



## Administration

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### MEMO

TO: County Commission

FROM: Robert W. Wilson

Date: August 3, 2023

Subject: Fargo PILOT for The WAVE by EPIC, LLC

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This office received a letter and incentive application from the City of Fargo on July 20<sup>th</sup> for up to a 17-year payment in lieu of taxes (PILOT) for a water park, hotel, and parking garage for the WAVE by EPIC, LLC. This project has been the subject of local media reports as the application moves through the City of Fargo's committee review process.

On Monday, July 24, the Fargo City Commission voted to delay a decision on this PILOT request in order to review the City's PILOT policy. That puts Cass County in a unique position. According to N.D.C.C. Chapter 40-05-24 if the City of Fargo anticipates granting a property tax incentive for more than five years, the Chairman of the County Commission must be notified by letter. Within 30 days of receipt of the letter, the County Commission shall notify the City of Fargo whether they intend to participate in the incentive. If the City does not receive a response, the County must be treated as participating.

I have communicated with Jim Gilmour at the City of Fargo about how best to proceed in light of the current state of uncertainty surrounding this project. We both agree that in order for the County to preserve all options regarding possible participation in this incentive, the Commission needs to respond within 30 days to the City's July 20<sup>th</sup> letter.

My recommendation at the meeting on August 7, 2023 is to 'not participate and continue negotiating'. If at some point in the future the Fargo City Commission approves an incentive for this project, that application will be forwarded to the County Commission for consideration.

**SUGGESTED MOTION: Move to not participate in the request for a payment in lieu of taxes (PILOT) in the City of Fargo submitted by The WAVE by EPIC, LLC to assist with the development of a waterpark, hotel, and parking ramp for up to a 17-year period and negotiate the terms of the incentive as described in N.D.C.C. Chapter 40-05-24.**

THE CITY OF  
**Fargo**  
FAR MORE   
ADMINISTRATION DEPARTMENT

July 20, 2023

Chad Peterson, Chairman  
Cass County Commission  
211 9th St. S.  
Fargo, ND 58103

Mr. Peterson,

According to N.D.C.C. Chapter 40-05-24, if the City of Fargo anticipates granting a property tax incentive for more than five years, the Chairman of the County Commission must be notified by letter. Within 30 days of receipt of the letter, the County Commission shall notify the City of Fargo whether they intend to participate in the incentive. If the City does not receive a response, the County must be treated as participating.

The City of Fargo received an application for an up to 17-year property tax exemption through the Payment in Lieu of Taxes (PILOT) program. The proposed project includes a water park, hotel and parking garage open to the public. The City Economic Development Incentives Committee is recommending a 10-year PILOT payment of \$0 on buildings and improvements. There would be a public benefit by providing additional parking adjacent to ball fields and a hockey arena.

Enclosed is information on the project and the recommendation to the Fargo City Commission.

Please respond at your earliest convenience with the determination made by the County regarding the participation.

Feel free to contact me with any questions or concerns.



Jim Gilmour  
Director of Strategic Planning and Research

CC: Robert Wilson

## MEMORANDUM

**TO:** Fargo City Commission

**FROM:** Jim Gilmour, Director of Strategic Planning and Research 

**DATE:** July 19, 2023

**SUBJECT:** Wave Water Park PILOT request

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The City of Fargo received a request for a PILOT property tax exemption for 17 years on two properties at 4410 24th Avenue South and 4471 24th Avenue South. The proposed project is a water park, hotel, parking ramp and a third building. The request and information from the developer is attached.

The request was referred to PFM, one of the City's financial advisers. That review indicates the project is not feasible without a property tax exemption but a 10-year property tax exemption should be sufficient to make the project feasible. This exemption would also be limited to the hotel and water park, not the third building. The PFM reports are attached.

A public hearing on the Developer Agreement is part of the review process. One of the purposes of the hearing is to provide potential competitors an opportunity to comment if they feel the agreement would result in unfair competition. A letter protesting the property tax exemption and a response letter from EPIC Companies is attached.

The Economic Development Incentives Committee voted 5-0 to recommend approval of a 10-year property tax exemption with the conditions that there be a 500-space parking ramp free and open to the public, construction of the proposed hotel and water park and an additional \$79 million of private development on the site in a time certain. A Development Agreement will need to be prepared to implement this project.

### **Recommended Motion:**

Direct the City Attorney and City staff to prepare a Development Agreement to provide a 10-year property tax exemption to implement the proposed project and to bring that agreement back to the City Commission for final approval.



## EPIC Companies

EPICCompaniesND.com  
745 31st Ave. E Suite 105  
West Fargo, ND 58078  
701.866.1006

May 9, 2023

Jim Gilmour  
Director of Strategic Planning & Research  
City of Fargo  
225 4<sup>th</sup> St N  
Fargo, ND 58102

Mr. Gilmour,

Please find the enclosed summary for a proposed payment in lieu of taxes (PILOT) project that is a critical component to support the construction of a public 500 space parking ramp as part of a smart-growth, high-density, mixed-use development.

### Summary:

The two (2) lots that will support the financing of the public parking ramp include (i) The Wave Waterpark Resort located south of the ramp, and (ii) the lot west of the ramp that is planned to complete this regional destination. The Wave is designed at over 50,000sf and connects to a 7-story tower for resort components that include: family entertainment center, restaurant and lounge, gift-shop, and 135 guest rooms. The lot west of the ramp can support the final hospitality component to this regional destination and has an approved franchise agreement with IHG for a future Holiday Inn. This PILOT request does not include the ramp lot itself, or other projects like the Makt buildings that are already under construction and are estimated to contribute over \$450,000 in annual property taxes once complete.

### Benefit:

The parking ramp will benefit the public in many ways, including: (i) allowing for high-density development which provides for higher property tax values, (ii) additional parking for key neighbors such as: Cornerstone Bank Arena, Fargo Park District's Anderson Fields, The Red River Zoo, and the FM Curling Club, (iii) and provides for a quality of life amenity for the entire community which has been identified as a key piece to employee attraction and retention.





## EPIC Companies

EPICCompaniesND.com  
745 31st Ave. E Suite 105  
West Fargo, ND 58078  
701.866.1006

### Financial info:

\$64,000,000 total estimated cost of the waterpark resort component.

\$20,000,000 total estimated cost of the future lot building component.

\$13,000,000 total estimated cost of the public parking ramp.

- Requesting a 20 year PILOT on the two (2) lots adjacent to the ramp.
- Those lots are estimated to pay \$24,000 annually during the PILOT.
- Those lots are estimated to pay over \$1,100,000 annually after the PILOT program expires.

We are truly excited about this project becoming a reality and look forward to partnering with you on what will become a tremendous public benefit for the community of Fargo. If you need any else to supplement this request, please let me know. Thanks for your consideration.

Sincerely,

Blake Nybakken  
Chief Operating Officer  
Cc: Todd Berning, President





EC EPIC  
COMPANIES

Investment • Development • Management



The  
*Wave*  
by EPIC

**Water Park Resort**



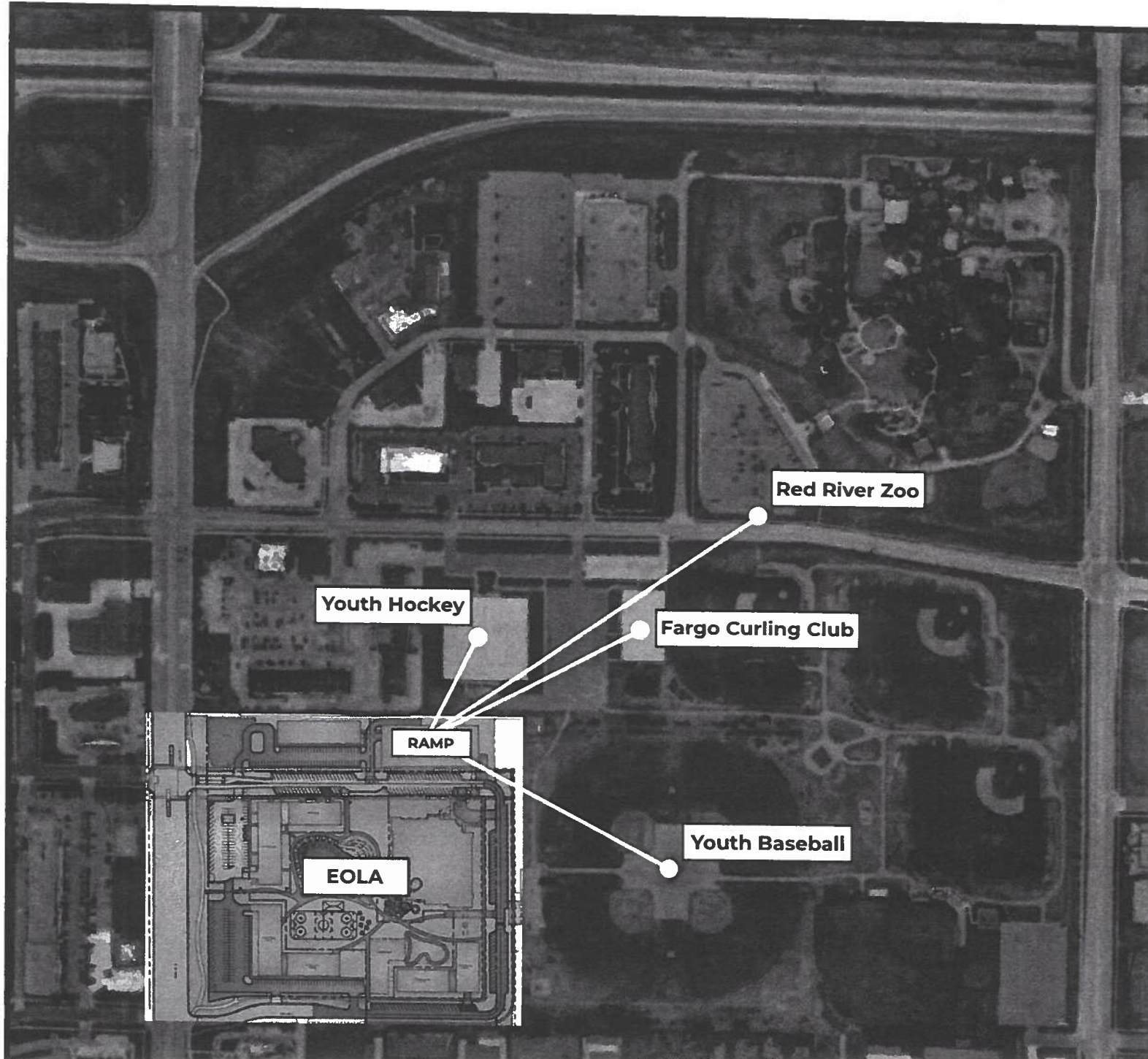
# LOCATION AND SITE PLAN

## EOLA By EPIC

45th St. S, Fargo, ND 58104

EOLA is a master-planned development located just south of I-94 and right off 45th Street South in Fargo. EOLA offers commercial & office space, condos of all sizes, upscale apartments, a public park, and The Wave Water Park Resort.

The buildings surround a four-acre urban public park with year-round features and programming. Other features such as green space, walking paths, youth activities, and art will make EOLA a great addition to the neighborhood and will boost property values and continue to help spur revitalization.

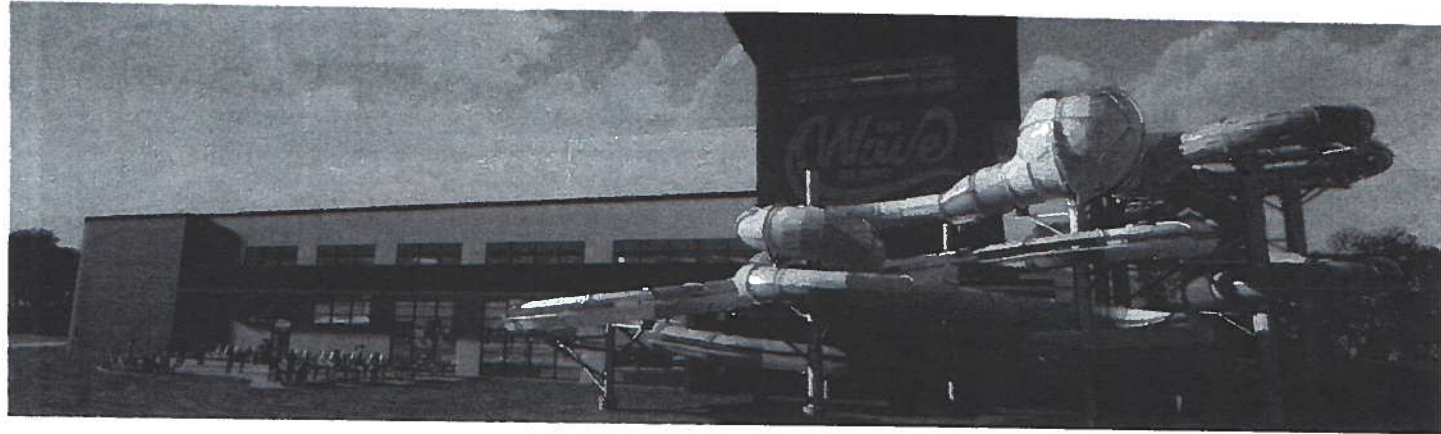




# THE WAVE WATER PARK RESORT

Featuring 50,000+ SF of entertainment for the whole family, The Wave by EPIC Water Park Resort will be the largest indoor water park within a 180-mile radius of Fargo, ND.

Once inside, you decide where the fun begins...thrilling slides, a splash pad, an activity pool, and a wave pool. Cabanas, self-use lockers, a fully stocked snack bar, and a gift shop will also be available for water park guests to utilize.



## Resort Hotel

Connected to The Wave Water Park is a seven-story full-service hotel that will have 135-rooms. This will attract out-of-town water park guests and accommodate local staycationers, in addition to those who use day passes. The hotel will feature a first floor restaurant and lounge as well as a family entertainment center, truly elevating the site as a regional destination.

## Parking Ramp

The EOLA By EPIC Development will feature a public parking garage with 500 spots that will provide convenient access for all nearby activities including: **Fargo Park District's Anderson Fields, Cornerstone Bank Arena, The Red River Zoo, and The FM Curling Club.**





# REASONS FOR SUPPORTING PILOT

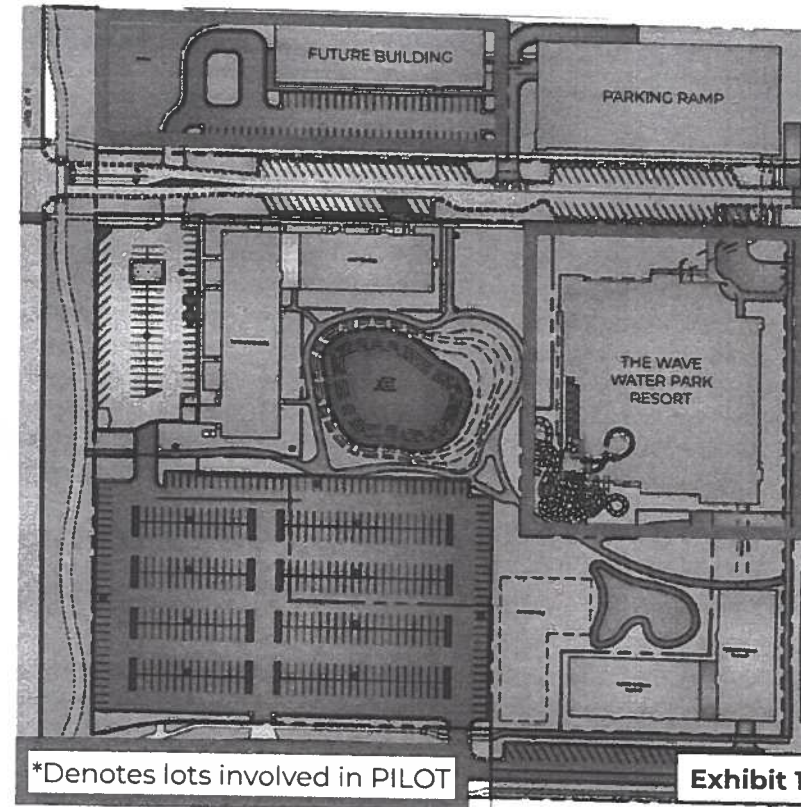


## Align with Fargo GO 2030 Comprehensive Plan

- Allows for higher density & smart growth - similar to a Downtown district
- Prosper as a business center with numerous commercial tenants
- Thrive as a location
- Complete our Streets
- Park Smart
- Play with a Purpose

## MEETING KEY OBJECTIVES

1. Served by existing infrastructure of the development or will upgrade the infrastructure to meet the needs of the development;
2. Compatible with the adjacent area or the future land use in the area;
3. Sidewalks, bike trails or a transit stop within 4 blocks;
4. Shared parking by the different land uses;
5. Include public spaces or public art;
6. Replaces surface parking;
7. Create significant growth in the tax base on the site;
8. Encourages additional development on adjacent sites;
9. Contains businesses that will provide needed services or goods used by adjacent land uses



## Parking Ramp & PILOT

Creating an on-grade public parking lot in our development that also serves the various public attractions in the surrounding area would drastically limit the amount of buildable square footage at the EOLA Development (**Exhibit 1 - showing only 378 parking spaces comparable to the ramp which would be 500 parking spaces**). By utilizing the density of a parking structure, the municipality will benefit from the taxable property value that will be created through our vision for EOLA as we build privately owned buildings throughout the development.

## Economic Impact

Like The Lights in West Fargo - The Wave Water Park Resort by EPIC will boost property values outside the developments and continue to spur revitalization.

# COMPARISONS

## Property Tax History and Projections for 2 parcels seeking PILOT\*

Time Frame	Owner	Annual Property Tax	20 Year Time Frame
20 years prior to EPIC's purchase of land	Fargo Park District	\$0	\$0
20 years of PILOT	The Wave/Future Building	\$23,957.11	\$479,142.20
20 years after PILOT	The Wave/Future Building	\$1,109,072.01	\$22,181,440.20

*\*Estimates are based on current tax rates assessed property values and include no inflation over time.*

## First Project at EOLA Development, Currently Under Construction (NOT part of PILOT Application)

Project	Annual Property Tax	20 Year Time Frame
MAKT Project Property Taxes (est.)	\$470,000	\$9,400,000

The following chart displays our proposed parking ramp, operationally and functionally compared to the recently approved N.P. Ave Parking ramp in Downtown Fargo.

## EOLA Ramp & N.P. Ave Ramp Comparisons\*\*

	WAVE PILOT Proposal	N.P. Ave Ramp
# of Spots	500	465
Incentive Program	PILOT	TIF
Ownership	Private	City
Initial City Funding	No city cash requested	City \$4,000,000 injection
Financing	Private	City Bond financing
DSC Responsibility	Private Investors	City
Cost per stall	\$24,000	\$43,000
Maintenance and Management	Private	City
Property taxes paid after incentive	Yes	No

**Application For Property Tax Incentives For  
New or Expanding Businesses**

N.D.C.C. Chapter 40-57.1

Project Operator's Application To Fargo

City or County

File with the City Auditor for a project located within a city; County Auditor for locations outside of city limits.

A representative of each affected school district and township is included as a non-voting member in the negotiations and deliberation of this application.

**This application is a public record**

**Identification Of Project Operator**

1. Name of project operator of new or expanding business	<u>The Wave by EPIC , LLC</u>	
2. Address of project	<u>4410 24th Ave S &amp; 4471 24th Ave S</u>	
City	<u>Fargo</u>	
County	<u>Cass</u>	
3. Mailing address of project operator	<u>745 31st Ave E #105</u>	
City	<u>West Fargo</u>	
State	<u>ND</u>	
Zip	<u>58078</u>	
4. Type of ownership of project		
<input type="checkbox"/> Partnership	<input type="checkbox"/> Subchapter S corporation	<input type="checkbox"/> Individual proprietorship
<input type="checkbox"/> Corporation	<input type="checkbox"/> Cooperative	<input checked="" type="checkbox"/> Limited liability company
5. Federal Identification No. or Social Security No.	<u>[REDACTED]</u>	
6. North Dakota Sales and Use Tax Permit No.	_____	
7. If a corporation, specify the state and date of incorporation	<u>North Dakota August 4, 2022</u>	
8. Name and title of individual to contact	<u>Blake Nybakken, Chief Operating Officer</u>	
Mailing address	<u>745 31st Ave E #105</u>	
City, State, Zip	<u>West Fargo, ND 58078</u>	
Phone No.	<u>701-721-8047</u>	

**Project Operator's Application For Tax Incentives**

9. Indicate the tax incentives applied for and terms. Be specific.	
<input type="checkbox"/> <b>Property Tax Exemption</b>	<input checked="" type="checkbox"/> <b>Payments In Lieu of Taxes</b>
_____ Number of years	<u>2025</u> Beginning year <u>2042</u> Ending year
_____ Percent of exemption	_____ Amount of annual payments (attach schedule if payments will vary)
10. Which of the following would better describe the project for which this application is being made:	
<input checked="" type="checkbox"/> New business project	<input type="checkbox"/> Expansion of a existing business project



**Description of Project Property**

11. Legal description of project real property

Lot 3, Block 1, EOLA 2nd Addition to the City of Fargo (Wave lot as proposed with current replat).

Lot 1, Block 1, EOLA Addition to the City of Fargo (Future building lot).

12. Will the project property be owned or leased by the project operator?  Owned  Leased

If the answer to 12 is leased, will the benefit of any incentive granted accrue to the project operator?

Yes  No

If the property will be leased, attach a copy of the lease or other agreement establishing the project operator's benefits.

13. Will the project be located in a new structure or an existing facility?  New construction  Existing facility

If existing facility, when was it constructed? \_\_\_\_\_

If new construction, complete the following:

a. Estimated date of commencement of construction of the project covered by this application 8/1/2023

b. Description of project to be constructed including size, type and quality of construction  
The Wave is a full-service Waterpark Resort with a 50,000sf waterpark connected to a 7-story

hotel tower that will include 135 rooms, family entertainment center, restaurant and lounge, gift

c. Projected number of construction employees during the project construction \_\_\_\_\_

14. Approximate date of commencement of this project's operations 8/1/2025

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

a. Land..... \$ 1,551,683.5

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

c. Newly constructed buildings and structures when completed ..... \$ 83,434,677.59

d. Total..... \$ 84,986,361

e. Machinery and equipment..... \$ \_\_\_\_\_

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

a. Land (not eligible) ..... 

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

c. Newly constructed buildings and structures when completed..... \$ 4,171,733.88

d. Total taxable valuation of property eligible for exemption (Add lines b and c)..... \$ 4,171,733.88

e. Enter the consolidated mill rate for the appropriate taxing district ..... 283.22

f. Annual amount of the tax exemption (Line d multiplied by line e) ..... \$ 1,203,491.86

**Description of Project Business**

**Note: "project" means a newly established business or the expansion portion of an existing business. Do not include any established part of an existing business.**

17. Type of business to be engaged in:  Ag processing  Manufacturing  Retailing  
 Wholesaling  Warehousing  Services

18. Describe in detail the activities to be engaged in by the project operator, including a description of any products to be manufactured, produced, assembled or stored (attach additional sheets if necessary).

The Wave will be engaged in leisure, hospitality, food & beverage, and entertainment services as part of their operations.  
Guests are expected to travel from 180+ miles to visit the property and there will be day passes available for local residents to utilize the amenities on a daily basis.

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

Wave generator, slides, pool equipment and associated mechanical systems associated with the waterpark. Also there will be commercial equipment, elevator and other standard commercial building equipment associated with the project.

20. For the project only, indicate the projected annual revenue, expense, and net income (before tax) from either the new business or the expansion itself for each year of the requested exemption.

Year (12 mo. periods)	New/Expansion Project only	New/Expansion Project only	New/Expansion Project only	New/Expansion Project only	New/Expansion Project only
	Year 1	Year 2	Year 3	Year 4	Year 5
Annual revenue	<u>21,087,542</u>	<u>21,857,377</u>	<u>22,686,254</u>	<u>23,387,763</u>	<u>23,675,002</u>
Annual expense	<u>19,620,539</u>	<u>19,841,047</u>	<u>20,362,661</u>	<u>20,637,670</u>	<u>20,773,733</u>
Net income	<u>1,467,002</u>	<u>2,016,328</u>	<u>2,323,591</u>	<u>2,750,092</u>	<u>2,901,267</u>

21. Projected number and salary of persons to be employed by the project for the first five years:

Current positions & positions added the initial year of project

# Current Positions	New Positions Under \$13.00	New Positions \$13.01-\$15.00	New Positions \$15.01-\$20.00	New Positions \$20.01-\$28.00	New Positions \$28.01-\$35.00	New Positions Over \$35.00

Year	(Before project)	Year 1	Year 2	Year 3	Year 4	Year 5
No. of Employees	(1) _____	_____	_____	_____	_____	_____
	(2) _____	_____	_____	_____	_____	_____
Estimated payroll	(1) _____	_____	_____	_____	_____	_____
	(2) _____	_____	_____	_____	_____	_____

(1) - full time  
(2) - part time

**Previous Business Activity**

22. Is the project operator succeeding someone else in this or a similar business?  Yes  No

23. Has the project operator conducted this business at this or any other location either in or outside of the state?  
 Yes  No However, S&L Hospitality (who will help manage), does conduct similar business in other states.

24. Has the project operator or any officers of the project received any prior property tax incentives?  Yes  No  
 If the answer to 22, 23, or 24 is yes, give details including locations, dates, and name of former business (attach additional sheets if necessary).  
Renaissance Zone benefits were granted to EPIC Companies for the development of their Gateway, The Arch, and Unite projects in downtown Fargo.

**Business Competition**

25. Is any similar business being conducted by other operators in the municipality?  Yes  No

If YES, give name and location of competing business or businesses

\_\_\_\_\_

\_\_\_\_\_

Percentage of Gross Revenue Received Where Underlying Business Has ANY Local Competition %

**Property Tax Liability Disclosure Statement**

26. Does the project operator own real property in North Dakota which has delinquent property tax levied against it?  Yes  No

27. Does the project operator own a greater than 50% interest in a business that has delinquent property tax levied against any of its North Dakota real property?  Yes  No

If the answer to 26 or 27 is Yes, list and explain

\_\_\_\_\_

\_\_\_\_\_

**Use Only When Reapplying**

28. The project operator is reapplying for property tax incentives for the following reason(s):

To present additional facts or circumstances which were not presented at the time of the original application

To request continuation of the present property tax incentives because the project has:

- moved to a new location
- had a change in project operation or additional capital investment of more than twenty percent
- had a change in project operators

To request an additional annual exemption for the year of \_\_\_\_\_ on structures owned by a governmental entity and leased to the project operator. (See N.D.C.C. § 40-57.1-04.1)

**Notice to Competitors of Hearing**

Prior to the hearing, the applicant must present to the governing body of the county or city a copy of the affidavit of publication giving notice to competitors unless the municipality has otherwise determined there are no competitors.

I, Todd Berning, do hereby certify that the answers to the above questions and all of the information contained in this application, including attachments hereto, are true and correct to the best of my knowledge and belief and that no relevant fact pertaining to the ownership or operation of the project has been omitted.

\_\_\_\_\_  
 Signature President 6/2/2023  
Title Date





July 14, 2023

## Memorandum

To: Jim Gilmour, Strategic Planning Director, City of Fargo

From: Matt Schnackenberg, Managing Director, PFM Financial Advisors LLC

Re: The Wave Resort PILOT Request

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PFM had follow-up correspondences with EPIC Companies (the "Applicant") related to their request for Payment in Lieu of Taxes (PILOT) to finance a parking ramp for The Wave Resort, at 2424 45<sup>th</sup> St. SW. PFM is providing the following updates and clarifications to the "But-For" Report, dated June 20, 2023.

### The Project

The Applicant is requesting PILOT assistance through annual property tax savings for 17 years for the development of a parking ramp (the "project") at The Wave Resort. If the Applicant does not receive PILOT financing assistance, they estimate that the construction of the parking ramp will not be economically viable, and the Applicant would instead include surface parking at The Wave Resort, which would reduce the available space at the property for future development.

### Debt Service Coverage

In the "But-For" Report, PFM projected that without public assistance, the project would not meet the minimum 1.50x debt coverage on the primary loan until Year 7. The Applicant has indicated that their financing sources will require 1.50x debt coverage on both primary and subordinate debt.

Inclusive of primary and subordinate debt, PFM estimates that without public assistance, the project will not meet 1.50x debt coverage until Year 12. If the project received 17 years of public assistance, the project would have a maximum debt coverage of 1.75x in Year 17, with 1.52x debt coverage in Year 4. If the project received 10 years of public assistance, the project would have a maximum debt coverage of 1.65x in Year 10. After the 10 years of public assistance would end, the project would have 1.48x debt coverage in Year 11, 1.50x debt coverage in Year 12, and increasing debt coverage thereafter.

### Primary Loan Amount

In the "But-For" Report, PFM estimated the primary loan amount as \$56,969,220. The Applicant has indicated that the value of 17 years of PILOT assistance is leveraged to secure the primary loan. If the PILOT term is reduced from 17 years, the primary loan amount would decrease by the present value of the reduced benefit. This difference would need to be raised with additional subordinate debt or equity. PFM calculated the present value of 17 years of PILOT assistance as \$9,741,841, and the present value of 10 years of PILOT assistance as \$6,527,307, a difference of \$3,214,534.



If 10 years of PILOT assistance are offered, and the \$3,214,534 is raised with subordinate debt, the 10-year internal rate of return would remain substantially unchanged at 15.25%, but debt coverage may change, depending on the difference in interest rates between primary and subordinate debt.

If the difference is raised with equity, the internal rate of return would decrease, and debt coverage would increase. PFM estimates that increasing equity by \$3,214,534, and decreasing the primary loan by the same amount, would provide a 14.27% internal rate of return. The project would have a maximum debt coverage of 1.85x in Year 10 and a minimum debt coverage of 1.57x in Year 1. Every year, including after the public assistance period, would meet the project's minimum required 1.50x debt coverage.

### **Conclusion**

PFM stands by the conclusion that the construction of the project with a parking ramp would not be feasible without public assistance. If no assistance is offered, the project does not meet the minimum required 1.50x debt coverage until Year 12, assuming the privately financed portion remains unchanged.

PFM stands by the conclusion that the project with surface parking would be feasible without public assistance, both in meeting the minimum 1.50x debt coverage ratio and in producing a reasonable rate of return for this type of project.

**FINAL**

# City of Fargo, North Dakota

**PILOT Program  
“But-For” Report**

**The Wave Resort**

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**June 20, 2023**





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## Purpose

The purpose of this report is to establish and determine the necessity of Payment In Lieu Of Taxes (PILOT) financing for The Wave Resort, at 2424 45<sup>th</sup> St. SW, a development by EPIC Companies (the "Developer").

PFM first reviewed the application to ensure that reasonable assumptions regarding property value, hotel occupancy, waterpark sales, income from guest amenities, expenses, and debt were used by the Developer. Based on those assumptions, PFM projected a 10-year cash flow, calculating an internal rate of return ("IRR"). 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 135-unit hotel with an indoor waterpark and parking ramp located at 2424 45<sup>th</sup> St. SW. The Developer is requesting PILOT assistance through annual property tax savings for 17 years. If the Developer does not receive PILOT financing assistance, they estimate that the construction of the parking ramp will not be economically viable, and the Developer would instead include surface parking, which would reduce the available parking space at the property for future development.

The Developer estimates the construction will be completed in late 2024 with occupancy immediately following. The Developer has requested PILOT financing assistance in the amount of \$9,741,841 on a present value basis to complete the project. This amount is based on projections of the future tax payments less the projected PILOT payments. The estimated tax payments assume a property value increase of 1.00% per year. This amount assumes PILOT for 17 years.

PFM also calculated the value of PILOT financing assistance if the City offered the PILOT for 10 years and no exemption thereafter. The present value of the PILOT financing assistance would be \$6,527,307.





## Project Financing

The Developer is investing 22% equity, or \$17,000,000, and will be privately financing \$60,469,220. A majority will be financed through the Bank of North Dakota. The remaining amount will be subordinate debt raised from investors. The Developer is additionally requesting PILOT assistance through annual property tax savings. The private financing is estimated to be a 25-year loan with an estimated interest rate of 7.0% resulting in an annual principal and interest payment of \$4,831,759.15. The application states the project will be completed by the late 2024.



## Return Analysis

In calculating the internal rate of return, PFM first analyzed the Developer's assumptions including average rate per occupied night in the hotel, occupancy rate, and operating income and expenses. The Developer is proposing an average rate of \$240.13 per occupied hotel room. The Developer has proposed a reasonable daily average rate for the current market and location. Annual estimates of operating expenses for the 135-unit resort with an indoor waterpark were provided, as follows; Rooms - \$1,542,920, Food and Beverage - \$2951,351, Guest Experience - \$134,536, Retail - \$676,286, Family Entertainment Center - \$1,171,912, Waterpark - \$1,622,935, Administration & General - \$1,714,182, Information and Telecommunications - \$105,624, Sales and Marketing - \$1,097,693, Property Operations and Maintenance - \$687,657, Utilities - \$869,307, Resort Management Fee - \$843,502, Insurance - \$550,636, Snow Removal and Lawn Care - \$60,000, Contract Services - \$60,000, and Replacement Reserve - \$422,355. The estimated property tax in PFM's analysis, based on the market value of the resort and the location, is \$844,235 without any public assistance. The total expenses are approximately 70% of gross operating income after stabilization.

The second step in determining the internal rate of return is to determine the earned incremental value of the property over a 10-year period. That value, along with the net operating income cash flows, was used to calculate the internal rate of return. PFM determined that without public assistance the Developer would have about a 11.56% internal rate of return based on a 10-year internal rate of return. The Developer would have about a 15.25% internal rate for 10 years if it received the public assistance. PFM also looked at the rate of return over a 17-year period if PILOT was received for the full 17 years. The IRR in that case is projected to be 15.90%. Finally, the Developer expects to continue to raise more equity above the \$17 million that was used for this analysis. If the Developer were to raise \$18.75 million in equity then the 10-year IRR drops to 14.37% for a 10-year PILOT and the 17-year IRR drops to 15.32% for a 17-year PILOT. It should be noted that with the additional equity the loan amount drops which has a positive impact on the cash flow of the project and may slightly reduce the risk associated with the project. A reasonable rate of return for the proposed project is 14% - 22%.

Another measure of feasibility and project viability is the debt coverage ratio. PFM received documentation from one of the Developer's financing sources that a minimum of 1.50x debt coverage is necessary to secure the estimated loan interest rate. PFM has projected a maximum debt coverage ratio in Year 17 of 1.65x without assistance, with a Year 3 coverage of 1.36x. The project would not meet the minimum 1.50x debt coverage until Year 7, but the project would meet 1.50x debt coverage each year thereafter. If the City provided assistance to the project for 17 years, the maximum debt coverage is projected to be 1.85x in Year 17, with a Year 3 coverage of 1.53x. If the City provided assistance to the project for 10 years, the maximum debt coverage is projected to be 1.75x in Year 10. After assistance would end, debt coverage in Year 11 is 1.57x and increases each year thereafter.

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 debt coverage ratio. We also looked at how much the average room rates would have to fluctuate in order to achieve a reasonable debt coverage. Lastly, we looked at a combination of the two scenarios. For the sensitivity analyses, we assumed a reasonable debt coverage ratio of 1.50x by Year 3.

### **Sensitivity Scenario 1 – Project Costs**

The project would have to be reduced by \$7,194,538 or 9.29% in order for the project to become viable without assistance. This reduces the amount to be financed from \$56,969,220 to \$51,678,509 and reduces the annual payment from \$4,831,759 to \$4,383,035 for the loan. It is unlikely that a reduction in project costs of this magnitude would occur at this stage in the development, but it would occur if the Developer provided a surface parking lot in lieu of a parking ramp



### **Sensitivity Scenario 2 – Average Daily Rates**

In order for the project to be viable without public assistance, the average daily rates would have to increase by 7.6%. PFM believes this is a high increase to the Developer's proposed average rates. This increases annual room revenue from \$8,306,349 to \$8,940,910. PFM believes the current proposed rates are reasonable and does not believe an increase this large would occur.

### **Sensitivity Scenario 3 – Combination of Project Costs and Average Daily Rates**

The final scenario looks at both a reduction of project costs and an increase in average daily rates. The analysis showed that project costs would have to be reduced by \$3,708,272 or 4.8% and rates would have to increase by about 3.7%. PFM believes either of these events could occur.

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 resort, the hospitality market, and monthly expenses. The base scenario without assistance along with the sensitivity analyses demonstrates that the project as is with the parking ramp may be unlikely to be feasible without some form of assistance.

PFM has calculated that with public assistance for at least 10 years, and based on the assumptions outlined in this report, a 10-year internal rate of return is estimated to be 15.25%. In addition, the coverage ratio in Year 10 is estimated to be 1.75x. The estimated internal rate of return is appropriate given the risk level for this type of project. Based on the information provided to PFM, the calculated internal rate of return and the coverage requirements, PFM concludes the project would not be feasible without public assistance in order to meet the minimum debt service coverage in the first six years and to produce a more reasonable rate of return for this type of project.



July 13, 2023

To: City of Fargo

Subject: EPIC Companies Tax Incentive Application on Land on 45<sup>th</sup> Street south of Interstate 94

It has come to our attention that EPIC Companies (EPIC) is seeking tax incentives for projects they are working on along 45<sup>th</sup> Street South in Fargo. Specifically, EPIC is seeking a 17 year payment in lieu of taxes (PILOT) amounting to \$9.7 million to help cover the cost of a public parking ramp which is part of the proposed water park named "The Wave by EPIC". Collectively, we oppose this incentive and any other potential future incentives for any projects EPIC proposes on this piece of land in the future due to reasons as outlined below.

EPIC purchased land along 45<sup>th</sup> Street south of Interstate 94 from the Fargo Park District. Since this land was viewed by all interested buyers as prime development land, the City of Fargo and the Fargo Park District agreed that the purchase could not be contingent on tax incentives for future projects to be constructed on the land. EPIC acknowledged this at city meetings. Any other buyer would have been happy to purchase the land and put together projects that would not have required or requested incentives.

Other Fargo developers (including some of those included on this opposition) have asked for tax incentives on similar projects in South Fargo in the past which were quickly shot down by the City of Fargo. We believe the past projects that were quickly rejected were much more deserving of tax incentives that EPIC's current project on 45<sup>th</sup> Street.

The current PILOT program in place by the City of Fargo allows for such financing for projects that create jobs or encourage hard-to-develop sites. This land is prime to develop with no soils conditions or topography challenges. Regarding job creation, this has typically been focused more on primary sector business which this would not qualify for. In order to grant a PILOT, the city would need to change the PILOT policy to create a new qualifying sector. Likely adding a new sector would open a can of worms for many future projects to be able to benefit from tax incentives as well as open the city to potential lawsuits for prior projects that were not offered these benefits and given a "dead on arrival" answer when requesting tax incentives.

If these tax incentives are approved, it's going to be a slippery slope going forward and there would be a precedent set to approve tax incentives for a vast amount of future projects that have historically not qualified for incentives. Projects like this have not been the focus of granting incentives, so why start now after rejected similar past requests? If the City of Fargo wants to help financially support a new parking ramp, we would encourage doing so at the airport instead.

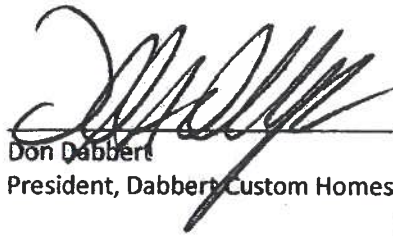
In the event these tax incentives are approved, it would be more than appropriate to retroactively put tax incentives in place for all similar prior projects that were denied as well as similar projects that never requested incentives due to the past precedent of not qualifying. Furthermore, if these tax incentives are approved, we believe EPIC's original purchase price paid to the Fargo Park District should be increased by the amount of the incentive given all other bids were underwritten under the understanding that tax incentives would not be allowed on this property. If there were tax incentives were "on the table" during

the purchasing process, this would have driven up the purchase price accordingly. Selling the Fargo Park District land to EPIC at a discount is unacceptable. Retroactively opening the doors to incentives on past projects and changing EPIC's purchase price are not realistic solutions, so really the only good solution is to reject the incentives all-together.

In summary, there are several reasons why this tax incentive should not be granted. Approving any type of tax incentive to EPIC on this property would put the City of Fargo in the middle of potential legal battles given the City's history of not granting incentives to other developers for similar projects as well more or less selling this land to EPIC at a discount which is not allowed to be done by Cities and Park Districts. The playing field needs to be level for the development companies and it clearly would not be if this were to pass.



Kevin Christianson  
President, Christianson Companies



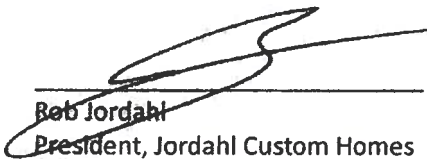
Don Dabbert  
President, Dabbert Custom Homes



Tyler Brandt  
President, Brandt Family Ventures



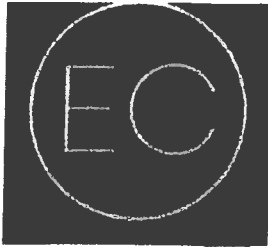
Jim Bullis  
President, EagleRidge Development



Bob Jordahl  
President, Jordahl Custom Homes



Mark Buchholz  
Owner, Buchholz Construction



## EPIC Companies

EPICCompaniesND.com

745 31st Ave. E

West Fargo, ND 58078

701.866.1006

July 15, 2023

TO: Mr. Gilmour, City of Fargo

FROM: Todd Berning, President, EPIC Companies

CC: Blake Nybakken, COO & Brian Kounovsky, Partner, EPIC Companies

RE: The Wave Memo From Competitive Developers

Jim,

There is quite a bit of misinformation and completely false information in a memo dated July 13, 2023 from a few of our competitors in the Fargo area.

It is completely false that the land was sold to us contingent on no other tax incentives being used. In fact, it was just the opposite. The Park District has even made that public, that tax incentives would be prudent way for creating community programmable spaces and even came with EPIC to a city council meeting to discuss it. With a current tax base of zero on this land, it made sense.

The Park District chose EPIC over the other two bidders because we came with a vision, guaranteed public space of approximately 4 acres, and the Park District wanted input in the development of this land and didn't want a typical out lot and multi-family development. Two represented on that letter include PRG who initially bid only \$2,000,000, and Mark Buchholz whose price was very comparable to ours, but lacked the public amenities that EPIC Companies proposed, and had a taxable value less than half of what EPIC proposed. The land was never sold at a discount to EPIC. EPIC won the bid from the Park District because EPIC proposed to integrate our land into what the Park District is doing with the baseball complex long term and leaving nearly a quarter of the land for public use.

EPIC and the Park District agreed to maintaining public space. We were in favor of that as we have demonstrated time and time again that we are about creating public programmable spaces AND continuing to support them. **EPIC has a track record of award-winning projects and public amenities being developed across the state and we intend to complete our vision here.**

For this group to comment on other incentives shot down for more deserving projects is completely irrelevant and suggesting that future litigation could happen, or even retroactive approvals for projects that may not have even applied for incentives is senseless and unfortunate. Policies change, we need density and smart growth, and we feel our project makes sense!

Analyzing ways to fund the airport ramp has no relevance by our competitors as that is a public facility that has a completely different model. EPIC would always enjoy researching an efficient ramp under a public private partnership

I really regret that competitors feel the need to bash other competitors. Instead of supporting a project that will benefit the community and perhaps provide insight on a successful way to utilize incentives for public good through a qualified project, they are choosing to oppose it because of unsuccessful attempts of their own.

We appreciate feedback, but we would prefer it be true, and not trying to hinder what is good for the community as a whole because you lost the proposal of the land in the first place.

We live here together, we develop together, and we all want Fargo to continue to grow in an economic fashion that makes sense for all wage levels and demographics. Thank you for your time and service.

Sincerely,

Todd Berning  
President