

MEMORANDUM



**TO: Mr. Mayor and Members of the
Argusville City Council**

FROM: John T. Shockley

RE: Leonard's Way TIF

I. INTRODUCTION:

In approximately 2000, the Richards approached the City of Argusville regarding a proposal to construct a residential housing development on the west side of Interstate 29. The Richards were concerned that if the area were subdivided and the water, street and sewer were installed and specially assessed against each lot, the development would not be financially viable. (For example: In West Fargo land is subdivided into residential lots, and then water, sewer, storm sewer and sanitary sewer is installed. The costs associated with these improvements would normally be specially assessed against each lot, resulting in special assessments totaling \$25,000 to \$35,000+ against each and every lot. The buyer of the lot pays for the lot and assumes the special assessments.) The Richards were of the opinion that lots with special assessments equal to those in West Fargo would not sell well in Argusville.

As a result, the City and the Richards discussed the possibility of creating a residential TIF (Tax Increment Financing) district to foster new residential development in Argusville. By way of background, a TIF freezes the taxable value of land and improvements at a specific point in time. As the property is developed, the taxable value of the property increases. The difference between the increased value and the frozen value is referred to as the increment. The real estate taxes associated with the increment can then be taken in total and applied towards specific costs associated

MEMORANDUM

Page 2

with the development. As a result of the creation of a TIF, the tax funds from the increment that would normally go towards the school district and the county are diverted to the TIF fund to be used by the City. Expenses that are qualified to be paid for by TIF funds include the costs of infrastructure associated with the development. With respect to the Leonard's Way development, the TIF funds were used to make the debt service payments on the bonds that the City issued in order to obtain money to construct the street, water, drainage and sanitary sewer lines within the development.

The City bonded for the costs associated with the construction of the water, sewer and streets in Leonard's Way First Addition and utilized the TIF revenue created by the new development to pay the debt service on the bonds. At the time of the agreement with the developer, the City knew that it may need to expand its lagoon capacity, but only if the development was successful. As a result, of this fact and the fact that the TIF was not projected to have enough funds to pay for the lagoon expansion, the City and the developer agreed in the Developer's Agreement that the lagoon costs would be specially assessed unless there was sufficient money available in the TIF to pay for this improvement. Similarly, the paving of 167th Avenue was never contemplated to be covered by the TIF funds. Ultimately, both the lagoon improvement and 167th Avenue were specially assessed to the properties within Leonard's Way First and Second Additions.

II. Bonds Issued

Initially, no one involved anticipated that the residential development would grow as fast as it did. Thus, the first improvements created in Leonard's Way First Addition were limited in scope and expense. Further, the bonds the City initially issued were purchased by the Richards. This was done so as to have the Richards assume financial liability in the event that the development failed.

MEMORANDUM

Page 3

The growth in the area occurred rapidly, and the City and the developer decided to install additional improvements in the subdivision, and a larger bond was issued that was again purchased by the Richards and partially by Alerus Bank.

In 2005 and 2006, the subdivision grew much faster than anyone anticipated, and the City was able to refinance the previously issued bonds to lower interest rates and sell them to private investors on the open market. In addition, the City borrowed additional money to fund more improvements to the subdivision.

III. Covenants

Leonard's Way has covenants recorded against the subdivision that create a homeowners association with specific powers of assessment for maintenance and other issues. However, the covenants do not address snow removal and, generally, homeowners associations do not remove snow from public streets or maintain public streets. Initially, the Richards verbally agreed to plow snow from the development until such time as it was fully sold and they no longer had an interest in the vacant lots. I believe that occurred in approximately 2010. Since that time, the city has plowed the streets.

JTS/cs