

MINUTES OF THE MISSION FINANCE & ADMINISTRATION COMMITTEE

September 6, 2017

The Mission Finance & Administration Committee met at Mission City Hall, Wednesday, September 6, 2017 at 7:45 p.m. The following committee members were present: Pat Quinn, Tom Geraghty, Arcie Rothrock, Nick Schlossmacher, Debbie Kring, Kristin Inman, Suzie Gibbs and Ron Appletoft. Mayor Schowengerdt was also in attendance. Councilmember Schlossmacher called the meeting to order at 7:45 p.m.

Also present were City Administrator Laura Smith, City Clerk Martha Sumrall, Assistant City Administrator Brian Scott, Public Works Director John Belger, Parks & Recreation Director Christy Humerickhouse, Capt. Dan Madden, Public Information Officer Emily Randel, and City Planner Danielle Sitzman.

Mission Trails Development:

Ordinance Approving Mission Trails Redevelopment Project Plan

Approval of Development Agreement

Resolution of Intent to Issue Industrial Revenue Bonds (IRBs)

Ms. Smith stated that since January 2017, the City has been working with EPC on their proposed development of the property at 6201 Johnson Drive. They are proposing a development of a 200-unit apartment building with a 5,000 sq. ft. commercial facility at this location. Also included is structured parking with 287 spaces, approximately 50 of which will be public. Earlier this year the TIF district for the property was created, TIF Project Plan submitted to the City by the developer, and a request made for incentives. EPC is requesting 100% of the TIF over the full 20 years allowed by statute and Industrial Revenue Bonds. The preliminary site plan was approved by the Planning Commission with three stipulations and the final plan will come before the Planning Commission on September 25th. Ms. Smith provided background information regarding Council's review process for this project (site tours, previous discussions at committee meetings).

Bruce Kimmel, Ehlers, discussed the memo provided to Council and stated that they anticipate the all-in cost per parking space for the structured parking to be approximately \$15,000, which would value the 50 public parking spaces at \$750,000. He also provided information on the requested 20 year TIF by the developer and stated that based on Ehler's evaluation, their conclusion is that a 15-year TIF term would provide a reasonable level of support in closing the project's financial gap. He discussed the potential "win-win" scenario where the TIF term would be set longer than 15 years in exchange for EPC providing near-term funding for downtown improvements of interest to the City. In working with the developer, this could result in a 20 year TIF term and Mission receiving \$200 from the developer (\$100,000 when it pulls its construction permit and another \$100,000 when it receives its certificate of occupancy). The city would be able to dictate how this \$200,000 would be used, possibly for additional public parking in the district (can be decided at a later date). He also provided information on the request for

Industrial Revenue Bonds which is a reasonable request. Mr. Kimmel stated that the developer has said that they do not plan to move forward with the project without the 20 year TIF term. He discussed the discount rate used in their calculations, noting that cities and developers often use different numbers and that council must look at the overall costs/benefits of the project.

Councilmember Appletoft requested information on the 15 year TIF term as acceptable. Mr. Kimmel stated that the 15 year term is due to how the clock runs with TIF, noting that the first and second year are nominal TIF and one year is partial TIF due to EPC's expected construction timing and how that relates to property value assessments and tax collections. Therefore an actual 15 year term is equal to about 12.5 years and a 20 year term is equal to about 17.5 years.

Ms. Smith provided information on the next steps required by Council. At the September 20th Council Meeting we anticipate considering the ordinance to approve the TIF Redevelopment Project Plan. This must be approved by a $\frac{2}{3}$ majority of the Governing Body. The ordinance was prepared by Gary Anderson, Bond Counsel. Council will also consider the resolution of intent to issue Industrial Revenue Bonds for sales tax exemption. The estimated benefit to the developer for this is \$1.1 million. She stated that these bonds have been issued for other developments in the City and there is no repayment obligation by the City. The not to exceed amount (\$20,000,000) included in the proposed resolution is high and the actual number will be lower when this comes before Council in the future for the actual issuance. The Redevelopment Agreement is the document used to capture and control the terms of the "deal" as agreed to by the City and developer. It addresses issues such as budget, project schedule, obligations of the developer and the city, process for certifying and reimbursing TIF eligible expenses, requirements for transfer or sale of the property, and events of default and remedies. This document was prepared by our land use attorney, Pete Heaven and a final document will be provided to Council prior to the City Council meeting. An executive summary is included in the packet. Ms. Smith stated that the proposed agreement describes the project including public parking details, anticipates the full 20 year TIF term (pay-as-you-go) with the developer paying the City \$200,000, issuance of IRB's, related development fees, assignment rights, and default and remedies.

Councilmember Kring asked Mr. Anderson if the City moves forward with two large apartment projects, will this affect our credit ratings. Mr. Anderson provided information on how the ratings are handled and stated that the rating agencies are more concerned if there is a wider (community) issue rather than with one specific project. He also stated that he feels these developments will have a positive effect on the City's credit rating. Mr. Kimmel stated that he agrees and noted that multifamily housing is unusual as it is not enterprise driven. If the market is not as strong, the apartment owner can offer incentives or decrease rents to keep the project from failing. He stated that credit rating agencies will look at the prosperity of the area/County, the diversity of employers, and the city's solid finances (rebuilt fund balance ahead of our timeline).

Councilmember Kring recommended that the ordinance approving the TIF Redevelopment Project Plan, resolution of intent to issue IRBs for Sales Tax exemption, and Redevelopment Agreement related to the Mission Trails project be forwarded to Council for approval. All on the committee agreed, but these will not be consent agenda items.

Councilmember Quinn thanked Ms. Smith, Mr. Heaven, Mr. Anderson, and Mr. Kimmel, and all staff, for the work on this and thanked EPC Developers for their willingness to compromise and come up with a good plan for the proposed project.

CMB Permit Application, Target

Ms. Sumrall stated that businesses wishing to sell Cereal Malt Beverage (CMB) must submit an initial application for approval by Council and renew their license annually on a calendar year basis. Target has submitted an application which meets the requirements for selling CMB in unopened packages - off site consumption. Councilmember Appletoft questioned why Target has not chosen to sell CMB before. Ms. Smith stated that this may be in connection with them increasing the number of grocery items they sell.

Councilmember Kring recommended that the application for Target Corp. to sell CMB in original and unopened containers be forwarded to Council for approval. All on the committee agreed. This will be a consent agenda item.

November City Council Meeting - Date Change

Ms. Smith stated that the November City Council Meeting is scheduled for November 15th, but Councilmembers Rothrock, Schlossmacher and Kring will be attending the National League of Cities annual convention in Charlotte on that date. If one more councilmember is absent, we will not have a quorum. Staff is recommending moving the November meeting to November 8th.

Councilmember Quinn recommended that the November 2017 Legislative Council Meeting be moved to November 8, 2017. All on the committee agreed. This will be a consent agenda item.

Gateway Incentive Requests

Ms. Smith and Bruce Kimmel, Ehlers, provided an overview of the current status of the Gateway Project and presented information on current concerns and obstacles. Ms. Smith stated that the development team has been “crunching numbers,” but before an analysis of the numbers is presented, we must address the project obstacles. Ms. Smith and Mr. Kimmel provided information on the following:

- Do we (city and developer) have a common goal? Yes. Although there has been negativity in the past, both want to complete the entire development according to the approved plan as quickly as possible in order that both benefit.

- What are the obstacles standing in the way of this common goal? Trust and credibility - the developer needs to bring the project to fruition. The developer is taking steps (phased approach to the project) to build trust and credibility. There is misunderstanding in the community with who owns/controls the property and they would like the city to force something to happen. Better communication is needed to clarify this and to show the benefits of the projects - assure the public that we are good stewards of our resources. Some trust issues will be managed through the development agreement with performance standards, release of incentives at specific milestones, etc. Mr. Kimmel stated that the City will have very little financial risk through the proposed development agreement which includes performance standard and clear expectations. Ms. Smith stated that the developer has learned lessons along the way and now has a clearer understanding of costs. This is helpful in minimizing risk and building trust. Councilmember Quinn stated that there is a problem with trust/credibility of the developer whether warranted or not, and Council must deal with this. We need the best “deal” for the City.
- Concerns over delinquent taxes and special assessments. Converting the stormwater expenses on the site to a special assessment provided the City with long-term protection, even though we realized the assessment could go unpaid in the short-term. The fastest way to bring the taxes and assessments current is to reach an agreement on the TIF/CID incentives and allow the developer to secure bank financing for phase 1 of the project. Ms. Smith noted that the lender will not finance the project with past due taxes and assessments, and this will be captured in the development agreement so if they go unpaid it will result in a default and the developer loses the benefits of the incentives. Mr. Kimmel emphasized that there is a great deal of leverage and accountability to the City included in the development agreement, and the developer does not want to default and risk losing the TIF/CID.
- Concerns over unknown tenants. There are concerns that Walmart may be a tenant, but there are protections through the planning and zoning process. The current design for the project provides greater flexibility in accommodating changing tenants over time, and without tenants secured, special obligation bonding would not be feasible. But, the site could remain undeveloped in future years and taxes and assessments could remain delinquent.
- Concerns over only Phase I being built. The developer needs to develop the entire project to be successful. The City must consider both pros and cons to the project (estimated \$33 million in new investment, new residents, ability to keep taxes and assessments current through development agreement terms).
- Concerns over legacy costs. The “but for” test shows what makes this project infeasible without incentives, and the redevelopment agreement can specify the project costs to be funded with TIF and CID financing.
- Other obstacles. Ms. Smith and Mr. Kimmel asked that council provide feedback on other issues or concerns they may have.

Councilmember Quinn requested information on the status of the development agreement. Mr. Kimmel stated that the development team continues to work on this and that they currently have

good numbers to proceed with this process. Councilmember Appletoft stated that he likes the format that the information was presented tonight and appreciates the plain language, facts, discussion on obstacles and what Council needs to do moving forward. Ms. Smith stated that the benefits from this project need to be shared with constituents as well as letting them know we are working to mitigate risks to the City. Councilmember Quinn suggested listing the benefits of the project/facts on a business card that can be shared with the public so that they have accurate information. Councilmember Schlossmacher asked how we can know the numbers being provided are accurate without knowing the actual tenants. Mr. Kimmel stated that he has an idea of the target tenants/uses and is working from that information, as well as specific information on the other elements of the project (apartments, hotel, etc.).

Ms. Smith provided information on the schedule for this issue moving forward and stated that additional meetings can be added if necessary.

Tom Valenti, Gateway Developers, discussed perceptions and statements made in the past and stated he does not want to put out expectations that can't be fulfilled. He stated that they are working with a food/entertainment/retail tenant for the larger spaces, and a potential office tenant for the entire office building (conference and training center). He also discussed the phased building of the project noting that he needs to get Phase I underway to re-establish credibility with constituents and tenants. He stated that tenant leases may be signed within 60 days, but it is hard to provide a firm date. He is highly motivated to get the project underway and stated that her is personally guaranteeing the loan (Phase I). He also stated that Mission has a great staff and development team to work with.

This item was informational only and no action was taken.

Other - Department Updates

Ms. Scott stated that there will be a public meeting with the developer of the proposed Martway Apartments on Tuesday, September 12th at the Community Center, 7:00 p.m.

Meeting Close

There being no further business to come before the Committee, the meeting of the Finance and Administration Committee adjourned at 8:55 p.m.

Respectfully submitted,

Martha Sumrall
City Clerk