

FARGO TAX EXEMPT REVIEW COMMITTEE
Tuesday, April 27, 2020 – 1:00 p.m.
City Commission Chambers, Fargo City Hall

AGENDA

- 1. Approve Tax Exempt Review Committee Meeting Minutes of 3/23/21**
 - a. March 23, 2021 [Page 1-3]
- 2. Application for TIF for Drekker Brewing**
 - a. Application for 10 Year Exemption [Page 4-33]
- 3. Review of Tax Exemption Policy**
 - a. Presentation on Fargo policies that provide property tax exemptions
 - b. Format of updated policies [Page 34]
 - c. Remodeling and Additions to existing structure [Page 35-39]
 - d. New Single Family Housing [Page 40-41]

TAX EXEMPT REVIEW COMMITTEE
Fargo, North Dakota

Regular Meeting**Tuesday, March 23, 2021**

The December meeting of the Tax Exempt Review Committee of the City of Fargo, North Dakota was held in the City Commission Room at City Hall at 1:00 p.m., Tuesday, March 23, 2021.

The committee members present or absent are:

Present: Dave Piepkorn, Mayor Tim Mahoney, Kent Costin, Bruce Grubb, Jim Gilmour, Mike Splonskowski, Nancy Morris (Representing Erik Johnson), Jim Buus, Joe Raso

Absent: Levi Bachmeier, Jackie Gapp

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

A motion was made by Jim Buus to approve the minutes from December 22, 2020 and January 12, 2021. Kent Costin seconded, motion carried.

Application for PILOT for Tecton

Jim Gilmour explained that this is an application for a 10 year tax exemption for expansion for Tecton. It would be a \$16 million building, with \$6.5 million in equipment. They plan to add 50 jobs in the first three years and another 30 by year five, all jobs would pay over \$15 an hour. The exemption would be 100% for years 1-5 and gradually going down over the next five years. The application estimates the property taxes would be \$221,000 a year, however they have an existing building that is valued at \$5 million, so the actual value of the exemption could be less.

Ryan Aasheim commented that Tecton has been a staple in the community since 1992. They previously had a PILOT in 1997 and exceeded all the numbers that were committed to. They do have facilities in other states and are considering all their options.

Tom Gohdes, Director of Operations at Tecton, stated they were the first of the Marvin companies to come to Fargo in 1991, they built a 30,000 square foot building and have since expanded. They currently have 1.6 million square feet of manufacturing between Fargo and West Fargo. They are looking to grow their business in the spot that makes the most sense. They have land in Fargo. Fargo is currently their biggest location outside of Warroad.

Jim Buus asked why we are looking at a 10 year TIF when the standard has been 5 year.

Jim Gilmour replied that it is due to the size, but they have always started to pay something in year 6. This PILOT scores very well.

Lisa Giese, Director of Finance for Tecton, explained that they do not yet have a design for the building so they are estimating high at \$160 a square foot.

Jim Buus moved to approve, Bruce Grubb seconded. Motion carries.

New Industry Application by Packet Digital

Jim Gilmour explained that this is for an Exemption for a building Packet Digital will be acquiring. They will have 13 jobs initially, 18 jobs by year five, all paying over \$20 an hour.

Terri Zimmerman, CEO of Packet Digital, stated the company has 150 year engineering experience with fifteen patents, they are evolving into a new era with the move to lithium ion batteries and a need for U.S. made solutions. Currently, ninety percent of the solutions are made in China and lack the quality and standard ratings that are needed. They recently secured new contracts to build battery systems. In the past they outsourced manufacturing and are looking to convert the building into a manufacturing facility. They will be making battery modules for the unmanned aircraft market and the next generation space vehicles. They have developed fleet management for their batteries, they also build smart chargers, battery systems for electric vehicles, electric racecar and will be transitioning the new technology to space vehicles. They will be creating jobs such as electrical engineering, software and smart battery manufacturing positions.

Ryan Aasheim stated that this would be a great fit for our eco system we are trying to build here in Fargo.

Mayor Tim Mahoney moved to approve, Jim Buus seconded. Motion carried.

Riverfront Renewal Plan and TIF District

Jim Gilmour brought this to the board for informational purposes and wanted the board to have an overview of the plan. The plan calls for a lot of commercial and mixed use along the river. There is also potential for housing which is where there could be some development incentives as the plan is implemented. The old health building and the old school district warehouse could be good sites for housing, several other sites could be up for redevelopment. This plan will go to the City Commission two weeks from now.

Dave asked if the hash-mark through the Mid-America steel building could be moved.

Jim stated that he believes it can. He said it sounds like the engineers would bring the flood protection closer to the river, leaving roughly four acres for redevelopment.

Dave asked, is there a way to keep track of the money and use it to redevelop those areas.

Bruce stated that they are in the process of completing the EPA phase one and phase two environmental assessment. Once those have both been completed, they will get a third summary document that tells them what is there and would allow a plan for remediation and redevelopment. They were right at the preface of that before the fire.

Lewis and Clark Opportunity Fund

Jim Gilmour explained that the Opportunity Fund would like letters of support from the city to aide in the decision of determining if an organization would qualify for a loan. There currently isn't a mechanism set up for that process, so Jim was thinking this committee could help decide if an organization should get a letter of support.

John Machacek from Fargo Moorhead Economic Development, stated that he talked a little bit about this at previous meetings. John prepared a document as a guide. The organization would need a letter of support stating that the city supports the project, the letter would not state whether the project is good or anything about the credit worthiness. The city could have a template letter that is brought to this committee to determine if the organization meets the requirements before the letter is approved.

Jim Gilmour would like to know if this committee could be the one to review the applications.

A motion was made by Jim Buus to recommend that the city commission designate this committee as the review authority for the applications that come in, seconded by Kent Costin. Motion carried.

Discuss Changes to Tax Exempt Policy

Jim Gilmour stated that a few years ago the Tax Exempt Policy was updated with the idea that after every commission election the policy would be reviewed. PILOT is such a broad program and it really confuses a lot of the applicants. Jim thinks it could be better organized into three categories Economic Development (the but-for test would not be done on this), Redevelopment going beyond five years would require the but-for test, and Housing. It was also suggested that the TIF's start with this committee rather than go to City Commission first.

Mayor Tim Mahoney brought up the idea of testing the PILOTS in the out spaces, The Lights, is a good example. It would be nice for a developer to be able to see the criteria to determine if they qualify or don't qualify. The present policy does look confusing. Sometimes the committee will be unanimous on something and it goes to the commission and they don't see the same value this committee sees.

Brewhalla Market Preliminary Evaluation

Mark Bjornstad, President and Co-Owner of Drekker Brewing Company, stated that their company makes beer but they are a community focused, space making, experience focused company. This project builds on that and creates some wonderment and excitement about living in Fargo. It would be a Food Hall, Community Market, Event Space, Conference Center, Experience Focused Lodging and Residential Living. It would be 100,000 square foot building spread between two floors, with a variety of interior spaces. It is a twenty million dollar project that will create 200 jobs and one million dollars in annual sales tax. The brewery, right now is the number four rated tourism aspect in Fargo, this project will draw tourism. The extraordinary costs consist of land acquisition, landfill site excavation, soil condition improvements, demolition and site work during land acquisition, public works improvements for this site and neighboring properties.

Kevin Bartram, President of MBA Architects, explained that they bought the property six to seven years ago for warehouse space. The warehouse idea fell through, so they talked to Drekker about their idea and their ideas gelled. The brick building was built between 1880 and 1883. When they were digging for utilities and foundations, they encountered brick debris and buried foundations. Some bricks were salvaged and integrated into the Drekker building. They know the current site will have some of the same issues. There is no evidence of environmental contamination but they won't know for sure until they get started.

When Drekker Brewing releases new beers it draws anywhere from 50-500 people, at least half of those come from out of town, mostly the Minnesota and Wisconsin areas. Food Halls are a growing trend. The space can function as an indoor farmer's market where companies could have a smaller space without the costs and upkeep of their own location. These spaces become popular dining options because of the multiple choices.

Mayor Tim Mahoney moved to approve a TIF Evaluation of this project, Jim Buus seconded. Motion carries.

The meeting was adjourned at 2:27 pm.

BREWHALLA MARKET / MIXED USE
1702 1ST AVENUE NORTH
FARGO, NORTH DAKOTA

SUBJECT: Request for Pay-Go TIF with 10 Year Maximum Term
DATE: February 22, 2021

This site was initially developed in 1882/1883 and other structures were located on this site until the 1920's or so. Based on our experience with the development of the Railyard complex to the east of Brewhalla and our knowledge that other buildings existed on the Brewhalla site, we are certain we will experience added costs for the sitework. Following are some notes related to each site – the already developed Railyard site and the proposed Brewhalla site.

Railyard Site

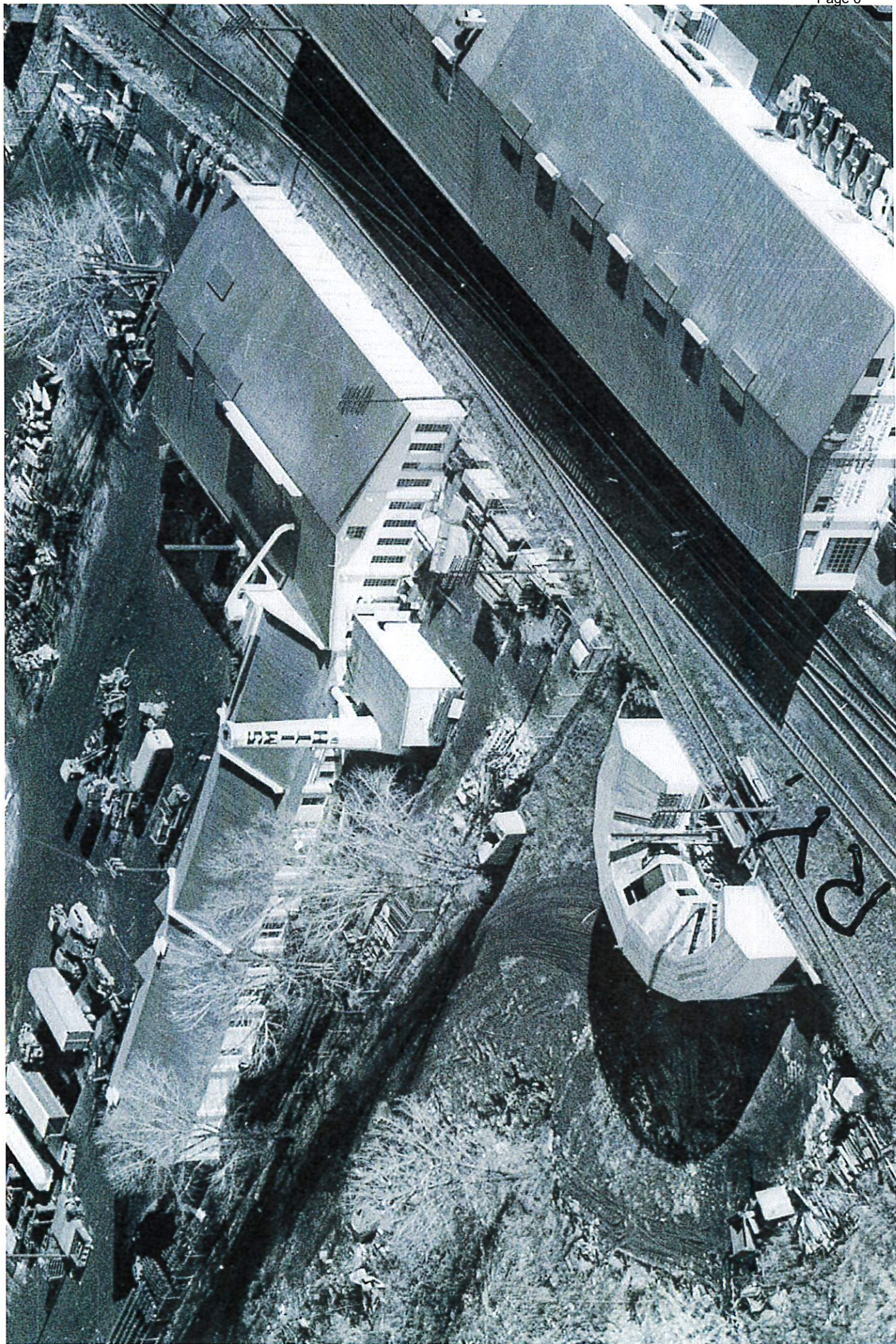
- Nearly every excavation for site utility piping encountered old foundations (masonry, stone and concrete).
- Bad soils were encountered where old foundations were improperly backfilled.
- At one excavation for the addition to the private residence, there was an approximately 20' x 20' x 6' deep excavation that had been backfilled entirely with layers of plate glass covered by a foot or so of soils all of which needed to be removed.

Brewhalla Site

- A former roundhouse was located in the area of this site (see attached photograph) and we will undoubtedly encounter the old foundations.
- The new soil borings encountered known construction rubble in three locations on site.
- There is anecdotal information that part of the old central High School construction debris was "land-filled" in the area of the new construction. This could include asbestos containing materials and lead paint the full extent of which will not be known until excavation work commences.
- The soil borings indicate that 12'-15' of soil must be removed and the ground be built up for the new foundation system.
- The site is a Brownfield site, not in the traditional sense that there is any known petroleum or chemical contamination, but in the sense that there is known underground debris and contamination the extent of which won't be fully known until excavation work begins.

We are requesting a 10 year TIF to help offset the unusual costs to acquire the site and the unusual costs to prepare the site for development. This is not a TIF that will put ANY financial burden or risk on the City. Without the TIF, it is very likely this project, or any project, will go forward at this site and the site will keep generating approximately \$10,000 / year of taxes for the City, County, School District over the next 10 years and beyond. With the TIF, this site will CONTINUE to generate the same \$10,000 / year in taxes and beginning in year 11 or sooner, the site will generate \$175,000 or more per year in taxes. This would be accomplished with no public bonds or financial risk of any kind to the public on an infill site that will help spur other activity in the area which will in turn lead to even more in future tax collections.

We are respectfully requesting a Pay-Go TIF (no bonds or public funds) for a maximum term of 10 years to help the Brewhalla development project offset some of the unique additional costs associated with this site that are not typical of similar sites in the area or at any suburban sites.



City of Fargo, North Dakota

Tax Increment Financing Program

“But-For” Report

Brewhalla

1702 1st Ave N.



April 20, 2021



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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 the Brewhalla Market, a development by PS Holdings, LLC (the “Developer”).

The Developer will receive lease payments from Brewhalla, LLC as the operator of the project. PFM reviewed the capitalization rate and annual lease payments the Developer assumed for their pro forma. Based on those assumptions, PFM projected a 10-year cash flow, calculating an internal rate of return (“IRR”) and annual debt service coverage. 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 a food market with 20-25 local shops, a 24-room hotel, 18 1 – 2 bedroom market rate apartments, event halls, and 375+ parking spots located at 1702 1st Avenue North.

The Developer estimates the construction will be completed in the Fall of 2022 with occupancy immediately following. The Developer has requested TIF assistance in the amount of 1,500,000 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.

Property Acquisition	\$971,639
Demolition & Site Clearing/Grading	241,650
Enhanced Structural System Due to Poor Soils	101,600
Public Works Improvements	118,750
Legal and TIF Fees	<u>71,682</u>
Total Requested Cost to be Reimbursed	\$1,505,321

The Developer is requesting a total of approximately \$1,500,000 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 \$15,152,605 the Developer can receive up to \$2,272,891. The Developer is requesting \$1,500,000 which is well 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 \$3,840,000 as equity which is 20% of the total capital costs.

Land Cost

The Developer states the purchase price to acquire the property for the project is \$1,250,000 including the land value at \$309,000. The price is based on the actual purchase agreement of the property. Land acquisition is reimbursable under the Policy. The Developer is requesting to be reimbursed \$971,639 for the land acquisition which complies with Policy #5.

Policy #6

The Policy states that the maximum eligible land costs to be recouped by the Developer should be limited to the lesser of:

- 1.) **The total acquisition cost for the property, provided that the acquisition cost is no more than 150% of the assessor's market value of the property.** The Developer's cost to acquire the property is \$1,250,000. The assessor's market value for the property totals \$1,134,400. The eligible amount for reimbursement is 150% of \$1,134,400 which totals \$1,701,600. The Developer's reimbursement request of \$971,639 is within the allowable reimbursable amount under this policy.
- 2.) **The difference between what was paid by the Developer for the property less the assessor's market value for the land (as opposed to land and buildings).** The current assessor's land value is \$309,000. Based on an acquisition price of \$1,250,000 the maximum reimbursement is \$941,000.



The lesser of the two tests detailed above is \$941,000. The requested reimbursement for land acquisition of \$971,639 is slightly above the allowable amount of \$941,000 under Policy #6.

Policy #3

Policy #3 states the length of the term will be limited to 15 years or less. The Developer is requesting reimbursement for 10 years.

TIF Estimate

PFM estimates that \$1,957,383 of TIF will be generated over the 10 years assuming a 1.50% market growth rate. Based on a discount rate of 4.00%, the present value of the estimated TIF cash flow is \$1,563,939.



Project Financing

The Developer is investing 20% equity, or \$3,840,000, and will be privately financing \$15,360,000. The Developer is additionally requesting annual TIF assistance in the total amount of approximately \$1,500,000. The private financing is estimated to be a 20-year loan with an estimated interest rate of 4.00% resulting in an annual principal and interest payment of \$1,130,216. The application states the project will be completed by the Fall of 2022.



Return Analysis

In calculating the internal rate of return, PFM first analyzed the Developer's capitalization rate assumption of 7.25% which is how the annual lease payments of \$1,450,000, the Developer's only source of revenue for the project, was calculated. To ensure a reasonable capitalization rate was used, PFM estimated the annual revenues from the hotel, apartments, event spaces, and market assuming the following:

<u>Hotel</u>		<u>Apartments</u>	
Average Room Rate	\$150/night	Rent	\$1,050 - \$1,500
Occupancy	45%	Occupancy	92.5%
<u>Retail Market</u>		<u>Event Space</u>	
Rent/Sq. Ft.	\$17.50	Rent/Sq. Ft.	\$17.50
Occupancy	90%	Occupancy	30%

The Developer has proposed a reasonable amount for rent for the current market and location. PFM estimated the average hotel rate. Operating expenses are being passed through to the lessee so PFM did not analyze those. Based on these assumptions the operator can expect approximately \$1,330,000 in annual revenue. This amount is approximately \$100,000 below what the Developer has estimated as payment from the operator. This is a little concerning, but the Developer is taking the risk. If the amount they receive from the operator is less than what the Developer is estimating then that only enhances the need for TIF. The real concern would be if the estimate of the operator's revenue was well *above* the Developer's estimate of \$1,450,000, however, this is not the case.

Once the capitalization rate was determined to be reasonable, an internal rate of return was calculated over a 10-year period. PFM determined that without TIF assistance the Developer would have about a 9.78% internal rate of return based on 10 years. The Developer would have about a 17.24% internal rate of return for 10 years if it received the public assistance up to \$1,500,000. A reasonable rate of return for the proposed project is 15% - 20%.

Another measure of feasibility and project viability is the debt coverage ratio. PFM has projected a maximum debt coverage ratio in Year 10 of 1.22x without assistance, with a Year 5 coverage of 1.14x. If the City provided assistance to the project the maximum debt coverage is projected to be 1.54x in Year 6, with a Year 5 coverage of 1.49x. The Developer has stated the lender for the private financing requires a minimum of a 1.20x coverage which is a common minimum requirement by lenders.

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 17.25%.

Sensitivity Scenario 1 – Project Costs

The project would have to be reduced by \$3,100,000 or 16.1% in order for the project to become viable without assistance. This reduces the amount to be financed from \$15,360,000 to \$12,880,000 and reduces the annual payment from \$1,130,216 to \$947,733 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 / Lease Revenue

In order for the project to be viable without public assistance, the lease revenue received from the operator would have to increase by 25.5%. PFM believes this is a high increase and is unlikely especially since PFM's estimate of available revenues to be paid to the Developer is below the Developer's estimate.

Sensitivity Scenario 3 – Combination of Project Costs and Lease Revenue

The final scenario looks at both a reduction of project costs and an increase in lease revenue. The analysis showed that project costs would have to be reduced by \$1,600,000 or 8.3% and the lease revenue would have to increase by 12.4%. While either of these events could occur, PFM does not believe they are likely to occur at this point in the process, especially together. Again, it should be noted that PFM's estimate of available lease revenue is below the Developer's estimate so it is even more unlikely that the lease revenue increases by 10% from the Developer's estimate.

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 apartment, retail, venue, and hotel markets. 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, and based on the assumptions outlined in this report, a 10-year internal rate of return is estimated to be 17.24%. In addition, the coverage ratio in Year 10 is estimated to be 1.50x. The estimated internal rate of return is on the lower end given the risk level for this type of project, but is still within an acceptable range. Based on the internal rate of return and the coverage requirements, PFM concludes the project would not be feasible without public assistance.



January 14, 2021

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

RE: TIF Application
Brewhalla Market / Mixed Use
1702 1st Avenue North
Fargo, ND

Mr. Gilmour,

We are partnering with the Drekker Brewing ownership on a new and exciting project in north Fargo on the west edge of Downtown, Brewhalla Market. The 100,000 SF project includes a 2 story Food Market / Multi-Use space; 2 Conference / Event spaces; 24 Lodging Units; 18 Apartment Units; underground parking for 41 vehicles; and a connecting corridor to the existing Drekker Brewery. The project also includes surface parking for nearly 200 cars; a drive-up lane for a Coffee Shop; 2 on-grade Outdoor Patios; 3 balconies or rooftop terraces; and a storm detention pond to manage storm water at this site.

We have been working on this project for nearly two years. Land acquisition required the purchase of a storage unit complex across 1st Avenue and the demolition of 4 buildings to facilitate a "trade" for the proposed new site for this project. This drove up the land cost substantially but had the added benefit of cleaning up and improving adjacent properties.

We have been working on determining the project costs and developing a business model estimating the potential revenue and expenses. The unique characteristics of this project and project site are leading us to request a TIF for this project to help offset the unusual costs that we are running into, some of which are summarized below:

- Land Acquisition resulted in an additional cost of nearly \$1.0M to acquire an adjoining property, demo 4 buildings and improve the site in order to "trade" for a pipe storage yard near Drekker. This benefited Ferguson Waterworks by adding land that is now contiguous to their site and eliminating the need to move utility pipes from one yard to another across the busy 1st Avenue and resulted in a site that we could work with.

- The current site was used as a demo site in the late 1960's for building debris removed after the Fargo Central High School fire. This will result in additional excavation costs to remove and dispose of this material.
- Soil conditions require the addition of geopiers to support parts of the building foundation to avoid excessive settlement over time.
- There are added demolition costs for clearing / grading the industrial pipe storage yard and soils near the railroad track.
- There are a number of public works improvement costs unique to this site particularly for sanitary sewer and storm sewer work. The sanitary sewer in the 1st Avenue right-of-way was stopped well short of this site requiring additional costs to bring sewer to the site. There are also added costs to provide a storm water pond and manage storm water run-off at a site which has never been required to manage storm water till now.

We are estimating the assessed value of our project at \$15-16M. We are requesting a TIF for this project that will be capped at a maximum of 10 years. The site is currently undeveloped and has an annual tax payment of approximately \$9,000 / yr. We are estimating the new Brewhalla project will generate a new tax assessment of \$150,000 to \$175,000 annually.

We are hoping to start construction in May this year and to complete the construction by September, 2022 with move-in to start as soon as construction wraps up.

It is important to note that the site for this new project is an "Infill Site" and does not require any additional public work or costs to extend streets or utilities. The project will continue to pay taxes on the land and any existing or new special assessments during the TIF period as it currently does.

Thank you for considering our request for a TIF capped at 10 years for the new Brewhalla Market project. If there are any questions or comments, please feel free to contact us at your convenience.

Sincerely,



Kevin J. Bartram, President
PS Holdings, LLC

KJB/srk

SUBJECT: Estimate - TIF Eligible Expenses
Brewhalla
Fargo, North Dakota

DATE: January 14, 2021

A. Property Acquisition Costs

- Land cost (required purchase of adjacent site & demo of 4 buildings. Adjacent site exchanged for project site.)		1,280,639	
- Less current assessed value of Parcel B		(309,000)	
Additional Acquisition Costs			971,639

B. Demolition & Site Clearing / Grading

- Tree Trimming / Removal	Estimate	5,000	
- Clearing / Grading	Estimate	40,000	
- Soil Borings	Northern Technologies	8,450	
- Remove Poor Soils & Replace w/Suitable Soils	Estimate	175,000	
- Disconnect Utilities	Estimate	10,000	
- Site Survey	Houston Engineering	3,200	
			241,650

C. Enhanced Structural System Costs Due to Poor Soils

- Geopier soil reinforcement	Peterson Contractors	91,600	
- Haul excess materials	Estimate	10,000	
			101,600

D. Public Works Improvements

- Remove existing concrete sidewalk	Estimate	2,500	
- Provide new curb & gutter	Estimate	5,000	
- New sidewalk	Estimate	5,000	
- Landscaping in ROW	Estimate	15,000	
- New sewer, water, storm stubs in ROW	Estimate	23,750	
- Gas main relocate	Estimate	1,500	
- Storm detention pond	Estimate	50,000	
- Land value for storm pond	Estimate	13,500	
- Signage / barricades	3D Specialties	2,500	
			118,750
Total			1,433,639

E. City Administrative Fee (5%) 71,682

Total TIF Eligible Expenses 1,505,321

Rounded 1,500,000















BREWHALLA
MARKET

FARGO, NORTH DAKOTA

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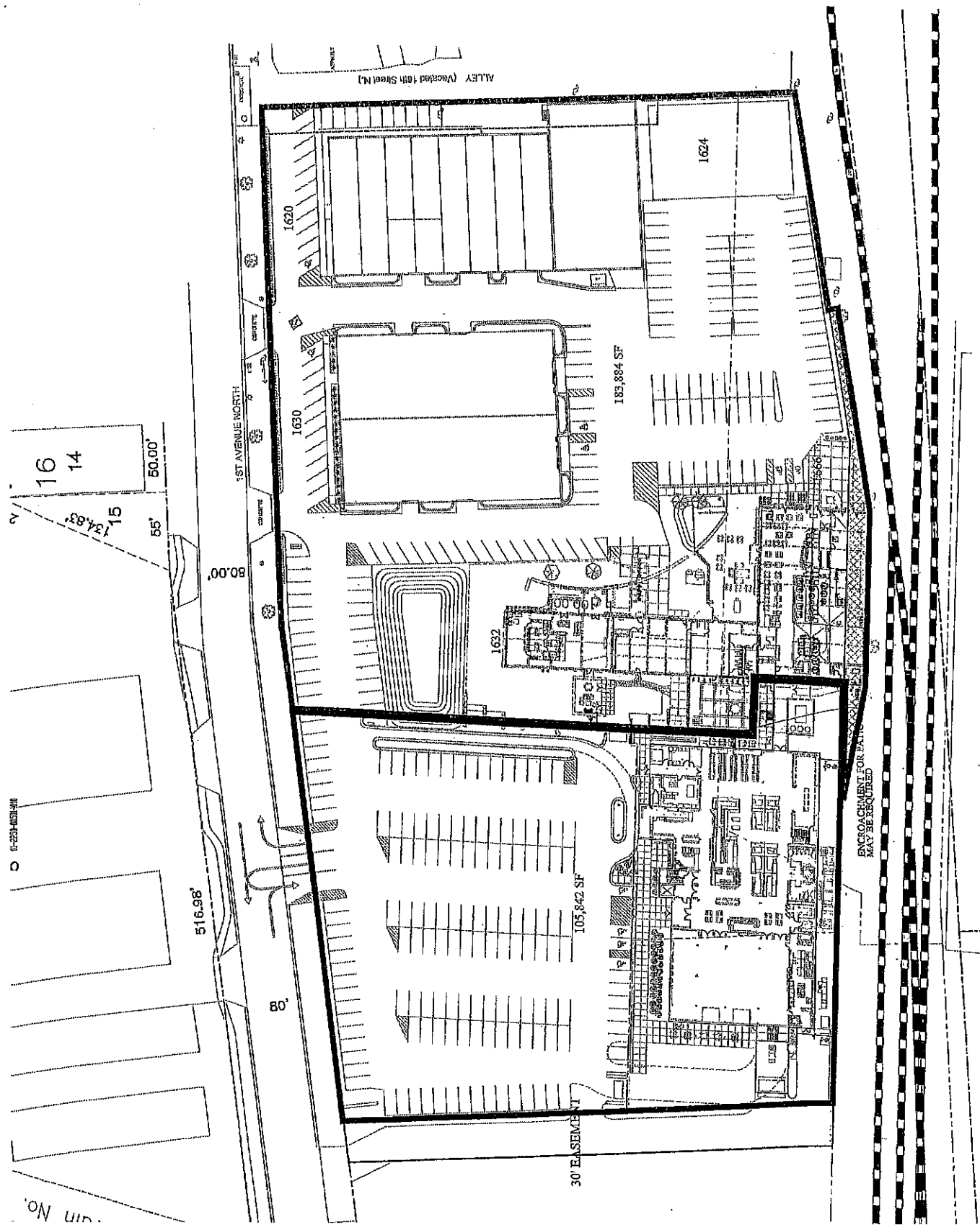
MUTCHLER PATTERAM ARCHITECTS, P.C.
550 N. Broadway, Suite 201, Fargo, ND 58102-2405
Phone: 701.233.1111 Fax: 701.233.2405

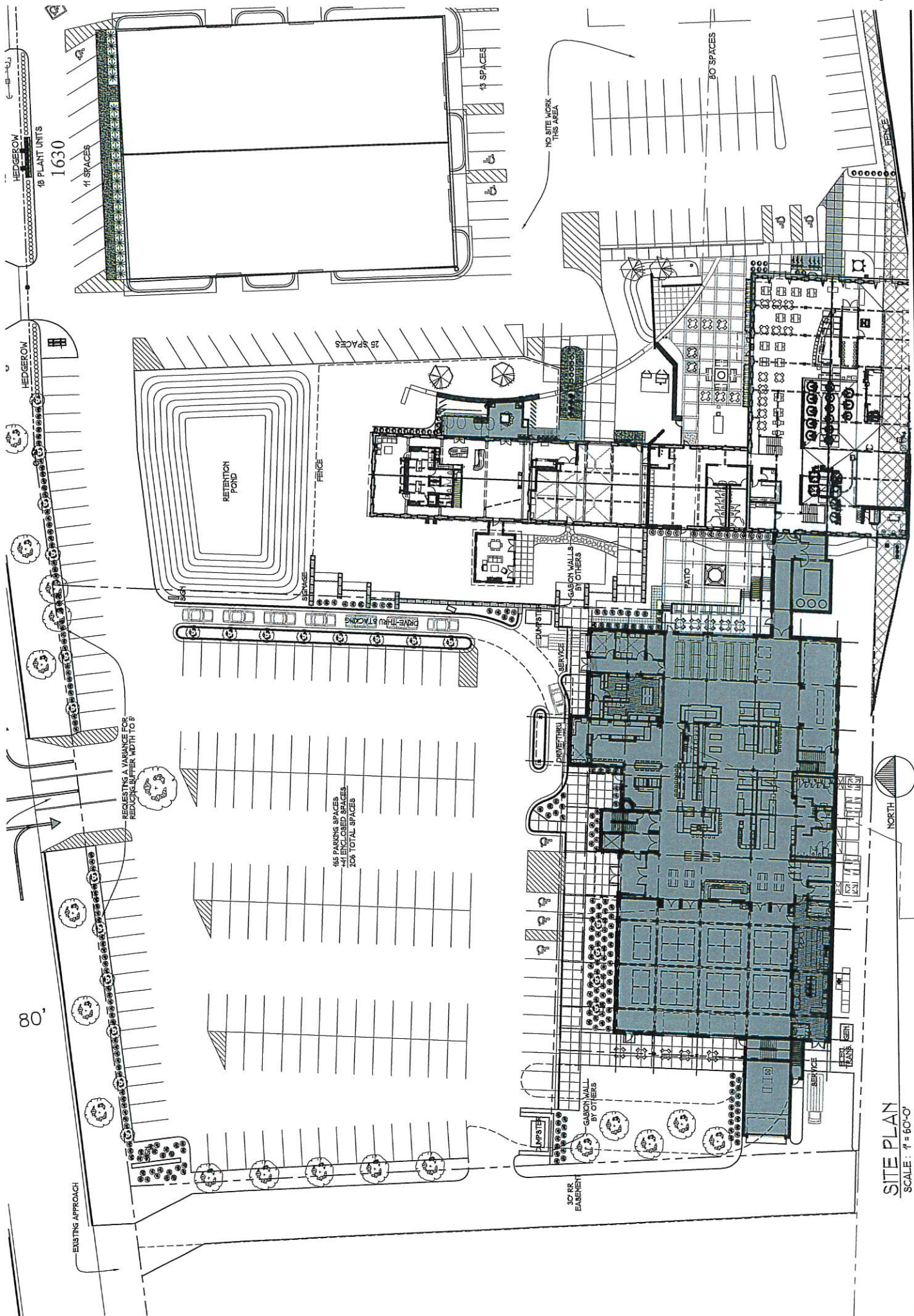
SITE PLAN

Project Number

Date

A1.1



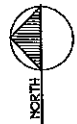
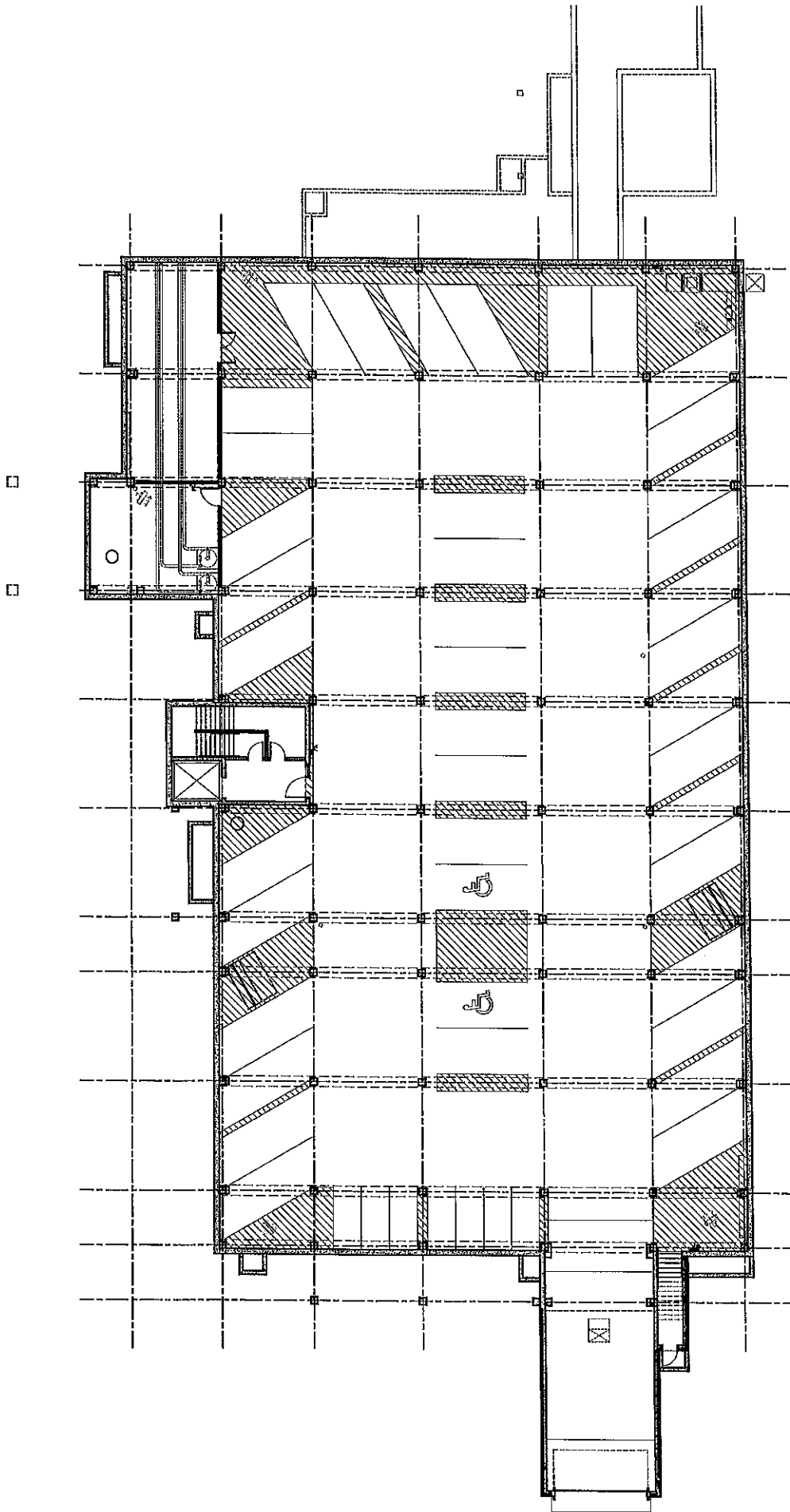


SITE PLAN
SCALE: 1" = 60'-0"

BREWHALLA MARKET

FARGO, NORTH DAKOTA

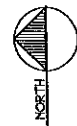
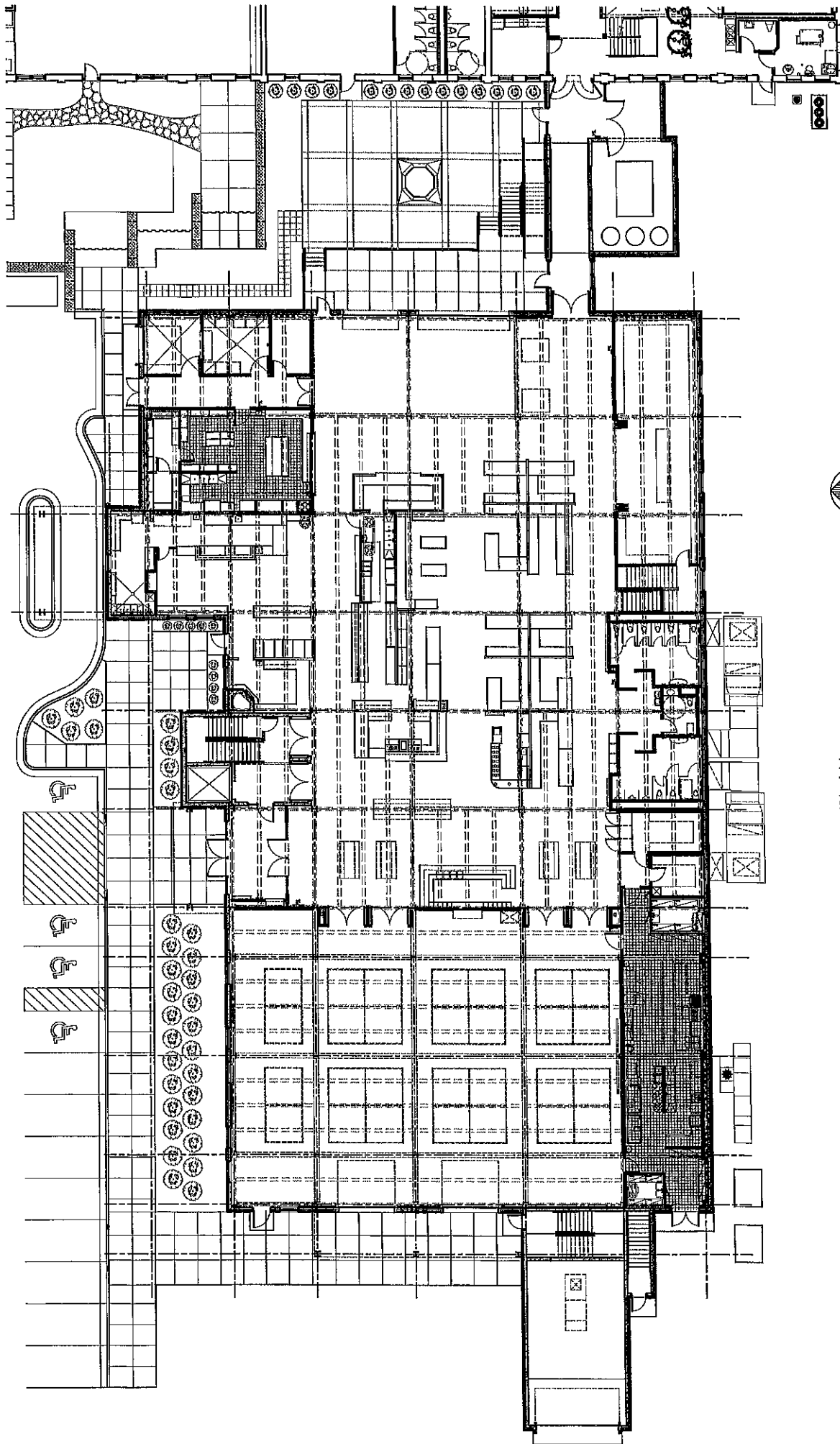
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BASEMENT FLOOR PLAN
SCALE: 1" = 30'-0"

BREWHALLA MARKET

FARGO, NORTH DAKOTA

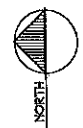
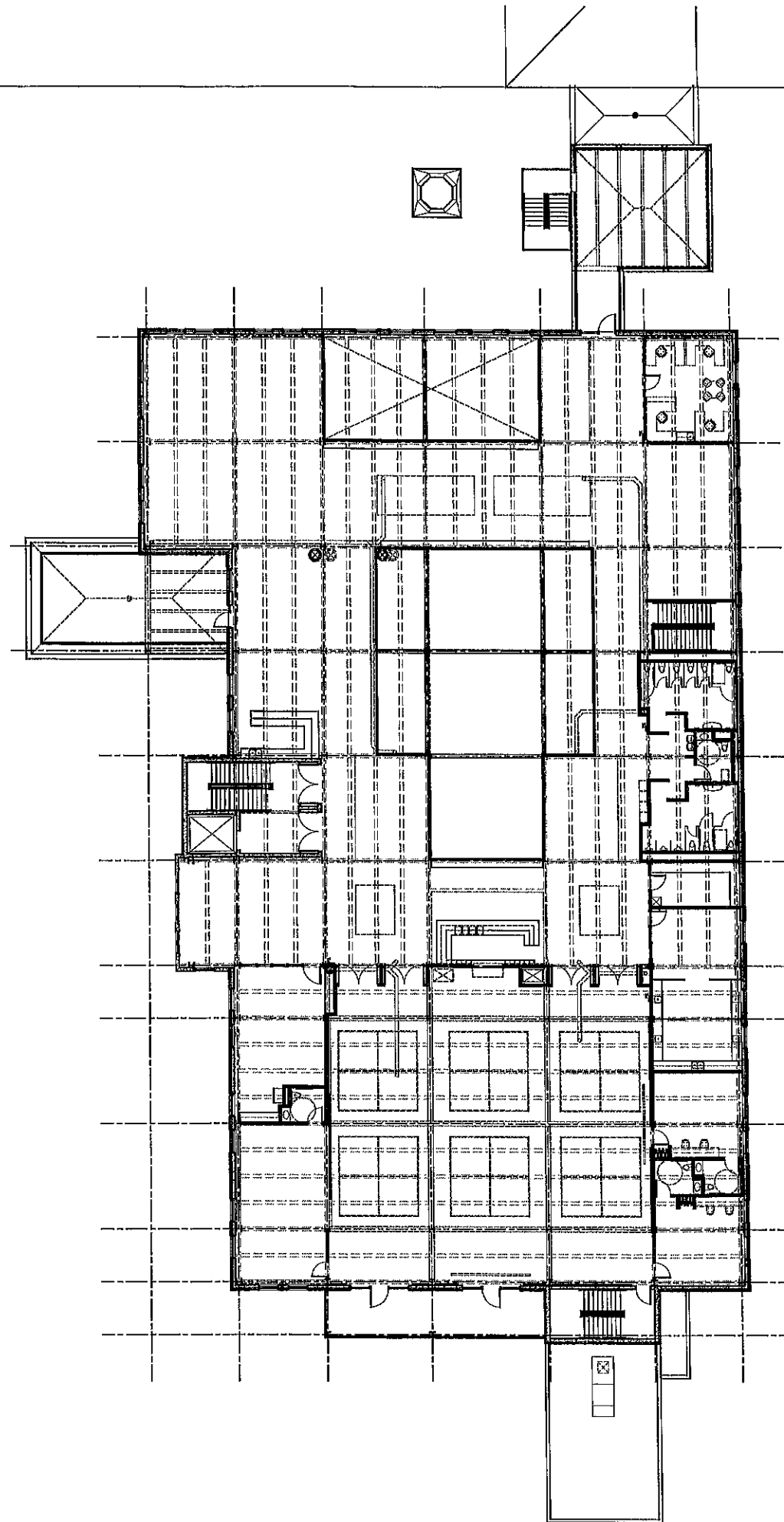


FIRST FLOOR PLAN
SCALE: 1/8" = 1'-0"

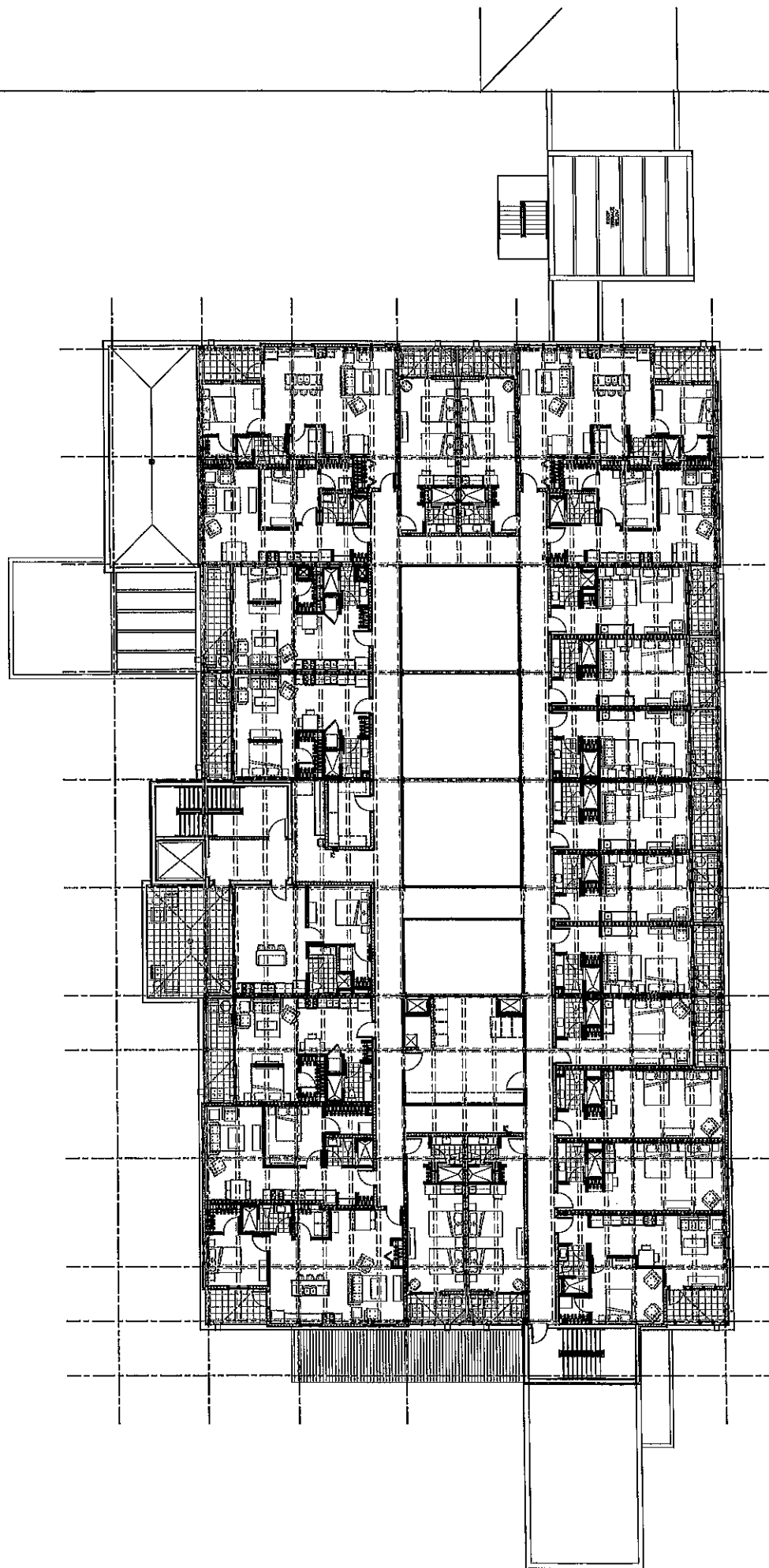
BREWHALLA MARKET

FARGO, NORTH DAKOTA

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ARCHITECTS



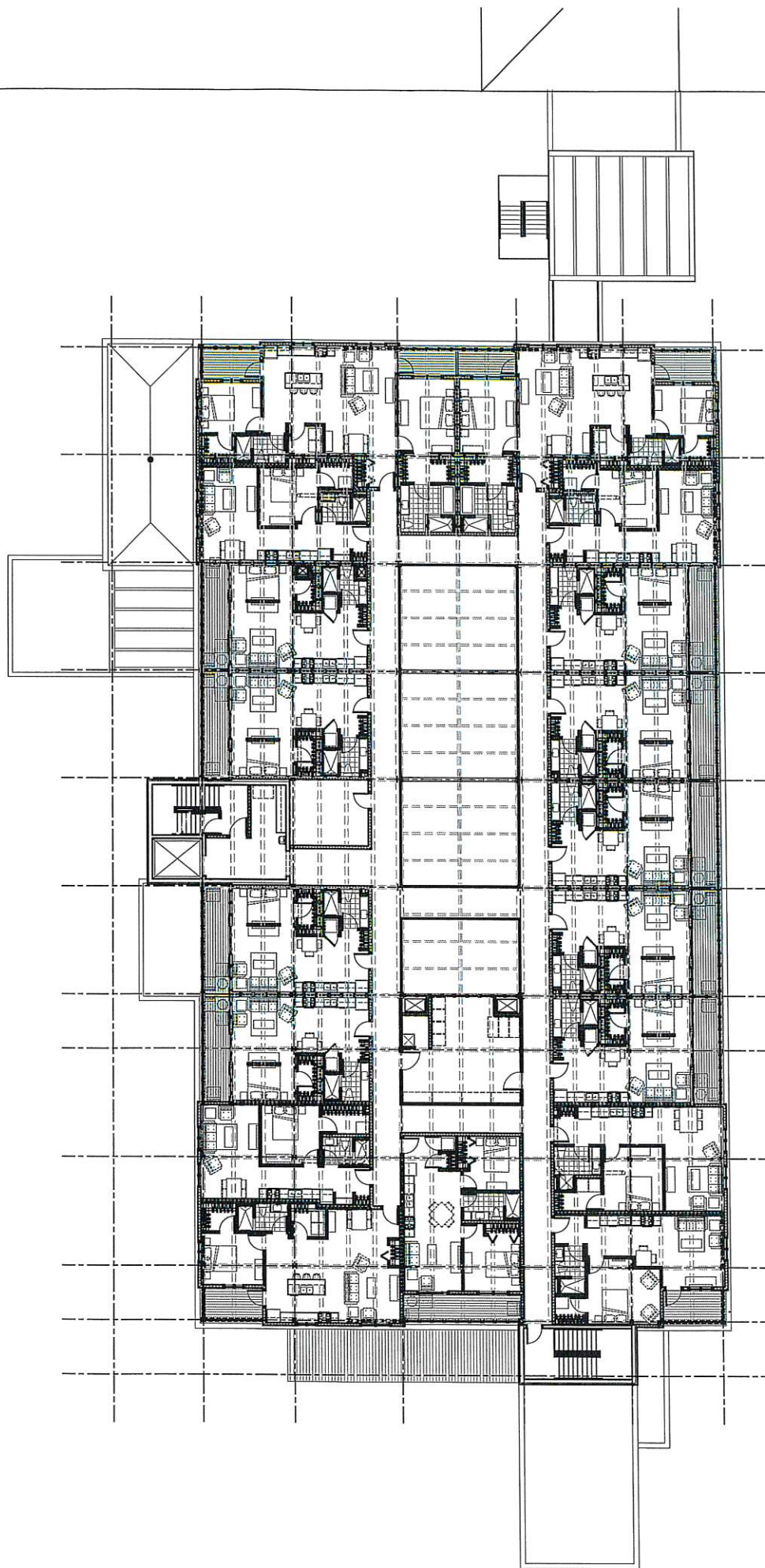
SECOND FLOOR PLAN
SCALE: 1" = 30'-0"



THIRD FLOOR PLAN
SCALE: 1/8" = 30'-0"

BREWHALLA MARKET

FARGO, NORTH DAKOTA



FOURTH FLOOR PLAN
SCALE: 1" = 30'-0"

BREW HALLA MARKET

FARGO, NORTH DAKOTA

MEMORANDUM

TO: Tax Exempt Review Committee

FROM: Jim Gilmour, Director of Strategic Planning and Research

DATE: April 19, 2021

SUBJECT: Tax- Exempt Policy Format

The City of Fargo uses tax exemption policies and tax increment financing to implement different plans, goals and objects of the City. These range from economic development to redevelopment of brownfield sites to supporting affordable housing.

This is especially the case with the Payment in Lieu of Taxes (PILOT) property tax exemption. Fargo has used the PILOT incentive to assist affordable housing projects, encourage market rate housing in the downtown, support the conversion of blighted properties near NDSU into new housing for students, and business expansions to create jobs and capital investment.

I am recommending a new format of the Tax Exempt Policy that identifies the primary goal and objective, establishes the criteria to qualify for the incentive and describes the process.

These are the proposed sections of the tax exempt policies:

1. Support for affordable housing.
2. Encourage remodeling and expansion of older structures to encourage infill redevelopment.
3. Encourage the construction of new single-family and owner-occupied housing.
4. Encourage economic development, creating new jobs and capital investment.
5. Encourage redevelopment of new housing adjacent to NDSU.
6. Encourage downtown redevelopment, especially new housing.
7. Encourage redevelopment of brownfield sites.
8. Public-private partnerships with public amenities.

Let me know if you support this new outline.

MEMORANDUM

TO: Tax Exempt Review Committee

FROM: Jim Gilmour, Director of Strategic Planning and Research

DATE: April 19, 2021

SUBJECT: Tax Exempt Policy – Remodeling

ND State law allows cities to provide a property tax exemption that encourages remodeling and additions on existing buildings in the City of Fargo. A copy of that section of the Century Code is attached for your information. A copy of the current city policy is also attached.

There are three changes to this policy that I would like you to consider. They are:

- Allow all the remodeling of all housing (single-family houses and apartments) over 25 years old to qualify for the 5-year exemption. The current policy is to limit buildings of 25 to 39 years old to a 3-year exemption.
- Allow all remodeling of commercial buildings over 25 years old to qualify for the 5-year exemption. The current policy is to limit commercial buildings outside of the downtown to a 3-year exemption.
- Allow all commercial buildings over 25 years old to qualify for an exemption for a building addition. The current policy is to limit exemptions for additions to those buildings located in the downtown.

However, what limits should be placed on property tax exemptions for additions to commercial buildings?

- Should a property tax exemption be granted for a \$20 million addition to a \$1 million building?
- Should these large commercial building additions have exemptions limited to those that meet certain criteria?

57-02.2-01. Declaration and finding of public purpose.

The legislative assembly hereby declares and finds that the present method of assessment and taxation of real property discourages the investment of private capital in the rehabilitation and remodeling of commercial and residential buildings and structures with the result that such properties have been allowed by their owners to decay, become in need of repair, modernization, and replacement, and that such conditions have resulted in a decreased tax base. The legislative assembly further finds that it is in the public interest and for the welfare of the state of North Dakota, its political subdivisions, and its citizens to encourage the investment of private capital in improvements to commercial and residential buildings and structures, thereby encouraging the production of wealth, improving the volume of employment, enhancing living conditions, and preserving and increasing the property tax base. It is the intent of the legislative assembly that the exemptions from taxation provided for in this chapter provide an alternative to the property tax exemptions provided for in chapters 40-57 and 40-57.1.

57-02.2-02. Improvement defined.

In this chapter, unless the context or subject matter otherwise requires, the term "improvement" means the renovation, remodeling, or alteration, but not the replacement, of an existing building or structure for use for commercial or residential purposes. An improvement for residential purposes is limited to a building or structure at least twenty-five years old. An addition constructed to an existing building or structure to enlarge it is an improvement for the purposes of this chapter.

57-02.2-03. Tax exemption for improvements to commercial and residential buildings and structures - Property owner's certificate.

Improvements to commercial and residential buildings and structures as defined in this chapter may be exempt from assessment and taxation for up to five years from the date of commencement of making the improvements, if the exemption is approved by the governing body of the city, for property within city limits, or the governing body of the county, for property outside city limits. The governing body of the city or county may limit or impose conditions upon exemptions under this section, including limitations on the time during which an exemption is allowed. A resolution adopted by the governing body of the city or county under this section may be rescinded or amended at any time. The exemption provided by this chapter shall apply only to that part of the valuation resulting from the improvements which is over and above the assessed valuation, exclusive of the land, placed upon the building or structure for the last assessment period immediately preceding the date of commencement of the improvements. Any person, corporation, limited liability company, association, or organization owning real property and seeking an exemption under this chapter shall file with the assessor a certificate setting out the facts upon which the claim for exemption is based. The assessor shall determine whether the improvements qualify for the exemption based on the resolution of the governing body of the city or county, and if the assessor determines that the exemption should apply, upon approval of the governing body, the exemption is valid for the prescribed period and shall not terminate upon the sale or exchange of the property but shall be transferable to subsequent owners. If the certificate is not filed as herein provided, the assessor shall regard the improvements as nonexempt and shall assess them as such.

Remodeling Exemption (N.D.C.C. § 57-02.2)

- **Improvements To Commercial Properties And Residential Properties 25 Years Old & Older Are Eligible**
 - Improvement means renovation, remodeling, alteration, and, in some cases, additions to existing buildings.
 - Replacement of an existing building is NOT considered an improvement.
- **Exemption Applies Only To The Assessment Value Added Due To The Qualifying Improvement**
 - Value exempted is the difference between the improved value and the value prior to the start of the improvement, **including any demolition**. We will consider the “before” value prior to any demolition.

TYPE	YEARS EXEMPT	BUILDING AGE	ELIGIBLE IMPROVEMENTS	MISC.
Residential & Apartments	3	25-39 Years	Remodeling & Addition	
Residential & Apartments	5	40 Years & Up	Remodeling & Addition	
Commercial	3	All	Remodel Only	Outside Central Business Dist.
Commercial	3	Thru 24 Years	Remodel only	Inside Central Business Dist.
Commercial	5	25 Years & Up	Remodeling & Addition	Inside Central Business Dist.

- **No Exemption Will Be Granted For Value Replaced After A Reduction For Fire, Flood, Tornado, Or Natural Disaster**
- **Abatement Procedure Is Available If The Exemption Is Applied For After The Improvement Has Been Made**
- **Exemption Remains With The Property Upon Ownership Transfer**
- **Upon Completion, Please Return Form To The City of Fargo Assessment Department.**



This exemption provides an incentive to property owners to invest private capital in order to remodel and rehabilitate buildings and structures to prevent the properties from decay. It is at the discretion of the City whether or not to grant this exemption to properties.

This exemption encourages the investment of private capital to improve properties, subsequently encouraging the production of wealth, improving the volume of employment, enhancing living conditions, and preserving and increasing the property tax base.

The standard policy utilized by the City of Fargo in granting the exemption allowed for improvements to property, according to N.D.C.C. Chapter 57-02.2, will be as follows:

Residential & Apartment Property

~~3-year~~**5-year** exemption for value added due to remodeling and additions to buildings 25 years old ~~and older to 39 years old.~~

~~5-year exemption for value added due to remodeling and additions to buildings 40 years old and older.~~

Commercial Property

~~3-year exemption for value added due to remodeling only for all properties outside of and not adjacent to the Downtown Incentive Area and for buildings under 25 years old within the Downtown Incentive Area.~~

~~5-year~~**5-year** exemption for value added due to remodeling and additions to buildings 25 years old and older

~~Commercial building additions that add value of more than \$5 million will be reviewed by the Tax Exempt Review Committee, within the Downtown Incentive Area.~~

~~*Central-Business-District boundaries are defined in the "Downtown Area Plan".~~

<u>TYPE</u>	<u>YRS EMEMPT</u>	<u>BLDG AGE</u>	<u>ELIGIBLE IMPROVEMENT</u>	<u>MISC</u>
Residential & Apartments	3	25-39 Yrs	Remodel & Additions	
Residential & Apartments	5	40 Yrs & Up	Remodel & Additions	
Commercial	3	All	Remodel Only	Outside & Not Adjacent To Downtown Incentive Area
Commercial	5	25 Yrs & Up	Remodel & Additions	In & Adjacent To Downtown Incentive Area

- No exemption, under this policy, will be granted for assessment value replaced after a reduction in appraised value has been made by the Assessment Department for value lost due to fire, flood, tornado, or other natural disaster.

This exemption provides an incentive to property owners to invest private capital in order to remodel and rehabilitate buildings and structures to prevent the properties from decay. It is at the discretion of the City whether or not to grant this exemption to properties.

This exemption encourages the investment of private capital to improve properties, subsequently encouraging the production of wealth, improving the volume of employment, enhancing living conditions, and preserving and increasing the property tax base.

The standard policy utilized by the City of Fargo in granting the exemption allowed for improvements to property, according to N.D.C.C. Chapter 57-02.2, will be as follows:

Residential & Apartment Property

5-year exemption for value added due to remodeling and additions to buildings 25 years old and older.

Commercial Property

5-year exemption for value added due to remodeling and additions to buildings 25 years old and older

Commercial building additions that add value of more than \$5 million will be reviewed by the Tax Exempt Review Committee.

No exemption, under this policy, will be granted for assessment value replaced after a reduction in appraised value has been made by the Assessment Department for value lost due to fire, flood, tornado, or other natural disaster.

MEMORANDUM

TO: Tax Exempt Review Committee

FROM: Jim Gilmour, Director of Strategic Planning and Research

DATE: April 19, 2021

SUBJECT: Tax Exempt Policy – New Owner-Occupied Housing

ND State law allows cities to provide a property tax exemption that encourages the construction of new single-family housing. The state law on what may be exempted is as follows:

Up to one hundred fifty thousand dollars of the true and full value of all new single-family and condominium and townhouse residential property, exclusive of the land on which it is situated, is exempt from taxation for the first two taxable years after the taxable year in which construction is completed and the residence is owned and occupied for the first time if all of the following conditions are met: a. The governing body of the city, for property within city limits, or the governing body of the county, for property outside city limits, has approved the exemption of the property by resolution. A resolution adopted under this subsection may be rescinded or amended at any time. The governing body of the city or county may limit or impose conditions upon exemptions under this subsection, including limitations on the time during which an exemption is allowed. b. Special assessments and taxes on the property upon which the residence is situated are not delinquent.

The City of Fargo has adopted a policy/resolution that provides this exemption. Current policy is attached for your review and consideration.

This exemption promotes the construction of dwelling units thereby encouraging the volume of employment, enhancing living conditions and increasing the tax base. However, the limited availability of the exemption to the majority of the local population warrants close review of the need for it to encourage that activity.

The City of Fargo will pass a resolution allowing for this exemption and the terms and conditions of the incentive. The City will periodically review the option of adopting a new resolution expanding or limiting the terms of this exemption as economic conditions or state statute may change.

New Single-Family Residence Owned By Builder and Unoccupied

Up to five properties per builder per year may be exempt up to \$150,000 of building value if the homes are unoccupied and owned by the builder. The maximum term of exemption is for the taxable year construction began and one following taxable year.

New Single Family Residence Owned By First Owner After the Builder

The first owner after the builder may receive an exemption on up to \$150,000 of building value for new single-family, condominium and townhouse residences. The maximum term of the exemption is for the two taxable years after the taxable year construction is completed and the residence is occupied for the first time by the owner.