

TAX EXEMPT REVIEW COMMITTEE
Fargo, North Dakota

Regular Meeting

Tuesday, January 28, 2020

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 1:02 p.m., Tuesday, January 28, 2020.

The committee members present or absent are:

Present: Dave Piepkorn, Bruce Grubb, Jim Buus, John Cosgriff, Jim Gilmour, Robert Wilson, Ben Hushka, Jackie Gapp, Mayor Tim Mahoney, Erik Johnson, Nicole Crutchfield representing Planning

Absent: Jessica Ebeling, Kent Costin, Levi Bachmeier, Joseph Raso

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 December meeting held on December 17, 2019. John Cosgriff seconded. Motion carried.

PILOT Application by Fargo New Horizons, LLLP (in partnership with Fargo Housing & Redevelopment Authority) for a Low Income Housing Project

Jim Gilmour present on New Horizons Manor, located on North Broadway. It is a ten story building with 96 fully accessible units, originally constructed as public housing in 1973. 60% of the residents are over 55 and over 40% have a disability; residents are low income, paying 30% of their income, with the average rent being \$290. HUD does provide subsidies to bring up rent to about \$550. Because it is public housing, it is currently exempt from property taxes, but the Fargo Housing Authority does make a small voluntary payment to the city only each year (roughly 5% of rent they receive from tenants, less utility allowance). This property has undergone major renovation, and are now in the process of trying to get a loan for the balance of their renovations. They need to get a permanent loan of \$2.7 million to finance completed renovations. They have partnered with a for-profit group that will own the property for 15 years and then it will return to public ownership. Because they will be going from a public ownership to a private ownership for 15 years, they will be subject to property taxes. They are requesting a 15 year PILOT for the years the property is held under private ownership. Without the PILOT approval from both the county and city, they would not be able to secure this financing. He noted that without the PILOT approval, the property would remain publicly-owned and, therefore, would not be taxable; with approval they would pay about \$10,000 in taxes, which is more than the county and school district are currently receiving.

Mayor Mahoney asked what Fargo Housing Authority will do if they aren't granted the exemption, since the project is already finished. Gilmour said that Fargo Housing Authority wouldn't be able to do other projects and would lose low-income housing tax credits.

Mayor Mahoney asked why the exemption wasn't presented before the renovation project started. Gilmour responded that it was unclear if they would need to apply for the exemption, because the building is still on public land. After conferring with Erik Johnson, Fargo Housing Authority proceeded with applying for this exemption just to be sure that they would not be subject to property taxes, because the bank won't approve the loan until they are certain the property taxes would be exempt.

Ben Hushka noted that there was also, perhaps, an assumption that they would fall under the new statute where if a low income housing tax credit project in partnership with a 501©3 charitable organization, they would be considered exempt on the tax rolls and submit income and expenses and pay 5% of gross rent less

utilities billed by the counties. After consulting North Dakota Housing and Finance, they found that they don't fall under that statute, because Fargo Housing Authority is not a 501©3, but a publicly owned entity. Hushka noted that this model they're requesting has been approved in the past, citing Graver Inn as an example; they were granted 15 year \$0 payment PILOT with the voluntary 5% payment. Because the statute has changed to allow the county and school district to opt out, the PILOT would need to follow this model as opposed to the \$0 payment PILOT.

Jim Buus asked how the financing would work if the city opts in, but the county does not grant the exemption. Gilmour stated that if the county opts out, they will either not receive the loan or accept a much lower loan amount.

Mayor Mahoney asked Robert Wilson how receptive the county has been to granting tax exemptions to low-income projects. Wilson noted that it's an interesting project that will get a close review, but will not presuppose what the committee is going to do. Gilmour added that they have granted exemptions like this to Cass County Housing Authority for properties in West Fargo.

Buus asked for clarification about it going back to being a publicly owned entity and paying 5% gross revenue. Hushka stated that it would go back to the Housing Authority and would be fully exempt from property taxes.

Dave Piepkorn asked if rents would change or be frozen at their current rates. Gilmour stated that rents would state the same; this is a requirement of the rental assistance demonstration project. Rents would still be based on income and the Housing Authority would continue to receive subsidies, so the tenants would be unaffected. If the exemption is not approved, Fargo Housing Authority may be forced to look for higher-income tenants to make the project work. Piepkorn noted that the fact that people might be pushed out of these units might be worth bringing to the county commission as a selling point.

Hushka highlighted the tables provided, showing that if the exemption is approved with full participation, the annual payment would start out at \$11,232; if the county opted out, the payment would be an additional \$16,865 on top of that to make the county whole.

Piepkorn asked about what amount will not be collected if the PILOT is approved. Gilmour stated that he does not have the number, but highlighted that if the PILOT is not approved, the property would remain publicly-held and no property tax would be collected. Hushka pointed out that the information is provided on the tables in the agenda; the present value of benefit is \$1,346,900. The full proposed PILOT and land tax is about \$11,000; tax on the building alone would be over \$105,000 per year.

Piepkorn asked if the whole building will be remodeled. Gilmour stated that there have been over \$10 million in renovations and that they have been completed for over a year, but they have been working on getting permanent financing.

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

Renaissance Zone 2019 Update

Ben Hushka stated that the planning department brought the proposed updates to the Renaissance Zone before the city commission for approval; it was approved. He directed questions to Nicole Crutchfield from Planning.

Nicole Crutchfield noted that the update for the new set of plans was filed with and has been approved at the state level.

Mayor Mahoney asked for a summary of the impact of the Renaissance Zone since its start. Crutchfield noted that the plan has been successful, but the update reflects progress on a block by block level. She highlighted that in 1999 there was approximately \$107 million in property value and there is currently \$546 million in property value within the same boundary. She noted that there have been over 242 Renaissance Zone projects over the last 20 years. Piepkorn explained that all the individual projects are listed in the update.

Commissioner Piepkorn adjourned the meeting.