

TAX EXEMPT REVIEW COMMITTEE
Fargo, North Dakota

Regular Meeting

Tuesday, June 27, 2017

The Regular 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, March 28, 2017.

The committee members present or absent are:

Present: Dave Piepkorn, Jim Buus, Jessica Ebeling, Mark Lemer, Mayor Tim Mahoney, Erik Johnson, Chuck Hoge, Kent Costin, Broc Leitz, Jim Gilmour, Mark Vaux & Ben Hushka.

Absent: Bruce Grubb

Committee Chairman Dave Piepkorn called the meeting to order at 1:00 p.m.

Mayor Mahoney made a motion to approve the minutes of the March 28, 2017 meeting. Jim Buus seconded the motion. Motion carried.

Application for New/Expanding Industry Exemption submitted by BNG Holdings

Commissioner Dave Piepkorn asked Ben Hushka, City Assessor, to introduce the item. Mr. Hushka stated this does have primary sector designation from the Commerce Department and the application for a 5 year, 100% exemption does meet the necessary points according to our point evaluation system for recommended approval.

Brady Nash, CEO for BNG Holdings stated that they are a business solutions company focused around electronic payments. He stated that they also develop software for that type of business. Mr. Nash stated that they are a global company. They have over 6,000 businesses in the US, Canada, Australia, New Zealand, and the UK. He stated that there are a lot of payment processing companies but they are really behind the technology of moving money.

Mr. Nash said that they incorporated in 2007. He stated that he and his business partners had software development capabilities and saw a lot of needs in the business community that they could provide solutions for. He said they are a 41-42 person company and by the end of the year they will be at 50 people. He said that what they do is the technology behind payment processing. He said that if you swipe your card here in town, his company is likely who is actually moving the money.

Commissioner Piepkorn asked Brady to explain the projected additional jobs to be created with this expansion. Mr. Nash said that they tried to project based on the growth they have experienced in the recent past. He said that they are definitely growing. He also stated that the average person he is hiring now is a six-figure salary.

Jim Buus said that he is familiar with this company and they tell a great story. He said they are exactly the type of company we should be incenting to expand locally. Mr. Buus made a motion to a recommend approval of a 5 year, 100% improvement exemption for BNG Holdings. Jessica Ebeling seconded the motion.

Mayor Mahoney asked if they would proceed with the expansion if they didn't receive the incentive. Mr. Nash stated that he doesn't think they would at this time. He said they would have to reevaluate.

Motion carried unanimously.

Application for New/Expanding Industry PILOT submitted by 1023 Flats

Commissioner Dave Piepkorn stated that this is a reapplication for project that was previously approved by the City Commission for a 10 year payment in lieu of tax (PILOT) at 5 years, 100% and 5 years, 75%. The applicant has changed the design of the project since then.

Commissioner Piepkorn asked Ben Hushka, City Assessor, to explain the process regarding changes to projects and requirements for reapplication. Mr. Hushka stated that there are requirements in statute for reapplication if, after initial approval, the capital investment exceeds a certain percentage of the amount originally stated. He stated that internally whenever there has been a fairly substantial change in a project after initial approval, it has always been brought back to, at least, this committee. This one, Mr. Hushka stated, would require full reapplication to go back to the City Commission.

Jesse Craig, representing 1023 Flats, stated that they initially drew and bid the project as a 10 plex but the costs exceeded the financial feasibility of the project. Part of that was due to the added vendor cost to develop in the congested confines of downtown. They added another floor to the design and, rather than having two-bedroom units, they now will have 14 one-bedroom units, still with 14 parking spaces.

Jim Buus said that he has heard comments in the local real estate industry about the added high costs of the tight spaces in downtown development. He said that is one of the reasons that incentives need to be provided. Mr. Craig said that in addition to the issues with staging, closing streets, traffic control for public safety in downtown development, the cost of land is substantially higher.

Mark Lemer pointed out that the projected income & expenses do not include the capitalization expenses which appear to over-state the net income. Those costs were included in the previously approved application. It was determined that Mr. Craig will correct the revenue and expense figures and the action taken today will be subject to those corrections.

Mayor Mahoney asked about the rent rates for the apartments. Mr. Craig said that the one-bedroom units will be at \$950 per month.

Chuck Hoge made a motion to approve a 10 year payment in lieu of tax (PILOT) at 5 years, 100% and 5 years, 75% subject to the revenue and expense corrections being made to the application. Jim Buus seconded the motion. Motion carried unanimously.

Discussion of Tax Increment Financing Policy Review Process.

Commissioner Dave Piepkorn stated that the process under way to review the Tax Increment Financing (TIF) policy has no place for the opportunity for public comment. Although the Tax Exempt Review Committee does not deal with TIF incentives, he stated that this committee will provide the opportunity for public input.

Mr. Piepkorn said that we have the current TIF policy and the financial advisors, Springstead & PFM, have forwarded some recommendations. Also, the legislature has recently made some changes. Those will all be incorporated into the policy.

Kent Costin explained the role that Springstead and PFM has in the TIF review process. They analyze the pro-formas and conduct the financial reviews. Springstead is the primary bonding company that the City does business with.

Jim Gilmour explained the outline of the policy review; what has been done so far and what is left to complete. Mr. Gilmour also walked through the rationale of the structure of the current policy. Mr. Gilmour stated that this has been posted for public comment and none has been received to date. He said that the information will also be sent out to developers for comment. Mr. Gilmour said that some draft changes will be forthcoming as well as public hearings. He said that the Cass County Commission and School Districts will also be included in the process.

Mr. Gilmour briefly summarized the items in the current policy and some of the issues and types of scenarios from past experience with TIF that will be addressed in the review.

In answer to a request from Commissioner Piepkorn, Mr. Hushka stated that he has prepared some information that illustrates the differences in value before and after the TIF project developments.

Commissioner Piepkorn opened the floor for public comment.

Jason Flores, Americans for Prosperity, stated that he feels that this is the time for a review of a policy like this. He stated that it should be looked at from the perspective of how things would look without the incentives. He said that this should be a thorough review and not just wordsmith, change some definitions, or renumber sub-headings. It should allow everyone input to dig in from square one and determine how it benefits the community.

Mr. Flores provided a handout which he briefly spoke about several points from. He stated that one thing that is lacking is real independent data on these incentives. He referred to a study from Indiana that he said that he would be happy to forward on. He said that study indicated they are not sure these incentives have the impact that we think they do. He said it implied that when politicians get involved with these, they are literally picking winners and losers. He said these add costs to the 90+% of the people who don't get the incentives.

Mr. Flores said that we really need to make sure the public understands what you are doing and that there should be plenty of opportunity for public input throughout this process.

Mayor Mahoney stated that Mr. Flores' group focuses their delivery on studies from other states and not locally where we have one of the lowest property tax rates in the nation.

Mark Lemer said that there have been some things that have happened in the past that carry some negative political connotations that kind of cloud the potential benefits of programs like this. He referred to the TIF that lasted 37 years and the Zoo TIF as examples. He said, going forward, having a clear-cut focus on what we are trying to do with these, and really doing that well, will work to the benefit of people's acceptance and ultimately the beneficial returns of these programs.

Discussion of senate Bill 2166

Ben Hushka stated that a few met at the FMEDC offices a few weeks ago to discuss this. He said that with the passage of SB 2166, beginning August 1st, exemptions granted that will run longer than five years will require the City to notify the County and affected school districts. They will have the option to elect to not participate in their portion of the incentive.

Jim Buus asked if the school districts are planning to develop a mechanism to accelerate that process. Mark Lemer said that their board is working on a policy to make sure they are not going to be a hindrance to the process but, at the same time, do their due diligence.

Mark Vaux, Greater FMEDC, stated their focus is to be pro-active as a community, work together up front, and hope to develop a memorandum of understanding among the affected entities. He said this could be a game-changer. The school districts or County can approve, ignore, or object these going forward. We would rather be up-front and not on the last day, one steps in and either delay or completely railroad the project.

Jim Gilmour stated that one more item in SB 2166 is that when a Renaissance Zone is up for renewal, a letter of support is required from the County and affected school district. Without those letters of support, the Renaissance Zone Incentive would end for a community.

The meeting adjourned at 1:49 p.m., Tuesday, June 27, 2017.