

MINUTES OF BUDGET WORKSHOP
AUGUST 16, 2021
MONTGOMERY ECONOMIC DEVELOPMENT CORPORATION

CALL TO ORDER

President Huss called the meeting to order at 4:00 p.m.

Present: Rebecca Huss – President
Ryan Londeen – Secretary (arrived at 4:08 p.m.)
Jeff Angelo – Board Member
Byron Sanford – Board Member
Dan Walker – Board Member

Absent: Arnette Easley – Vice-President
Carol Langley – Treasurer

Also Present: Richard Tramm – City Administrator
Dave McCorquodale – Assistant City Administrator
Anthony Lasky
Amy Brown

PUBLIC COMMENT

No public comment

BUDGET WORKSHOP

Tramm suggested going through the categories one at a time.

Income

55400 - Sales Tax

Staff projected 1 million dollars from last 12 months as a rolling average with an 8 percent increase over the year. Inflationary pressures may or may not make an impact. President Huss said she was comfortable with that number and it is very straight forward. The percentage will be easy to work off of. She assumed the other income categories were carefully calculated by Anthony. Tramm concurred.

56001 – Business Development and Retention – Category II

President Huss suggested skipping to Category II.

56001.8 – Sales Tax Reimbursement

Tramm said the City and MEDC have several reimbursement agreements based on reimbursing sales tax collected at certain percentage primarily from the Shoppes of Montgomery and the Kroger shopping center. Shoppes of Montgomery is still a developing area. Both agreements are calculated at different rates. Staff projected those for the next year and took a conservative approach. President Huss noted that the MEDC is contractually obligated to pay these and are paying it with the \$1M dollars in sales tax that is generated. Tramm said it is 25% of the income is going back out because they are the largest tax payers in the City.

Angelo asked if these two were the only reimbursement agreements. Tramm said, yes for the MEDC. With Kroger, it is a trailing agreement, and it is catching up with development as it comes along. The Shoppes of Montgomery is an immediate 12-month reimbursement. The last reimbursement did not see a full year of chick-fil-a which generates \$10,000 in tax revenue a month for the City. Other stores not open at that time includes Starbucks, Chipotles, and Panda Express.

Angelo asked what the percentage reimbursement is. Anthony noted it is 25% of tax revenue.

Sanford asked if it starts in fiscal year October. McCorquodale noted that their agreement date starts three months after their opening date. Shoppes of Montgomery dates run Nov 4 to Nov 4 based on their opening dates. The reason that is so far out from the date the money is collected is to make sure that on the property tax agreement they are using real numbers that the City collected which occurs after property tax is protested.

Angelo said it is better to be conservative. He questioned whether the few stores would equal Kroger's sales tax. Tramm noted there is a lot of empty space (strip center and Panda Express) that will fill in this year and Chick-Fil-A was 2 month in to the last payment which barely made a dent in the previous year. So the budget numbers are reflecting that and are conservative.

President Huss noted that the MEDC only owes them based on what they pay but the budget is based on an estimate including future growth in these developments.

Angelo asked how these reimbursement agreements are made. President Huss said it is typically initiated by the developer. For Kroger, she believes they would have accepted a lower reimbursement, but the City was desperate. She voted against it when she was on council because she didn't believe the City had to give away everything. The Shoppes of Montgomery was similar except it was manipulated in such a way that it could be viewed as an economic partnership.

Angelo asked if these deals are public knowledge. President Huss said yes, via open records request.

Angelo said he could see how this could help get an influx of cash initially to get things started. President Huss said she spoke to someone who did a deal in Virginia and they stated that if this is needed to get the deal to go forward, the deal will fail. If it is dependent on this deal to succeed, then it should never take place. For the Shoppes of Montgomery was more about two parties needing different things at different time horizons and both parties benefited.

Angelo you see it all the time but was curious how the City does it. It depends on what they can bring and what the City can bring. Tramm said each deal is a unique and past experience with these deals will help with future deals. President Huss said it should be more of a partnership and about finding the balance for both parties.

Ryan Londeen entered the meeting during this time at 4:08 p.m. He asked for a cliff notes version as to why there was an increase in the sales tax reimbursement. Tramm briefly summarized the previous discussion on the topic. Londeen asked if the increase is based solely on the growth of development under the two agreements (Kroger and Shoppes of Montgomery). Tramm indicated yes.

56001.9 – Economic Development Grant Program

Tramm noted there wasn't a big rush on this category in the previous year.

Sanford clarified that this grant is to help businesses in need, specifically. Tramm said it is business oriented. He said there is some room for interpretation for what is applicable under the grant program but that in recent years the MEDC has been deliberate to ensure that this will go toward improving economic development.

Sanford noted that the return on investment is difficult to measure and said he wants the MEDC to move forward with things you can see, you can feel, and you can touch in 2022. He mentioned the Sour Lake splash as an example. Such a facility could potentially be fit into the revitalization plan or added at Cedar Brake Park. It is not expensive, and it is tangible. He wants to move forward with things that are tangible to the resident of the City. Tramm noted that the MEDC scope is more specific to economic development and the City's scope is much broader.

Tramm noted that all applications goes to him and then to the board of directors. Part of his missions is to filter them out if they are not compliant with rules of the MEDC or laws.

56002 – Quality of Life – Category III

56002.2 – Removal of Blight

Tramm said that last year only \$1,500 was spent on this category but advised to not assume that because the MEDC didn't spend the money in the past that it won't spend it in the future. This is especially true when you consider that last year was a pandemic situation.

Angelo asked blight is. Tramm said it includes trash, debris, run down properties, etc. It could be specific points or a wider scale. Angelo asked if it is covered under landscaping agreements. Tramm said no.

56002.3 – Events

Tramm said last year the EDC assigned budget numbers as they were needed. For individual events in the list, where there are comfortable numbers, those numbers were plugged into the budget.

Angelo asked if Mudbugs if coming back next year. Tramm said it could be approved at the time they approach the MEDC. The funds would come from line number 56002.3. This is unassigned money, and it is there for the MEDC to assign for a specific use later.

President Huss said it is not a very businesslike approach to automatically assign money to events only because that is what they have always gotten in the past. The internal parties are less controversial and important to the community. The MEDC can go ahead and assign budget numbers to these events if the board is comfortable with it.

Sanford asked if Fall Festival is for next fall in 2022. President Huss said yes. Tramm noted that this budget starts in October 1, 2021.

Tramm presented some of the other event categories. He noted that some events were operated differently last year due to COVID. Southern Rum Runners may or may not come back. Mudbugs and Music is coming in March, but it is incumbent on them to make the request.

Angelo said he liked the model where the MEDC will get some proceeds off the tickets. Tramm agreed.

The Christmas Parade will have additional features, as presented in the previous MEDC meeting. So, the number increased. Angelo clarified that this is for Christmas in 2021. Tramm said all of the things presented may or may not be included. Sanford asked if the budget was originally in the \$7k - \$8k range. Tramm said they took the \$8k and added the \$2k that was there before.

Tramm said the Contest and Prizes did not materialize well last year. He has higher hopes for this category this year to help draw attention to the City. He noted that the MEDC is limited to 10% of the budget spent toward promotional items such as this. This budget category is not near that limit.

Angelo asked if there was still a reimbursement component on the Quilt Walk event. Tramm said not technically but that since it is an internal event, all proceeds come back. Sanford asked if local businesses were helping get this event together. Mrs. Brown said one quilt shop is donating a quilt and the new shop will have a booth at the event. President Huss said the cost for emergency services is expensive and has changed the projected costs of this event. Angelo asked why the MEDC has to pay for these services. Mrs. Brown said these are off duty police officers and the biggest expense is for the overnight security. Previously the City paid for this, but it is not fair to take it out of the City budget. Tramm added that before the pandemic, the hospital district provided medical personal at no cost, but they are no longer doing that due to the pandemic.

Tramm indicated that the City is taking over the Antique Festival and any proceeds from the event go directly back to the City. For the Movie night, the largest fee is legal fees for showing

the movie. There will not be a Fernland Dedication festival next year. Pet parade will be an internal event.

The largest expense for the Snow in Historic Montgomery is the snow and ice setup. Angelo asked if it still happening on the land that the City owns. Tramm said yes and timing it in a way to help keep people in town.

Fall Heritage will be in 2022 and will be a City run event. Trick or Treat will be this October and the City is taking that event over as well. The Lone Star Flag Fest is March 2022 around Texas Independence Day.

Angelo asked if all of these events are rain or shine. Brown said some of them, yes. Angelo asked if we just don't do the event. Tramm said it depends on if the MEDC spend money on things. If there are unspent funds, then those funds can stay in that line item until it is redirected. President Huss said that everything in the bank budget, other than the money in the TexPool accounts, is money that was not spent on previous line items. At the end of the year the unspent money goes into the accumulated reserves.

56002.4 – Downtown Enhancement Projects

The Downtown Enhancement Projects is targeted funds for enhancing the downtown area.

President Huss asked if everyone was happy the items in Category III. No objections.

56003 – Marketing and Tourism – Category IV

56003.5 – Brochures/Printed Literature

Tramm said he is unsure on what all will need to be printed but this will be used to print material to attract tourists to events and other related printing needs.

56003.C – Website

This is to pay for the multiple internet domains that the MEDC manages.

56003.G – Historical Signage

President Huss asked if the \$5,000 budget includes the historical markers. Londeen said one marker costs \$1,800. President Huss indicated if the MEDC did 3-4 markers then it may be a little light. Londeen indicated that, due to the level of effort to prepare the application for the marker, he doesn't anticipate a high number of applications. President Huss said to leave the budget as is to pay for the one historical marker they know plus the tourist metal signs the City is putting up. If another historical marker comes along then the budget could be amended.

Sanford said the total budget number of \$18,500 is not all that much but would like to use this category to continue to track how many people are reached via the internet and social media. Tramm said he thinks the most efficient spending is in the social media category because those funds can be specifically targeted to those the City is trying to reach.

Sanford asked if the brochures reach Margaritaville. Tramm said yes. Angelo said the MEDC could certainly collaborate with Margaritaville. They want to be a part of this community and they see a lot of

people. President Huss said the MEDC, in the past, has not been interested in paper handouts. Angelo said could come up with material that is compelling for people to pick up. President Huss said you have to make sure it is a good representation of who and what the City is. It needs to be a mixture of old and new to be compelling for those who do and do not sure technology. Angelo said even older people are tech savvy and have come accustomed to using things like QR codes. The QR codes could be utilized to get information from the tourists such as where they are at and their experience. President Huss said that as the MEDC comes up with different ideas then the budget item could be amended. Sanford said it would be good to gather data over time on where people are coming from and why they are coming so that planning could be more effective and ensure MEDC is being efficient in its marketing efforts. President Huss that as people give us their information would mean the MEDC could reach out to them directly rather than relying on social media. The QR codes have the potential to leverage that and get people to opt in. Angelo said you need something compelling to get people to opt in.

56004 – Administration – Category V

President Huss brought up a meeting she had with a woman from Retail Strategies who wanted to offer strategies to bringing in big box stores to fill in the empty spaces in Montgomery. President Huss said she didn't really care about that. President Huss told her big box stores were not where its really at in Montgomery. She prefers better looking development. However, the woman also mentioned that another side of her businesses has to do with helping smaller businesses. In the past, seminars for local small businesses in Montgomery were really well attended. President Huss suggested that this is something the MEDC should consider as an option. Sanford said he thinks the 79 vacant units in the City is a problem and would like to address it in any way possible. He has researched the types of businesses who do well in small towns and reached out to a few businesses to invite them to the City. These top businesses are who he wants to target. He certainly wants to bring businesses that fit the City but the board can't just sit idly by. Some of these businesses include places like bakeries. He wants to make relationships and bring people in instead of sitting back and waiting for it to happen. He is open to suggestions for anything the board can do to bring these smaller businesses in to look at the City.

Angelo asked if MEDC has control over the rents in these places. Sanford said that he is what he was told. Angelo said he thinks a part of the problem is the landlords are willing to let their places sit empty then offer a good deal to bring in economic development. He asked how could the MEDC incentivize them to get more mixed tenants into these spaces. Unless an agreement is made with the landlords to relent a little bit then the places will stay vacant. He also indicated that some of businesses in Montgomery don't seem to know how to run a business.

President Huss said the vacant spaces count includes small spaces such as a single rooms, larger spaces, and pad sites with no buildings. Angelo asked if the MEDC would be willing to take on any of these spaces. President Huss said really the MEDC would either build office parks from scratch or enter into something like a business incubator or another business development partnership with someone who has connections with bigger anchor tenants.

Angelo asked why we couldn't offer incentives such as first free months rent or sales tax reimbursement to compel the type of mixed used types of businesses to come into the City. President Huss indicated that the legal expenses on developer agreements are very high so that alone wouldn't probably work and if a business doesn't have the money to stay in business for six months then they don't have the money to stay in business in general.

Angelo agreed with Byron that they should reach out to businesses that have good business sense and who will fit in well with the City.

Sanford noted that the City has a main east-west corridor so there will be franchises. His issue is with the large number of spaces in the downtown area.

Sanford suggested something along the lines of a business league that partners with the school and chamber of commerce to recruit business minded people and train them to run a business. He would like something like this to be actively pursued. Angelo said if you can get the right students that have the right drive to do what they love then you can teach them and show them how to be successful to run a business. He was not aware that ISD was available for this use. Tramm said he has talked to the superintendent and they have a lot of things to do to that building before it can be used for other purposes.

President Huss suggested that Sanford come back to the next meeting with more information on this business incubator idea.

56001 – Public Infrastructure – Category I

President Huss noted that if everyone agrees to the budget amounts for the other categories discussed thus far then that leaves \$422,250 left for this category.

56000.B – City Capital Projects

An amount the MEDC has historically spent toward previous City projects that has a component that meets the criteria of the MEDC. The City continuing a number of water improvement projects in the next year.

56000.8 – Utility Extensions

Specifically for businesses that need utility lines extended to its place of businesses but find it cost prohibitive to install the extension.

President Huss said that her personal view point is that the city does not exist to enrich private property owners and that adding a water line to a property add an exponential amount of value to the property. She indicated this is better suited for an instance where the property owner that needs a 4-inch pipe extension but the City decided an 8-inch pipe would be better uses the money to install the larger, more expensive, pipe than we what he needs.

Londeen said 40 to 50 thousand dollars doesn't go very far on a water line. Tramm said that if they put 200 thousand in the category then others would think this money is dedicated to a specific project.

Londeen asked if the money isn't spent, does it go into the MEDC general checking account. He also asked the origin of the 50 thousand dollars. Is there a precedent for this amount and is it a needed item. Tramm this could also be paired with other projects such as downtown improvements rather than just being dedicated to the owner who needs a line extension. Londeen said it makes more sense as an add on. Tramm said having it there gives you more options. President Huss recalled that he extra \$200,000 for future development projects came from surplus from this year. Londeen why the MEDC wouldn't budget the money toward

something that the board knows its going to spend money on like the downtown project. Tramm said that 6 months from now you may having something come up that you didn't expect but if have the need to move it you have the ability to move it.

Londeen asked if the last time this was done was for McCoy's. President Huss indicated yes, it was a waterline upgrade for McCoy's. Londeen asked if it was a suggestion from the Engineer to upgrade that line. President Huss said yes. Londeen asked if there was a similar opportunity on the west side of the City. Tramm said there may be a number of opportunities and other areas of town.

Londeen said he understood not wanting to show favoritism to specific property owners but if it comes from the advice of the City Engineer he will feel more comfortable about it. Tramm noted that this money isn't going to be spent until something specific comes back to the board. Just because its in the budget doesn't mean its getting spent.

Londeen asked where this number came from. Tramm said it's a past number that carried forward.

56000.7 – Sidewalks

Londeen indicated that this amount doesn't go very far eithers. Tramm said he didn't want such a big number that it entices someone to want their entire project paid by the MEDC.

Londeen asked if this includes repairs. Tramm said its for new or expansions only.

President Huss said now that the MEDC has the recommendation from the planners, she feels more comfortable moving forward with some sidewalk ideas. Past projects seemed like a waste of money because they weren't planned well. Londeen agreed that you want to do it right.

Londeen said that goes back to his point that instead of having 40 thousand dollars go toward sidewalks, it could go toward the sidewalks under the downtown development project. President Huss said it could be done either way.

Sanford asked if the City has \$200,000 was budgeting for the downtown improvement project. Tramm said that is for the City budget and it just happens to be the same amount. Tramm said this \$200,000 is still in the EDC funds and the other \$200,000 is still in the City funds. The money is not being double counted.

56000.6 – Downtown Dev Improvements

No exact dollars on the next phase from the Gunda Corporation but Tramm believes this is a good amount to get the EDC to that phase and probably a little beyond that. Staff put a conservative spin on both expenses and income. He believes there will be more funds available than what is on there.

Londeen asked how this money was spent this fiscal year. Tramm said it was spent for the planning of the down development project which was about 80% spent. Londeen asked if this new money is going to act as the new wedge fund primarily for the downtown dev project. He asked are there other projects this money may be used for. Tramm said he expects this money

to be spent toward next phase of design for this project. He sees the wedge fund being the increase in revenue that is expected due to a conservative projection.

Londeen asked if \$1M is a conservative number for income. Tramm said yes. The trailing 12 month revenue from sales tax was around \$3.8M. One quarter of that is about \$950,000. An 8% increase on that is right at \$1M and this is a conservative growth estimate but a realistic planning number. Tramm has some concerns about inflation though. He thinks they should be on the conservative approach and would prefer having 100,000 in extra revenue rather than not enough.

Londeen said that a lot of the growth came from those shopping at home and that may change. Tramm in some degree it will change and in some ways it wont. It is hard to predict. There are also many still working from home.

President Huss indicated that as the economy is diversified the more vulnerable the City is. The big sales tax generation is from local consumption (Kroger, Brookshire Brothers, Entergy, etc.) and not so much shopping online. As long as people don't lose their homes, sales tax numbers will continue to come in. People will hang on to their homes which means they will still shop local.

Angelo asked if the EDC is hamstrung from driving revenue outside of sale tax. President Huss doesn't think the EDC is legally precluded from it. Tramm said you are not necessarily precluded from getting into other sources of income but there are pretty strict limitation on what you can do as in terms of investments because the EDC money is considered public funds. Purchasing land or renting structures need to be done from an economic development perspective rather than a financial development perspective.

Angelo said he likes having multiple sources of income and is just curious what options are available to the MEDC. Tramm said sales tax is not really a singular line of income because it is generated by multiple types of businesses. Angelo noted that the EDC could bolster economic development and in turn increase sales tax revenue. Growing the economy means growing the people within the City. Tramm noted that as long as the EDC is focused on developing economic development, it will drive revenue and there are a lot of ways to develop the economy. Angelo said that if we want to grow our economy we have to teach the businesses owners how to stay in business. Tramm said there are probably multiple ways to do that (workshops, entrepreneurial training, etc.). Angelo said organic growth is the best growth and the EDC needs to find a way to encourage local growth through education. President Huss said it's a great idea and suggested Sanford and Angelo come back with some ideas. She would love to see the school also branch out into adult education and vocational training.

56000.C – Future Downtown Dev Project

The deliberate zero for this category was when the 200,000 was reserved for the future dev project and put into he TexPool account. This may begin next fiscal year. This category is where the EDC can put excess funds to continue to build the pot of cash for the future downtown development project. There is an advantage to using cash over borrowing money since

borrowing money can be difficult for a public entity. Operating from a position of cash gives the EDC options it wont otherwise have if you have to borrow every dollar.

ADJOURNMENT

President Huss adjourned the meeting at 6:50 p.m. with no objections.

Submitted by: *Richard Tramm* Date Approved: 09/20/2021

Richard Tramm, City Administrator

Rebecca Huss

Rebecca President Huss, MEDC President

