

Bonner Mill Tax Increment Financing Industrial District Plan Missoula County, Montana



1. INTRODUCTION AND OVERVIEW

Missoula County is committed to fostering the development of secondary, value adding industries, including manufacturing businesses in order to sustain and grow its economy over time. Specifically the County plans to create a tax increment financing industrial district (TIFID) at the former site of the Stimson Mill at Bonner. The Bonner Mill site



provides an excellent location for new industrial activity that can take advantage of existing infrastructure including rail service and large industrial buildings associated with the site's former occupant. In addition, redevelopment of the Bonner Mill site area presents opportunities to address the Blackfoot River corridor in the context of these activities. The appurtenant work force housing at the Bonner Mill site provides an added incentive for sustainable approaches to

revitalizing the historic industrial site and the adjacent community.

However, in order to facilitate development, a variety of infrastructure deficiencies must be addressed, including road condition, water and sewer services, utilities and stormwater management. Tax Increment Financing will be a key component in a comprehensive funding strategy to address these infrastructure deficiencies and will enable Missoula County to leverage other local, state and federal dollars to achieve its goals.

Missoula County

The population of Missoula County (2011 Estimate) is 110,138. According to the US Census, it has a total area of 2,618 square miles of which, 2,598 square miles of it is land and 20 square miles of it is water. It is the 24th largest county in Montana. The County became part of the United States as a result of Oregon Treaty of June 14, 1846 and when it was initially incorporated, in 1860, it encompassed present-day Missoula and Deer Lodge Counties, as well as lands to the north and south of its present day boundaries. Hell Gate Town, the county seat, was located at the confluence of the Clark Fork and Bitterroot Rivers.

By 1866, the settlement had moved five miles upstream and renamed Missoula Mills before being shortened to Missoula. The mills provided supplies to western settlers traveling along the Mullan Road. Fort Missoula, established in 1877, further stabilized

the economy. The arrival of the Northern Pacific Railway in 1883 was coupled with rapid growth and the development of a robust local lumber industry. Ten years later the City of Missoula was chosen by the Montana Legislature as the site for the new state's first university. In 1908, The U.S. Forest Service placed its regional headquarters in Missoula, and together with the lumber industry and the university provided long-term stability to the local economy through most of the 20th Century.

Since 2007, Missoula County has experienced significant losses in wood products related industrial employment associated with the closure of two area mills. Over 400 people lost their jobs when Smurfit Stone shut down its Frenchtown pulp mill in 2009. The closure contributed to the loss of more than 1,700 jobs across the state by 2010 and the effects were felt in nearly every sector of the local economy. After 122 years of continuous operations, the lumber mill at Bonner, Montana shut its doors in 2008, laying off the remaining 133 employees, down from the over 1,000 workers at the mill in 1976.

These closures have in part contributed to a decline in per capita personal income (PCPI) in Missoula County since 2000. According to the Bureau of Economic Analysis of the US Department of Commerce, in 2010 Missoula had a PCPI of \$34,766. This PCPI ranked 22nd in the state and was 99 percent of the state average, \$35,053, and 87 percent of the national average, \$39,937. In 2000 the PCPI of Missoula was \$25,029 and ranked 7th in the state. The relative loss of PCPI has occurred; even as the population of the county has increased by more than 14%, from 95,802 in 2000 to 109,299 in 2010.

While there are sites within Missoula County that are appropriate for new industrial development, including manufacturing, the Bonner Mill site presents significant opportunities for the re-use of existing industrial infrastructure in support of new secondary value-adding industry. Extensive repair of the remaining facilities will be required and environmental concerns associated with industrial contamination must be addressed. However, as noted above, the presence of large industrial buildings at the Bonner Mill site as well as the close proximity of workforce housing will serve as an important tool in attracting new investment.

Bonner Mill Tax Increment Financing Industrial District

Missoula County intends to establish a Tax Increment Financing Industrial District (TIFID) in Bonner, at the site of the former Stimson Lumber Mill. The base year for the purposes of measuring any incremental value will be 2012 and the base value will be calculated as of January 1, 2012.

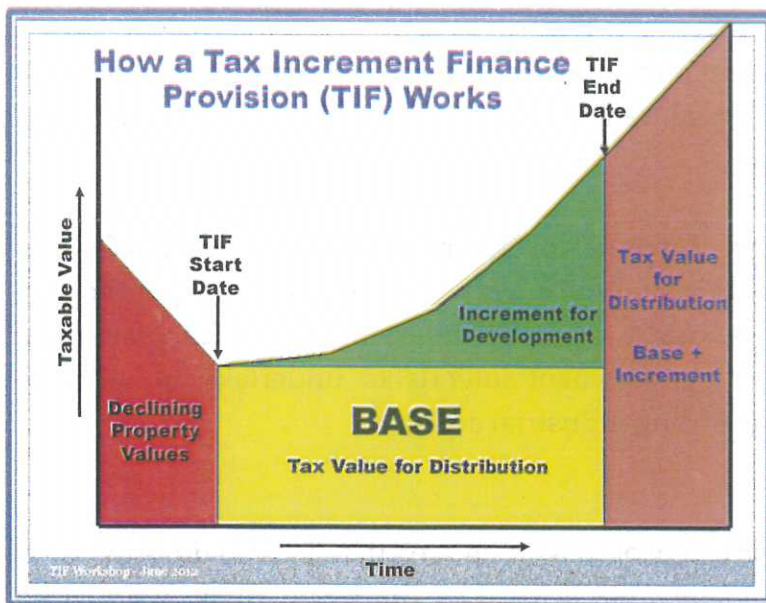


Figure 1. Schematic of Tax Increment Financing

Tax increment financing is a mechanism that allows communities to use new tax dollars resulting from increasing taxable value for reinvestment within the geographic area in which they are derived for a period of 15 years, or up to 40 years if the incremental taxes were pledged to the repayment of a bond. (Figure 1.) Until 1989, tax increments could only be used for rehabilitation efforts within urban

renewal areas, which were usually blighted central business districts. In 1989, the Montana Legislature amended the Montana Urban Renewal Law to enable municipalities to create special industrial districts which could employ tax increment financing to assist in the development and retention of secondary, value-adding industries. In doing so, the Legislature noted that the State of Montana wishes to encourage secondary, value-adding industrial manufacturing that uses Montana timber, mineral, oil and gas, coal and agricultural resources in the production of goods in the State. The legislation recognized that secondary, value-adding industries, in order to be competitive in today's world economy, require expensive infrastructure that is beyond the means of most Montana communities. Senate Bill 472 resulted in Section 7-15-4299 Montana Code Annotated (MCA), originally codified in 1989 and amended in 2007. This law enables communities to assist in industrial development in areas that are deemed to be infrastructure deficient. Tax increment financing may now be used for improvements as defined in 7-15-4288 MCA.

In March of 2008, the Montana Department of Revenue, under its administrative rule making authority, more specifically defined "secondary industries" as those that use mechanical or chemical processes to transform materials or substances into new products in the manner defined as manufacturing in the North American Industry Classification System Manual. These industries engage in the:

- Processing of raw materials, such as minerals, ore, oil, gas, coal, agricultural products, and forestry products; or
- Processing of semi-finished products that are used by the industry as a raw material in further manufacturing.

"Value-added" is defined as an increase in the worth of the raw or semi-finished product that results from a mechanical or chemical transformation and may not be attributable to a mere increase in existing production.

In order to make use of this innovative economic development strategy, Missoula County must adopt an industrial development plan, which defines the specific geographic area within which the tax increment will be measured and reinvested. Further, the plan must outline those activities that the local government intends to undertake in order to successfully develop (or retain) value-adding industrial activity.

2. DISTRICT DESCRIPTION

The proposed Bonner Mill TIFID district encompasses an area that is located northeast of Highway 200 and includes approximately 148 acres. The Blackfoot River, a protected corridor, forms the northern boundary of the site. The site is also adjacent to existing and proposed trails and river access projects. The redevelopment of the Bonner Mill site area to attract new secondary value-adding industry presents opportunities to safeguard this important resource and associated recreation-based improvements in the context of these activities.

The site was originally home to a lumber mill which operated continuously for 122 years. Initially known as the Blackfoot Mill, it began operating in 1886 to meet the demands of the Butte mining boom and railroad expansion. In 1898, timber baron A.B. Hammond sold it to the Anaconda Company, which owned the mill until 1972, when it sold it to Champion International. By 1976, there were over 1,000 workers at the mill. In 1993, Champion sold the mill to Stimson Lumber Company and in 2008, amid plummeting demand it closed. Today the site's facilities are largely vacant.

While there has been some economic activity, new growth has been stymied by the lack of adequate infrastructure.

A Phased Approach - The proposed site is within a larger area that offers the potential for district expansion over time. Directly southeast of the Bonner Mill site there are several blocks of residences, many of which date back to the mill's earliest years and traditionally provided housing for mill workers and their families. These homes can once



again provide housing for workers in close proximity to their place of employment. Adjacent to this existing housing is vacant land that would also be suitable for additional workforce housing.

Across the Blackfoot River are additional lands that can be added to this District as well. However, current zoning designations on some of these parcels prohibit their inclusion in the Bonner Mill Site TIFID at this time.

In its entirety, the site will provide excellent opportunities for development in an area that historically served value-adding industries in Missoula County. The creation of the Bonner Mill TIFID will enable Missoula County to market an area that offers not only vacant land, but existing under-utilized industrial buildings and ancillary residential structures. Efforts across the state to develop housing for workers in close proximity to their place of employment recognize the associated energy savings and improved employee wellness associated with doing so. In some cases, companies can earn greater access to Federal contracting opportunities if at least 35% of their employees live within a short distance of their work site (SBA.gov).

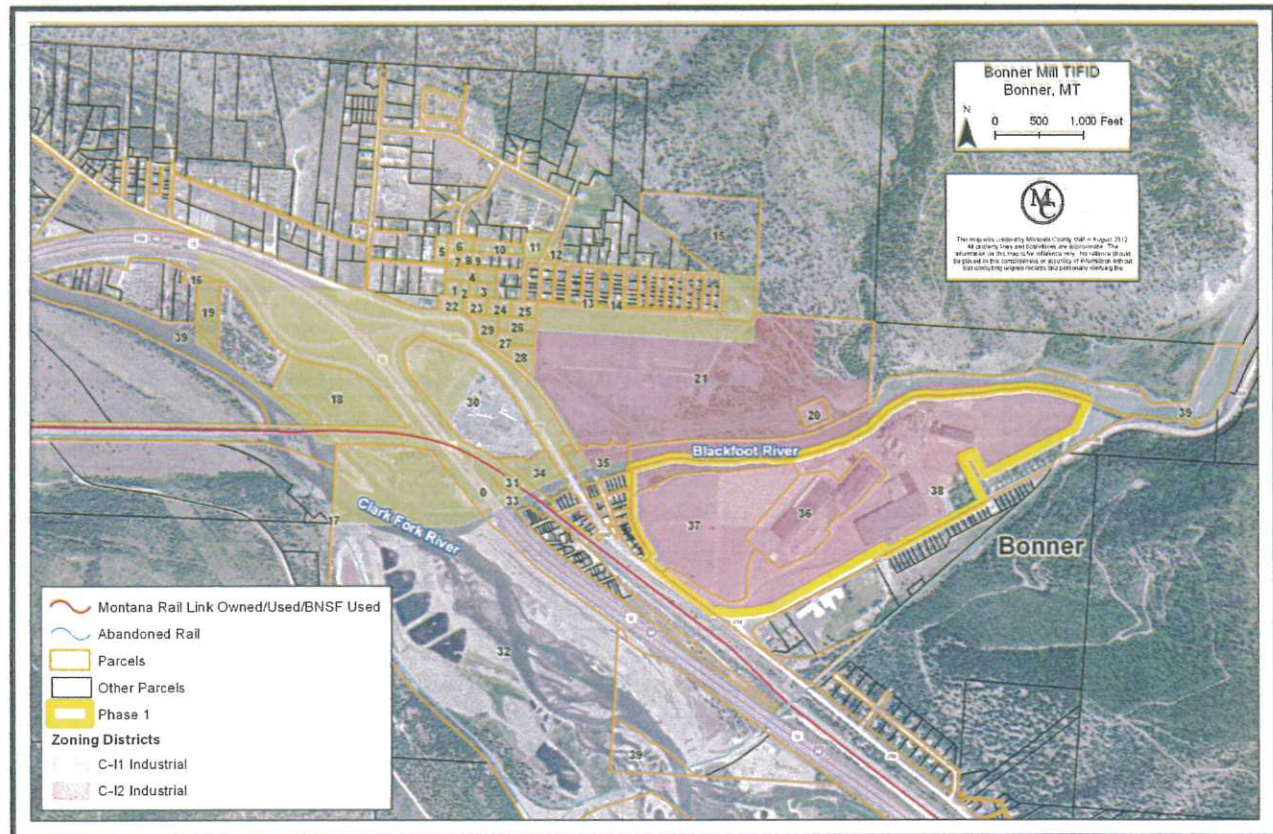
Legal Description

The legal description of the Bonner Mill TIFID is as follows:

(insert legal description)

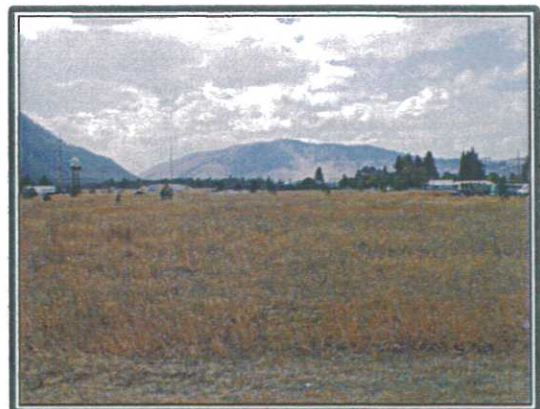
Map

Figure 2. Map of the Proposed Bonner Mill Tax Increment Financing Industrial District



3. INFRASTRUCTURE ANALYSIS – STATEMENT OF INFRASTRUCTURE DEFICIENCY

As noted above, the development of secondary, value-adding industries in the Bonner Mill TIFID will require water and sewer services, transportation and utility upgrades, stormwater collection and treatment. A review of the existing infrastructure and the infrastructure needed for the development of these industries reveals the following deficiencies.



Roads – The properties within the District are generally served by Montana Highway 200. Although this road is in good condition, uses within the District will likely prompt additional improvements to accommodate increased traffic. Both left and right turn lanes, signalization and street lighting will be

necessary. Additionally, there are several internal roads that are of record but have not been built. As the site is more fully developed, these roads will have to be constructed. Finally, depending on planned uses there are additional internal roads (yet to be dedicated) will have to be added for newly created lots.

Water and Sewer – The property is served by a small public water supply and distribution system, as well as a wastewater collection and treatment systems. Both systems are inadequately sized to accommodate activities within the District. The water system only serves a portion of the property and is not properly sized to accommodate fire flows to serve the District. Upgrades to distribution, storage and water rights will be necessary. There are two wastewater treatment systems that serve a portion of the District. The first is a minimal domestic waste collection and treatment system. It barely has capacity to serve current users. The second but much larger system is currently not operational. It is not likely that this system can be used without significant mechanical upgrades. The MPDES (Montana Pollution Discharge Elimination System) discharge permit for this system will require modifications as this District develops.

Utilities – Telephone, cable, natural gas, fiber and electricity are available to the property. However, with the exception of electricity, these services will need to undergo significant upgrade to accommodate District uses. Although, these utilities are present, most of the property is not served. Therefore, in addition to upsizing current utility infrastructure, extensions of these facilities will be required to serve individual needs.

Stormwater – Development related activities on the property will require a MPDES Stormwater Discharge Permit through MDEQ. Because of the District's size, it is likely a centralized collection and treatment system will be required to accommodate ultimate build-out. This will involve a system of stormwater pipes and a dedicated treatment basin to maintain water quality standards before discharge to the Blackfoot River.

Rail – Currently a Montana Rail Link spur serves several businesses within the proposed TIFID, including NorthWest Paints, McArther and Company Roofing, Willis Enterprises Wood Chipping, and Bonner Property Development's scrapping operations. However, as the district develops over time, additional rail extensions may be needed to serve other businesses within the district.

Land Related Concerns – Land contamination at certain locations within the site, associated with more than one hundred years of industrial activity, will have to be addressed before development can occur. In particular, the site contains a repository that was created in response to an administrative order by the Montana Department of Environmental Quality. The repository is part of the remediation of a former cooling

pond and fire lagoon, and is contaminated with petroleum compounds and polychlorinated biphenyls (PCBs) associated with the Stimson Mill.

The repository is constructed as a mound, approximately 23 feet in height and is fenced to prevent access. It has a two foot cap of re-vegetated clean soil that cannot be disturbed. No building, roads, rail lines or other facilities can be built on this 2.8 acre portion of the property in perpetuity. Due to its location the repository also restricts access to other usable buildings and portions of the property, and may present other financial and physical barriers to beneficial site redevelopment in the future.

In addition to the repository, there is a considerable amount of industrial debris on the property. Removal of this material would help facilitate redevelopment at the site.

General Improvements

Additional infrastructure and public services deficiencies will be identified over time. For example, emergency services buildings and equipment, site security, transloading and cargo facilities, parking lots, and other improvements and services will likely be required. 7-15-4288 MCA provides an extensive list of eligible items that may be paid for with tax increment dollars.

4. INDUSTRIAL DEVELOPMENT ACTIVITIES TO BE UNDERTAKEN

Once the TIFID is established, Missoula County will be responsible for the administration of the TIFID and will work to foster industrial economic development within the District. This program will be multifaceted and will include market analysis, capital improvement planning, industry recruitment, and project financing and implementation.

Identification of secondary, value-adding industries

A list of industries that could be targeted for development or expansion within the Bonner Mill Site TIFID is presented in Table 1, by North American Industry Classification System (NAICS) code.

Table 1. Potential Industries for the Bonner Mill Industrial Park (TIFID)	
NAICS Code	Industry
321113 Sawmills	This U.S. industry comprises establishments primarily engaged in sawing dimension lumber, boards, beams, timbers, poles, ties, shingles, shakes, siding, and wood chips from logs or bolts. Sawmills may plane the rough lumber that they make with a planing machine to achieve smoothness and uniformity of size.
236210 Industrial Building	This industry comprises establishments primarily responsible for the construction (including new work, additions, alterations, maintenance, and repairs) of industrial buildings (except warehouses). The construction of selected additional structures, whose production processes are similar to those for industrial buildings (e.g., incinerators, ceme

Construction	plants, blast furnaces, and similar non-building structures), is included in this industry. Included in this industry are industrial building general contractors, industrial building for-sale builders, industrial building design-build firms, and industrial building construction management firms.
32311 Prefabricated Metal Building and Component Manufacturing	This U.S. industry comprises establishments primarily engaged in manufacturing prefabricated metal buildings, panels, and sections.
332812 Metal Coating, Engraving (except Jewelry and Silverware), and Allied Services to Manufacturers	This U.S. industry comprises establishments primarily engaged in one or more of the following: (1) enameling, lacquering, and varnishing metals and metal products; (2) hot dip galvanizing metals and metal products; (3) engraving, chasing, or etching metals and metal products (except jewelry; personal goods carried on or about the person, such as compacts and cigarette cases; precious metal products (except precious plated flatware and other plated ware); and printing plates); (4) powder coating metals and metal products; and (5) providing other metal surfacing services for the trade. Included in this industry are establishments that perform these processes on other materials, such as plastics, in addition to metals.

Further research and analysis will be required to determine which of these industries can be actively recruited based on market conditions and the Bonner Mill site's unique position in the market place. Issues such as energy costs related to operations and transportation, distance from markets and overall industry trends, as well as infrastructure requirements will help determine industries to be targeted.

Capital Improvements Planning and Implementation

Missoula County will undertake the necessary planning required to more particularly identify the infrastructure required to support the development of targeted secondary, value-adding industries. This planning effort will address necessary capital improvements and the associated costs. Infrastructure design and development could include roads and other transportation infrastructure such as rail lines, pedestrian ways, sewage pre-treatment, sewer lines, community septic systems, water wells and mains, utilities, street lighting, communication infrastructure such as cell towers and additional fiber cable and buildings.

TIFID Program Design

Once targeted industries and required capital improvements have been more clearly identified, the next step will be to develop the mechanisms to implement the overall TIFID program. Given that private industrial development will generate the property taxes necessary to finance a portion of the infrastructure development, recruitment and infrastructure development must occur hand in hand. It is likely that construction of public infrastructure will be financed through the sale of Tax Increment Bonds in

combination with other state and federal funding programs. Tax increment financing mechanisms can include:

- Tax Increment Bonds – Tax increment revenues would be pledged to pay bond principal and interest annually. The size and term of the bond would depend on tax increment revenues available from private sector taxpayers within the TIFID. While Montana law provides that tax increment districts may only be authorized for 15 years, the time period may be extended to coincide with the term of a tax increment bond, but no longer than an additional 25 years. It may be necessary for the private taxpayer(s) to enter into an agreement with Missoula County to assure, for the term of the bond, the annual payment of all property taxes due or an equivalent amount if the taxpayer no longer holds property in the district. The amount of tax increment realized each year must be enough to cover all bond payments due, as well as an adequate reserve.
- Annual Tax Increment Appropriations – The County may finance smaller public infrastructure improvements from its annual tax increment receipts by appropriation. Funds available each year would be determined by the size of the annual increment and any prior commitments (such as bond debt service requirements and administrative costs).
- Tax Increment Financing Revolving Loans – The Montana TIF statutes provide for the establishment of loan programs, whereby TIF funds may be loaned for the construction of private infrastructure or other activities in support of the goals of the TIF district. As principal and interest payments are made, the funds may be loaned again, even after the TIF District sunsets.
- Conventional Financing – The County may borrow funds from commercial lending institutions in order to finance public infrastructure improvements. Principal and interest on the loan will be paid by annual tax increment revenues. A conventional loan agreement will not, however, extend the authorized 15 year time period for a TIFID.

Per 7-15-4291 MCA, Missoula County may enter into agreements with the other affected taxing bodies to remit to such taxing bodies any portion of the annual tax increment not currently required for the payment of the costs listed in 7-15-4288 MCA or pledged to the payment of the principal of premiums, if any, and interest on bonds.

Industry Recruitment

Once the District is established, local staff and resources and/or consultant services could be used to assist in the development of business plans, market studies and general research to recruit secondary, value-adding industries to the TIFID. Once the District starts generating revenue, TIFID funds may be directed to these activities as well.

Partnership Development

The TIFID program will rely on cooperative efforts among Missoula County, TIFID property owners, and economic development organizations to achieve its goal of fostering industrial development. In many cases, these cooperative partners will work jointly on market analyses, business recruitment and capital improvements planning. Also, as noted above, it will be necessary to work with other local, state and federal entities in providing additional financing and matching funds to build industrial infrastructure in the TIFID. Potential partnerships can be forged using a variety of programs and funding mechanisms. A sampling of these includes:

Programs

- The Treasure State Endowment Program (Montana)
- Community Development Block Grant (U.S. Department of Urban Development)
- The Montana Intercap Program
- Economic Development Administration (U.S. Department of Commerce)
- *Water, Wastewater and Solid Waste Action Coordinating Team* (a group of professionals from state, federal, and non-profit organizations that finance, regulate, or provide technical assistance for community water and wastewater systems)
- Community Transportation Enhancement Program – Under 23 USC 133 (d) (2) (Federal Code), 10 percent of the Surface Transportation Program monies are awarded to each state for transportation enhancements.

Funding Mechanisms

- Local mill levies for transportation infrastructure (7-14-4101 MCA)
- Transportation Improvement Authority (7-14-1001, MCA)
- Special Improvement Districts (7-12-4101 MCA)
- Debt Financing – Counties can make use of various kinds of debt financing to fund industrial development projects. These include general obligation bonds, special improvement district bonds and revenue bonds as well as Tax Increment Financing Bonds.
- State Fuel Tax (15-70-101MCA)

Program Administration

Missoula County currently has a TIFID Advisory Board in place to provide ongoing oversight for the County's TIFID Program. The Bonner Mill TIFID District will be added to the Districts currently served by this Board. Additional appointments to the Board may be necessary to make sure that issues particular to the Bonner Mill District are considered. The Advisory Board in conjunction with Missoula County staff is responsible for identifying projects and programs for the TIFID Districts within Missoula County. The Board reviews annual work plans for each TIFID District, which are submitted to the Board of County Commissioners in the spring of each year for the following fiscal year (July 1st to June 30th). Each annual work plan includes the following elements:

- Anticipated Increment Revenue for the Year
- Project Priorities and Associated Costs
- Financing Strategies Anticipated
 - Direct Increment Revenue
 - Debt Financing
 - Other Sources of Funding
- Administrative Budget for the Board including staff and consulting services

The Board of County Commissioners reviews the work plans and determines whether any changes are necessary before setting the budget. Once the budget is set, the County staff is responsible for:

- Developing financing strategies
- Working to maintain the Tax Increment Financing Accounts within the County's budget
- Working with property owners and developers to identify public infrastructure projects for the future
- Reviewing proposed infrastructure development projects for the future
- Following all local government procurement rules with respect to:
 - Preparing bid and proposal requests
 - Reviewing proposals from engineers, contractors and other vendors
 - Making recommendations to the Board of County Commissioners regarding contractor selection
- Monitoring projects
- Conducting market analyses, engineering studies and project feasibility analyses

Plan Amendments

The plan provides flexibility to accommodate a variety of approaches. However, changes over time may necessitate more formal amendments to the Industrial District Plan. If required, amendments will be made by ordinance.