

TAX EXEMPT REVIEW COMMITTEE
Fargo, North Dakota

Regular Meeting

Tuesday, July 23, 2019

The July meeting of the Tax Exempt Review Committee of the City of Fargo, North Dakota was held in the City Commission Room at City Hall at 1:00 p.m., Tuesday, July 23, 2019.

The committee members present or absent are:

Present: Dave Piepkorn, Mayor Tim Mahoney, Kent Costin, Bruce Grubb, Jim Buus, John Cosgriff, Jim Gilmour, Erik Johnson, Jackie Gapp

Absent: Mark Lemer, Joseph Raso, Jessica Ebeling, Ben Hushka

Others Present: Mike Allmendinger and Mike Zimney representing Kilbourne Group, Brian Walters representing Aldevron, Dan Madler representing Beyond Shelter, Holly Hagen

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

A motion was made by Jim Buus to approve the minutes from the June meeting held on June 25, 2019. John Cosgriff seconded. Motion carried.

PILOT Application by DFI BJ (Kilbourne)

Jim Gilmour presented the application for a 15 year PILOT. The terms of the PILOT would be as follows: there would be a Renaissance Zone exemption for the first 5 years on the full project; for the years 6-15, there would be a \$0 PILOT payment on the south half of the project only; the north half of the project would begin to be fully taxed (based on the value and mill levy) for the years 6-15.

Jim Gilmour explained the memo attached to the application, which states that the PILOT would only be for the south half the building. This is due to a previous TIF district that was created in 2015 to help develop and finance a parking garage downtown; the city entered a public-private partnership with Kilbourne Group to construct the parking garage. The conditions of the public-private partnership agreement are that the north half of the DFI BJ project are only eligible for Renaissance Zone incentives; this is why this PILOT application would only apply to the south half (617/621 1 Ave. N parcels) of the project.

Jim Gilmour further explained how this renewal plan has worked in that they originally had hoped to build at least 400 parking spots and in reality built 454, and they were hoping for \$30 million in private investment but are now actually at \$44 million. The parameters of the original TIF district were 20 years, and they are currently 3 years in. He estimates that when the project and PILOT is complete the property taxes will be over \$600,000 a year. There will be 95 housing units, 85 parking spots, and 13,000 square feet of retail.

Mike Almendinger explained the physical parameters of the project, and highlighted that there will be over \$40 million of private development, more than the original estimate of \$30 million. He

explained there would be a 6 story building that extends from 1st avenue to 2nd avenue with retail and parking on the first floor and additional parking underground.

Commissioner Piepkorn pointed out that there have been intentions to redevelop this area for some time and asked Jim Gilmore to clarify the timeline of the project. Jim Gilmore explained that the project has taken more time than originally thought because of the acquisition of additional properties, making the project grow larger in scope.

Commissioner Piepkorn asked if the project has been reviewed similar to other projects by outside financial advisors. Jim Gilmore explained that it has been reviewed, and they recommended that the project would not be able to take place without the tax assistance. The rate of return is just below 10% and generally investors will not invest in a project unless the rate of return is between 10-15%, so he believes it meets the criteria that they have followed in the past for these projects.

Commissioner Piepkorn asked Mike Almendinger to explain more about rate of return from the investor's standpoint. Mike Almendinger explained that all projects require a significant amount of capital to move forward and to receive financing. Fargo competes regionally and nationally in real estate investments like any other city, which justifies the returns needed to compete for and receive financing.

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

PILOT Application by Aldevron

Jim Gilmore presented the application for a 10 year PILOT based on 100% for first 5 years and 50% for years 6-10. They are requesting the PILOT based on job creation. Jim Gilmore reviewed their last PILOT application from 2016, pointing out that, at that time, they anticipated gaining 85 employees and were granted the exemption; they actually created over 200 jobs in three years, surpassing expectations. Their current request is for assistance is based on the expectation that 100 jobs will be created over 3 years, with 50% of the jobs paying over \$58,000/year with the rest ranging between \$30,000-\$58,000, all told it would add \$7.5 million to the payroll. Capital investment is \$43 million, including 180,000 square foot new building and a 20,000 square foot addition to an existing building. When the PILOT expires, the anticipated property tax would be about \$600,000 a year.

Jim Buus requested clarification that Aldevron has previously requested a PILOT in 2016 and is currently on its program, but that this application will apply to new construction only. Jim Gilmore confirmed.

Brian Walters said this project is part of an expansion to build three more buildings, but this project is specifically to expand their clinical and commercial grade production services to manufacture biologic material for biotech and pharmaceutical companies globally.

Mayor Mahoney expressed his support for the project due to the type of work that is being done (in relation to curative medicine), and because they had the opportunity to look into other communities, but chose to expand in Fargo.

Commissioner Piepkorn said he was impressed with the potential addition of high-wage new jobs and asked for more information about this. Brian Walters said that he started with the company 6 years ago, when they only had 45 positions. He said the growth that they've had, specifically with having global headquarters located in Fargo, has allowed them to not only have good manufacturing jobs here, but also positions in quality assurance, quality control, validation, administration, etc. He explained that due to the high demand of their products and services, he expects continued growth for at least another decade based on demand. He said they took a conservative approach on the number of positions and wages expected on their application, but hopes to exceed both.

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

Transfer of Existing PILOT to Tzadik Sioux Falls Portfolio III, LLC

Jim Gilmour presented the application to transfer an existing PILOT to a new owner. State law says if a business closes or has a major change in ownership, the PILOT must come back to the city for review and approval. Kilbourne is selling the Woodrow Wilson apartment building and daycare facility in order to make other investments. The terms of the PILOT would remain the same.

Commissioner Piepkorn asked for details regarding the existing terms of the PILOT if available. Jim Gilmore explained that they are currently about 2 years into their 20 year PILOT incentive, running through the tax year 2028. Commissioner Piepkorn clarified that this is just a technicality and requirement for the ownership change.

A motion was made by Jim Buus to approve the application as submitted. Kent Costin seconded. Motion carried.

Transfer of Existing PILOT to Block 9 SRO LLC, Block 9 RDO LLC, Block 9 Retail LLC, Block 9 Hotel LLC

Jim Gilmour presented the application to transfer an existing PILOT. He explained that the original PILOT for the Block 9 Project was approved for the Block 9 Partners and that, although the ownership is remaining the same, it is being split up into four different entities based on use. The terms of the original PILOT are 100% exemption for 20 years and will not change if the PILOT is transferred.

Jim Buus asked if there was a valuation breakout for the four entities done previously based on their projected use or if there is a valuation breakout being done now. Mike Zimney from Kilbourne Group explained that they prorated it based on square footages on their original application.

Jim Gilmour clarified that the Block 9 project also includes 6 condominium units that are not included in the PILOT program and that they will pay property taxes from the first year.

A motion was made by Jim Buus to approve the application as submitted. Kent Costin seconded. Motion carried.

Before adjourning Jim Gilmour pointed out that North Dakota Housing Finance Agency began accepting proposals for affordable housing projects through the low income housing tax credit this week, so he expects to see some applications for exemptions related to these housing proposals. He explained that one of the criteria for being selected for state funding is whether or not there is demonstrated local support for these projects. He explained that the process is competitive and local support is important, because only about 20% of these projects will be approved for state funding. He highlighted that last year, there weren't any approved in Fargo, and he expects three to reapply and one additional to apply for the first time.

Commissioner Piepkorn asked if there was a way the committee or the city could proactively send a letter or something to explain they didn't get any approved last year and would like to see them approved this year. Jim Gilmour explained that letters of support would be helpful. Commissioner Piepkorn expressed to Dan Madler from Beyond Shelter that they would be willing to write a letter or give some sort of city notification to show support.

Commissioner Piepkorn adjourned the meeting.