

JOURNAL OF COMMISSION SPECIAL WORK SESSION
April 29, 2015

City Commission Special Work Session
Civic Center, Commission Chambers

Mayor Winters presiding

CALL TO ORDER: 1:00 p.m.

ROLL CALL: City Commissioners present: Michael J. Winters, Bill Bronson, Fred Burow, and Bob Jones. Commissioner Bob Kelly appeared telephonically.

STAFF PRESENT: City Manager and Deputy City Manager; City Attorney; Directors of Fiscal Services and Planning and Community Development; and the City Clerk. Also present was the City's retained counsel, Eric McCrady, of the law firm Dorsey & Whitney.

**** Action Minutes of the Great Falls City Commission. Please refer to the audio/video recording of this meeting for additional detail. ****

1. PUBLIC COMMENT

There were no comments from the public.

2. AGRITECH PARK TAX INCREMENT FINANCING (TIF) DISTRICT DEVELOPMENT AGREEMENT DISCUSSION.

Deputy City Manager Jennifer Reichelt and Erin McCrady of Dorsey & Whitney provided and discussed a PowerPoint presentation.



Tax Increment Financing

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- ▶ In accordance with State Law (MCA – 7-15-4282), TIF districts allow communities to direct property taxes from new development within a designated area to be used for specific development activities.
- ▶ Once a TIF district has been created, the taxable value of the property (in the district) is calculated and a “base year” for the taxable value is established.
- ▶ Any increase, or “increment,” of the taxable value during the lifetime of the TIF, above and beyond the base value is kept and used within the TIF district.
- ▶ Increment can only be used for specific statutory purposes within the TIF district.
- ▶ Increment is typically only created as result of the City’s investment in the TIF district.
 - Blighted infrastructure deficient areas often require public investment to encourage growth.

Why Create a Tax Increment District

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- ▶ TIF districts are designed to encourage economic development, eliminate blight and infrastructure deficiencies.
- ▶ TIF programs can be beneficial in attracting business, industry and residential development.
- ▶ TIF districts can help stabilize and diversify as well as expand the tax base in critical areas.
- ▶ The East Industrial TIF District was created in 2013 and will end in 2028 (unless extended by action of the Commission)
 - The Agritech Park is located in East Industrial TIF District

How TIF Funds can be Used

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MONT CODE ANN § 7-15-4288 :

The tax increments may be used by the municipality to pay the following costs of or incurred in connection with an urban renewal project, industrial infrastructure development project, technology infrastructure development project, or aerospace transportation and technology infrastructure development project:

- (1) land acquisition;
- (2) demolition and removal of structures;
- (3) relocation of occupants;
- (4) the acquisition, construction, and improvement of infrastructure, industrial infrastructure, technology infrastructure, or aerospace transportation and technology infrastructure that includes streets, roads, curbs, gutters, sidewalks, pedestrian malls, alleys, parking lots and offstreet parking facilities, sewers, sewer lines, sewage treatment facilities, storm sewers, waterlines, waterways, water treatment facilities, natural gas lines, electrical lines, telecommunications lines, rail lines, rail spurs, bridges, spaceports for reusable launch vehicles with associated runways and launch, recovery, fuel manufacturing, and cargo holding facilities, publicly owned buildings, and any public improvements authorized by Title 7,

How TIF Funds can be Used - Continued

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- chapter 12, parts 41 through 45; Title 7, chapter 13, parts 42 and 43; and Title 7, chapter 14, part 47, and items of personal property to be used in connection with improvements for which the foregoing costs may be incurred:
- (5) costs incurred in connection with the redevelopment activities allowed under 7-15-4233;
 - (6) acquisition of infrastructure-deficient areas or portions of areas;
 - (7) administrative costs associated with the management of the urban renewal area, industrial district, technology district, or aerospace transportation and technology district;
 - (8) assemblage of land for development or redevelopment by private enterprise or public agencies, including sale, initial leasing, or retention by the municipality itself at its fair value;
 - (9) the compilation and analysis of pertinent information required to adequately determine the needs of an urban renewal project in an urban renewal area, the infrastructure needs of secondary, value-adding industries in the industrial district, the needs of a technology infrastructure development project in the technology district, or the needs of an aerospace transportation and technology infrastructure development project in the aerospace transportation and technology district;
 - (10) the connection of the urban renewal area, industrial district, technology district, or aerospace transportation and technology district to existing infrastructure outside the district;
 - (11) the provision of direct assistance, through industrial infrastructure development projects, technology infrastructure development projects, or aerospace transportation and technology infrastructure development projects, to secondary, value-adding industries to assist in meeting their infrastructure and land needs within the district; and
 - (12) the acquisition, construction, or improvement of facilities or equipment for reducing, preventing, abating, or eliminating pollution.

The City's TIF Application Process

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- ▶ As each TIF district generates increment, the property owners and developers, as well as the City, can apply to use the increment for eligible uses within the TIF district.
- ▶ Once the City has received applications, they are reviewed by staff and then forwarded to the appropriate advisory board for consideration.
 - Planning Advisory Board
 - Downtown Development Partnership
- ▶ If the advisory board recommends approval, the application is forwarded to the Commission for final approval.
 - The process also includes the adoption of a development agreement.

How TIF Funds Can be Allocated

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- ▶ TIF funds can be allocated in a number of ways:
 - Cash – When there is adequate increment in a TIF district, cash can be awarded to a TIF applicant once the work is completed.
 - Bonds – When a project is financeable, bonds can be issued. This generally requires sufficient increment (both historical and future). Bonds are then sold by the City and bond proceeds are used to pay for the cost of construction of the public infrastructure and the increment generated pays the debt service on the bonds.
 - Pay-as-you-go-reimbursement – When a new district is being created, future increment can be committed to reimburse for the cost of construction of the public infrastructure which is paid for by property owners and/or developers.

The AgriTech Application Process - History

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- ▶ The Great Falls Development Authority submitted a TIF Application for the AgriTech Park, requesting to use \$6,747,271 in future increment to reimburse property owners and the developers for the costs of construction of public infrastructure improvements.
- ▶ GFDA provided a proforma which included estimates and projections for future development at the park.
- ▶ The application outlined that the first two tenants would pay for a large portion of the public infrastructure costs in an effort to move the project forward.
 - Pacific Steel & Recycling (rail for lots 1-8) - \$3.55 Million
 - Montana Specialty Mills (public infrastructure for lots 1-5) - \$1.04 Million
- ▶ The application also requested that future increment be used to pay interest on the principal balance of the City’s reimbursement obligation.
- ▶ Staff, GFDA, bond counsel and two Commissioners have met over the past several months to negotiate a development agreement.

The AgriTech Application Process - History

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- ▶ The parties were able to reach agreement on most of the issues – subject to approval by the Commission.
- ▶ GFDA’s request for interest appears to be the primary outstanding issue.
 - Before a recommendation was made and a development agreement finalized, staff felt it was best to get Commission direction, with respect to the use of the increment to pay interest on the City’s reimbursement obligation.
- ▶ After this Work Session, Commission will have the opportunity to meet with the property owners (Pacific Steel & Recycling & Montana Specialty Mills) on May 7, to ask them questions as well as get further clarification from staff on any issues relating to the use of the increment and the development agreement.
- ▶ Once Commission gives staff direction, a development agreement will be finalized and the agreement and application will be taken to the Planning Advisory for consideration.
- ▶ The Planning Advisory Board’s recommendation will then be forwarded to the Commission for consideration.

11 About the AgriTech Park

- ▶ Great Falls Development Authority (GFDA) is currently acting as the developer of the AgriTech Park
- ▶ Zoned PUD with I-2 underlay
- ▶ The site is approximately 196.5+ acres and divided into 10 lots
- ▶ Custom lots from 10 acres – 950 acres
- ▶ Once the infrastructure goes in, it will be fully served with roads, utilities and rail
- ▶ First two tenants paid \$12k per acre
 - According to GFDA, the first tenants were provided a discounted price because they took the initial risk premium
 - Cost of the project has also gone up since the initial date of purchase
- ▶ Current asking price is \$30,000 per acre
- ▶ Currently lots 1 & 2 have signed tenants, lots 4 & 5 have pending contracts

HEAVY INDUSTRIAL PARK

- Custom Lots from 10 acres - 950 acres, sold at cost, Brokers protected
- Fully served with all utilities - water, sewer, gas, fiber optic, sewer and power
- Redundant telecommunication services
- Work load limited to 6000 lbs 118 GALVANNEE Corrugated and 1000' 87"
- Rail service by Burlington Northern Santa Fe
- 10 minutes to Great Falls International Airport with Air Cargo Opportunities
- Foreign Trade Zone
- Warehouse Leasing (starts up to \$5,000 per employee)
- Start-up grants of up to \$7,500 per employee
- Aggressive Financing Packages Available

PHASE I

PHASE II

FUTURE HOME OF MONTANA ADVANCED BIOTECH

EM Logistics, Pacific Steel & Recycling

Jeremiah Johnson, VP -Business Development
406.330.2288
jjohnson@gfddevelopment.org

Bruce Doney, President/CEO
406.330.2292
bdoney@gfddevelopment.org

Great Falls Development Authority and High Plains Financial are Small Opportunity Lenders

GF
Great Falls, Montana
GFDdevelopment.org

13 Highlights of the Draft Development Agreement

- ▶ The TIF development agreement is between the City, GFDA and AgriTech Owners Association.
- ▶ The rail line will be owned by the AgriTech Park Owners Association.
- ▶ The Development Agreement will establish a commitment by GFDA to develop the AgriTech Park and a commitment by the City to reimburse property owners and the developer for the costs of construction of the public infrastructure.
- ▶ The development agreement will remain in effect until December 31, 2028.
- ▶ Nothing in the development agreement obligates the City financially except with respect to the available tax increment.
 - This is important in the event that the district does not generate enough increment to pay off the principal or interest owed.
 - At this time it is unclear what the property owners' expectation or understanding is regarding this issue.
- ▶ Agreement was developed by legal counsel – Dorsey & Whitney.

14 AgriTech Public Infrastructure Request

- ▶ GFDA has requested that the increment be used to reimburse property owners for the costs of construction of the public infrastructure consisting of street, utilities and rail.
- ▶ The public infrastructure at the AgriTech Park is estimated to cost approximately \$6,747,271 Million
 - According to GFDA's TIF Application
- ▶ The infrastructure improvements are broken up into 3 phases.
 - Phase 1 improvements will be paid for by Pacific Steel & Recycling & Montana Specialty Mills.
 - Phase 2 and 3 improvements will be paid for by future unnamed property owners.
- ▶ **Phase 1 - \$4,593,326**
 - \$3.55 Million for rail improvements (lots 1-8)
 - Paid for by Pacific Steel & Recycling
 - \$1.04 Million for non rail infrastructure (lots 1-5)
 - Paid for by Montana Specialty Mills
- ▶ **Phase 2 - \$570,566**
 - Remaining non rail infrastructure costs for lot 6
- ▶ **Phase 3 - \$1,583,379**
 - \$900,729 - Remaining non rail infrastructure costs (lots 7-10)
 - \$682,650 - Remaining rail infrastructure (lots 9-10)

15 How the Rail is Proposed to Work

- ▶ Public rail access will be provided at the site, which means the rail is considered a public amenity.
- ▶ Pacific Steel & Recycling will be lending money to the Association to build the rail.
- ▶ Pacific will not own the rail, it will be owned by the Association.
- ▶ Increment will be used to reimburse Pacific for the costs of construction of the rail improvements.
- ▶ The Association will insure, maintain, repair and keep the rail improvements in good repair and condition at its own expense.
- ▶ The City is not responsible for the maintenance, repair or replacement of the rail improvements.

16 How the Rail is Proposed to Work – Continued

- ▶ The Association will not sell, assign, transfer or dispose of the rail improvements without the consent of the City.
- ▶ Future property owners will be required to build individual rail spurs (at their expense) from their individual property lots to the rail line in order to connect to the rail.
 - Similar to how property owners would connect to a water line.
 - Tenants do not have to pay Pacific to use/access the rail line.
 - All tenants will be responsible for a basic maintenance fee to the Association.
- ▶ The Association agrees to provide the public with timely and reasonable public access to the rail and will permit the public to connect to the rail in order to facilitate such access.
 - This access may be subject to a use and fee arrangement of the same rates that the Association would charge AgriTech Park property owners.

17 The 85%/15% Increment Split

- ▶ GFDA's original request was for a 85%/15% split in increment generated from the AgriTech development.
 - This means that 85% of the increment generated will be used to reimburse for the costs of construction of the public infrastructure.
- ▶ Staff originally countered with a 70%/30% proposal.
- ▶ After much discussion staff agreed to the 85%/15% split for a number of reasons:
 - There is a higher likelihood of paying down the City's reimbursement obligation if 85% of the increment is committed.
 - It is necessary to hold some funds back for City TIF related expenses.
 - Interest was to come off the table.
- ▶ 15% of the increment will be used for TIF related staff time, legal fees, internal service charges, admin fees, other related expenses and/or TIF related projects.
- ▶ However, the Commissioners involved in negotiations felt that interest was still worth discussing due to the valuable investment the initial tenants were making in the project and the community wide impact the AgriTech Project would have.

18 The Finances

- ▶ Full increment will only be generated once the build-out of lots 1-10 is completed.
- ▶ At full build-out the estimated increment will be \$1,332,610 annually.
 - Build out is estimated at 2020 and full increment will be seen at 2022.
 - AgriTech's 85% - \$1,132,718.50
 - City's 15% - \$199,891.50
- ▶ If principal payments are made (only) the project could be paid off by 2024, in 9 years.
- ▶ Interest adds an unknown variable to the project depending on how the deal is structured.
 - Interest at 2% can add an additional \$289,797 - \$575,533 to the project
 - Interest at 4% can add an additional \$621,644 - \$1.2 million to the project

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AgriTech Application – How it Pencils Out

- Requested \$6,747,271 in future increment to fund the public infrastructure (street, utilities and rail).
- Application outlined that the first two tenants would pay for a large portion of the public infrastructure costs in an effort to move the project forward.
 - Pacific Steel & Recycling (roll for lots 1-8) - \$3.55 Million
 - Montana Specialty Mills (public infrastructure for lots 1-5) - \$1.04 Million
- Requested that a portion of the increment be used to pay interest at a rate of 4%, for the first two tenants, because of their investment in the project. The application also is requesting interest for infrastructure improvements made by future tenants.
- The interest would be accruing throughout the life of the project, without actually paying down the principal amount.

GFDA's Original Proposal	4%	4% with no Principal Payment
Principal	\$6,747,271	\$6,747,271
Interest	\$2,088,535	\$4,559,844
Total	\$8,835,806	\$11,307,115

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City Staff's Analysis of GFDA's Request

- The development of the AgriTech Park will have a positive economic impact on the community – attract new businesses and create jobs.
- After staff reviewed GFDA's application, there was no concern with the request to use future increment to pay back the monies used to fund the public infrastructure.
 - All public infrastructure items are allowable expenses under state law
- Staff's primary concern was whether or not tax increment should be used to pay interest, which is directly going back to an individual property owner.
 - Uncertainty of the timing of the sale and development of all the lots.
 - Uncertainty of the taxable value of new construction on the lots.
 - We do not know at what rate all the property owners will be financed.
 - GFDA has disclosed that Montana Specialty Mills is being financed through a GFDA EDA loan at a rate of 4% in order to be bondable, the project has to be financeable and further developed.
- Without certainty as to when the tax increment becomes available it is difficult to create a pay-down schedule on the principal amount of the infrastructure. Interest can potentially accrue indefinitely on the unpaid principal balance of the City's reimbursement obligation.

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City Staff's Analysis - Continued

- Paying interest could set a precedent for future TIF projects.
- In the past, interest has only been paid in TIF districts when bonds have been issued.
 - When a bond is issued, the interest is paid to the bond holders, not generally to the individual property owners or developers.
 - Bonds are issued when sufficient increment is generated (both historically and future)
 - Due to the current unknowns in this project – it would not be financeable by a bank or bondable at this time.
- Based on GFDA's pro-forma and Department of Revenue projections, the principal can only be paid off when all ten lots are developed.
- Staff has not been able to ascertain what has or has not been promised to the individual property owners.
- On the flipside, what is the effect of not paying interest? Could it negatively impact the future of the AgriTech Park?
 - MCA 7-15-4217 - Requires a finding by the City Commission that a "sound and adequate financial program exist for the financing of the project."
- If the Commission would like to consider paying interest, staff has developed performance based scenarios for consideration, which result in a sound and adequate plan of finance.

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Interest Scenario - 1

- The City pays on principal as increment is received (at 85%).
- The City would not accrue or pay interest until total yearly tax increment levels are reached.

Scenario 1	2%	4%
Principal	\$6,747,271	\$6,747,271
Interest	\$484,593	\$1,067,830
Total	\$7,231,864	\$7,815,101

Performance Based

- Phase 1: \$471,110 (2018)*
- Phase 2: \$860,110 (2019)
- Phase 3: \$1,238,610 (2020)

These yearly tax increment revenue levels are taken directly from GFDA's pro-forma for 2018-2020.

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Interest Scenario - 2

- The City pays on principal as increment is received (at 85%).
- The City does not accrue or pay any interest until total yearly tax increment levels are at \$1,238,110 (2020).

Scenario 2	2%	4%
Principal	\$6,747,271	\$6,747,271
Interest	\$289,797	\$621,644
Total	\$7,037,068	\$7,368,915

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Wrap Up & Questions

- Ensure that all the Commission's questions are answered.
- The Commission will have the opportunity to meet and talk with Pacific Steel & Recycling and Montana Specialty Mills on Thursday, May 7.
- The Commission will need to provide staff with policy direction on how they would like to proceed in regards to finalizing the AgriTech Park development agreement, and the request to use tax increment funding for both public infrastructure and interest reimbursement.

Deputy Manager Reichelt, Attorney McCrady, as well as Brett Doney with the Great Falls Development Authority, responded to questions pertaining to Tax Increment Financing (TIF), AgriTech Park, draft Development Agreement, and financing scenarios.

Deputy Manager Reichelt concluded that another special work session is scheduled for May 7, 2015, and will include representatives from Pacific Steel & Recycling and Montana Specialty Mills. At some point after that staff will need direction from the Commission on whether it wants

staff and counsel to proceed with working on the tax increment financing for the principle only or for providing tax increment financing that includes interest as a portion of that.

ADJOURN

There being no further discussion, Mayor Winters adjourned the special work session of April 29, 2015, at 2:33 p.m.