EDIC MEETING

Tuesday, June 27, 2023 – 1:00 p.m.
City Commission Chambers, Fargo City Hall

AGENDA

1. **Approve Tax Exempt Review Committee Meeting Minutes of 5/23/2023**
   a. May 23, 2023 [Page 1-2]

2. **Criteria for Public Private Partnerships** [Page 3-5]

3. **Wave PILOT Request** [Page 6-10]
   a. PFM 'But-For' Report [Page 11-18]

ECONOMIC AND DEVELOPMENT INCENTIVE COMMITTEE
Fargo, North Dakota

Regular Meeting **Tuesday, May 23, 2023**

The April meeting of the Economic and Development Incentive Committee of the City of Fargo, North Dakota was held in the City Commission Room at City Hall at 1:00 p.m., Tuesday, May 23, 2023.

The committee members present or absent are:

Members Present: Dave Piepkorn, John Cosgriff, Jon Eisert, Mayor Mahoney, Jim Buus and Jessica Ebeling.

Members Absent: Lucas Paper

Others Present: Jackie Gapp and Levi Bachmeier

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

Minutes Approved

A motion was made by John Cosgriff to approve the minutes from May 23, 2023. Jon Eisert seconded. Motion carries.

Request for TIF for 502 8th Street Rowhouses

- Dave Noah- Real Estate Associate
- 5 Townhouse style apartments (3 bed/3.5 bath). Designing them to sell as individual properties in the future.
- Project would not be feasible without TIF assistance
- Asking for a 15 year TIF- $300,000
- Current property tax range is around $2,000. When it expires it will be closer to $25,000.
- Property is not in the Renaissance Zone

Motion to approve tax exemption was made by Mayor Mahoney. Jessica Ebeling seconded. Motion carries.

Request for PILOT for Water Park

- Blake Nybakken - EPIC Companies COF

- 20 year PILOT: 2 lots.
- Parking ramp: 500 spots
- Private investors, private financing, and private maintenance/management
- Would pay about $24,000 annually. After PILOT would be $1.1 million annually in property tax
- Water park and hotel with 135 rooms
- Family entertainment center, family bar and restaurant.
- Timeline is by the end of July

Questions:

- Mayor Mahoney: Will a 15 year PILOT work?
  - No, it will not
- John Cosgriff: Will there be free parking?
  - The parking will be similar to downtown parking ramps. Cost has not been figured out yet.
- Jessica Ebeling: Has a score sheet been done? Is this a need?
  - A market study was done and the demand was very supportive of this study.

Change to the current policy needs to be discussed further. This will be continued to next meeting.

The meeting was adjourned at 1:52pm.

THE CITY OF Fargo FAR MORE

City Administration
225 4th Street North
Fargo, ND 58102

MEMORANDUM

TO: **Economic Development Incentive Committee**

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

DATE: **June 21, 2023**

SUBJECT: **ED Policy**

As we discussed at our May meeting, our current policy does no support incentives for non-primary sector businesses in previously undeveloped areas.

I drafted some changes to the public-private partnerships policy that would allow consideration of development incentives for non-primary sector developments.

At the suggestion of your Committee, I also drafted some criteria that could be used to evaluate requests for economic development incentives in previously undeveloped areas.

I would like to spend time at the meeting discussing these criteria.

Public Private Partnerships (P3) Policy

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Public Private Partnerships (P3) may include the creation of a Tax Increment Financing District or Payment in Lieu of Taxes property tax exemptions. The P3 developments incentivize private development by funding public infrastructure and/or financially assisting a developer. Absent this public infrastructure and/or developer assistance, the private development would not otherwise occur.

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There is no "standard" type of public private partnership. Each P3 will be unique. There will be unique area and site conditions, unique needs for public infrastructure, and unique private developments.

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PROCESS:

The process for public private partnerships will begin with discussions between city officials, private landowners, and development groups. Typically, there will be a difficult to develop site, and/or a need for public infrastructure and/or developer assistance to make development financially feasible and physically possible.

The Economic Development Incentives Committee will do the first review of the P3 concept. The Committee will make a recommendation to the City Commission either to proceed with the development of a Renewal Plan or Development Agreement, or to recommend that the City not participate in the P3 concept. The P3 concept review will examine whether the development is consistent with city plans, if it provides a community benefit and if the public assistance is essential to any private development or a development with facilities that provide a public benefit.

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RENEWAL PLAN and/or DEVELOPMENT AGREEMENT

City staff will develop the Renewal Plan and/or Development Agreement. The Planning, Administration, Engineering and Finance Departments will all participate in the preparation process. Legal counsel will review the plan and write development agreements. Financial advisors will review financial assumptions and recommend the reasonability of assistance to private developers and the financing plan for public facilities.

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RENEWAL PLAN and/or DEVELOPMENT AGREEMENT IMPLEMENTATION:

The City will implement activities included in the Renewal Plan and/or Development Agreement. This will include:

• Overseeing the installation of public infrastructure;
• Monitor developer compliance with terms of agreements;
• Collection and distribution of tax increment funds and/or other public funds;
• Monitoring and reporting on the results of the plan implementation

Public Private Partnerships – Evaluation Criteria – New Development

Public benefit – The development provides a facility that is open to the public such as a park, museum, recreation facility or parking garage. The facility meets an unmet need in the community and does not significantly compete with other private facilities in the community. (0-50 points)

Property value increase – It is a large scale development, with a minimum investment of more than $50 million, which encourages adjacent development that will immediately pay property taxes. (0-50 points)

Need for public assistance – The project financials demonstrate a need for the public assistance. The rate of return should be reasonable for the project and/or the loan coverage ratio is insufficient to finance the project. (Pass/Fail?)

Design – The development is a high quality design, both the buildings and adjacent open spaces. The development is consistent with City of Fargo growth plans. (0-25 points)

Infrastructure – The development should not create a need for significant infrastructure expansion that will increase costs for the City. (0-25 points)

Competition with other development – The development should not create unfair competition with other development in the community. (0-50 points)

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 The Wave by EPIC , LLC
2. Address of project 4410 24th Ave S & 4471 24th Ave S

   City Fargo County Cass
3. Mailing address of project operator 745 31st Ave E #105

   City West Fargo State ND Zip 58078
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.
7. If a corporation, specify the state and date of incorporation North Dakota August 4, 2022
8. Name and title of individual to contact Blake Nybakken, Chief Operating Officer

   Mailing address 745 31st Ave E #105

   City, State, Zip West Fargo, ND 58078 Phone No. 701-721-8047

Project Operator's Application For Tax Incentives

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

   ☐ **Property Tax Exemption**
   ______ Number of years
   ______ Percent of exemption

   ☑ **Payments In Lieu of Taxes**
   2025 Beginning year 2042 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

Description of Project Property

11. Legal description of project real property

Lot 3, Block 1, EOLA 2nd Addition to the City of Fargo (Wave lot as proposed with current replat).
Lot 1, Block 1, EOLA Addition to the City of Fargo (Future building lot).

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 8/1/2023

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

The Wave is a full-service Waterpark Resort with a 50,000sf waterpark connected to a 7-story

hotel tower that will include 135 rooms, family entertainment center, restaurant and lounge, gift

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

14. Approximate date of commencement of this project's operations 8/1/2025

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

a. Land $ 1,551,683.5

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

c. Newly constructed buildings and structures when completed $ 83,434,677.50

d. Total $ 84,986,361

e. Machinery and equipment $ ______

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 $ 0

c. Newly constructed buildings and structures when completed $ 4,171,733.88

d. Total taxable valuation of property eligible for exemption (Add lines b and c) $ 4,171,733.88

e. Enter the consolidated mill rate for the appropriate taxing district 283.22

f. Annual amount of the tax exemption (Line d multiplied by line e) $ 1,203,491.86

$1,181,518.47
Corrected by assessor

EDIC 7

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 ☐ Wholesaling ☐ Manufacturing ☐ Warehousing ☑ Retailing ☑ 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 Wave will be engaged in leisure, hospitality, food & beverage, and entertainment services as part of their operations. Guests are expected to travel from 180+ miles to visit the property and there will be day passes available for local residents to utilize the amenities on a daily basis.

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

Wave generator, slides, pool equipment and associated mechanical systems associated with the waterpark. Also there will be commercial equipment, elevator and other standard commercial building equipment associated with the project.

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	21,087,542	21,857,377	22,686,254	23,387,763	23,675,002
Annual expense	19,620,539	19,841,047	20,362,661	20,637,670	20,773,733
Net income	1,467,002	2,016,328	2,323,591	2,750,092	2,901,267

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

Year		(Before project)	Year 1	Year 2	Year 3	Year 4	Year 5
No. of Employees	(1)						
	(2)						
Estimated payroll	(1)						
	(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 However, S&L Hospitality (who will help manage), does conduct similar business in other states.

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).

Renaissance Zone benefits were granted to EPIC Companies for the development of their Gateway, The Arch, and Unite projects in downtown Fargo.

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, Todd Berning, 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
	President	6/2/2023

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

FINAL

City of Fargo, North Dakota

PILOT Program

"But-For" Report

The Wave Resort

June 20, 2023

Table of Contents

Purpose

The purpose of this report is to establish and determine the necessity of Payment In Lieu Of Taxes (PILOT) financing for The Wave Resort, at 2424 45th St. SW, a development by EPIC Companies (the "Developer").

PFM first reviewed the application to ensure that reasonable assumptions regarding property value, hotel occupancy, waterpark sales, income from guest amenities, 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"). 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 135-unit hotel with an indoor waterpark and parking ramp located at 2424 45th St. SW. The Developer is requesting PILOT assistance through annual property tax savings for 17 years. If the Developer does not receive PILOT financing assistance, they estimate that the construction of the parking ramp will not be economically viable, and the Developer would instead include surface parking, which would reduce the available parking space at the property for future development.

The Developer estimates the construction will be completed in late 2024 with occupancy immediately following. The Developer has requested PILOT financing assistance in the amount of $9,741,841on a present value basis to complete the project. This amount is based on projections of the future tax payments less the projected PILOT payments. The estimated tax payments assume a property value increase of 1.00% per year. This amount assumes PILOT for 17 years.

PFM also calculated the value of PILOT financing assistance if the City offered the PILOT for 10 years and no exemption thereafter. The present value of the PILOT financing assistance would be $6,527,307.

Project Financing

The Developer is investing 22% equity, or $17,000,000, and will be privately financing $60,469,220. A majority will be financed through the Bank of North Dakota. The remaining amount will be subordinate debt raised from investors. The Developer is additionally requesting PILOT assistance through annual property tax savings. The private financing is estimated to be a 25-year loan with an estimated interest rate of 7.0% resulting in an annual principal and interest payment of $4,831,759.15. The application states the project will be completed by the late 2024.

Return Analysis

In calculating the internal rate of return, PFM first analyzed the Developer's assumptions including average rate per occupied night in the hotel, occupancy rate, and operating income and expenses. The Developer is proposing an average rate of $240.13 per occupied hotel room. The Developer has proposed a reasonable daily average rate for the current market and location. Annual estimates of operating expenses for the 135-unit resort with an indoor waterpark were provided, as follows; Rooms - $1,542,920, Food and Beverage - $2951,351, Guest Experience - $134,536, Retail - $676,286, Family Entertainment Center - $1,171,912, Waterpark - $1,622,935, Administration & General - $1,714,182, Information and Telecommunications - $105,624, Sales and Marketing - $1,097,693, Property Operations and Maintenance - $687,657, Utilities - $869,307, Resort Management Fee - $843,502, Insurance - $550,636, Snow Removal and Lawn Care - $60,000, Contract Services - $60,000, and Replacement Reserve - $422,355. The estimated property tax in PFM's analysis, based on the market value of the resort and the location, is $844,235 without any public assistance. The total expenses are approximately 70% of gross operating income after stabilization.

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 public assistance the Developer would have about a 11.56% internal rate of return based on a 10-year internal rate of return. The Developer would have about a 15.25% internal rate for 10 years if it received the public assistance. PFM also looked at the rate of return over a 17-year period if PILOT was received for the full 17 years. The IRR in that case is projected to be 15.90%. Finally, the Developer expects to continue to raise more equity above the $17 million that was used for this analysis. If the Developer were to raise $18.75 million in equity then the 10-year IRR drops to 14.37% for a 10-year PILOT and the 17-year IRR drops to 15.32% for a 17-year PILOT. It should be noted that with the additional equity the loan amount drops which has a positive impact on the cash flow of the project and may slightly reduce the risk associated with the project. A reasonable rate of return for the proposed project is 14% - 22%.

Another measure of feasibility and project viability is the debt coverage ratio. PFM received documentation from one of the Developer's financing sources that a minimum of 1.50x debt coverage is necessary to secure the estimated loan interest rate. PFM has projected a maximum debt coverage ratio in Year 17 of 1.65x without assistance, with a Year 3 coverage of 1.36x. The project would not meet the minimum 1.50x debt coverage until Year 7, but the project would meet 1.50x debt coverage each year thereafter. If the City provided assistance to the project for 17 years, the maximum debt coverage is projected to be 1.85x in Year 17, with a Year 3 coverage of 1.53x. If the City provided assistance to the project for 10 years, the maximum debt coverage is projected to be 1.75x in Year 10. After assistance would end, debt coverage in Year 11 is 1.57x and increases each year thereafter.

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 debt coverage ratio. We also looked at how much the average room rates would have to fluctuate in order to achieve a reasonable debt coverage. Lastly, we looked at a combination of the two scenarios. For the sensitivity analyses, we assumed a reasonable debt coverage ratio of 1.50x by Year 3.

Sensitivity Scenario 1 – Project Costs

The project would have to be reduced by $7,194,538 or 9.29% in order for the project to become viable without assistance. This reduces the amount to be financed from $56,969,220 to $51,678,509 and reduces the annual payment from $4,831,759 to $4,383,035 for the loan. It is unlikely that a reduction in project costs of this magnitude would occur at this stage in the development, but it would occur if the Developer provided a surface parking lot in lieu of a parking ramp

Sensitivity Scenario 2 – Average Daily Rates

In order for the project to be viable without public assistance, the average daily rates would have to increase by 7.6%. PFM believes this is a high increase to the Developer's proposed average rates. This increases annual room revenue from $8,306,349 to $8,940,910. PFM believes the current proposed rates are reasonable and does not believe an increase this large would occur.

Sensitivity Scenario 3 – Combination of Project Costs and Average Daily Rates

The final scenario looks at both a reduction of project costs and an increase in average daily rates. The analysis showed that project costs would have to be reduced by $3,708,272 or 4.8% and rates would have to increase by about 3.7%. PFM believes either of these events could occur.

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 resort, the hospitality market, and monthly expenses. The base scenario without assistance along with the sensitivity analyses demonstrates that the project as is with the parking ramp may be unlikely to be feasible without some form of assistance.

PFM has calculated that with public assistance for at least 10 years, and based on the assumptions outlined in this report, a 10-year internal rate of return is estimated to be 15.25%. In addition, the coverage ratio in Year 10 is estimated to be 1.75x. 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 in order to meet the minimum debt service coverage in the first six years and to produce a more reasonable rate of return for this type of project.