
Replacement Reserves	$ 97,300	$ 100,219	$ 103,225	$ 106,322	$ 109,511	$ 112,797	$ 116,181	$ 119,666	$ 123,256
Proforma Operating Expenses	**$ 1,390,417**	**$ 1,430,017**	**$ 1,470,764**	**$ 1,512,689**	**$ 1,555,829**	**$ 1,600,217**	**$ 1,645,892**	**$ 1,692,890**	**$ 1,741,251**
Adjusted Operating Expenses	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Effective Net Operating Income	**$ 1,249,565**	**$ 1,262,764**	**$ 1,275,874**	**$ 1,288,881**	**$ 1,301,773**	**$ 1,314,536**	**$ 1,327,156**	**$ 1,339,619**	**$ 1,351,909**
Senior Debt Service	$1,035,553	$1,035,553	$1,035,553	$1,035,553	$1,035,553	$1,035,553	$1,035,553	$1,035,553	$1,035,553
BND FlexPACE Interest Buydown	($38,422)	($29,655)	($21,046)	($12,610)	($4,361)				
Net Debt Service	$997,131	$1,005,898	$1,014,507	$1,022,943	$1,031,192	$1,035,553	$1,035,553	$1,035,553	$1,035,553
Debt Service Coverage	1.25x	1.26x	1.26x	1.26x	1.26x	1.27x	1.28x	1.29x	1.31x
Residual Receipts	**$ 214,012**	**$ 227,212**	**$ 240,321**	**$ 253,328**	**$ 266,220**	**$ 278,983**	**$ 291,604**	**$ 304,066**	**$ 316,356**
LP Asset Mgt Fee	$ 13,439	$ 13,842	$ 14,258	$ 14,685	$ 15,126	$ 15,580	$ 16,047	$ 16,528	$ 17,024
DDF Payments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
DDF Balance	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Surplus Cash	**$ 200,573**	**$ 213,369**	**$ 226,063**	**$ 238,643**	**$ 251,094**	**$ 263,404**	**$ 275,557**	**$ 287,538**	**$ 299,331**

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AUTHENTIC HOUSING
A PUBLIC BENEFIT CORPORATION

What does Authentic Housing require from the City—at a minimum—to move the development forward?

Short Answer

We need only the land at no cost. We do not need additional incentives from the City.

Long Answer

In our original proposal, we offered to pay the full value of the land estimated at $2.7 million, and we sought $2 million from the City to avoid higher upfront costs for the project.[1] **We are no longer requesting the $2 million from the City.**

When Mr. Gilmour informed us that the City was unlikely to provide $2 million, we offered an alternative solution. In an email to Mr. Gilmour on December 17, 2021, we communicated that we no longer seek the $2 million from the City.

As we explained in an email to Mr. Gilmour and Mayor Mahoney on January 24, 2022, we would have used the $2 million for our predevelopment expenses and as construction collateral. Without that money, however, we can use the land. Authentic Housing will work with our likely development partner, the FHRA, to cover any remaining requirements during predevelopment and construction. Additionally, in our permanent financing package, we would defer a greater percentage of the development fee. This isn't optimal for Authentic Housing, but we believe in this project and are willing to make the sacrifices required by deferring the fee.

Authentic Housing can move forward with developing 419 3rd Street N as soon as we acquire the land at no cost.

[1] See Criteria 4: Purchase Price in Authentic Housing's original proposal.

How does the City financially benefit from Authentic Housing's proposal?

Short Answer

Using the cost of the land as the initial investment from the City, **we estimate the City's ROI at 61.09 % annually over 25 years**.

Long Answer

We calculated the City's estimated ROI by using the land's value—per Mr. Gilmour's evaluation—as the City's initial cost, and then we ran Excel's internal rate of return (IRR) function. The net benefits that accrue in the development's future years are the property taxes Authentic Housing would pay to the City from the first year we open.

By using Mr. Gilmour's evaluation of our property taxes—which are more than twice as high as our competitor—and by beginning to pay those taxes from our opening year, Authentic Housing offers the City an ROI that is more than six times what Kilbourne can offer. If Kilbourne's proposal moves forward, the City will have to sacrifice $3–8 million in tax revenue, and Kilbourne will deliver housing with rents nearly 40 % higher than Authentic Housing's offer—a huge blow to both the City's income and to the people of Fargo searching for affordable housing.

Looking beyond the municipal budget—when we consider the City as the Fargoans who live, work, play, and pay taxes do, then Fargo's ROI increases by an additional 14.17 % to a total of 75.26 % because our rents are lower than the median rental prices in the city.

You can see the visual representation of the benefits Authentic Housing will provide compared to Kilbourne in the slide below, which was part of our presentation on January 18, 2022.

What does Authentic Housing need from the City for the additional benefits—such as transportation passes—included in the proposal?

Short Answer

We can move our proposal forward without any financial assistance from the City.

Long Answer

In our original proposal, we extended a hand to partner with the City to provide additional benefits to our residents and all Fargoans; however, our offer is only an offer—**it is not a requirement for us to move forward**.

Creating additional benefits meets both Authentic Housing's vision and the City's goals as listed in the RFP criteria, particularly those related to the *Downtown InFocus* plan. We strongly support the City's efforts to build a vibrant downtown, and we know we can help. Authentic Housing's proposal moves the city closer to achieving its goals not only by providing the downtown workforce with affordable housing but also by reducing car traffic, which helps the City reach the Park Smart and Complete Our Streets goals in the plan.

Our original proposal included two primary offers for partnership:

- transportation passes for our residents for the length of our parking lease with the City[2]
- staff time—**not money**—to assist in creating a district car share for the entire Downtown[3]

We made these offers not as a requirement but as a proposition to benefit the City and move forward with its plans as much as possible. Our partnership approach stands in stark contrast to most development proposals, which often issue a demand that states, "If you do not give us everything we want, then good luck meeting your housing needs." Working hand in hand with the City, Authentic Housing can meet not only your housing needs but also your traffic reduction needs, while being an important partner in all the other goals in the Downtown InFocus plan.

Regardless of the City's decision regarding our offer to partner around transportation, Authentic Housing's proposal still provides high quality, affordable workforce housing with a very small amount of public investment and a very high ROI.

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[2] See Requested Incentives under Contents & Responses in Authentic Housing's original proposal.

[3] See Requested Incentives.

— More Information on Transportation Passes —

In our original proposal, we requested "one unlimited transit pass for each resident . . . for as long as we are contracted with the city for the parking lot lease fee."[4] We see this idea not only as an immediate tangible benefit for our residents, but also a net benefit for the City. Yes, the transit passes are a cost to the City, but this cost occurs over time; the City generates immediate revenue through Authentic Housing's payment for the long-term parking lease, thus generating a net benefit for the City.

In addition to the net financial benefit to the City, transportation passes would help the City meet the *InFocus* plan's Park Smart and Complete Our Streets goals. Free transportation passes strongly incentivize our residents to forgo car ownership, which reduces downtown traffic and the load on the City's existing parking system. If our residents do not own a car, then they are unlikely to need the parking available to them through our long-term parking lease, which means **the City is avoiding the cost while retaining the revenue for our long-term parking lease**. The City generates revenue first through our payment for the lease and second through anyone parking downtown in the spaces our residents would have used had they owned a car.

We also see the City's economy benefiting from the additional spillover effect of our residents' cost savings. Already by offering rents below the median, our residents' disposable income increases. By partnering with the City on transportation, we reduce our residents' costs further and encourage them to stay in Fargo, which increases their ability to spend money and the likelihood that they'll spend it on goods and services downtown.

In our view, transportation passes are a win for the City's revenue, Authentic Housing's vision, and—most importantly—the workforce and lifeblood of Fargo. But if the City prefers not to partner with us, this decision does not affect our ability to move the project forward.

— More Information on the Car Share —

In our original proposal, we requested "staff time to assist in creating a district car share."[5] We did not request any financial assistance. We recognize that even with access to public transportation, our residents may need occasional access to a car. For this reason, we intend to take capital and earnings that we would otherwise pay out as profit and instead put them into developing a car share for our residents.

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[4] See Requested Incentives.

[5] See Requested Incentives.

Though we're building with our future residents at the top of mind, we reject the notion that the benefits we offer stop at our front door. We believe in supporting initiatives that benefit all Fargoans, which is why we want to collaborate with the City to extend the car share to the entire downtown. But if the City prefers not to participate in the car share, we must limit car share access to our residents. This scenario does not affect our ability to move the project forward.

— More Information on Other Benefits for All Fargoans —

With no financial assistance or staff time from the City, our project still provides several additional spaces and services for everyone downtown. Authentic Housing's vision for 419 3rd Street N includes the following benefits for all Fargoans:

- a childcare center open to everyone and offering reduced rates for our residents
- a grocery store—preferentially contracted with a local grocer—convenient for our residents, open to everyone downtown, and a source for job opportunities
- a public coworking space
- an industrial kitchen with free, open access for our residents who can save time and money by cooking together and for downtown's aspiring culinary artists who need space to test recipes
- space to exhibit works of art, creating not only an enhanced aesthetic experience for our residents, but also the opportunity for local artists to generate income

In conclusion, Authentic Housing needs only the land at no cost to create affordable workforce housing with benefits that extend to all Fargoans and a 61.09% ROI for the City.

TAX EXEMPT REVIEW COMMITTEE
Fargo, North Dakota

Regular Meeting **Tuesday, January 25, 2022**

The January 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, January 25, 2022.

The committee members present or absent are:
Present: Dave Piepkorn, Mayor Tim Mahoney, John Cosgriff, Jim Buus, Jessica Ebeling, Jim Gilmour, Deb Mathern, Reid Middaugh, Arlette Preston.

Absent: Levi Bachmeier, Michael Splonskowski, Bruce Grubb, Kent Costin, Erik Johnson, Jackie Gapp, Joe Raso, Robert Wilson, Dean Brescani, Chad Peterson, Steve Swiontek

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

1 2nd St South Proposal

- Park East Site
- Dan Madler- Beyond Shelter
- Working with Foss Architecture
- High traffic mixed affordable housing
- Downtown living community for affordable senior living
    - 5 stories
    - 51 senior apartments
    - 9800 sq. ft. onsite commercial space
    - 60 enclosed parking spaces and 30 surface spaces
    - A little over 100,000 sq. ft. for project
- $650,00 with request of Renaissance and TIFF
- Both worked on Milten Earl
- Questions:
    - Jim Buus: What do anticipate the 9800 sq. ft. commercial space to be designed as?
        - Clinical/Medical/Office space or Rental/Condo ownership
    - Prakash Mathew: Are the units apartment units?
        - Yes
        - 1 bed-$650 and a few 2 bed-$850
    - Arlette Preston: Would individuals qualify to live in the units?
        - People will be able to afford them and okay with vouchers.

419 3rd St North-

- Old Health Department Building
- Kevin Bartrum- MBA Investments/MBA Architects
- 68 Unit market rate apartment building
- 72 enclosed parking on first floor and parking along the alley
- Four level apartments in an L shape
- Could provide commercial space on the south.
- $500,000 for site. $13 million for proposal. $15 million with underground parking.
- Would like public art long 4th St and to engage in the art community
- Questions:
    - Mayor Mahoney: How many parking spots?
        - First proposed 56 enclosed and 16 in the alley. Now 100 all enclosed. 40 onsite right now.
    - Dave Piepkorn: Ball park prices for units?
        - 1 bed-$1150-$1250 and 2 bed $1350-$1450
        - A couple of 3 bedrooms
    - Deb Mathern: What is being done with parking at Fargo Public School District Office?
        - No one is using it at the moment

Public Comments

- Skipped due to attendance and time.

Discussion on Proposals

- City would like to acquire a property and pick the most impactful
- Arlette Preston- Target market and income level is quite different between all three.
- Prakash Mathew- Will both committees work separately?
    - Jim: Yes
- Chris (Housing Authority)- High rise:
    - 110 units- 1, 2, and 3 bedroom.
    - 4-5 stories
    - Will accept vouchers but are closed for vouchers as of right now.
    - Parking- 77 covered and 17 outside
- Mayor Mahoney: Do we need condos or apartment/housing?
    - Jim Gilmour: We do not know. This has not been studied.
    - Dave Piepkorn: Housing study is in process.
- Recommendation vote for Epic, Beyond Shelter, or Eagle:
    - RZ Authority:
        - Dave Piepkorn- Eagle

    - Arlette Peterson- Epic
    - Prakash Mathew- Epic
    - Reid Middaugh- Eagle
- EDIC:
    - Mayor Tim Mahoney- Epic
    - Jim Buus- Epic
    - Jessica Ebeling- Epic
    - John Cosgriff- Eagle
    - Jim Gilmour-

A motion was made by Jim Buus to approve the minutes from November 23, 2021. Jessica Ebeling seconded, motion carries

The meeting was adjourned at 1:50 pm.

NORTH Dakota | Commerce
Be Legendary.™

December 30, 2020

Bryan Hendricks
Dakota Specialty Milling Inc
PO Box 46
Fargo, ND 58107-0046

Dear Bryan:

Thank you for your application for primary-sector certification by the North Dakota Department of Commerce, Economic Development & Finance Division. We have reviewed your application and determined that ED&F can certify your company, **Dakota Specialty Milling Inc**, as primary sector and a new wealth creator in the economy of North Dakota. This certification is valid for **four years** from today's date (expires 12/30/2024).

Most of North Dakota's economic development programs, tools and incentives are targeted toward primary-sector clients. You may be requested to provide a copy of this primary-sector certification letter when you apply for certain economic development incentive and funding programs.

This certification does not guarantee the receipt of any North Dakota business incentive. For example, there are additional qualification criteria for the Seed Capital Investment and Agricultural Business Investment personal income tax credits, and it is critical that investments **NOT** be made prior to the business receiving certification for these two credits. If you are pursuing certification for investment tax credits and need to know the criteria required for qualification, contact Joe Cicha 701-328-7283.

This certification is not the application process for the North Dakota New Jobs Training Program administered by Job Service North Dakota. To apply for the North Dakota New Jobs Training Program, you must contact Job Service North Dakota for the required application forms. Application forms for other programs that require primary sector certification are available from the agency administering the program.

Also, companies and individuals pursuing the investment tax credit incentive are reminded there is a cap on available dollars. Please visit with the ND Office of the Tax Commissioner regarding the remaining balance for investment tax credits. The credits are available on a first-come-first-serve basis until the law-defined cap is met.

North Dakota appreciates your contribution to the citizens and economy of our state. If there is anything further we can do to assist your company, please contact us at 701-328-5300.

Sincerely,

Joshua Teigen, Director
Economic Development & Finance Division

1600 E Century Avenue, Suite 2 | P.O. Box 2057 | Bismarck, ND 58502-2057

PHONE: 701-328-5300 | TOLL-FREE: 1-866-4DAKOTA | ND RELAY TTY: 1-800-366-6888 | VOICE: 1-800-366-6889 | NDCommerce.com

Application For Property Tax Incentives For New or Expanding Businesses

N.D.C.C. Chapter 40-57.1

Project Operator's Application To Fargo
City or County

File with the City Auditor for a project located within a city; County Auditor for locations outside of city limits.

A representative of each affected school district and township is included as a non-voting member in the negotiations and deliberation of this application.

This application is a public record

Identification Of Project Operator

1. Name of project operator of new or expanding business Dakota Specialty Milling, Inc.
2. Address of project 1430 41st St. N
   City Fargo County Cass
3. Mailing address of project operator 4014 15th Ave N
   City Fargo State ND Zip 58102
4. Type of ownership of project
   - ☐ Partnership
   - ☐ Corporation
   - ☑ Subchapter S corporation
   - ☐ Cooperative
   - ☐ Individual proprietorship
   - ☐ Limited liability company
5. Federal Identification No. or Social Security No. [redacted]
6. North Dakota Sales and Use Tax Permit No. [redacted]
7. If a corporation, specify the state and date of incorporation [redacted]
8. Name and title of individual to contact Peter Matthaei CEO
   Mailing address 4014 14th Ave N
   City, State, Zip Fargo, ND 58102 Phone No. 701-282-9656

Project Operator's Application For Tax Incentives

9. Indicate the tax incentives applied for and terms. Be specific.

   ☑ **Property Tax Exemption**
   5 Number of years
   100% Percent of exemption

   ☐ **Payments In Lieu of Taxes**
   ____ Beginning year ____ Ending year
   ____ Amount of annual payments (attach schedule if payments will vary)

10. Which of the following would better describe the project for which this application is being made:
    - ☐ New business project
    - ☑ Expansion of a existing business project

24734
(Rev. 2/14)

Description of Project Property

11. Legal description of project real property

Lot: 4 Block: 8 Industrial Sub #1 S 345' of LT 4 BLK 8 and Lot: 4 Block: 8 Addition: Industrial sub #1 Lot 4 less S 345' BLK 8

12. Will the project property be owned or leased by the project operator? ☑ Owned ☐ Leased

If the answer to 12 is leased, will the benefit of any incentive granted accrue to the project operator?
☐ Yes ☐ No

If the property will be leased, attach a copy of the lease or other agreement establishing the project operator's benefits.

13. Will the project be located in a new structure or an existing facility? ☑ New construction ☐ Existing facility

If existing facility, when was it constructed? ______

If new construction, complete the following:

a. Estimated date of commencement of construction of the project covered by this application 10/1/22

b. Description of project to be constructed including size, type and quality of construction
The project consists of a 40,000 sq. ft. expansion onto exsisting facility. It will include 5,500 sq ft of operations for a blending line, and the rest will be for raw and finished good storage. The building is concrete floors with a Metal building.

c. Projected number of construction employees during the project construction 30

14. Approximate date of commencement of this project's operations 11/1/22

15. Estimated market value of the property used for this project:

a. Land $ 680,000

b. Existing buildings and structures for which an exemption is claimed $ 0

c. Newly constructed buildings and structures when completed $ 4,000,000

d. Total $ 4,680,000

e. Machinery and equipment $ 1,000,000

16. Estimate taxable valuation of the property eligible for exemption by multiplying the market values by 5 percent:

a. Land (not eligible) [redacted]

b. Eligible existing buildings and structures $ ______

c. Newly constructed buildings and structures when completed $ 200,000.00

d. Total taxable valuation of property eligible for exemption (Add lines b and c) $ 200,000.00

e. Enter the consolidated mill rate for the appropriate taxing district 284.79

f. Annual amount of the tax exemption (Line d multiplied by line e) $ 56,958.00

Description of Project Business

Note: "project" means a newly established business or the expansion portion of an existing business. Do not include any established part of an existing business.

17. Type of business to be engaged in: ☑ Ag processing ☐ Manufacturing ☐ Retailing ☐ Wholesaling ☐ Warehousing ☐ Services

18. Describe in detail the activities to be engaged in by the project operator, including a description of any products to be manufactured, produced, assembled or stored (attach additional sheets if necessary).

The new facilty will house both finished and raw materials to support our milling, blending, and toasting lines in the surrounding industrial park. It will also house a new blending line which is an extension of our business in St. Louis, MO that we have chosen to expand to Fargo, ND. We will be using raw materials such as wheat, rye, oats, barley, starches, and many specialty grains sourced both locally in ND and around the country/world.

19. Indicate the type of machinery and equipment that will be installed

We intend to install a ribbon blender, packing stations, and tote unloading equipment.

20. For the project only, indicate the projected annual revenue, expense, and net income (before tax) from either the new business or the expansion itself for each year of the requested exemption.

Year *(12 mo. periods)*	New/Expansion Project only Year 1	New/Expansion Project only Year 2	New/Expansion Project only Year 3	New/Expansion Project only Year 4	New/Expansion Project only Year 5
Annual revenue	3,000,000	3,250,000	3,500,000	3,500,000	3,500,000
Annual expense	2,700,000	2,925,000	3,150,000	3,150,000	3,150,000
Net income	300,000	325,000	350,000	350,000	350,000

21. Projected number and salary of persons to be employed by the project for the first five years:

Current positions & positions added the initial year of project

# Current Positions		New Positions Under $13.00	New Positions $13.01-$15.00	New Positions $15.01-$20.00	New Positions $20.01-$28.00	New Positions $28.01-$35.00	New Positions Over $35.00
0					14		

Year		(Before project)	Year 1	Year 2	Year 3	Year 4	Year 5
No. of Employees	(1)	0	14	14	14	14	14
	(2)						
Estimated payroll	(1)		640,640	640,640	640,640	640,640	640,640
	(2)						

(1) - full time
(2) - part time

Previous Business Activity

22. Is the project operator succeeding someone else in this or a similar business? ☐ Yes ☑ No

23. Has the project operator conducted this business at this or any other location either in or outside of the state?

    ☑ Yes ☐ No

24. Has the project operator or any officers of the project received any prior property tax incentives? ☑ Yes ☐ No

    If the answer to 22, 23, or 24 is yes, give details including locations, dates, and name of former business (attach additional sheets if necessary).

    See attched

Business Competition

25. Is any similar business being conducted by other operators in the municipality? ☐ Yes ☑ No

    If YES, give name and location of competing business or businesses

    Percentage of Gross Revenue Received Where Underlying Business Has ANY Local Competition %

Property Tax Liability Disclosure Statement

26. Does the project operator own real property in North Dakota which has delinquent property tax levied against it? ☐ Yes ☑ No

27. Does the project operator own a greater than 50% interest in a business that has delinquent property tax levied against any of its North Dakota real property? ☐ Yes ☑ No

    If the answer to 26 or 27 is Yes, list and explain

Use Only When Reapplying

28. The project operator is reapplying for property tax incentives for the following reason(s):
    - ☐ To present additional facts or circumstances which were not presented at the time of the original application
    - ☐ To request continuation of the present property tax incentives because the project has:
        - ☐ moved to a new location
        - ☐ had a change in project operation or additional capital investment of more than twenty percent
        - ☐ had a change in project operators
    - ☐ To request an additional annual exemption for the year of ______ on structures owned by a governmental entity and leased to the project operator. (See N.D.C.C. § 40-57.1-04.1)

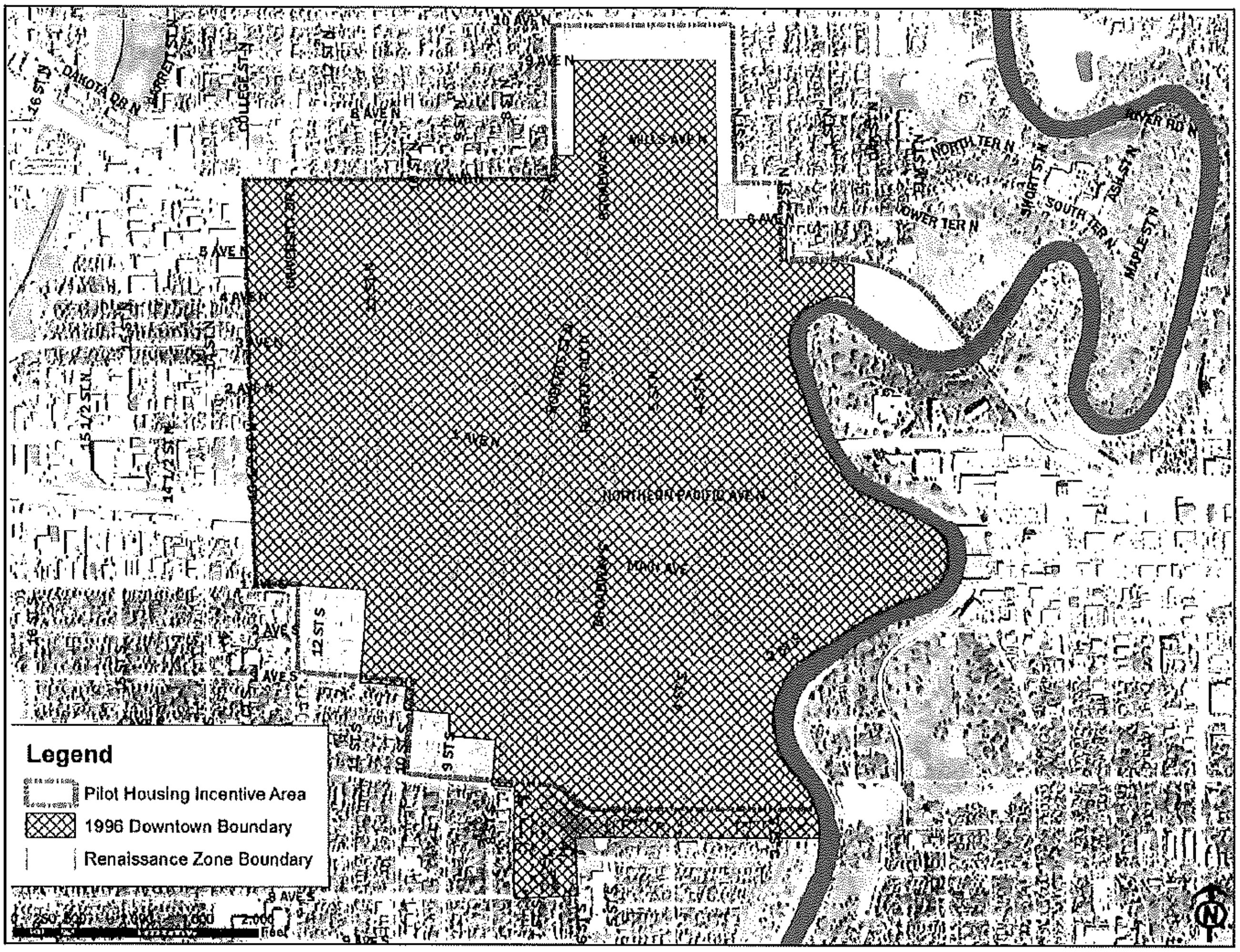
Notice to Competitors of Hearing

Prior to the hearing, the applicant must present to the governing body of the county or city a copy of the affidavit of publication giving notice to competitors unless the municipality has otherwise determined there are no competitors.

I, W. Peter Matthaei, do hereby certify that the answers to the above questions and all of the information contained in this application, including attachments hereto, are true and correct to the best of my knowledge and belief and that no relevant fact pertaining to the ownership or operation of the project has been omitted.

Signature	Title	Date
[signature]	CEO	2/11/22

Downtown Housing Incentive Area Map



Business Incentive Agreement

1. In fulfillment of the requirements of N.D.C.C. § 54-60.1-03, Grantor and Recipient enter into this Business Incentive Agreement.

Grantor

Name	City of Fargo
Address	225 4th Street North Fargo, ND 58102

Recipient

Name	Dakota Specialty Milling
Address	4014 15th Ave. N Fargo, ND 58102
Contact Person: Peter Matthaei	E-mail Address: pmatthaei@dakotaspecialtymilling.com
Recipient Parent Company (If applicable)	Dakota Specialty Enterprises
Business Type (NAICS Code)	311211; 311230; 311999
Location of Recipient Prior to Receiving Incentive (If different)	

2. Description of project.

We plan to add 40,000 sq. ft of warehouse and production space onto an exsisting 19,000 sq. ft office/warehouse building currently on the premisis. The manufacturing will be a line extension of products we are currently making in our St. Louis, MO facility. The new space will be roughly 6,000 sq. ft. production and 34,000 sq. ft warehouse.

3. Grantor(s) agrees to provide recipient with a business incentive described as follows:

3.a. Is this incentive tax increment financing? ☐ Yes ☐ No
If yes, describe the type of district:

4. The business incentive will be provided on ____________________.
This date is the benefit date.

5. The public purpose(s) of the business incentive are:

☒ Assisting community development ☒ Increase tax base

☒ Directly create employment opportunities ☒ Indirectly increase employment opportunities

☒ Job retention ☐ Other ____________________

6. Value of Business Incentive: $________________

7. Recipient currently employs 150 people, located in Fargo, ND.

8. In return for the business incentive, Recipient shall, within two years create: 15-20
Number of full-time equivalent jobs

$18-30 + $13 = $31-43
Average hourly wage + Benefits per hour value = Average hourly compensation

9. The Recipient shall continue operations in the jurisdiction in which the business incentive was issued for five years or more after the benefit date.

10. Recipient shall file a recipient report with the Grantor, as described in N.D.C.C. § 54-60.1-05 annually on or before March 1st of each year for two years, beginning in 2007, following the benefit date or until the goals of paragraph 8 are met, whichever is later.

10.a. Grantor shall mail the recipient a warning letter if no report is received by March 8th. Recipient shall file the progress report within 14 days of the postmarked date of the warning letter.

10.b. If a recipient report is not received within 14 days of the warning letter, Recipient agrees to pay to Grantor a $100 penalty for each subsequent day until the report is filed. The maximum penalty under this section may not exceed $1,000.

11. Recipient shall pay back the value of the incentive to the Grantor, prorated to reflect any partial fulfillment of the job and compensation goals, if, after two years, the job and compensation goals listed in paragraph 8 are not met.

11.a. Paragraph 11 does not apply if the job and compensation goals were not met as a result of an act of God or terrorism.

12. This business incentive agreement shall only be modified or extended by the Grantor pursuant to N.D.C.C. § 54-60.1-04.

13. If the terms of this business incentive agreement are not met, Recipient shall not receive a business incentive from any grantor for five years from the date of failure or until a recipient satisfies the repayment obligation.

14. The Recipient has disclosed, in attachment "A" of this agreement, all additional financial assistance received from state or political subdivision Grantors for this project since inception.

15. By signing this agreement, Recipient verifies that it has not failed to meet the terms of any business incentive agreement in the last five years.

Dated this ____________ day of ________________________, 20____.

Grantor: _________________________________ on behalf of ____________________________

Dated this 15Th day of February, 2022.

Recipient: [signature] on behalf of Dakota Specialty Milling

Attachment "A"

Recipient has received the following additional financial assistance from state or political subdivision Grantors for this project since inception.

Grantor	Description of Assistance	
Value of Assistance	Benefit Date	Pending Benefit Date

Grantor	Description of Assistance	
Value of Assistance	Benefit Date	Pending Benefit Date

Grantor	Description of Assistance	
Value of Assistance	Benefit Date	Pending Benefit Date

Grantor	Description of Assistance	
Value of Assistance	Benefit Date	Pending Benefit Date

Grantor	Description of Assistance	
Value of Assistance	Benefit Date	Pending Benefit Date

THE CITY OF Fargo FAR MORE

City Administration
225 4th Street North
Fargo, ND 58102

MEMORANDUM

TO: **Economic Development Incentives Committee**

FROM: **Jim Gilmour, Director of Strategic Planning and Research**

DATE: **February 14, 2022**

SUBJECT: **J-Street Apartment Project**

Earlier this year, this Committee recommended the development of a renewal plan and financial review on a proposed redevelopment project at 1418 1st Avenue North. The project is a new 90-unit apartment building.

The request for Tax Increment Financing (TIF) is for $1.3 million, which includes $50,000 for city administration costs. The $1.3 million is for demolition and site cleanup, land acquisition, public facilities and administration. TIF funds may also be used for construction of NP Avenue between 14th and 14 ½ Street North.

The TIF request along with a report from our financial adviser is attached. The report states that, "Based on the information provided to PFM, the calculated internal rate of return at the coverage requirements, PFM concluded the project would not be feasible without public assistance."

Recommended Motion

Recommend to the City Commission approval of a Renewal Plan and Developer Agreement with J-Street Properties, LLC for the redevelopment of 1418 1st Avenue North.

October 20, 2021

Jim Gilmour, Dir. of Strategic Planning & Research
City of Fargo
225 4th St. N.
Fargo, ND 58102

RE: TIF Application
J-Street Flats
Fargo, ND

Mr. Gilmour:

On behalf of J-Street Properties, LLC, we offer this Application for Tax Increment Financing Assistance for our proposed J-Street Flats Multi-Family project to be located at 1418 1st Ave. N., the former Woodchuck building which was damaged beyond repair by a recent fire.

Contact Information

Kevin Bartram
505 N. Broadway
Fargo, ND 58102
(701) 235-5563
kbartram@mbapc.com

Mark Bjornstad
1666 1st Ave. N.
Fargo, ND 58102
(701) 540-6608
mark@drekkerbrewing.com

General Information

- Owner
  J-Street Properties, LLC

- Project Location
  1418 1st Ave N & 19 14 ½ St N
  Fargo, North Dakota

- Project Description & Conceptual Plans
  90 unit, 4-story multi-family project with enclosed parking for 92 vehicles plus additional surface parking for 21 vehicles. Project will also include a request to pave 14-½ Street and part of NP Avenue, both of which are currently gravel surfaces.

  Conceptual plans are attached.

- Proposed Schedule
  Begin construction in Spring, 2022 with completion scheduled for Summer 2023. Demolition of the existing on-site structure will begin in late Winter depending on the status of this TIF Application.

Project Financials & Financing

- Developer & Ultimate Owner of Property
  J-Street Properties, LLC

- Type of Project
  Multi-Family site re-zoned to DMU with conditional overlay

- Dollar request of TIF assistance
  Approximately $1.25M

- 10 year Proforma
  Proforma is currently being finalized

- Total Project Cost
  Approximately $14.75M

- Hard Capital Costs
  Approximately $12.5M

- Contributed Equity
  Approximately $3.0M

- Loan Amounts with Terms
  Final loan package still being finalized.
  Anticipated terms are 3.50 – 3.75% fixed for 5 years with a 20 year term.

- Number of Housing Units
  (57) 1-BR Units-various plans
  (24) 2-BR Units-various plans
  (9) 3-BR Units-various plans
  (90) units Total.

- SF of Commercial Space
  None; project includes enclosed parking for 92 vehicles on 1st floor and amenity spaces (fitness, community room, lounge spaces)
  2nd – 4th floors and a 5th floor roof terrace.

- Proposed Rents
  1-BR units - $ 950 - $1,075/mo.
  2-BR units - $1,250 - $1,350/mo.
  3-BR units - $1,500 - $1,700/mo.

  Rents include all utilities, parking costs & in unit laundry.

- Additional Revenues
  Commissions from TV / Internet provider of $2 – 4/ unit/mo.

- Expenditures

Land Cost	$	1,075,000
Construction Cost		11,850,000
Architecture/Engineering		800,000
Financing		200,000
Developer Fee		500,000
Contingency		325,000
	$	14,750,000

- Extraordinary Costs

Land	$	1,075,000	
Building Demolition	$	333,500	
Environmental		Unknown	(Phase 1 underway)
Public Works	$	125,000	

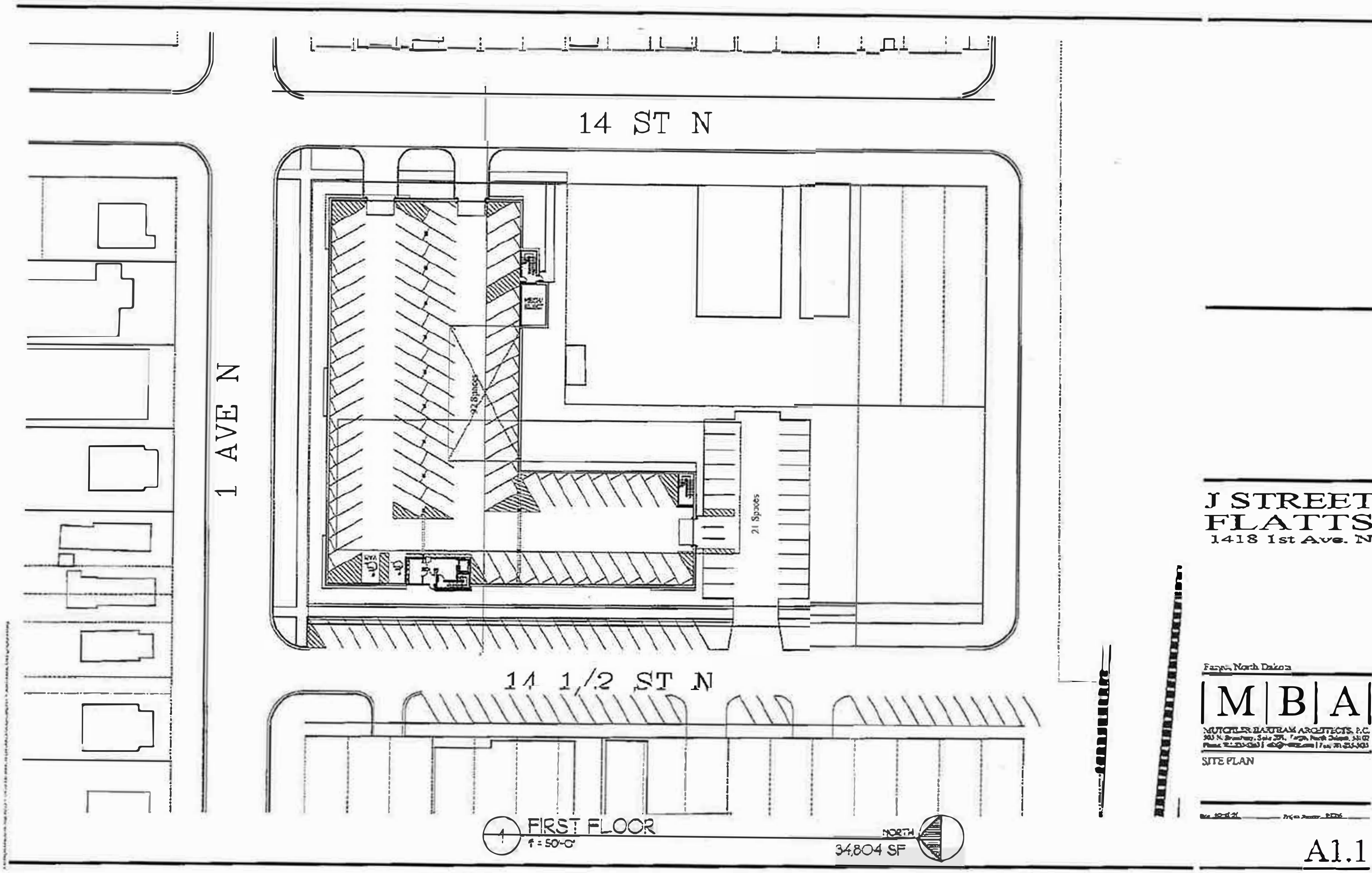
* All of these costs are subject to revision depending on details from the Phase 1 & possible Phase 2 environmental reports.

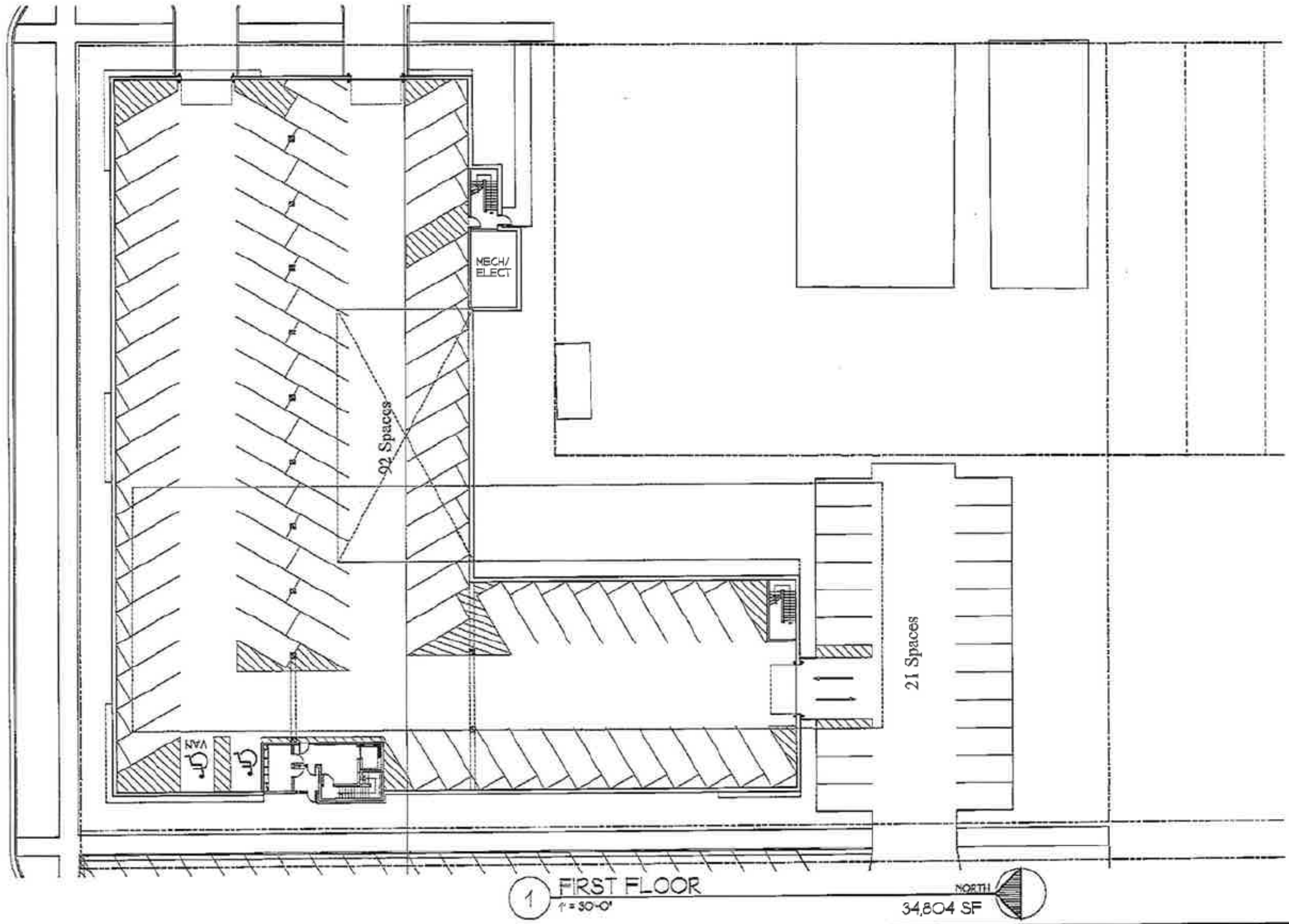
Please let us know if there are any questions or if additional information is required.

Sincerely,

Kevin J. Bartram

KJB/tjs


14 ST N
1 AVE N
14 1/2 ST N
92 Spaces
21 Spaces
J STREET
FLATTS
1418 1st Ave. N.
MBA
SITE PLAN
FIRST FLOOR
1" = 50'-0"
NORTH
34,804 SF
A1.1



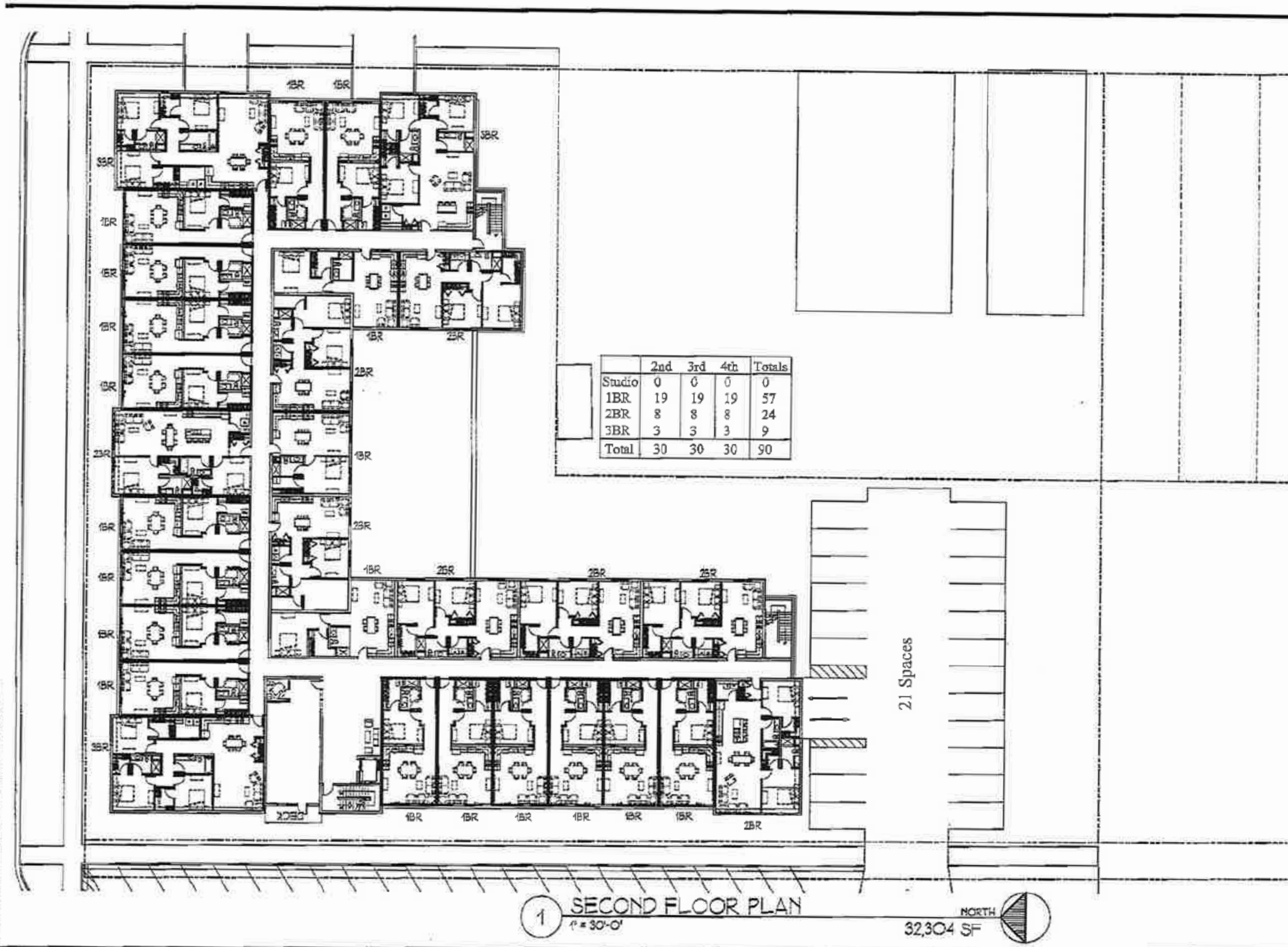
J STREET
FLATTS
1418 1st Ave. N.

Fargo, North Dakota

M|B|A
MUTCHLER BARTRAM ARCHITECTS, P.C.

FIRST FLOOR PLAN

A3.1



	2nd	3rd	4th	Totals
Studio	0	0	0	0
1BR	19	19	19	57
2BR	8	8	8	24
3BR	3	3	3	9
Total	30	30	30	90

J STREET FLATTS

1418 1ST AVE. N.

FARGO, NORTH DAKOTA

MBA
MUTCHLER BARTRAM ARCHITECTS, P.C.

SECOND FLOOR PLAN

A3.2

J STREET FLATTS
1418 1ST AVE. N.

FARGO, NORTH DAKOTA

MBA
MUTCHLER BARTRAM ARCHITECTS, P.C.

THIRD FLOOR PLAN

A3.3

1 FOURTH FLOOR PLAN
1" = 30'-0"
NORTH
32,304 SF

J STREET FLATTS
1418 1ST AVE. N.

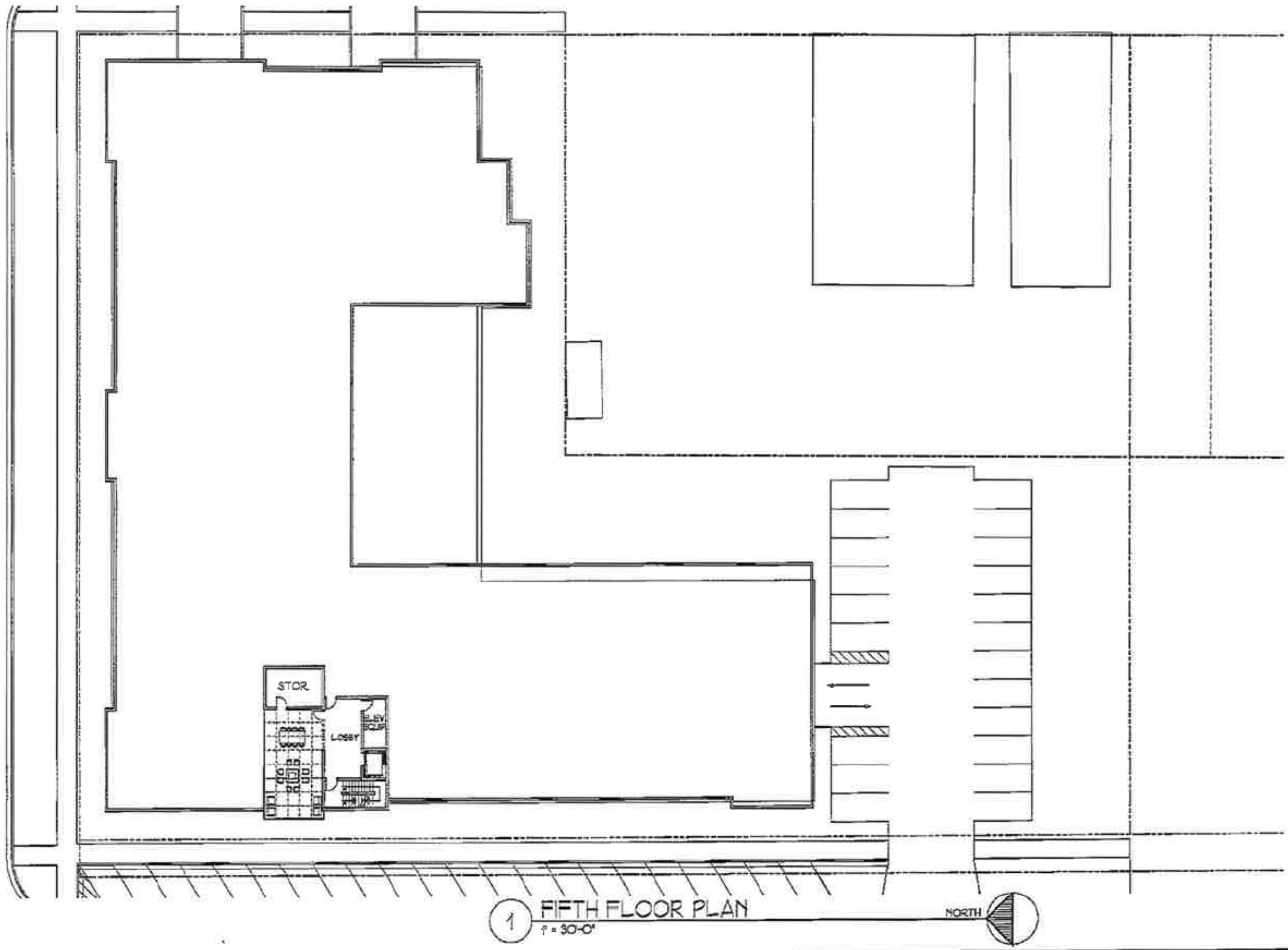
FARGO, NORTH DAKOTA

M|B|A
MUTCHLER BARTRAM ARCHITECTS, P.C.
505 N. Broadway, Suite 201, Fargo, North Dakota, 58102
Phone: 701-235-5563 | info@mbagc.com | Fax: 701-235-5435

FOURTH FLOOR PLAN

Date [illegible] Project Number [illegible]

A3.4



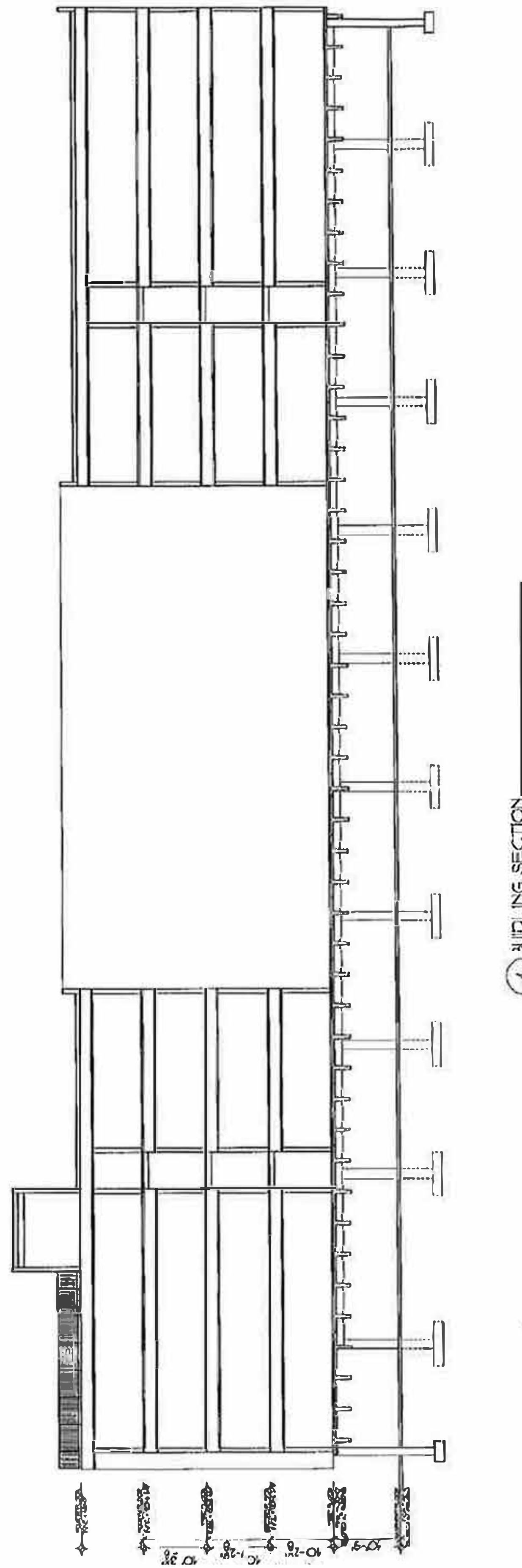
J STREET
FLATTS
1418 1ST AVE. N.

FARGO, NORTH DAKOTA

MUTCHLER BARTRAM ARCHITECTS, P.C.

FIFTH FLOOR PLAN

A3.4


1
BUIDLING SECTION

City of Fargo, North Dakota

Tax Increment Financing Program
"But-For" Report

J St Lofts

February 14, 2022

Table of Contents

Purpose

The purpose of this report is to establish and determine the allowable value of the tax increment financing (TIF) for 1418 1st Ave. N., a development by J-Street Properties, LLC (the "Developer").

PFM first reviewed the application to ensure that appropriate assumptions regarding property value, rent, condo sales, vacancy, expenses, and debt were used by the Developer. Based on those assumptions, PFM projected a 10-year cash flow, calculating an internal rate of return ("IRR"). We also made sure the Developer followed the City of Fargo's (the "City") Tax Increment Financing Policy (the "Policy") including the allowable costs and the Developer's calculations for determining the amount of allowable subsidy financing. The following report details PFM's analysis and conclusions concerning the viability of the proposed project without the subsidy.

Project

The project being proposed by the Developer includes the development of a 90-unit rental apartment building located at 1418 1st Ave. N.

The Developer estimates the construction will be completed in the Summer of 2023 with occupancy immediately following. The Developer has requested TIF assistance in the amount of $1,250,000 to complete the project.

Assistance Request

The Developer is requesting assistance in the form of tax increment financing under the City's Tax Increment Financing Policy. The Policy provides public assistance to a development through tax increment financing for private development. According to the Policy, the maximum TIF assistance is 15 years, and the Developer is asking for a 10-year exemption.

Eligible TIF Expenditures

Property Acquisition Costs	$ 790,000
Building Demolition/Disposal	250,000
Tree Trimming/Removal	10,000
Clearing/Grading	40,000
Soil Borings	9,500
Remove Poor Soils & Replace w/ Suitable Soils	100,000
Disconnect Utilities	20,000
Site Survey	4,000
Remove Existing Concrete Sidewalks	10,000
Provide New Curb & Gutter	25,000
New Sidewalk	30,000
Landscaping in ROW	20,000
New Sewer, Water, Storm Stubs in ROW	25,000
Street Patching	10,000
Storm Detention Pond	50,000
Signage/Barricades	5,000
City Administrative Fee	69,925
Total Eligible TIF Expenditures	**$1,468,425**

The Policy limits the TIF assistance to 15% of hard construction costs, including the costs of acquisition. Based on total hard construction costs of $11,850,000 the Developer can receive up to $1,777,500. The Developer is requesting $1,468,425 which is below the maximum allowed.

Land Cost

The Developer states the purchase price to acquire the property for the project is $1,075,000. Land acquisition is reimbursable under the Policy. The Developer is requesting to be reimbursed $790,000 for the land acquisition which complies with the Policy.

The Policy states that the maximum eligible land costs to be recouped by the Developer should be limited to the lesser of:

1.) **The total acquisition cost for the property, provided that the acquisition cost is no more than 150% of the assessor's market value of the property.** The Developer's cost to acquire the property is $1,075,000. The assessor's market value for the property totals $319,000. The eligible amount for reimbursement is 150% of $319,000 which totals $478,500. The Developer's reimbursement request of $790,000 is not within the allowable reimbursable amount under this policy.

2.) **The difference between what was paid by the Developer for the property less the assessor's market value for the land (as opposed to land and buildings).** The current assessor's land value is $319,000. Based on an acquisition price of $1,075,000 the maximum reimbursement is $756,000.

The lesser of the two tests detailed above is $478,500. The requested reimbursement amount for land acquisition of $790,000 is not allowable under the Policy.

Term

The Policy states the length of the term will be limited to 15 years or less. The Developer is requesting a 10-year term.

TIF Estimate

PFM estimates that $1,456,858 of TIF will be generated over the 10 years assuming a 1.50% market growth rate. Based on a discount rate of 3.25%, the present value of the estimated TIF cash flow is $1,250,000 through 10 years. However, the present value of the TIF cash flows is estimated to reach the requested amount in year 9 so the TIF would end early.

Project Financing

The Developer is investing 20% equity, or $2,950,000, and will be privately financing $11,800,000. The Developer is additionally requesting annual TIF assistance in the total amount of $1,250,000. The private financing is estimated to be a 25-year loan with an estimated interest rate of 3.25% resulting in an annual principal and interest payment of $696,664. The application states the project will be completed by the Summer of 2023.

Return Analysis

In calculating the internal rate of return, PFM first analyzed the Developer's assumptions including expected monthly rent, vacancy rate, and operating expenses. The Developer is proposing rents of $925 for a one-bedroom unit type A, $975 for a one-bedroom unit type B, $1,200 for a two-bedroom unit and $1,400 for a three-bedroom unit. The Developer has proposed a reasonable amount for rent for the current market and location. Annual estimates of operating expenses for the 90-unit rental development were provided, as follows; Maintenance Costs - $48,160, Utilities - $117,450, Miscellaneous fees - $2,700, Real Estate Taxes - $173,933 (without TIF), Insurance Costs - $22,125, and Administration Costs - $94,325. The total expenses are approximately 42% of gross operating income.

The second step in determining the internal rate of return is to determine the earned incremental value of the property over a 10-year period. That value, along with the net operating income cash flows, was used to calculate the internal rate of return. PFM determined that without TIF assistance the Developer would have about a 5.58% internal rate of return based on a 10-year internal rate of return. The Developer would have about a 9.04% internal rate for 10 years if it received the public assistance. A reasonable rate of return for the proposed project is 10% - 15%.

Another measure of feasibility and project viability is the debt coverage ratio. PFM has projected a maximum debt coverage ratio in Year 10 of 1.04x without assistance, with a Year 6 coverage of 0.98x. If the City provided assistance to the project the maximum debt coverage is projected to be 1.28x in Year 8, with a Year 6 coverage of 1.24x.

Using PFM's "without assistance" cash flow as the base scenario, PFM ran sensitivity analyses in order to determine if the project would be likely to occur without public assistance. For the first sensitivity analysis, PFM analyzed how much project funds would have to decrease in order to produce a reasonable internal rate of return. We also looked at how much the rental rates would have to fluctuate in order to achieve a reasonable internal rate of return. Lastly, we looked at a combination of the two scenarios. For the sensitivity analyses, we assumed a reasonable internal rate of return of 10.00%.

Sensitivity Scenario 1 – Project Costs

The project would have to be reduced by $1,474,000 or 10.0% in order for the project to become viable without assistance. This reduces the amount to be financed from $11,800,000 to $10,620,800 and reduces the annual payment from $696,644 to $627,045 for the loan. It is unlikely that a reduction in project costs of this magnitude would occur at this stage in the development, but could still occur.

Sensitivity Scenario 2 – Rental Rates

In order for the project to be viable without public assistance, the rental rates would have to increase by 15.1%. PFM believes this is a high increase to the Developer's proposed rents. This increases annual rental revenue from $871,965 to $1,003,142. PFM believes the proposed rents are reasonable rental rates and does not believe an increase this large would occur.

Sensitivity Scenario 3 – Combination of Project Costs and Rental Rates

The final scenario looks at both a reduction of project costs and an increase in rental rates. The analysis showed that project costs would have to be reduced by $890,000 or 6.0% and rental rates would have to increase by about 6.0%. Either of these events could occur but may be unlikely to occur together.

The above scenarios show the circumstances in which the project would become viable without public assistance. PFM has determined that the project is unlikely to occur "but-for" the public assistance.

Conclusion

The Developer will bear all the risk involved with the project. The Developer is dependent on a number of factors before and after the project is completed, including project costs, occupancy of the buildings, the rental market, and monthly expenses. The base scenario without assistance along with the sensitivity analyses demonstrates that the project would be unlikely to be feasible without assistance.

PFM has calculated that with public assistance, and based on the assumptions outlined in this report, a 10-year internal rate of return is estimated to be 9.04%. In addition, the coverage ratio in Year 8 is estimated to be 1.28x. The estimated internal rate of return is appropriate given the risk level for this type of project. Based on the information provided to PFM, the calculated internal rate of return and the coverage requirements, PFM concludes the project would not be feasible without public assistance.