FARGO TAX EXEMPT REVIEW COMMITTEE
JOINT MEETING WITH RENAISSANCE ZONE AUTHORITY

Tuesday, June 25, 2019 – 1:00 p.m.
City Commission Chambers, Fargo City Hall
TAX EXEMPT REVIEW AGENDA

1. **Approve Tax Exempt Review Committee meeting minutes of 1/22/2018**
    - **a.** January 22, 2018 minutes [Page 1-2]

2. **Tax Increment Financing Application by Roers Development**
    - **a.** Application for Tax Increment Financing [Page 3-19]
    - **b.** TIF "But For" Financial Analysis [Page 20-28]

3. **Staff Summary of Three PILOT Applications**
    - **a.** Summary Overview of PILOT Applications Submitted [Page 29]

4. **PILOT Application by Great Plains Antique Holdings, LLC (Kilbourne)**
    - **a.** Application for 15 year Payment in Lieu of Tax [Page 30-36]
    - **b.** PILOT "But For" Financial Analysis [Page 37-44]

5. **PILOT Application by Great Plains 1001 Holdings, LLC (Kilbourne)**
    - **a.** Application for 15 year Payment in Lieu of Tax [Page 45-51]
    - **b.** PILOT "But For" Financial Analysis [Page 52-59]

6. **PILOT Application by DFI Kesler, LLC (Kilbourne)**
    - **a.** Application for 15 year Payment in Lieu of Tax [Page 60-68]
    - **b.** PILOT "But For" Financial Analysis [Page 69-76]

Renaissance Zone Authority meeting immediately following Tax Exempt Review Committee meeting

TAX EXEMPT REVIEW COMMITTEE
Fargo, North Dakota

Regular Meeting **Tuesday, January 22, 2019**

The November 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, January 22, 2019.
The committee members present or absent are:
Present: Robert Wilson, Jim Gilmour, Jim Buus, Kent Costin, Chuck Hoge, Dave Piepkorn, Bruce Grubb, Mark Lemer, Erik Johnson, Jackie Gapp
Absent: Joseph Raso, Mayor Tim Mahoney, Ben Hushka, Jessica Ebeling
Others Present: Kati Wilcox, Randy Thorson

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

Kent Costin made a motion to approve the minutes from the October meeting held on November 27, 2018. Jim Buus seconded the motion, which carried.

5 Year New Industry Exemption Application by CI Sport, Inc.
Jim Gilmour introduced the application submitted by CI Sport, Inc. for a five-year New Industry exemption. CI Sport, which sells screen-printed and embroidered apparel and is currently located in downtown Fargo. The organization would like to acquire the Gander Mountain building, which would allow for more employment opportunities in the area, as well as higher-skilled job opportunities due an increase in space.
Randy Thorson, President of CI Sport, estimates adding $1.5 million worth of new equipment to the facility. He explained this will allow “those $10 per hour jobs” to become automated processes and current employees to move to higher skilled, higher paying jobs. The larger space and new location will provide the ability for a second shift, meaning an increase in job opportunities in Fargo. CI Sport started with three employees completing mainly local, promotional projects. The company now employs over 100 people, sells to 2200 stores around the world, including Amazon.
Commissioner Dave Piepkorn clarified that the larger facility is what will allow for the increase in equipment then asked Mr. Thorson to explain some of the challenges of the downtown location. There is one loading dock behind the building, which causes backups of semis and UPS trucks in an alley, which nearby condominium owners also utilize. The new facility will have two loading docks in spaces that are more convenient for both shipping and receiving.
Commissioner Piepkorn inquired about incentives offered in other cities. Mr. Thorson stated Moorhead did make offers and he had checked West Fargo as well. Commissioner Piepkorn explained that CI Sport is one of the longest standing businesses in downtown Fargo. Randy Thorson is a long-time Fargo resident and serves on other committees in the city. There are benefits to maintaining a relationship with organizations with such strong ties to Fargo.
A partner company, Global Acquisition, purchased the property and will lease the building to CI Sport. Chuck Hoge asked if this lease is longer than the five-year exemption, and Mr. Thorson explained that it is.
Robert Wilson inquired about any lessons learned regarding businesses such as CI Sport purchasing and repurposing big-box stores. Mr. Thorson explained selling this large of a building could be

difficult to sell from a real estate perspective but could also hold great opportunity for businesses like his.
At Mark Lemer's request, Jim Gilmour clarified the request is for exemption on the entire building for only five years. CI Sport will also continue to own and pay taxes on the space downtown.
After no further questions were presented, Jim Buus made a motion to approve the application, which Bruce Grubb seconded. The motioned carried.

5 Year New Industry Exemption Application by Prairie Products LLC
The application was withdrawn, with a possibility of returning in February. Commissioner Dave Piepkorn clarified there was nothing further to discuss with this agenda item.

Final Discussion on Revisions to Tax Exempt Review Committee Policy & Guidelines
Jim Gilmour included the latest updates of the Tax Exempt Review Policy for one last review before presenting the changes to the City Commission. He included one addition pertaining to the periodic reporting, which will not be required after all stated goals have been met or necessitate applicants to pay back a prorated incentive amount if they are not. There will also be opportunity to extend goals up to two years if needed and with approval at a public meeting.
After discussion among committee members, it was decided to alter the order of two paragraphs under the 'Additional Policy and Procedures' section as it allows for more permissive language in the policy. Commissioner Piepkorn asked that the final copy be posted to the website prior to the next commission meeting.
Robert Wilson stated the Cass County Commissioners appreciated Jim Gilmour's presentation on the policy updates. It was well received and members now have a better understanding of how the process works.

Commissioner Dave Piepkorn adjourned the meeting at 1:19pm.

City of Fargo

Application for PILOT or TIF

Contact Information

Primary Contact:	Larry S. Nygard Roers 200 45th Street S Fargo, ND 58103 (701) 356-5050 lnygard@roers.com

General Information

Name and description of Corporation/Partnership

Project Location	University Drive and 11th Avenue North Fargo, ND 58102

Project Description with conceptual plans

Propose Schedule	Start construction upon TIF determination. Completion July 2021

Project Financials and Financing

Name of Developer	Roers Development, Inc.
Ultimate owner of development	Townhomes – Individual Owners Newman Opportunity Zone Partners, LLC
Type of Exemption	Tax Increment Financing
Dollar request of TIF assistance	$950,000

Term of request of PILOT property tax payments Ten (10) year property tax increase exemption

Minimum of a 10-Year Proforma, showing the year in which the property is at full rent-up
See Pro Forma

Total project cost See Pro Forma

Hard Capital Costs as defined in the Policy & Guidelines See Pro Forma
Contributed equity See Pro Forma

Loan amount(s) with terms (anticipated rate, first maturity, final maturity)
$9,100,000, 5 Year Term, LIBOR + 250 bps

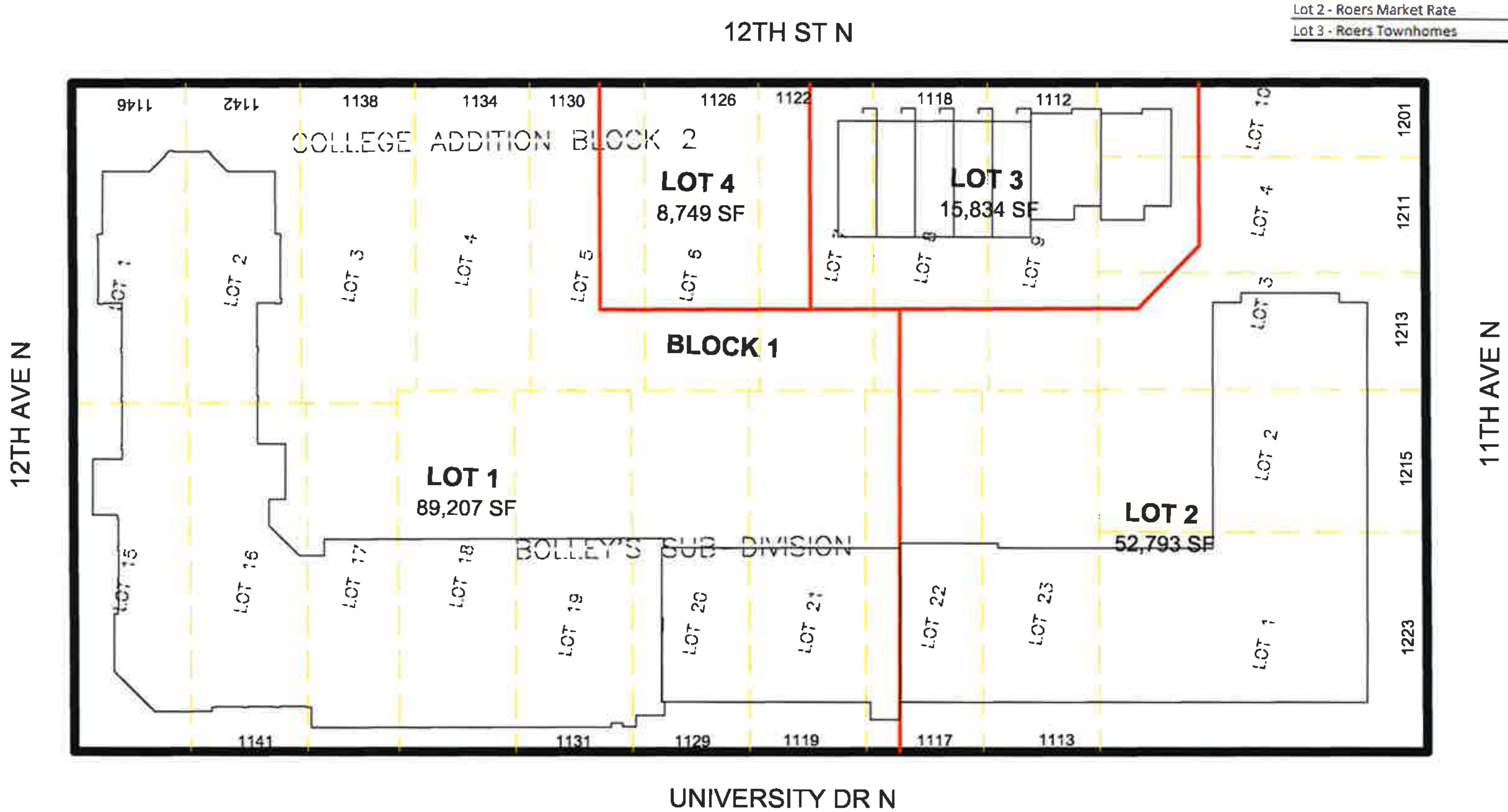
Number of housing units by type	85 Rental Units 7 Townhome Units

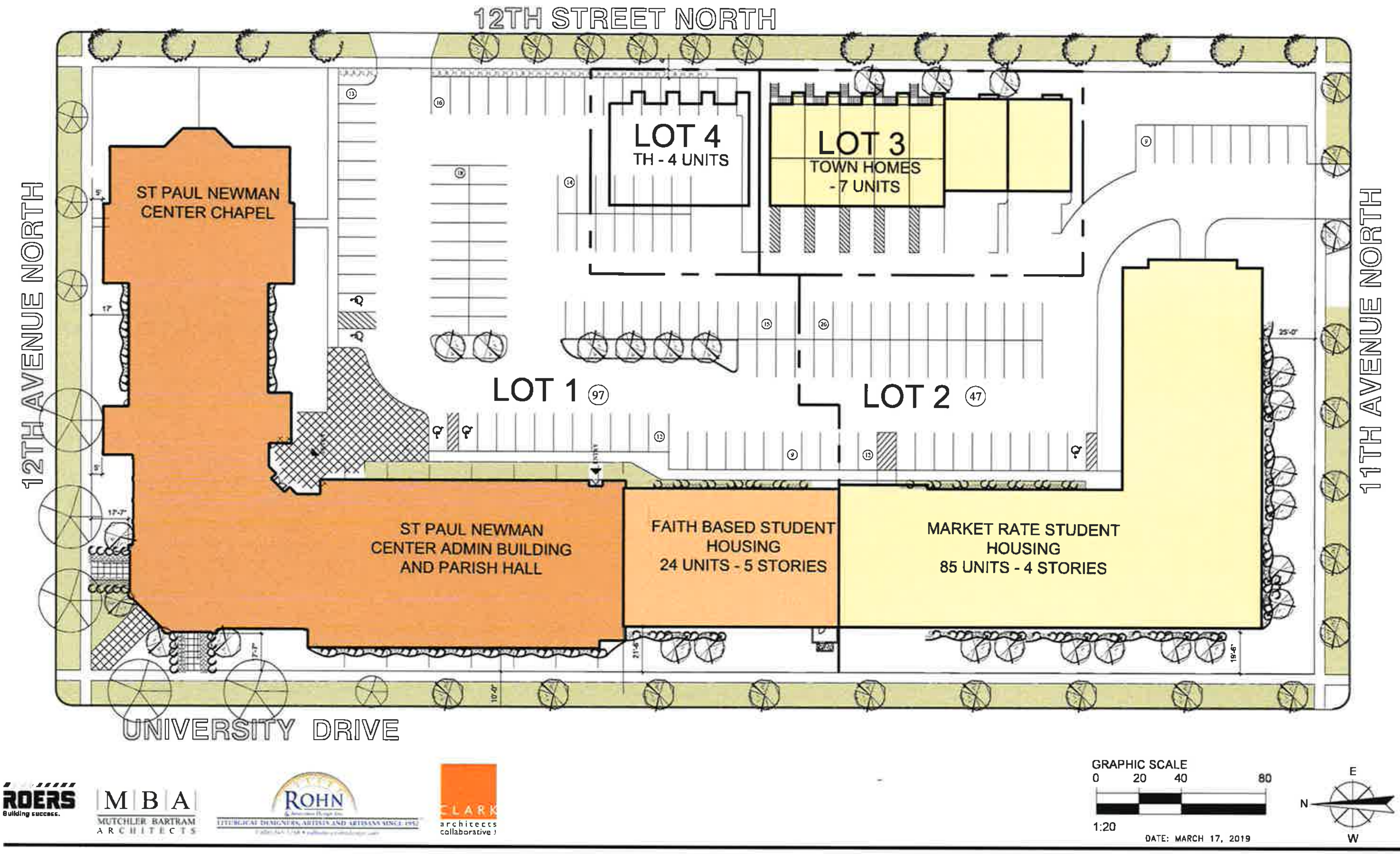
City of Fargo

Application for PILOT or TIF

Square footage of commercial space	None
Proposed rents by housing unit types and for commercial space	See Pro Forma
Detailed assumptions for any other revenues (e.g. $100/month/garage space)	See Pro Forma
Expenditures broken out by category	See Pro Forma
Extraordinary Costs broken out by cost as defined in the Policy & Guidelines	See Pro Forma

	Area	% of Block	
Total Block Area	166583 SF	100.00%	
Lot 1 - Diocese of Fargo	89207 SF	53.55%	58.80%
Lot 4 - Diocese of Fargo	8749 SF	5.25%	
Lot 2 - Roers Market Rate	52793 SF	31.69%	41.20%
Lot 3 - Roers Townhomes	15834 SF	9.51%	





ROERS Building success. | MBA MUTCHLER BARTRAM ARCHITECTS | ROHN | CLARK architects collaborative

1 A3.1 EXTERIOR ELEVATION - EAST
SCALE: 1/8" = 1'-0"

2 A3.1 EXTERIOR ELEVATION - SOUTH
SCALE: 1/8" = 1'-0"

GENERAL NOTES

1. ADD BLOCKING AT ALL WALL BRACKETS AS REQUIRED
2. FLASHING COLOR TO MATCH SIDING COLOR UNLESS OTHERWISE NOTED

FINISH LEGEND

- SIDING 1 — 1
- SIDING 2 — 2
- SIDING 3 — 3
- SIDING 4 — 4
- SIDING 5 — 5
- W-PNL 1 — 6
- WGFC-PNL 1 — 7
- STONE 1 — 8

barn haus studios
14390 40th St SE - Wheatland, ND
elissa@barnhausstudios.com
701.866.3506

MARKET RATE STUDENT HOUSING

1113 UNIVERSITY DRIVE N
FARGO, ND
(NOT FOR CONSTRUCTION; FOR DESIGN REVIEW ONLY)

DATE: 4.04.19

PROJECT NO.
BHS# 18-022

A3.1
EXTERIOR ELEVATIONS

1 A3.2 EXTERIOR ELEVATION - WEST
SCALE: 1/8" = 1'-0"

2 A3.2 EXTERIOR ELEVATION - NORTH
SCALE: 1/8" = 1'-0"

GENERAL NOTES

1. ADD BLOCKING AT ALL WALL BRACKETS, AS REQUIRED.
2. FLASHING COLOR TO MATCH SIDING COLOR, UNLESS OTHERWISE NOTED.

FINISH LEGEND

- SIDING 1
- SIDING 2
- SIDING 3
- SIDING 4
- SIDING 5
- W-PNL 1
- WGFC-PNL1
- STONE 1

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FARGO, ND

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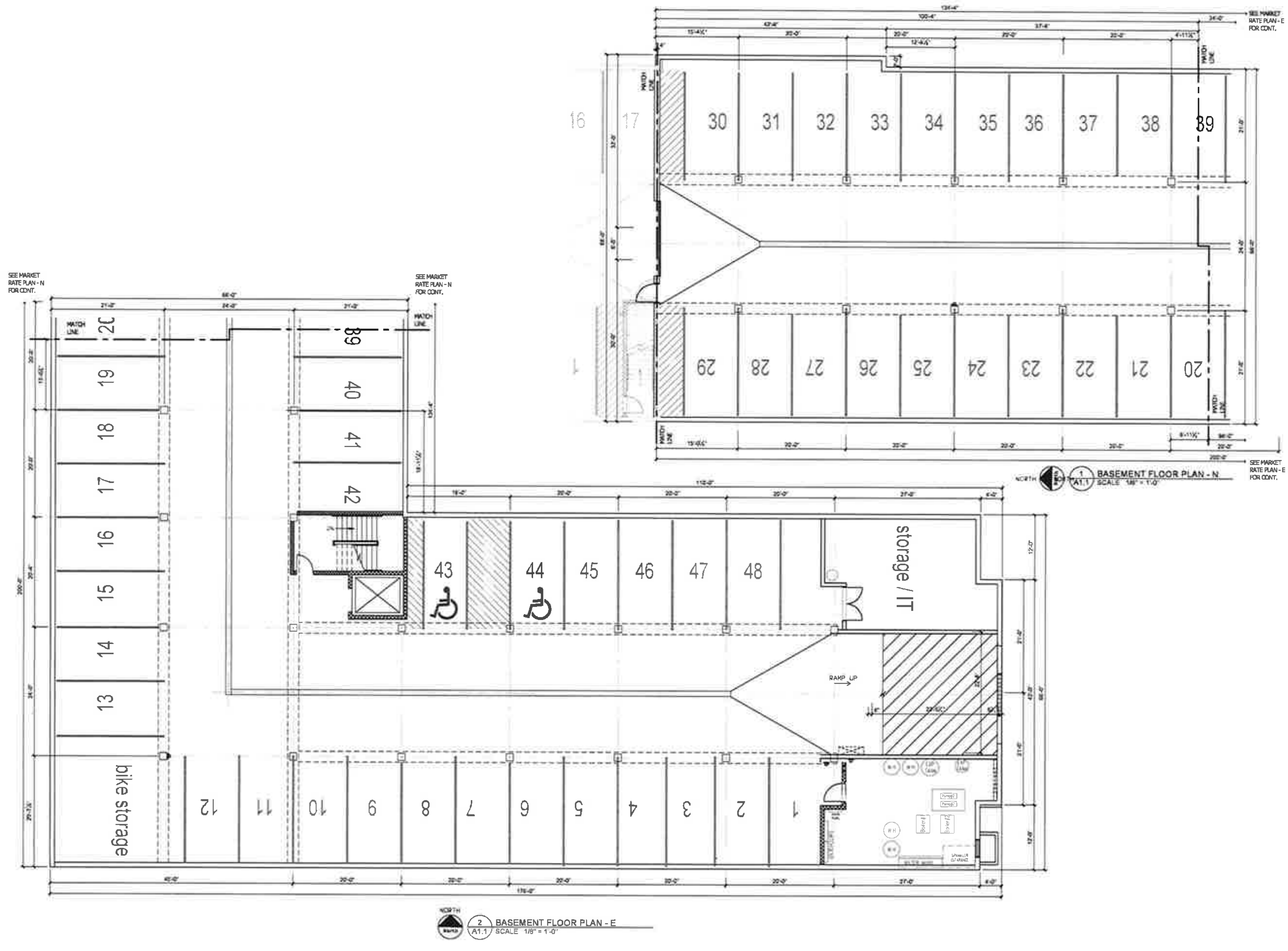
DATE: 4.04.19

PROJECT NO.
BHS# 18-022

A3.2
EXTERIOR ELEVATIONS



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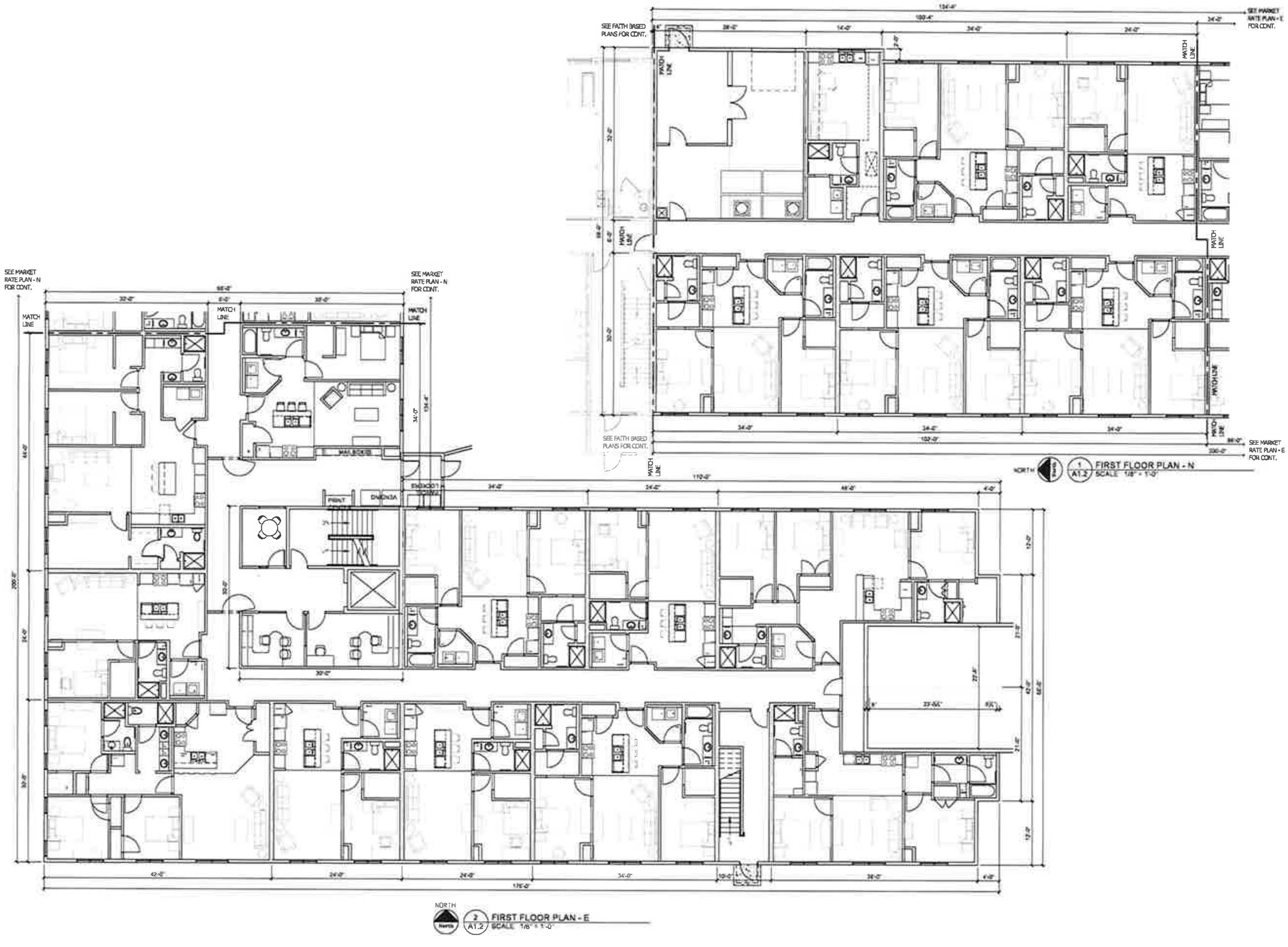
MARKET RATE STUDENT HOUSING
1113 UNIVERSITY DRIVE N
FARGO, ND

DATE: 5.17.19

PROJECT NO.
BHS# 18-022

A1.1
BASEMENT PARKING & FLOOR PLANS



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MARKET RATE STUDENT HOUSING

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DATE: 5.17.19

PROJECT NO.
BHS# 18-022

A1.2
FIRST FLOOR PLAN

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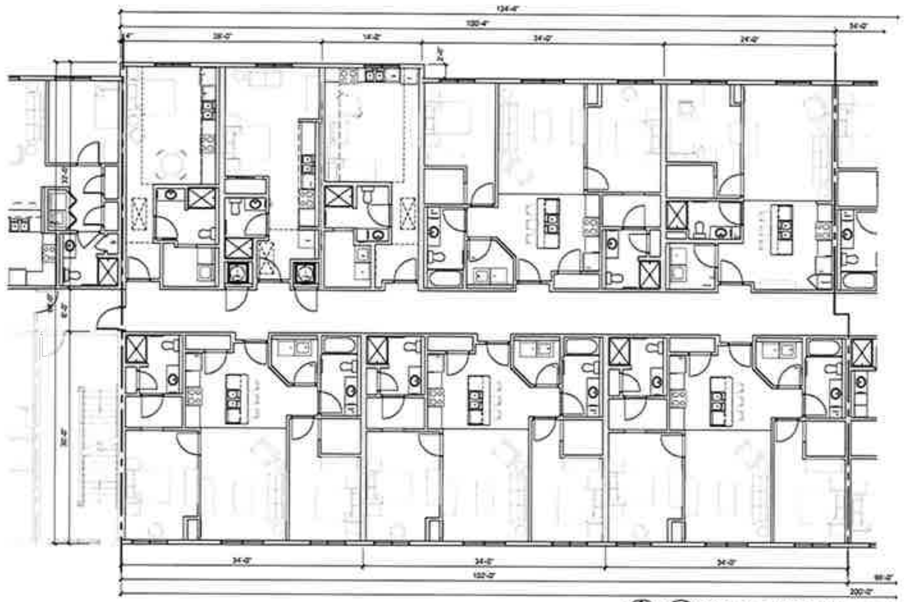
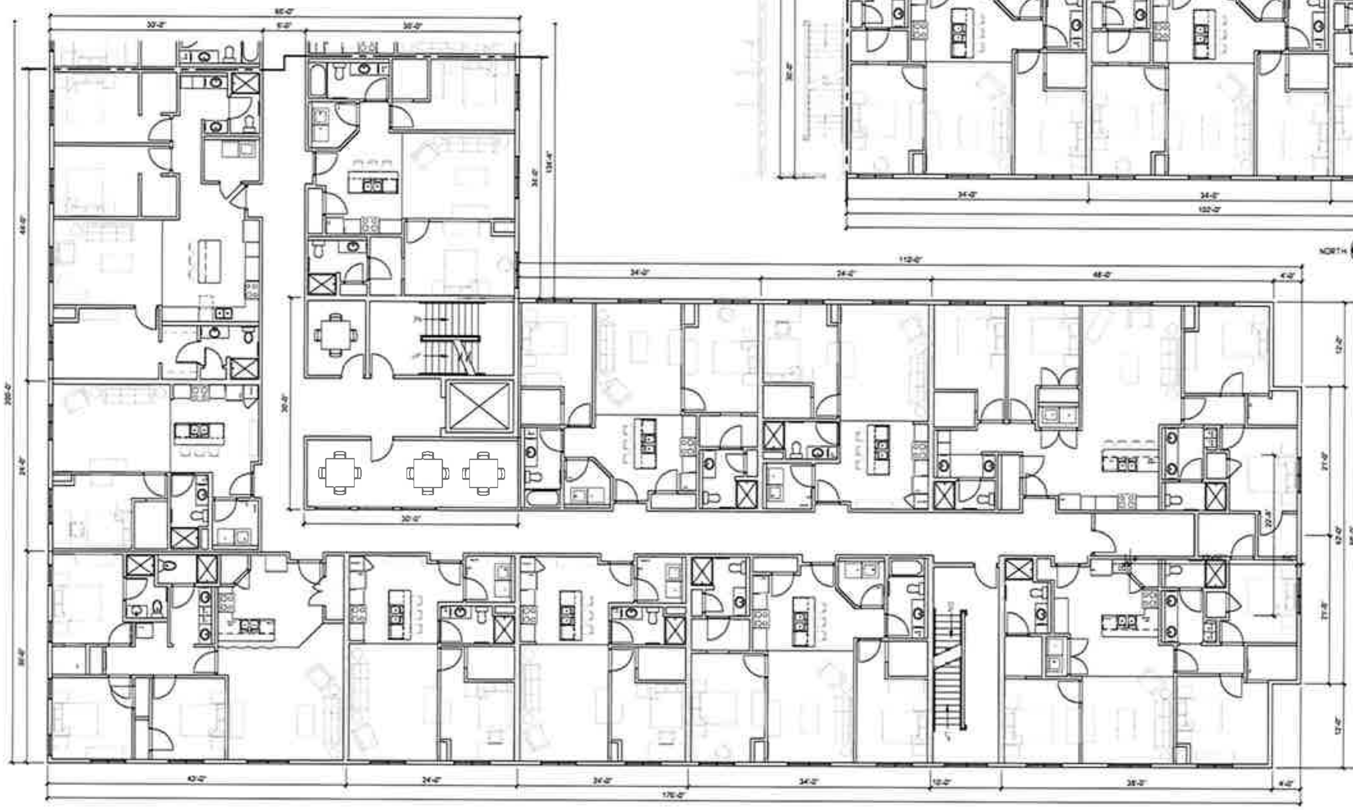


1 A1.3 SECOND & THIRD FLOOR PLAN - N
SCALE 1/8" = 1'-0"



2 A1.3 SECOND & THIRD FLOOR PLAN - E
SCALE 1/8" = 1'-0"

MARKET RATE STUDENT HOUSING

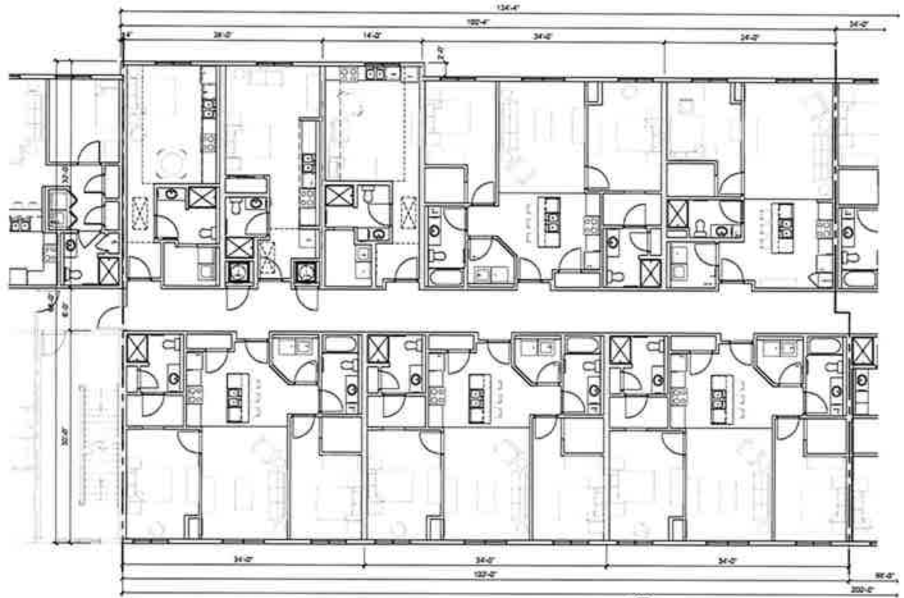
1113 UNIVERSITY DRIVE N
FARGO, ND

{NOT FOR CONSTRUCTION; FOR DESIGN REVIEW ONLY}

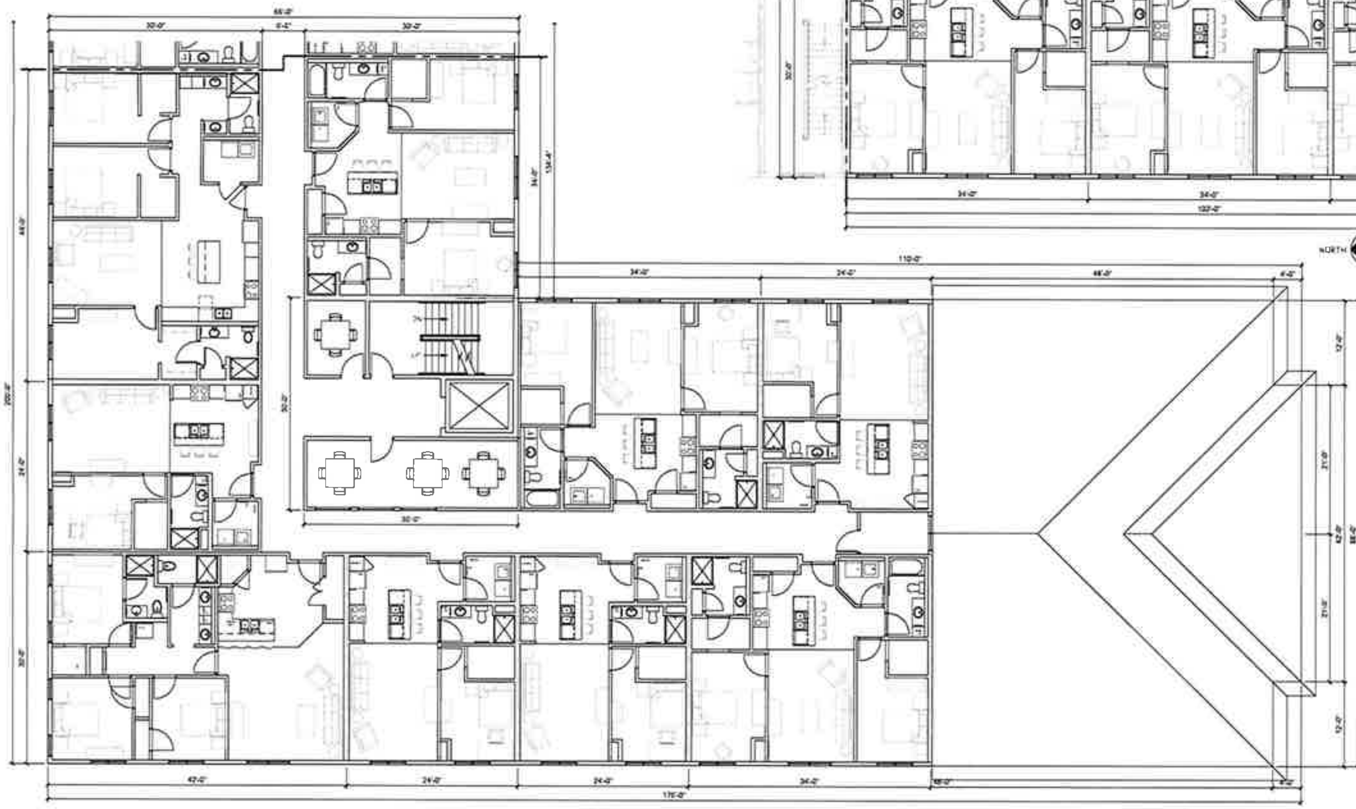
DATE: 5.17.19

PROJECT NO.
BHS# 18-022

A1.3
SECOND & THIRD FLOOR PLANS



1 A1.4 FOURTH FLOOR PLAN - N
SCALE 1/8" = 1'-0"



2 A1.4 FOURTH FLOOR PLAN - E
SCALE 1/8" = 1'-0"

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MARKET RATE STUDENT HOUSING

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PROJECT NO.
BHS# 18-022

A1.4
FOURTH FLOOR PLAN

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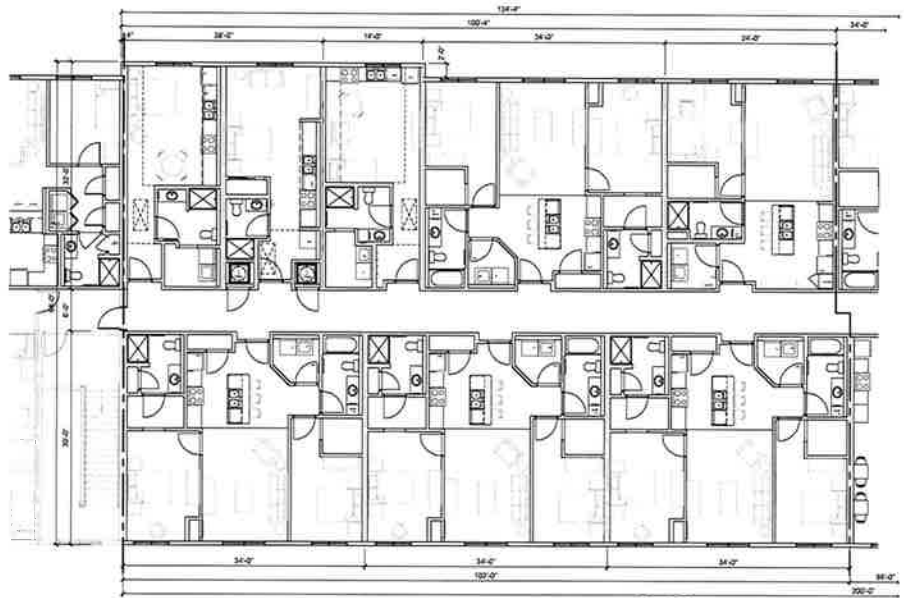
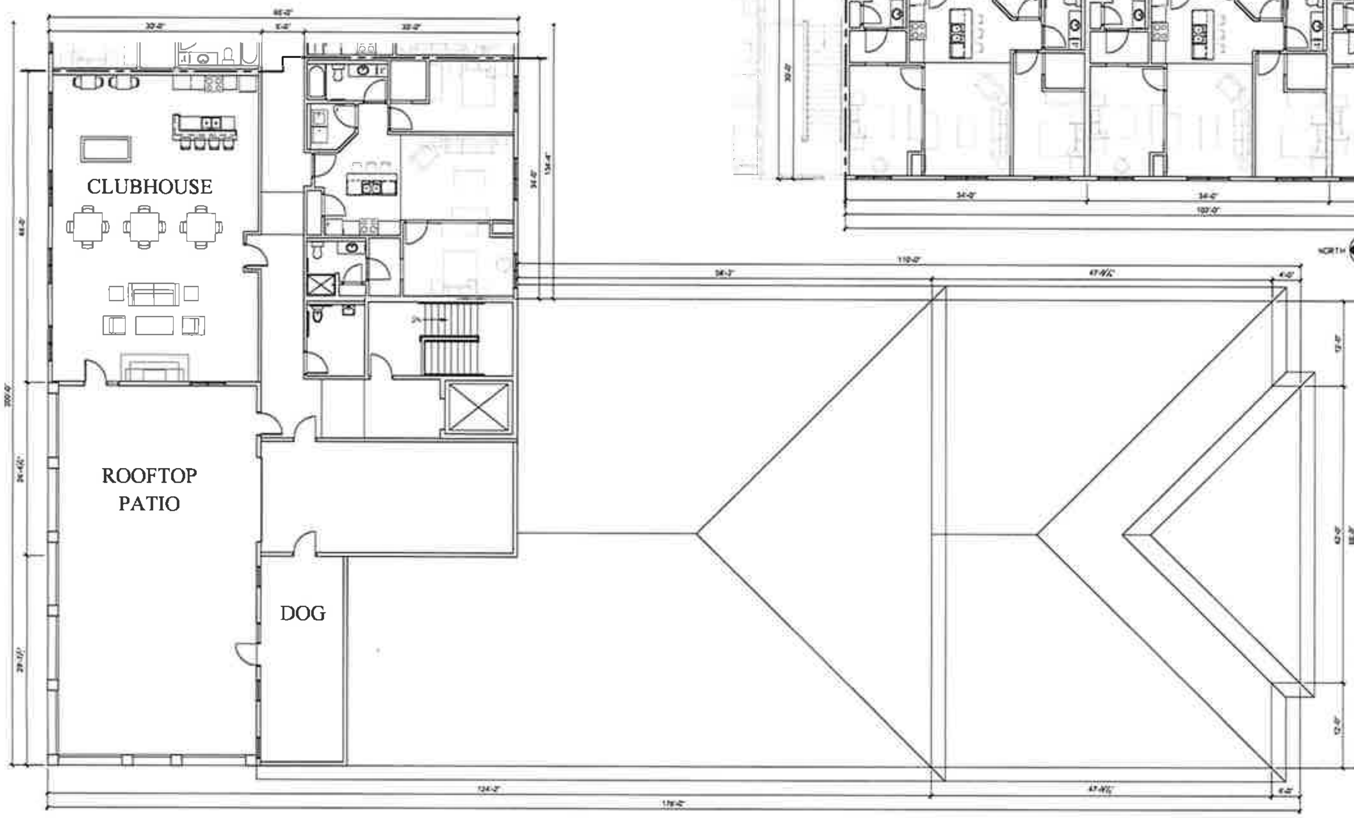


1 A1.5 FIFTH FLOOR PLAN - N
SCALE 1/8" = 1'-0"



2 A1.5 FIFTH FLOOR PLAN - E
SCALE 1/8" = 1'-0"

MARKET RATE STUDENT HOUSING

1113 UNIVERSITY DRIVE N
FARGO, ND

(NOT FOR CONSTRUCTION; FOR DESIGN REVIEW ONLY)

DATE: 5.17.19

PROJECT NO.
BHS# 18-022

A1.5
FIFTH FLOOR PLAN

SPNC TownHomes
Project Budget
5/22/2019

Sales

	Quan	Style	Avg Sale	sq ft	$/psf	total	
	2	2 story	264,900	1,600	$ 166	529,800	
	5	2.5 story	274,900	1,750	$ 157	1,374,500	
	7		272,043				
						1,904,300	100.0%
Commissions		List	3.0%			57,129	3.0%
		Sale	3.0%			57,129	3.0%
Closing Costs			1,000	per		7,000	0.4%
Net Sale Proceeds						1,783,042	93.6%
					Avg.	*254,720*	

Expenses

Land Allocation*	7		56,382			394,675	20.7%
Building cost	7		$ 153,000	1,700	$ 90	1,071,000	56.2%
Demolition	7		7,143			50,000	
Architecture	7		4,000			28,000	1.5%
					Sub total	1,543,675	
Gross Profit					Gross Profit	239,367	
GP per unit					Per unit	34,195	
					%	13%	
Legal						15,000	0.8%
Marketing						40,000	2.1%
Bank Fees							
	Appraisal		1,000				
	Origination		20,000				
	Legal		5,000				
	Survey/plat		2,500			28,500	1.5%
Const period Interest and holding costs						35,000	1.8%
Taxes during construction						10,000	0.5%
Warranty						7,000	0.4%
Misc						28,000	1.5%
Total Expenses						1,707,175	89.6%
Net Cash Flow						75,867	4.0%
Average Per Unit						10,838	
Industry Average						190,430	10.0%
TIF Request						114,563	

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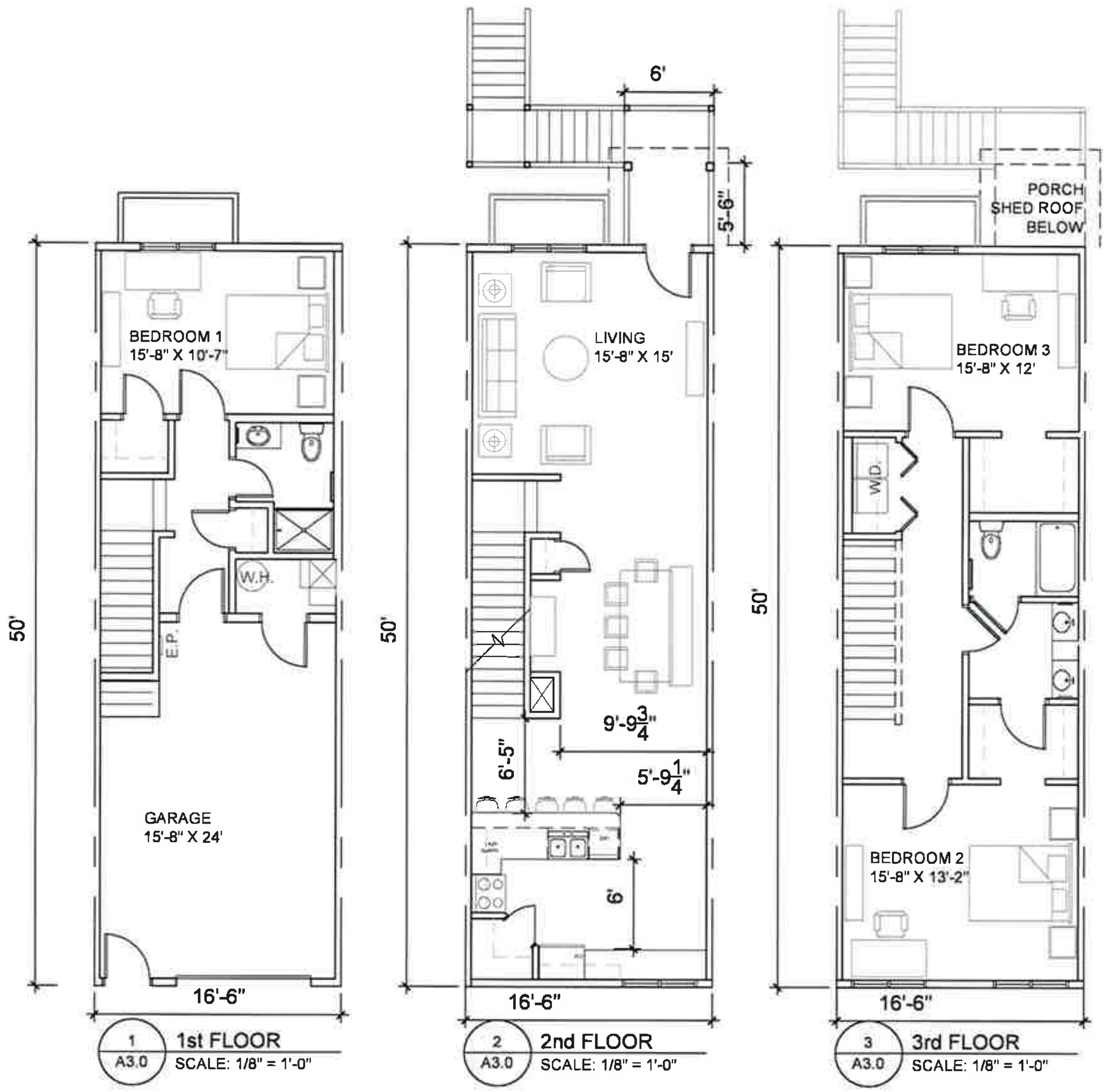

SPNC_Townhomes
FARGO, ND

DATE: 3.31.19

PROJECT NO.
BHS 19-014

A3.0

PRELIMINARY DESIGN
CONCEPT 'A'

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elissa@barnhausstudios.com
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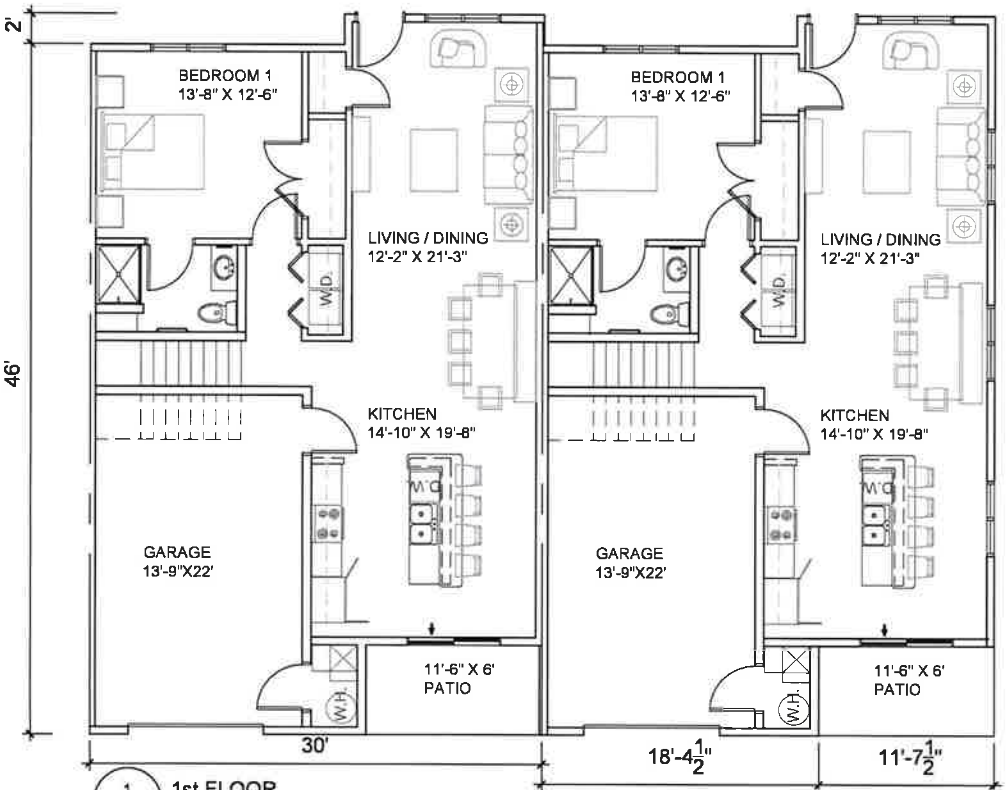
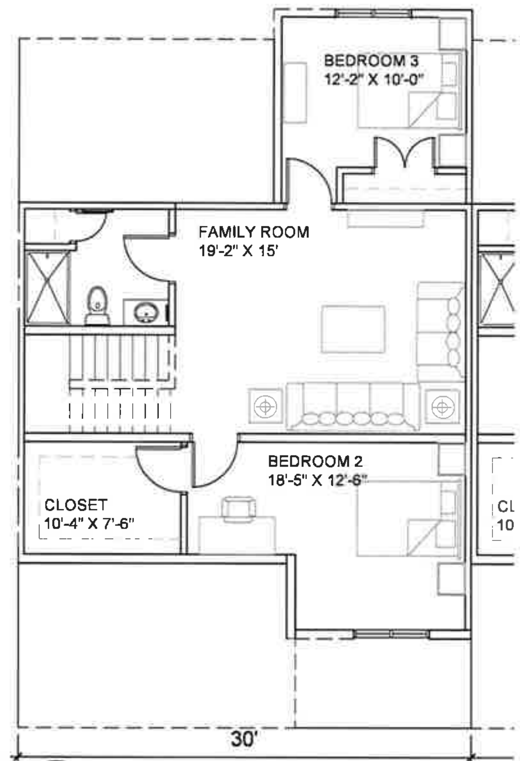


1 A3.1 **1st FLOOR**
SCALE: 1/8" = 1'-0"



2 A3.1 **2nd FLOOR**
SCALE: 1/8" = 1'-0"

SPNC_Townhomes
FARGO, ND

DATE: 3.18.19

PROJECT NO.
BHS 19-014

A3.1
PRELIMINARY DESIGN

85 plex SPNC W/O Townhomes
Budget for Period Ended 12/31/2021
21-May-19

			August	September	October	November	December	January	February	March	April	May	June	July	2021-22 Total	%
Vacancy %			30%	25%	20%	20%	15%	15%	15%	15%	15%	15%	15%	15%		
# units			85													
# vacant			25.5	21	17	17	13	13	13	13	13	13	13	13		
Average Rent $			1,070													
Month (2021)			August	September	October	November	December	January	February	March	April	May	June	July	2021-22 Total	%
Income:																
Apartment Rent			90,980	90,980	90,980	90,980	90,980	90,980	90,980	90,980	90,980	90,980	90,980	90,980	1,091,760	
Garage Rent			2,550	2,550	2,550	2,550	2,550	2,550	2,550	2,550	2,550	2,550	2,550	2,550	30,600	
Vacancy			(28,059)	(23,383)	(18,706)	(18,706)	(14,030)	(14,030)	(14,030)	(14,030)	(14,030)	(14,030)	(14,030)	(14,030)	(201,090)	100
Net Apartment Rent		*770*	65,471	70,148	74,824	74,824	79,501	79,501	79,501	79,501	79,501	79,501	79,501	79,501	921,271	
Other income		*0*	-	-	-	-	-	-	-	-	-	-	-	-	-	0.00%
Misc			-	-	-	-	-	-	-	-	-	-	-	-	-	0.00%
Total Revenues:		*770*	65,471	70,148	74,824	74,824	79,501	79,501	79,501	79,501	79,501	79,501	79,501	79,501	921,271	
Expenses:																
Administration																
Mgmt fees			3,601	3,601	3,601	3,601	3,601	3,601	3,601	3,601	3,601	3,601	3,601	3,601	43,211	4.69%
Office wages-other		*400*	2,833	2,833	2,833	2,833	2,833	2,833	2,833	2,833	2,833	2,833	2,833	2,833	34,000	3.69%
Advertising		*100*	708	708	708	708	708	708	708	708	708	708	708	708	8,500	0.92%
Misc exp		*100*	708	708	708	708	708	708	708	708	708	708	708	708	8,500	0.92%
sub-total	10.23%		7,851	7,851	7,851	7,851	7,851	7,851	7,851	7,851	7,851	7,851	7,851	7,851	94,211	10.23%
Maintenance																
General R&M		*270*	1,913	1,913	1,913	1,913	1,913	1,913	1,913	1,913	1,913	1,913	1,913	1,913	22,950	2.49%
Plumbing		*50*	354	354	354	354	354	354	354	354	354	354	354	354	4,250	0.46%
Electrical		*20*	142	142	142	142	142	142	142	142	142	142	142	142	1,700	0.18%
HVAC		*50*	354	354	354	354	354	354	354	354	354	354	354	354	4,250	0.46%
Exterior-general		*20*	142	142	142	142	142	142	142	142	142	142	142	142	1,700	0.18%
Maintenance Wages		*375*	2,656	2,656	2,656	2,656	2,656	2,656	2,656	2,656	2,656	2,656	2,656	2,656	31,875	3.46%
Interior-common		*125*	885	885	885	885	885	885	885	885	885	885	885	885	10,625	1.15%
Grounds/landscaping		*100*	708	708	708	708	708	708	708	708	708	708	708	708	8,500	0.92%
sub-total	9.32%		7,154	7,154	7,154	7,154	7,154	7,154	7,154	7,154	7,154	7,154	7,154	7,154	85,850	9.32%
Utilities																
Electric - house		*500*	3,542	3,542	3,542	3,542	3,542	3,542	3,542	3,542	3,542	3,542	3,542	3,542	42,500	4.61%
Garbage		*150*	1,063	1,063	1,063	1,063	1,063	1,063	1,063	1,063	1,063	1,063	1,063	1,063	12,750	1.38%
Cable/internet		*375*	2,656	2,656	2,656	2,656	2,656	2,656	2,656	2,656	2,656	2,656	2,656	2,656	31,875	3.46%
Water & Sewer		*295*	2,090	2,090	2,090	2,090	2,090	2,090	2,090	2,090	2,090	2,090	2,090	2,090	25,075	2.72%
sub-total	12.18%		9,350	9,350	9,350	9,350	9,350	9,350	9,350	9,350	9,350	9,350	9,350	9,350	112,200	12.18%
Other																
Insurance	2.31%	*250*	1,771	1,771	1,771	1,771	1,771	1,771	1,771	1,771	1,771	1,771	1,771	1,771	21,250	2.31%
Real Estate tax	0.00%		-	-	-	-	-	-	-	-	-	-	-	-	-	0.00%
Total Operation Expenses			26,126	26,126	26,126	26,126	26,126	26,126	26,126	26,126	26,126	26,126	26,126	26,126	313,511	34.03%
Operation Income			39,345	44,022	48,698	48,698	53,375	53,375	53,375	53,375	53,375	53,375	53,375	53,375	607,760	65.97%

85 plex SPNC W/O Townhomes
Budget for Period Ended XX10
21-May-19

		1	2	3	4	5	6	7	8	9	10	11
	Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	Inflation	2%										
	% vacant		6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
	Average Rent $	**1,070**	**1,092**	**1,114**	**1,136**	**1,159**	**1,182**	**1,205**	**1,229**	**1,254**	**1,279**	**1,305**
Income:												
Apartment Rent		1,091,760	1,113,595	1,135,867	1,158,584	1,181,756	1,205,391	1,229,499	1,254,089	1,279,171	1,304,754	1,330,849
Garage Rent		30,600	31,212	31,836	32,473	33,122	33,785	34,461	35,150	35,853	36,570	37,301
Vacancy		(201,090)	(61,248)	(62,473)	(63,722)	(64,997)	(66,297)	(67,622)	(68,975)	(70,354)	(71,761)	(73,197)
Net Apartment Rent		921,271	1,083,559	1,105,231	1,127,335	1,149,882	1,172,880	1,196,337	1,220,264	1,244,669	1,269,563	1,294,954
Other income		-	-	-	-	-	-	-	-	-	-	-
Misc		-	-	-	-	-	-	-	-	-	-	-
Total Revenues:		921,271	1,083,559	1,105,231	1,127,335	1,149,882	1,172,880	1,196,337	1,220,264	1,244,669	1,269,563	1,294,954
Expenses:	Inflation	2%										
Administration												
sub-total		94,211	96,095	98,017	99,977	101,977	104,016	106,097	108,219	110,383	112,591	114,843
Maintenance												
sub-total		85,850	87,567	89,318	91,105	92,927	94,785	96,681	98,615	100,587	102,599	104,651
Utilities												
sub-total		112,200	81,932	83,570	85,242	86,946	88,685	90,459	92,268	94,114	95,996	97,916
Other												
Insurance		21,250	21,675	22,109	22,551	23,002	23,462	23,931	24,410	24,898	25,396	25,904
Real Estate tax		-	-	-	-	-	-	-	-	-	-	119,000
sub-total		21,250	21,675	22,109	22,551	23,002	23,462	23,931	24,410	24,898	25,396	144,904
Total Operating Expenses		313,511	287,269	293,014	298,874	304,852	310,949	317,168	323,511	329,981	336,581	462,313
Operating Income		607,760	796,291	812,217	828,461	845,030	861,931	879,169	896,753	914,688	932,982	832,641

85 plex SPNC W/O Townhomes
Cash Flow Statement
For the 10 Years Ended 2031
21-May-19

				1	2	3	4	5	6	7	8	9	10
Project year													
Year				2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Net Operating Income				607,760	796,291	812,217	828,461	845,030	861,931	879,169	896,753	914,688	932,982
Debt Service													
	Mortgage	5.5%	30	361,682	620,026	620,026	620,026	620,026	620,026	620,026	620,026	620,026	620,026
							-	-	-	-	-	-	-
Sub total				361,682	620,026	620,026	620,026	620,026	620,026	620,026	620,026	620,026	620,026
Cash flow before capital expenditures				246,078	176,265	192,191	208,435	225,005	241,905	259,144	276,727	294,662	312,956
Sub total				246,078	176,265	192,191	208,435	225,005	241,905	259,144	276,727	294,662	312,956
Debt Service Ratio				168%	128%	131%	134%	136%	139%	142%	145%	148%	150%
Cash on Cash		5,000,000		4.92%	3.53%	3.84%	4.17%	4.50%	4.84%	5.18%	5.53%	5.89%	6.26%
Unleveraged CAP rate				4.35%	5.70%	5.81%	5.93%	6.05%	6.17%	6.29%	6.42%	6.55%	6.68%

City of Fargo, North Dakota

Tax Increment Financing Program
"But-For" Report

University Drive and 11th Avenue North

June 11, 2019

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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 University Drive and 11th Avenue North, a development by Roers (the "Developer").

PFM first reviewed the application to ensure that appropriate assumptions regarding property value, rent, vacancy, 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. 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 85-unit rental apartment building and seven townhomes located at University Drive and 11^{th} Avenue North. The intent of the Developer is to sell the townhomes upon completion.

The Developer stated the construction will be completed in July 2021 with occupancy immediately following. The Developer has requested TIF assistance in the amount of approximately $950,000 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 10-year exemption.

Requested Reimbursement

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

Demolition of buildings, asbestos and tree removal	$ 220,000
Public Infrastructure	435,000
Land Write Down	465,000
Legal and TIF Fees	65,000
Total Requested Cost to be Reimbursed	**$1,185,000**

The Developer is requesting a total of approximately $950,000 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 $11,592,425 the Developer can receive up to $1,738,863. The Developer is requesting approximately $950,000 which is below 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 $5,000,000 as equity which is over 35% of the total capital costs.

Land Cost

The Developer states the purchase price to acquire the property for the project is $2,107,000 including the land value at $189,700. The price is based on the actual purchase price of the property. Land acquisition is reimbursable under the Policy. The Developer is not requesting to be reimbursed for the land acquisition, however, they are asking to be reimbursed for land write down costs.

Policy #3

Policy #3 states the length of the term will be limited to 15 years or less. It is the intention of the City to enter into an agreement that limits the TIF payments to a maximum of 10 years.

Project Financing

The Developer is investing 35% equity, or $5,000,000, and will be privately financing $9,100,000. The Developer is additionally requesting annual TIF assistance in the total amount of approximately $900,000. The private financing is estimated to be a 30-year loan with an estimated interest rate of 5.50% resulting in an annual principal and interest payment of $626,129. The application states the project will be completed by July 2021.

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 seven townhomes. The Developer is proposing rents of $725 for studio, $895 for a one-bedroom unit, $1,300 for a two-bedroom unit and $1,800 for a three-bedroom unit. The Developer has proposed a reasonable amount for rent for the current market. The Developer also provided estimates of sale prices for the townhomes, listing two 2-story townhomes at $264,900 and five 2.5-story townhomes at $274,900. Annual estimates of operating expenses for the 85-unit rental development were provided, as follows; Maintenance Costs - $85,850, Utilities - $112,200, Miscellaneous fees - $21,250, Real Estate Taxes - $179,796 a year (PFM estimate), and Administration Costs - $94,211. The total expenses are approximately 52% of gross operating income, excluding the revenue gained from selling the townhomes. The operating expense assumptions appear reasonable, though the total expenses as a percentage of gross operating income is higher than average because of low rents proposed by the Developer.

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 TIF assistance the Developer would have about a 2.43% internal rate of return. The Developer would have about a 9.79% internal rate of return if it received the public assistance. A reasonable rate of return for the proposed project is 10% - 15%.

Another measure of feasibility and project viability is the debt coverage ratio. PFM has projected a maximum debt coverage ratio in Year 3 of 2.49x without assistance after the sale of the townhomes in Years 1 and 2, with a Year 5 coverage of 0.97x. If the City provided assistance to the project the maximum debt coverage is projected to be 2.96x in Year 2, with a Year 5 coverage of 1.46x.

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 10.00%.

Sensitivity Scenario 1 – Project Costs

The project would have to be reduced by $2,326,500 or 16.50% in order for the project to become viable without assistance. This reduces the amount to be financed from $9,100,000 to $7,598,500 and reduces the annual payment from $626,129 to $522,818 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 $1,122,360 to $1,464,680. 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 $1,410,000 or 10.0% and rental rates would have to increase by 11.95%. While either of these events could occur, PFM does not believe they are likely to occur at once.

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 townhomes 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, based on 10 years of TIF assistance, the Developer's internal rate of return, based on the assumptions outlined in this report, would be 9.79%. Based on the internal rate of return and the coverage requirements, PFM concludes the project would not be feasible without public assistance.

THE CITY OF Fargo FAR MORE

ASSESSMENT DEPARTMENT

TAX EXEMPT REVIEW COMMITTEE PILOT APPLICATION SUMMARY

Scheduled Meeting Date: 6/25/2019

APPLICATION #1

Applicant	Great Plains Antique Holdings, LLC (Kilbourne)
Address	1017 4th Ave N
Parcel Number	01-2382-03253-000
Project Type	Apartments in Downtown Area Plan
Project Timing	Commencement of operations December 2020
Request	15 Year PILOT on increased value of project
Comments	PILOT Payment structured to retain tax amount currently being paid
Policy Concerns	Meets existing policy for downtown apartments & significant development

APPLICATION #2

Applicant	1001 Holdings, LLC (Kilbourne)
Address	1001 NP Ave. & 28 10th St. N.
Parcel Number	01-2382-02530-000 & 01-2382-02745-000
Project Type	Apartments and commercial development
Project Timing	Commencement of operations late 2020 – early 2021
Request	15 Year PILOT on increased value of project
Comments	PILOT Payment structured to retain tax amount currently being paid
Policy Concerns	Meets existing policy for downtown apartments & significant development

APPLICATION #3

Applicant	DFI Kesler, LLC (Kilbourne)
Address	624 2nd Ave. N., 617 & 621 1st Ave N.
Parcel Number	01-2381-00350-000, 01-2382-00330-000 & 01-2382-00420-000
Project Type	Apartments, retail, and parking
Project Timing	Commencement of operations April 2021
Request	15 Year PILOT on increased value of project
Comments	PILOT Payment structured to retain tax amount currently being paid
Policy Concerns	Meets existing policy for downtown apartments & significant development

321 – 4th Street N. • Fargo, ND 58102 • Phone (701) 241-1340 • Fax (701) 241-1339

KILBOURNEGROUP

June 10, 2019

Jim Gilmour
Director of Strategic Planning & Research
City of Fargo
225 4th Street North
Fargo, North Dakota 58102

Dear Mr. Gilmour:

Attached is the application for Payment in Lieu of Taxes for Great Plains Antique Holdings, LLC. The first files contain the applications and other information. The second files contain our financial information on both projects, which the City should consider proprietary, non-public information.

Kilbourne Group is proposing a five-story project on the former Dakota Electric Supply Co site. This project would contain four floors of market rate apartments and structured parking on the ground floor. The $11.6MM project will be approximately 90,146SF, 68 units, and 90 parking stalls.

Thank you for your consideration of this request and let me know if you have any questions or need any additional information.

Sincerely,

Mike Allmendinger
President

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 Great Plains Antique Holdings, LLC
2. Address of project 1017 4th Ave N
   City Fargo County Cass
3. Mailing address of project operator 210 Broadway Suite 300
   City Fargo State ND Zip 58102
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. 84-1914674
6. North Dakota Sales and Use Tax Permit No. ______
7. If a corporation, specify the state and date of incorporation ______
8. Name and title of individual to contact Mike Allmendinger
   Mailing address 210 Broadway - Suite 300
   City, State, Zip Fargo, ND 58102 Phone No. 701.237.2279

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**
     - 2020 Beginning year 2036 Ending year
     - X 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

24734
(Rev. 2/14)

Description of Project Property

11. Legal description of project real property

Lot: 5 Block: 30 ROBERTS 2ND ADDN LTS 1,2,3 & 4, B LK 30 INCLUSIVE, INCL THE W1/2 OF THE VACA ALLEY A DJ THERETO & ALL THAT PT OF E1/2 OF VAC ALLEY ADJ TO LT 9 DESC AS FOLL: BEG AT THE SW COR OF SD LT 9; THN W ALG THE S LN OF LT 9 EXT WLY A DIST OF 10 '; THN N ALG A LN PARA W/& PERP DIST 10' W OF THE W LN OF SD LT 9 A DIST OF 50'; THN SELY TO A PT ON THE W LN OF SD LT 9, A DIST OF 49' N OF THE SW CO R THEREOF; THN S ALG SD W LN A DIST OF 49' TO THE PLACE OF BEG; & ALL THAT PT OF THE E1/2 OF VAC ALL

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 September 2019

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

c. Projected number of construction employees during the project construction 15

14. Approximate date of commencement of this project's operations December 2020

15. Estimated market value of the property used <u>for this project</u>:

a. Land .... $ 909,940

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

c. Newly constructed buildings and structures when completed .... $ 10,294,522

d. Total .... $ 11,204,461

e. Machinery and equipment .... $ 0

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 .... $ 10,294,522

d. Total taxable valuation of property eligible for exemption (Add lines b and c) .... $ 10,294,522

e. Enter the consolidated mill rate for the appropriate taxing district 288.60

f. Annual amount of the tax exemption (Line d multiplied by line e) .... $ 144,432

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 ☐ 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).
Leasing of residential apartments

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

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	743,657	1,136,200	1,156,900	1,177,800	1,199,300
Annual expense	302,752	308,800	315,000	321,300	327,700
Net income	440,905	827,400	841,900	856,500	871,600

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)	n/a					
	(2)						
Estimated payroll	(1)	n/a					
	(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
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).

    n/a - new project on this location

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

    n/a - new project on this location

    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, Michael Allmendinger, 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	President Title	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**

______ Number of years

______ Percent of exemption

☐ **Payments in lieu of taxes**

______ Beginning year ______ Ending year

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

____
Auditor

Project	Great Plains Antique Holdings, LLC			
Project Value	$10,294,522			
Current Value	$757,000			
Mills	0.2886			
	Current Taxes	New Taxes	Abatement	Proposed Schedule
Year 1	$10,923.51	$0.00	100%	$10,923.51
Year 2	$10,923.51	$0.00	100%	$10,923.51
Year 3	$10,923.51	$0.00	100%	$10,923.51
Year 4	$10,923.51	$0.00	100%	$10,923.51
Year 5	$10,923.51	$0.00	100%	$10,923.51
Year 6	$10,923.51	$14,854.99	90%	$25,778.50
Year 7	$10,923.51	$14,854.99	90%	$25,778.50
Year 8	$10,923.51	$29,709.99	80%	$40,633.50
Year 9	$10,923.51	$44,564.98	70%	$55,488.49
Year 10	$10,923.51	$59,419.98	60%	$70,343.49
Year 11	$10,923.51	$74,274.97	50%	$85,198.48
Year 12	$10,923.51	$89,129.97	40%	$100,053.48
Year 13	$10,923.51	$103,984.96	30%	$114,908.47
Year 14	$10,923.51	$118,839.96	20%	$129,763.47
Year 15	$10,923.51	$133,694.95	10%	$144,618.46

City of Fargo, North Dakota

Payment in Lieu of Taxes Program
"But-For" Report

1017 4th Avenue North

Downtown District

June 12, 2019

Table of Contents

Purpose

The purpose of this report is to establish and determine the allowable value of the payment in lieu of taxes (PILOT) tax exemption for Great Plains Antique Holdings, LLC (Kilbourne Group) (the “Developer”).

PFM first reviewed the application/proforma to ensure that appropriate assumptions regarding property value, rent, vacancy, and expenses were used by the Developer. Based on those assumptions, PFM projected a 15-year cash flow, calculating an internal rate of return. The following report details PFM’s analysis and conclusions concerning the viability of the proposed project without the subsidy. The proposed project will be an investment of the Developer so PFM also calculated an internal rate of return for the project.

Project

The project being proposed by Kilbourne Group (the "Developer") includes constructing 68 apartment units at 1017 4th Avenue North. The apartments will range from studio units of approximately 596 square feet to three bedroom units of approximately 1,292 square feet. There will also be 90 structured parking stalls available. As noted in the previous section, the proposed project is to be an investment property for the Developer.

The Developer has stated that the construction will be completed by December 2020 with occupancy immediately following. The Developer has requested PILOT financing assistance in an amount in excess of $1,087,000 million on a present value basis to complete the project. This amount is based on projections of the future tax payments less the projected PILOT payments. Both the estimated tax payments and estimated PILOT payments assume a property value increase of 1.70% per year. This amount assumes five years of 100% exemption, followed by two years of 90% exemption, and a 10% decrease in exemption each year for the remaining eight years.

Project Financing

The Developer is investing more than 46% equity, or $5,227,346, and will be privately financing $6,023,978. The Developer is additionally requesting PILOT assistance through annual property tax savings. The private financing is estimated to be a 25-year loan at a 5.85% interest rate resulting in an annual principal and interest payment of $448,192.

Return Analysis

In calculating the internal rate of return, PFM first analyzed the Developer's assumptions including expected monthly rent, vacancy rate, and the operating expenses. The Developer is proposing a rent of $975 per month for studio units, $1,075 per month for one bedroom units, $1,550 per month for two bedroom units, and $1,950 per month for three bedroom units. The Developer provided estimates of annual operating expenses, as follows; General and Administrative - $8,998, Marketing - $44,988, Repairs/Maintenance - $76,480, Utilities - $116,970, Property Tax - $178,372, Insurance - $2,699, and Management Fee - $52,617. The total expenses, assuming the Developer pays full real estate taxes, are approximately 41% of gross operating income. PFM used the given assumptions for Year 1 and, using a 2% inflationary factor for expenses and 1.70% for revenues, developed a 15-year cash flow. PFM assumed Year 1 vacancy rate would be 40% for 12 months of the year assuming a January 1 occupancy and 5% beyond Year 2.

The second step in determining the internal rate of return is to determine the earned incremental value of the property over the 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 PILOT assistance the Developer would have about 7.46% internal rate of return. The Developer would have about a 9.01% internal rate of return if it received the public assistance for the full 15 years. A reasonable rate of return for the proposed project is 10% - 15%.

Another measure of feasibility and project viability is the debt coverage ratio. PFM has projected a maximum debt coverage ratio of 1.73x without assistance in the first 15 years with a Year 4 coverage of 1.49x. If the City provided assistance to the project the maximum debt coverage is projected to be 1.84x with a Year 4 coverage of 1.82x. The minimum coverage of 0.96x occurs in Year 1 when the project is still assumed to be in the rent-up period. Debt coverage is important to developers when securing financing for their projects. Many times banks will require a minimum coverage in the range of 1.10x – 1.50x. The debt service coverage is high for this project due to the large, upfront equity contribution which results in less debt.

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 minimum debt coverage of 1.20x and a minimum internal rate of return of 10.00%.

Sensitivity Scenario 1 – Project Costs

The project would have to be reduced by $1,586,324 or 14.10% in order for the project to become viable without assistance. This reduces the amount to be financed from $6,023,978 to $5,174,657 and reduces the annual debt service payment from $448,192 to $385,000. It is somewhat unlikely that a reduction in project costs of this magnitude would occur at this stage in the process.

Sensitivity Scenario 2 – Rental Rates

In order for the project to be viable without public assistance, the rental rate would have to increase by 16.55%. This increases annual revenue from $1,187,166 to $1,366,215 in Year 5. PFM believes this is a large increase to rents and is unlikely to 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 $1,125,132 or 10% and rental rates would have to increase by 4.80%. Both of these options occurring is unlikely, but it is possible so it should be considered.

The above scenarios show the circumstances in which the project would become viable without public assistance. Based on the information provided PFM's analysis demonstrates that the project as currently anticipated 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 units, the rental market, and monthly expenses. Both the internal rate of return without assistance and the debt service coverage are very low. The base scenario without assistance along with the sensitivity analyses demonstrate that the project would likely not be feasible without assistance.

PFM determines that with public assistance, based on 5 years of 100% property tax exemption followed by two years of 90% exemption, and a 10% decrease in exemption each year for the remaining eight years, the Developer's internal rate of return, based on the assumptions outlined in this report, would be 9.01%. Furthermore, the Year 4 debt coverage ratio increases from 1.49x to 1.82x when assistance is provided. Based upon the information provided, the project would not be feasible "but-for" public assistance as it is currently shown by the Developer.

KILBOURNEGROUP

May 9, 2019

Jim Gilmour
Director of Strategic Planning & Research
City of Fargo
225 4th Street North
Fargo, North Dakota 58102

Dear Mr. Gilmour:

Attached is the application for Payment in Lieu of Taxes for Great Plains 1001 Holdings, LLC. The first files contain the application and other information. The second files contain our financial information on both projects, which the City should consider proprietary, non-public information.

Kilbourne Group is proposing a four-story mixed-use project on the former Nestor Site and current Park Company property. This project would contain three floors of market rate apartments and ground floor with structured parking, a corner restaurant, and walk up units. The $25.5MM project will be approximately 220,000 SF, 5,500 SF commercial, 160 units, and 230 parking stalls.

Thank you for your consideration of this request and let me know if you have any questions or need any additional information.

Sincerely,

Mike Allmendinger
President

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 Great Plains 1001 Holdings, LLC
2. Address of project 1001 NP; 28 ST N; 1016 1 AVE N; 11 11 ST N
   City Fargo County Cass
3. Mailing address of project operator 210 Broadway Suite 300
   City Fargo State ND Zip 58102
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. being processed
6. North Dakota Sales and Use Tax Permit No. ________
7. If a corporation, specify the state and date of incorporation ________
8. Name and title of individual to contact Mike Allmendinger
   Mailing address 210 Broadway - Suite 300
   City, State, Zip Fargo, ND 58102 Phone No. 701.237.2279

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**
   2020 Beginning year 2036 Ending year
   X 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

24734
(Rev. 2/14)

Description of Project Property

11. Legal description of project real property

1001NP = Lot: 1 Block: 25 ROBERTS 2ND LOTS 1-12 BLK 25 EXC S 8.5' & E 7.5'
~~28 10 St N = Lot: 7 Block: 26 ROBERT'S 2ND LOTS 7 THRU 12 BLK 2 6 LESS E 7 1/2' **9-21-94 SPL FR 01-2382-02730-000 , 2740-000, 2750-000 & 2770-000~~
11 11 ST N = Lot: 1 Block: 26 ROBERT'S 2ND W 70' OF LOT 1 BLK 2 6 W 70' OF LOT 2 **2-26-94 LOT DESC CORR
~~1016 1 Ave N = Lot: 1 Block: 26 ROBERT'S 2ND E 70' OF LOT 1,2 & 3 BLK 26 S 1' OF E 70' OF LOT 4 **2-25-94 LOT DESC~~
CORR

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 Fall 2019

b. Description of project to be constructed including size, type and quality of construction
A four-story mixed-use project with three floors of market rate apartments and ground floor with structured parking, a corner restaurant, and apartments.
Project Metrics: • +/- 220,000 SF • 5,500 SF commercial • +/- 160 units • +/- 230 parking stalls

c. Projected number of construction employees during the project construction 15

14. Approximate date of commencement of this project's operations Late 2020 (phase 1). Early 2021 (phase 2)

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

a. Land $ 823,000

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

c. Newly constructed buildings and structures when completed $ 27,427,417

d. Total $ 28,250,417

e. Machinery and equipment $ 0

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

a. Land (not eligible) 823,000

b. Eligible existing buildings and structures $ 0

c. Newly constructed buildings and structures when completed $ 27,427,417

d. Total taxable valuation of property eligible for exemption (Add lines b and c) $ 27,427,417

e. Enter the consolidated mill rate for the appropriate taxing district 288.60

f. Annual amount of the tax exemption (Line d multiplied by line e) $ 395,777

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 ☐ 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).
Leasing of residential apartments and commercial space

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

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	2514169	2991800	3046500	3102400	3159400
Annual expense	698096	689242	703000	717100	731400
Net income	1816073	2302557	2343500	2385300	2428000

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)	n/a					
	(2)						
Estimated payroll	(1)	n/a					
	(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
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).

    n/a - new project on this location

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

    n/a - new project on this location

    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, Michael Allmendinger, 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
[signature]	President	5.13.19

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**

______ Number of years

______ Percent of exemption

☐ **Payments in lieu of taxes**

______ Beginning year ______ Ending year

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

____
Auditor

Project	Great Plains 1001 Holdings, LLC				
Project Value	$27,427,417				
Current Value	$1,584,000				
Mills	0.2886				
	Current Taxes	New Taxes	Incentive	Abatement	Proposed Schedule
Year 1	$22,857.12	$0.00	RZ	100%	$22,857.12
Year 2	$22,857.12	$0.00	RZ	100%	$22,857.12
Year 3	$22,857.12	$0.00	RZ	100%	$22,857.12
Year 4	$22,857.12	$0.00	RZ	100%	$22,857.12
Year 5	$22,857.12	$0.00	RZ	100%	$22,857.12
Year 6	$22,857.12	$39,577.76	PILOT	90%	$62,434.88
Year 7	$22,857.12	$39,577.76	PILOT	90%	$62,434.88
Year 8	$22,857.12	$79,155.52	PILOT	80%	$102,012.64
Year 9	$22,857.12	$118,733.29	PILOT	70%	$141,590.41
Year 10	$22,857.12	$158,311.05	PILOT	60%	$181,168.17
Year 11	$22,857.12	$197,888.81	PILOT	50%	$220,745.93
Year 12	$22,857.12	$237,466.57	PILOT	40%	$260,323.69
Year 13	$22,857.12	$277,044.34	PILOT	30%	$299,901.46
Year 14	$22,857.12	$316,622.10	PILOT	20%	$339,479.22
Year 15	$22,857.12	$356,199.86	PILOT	10%	$379,056.98

City of Fargo, North Dakota

Payment in Lieu of Taxes Program
"But-For" Report

1011 Northern Pacific Avenue North

Downtown District

June 4, 2019

Table of Contents

Purpose

The purpose of this report is to establish and determine the allowable value of the payment in lieu of taxes (PILOT) tax exemption for Great Plains 1001 Holdings, LLC (Kilbourne Group) (the "Developer").

PFM first reviewed the application/proforma to ensure that appropriate assumptions regarding property value, rent, vacancy, and expenses were used by the Developer. Based on those assumptions, PFM projected a 15-year cash flow, calculating an internal rate of return. The following report details PFM's analysis and conclusions concerning the viability of the proposed project without the subsidy. The proposed project will be an investment of the Developer so PFM also calculated an internal rate of return for the project.

Project

The project being proposed by Great Plains 1001 Holdings, LLC includes constructing 161 apartment units at 1011 Northern Pacific Ave N. The apartments will range from units at approximately 530 square feet to three bedroom units at approximately 1,499 square feet, including five townhomes with about 1,365 square feet. There will also be structured parking available, as well as a corner restaurant and walk up units. As noted in the previous section, the proposed project is to be an investment property for the Developer.

The Developer has stated that the construction will be completed by Late 2020 (phase 1) and Early 2021 (phase 2) with occupancy immediately following. The Developer has requested PILOT financing assistance in an amount in excess of $3.06 million on a present value basis to complete the project. This amount is based on projections of the future tax payments less the projected PILOT payments. Both the estimated tax payments and estimated PILOT payments assume a property value increase of 2% per year. This amount assumes five years of 100% exemption, followed by two years of 90% exemption, and a 10% decrease in exemption each year for the remaining eight years.

Project Financing

The Developer is investing 46% equity, or $14,520,397, and will be privately financing $16,997,152. The Developer is additionally requesting PILOT assistance through annual property tax savings. The private financing is estimated to be a 25-year loan at a 5% interest rate resulting in an annual principal and interest payment of $1,244,977.

Return Analysis

In calculating the internal rate of return, PFM first analyzed the Developer's assumptions including expected monthly rent, vacancy rate, and the operating expenses. The Developer is proposing a rent of $995 per month for studio units, $1,275 per month for one bedroom units, $1,655 per month for two bedroom units, $2,250 per month for three bedroom units, and $2,275 per month for townhomes. The Developer provided estimates of annual operating expenses, as follows; General and Administrative - $20,757, Marketing - $103,784, Repairs/Maintenance - $176,432, Utilities - $269,837, Property Tax - $395,777, Insurance - $6,227, and Management Fee - $121,059. The total expenses, assuming the Developer pays full real estate taxes, are approximately 37% of gross operating income. PFM used the given assumptions for Year 1 and, using a 2% inflationary factor for expenses and 1.7% for revenues, developed a 15-year cash flow. PFM assumed Year 1 vacancy rate would be 20% for 10 months of the year assuming a March 1 occupancy and 5% beyond Year 2.

The second step in determining the internal rate of return is to determine the earned incremental value of the property over the 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 PILOT assistance the Developer would have about a 7.77% internal rate of return. The Developer would have about a 9.40% internal rate of return if it received the public assistance for the full 15 years. A reasonable rate of return for the proposed project is 10% - 15%.

Another measure of feasibility and project viability is the debt coverage ratio. PFM has projected a maximum debt coverage ratio of 1.84x without assistance in the first 15 years with a Year 4 coverage of 1.54x. If the City provided assistance to the project the maximum debt coverage is projected to be 1.89x with a Year 4 coverage of 1.86x. The minimum coverage of 0.97x occurs in Year 1 when the project is still assumed to be in the rent-up period. Debt coverage is important to developers when securing financing for their projects. Many times banks will require a minimum coverage in the range of 1.10x – 1.50x. The debt service coverage is high for this project due to the large, upfront equity contribution which results in less debt.

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 minimum internal rate of return of 10.00%.

Sensitivity Scenario 1 – Project Costs

The project would have to be reduced by $3,230,549 or 10.25% in order for the project to become viable without assistance. This reduces the amount to be financed from $16,997,152 to $15,254,944 and reduces the annual debt service payment from $1,244,976 to $1,117,366. It is somewhat unlikely that a reduction in project costs of this magnitude would occur at this stage in the process.

Sensitivity Scenario 2 – Rental Rates

In order for the project to be viable without public assistance, the rental rate would have to increase by 15.0%. This increases annual revenue from $3,141,748 to $3,550,564 in Year 5. PFM believes this is a large increase to rents and is unlikely to 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 $2,048,641 or 6.5% and rental rates would have to increase by 5.5%. Both of these options occurring is unlikely, but it is possible so it should be considered.

The above scenarios show the circumstances in which the project would become viable without public assistance. Based on the information provided PFM's analysis demonstrates that the project as currently anticipated 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 units, the rental market, and monthly expenses. Both the internal rate of return without assistance and the debt service coverage are very low. The base scenario without assistance along with the sensitivity analyses demonstrate that the project would likely not be feasible without assistance.

PFM determines that with public assistance, based on 5 years of 100% property tax exemption followed by two years of 90% exemption, and a 10% decrease in exemption each year for the remaining eight years, the Developer’s internal rate of return, based on the assumptions outlined in this report, would be 9.40%. Furthermore, the Year 4 debt coverage ratio increases from 1.54x to 1.86x when assistance is provided. Based upon the information provided, the project would not be feasible “but-for” public assistance as it is currently shown by the Developer.

KILBOURNEGROUP

May 9, 2019

Jim Gilmour
Director of Strategic Planning & Research
City of Fargo
225 4th Street North
Fargo, North Dakota 58102

Dear Mr. Gilmour:

Attached is the application for Payment in Lieu of Taxes for DFI Kesler, LLC. The first files contain the applications and other application information. The second files contain our financial information, which the City should consider proprietary, non-public information.

Kilbourne Group is proposing a six-story mixed-use project on the Kesler and Barnick parking lots (624 2nd Ave N and 617/621 1st Ave N) spanning between 2nd Ave and 1st Ave. This project would contain five floors of market rate apartments, ground floor retail and structured parking.

Total Project: $22.8MM; +/-95 units, +/- 13,000 SF commercial, +/- 85 parking stalls

Thank you for your consideration of this request and let me know if you have any questions or need any additional information.

Sincerely,

Mike Allmendinger
President

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 DFI Kesler LLC
2. Address of project 624 2 AVE N - 621 1 AVE N - 617 1 AVE N

   City Fargo County Cass
3. Mailing address of project operator 210 Broadway Suite 300

   City Fargo State ND Zip 58102
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. 47-4587299
6. North Dakota Sales and Use Tax Permit No. ________
7. If a corporation, specify the state and date of incorporation ________
8. Name and title of individual to contact Mike Allmendinger

   Mailing address 210 Broadway Suite 300

   City, State, Zip Fargo, ND 58102 Phone No. 701.237.2279

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**
   - 2021 Beginning year 2037 Ending year
   - X 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

24734
(Rev. 2/14)

Description of Project Property

11. Legal description of project real property

~~see attached~~

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 10/1/2019

b. Description of project to be constructed including size, type and quality of construction
A 140,000SF six-story mixed-use project with 13K SF ground floor retail, five floors market-rate apts (96) and 88 parking stalls.

c. Projected number of construction employees during the project construction 20

14. Approximate date of commencement of this project's operations April 2021

15. Estimated market value of the property used <u>for this project</u>:

a. Land .... $ 423,000

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

c. Newly constructed buildings and structures when completed .... $ 19,392,626

d. Total .... $ 19,815,626

e. Machinery and equipment .... $ 0

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

a. Land (not eligible) .... [redacted]

b. Eligible existing buildings and structures .... $ 0

c. Newly constructed buildings and structures when completed................................. $ 19,392,626

d. Total taxable valuation of property eligible for exemption (Add lines b and c).................... $ 19,392,626

e. Enter the consolidated mill rate for the appropriate taxing district 288.60

f. Annual amount of the tax exemption (Line d multiplied by line e) .... $ 279,835.00

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 ☐ 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).

Leasing of residential apartments and commercial space

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

n/a

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	1,398,100	1,991,300	2,031,100	2,071,700	2,113,114
Annual expense	471,600	481,000	490,600	500,400	510,408
Net income	926,500	1,510,300	1,540,500	1,571,300	1,602,706

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)	n/a					
	(2)						
Estimated payroll	(1)	n/a					
	(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
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).

    ~~n/a new project on this location~~

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

    ~~n/a - new project on this location~~

    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, Michael Allmendinger, 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
[signature]	President	5.13.19

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**

______ Number of years

______ Percent of exemption

☐ **Payments in lieu of taxes**

______ Beginning year ______ Ending year

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

____
Auditor

Notice To Competitors Of Hearing On Application For Property Tax Incentives

Notice is hereby given that the ______________________________
(City or county governing body)

of ______________________________, North Dakota, will meet at ____________________
(City or county) (Time)

on ________________ at ______________________ to consider the application of
(Date) (Location)

DFI Kesler LLC - 210 Broadway Suite 300, Fargo, ND 58102
(Project operator name and address)

for property tax relief on the project which the applicant will use in the operation of

Real Estate Development
(Type of business)

at 624 2nd Ave N and 621/617 1 AVE N
(Address)

see attached
(Legal description)

Any competitor of that applicant may appear and be heard by the ______________________
(City or county governing body)

at the time and place designated herein. A competitor may provide written comments to the governing body before the scheduled hearing.

This notice is given by the above-named applicant pursuant to the provisions of North Dakota Century Code § 40-57.1-03

Parcel #: 01-2381-00350-000

Address: 624 2 AVE N

Lot: A Block: 2 ROBERTS - HAGAMANS SUB LOTS A B C D E & F BLK 2

Parcel #: 01-2381-00420-000

Address: 621 1 AVE N

Lot: T Block: 2 ROBERTS - HAGAMANS SUB LOTS T & U BLK 2 EXC E 8"" OF S 100' OF LOT U TOGETHER WITH A STRIP OF LAND 3' WIDE IMMEDIATELY ADJ & RUNNING A LG ENTIRE W SIDE LOT T & STRIP OF LAND 10' WIDE IM MEDIATELY ADJ & RUNNING ACCROSS ENTIRE N END LOTS T & U

Parcel #: 01-2381-00330-000

Address: 617 1 AVE N

Lot: 10 Block: 2 ROBERTS W50' LOTS 10-12 BLK 2 A ND ROBERTS - HAGAMANS SUB E 8" OF S 100' LOT U BLK 2

Project	DFI Kesler LLC				
Project Value	$19,392,626				
Current Value	$423,000				
Mills	0.2886				
	Current Taxes	New Taxes	Incentive	Abatement	Proposed Schedule
Year 1	$6,103.89	$0.00	RZ	100%	$6,104
Year 2	$6,103.89	$0.00	RZ	100%	$6,104
Year 3	$6,103.89	$0.00	RZ	100%	$6,104
Year 4	$6,103.89	$0.00	RZ	100%	$6,104
Year 5	$6,103.89	$0.00	RZ	100%	$6,104
Year 6	$6,103.89	$100,000.00	PILOT	64%	$100,000
Year 7	$6,103.89	$100,000.00	PILOT	64%	$100,000
Year 8	$6,103.89	$100,000.00	PILOT	64%	$100,000
Year 9	$6,103.89	$100,000.00	PILOT	64%	$100,000
Year 10	$6,103.89	$100,000.00	PILOT	64%	$100,000
Year 11	$6,103.89	$100,000.00	PILOT	64%	$100,000
Year 12	$6,103.89	$100,000.00	PILOT	64%	$100,000
Year 13	$6,103.89	$100,000.00	PILOT	64%	$100,000
Year 14	$6,103.89	$100,000.00	PILOT	64%	$100,000
Year 15	$6,103.89	$100,000.00	PILOT	64%	$100,000

City of Fargo, North Dakota

Payment in Lieu of Taxes Program
"But-For" Report

624 2nd Avenue North

617/621 1st Avenue North

Downtown District

June 4, 2019

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Purpose

The purpose of this report is to establish and determine the allowable value of the payment in lieu of taxes (PILOT) tax exemption for DFI Kesler, LLC (the "Developer") (Kilbourne Group).

PFM first reviewed the application/proforma to ensure that appropriate assumptions regarding property value, rent, vacancy, and expenses were used by the Developer. Based on those assumptions, PFM projected a 15-year cash flow, calculating an internal rate of return. The following report details PFM's analysis and conclusions concerning the viability of the proposed project without the subsidy. The proposed project will be an investment of the Developer so PFM also calculated an internal rate of return for the project.

Project

The project being proposed by DFI Kesler, LLC includes constructing 95 market rate apartment units, retail space, and structured parking at 624 2nd Ave N and 617/621 1st Ave N. The apartments will range from studio units at approximately 575 square feet to three bedroom units at approximately 1,340 square feet. There will also be structured parking available, as well as retail space. As noted in the previous section, the proposed project is to be an investment property for the Developer.

The Developer has stated that the construction will be completed by April 2021 with occupancy immediately following. The Developer has requested PILOT financing assistance in an amount in excess of $2.23 million on a present value basis to complete the project. This amount is based on projections of the future tax payments less the projected PILOT payments. Both the estimated tax payments and estimated PILOT payments assume a property value increase of 1.70% per year. This amount assumes five years of 100% exemption, followed by 10 years of 64% exemption.

Project Financing

The Developer is investing 26% equity, or $5,570,985, and will be privately financing $15,750,936. The Developer is additionally requesting PILOT assistance through annual property tax savings. The private financing is estimated to be a 25-year loan at a 5.85% interest rate resulting in an annual principal and interest payment of $1,243,785.

Return Analysis

In calculating the internal rate of return, PFM first analyzed the Developer's assumptions including expected monthly rent, vacancy rate, and the operating expenses. The Developer is proposing a rent of $970 per month for studio units, $1,300 per month for one bedroom units, $1,850 per month for two bedroom units, and $2,100 per month for three bedroom units. The Developer provided estimates of annual operating expenses, as follows; General and Administrative - $14,396, Marketing - $71,981, Repairs/Maintenance - $122,368, Utilities - $187,151, Property Tax - $279,835, Insurance - $4,319, and Management Fee - $71,384. The total expenses, assuming the Developer pays full real estate taxes, are approximately 38% of gross operating income. PFM used the given assumptions for Year 1 and, using a 2% inflationary factor for expenses and 1.70% for revenues, developed a 15-year cash flow. PFM assumed Year 1 vacancy rate would be 35% for 10 months of the year assuming an April 1 occupancy and 5% beyond Year 1.

The second step in determining the internal rate of return is to determine the earned incremental value of the property over the 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 PILOT assistance the Developer would have about a 7.33% internal rate of return. The Developer would have about a 9.99% internal rate of return if it received the public assistance for the full 15 years. A reasonable rate of return for the proposed project is 10% - 15%.

Another measure of feasibility and project viability is the debt coverage ratio. PFM has projected a maximum debt coverage ratio of 1.29x without assistance in the first 15 years with a Year 4 coverage of 1.00x. If the City provided assistance to the project the maximum debt coverage is projected to be 1.36x with a Year 4 coverage of 1.23x. The minimum coverage of 0.69x occurs in Year 1 when the project is still assumed to be in the rent-up period. Debt coverage is important to developers when securing financing for their projects. Many times banks will require a minimum coverage in the range of 1.10x – 1.50x.

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 minimum debt coverage of 1.20x and a minimum internal rate of return of 10.00%.

Sensitivity Scenario 1 – Project Costs

The project would have to be reduced by $2,201,921 or 10.3% in order for the project to become viable without assistance. This reduces the amount to be financed from $15,750,936 to $14,124,332 and reduces the annual debt service payment from $1,243,876 to $1,115,421. It is somewhat unlikely that a reduction in project costs of this magnitude would occur at this stage in the process.

Sensitivity Scenario 2 – Rental Rates

In order for the project to be viable without public assistance, the rental rate would have to increase by more than 14.6%. This increases annual revenue from $2,868,887 to $2,342,694 in Year 5. PFM believes this is a large increase to rents and is unlikely to 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 $1,121,921 or 5.3% and rental rates would have to increase by 7.2%. Both of these options occurring is unlikely, but it is possible so it should be considered.

The above scenarios show the circumstances in which the project would become viable without public assistance. Based on the information provided PFM's analysis demonstrates that the project as currently anticipated 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 units, the rental market, and monthly expenses. Both the internal rate of return without assistance and the debt service coverages are low. The base scenario without assistance along with the sensitivity analyses demonstrate that the project would likely not be feasible without assistance.

PFM determines that with public assistance, based on 5 years of 100% property tax exemption followed by 10 years of 36% exemption, the Developer's internal rate of return, based on the assumptions outlined in this report, would be 9.99%. Furthermore, the Year 4 debt coverage ratio increases from 1.00x to 1.23x when assistance is provided. Based upon the information provided, the project would not be feasible "but-for" public assistance as it is currently shown by the Developer.