

FARGO TAX EXEMPT REVIEW COMMITTEE
Monday, September 28, 2020 – 11:30 a.m.
City Commission Chambers, Fargo City Hall

AGENDA

- 1. Approve Tax Exempt Review Committee Meeting Minutes of 8/25/2020**
 - a. August 25, 2020 minutes [Page]
- 2. Application for PILOT for Aldevron, LLC**
 - a. Application for PILOT [Page]
- 3. Application for TIF for River Lofts**
 - a. TIF [Page]

TAX EXEMPT REVIEW COMMITTEE
Fargo, North Dakota

Regular Meeting**Tuesday, August 25, 2020**

The August meeting of the Tax Exempt Review Committee of the City of Fargo, North Dakota was held in the City Commission Room at City Hall at 1:00 p.m., Tuesday, August 25, 2020.

The committee members present or absent are:

Present: Dave Piepkorn, Bruce Grubb, Kent Costin, Jessica Ebeling, Jackie Gapp, Jim Gilmour, Mike Splonskowski, Joseph Raso

Absent: Mayor Tim Mahoney, Jim Buus, John Cosgriff, Levi Bachmeier, Erik Johnson,

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

A motion was made by Bruce Grubb to approve the minutes from the July meeting held on July 28, 2020. Jessica Ebeling seconded. Motion carried.

New Industry Application by AdShark Ventures, LLC

The site they had secured, fell through.

Rick Berg, CEO and co-founder of AdShark described the business as an e-commerce and league generation marketing agency that helps businesses grow through the use of digital platforms. They have been around for 7 years and currently have 17 employees. The business began in Fargo. They are looking for a lot that would be in the \$800,000 range with a building to be approximately 10,000 square feet, preliminary estimates would be around the \$2.8 million range. The new building would be built to their needs and allow them to recruit more employees.

Jim Gilmour said they are looking at going from 15 employees up to 46, but would probably add five employees in the first year. The property tax exemption would be approximately \$27,000 a year.

Dave pointed out the starting wage is in the \$20-28 an hour range and that is a positive.

Application for PILOT for Beyond Shelter, Inc. (Milton Earl)

Jim Gilmour stated the Milton Earl will be a low-income housing project that will be built on the corner of 7th Street and 4th Avenue North in downtown Fargo with 42 housing units. The city has strong support for this project, providing most of the land the project will be built on. Because it is low-income housing the rents are capped, if the full taxes had to be paid on this project there is no way they could pay the debt that is required for that.

Dan Madler, Chief Executive Officer of Beyond Shelter explained that this is a downtown affordable housing project that will serve Fargo's flourishing community. In the past twenty years, Beyond Shelter has developed seven quality senior projects and will be closing on the eighth project this week. The average age of residents is 72 and average income is \$17,500 a year which amounts to \$8.41 an hour. The residents on average contribute 29% of their income for rent and average rent is \$423 a month which includes everything but electricity. The vacancy rent is 2% in their properties. The tax credit program is used to bring private equity investment to the community of approximately \$7 million.

Lisa Rotvold, Development Director of Beyond Shelter described the project as a 42 unit apartment building with 36 one-bedroom units and 6 two-bedroom units, the ground level will be a parking garage with access to 7th Street, along with a community room that will allow for programs such as Heart-N- Soul Community Café to come in. Beyond Shelter has a target community of households that are 60% of AMI or less. For the Milton Earl a single household income would make \$37,560 a year or less and two-person household would make \$42,960 a year or less. 70% of residents that currently live in Beyond Shelter communities earn 30% AMI or less. 15 units in the Milton Earl have been secured for rental assistance. One-bedrooms will run around \$668 two-bedrooms will range from \$475-827 depending on income targets.

Jim explained the longest the city can grant the PILOT is for 20 years. Dan said that they anticipate to convert over to the state PILOT after the first 20 years.

Jessica Ebeling moved to approve, the motion was seconded by Bruce Grubb. The motion carried.

Tax Exempt/PILOT Scoring System Discussion

Jim Gilmour has communicated with the Economic Development Corporation (EDC) about updating the scoring system. They talked about two things: Do we start to add some additional points for things that are important and are not really captured in the current system? Or do we go to a system that has a dozen goals and for example, eight of them would need to be met?

The first system would be more numerical and Jim suggested the following additional points:

- Jobs created in years 2-5
- Employee benefits in addition to salary
- EDC targeted industry or growth industry
- Business will make purchases from local sources

Joe Raso of the EDC stated that it is good to stay on top of the changing issues that communities face when making investments. There are two main points to start from: What do you want to put in to get the principle and the interest back. The second is looking at the competitive nature of the project. Looking at the numeric system and tweaking it is one option, there could be one like the TIF that is goal setting, or there is also the option of a hybrid with a numeric system and goals. Joe does caution against black and white decisions because there are always additional factors that mix into these decisions.

Jim will continue to work with Joe on scoring options and bring the options back to the next meeting.

Dave Piepkorn adjourned the meeting at 1:58 pm.

RECEIVED

AUG 24 2020

FARGO ASSESSOR

Application For Property Tax Incentives For New or Expanding Businesses

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

Project Operator's Application To City of 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	<u>Aldevron</u>
2.	Address of project	<u>3001 University Drive South</u>
	City	<u>Fargo</u> County <u>Cass</u>
3.	Mailing address of project operator	<u>4055 41st Ave S</u>
	City	<u>Fargo</u> State <u>ND</u> Zip <u>58104</u>
4.	Type of ownership of project	
	<input type="checkbox"/> Partnership	<input type="checkbox"/> Subchapter S corporation
	<input type="checkbox"/> Corporation	<input type="checkbox"/> Cooperative
		<input type="checkbox"/> Individual proprietorship
		<input checked="" type="checkbox"/> Limited liability company
5.	Federal Identification No. or Social Security No.	<u>[REDACTED]</u>
6.	North Dakota Sales and Use Tax Permit No.	<u>[REDACTED]</u>
7.	If a corporation, specify the state and date of incorporation	<u></u>
8.	Name and title of individual to contact	<u>Marc Wolff</u>
	Mailing address	<u>4055 41st Ave S</u>
	City, State, Zip	<u>Fargo, ND 58104</u> Phone No. <u>701-551-8701</u>

Project Operator's Application For Tax Incentives

9.	Indicate the tax incentives applied for and terms. Be specific. <i>PILOT based on 5 years at 100%, 5 years at 50%</i>
	<input type="checkbox"/> Property Tax Exemption
	<input checked="" type="checkbox"/> Payments In Lieu of Taxes
	<u> </u> Number of years <u>2021</u> Beginning year <u>2030</u> Ending year
	<u> </u> Percent of exemption <u> </u> 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:
	<input checked="" type="checkbox"/> New business project
	<input type="checkbox"/> Expansion of a existing business project

11. Legal description of project real property

Lots Four, Five and Six, in Block Eight, of Marydale Addition to the City of Fargo, Cass County, North Dakota, and Lots Two and Three, in Block Two, of Brunsdale First Addition to the City of Fargo, Cass County, North Dakota, 01-0265-00121-000.

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? 1984

If new construction, complete the following:

a. Estimated date of commencement of construction of the project covered by this application _____

b. Description of project to be constructed including size, type and quality of construction

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

14. Approximate date of commencement of this project's operations Estimated Q2 of 202115. Estimated market value of the property used for this project:

a. Land.....\$ 900,000

b. Existing buildings and structures for which an exemption is claimed.....\$ 3,800,000

c. Newly constructed buildings and structures when completed\$ 2,000,000

d. Total.....\$ 6,700,000

e. Machinery and equipment\$ 1,500,000

Land Tax Approx \$13,100

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

a. Land (not eligible) 

b. Eligible existing buildings and structures.....\$ 190,000

c. Newly constructed buildings and structures when completed.....\$ 100,000

d. Total taxable valuation of property eligible for exemption (Add lines b and c).....\$ 290,000

e. Enter the consolidated mill rate for the appropriate taxing district **292.44**
275.32

f. Annual amount of the tax exemption (Line d multiplied by line e) **84,807.60**
79,842.80

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).

Aldevron will renovate the existing building to a state of the art biologics R&D and manufacturing facility to produce therapeutic products and reagents for biotechnology and pharmaceutical companies worldwide. Products to be manufactured will include plasmid DNA, mRNA and proteins for a variety of research grade applications.

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

Aldevron will install biologics manufacturing and analytical equipment including bioreactors, chromatography equipment, analytical instruments and genetic sequencers.

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.

	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
Year (12 mo. periods)					
Annual revenue	4,794,572	5,513,758	6,340,821	7,291,945	8,385,736
Annual expense	3,883,603	4,466,144	5,136,065	5,906,476	6,792,446
Net income	910,969	1,047,614	1,204,756	1,385,469	1,593,290

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
416	0	0	20	24	5	2

Year	(Before project)	Year 1	Year 2	Year 3	Year 4	Year 5
No. of Employees	(1) 416	427	437	447	457	467
	(2)					
Estimated payroll	(1) 26.2mm	26.7mm	27.2mm	27.7mm	28.2mm	28.7mm
	(2)					

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

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).

Presently operating at 3233 15th St S, 3239 15th St S, 3301 S University, 4837 Amber Valley Parkway and 4055 41st Ave S in Fargo as Aldevron. Tax exemption for 4055 41st Ave S received in 2019.

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, Brian Walters, 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.

Brian Walters
Signature

President, Antibody BU
Title

8/21/2020
Date

PRIVACY ACT NOTIFICATION

In compliance with the Privacy Act of 1974, disclosure of a social security number or Federal Employer Identification Number (FEIN) on this form is required under N.D.C.C. §§ 40-57.1-03, 40-57.1-07, and 57-01-15, and will be used for tax reporting, identification, and administration of North Dakota tax laws. Disclosure is mandatory. Failure to provide the social security number or FEIN may delay or prevent the processing of this form.

Certification of Governing Body (To be completed by the Auditor of the City or County)

The municipality shall, after granting any property tax incentives, certify the findings to the State Tax Commissioner and Director of Tax Equalization by submitting a copy of the project operator's application with the attachments. The governing body, on the _____ day of _____, 20____, granted the following:

☐ **Property Tax Exemption**

☐ **Payments in lieu of taxes**

_____ Number of years

_____ Beginning year

_____ Ending year

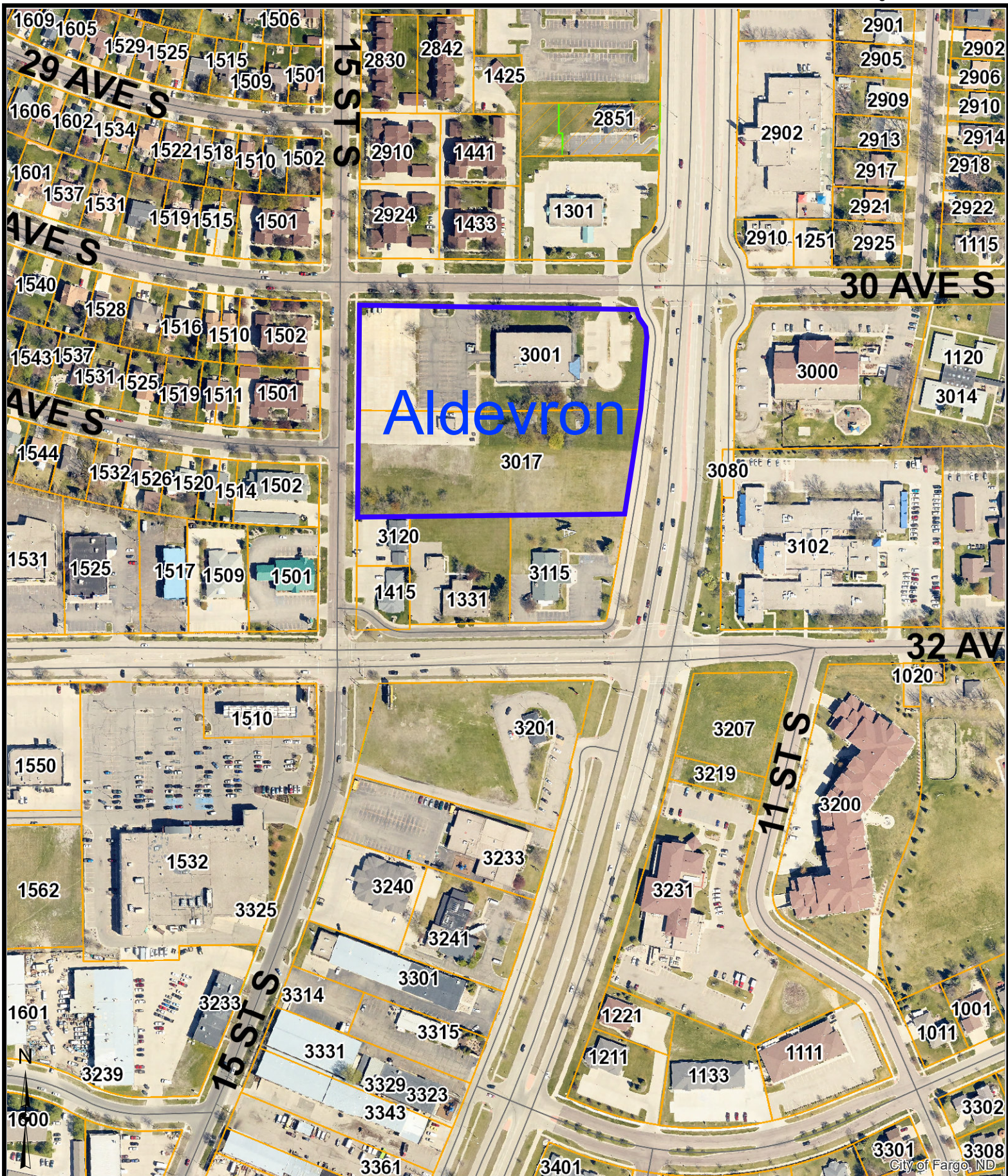
_____ Percent of exemption

_____ Amount of annual payments (Attach schedule if payments will vary)

Auditor

Aldeveron - PILOT Schedule

Years 1-5	\$		Years 1-5	\$	-
Years 6-10	\$	39,922.00	Year 6	\$	46,817
			Year 7	\$	47,754
			Year 8	\$	48,709
			Year 9	\$	49,683
			Year 10	\$	50,676



These data are provided on an "AS-IS" basis, without warranty of any type, expressed or implied, including but not limited to any warranty as to their performance, merchantability, or fitness for any particular purpose.

Aldevron

1:4,514

9/1/2020 1:51:07 PM

This map is not a substitute for accurate field surveys or for locating actual property lines and any adjacent features.

THE CITY OF
Fargo
FAR MORE

Exemption Evaluation Calculator 2020				105.2	
Aldevron				Points	
Project Type Code (Ctrl-C to view)				1	38.0
Current Number Of Employees				416	
Hourly Salary Without Benefits		# Jobs			
Under \$13.00					
\$13.01-\$15.00		0			
\$15.01-\$20.00		4			
\$20.01-\$28.00		5		Pts. For # Jobs->	15.0
\$28.01-\$35.00		1		Pts. For \$ Jobs->	12.2
Over \$35.00		1			
TOTAL # OF JOBS CREATED		11			
% GI w/ Local Competition (not downtown)				0%	25.0
Value of Proposed Buildings				\$ 5,800,000	15.0
Downtown Location (Y/N)				N	0.0
Exemption Needed (Y/N)				N	
Startup Firm (Y/N)				N	0.0
Has Const Started or Has Bldg Been Occupied If Existing (Y/N)				N	0.0
Number of Years (Exemption)				10	
Building Age (if substantial renovation)				0	0.0
RECOMMENDATION IS TO APPROVE					
Description				Manufacturing	
Estimated New Annual Payroll				\$536,640	
Estimated Annual Real Estate Tax				\$135,503	
Estimated PV of Exemption				\$1,046,314	
Payroll / PV of Exemption				0.5	
Property Value / # of Jobs				\$ 527,273	

Projection for 1 year term

Exemption Evaluation Calculator 2020				104.5	
Aldevron				Points	
Project Type Code (Ctrl-C to view)				1	38.0
Current Number Of Employees				416	
Hourly Salary Without Benefits	# Jobs				
Under \$13.00					
\$13.01-\$15.00	0				
\$15.01-\$20.00	12				
\$20.01-\$28.00	15	Pts. For # Jobs->		15.0	
\$28.01-\$35.00	1	Pts. For \$ Jobs->		11.5	
Over \$35.00	1				
TOTAL # OF JOBS CREATED		29			
% GI w/ Local Competition (not downtown)				0%	25.0
Value of Proposed Buildings		\$ 5,800,000	15.0		
Downtown Location (Y/N)		N	0.0		
Exemption Needed (Y/N)		N			
Startup Firm (Y/N)		N	0.0		
Has Const Started or Has Bldg Been Occupied If Existing (Y/N)		N	0.0		
Number of Years (Exemption)		10			
Building Age (if substantial renovation)		0	0.0		
RECOMMENDATION IS TO				APPROVE	
Description		Manufacturing			
Estimated New Annual Payroll		\$1,327,040			
Estimated Annual Real Estate Tax		\$135,503			
Estimated PV of Exemption		\$1,046,314			
Payroll / PV of Exemption		1.3			
Property Value / # of Jobs		\$ 200,000			

Projection for 3 year term

CITY OF FARGO ASSESSMENT DEPARTMENT

Project Operator	Aldevron
Parcel Number	01-0265-00121-000
Address	3001 University Dr S
Date Application Received	8/24/2020
1st Publication Date	9/2/2020
2nd Publication Date	9/9/2020
TRC Meeting Date	9/22/2020
Commission Hearing Date	10/5/2020
Notice Delivery To School/County	8/24/2020
School/County 30-Day Response	9/23/2020
Exemption Type	PILOT
Estimated Improvements Value	\$5,800,000
Land Value	\$900,000
Anticipated Tax Growth	2.0%
Current Mill Levy @ Approval	292.44
Number of Years Granted	10
Discount Rate (for Present Value)	4.50%
Present Value of Benefit w/o Cty	\$311,800
Present Value of Benefit	\$558,300

BENEFIT SUMMARY (PILOT TERM)	
Full Taxes (w/o Incentives)	
Land	\$131,598
Building	\$928,620
Total	\$1,060,218
Benefit	\$0
Full Incentive	
Land	\$131,598
Building	\$243,639
Total	\$375,237
Total Estimated Benefit	\$684,981
Partial Incentive (County Opt-Out)	
Total Tax (L&B)	\$476,514
Total Estimated Benefit	\$371,562

	% Ex	PILOT Pymt	Full Bldg Tax	Benefit	PV of Benefit	PILOT & Tax	Full Land Tax
1	100%	\$0	\$84,808	\$84,808	\$81,200	\$13,160	\$13,160
2	100%	\$0	\$86,504	\$86,504	\$79,200	\$13,160	\$13,160
3	100%	\$0	\$88,234	\$88,234	\$77,300	\$13,160	\$13,160
4	100%	\$0	\$89,999	\$89,999	\$75,500	\$13,160	\$13,160
5	100%	\$0	\$91,798	\$91,798	\$73,700	\$13,160	\$13,160
6	50%	\$46,817	\$93,634	\$46,817	\$36,000	\$59,977	\$13,160
7	50%	\$47,754	\$95,507	\$47,754	\$35,100	\$60,913	\$13,160
8	50%	\$48,709	\$97,417	\$48,709	\$34,300	\$61,868	\$13,160
9	50%	\$49,683	\$99,366	\$49,683	\$33,400	\$62,843	\$13,160
10	50%	\$50,676	\$101,353	\$50,676	\$32,600	\$63,836	\$13,160
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
TOTALS		\$243,639	\$928,620	\$684,981	\$558,300	\$375,237	\$131,598
Annual Land Tax		\$13,160					



MEMORANDUM

TO: TAX EXEMPT REVIEW COMMITTEE

FROM: JIM GILMOUR, STRATEGIC PLANNING DIRECTOR

DATE: SEPTEMBER 15, 2020

SUBJECT: REQUEST FOR TAX INCREMENT FINANCING – RIVER LOFTS

The Fargo City Commission authorized a financial review of a proposed housing project at 505 Oak Street North. The developer is requesting Tax Increment Financing. Preparation of the renewal plan and development agreement are dependent on the recommendation of the Tax Exempt Review Committee. I have attached the following information for your review.

1. Request for TIF, City Commission memo and project location map.
2. Application for TIF and site plans.
3. TIF Program "But-For" Report prepared by PFM.
4. Statement from Engineering Department on proposed levee.

The proposed development would include about 117 apartments and 14 condominiums. Several factors make it very expensive to develop the site. The factors include very poor soils, demolition costs, public infrastructure costs, land acquisition costs and the need for a flood protection levee.

Some key aspects of the project include:


- Project cost of \$25 million
- 131 housing units, including 14 condos
- Project completion in 2022
- \$3.2 million TIF costs
- TIF district needs to last for 15 years
- Developer takes on debt for TIF costs and is repaid from TIF income
- Flood protection benefits
- Potential to encourage investment in the neighborhood

PFM, the City's financial adviser, concluded, "The project would not be feasible without public assistance."

(45)

MEMORANDUM

TO: FARGO CITY COMMISSION

FROM: JIM GILMOUR, STRATEGIC PLANNING DIRECTOR 

DATE: JULY 22, 2020

SUBJECT: REQUEST FOR TAX INCREMENT FINANCING

The City of Fargo received a request for Tax Increment Financing (TIF) for a proposed project to be located southeast of 6th Avenue North and Oak Street. A copy of the request is attached.

The block is mostly vacant. There is one 4-unit apartment building and a single-family rental house that are occupied. Three vacant houses are in poor condition and not suitable to occupy. Two houses and a small apartment building were demolished 3 or 4 years ago because of their poor condition, and that land has remained vacant.

The proposed project would redevelopment of the site, demolishing the existing buildings and preparing the site for redevelopment. The plan is to construct a building of about 130 housing units, with the top floor being about 14 condominiums.

The site appears to have blighted conditions, need for infrastructure and the need to remove debris prior to redevelopment. Tax Increment Financing may be needed for the redevelopment of this site. The property is zoned DMU that allows high-density residential.

Fargo TIF policy calls for the City Commission to review the request to determine if staff should proceed to work with the developer on a renewal plan, and forward an application to the City financial advisors for review.

RECOMMENDED MOTION: Authorize staff to submit a TIF application to the financial advisor for review, prepare a renewal plan and a development agreement for redevelopment of property southeast of 6th Avenue North and Oak Street.

Attachments



P: 701.478.4300

12ND STREET N STE. 102
FARGO, ND 58102

enclavecompanies.com

July 21, 2020

Jim Gilmour
 Director of Strategic Planning and Research
 City of Fargo
 225 4th St N
 Fargo, ND 58102

RE: Craig's Oak Grove Second Addition Redevelopment

Dear Mr. Gilmour,

In accordance with the City of Fargo's Tax Exempt Review Committee Policy and Guidelines, Enclave Development, LLC in collaboration with Craig Development, LLC politely requests support to move forward with the Tax Increment Financing (TIF) application process from the Fargo City Commission. The subject property, legally described as Lot 2 Block 1 Craigs Oak Grove 2nd Addition, is located at the fringe of downtown Fargo and the charming Oak Grove neighborhood. The property is currently zoned Downtown Mixed-Use (DMU).

The promotion of infill development is the number two ranked priority within the Fargo Go2030 Comprehensive Plan. The City of Fargo has reviewed redevelopment proposals for this parcel of land since 2003, when the first multifamily project was proposed. Since that time various developers have attempted to redevelop the site but have been unsuccessful. The obstacles in developing this site include poor soils, floodway proximity, unbuildable land area, levee construction, demolition of existing structures, Oak St improvements, and acquisition costs. The development is projected to cost +/- \$24.5M and will not otherwise occur but for the assistance provided through TIF.

The planned development on this parcel includes a mix of high quality rentable multifamily units (+/- 117) and top floor condominiums (+/- 14) with sufficient at-grade and underground parking. The owner-occupied condominiums help create a strong long-term community while also generating significant growth in tax base. This development is expected to be a catalyst for future developments and improvements in the area.

Sincerely,

Tim Gleason, Development Manager
 Enclave Development, LLC

Austin Morris, CEO
 Enclave Development, LLC

Jesse Craig, CEO
 Craig Development, LLC

Craig's Oak Grove Second Addition

505, 509, & 515 Oak St N
2, 6, & 10 6th Ave N





P: 701.478.4300

1 2ND STREET N STE. 102
FARGO, ND 58102

enclavecompanies.com

City of Fargo
Application for TIF

Contact Information

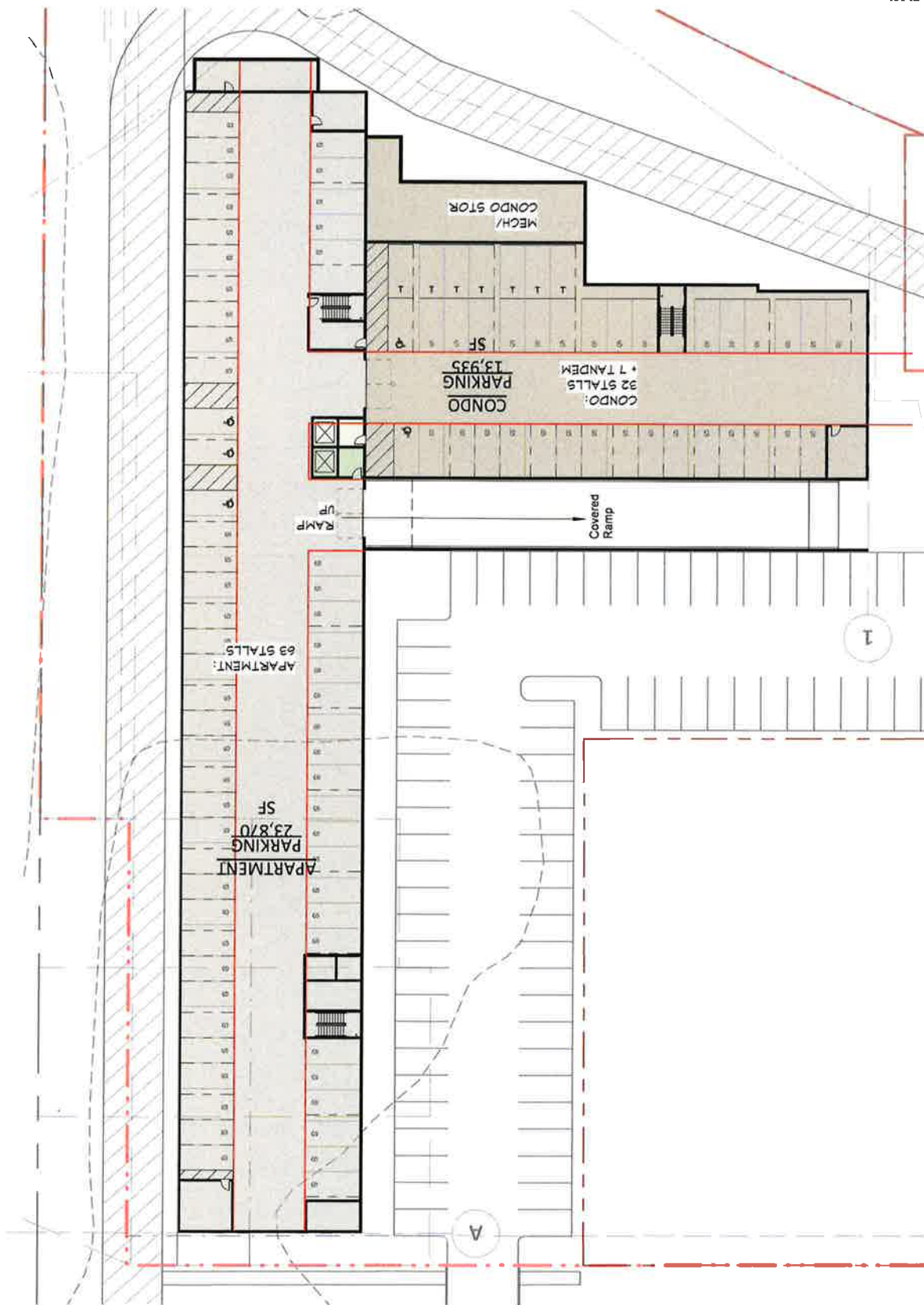
Primary Contact: Austin Morris, Enclave Development
1 2nd St N #102 Fargo, ND 58102
(701) 478-4300; austin@enclavecompanies.com

General Information

Project Location 505 Oak St N Fargo, ND 58102
Project Description with conceptual plans See attached
Propose Schedule Construction start contingent on TIF determination
Estimated Completion Spring 2022

Project Financials and Financing

Name of Developer	Enclave Development, LLC & Craig Development, LLC
Ultimate owner of development	Craig Enclave OG, LLC
Type of Exemption	Tax Increment Financing
Dollar request of TIF assistance	See Pro Forma for Delta
Term of request property tax payments	Fifteen (15) year property tax increment exemption
Minimum of a 10-Year Proforma	See Confidential Pro Forma provided to third party consultant
Total project cost	See Confidential Pro Forma
Hard Capital Costs per Policy & Guidelines	See Confidential Pro Forma
Contributed equity	See Confidential Pro Forma
Loan amount(s) with terms	See Confidential Pro Forma. 5 Year Term.
Number of housing units by type	117 Multifamily Rental Units, 14 Condominium Units
Square footage of commercial space	None
Proposed rents by housing unit types	See Confidential Pro Forma
Detailed assumptions for any other revenues	See Confidential Pro Forma
Expenditures broken out by category	See Confidential Pro Forma
Extraordinary Costs per Policy & Guidelines	See Confidential Pro Forma



07.23.20



OAK GROVE RESIDENTIAL CONCEPT
FARGO, ND

Scale: 1/32" = 1'-0"

LEVEL P1 PARKING PLAN







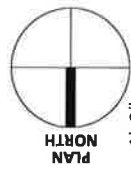
Scale: 1/32" = 1'-0"

LEVEL 3 FLOOR PLAN

OAK GROVE RESIDENTIAL CONCEPT
FARGO, ND

07.23.20





Scale: 1/32" = 1'-0"

LEVEL 4 FLOOR PLAN

OAK GROVE RESIDENTIAL CONCEPT
FARGO, ND



07.23.20



LEVEL 5 FLOOR PLAN

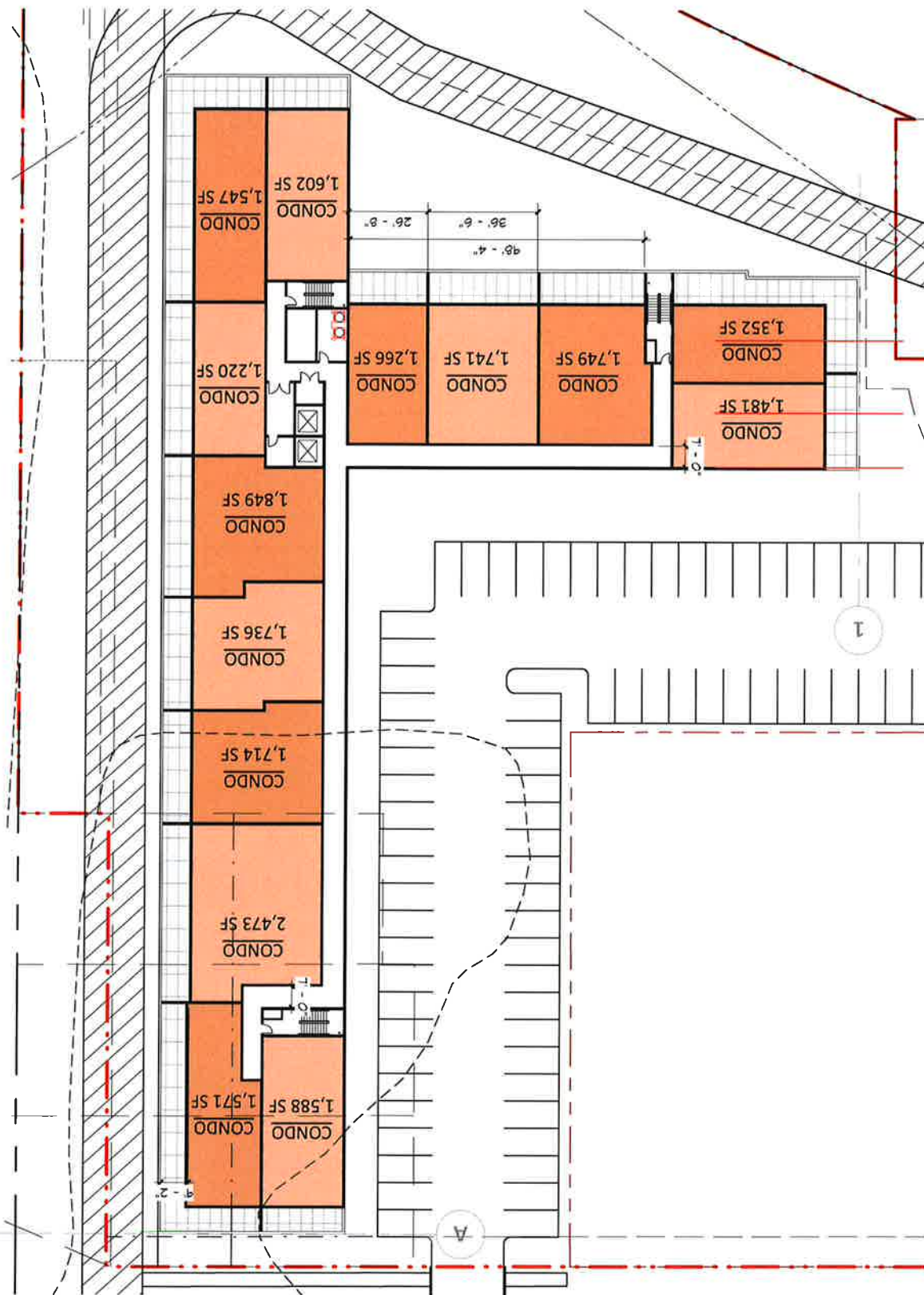
OAK GROVE RESIDENTIAL CONCEPT
FARGO, ND

07.23.20

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Scale: 1/32" = 1'-0"



Eligible Costs Budget	
Soil Correction and Remediation	\$ 1,125,000.00
Flood Associated / Levee Design and Construction	\$ 625,000.00
Building Demolition, Clearing, Tree Removal	\$ 275,000.00
Land Acquisition / Write Down Costs	\$ 1,650,000.00
Public Infrastructure - Ex: Culdesac, Bike Path, Lights	\$ 425,000.00
Site Constraints / Access Road	\$ 265,000.00
Legal and TIF Fees	\$ 85,000.00
Total	\$ 4,450,000.00

*Maximum TIF Amount Per Policy #8 \$ 3,889,769.64

**Maximum Land acquisition/write down Policy #6 \$ 1,650,000.00

City of Fargo, North Dakota

Tax Increment Financing Program

“But-For” Report

505 Oak Street North



September 11, 2020



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Purpose

The purpose of this report is to establish and determine the allowable value of the tax increment financing (TIF) for 505 Oak Street North, a development by Enclave Development (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 15-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 an 117-unit rental apartment building and 14 condos located at Oak Street North and 5th Avenue North. The intent of the Developer is to sell the condos upon completion.

The Developer estimates the construction will be completed in the Spring of 2022 with occupancy immediately following. The Developer has requested TIF assistance in the amount of approximately \$4,450,000 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 Policy #3, the maximum TIF assistance is 15 years and the Developer is asking for a 15-year exemption.

Requested Reimbursement

Below is the detailed requested cost of the proposed project to be reimbursed.

Soil Correction and Remediation	\$1,125,000
Public Infrastructure	425,000
Land Acquisition/Write Down	1,650,000
Flood Associated/Levee Design & Construction	625,000
Building Demo, Clearing, Tree Removal	275,000
Site Constraints/Access Road	265,000
Legal and TIF Fees	85,000
Total Requested Cost to be Reimbursed	\$4,450,000

The Developer is requesting a total of approximately \$4,450,000 of costs to be reimbursed.

Policy #8

Policy #8 limits the TIF assistance to 15% of hard construction costs, including the costs of acquisition. Based on total hard construction costs of \$21,625,081 the Developer can receive up to \$3,243,762. The Developer is requesting \$4,450,000 which is well above the maximum allowed. Policy #8 also states that the Developer must provide at least 10% of total capital costs as Developer's equity in the project. It is estimated the Developer will contribute \$6,482,949 as equity which is 25% of the total capital costs.

Land Cost

The Developer states the purchase price to acquire the property for the project is \$2,850,000 including the land value at \$952,300. The price is based on the actual purchase agreement of the property. Land acquisition is reimbursable under the Policy. The Developer is requesting to be reimbursed \$103,199 for the land acquisition which complies with Policy #5.

Policy #6

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 \$2,850,000. The assessor's market value for the property totals \$1,278,300. The eligible amount for reimbursement is 150% of \$1,278,300 which totals \$1,917,450. The Developer's reimbursement request of \$1,650,000 is 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 \$952,300. Based on an acquisition price of \$2,850,000 the maximum reimbursement is \$1,897,700.

The lesser of the two tests detailed above is \$1,897,700. The requested reimbursement for land acquisition of \$1,650,000 is allowable under Policy #6.

Policy #3

Policy #3 states the length of the term will be limited to 15 years or less. The Developer is requesting the full 15-year term.

TIF Estimate

PFM estimates that \$4,984,046 of TIF will be generated over the 15 years assuming a 1.50% market growth rate. Based on a discount rate of 4.55%, the present value of the estimated TIF cash flow is \$3,589,204.



Project Financing

The Developer is investing 25% equity, or \$6,482,949, and will be privately financing \$19,448,848. The Developer expects to pay down the loan principal with the condo profits in the estimated amount of \$4,926,650. The Developer is additionally requesting annual TIF assistance in the total amount of approximately \$4,450,000. The private financing is estimated to be a 25-year loan with an estimated interest rate of 4.55% resulting in an annual principal and interest payment of \$981,955, after the principal paydown. The application states the project will be completed by the Spring of 2022.



Return Analysis

In calculating the internal rate of return, PFM first analyzed the Developer's assumptions including expected monthly rent, vacancy rate, operating expenses, and the sale of the condos. The Developer is proposing rents of \$925 for studio, \$1,125 for a one-bedroom unit, \$1,450 for a two-bedroom unit and \$1,850 for a three-bedroom unit. The Developer has proposed a reasonable amount for rent for the current market and location. The Developer also provided estimates of sale prices and fit up allowances for the condos which range from a sale price of approximately \$360,000 with a \$60,000 fit up allowance for a 1,240 square foot condo to approximately \$765,000 with a fit up allowance of \$105,000 for a 2,470 square foot condo. Annual estimates of operating expenses for the 117-unit rental development were provided, as follows; Maintenance Costs - \$39,602, Utilities - \$133,861, Miscellaneous fees - \$52,138, Real Estate Taxes - \$215,558 (apartments), \$33,338 (seven unsold condos), and Administration Costs - \$210,985. The total expenses are approximately 34% of gross operating income, excluding the real estate taxes for the unsold condos and the revenue gained from selling the condos.

The second step in determining the internal rate of return is to determine the earned incremental value of the property over a 10- and 15-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 9.00% internal rate of return based on 15 years and 10.04% for a 10-year internal rate of return. The Developer would have about a 12.52% internal rate of return for 15 years and 13.91% for 10 years, if it received the public assistance. In addition, PFM also looked at the internal rate of return if Cass County was excluded from the property tax exemption starting in Year 6. In that case, the 15-year IRR is estimated to be 12.22% while the 10-year IRR is estimated to be 13.67%. A reasonable rate of return for the proposed project is 13% - 20%.

Another measure of feasibility and project viability is the debt coverage ratio. PFM has projected a maximum debt coverage ratio (not accounting for the one-time revenue from the condo sales) in Year 15 of 1.22x without assistance, with a Year 6 coverage of 1.06x. If the City provided assistance to the project the maximum debt coverage is projected to be 1.59x in Year 15, with a Year 5 coverage of 1.39x. The maximum debt coverage ratio if the County did not participate after Year 5 would be 1.53x in Year 15, with a Year 6 coverage of a 1.34x.

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 16.50%.

Sensitivity Scenario 1 – Project Costs

The project would have to be reduced by \$4,160,000 or 16.0% in order for the project to become viable without assistance. This reduces the amount to be financed from \$16,610,523 to \$13,490,523 and reduces the annual payment from \$981,955 to \$914,476 for the loan. It is unlikely that a reduction in project costs of this magnitude would occur at this stage in the development.

Sensitivity Scenario 2 – Rental Rates

In order for the project to be viable without public assistance, the rental rates would have to increase by 30.5%. PFM believes this is a high increase to the Developer's proposed rents. This increases annual rental revenue from \$1,644,900 to \$2,140,139. 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 \$2,000,000 or 7.7% and rental rates would have to increase by about 16%. While either of these events could occur, PFM does not believe they are likely to occur, especially 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, monthly expenses, and the ability to sell the condos at the projected sales price. 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 13.91%. In addition, the coverage ratio in Year 10 is estimated to be 1.48x. The estimated internal rate of return is low given the risk level for this type of project. Based on the internal rate of return and the coverage requirements, PFM concludes the project would not be feasible without public assistance.



Today during a spring flood, the City installs a temporary levee between the existing levee and the railroad tracks on the southeast corner of the lot. If a permanent levee is constructed here, it will provide more reliability than an emergency levee and connect to other adjacent existing levees. Also, upon the Diversion being completed, no temporary levees would be needed during a 500 year flood event.

To meet the City's floodplain ordinance, any development on this lot requires the extension of the levee to the west that ties into existing high ground.

Let me know if you have any additional questions.

Thanks

Brenda

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