



Board of City Commissioners

Agenda Documentation

MEETING DATE: March 15, 2016
PREPARATION DATE: March 10, 2016
SUBMITTING DEPARTMENT: Business Development & Communications Department
DEPARTMENT DIRECTOR: Ellen Huber, Business Development & Communications Director
PRESENTER: Ellen Huber, Business Development & Communications Director
SUBJECT: MGF Recommendation for a Restaurant Rewards program

STATEMENT/PURPOSE: To consider a recommendation by the Mandan Growth Fund (MGF) Committee to create a Restaurant Rewards program.

BACKGROUND/ALTERNATIVES: The MGF met about this topic on Feb. 18, 2016 and March 10, 2016. The MGF reviewed and discussed Mandan's overall approach to business development and specifically restaurant recruitment, a top demand by citizens and other businesses alike. To date, the approved approach has been primarily about marketing Mandan on its merits, including the availability of prime sites with access to a growing local population and larger trade region. There was considerable interest among MGF committee members in taking a more assertive approach in the coming year with overt use of a more aggressive incentive tools.

Discussions were initially about use of the Bank of North Dakota's Flex PACE interest buy-down program, with consideration of providing all or a portion of the local match requirement in the form of a forgivable loan. A forgivable loan ultimately functions like a grant, provided all program requirements are met. The conversation soon turned to the concept of adding a sales tax rebate as well.

With general support for the overall concept of a restaurant rewards program, there was considerable discussion and debate about specific parameters, such as:

- Level of incentive and minimum qualifications • Whether to tier with the greatest benefit for full-service (table side service) concepts, ratcheting back for limited service (order w/ cashier, food brought to tables) and fast food (counter or drive-up only) or to offer target the Flex PACE forgivable loan for full-service only as compared to all levels of service.

- Geographic – Whether to offer to the first restaurant in each of three business districts or offer first-come, first-served on a citywide basis regardless of location.

Factors considered about a sales tax rebate included:

- It doesn't require any up-front cash payment.
- Future sales tax revenue may not exist but for the incentive.
- The restaurant operator (or landlord) would still pay property tax (unless exempted for 5 years as part of an approved Renaissance Zone project) as well as other local sales taxes (1% restaurant & lodging, 0.75% for the sports complex, and 0.5% for Morton County's joint jail project).
- The incentive is performance based, thus limiting risk. A restaurant has to generate sales to receive the rebate and the amount of the rebate is directly proportional to the restaurant's success.
- It inherently favors higher-end and full-service restaurants because the average customer ticket, and therefore overall annual sales, will generally be higher.
- The program is fairly simple and easy to understand.

Factors considered about providing the Flex PACE local match in the form of a forgivable loan:

- The program is more complex and takes some additional explaining, but it leverages potentially greater impact by securing approximately \$2 of Bank of North Dakota funds for every \$1 invested by the City of Mandan.
- It requires payment either upfront or annually for length of buy-down period, thus diminishing the MGF balance available for other projects.
- Risk is diminished in part by the fact that the Bank of North Dakota and a lead private lender both have to approve financing for the applicant for them to receive an interest buy-down.
- If a business is not successful within the timeframe of the interest buy-down for a loan, the amount of local match remaining in escrow with the Bank of North Dakota is frozen and returned to the City.

The attached Restaurant Rewards proposal represents the MGF Committee's motions with regard to the two components. It also includes additional background information and program details. In the end, the committee's votes represented a sentiment that the program should facilitate restaurants locating wherever allowed by zoning, allowing for agglomeration or clustering. It also reflects a committee consensus that more restaurants, regardless of type, would be beneficial to the community in increasing traffic counts and attracting additional restaurants and other types of business.

ATTACHMENTS: Restaurant Rewards Proposal

FISCAL IMPACT: The sales tax rebate has no direct cost and could help to garner other types of local tax revenues. Projects approved under the proposed Flex PACE forgivable loan component would have an impact on the balance in the Growth Fund, which currently has a balance of approximately \$347,092. An amount of \$162,000 was agreed upon in consultation with Finance Director Greg Welch. This could accommodate at least three larger projects with a maximum local match requirement of \$53,846. More projects could be accommodated if there were applicants with smaller projects requiring a lesser local match.

STAFF IMPACT: Staff time will be require to market the program, process applications and if approved, the resulting rebate or

LEGAL REVIEW: Attorney Brown has reviewed all information and was in attendance at the MGF meetings where restaurant incentives were discussed.

RECOMMENDATIONS: 1) The MGF voted to recommend offering a program with a sales tax rebate at a rate of 100% for 5 years for all types restaurants (new and expanding as well as full service, limited service and fast food) locating anywhere in Mandan with the program ending March 31, 2017 (at which time the program would be evaluated for potential extension).

2) The MGF also voted to recommend setting aside \$162,000 to be provided in the form of a forgivable loan for the local match, not to exceed \$53,846 per project, for (new and expanding) restaurants seeking to participate in the Bank of North Dakota Flex PACE program.

These motions are collectively presented in the proposed Restaurant Rewards program.

SUGGESTED MOTION: I move to approve the Restaurant Rewards program as proposed.