



Item: Public Hearing - Resolution 10138, A Resolution Approving the Application for the New or Expanding Industry Tax Benefit For ADF International Inc., 1914 Great Bear Avenue, For the Construction of a Steel Fabrication Plant Located on Lot 1A, Block 1 on the First Amendment of the International Malting Company, LLC Addition, and Tract 1 of COS 3891, located S1/2 Sec. 30, T21N, R4E, Cascade County, Montana, Pursuant to Montana Code Annotated Sections 15-24-1401 and 15-24-1402.

From: Craig Raymond, Director, Planning & Community Development Department

Initiated By: ADF International Inc., Great Falls, Montana

Presented By: Craig Raymond, Director, Planning and Community Development Department

Action Requested: City Commission conduct public hearing and deny Resolution 10138.

Public Hearing:

1. Mayor conducts public hearing, calling three times each for proponents and opponents.
2. Mayor closes public hearing and asks the will of the Commission.

Suggested Motions:

1. Commissioner moves:

“I move that the City Commission (adopt/deny) Resolution 10138.”

2. Mayor requests a second to the motion, Commission discussion, and the calls for the vote.
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Staff Recommendation: Based on the analysis provided below and pursuant to Montana Code Annotated Section 15-24-1401, Staff requests the City Commission deny Resolution 10138 granting a tax benefit for ADF International Inc., Great Falls, MT.

Background: ADF International received a building permit in April, 2013, for the construction of a 100,000 square foot fabrication shop on a parcel of land consisting of approximately 95 acres. The fabrication plant in Great Falls, Montana, specializes in the fabrication of standard

steel components, as well as the fabrication of modular steel structures. The applicant is requesting approval of a New or Expanding Industry Tax Benefit based on the value of the new industrial complex which has been built in Great Falls.

When the fabrication plant was completed in 2014, the Department of Revenue verified that the improvements had been made. In 2016, the fabrication plant building had an appraised value of \$11,870,830. The amount of ad valorem taxes due is calculated by multiplying the taxable value by the applicable mills. Note that any tax benefit is limited to the increase in taxable value created by the improvements.

MCA Section 15-24-1402, provides local government the option of giving Tax Benefits for New or Expanding Industry.

Resolution 10138 has been prepared to comply with the requirements of MCA Sections 15-24-1401 and 15-24-1402. Section 15-24-1402 reads in part:

15-24-1402. New or expanding industry -- assessment -- notification. (1) In the first 5 years after a construction permit is issued, qualifying improvements or modernized processes that represent new industry or expansion of an existing industry, as designated in the approving resolution, must be taxed at 50% of their taxable value. Subject to 15-10-420, each year thereafter, the percentage must be increased by equal percentages until the full taxable value is attained in the 10th year. In subsequent years, the property must be taxed at 100% of its taxable value.

Approval of this application would allow the applicant the benefit of being taxed at 50% of the taxable value each year for the first five years after acquisition, and thereafter the percentage must be increased by equal percentages each year as outlined in the following schedule:

Year	%	Est. tax dollars
First year following acquisition	50%	\$21,693.00
Second year following acquisition	50%	\$21,693.00
Third year following acquisition	50%	\$21,693.00
Fourth year following acquisition	50%	\$21,693.00
Fifth year following acquisition	50%	\$21,693.00
Sixth year following acquisition	60%	\$17,583.00
Seventh year following acquisition	70%	\$13,244.00
Eighth year following acquisition	80%	\$8,906.00
Ninth year following acquisition	90%	\$4,567.00
Tenth year following acquisition	100%	\$228.00
Subsequent years	100%	\$0

The law governing this incentive was amended in 1985, indicating that each local governing body (City and County) may approve the Tax Benefit on a project by project basis. If one local government body approves the tax benefit and the other does not, the benefit will apply only to the mills levied by the approving governing body. In addition, tax benefits do not include any relief from state-wide levies, and local government approval of the application must be made by resolution.

In December 2015, the City Commission adopted Resolution 10119 establishing certain criteria for the evaluation of tax benefit requests. The following is the criteria by which each application

is to be evaluated for approval, modification or denial, along with a brief staff evaluation (**bold**) of the merits of the project as pertaining to each criteria:

a. Whether the City's financial condition at the time of the application or consideration of the application warrants granting the application; **the City's current financial condition could be characterized as "in recovery". Strides have been made in stabilizing fund balances; however, various capital projects remain unfunded and public safety needs still exist.**

b. Whether the application meets all pertinent statutory criteria for the particular project; **the application meets all statutory criteria except the date of submittal. The application was received after March 1st of the year in which the benefit was first applicable. In order for ADF to be eligible for the full benefits, the application should have been submitted by March 1, 2014. Therefore, the applicant is not eligible for previous years' tax benefits for tax years 2014 and 2015. It would qualify for the remaining benefit of 50% for three years and the standard progression of increasing tax liability in years six through ten.**

c. Whether the property taxes or other taxes and/or assessments on the property are current; **all property taxes and assessments on the property are current.**

d. Whether the project may unreasonably affect the tax base of the City; **the project and expanding industry has had positive effects on the tax base of the City. If the tax benefit is approved however, the direct benefit of the increased tax base will be decreased for a total of eight years. Approval of Resolution 10138 will also have a direct adverse impact on the TIF district in which the project resides.**

e. Whether the project would impact employment opportunities within the City; **the construction of the fabrication plant has had a tremendous positive effect on employment opportunities within the City. To date, ADF has employed approximately 200 employees.**

f. Whether the project is located within a Tax Increment Financing (TIF) or Targeted Economic Development (TED) District; **the project is located within the Central Montana Agricultural and Technology Park Tax Increment Financing District. Approval of Resolution 10138 will have a direct adverse impact on tax increment which would otherwise be generated and utilized for future infrastructure needs such as the planning and construction of storm water facilities. The City Engineering Department has identified significant deficiencies in the storm water system in the basin in which the TIF district and ADF is located. TIF increment has been identified as one strategy to fund those needed improvements.**

g. Whether the project has already received additional financial assistance from the City or other authorities having jurisdiction; **the applicant has received direct assistance from the City through the TIF district which financed water, sewer and roadway improvements which benefited the entire TIF district, including ADF International. The applicant has received a \$5 million dollar low interest loan through the City and Montana Board of Investments, as well as two Big Sky Economic Development Trust Fund grants totaling \$785,325.**

h. As to applications filed pursuant to Mont. Code Ann. §15-24-1601 *et seq.*, whether

the Montana State Historic Preservation Office has provided design review assistance and certification for qualifying properties; **not applicable under this specific request.**

i. Whether the project will create affordable housing opportunities; **the project is not anticipated to provide or create affordable housing opportunities.**

j. Whether the project will encourage additional, unsubsidized development in the area of the project, either directly or indirectly, through “spin-off” development; **the project and industry expansion by ADF has already resulted in additional “spin-off” development. The City has seen an increase in similar industrial development and continues to meet with other interested parties who are considering development in Great Falls.**

k. Whether the project will facilitate the development process and achieve development on sites which would not be developed without assistance, or would not be developed at a level of acceptable quality; **it is doubtful that this tax benefit is necessary to successfully develop the subject property. It is not known, however, to what extent ADF International relied on the approval of this specific benefit in making its decision to locate the fabrication plant in Great Falls.**

l. Whether the project would encourage redevelopment of commercial and industrial areas in the City of Great Falls, resulting in a higher level and quality of re-investment; **the development of the subject property has had a positive effect on the surrounding area and will likely encourage further development of surrounding commercial and industrial properties.**

m. Whether the project would encourage removal of blight, or the rehabilitation of a high profile or priority site; **this project is not likely to have any effect on the removal of blight in the area.**

n. Whether the application is sought in whole or in part because of increased costs of redevelopment, such as clean-up of a contaminated site, demolition expenses, and the like, over and above costs normally incurred in development; **the subject property was not subject to any unusual costs over and above those customarily incurred in the development of industrial property. Additionally, some of the required improvements were paid for or supported by TIF increment funds approved by the City.**

o. Whether the project could be developed without the benefit of a tax abatement; i.e., but for the allowance of a tax abatement, the project would not be developed or pursued; **it is believed that the project was not dependant on the tax benefit in order to be successful. Additional incentives previously mentioned also played a role in making the project successful.**

p. Whether conferring the tax benefit will create an adverse impact on existing state, county or municipal services; **granting the tax benefit will have an adverse impact on funding of municipal services for a period of eight years. The expansion of the corporate City limits requires additional municipal resources. The cost of granting tax abatement should be weighed carefully when applications are evaluated. It should be noted, however, that the**

development of the site is expected to have a significant positive impact on the local tax base for a long period of time after the benefit expires.

q. Whether the project contributes to the implementation of other policies adopted by the City, including, but not limited to, the City's Growth Policy; **industrial growth significantly contributes to the goals of the Growth Policy. The approval of tax abatements in this case may seem at odds with other goals within the 2013 Growth Policy Update. In the economic chapter on page 86 it states, "The approval of ADF and Agri-Tech Industrial Parks are important achievements toward increased economic diversity. These locations are within the City's TIF's and as such, create ample opportunities for future industrial development and improvements."** Approval of tax abatement benefits in this case will adversely impact the TIF district and its ability to fund future public infrastructure improvements that may be needed.

r. Whether the project would meet other criteria as would be considered reasonable for the best interests of the City; **overall, supporting the development of the subject property specifically and expanding industry generally is in the best interest of the City.**

As required by Section 7-1-4127 MCA, due notice of the intent to consider Resolution 10138 was provided through notices of public hearing being published in the *Great Falls Tribune* on June 5, 2016 and June 19, 2016.

Concurrences: The Planning and Community Development Department has coordinated with the Montana Department of Revenue throughout the process.

Fiscal Impact: Approval of the application would allow the new beneficial use taxes generated from the project to gradually be added to the applicant's existing property taxes over an eight-year period. It would initially be taxed at 50% of the taxable value in years three through five, then pay an increasing amount for the remaining five years until being taxed at 100% after year ten. The Department of Revenue would apply the tax benefit to the 2017 tax year.

At the current tax rate and current post-construction appraisal values, the estimated City tax revenue loss would be approximately \$109,607.00 if the City approved the benefit.

Alternatives: The City Commission may or may not adopt Resolution 10138.

Attachments/Exhibits: Enabling Resolution 10119 [Link available on this meeting's page.]
 Resolution 10138, Approving Tax Benefit for ADF International
 Inc.
 Tax Benefit Application

cc: Dan Rooney, ADF International Inc, Great Falls, MT
 Gary Zadick, P.O. Box 1746, Great Falls, Montana 59403
 Brenda Ivers, Department of Revenue, bivers@mt.gov
 Melissa Kinzler, Director of Fiscal Services

RESOLUTION 10138

A RESOLUTION APPROVING THE APPLICATION FOR THE
NEW OR EXPANDING INDUSTRY TAX BENEFIT FOR ADF
INTERNATIONAL INC., 1914 GREAT BEAR AVENUE, FOR THE
CONSTRUCTION OF A STEEL FABRICATION PLANT,
PURSUANT TO SECTIONS 15-24-1401 AND 15-24-1402
MONTANA CODE ANNOTATED

* * * * *

WHEREAS, the State of Montana has provided enabling legislation to encourage new industry or expansion of existing industry; and

WHEREAS, said encouragement allows for new or expanding industries to be taxed at 50% of their taxable value for the first five years; and

WHEREAS, said encouragement provides that in years six through ten, the taxes will increase by equal percentages until the full taxable value is attained in the tenth year; and

WHEREAS, MCA Sections 15-24-1401 and 15-24-1402, provide the discretion for local governing bodies to give Tax Benefits for the Remodeling, Reconstruction, or Expansion of Existing Buildings or Structures; and

WHEREAS, the City Commission adopted Resolution 10119 on December 1, 2015, providing criteria for the evaluation of projects requesting tax benefits pursuant to MCA Sections 15-24-1401 and 15-24-1402; and

WHEREAS, in order for a taxpayer to receive these tax benefits, the City Commission must approve by adoption of a separate resolution for each project, following due notice as defined in MCA Section 7-1-4127 and a public hearing; and

WHEREAS, ADF International Inc., 1914 Great Bear Avenue, Great Falls, Montana, has constructed an industrial steel fabrication plant on Lot 1A on the First Amendment of the

International Malting Company, LLC Addition, and Tract 1 of COS 3891, Located S1/2 Sec. 30, T21N, R4E, Cascade County Montana; and

WHEREAS, ADF International Inc., has submitted an application for a New or Expanding Industry Tax Benefit pursuant to MCA Sections 15-24-1401 and 15-24-1402.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COMMISSION OF THE CITY OF GREAT FALLS, MONTANA, AS FOLLOWS:

That the City Commission of the City of Great Falls does hereby approve said application for New or Expanding Industry Tax Benefit -pursuant to MCA Sections 15-24-1401 and 15-24-1402.

ADOPTED by the City Commission of the City of Great Falls, Montana, on this 21st day of June, 2016.

Bob Kelly, Mayor

ATTEST:

Lisa Kunz, City Clerk

(SEAL OF CITY)

APPROVED FOR LEGAL CONTENT:

Sara R. Sexe, City Attorney



New or Expanding Industry Classification Application

This page is completed by applicant.

Assessment Office Great Falls, Montana

County Cascade

Name of Applicant ADF International Inc

Mailing Address 1901 Great Bear Avenue, Great Falls, MT 59404

Legal Description of Affected Property International Malting Co LLC Addition, S30, T21 N, R04 E, Lot 1A1, AM PL 40-2014

1. Date construction permit issued May 30, 2013

(If no permit is required, please specify the date when certificate was issued in lieu of building permit.)

2. This application covers the (expansion/new) construction of the _____

Approximately 100,000 sq ft fabrication

_____ plant.

3. Please list the qualifying property below.

Approximately 95 acres

See attached asset list, including improvements and equipment

Please attach site plat, construction prints and detailed equipment list identifying the above property, along with complete installed costs for each qualifying component.

4. Complete this section only if the application is for a firm that:

- engages in transportation, warehousing or distribution of commercial products, if 50% or more of the gross receipts are earned from outside the state; **or**
- earns 50% or more of its annual gross income from out-of-state sales.

Type of business Structural Steel Fabricator

Total gross sales or receipts \$ 22,384,000.00

Total gross income \$ 2,622,000.00

Sales and receipts from outside of Montana \$ 22,100,000.00

Income earned from sales outside of Montana \$ 2,300,000.00

(attach income statements)

Signature of Applicant

Print Name Jean-Francois Boursier, Chief Financial Officer

Date Feb 29, 2016

This page is completed by taxing jurisdiction.

A public hearing on the matter of *New or Expanding Industry* resolution for _____
_____ plant was held at the _____ County
Courthouse at _____ AM/PM, on the _____ day of _____, 20 ____.

1. Due notice as defined in 76-15-103 was given. True and exact copies of said notices were provided.

Yes _____ No _____

2. The statutory \$50,000 investment requirement for expansion or modernization has been met.

Yes _____ No _____

3. The statutory \$125,000 investment requirement for new improvements or modernized processes has been met. Yes _____ No _____

This application is made under the provisions of 15-24-1402, MCA, and by the resolution adopted by the _____ of _____ County,
(Taxing Jurisdiction)
on the _____ day of _____, 20 ____.

We, the undersigned, _____ of _____
(Title) (Taxing Jurisdiction)
(approve/disapprove) this application for _____.

We find that it (does/does not) conform to the criteria as set forth in the resolution adopted by this _____ on the _____ day of _____, 20 ____.

Approved tax incentive to be implemented beginning in _____
(Assessment Year)

Name _____ Title _____

Name _____ Title _____

Name _____ Title _____

February 18, 2016

To the Great Falls City Commission:

Thank you for taking the time to consider this tax abatement application for ADF International's properties north of Great Falls.

When ADF International started looking four years ago for a city in which it could expand its operations, competition was fierce. Of the many cities offering packages to attract us to relocate, Great Falls rose to the top of our list. Great Falls had the infrastructure, workforce and lifestyle ADF desired. It also offered several incentives including tax incentives, which were a major factor in ADF's decision to locate and build in Great Falls.

ADF is still pleased with that decision. Great Falls has been a welcoming and supportive community. However, one of the tax incentives that drew us here has not been realized.

ADF International applied for and qualified for a Montana Board of Investments loan program, under which ADF transferred ownership of its 100-acre lot to the city of Great Falls as collateral for a low-interest loan to finance equipment. Under the loan agreement, ADF pays the city \$32,000 a month for 15 years as a lease payment on the land. That amount is equal to the loan payments, and once the loan is paid off in 2029, ownership of the property returns to ADF.

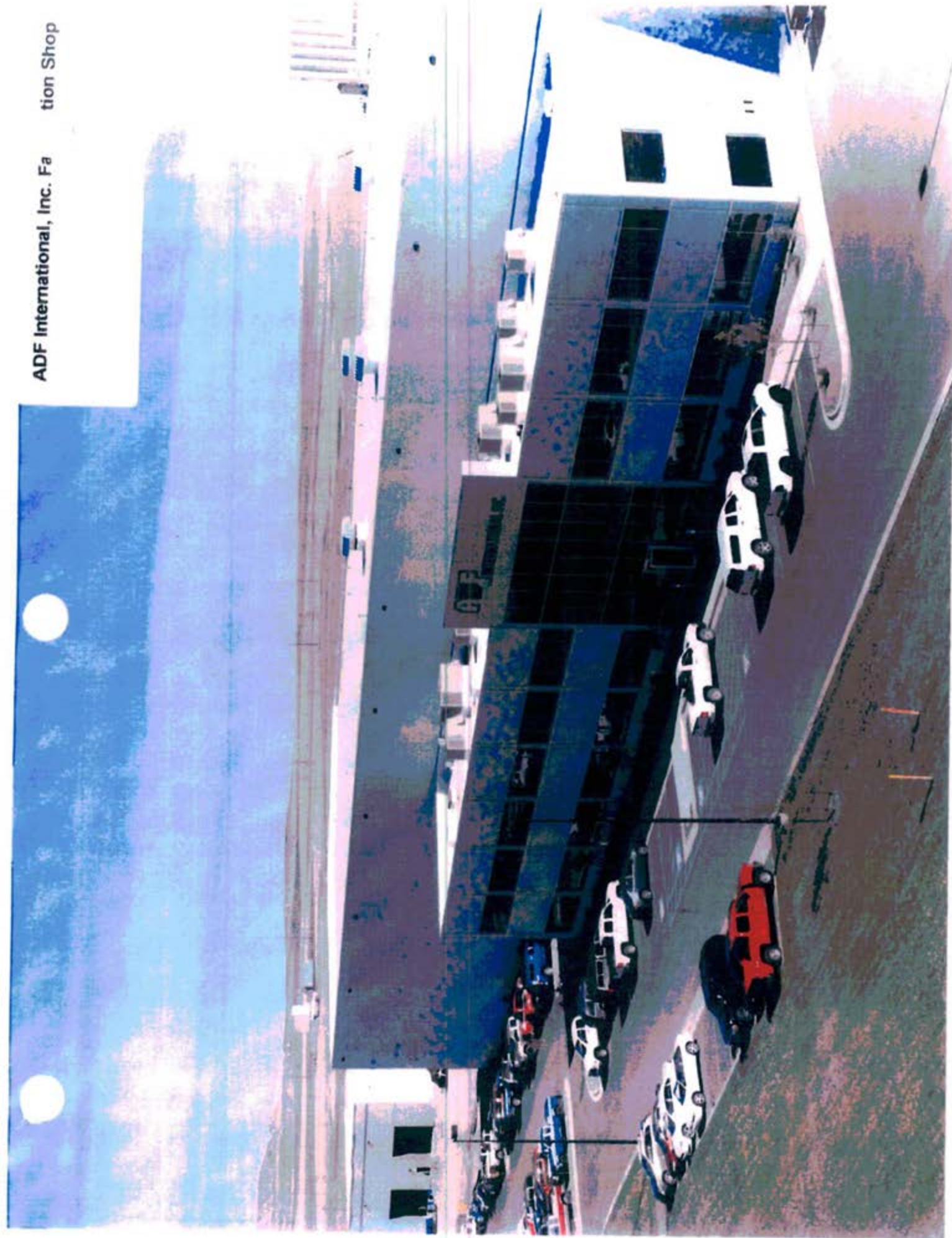
This was an attractive benefit to ADF. It provided the company with a low-interest loan and, initially, appeared to have the added incentive that ADF would not be required to pay any property tax while repaying the loan, as government-owned properties are tax exempt.

The Great Falls City Commission approved the Montana Board of Investments loan (Resolution 10073) at its April 15, 2014 meeting. During the meeting, city staff explained to the commission that ADF would not be required to pay property taxes during the 15-year term of the loan. The discussion about that issue was brief, but all commissioners were aware of the arrangement. The resolution passed unanimously.

In May 2014, ADF was notified by the Montana Department of Revenue that the plant and property that ADF occupies qualifies for the beneficial use tax. Because ADF uses the plant and property for commercial for-profit use, the company is effectively required to pay property tax by paying a beneficial use tax in an equal amount to property taxes.

Now that we are paying property tax, ADF is asking the City Commission to approve a tax abatement agreement for ADF's 100-acre property and facilities. A tax abatement agreement was one of the incentives originally proposed to ADF by the Great Falls Development Authority when we initially considered locating in Great Falls.

According to the Montana Code Annotated, tax abatements are available to new industry that has invested at least \$125,000 worth of improvements. ADF has far exceeded that figure. We have invested approximately \$40 million since locating in Great Falls. ADF spent \$1.3 million in improvements on public infrastructure that not only benefit our plant, but future growth in the area. ADF employs nearly 200 workers in Great Falls and



UGRIN, ALEXANDER, ZADICK & HIGGINS, P.C.

NANCY P. CORY
JORDAN Y. CROSBY
DAVID J. GRUBICH
MARK F. HIGGINS
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NEIL E. UGRIN

February 29, 2016

File No.: AD18-01

City Commissioners
P.O. Box 5021
Great Falls, MT 59403

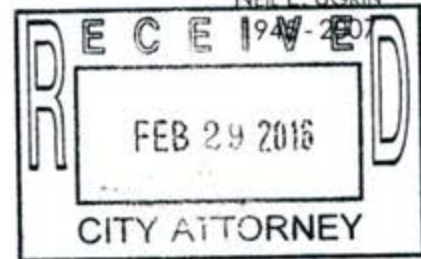
Dear Commissioners:

I am delivering the applications of ADF International, Inc. for new industry tax abatement for its operations in Great Falls. We have prepared separate applications for the Fabrication plant and for the Paint plant.

As part of the recruiting process, ADF was advised of the tax abatement benefits for new industry. However, during the Montana Board of Investment Loan Process, ADF and the City were advised that since the property would be deeded to the City, that there would be no real property taxes. Therefore, no application was made at that time for New Industry tax abatement. Unfortunately, that information was incorrect and ADF International, Inc. has been paying taxes on the property and improvements.

At the time of the loan approval, the City Commission was also under the impression that there would not be taxes on the property deeded to the City, approved the MBOI loan. As mentioned, subsequently, it was learned that the beneficial use taxes would be assessed and of course ADF has been paying its taxes.

We are presenting this application now. It is not retroactive. ADF will lose tax benefits from the commencement of the project through approval of this application. ADF of course is not looking to recoup any previous taxes and understands that the future assessments will be at a reduced percentage but for a fewer number of years than the 10 years allowed under the new industry tax phase in process.

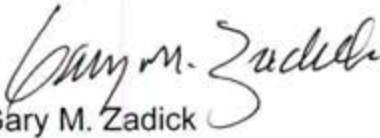


February 29, 2016
Page 2

ADF is exactly the type of business that the Legislature intended this phased in tax program to attract. ADF has created over 200 new jobs for the community and has made a substantial investment in improvements. It has been and will be a great project for Great Falls. ADF hopes that the Commission will view these applications favorably.

Sincerely,

UGRIN, ALEXANDER, ZADICK & HIGGINS, P.C.



Gary M. Zadick

GMZ/ajc
Enclosures