



Kalispell Core Area and Glacier Rail Park Roadmap to Redevelopment

Prepared for:
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About the Roadmap to Redevelopment

The *Roadmap to Redevelopment* is a product of the [CDFA Brownfields Technical Assistance Program](#), which is funded through a grant from the U.S. Environmental Protection Agency. The program provides technical assistance to brownfields communities on redevelopment finance. For communities that require detailed, hands-on assistance for their redevelopment efforts, CDFA Brownfields Project Response Teams comprised of CDFA staff and technical assistance partners are available to conduct site visits and provide recommendations. The goal of these visits is to offer communities specific, actionable advice that can transform brownfields into economically-productive sites in accordance with the goals and plans of the community. CDFA will coordinate 36 Brownfields Project Response Teams over the life of the program.

The *Roadmap to Redevelopment* was developed through a three-day process that included interviews with numerous stakeholders from the government, business, and non-profit sectors. The plan provides a framework for the redevelopment of the core planning area of Kalispell, MT.

The *Roadmap to Redevelopment's* recommendations combine the input of development finance experts, CDFA staff, and the interests of stakeholder groups gathered during the Project Response Team site visit. The plan articulates the following recommendations in order to better facilitate the redevelopment of the Kalispell's Core Area and the new Glacier Rail Park.

- I. Financing of Glacier Rail Park and Relocation of Businesses
- II. Attracting and Selecting Developer(s) for the Core Area
- III. Timing
- IV. Small Business Financing Toolbox

In accepting the CDFA Project Response Team's assistance, the City of Kalispell has committed to making best efforts to consider and implement these recommendations. Likewise, CDFA will continue to provide the City with access to brownfields resources and assistance to move the project forward.

Background & History

Kalispell was founded as a railroad town in 1891¹, and for decades rail serviced Kalispell's major industries including lumber mills, a cherry warehouse, and numerous gas and oil wholesalers located within the city.² Running east to west through the center of Kalispell, the railroad was a major lifeline for these businesses, which relied on its operation to thrive. Over the years, the land use along the tracks has shifted from industrial to commercial and residential, and train traffic has significantly declined. The tracks restrict north-south vehicular traffic to only six intersections across a two mile stretch, pushing traffic to Highway 93, Kalispell's Main Street. This congestion causes delays especially during the summer months, as Kalispell is host to many tourists visiting nearby Glacier National Park. The tracks have become a hindrance to the redevelopment, health, and safety of Kalispell's Core Area, impeding many land use options and active modes of transportation such as walking and cycling.

Kalispell's Core Area Plan calls for the relocation of the tracks and redevelopment of the surrounding land, which includes 44 acres of dispersed, vacant, blighted, and brownfield property.³ Ultimately, the vision is to create a green belt that connects the community where the underutilized tracks presently divide it. A trail would provide pedestrian and bike access. A mix of commercial retail, neighborhood services, residential, and public and open space uses would replace the underutilized properties now existing near the tracks. Traffic flow would be improved throughout the Core Area, alleviating some congestion on Main Street, and enhancing the safety of travel throughout the community.

In order to accomplish this vision, the City of Kalispell must work with the railroad and various subcontractors, existing land owners and the two remaining railroad users to relocate them to a new rail served industrial park. The City has identified a property for the new rail park- a reclaimed formerly contaminated gravel pit northeast of the Core Area, which will accommodate rail access for the two existing rail users, along with several new businesses.

One of the existing businesses, Cenex Harvest States (CHS) owns three properties in the Core Area, and is expected to relocate to the new rail park when construction of the new tracks and facility is complete. The CHS sites currently operating in the Core Area include a fertilizer facility, fuel islands, a warehouse, distribution office, and grain elevators.

The tracks serving the CHS businesses are owned by Burlington Northern Sante Fe (BNSF) but operated by WATCO, a short branch line railroad. In order for the remaining businesses to relocate to the new industrial park, BNSF and WATCO must work closely together to allow for abandonment and removal of existing rail tracks, and installation of a new rail terminus at the new rail-served industrial park.

¹ Montana Historical Society. Retrieved from: <https://mhs.mt.gov/Portals/11/shpo/docs/KalispellWalkTour.pdf>

² City of Kalispell. December 2015. Core Area Plan.

³ Flathead County Economic Development Authority and City of Kalispell. Retrieved from: <https://www.youtube.com/watch?v=nbQNQt7uBw>

The City of Kalispell recently received a Transportation Investment Generation Economic Recovery (TIGER) grant through a highly competitive U.S. Department of Transportation program promoting improved transportation networks and environmental sustainability. The grant will cover \$10 million of the total project cost. To match the federal funding request, the City has identified several other sources of revenue for the project, including tax increment financing funds and EPA brownfields cleanup funds.

In partnering with Flathead County Economic Development Authority (FCEDA), the City will benefit from additional funding secured through a federal rail loan. The recommendations in this report have taken into consideration these various sources of funding and potential funding, and are intended to advance the financing efforts for the Core Area and the new Glacier Rail Park.



Figure 1: View behind Cenex Harvest States grain elevators

Kalispell Core Area and Glacier Rail Park Roadmap to Redevelopment

Recommendations

Part I: Financing Glacier Rail Park and Relocation of Businesses

These recommendations focus specifically on relocating the CHS businesses and establishing the new rail park.

- i. Secure Redevelopment Agreements or Letters of Intent from all parties involved in relocating to the new Glacier Rail Park.

The property owners, along with the railroad, have a significant stake and influence over the future of the Core Area and the success of the new Glacier Rail Park. Although many positive conversations have evolved over the years about the redevelopment opportunity, the City or Flathead County Economic Development Authority should have binding agreements in place with the participating property owners. The agreements will not only ensure that all parties understand precisely the terms of the relocation, but should also expedite the process of relocation once the City and FCEDA are ready to move forward.

- ii. Continue supporting the Tax Increment Financing (TIF) District

In light of recent changes to the property tax assessments in Montana, the City's TIF District is now \$1.5 million below the base value of the TIF District. The City should continue to collect revenue from the TIF District until the balance is paid and revenues can once again be banked to use for District improvements, or pay toward the pledged TIGER grant match. Additionally, TIF districts often authorize use of development tools including development incentives and land assembly that may benefit the Glacier Rail Project. These TIF rights should be explored.

Despite substantial reductions in assessed property values as a result of state legislative changes, the City should not terminate the existing TIF District or take other actions that would put the TIF District's access to entitlement revenues at risk. The existing TIF District produces almost \$250,000 per year in incremental revenue, in addition to existing collected revenues. There is tremendous value in retaining this stable revenue source and retaining a mechanism to capture the value of future development. The TIF District should be allowed to continue operating as intended.

The infrastructure and redevelopment costs associated with preparing three former industrial sites for reuse are significant. The use of TIF revenues to leverage bond financing is an attractive means of accessing the needed capital at the front of the project. In this case, the current negative value of the District precludes the use of debt to finance improvement costs within the District. Should the City see a return of regular increment through the District, then issuing bonds could provide substantial upfront capital. This should be carefully weighed against the constraints resulting from pledging the entire revenue stream when other mechanisms, as discussed later, may be present.

An important factor affecting the TIF District's performance has been described as the result of a State level change to the assessment protocols/formula for telecommunications companies' property. The City should work with counsel to review their franchise options to see if these can be negotiated to provide an alternative means to recapture some of this lost revenue. Both the City and the companies have a vested interest in seeing redevelopment occur and new business tenants move into the soon-to-be vacant properties.

iii. Expand Business Improvement District (BID) to include Core Area

A Business Improvement District can be used to provide additional revenue that flows directly back to the project area and can be used for future improvements. Kalispell's existing BID only encompasses its downtown area, but could be expanded to incorporate the core project area running east and west along the trail. Alternatively, a new BID could be created to serve just the Core Area. A BID would provide a stream of revenue that can be used for pay-as-you-go funding for trail crossings, wayfinding signs, trail lighting and future maintenance.

The BID could also serve as an important organizing tool and single point of contact for local businesses seeking development resources and networking. This is further discussed later (Part I, vii.)

iv. Utilize bondable or otherwise finance-able lease structure at Glacier Rail Park to preserve FCEDA cash levels

A lease structure at the new rail park that enables leases to be financed to provide capital, is a way to conserve precious FCEDA cash on hand. The lease agreement should be assignable, that is, able to transfer from one entity to another as long as lease requirements are met.

Future CHS lease payments have been proposed to pay back a \$6 million Federal Rail loan. Once that obligation is met, FCEDA will have the option to pledge cash flow from subsequent leases to secure loans for non-investment grade leases.

v. Transportation Alternatives Program funding

Transportation Alternatives Program is funded through the Federal-aid highway transportation legislation. The funding is promoted through the Rails to Trails Conservancy, an organization working with communities to create trail networks and multi-use pathways. These federal funds are available to communities looking to expand travel options and promote active modes of transportation. Eligible activities include construction of pedestrian and bicycle facilities, as well as the conversion of abandoned railway corridors to trails, however, funds can also be utilized for vegetation management and stormwater mitigation.

vi. Form an organization or Redevelopment Corporation to manage the rail relocation project and redevelopment of the Core Area.

Property owners as well as interested developers need to know who to contact if they are interested in selling or developing a property. A single point of contact for an organization would assist in streamlining messaging and coordination of education and public relations for the project. This organization could be structured as a non-competing redevelopment corporation focused solely on Core Area redevelopment and marketing. The activities of this organization could be included in the Tourism and Business Improvement District efforts. This point-of-contact role may be one that the BID would be interested in taking on.



Figure 2: Former dealership site in Kalispell Core Area

Part II: Timing

Redevelopment of the Core Area is complicated by properties that require a great amount of remediation and due diligence. In addition, the relocation of businesses and rail facilities requires a great deal of attention and careful planning. For these reasons, it is crucial to establish the sequence of events in the redevelopment process to ensure the redevelopment phases are in order and all conditions of financing are met. The following list outlines the recommended sequence of events.

i. Letters of Intent

As mentioned in Part I of this report, the City and FCEDA should secure Letters of Intent from all parties to clarify the conditions and objectives of the redevelopment. This may be a simple terms sheet outlining the financial and property transactions and articulating which party is responsible for working with DEQ to clean up the sites. This is an important step toward ensuring all parties expectations are clearly described well in advance of required action and financial commitments. The City and FCEDA should also request a letter from DEQ formally outlining the process, eligibility, and terms of cleanup.

ii. Site assessments

The City should begin working with EPA staff and state officials to get assessments on the three CHS properties, as well as the BNSF property to be acquired for the trail, and request funding or extension of funding to cover the costs. Once assessments are completed, a plan for cleanup of the sites can be prepared.

iii. Environmental insurance

It is recommended that FCEDA purchase environmental insurance to protect themselves from unanticipated pollution-related exposures if such costs are financially feasible.

iv. Obtain demolition estimates for existing CHS sites

The City and FCEDA agree that few, if any, structures will remain on the CHS properties once they are transferred to FCEDA for redevelopment. FCEDA should obtain demolition cost estimates for each structure and begin building the costs into the redevelopment pro-forma for each site.

v. Remediation of sites after relocation

Once CHS has relocated to the new rail park and operations have ceased at the former properties, the City, in partnership with FCEDA, should initiate the remediation of the sites.

vi. Redevelopment

Once sites are remediated and the tracks removed, redevelopment of the CHS sites and other sites along the trail can commence. Efforts to attract the appropriate developers should assist in building interest in the site. It is important to view the developer selection process as seeking to attract a national audience. This may include being able to fully describe the environmental and other development assistance available; orienting out of area developers as to specific needs and opportunities; and being amenable to hosting formalized market sounding sessions and visits.

vii. Removal of railroad tracks

Parties should have agreed upon appraised value of the rail prior to this step, and acquisition price should be established.

viii. Trail development

As the largest land owner in the Core Area, the Kalispell Center Mall is a major stakeholder in this development. The City should work with mall decision makers to create a collaborative plan for development along that portion of the trail.

Zoning for the sites along the trail must be addressed to ensure that the appropriate uses and forms are allowed, while discouraging those uses and forms that are not desired.

Part III: Attracting and Selecting Developer(s) for the Core Area sites

i. Hold event to market the site to developers

The City and FCEDA should consider organizing an event to pull developers to the Core Area sites. Ideally, this would include an opportunity for developers to learn about Montana Department of Environmental Quality (DEQ) programs and the Brownfield Revolving Loan Fund and other financing tools that may be appropriate for those sites, be it New Markets Tax Credits (NMTC), Historic Tax Credits (HTC), or United States Department of Agriculture (USDA) Community Facilities funds.

ii. Market Request for Proposal (RFP) nationally

The City should not limit this opportunity only to familiar or regional developers. The development opportunity should be marketed in a national campaign to attract the most qualified individuals and organizations.

iii. Require developer to have permanent financing in place prior to transfer of deed

As a precaution, FCEDA should use a long term lease in place of selling the property until the owner/developer has permanent financing in place. The lease should dictate necessary conditions and allowable uses for the specific site, in order to protect the City's and FCEDA's goals and objectives for the site.

Part IV: Small Business Financing Toolbox

As Kalispell continues to prioritize redevelopment of its Core Area and downtown, a variety of financing tools may be utilized to fill financing gaps and catalyze investment. Not all of these tools will be applicable to sites in the Core Area, but all have potential to be useful to the City and to developers, further contributing to Kalispell's economic development goals.

i. New Markets Tax Credit (NMTC)

The City of Kalispell should work with the state's Community Development Entity (Montana Community Development Corporation) to discuss potential NMTC allocations. The NMTC tool could be useful in attracting developers to eligible sites.

ii. Historic Tax Credits (HTC)

Downtown Kalispell has several properties that qualify for federal and state Historic Tax Credits, which provide 20 percent and 25 percent tax credits respectively. This tool will only be applicable to properties that meet the qualifications and renovation requirements maintained by the Secretary of the Interior, and the redevelopment of properties using these tax credits must result in commercial use. Many developers are very well practiced in the use of Historic Tax Credits.

iii. Lending and Credit Enhancement

Microloans

The Small Business Administration (SBA) and United States Department of Agriculture (USDA) issue microloans for small businesses. These loans can be potentially by leveraged with additional loans through Montana Community Development Corporation's loan program. FCEDA should consider targeting its loan funds toward businesses looking to expand or relocate in the Core Area.

United States Department of Agriculture (USDA) Loans

USDA Community Facilities Grants and Loans: For specific uses such as libraries, senior housing, health care services, or local food systems, the USDA has Community Facilities low interest loans and grants available for qualified projects.

Credit Enhancement

Another option for improving the credit worthiness of a developer is by offering credit enhancement or collateral support. To enhance borrower credit, FCEDA can serve as a third party guarantee on a loan to a developer in order to provide the lender with reassurance that the loan will be repaid. FCEDA can also offer collateral support by making a cash deposit under the developer's name to enable the loan. Both of these financing tools are intended to be supportive and are relatively low risk assuming that the developers have been properly vetted.

Rural Economic Development Loans and Grants (REDLG):

The USDA provides grants and loans to utility co-ops to capitalize a revolving loan fund for community projects. Initial loans must be used for community, education, or health care projects.



Figure 3: Current and Future Vision of Main Street and Montana Street looking east

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Additional Resources

As the City of Kalispell works through the recommendations in this plan, the following resources may provide useful information.

CDFA Online Resource Database |

<http://www.cdfa.net/cdfa/cdfaweb.nsf/ordsearch.html>

CDFA Brownfields Financing Toolkit |

[http://www.cdfa.net/cdfa/cdfaweb.nsf/ord/201502_BF_Toolkit/\\$file/CDFA%20Brownfields%20Financing%20Toolkit%2002.02.15.pdf](http://www.cdfa.net/cdfa/cdfaweb.nsf/ord/201502_BF_Toolkit/$file/CDFA%20Brownfields%20Financing%20Toolkit%2002.02.15.pdf)

Tax Increment Financing |

<http://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=preso-nmi-localinitiatives-0614.html>

Combining and Leveraging TIF with Other Tools |

<http://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=ads11-smith.html>

USDA Community Facilities |

<http://www.rd.usda.gov/programs-services/community-facilities-direct-loan-grant-program>

Transportation Alternatives Program |

<http://trade.railstotrails.org/index>

<http://www.fhwa.dot.gov/map21/guidance/guidetap.cfm>

National Development Organizations:

International Council of Shopping Centers |

<http://www.icsc.org>

Urban Land Institute |

<http://uli.org>

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Organizations

City of Kalispell
Kalispell Business Improvement District
Kalispell Chamber of Commerce
Kalispell City Council
Kalispell Convention & Visitor Bureau
Montana Department of Environmental Quality
Montana West Economic Development/Flathead County Economic Development Authority

About the Authors

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