



CITY OF MILES CITY

PLANNING & COMMUNITY SERVICES

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Date: September 16, 2024

To: Miles City Finance Committee

From: Joel Nelson, Contract City Planner and Lease Administrator

Re: Proposed Resolution to Revise Lease Rates, for Finance Committee Consideration on September 19, 2024

This memo is to explain the attached draft Resolution No. 4587 establishing minimum base rent for Industrial Site and other City leaseholds and adding an escalation clause for long-term leases. This Resolution, if adopted, would supersede and replace Resolution No. 4124, which is also attached.

There are several expired lease agreements in the Industrial Site, which will soon require review by the Finance Committee and City Council. After discussing these upcoming renewals with Mayor Andrews and City Attorney Dan Rice, it was determined that before reviewing the renewals, the lease rates should be revised to better reflect current market conditions.

Lease agreements in the Industrial Site and other City leaseholds vary in terms of rental rates and the duration of the leases. Some have rental rates that were set prior to Resolution No. 4124, which became effective January 9, 2018. Some of the leases were entered into after being put out to bid and being awarded to the highest bidders, so the lease rates are higher than the adopted minimum base rental rates. Some are higher or lower for various reasons. Several of the agreements have built-in escalation clauses that specify how lease rates increase periodically over time. The durations of the lease agreements vary from one year to those that continue as long as rental payments are received. Some lease agreements have rental rates that are set according to the terms of the agreements, while others contemplate rental rates that change according to the effective City resolution, with language such as, "*Rental rates at each payment period shall be at the standard rates set by resolution adopted by City Council.*"

The draft Resolution has been prepared to address the variations in lease agreements, rental rates, durations, and terms. The minimum base rental rates are proposed to increase by approximately 27%, based on cost of living and historic Consumer Price Index (CPI) numbers.

Resolution No. 4124 was adopted in January 2018, so I've reviewed CPI data from 2017/2018 through 2024. Data does not seem readily available for Miles City specifically, eastern Montana, or regionally from around 2017 to present; however, national data and data from other regions appear relatively

consistent with each other. Tracking the CPI data from 2017/2018 through recent months, the total percentage increase is approximately $\pm 27\%$ (it tends to vary between $\pm 24\%$ and $\pm 29\%$). Those figures are based on online data from the US Bureau of Labor Statistics (www.bls.gov) and www.usinflationcalculator.com, where CPI data can be tracked on a year-to-year basis.

Based on those figures and increases of $\pm 27\%$, and rounding up to the nearest \$0.001 (per sf/year), the starting points for minimum base rentals are proposed as follows:

- Tracts with Highway 10 & 12 frontage, increase from \$.04 to \$0.051 per square foot per year
- Tracts with paved road frontage, increase from \$.025 to \$0.032 per square foot per year
- Tracts with gravel road frontage, increase from \$.020 to \$0.026 per square foot per year

The other changes proposed in the draft Resolutions should be fairly self-explanatory. The additional language addresses how the revised minimum base rental rates will be applied to different situations, and adds an “Escalation Clause” for long-term leases, which would allow the City to include rental amounts that increase over time.

Since preparing the draft Resolution No. 4587, Dan Rice and I have discussed adding an additional section to address adding a provision for the City to collect an administrative processing fee for when a tenant wants to make changes to a lease, for entering into a new lease, renewals, amendments, assignments, etc. The following proposed addition would be inserted into Section 4, with existing draft Section 4 language moved to a new Section 5:

4. Administrative Processing Fees.

In addition to the above, the City hereby establishes an administrative processing fee to defray the City processing costs when any lessee/tenant or prospective lessee/tenant proposes changes to a lease agreement, enter into a new lease agreement, renewals, amendments, assignments, and other lease-related actions required by the City. The process shall be \$500, to be paid in advance of the City processing the request(s).

Although not a part of the draft Resolution, it would also be advisable to include the effective lease rates resolution with the City's normal annual budget packet and consider updating it for cost of living increases every year, to avoid doing a big increase every 5-10 years. Resolution No. 4123 currently states the lease administrator is to develop and present to the City Council an annual lease status report and recommendations as to changes in leases or lease policies. I have discussed this previously with the Mayor(s) and Clerk's Office and the need for me to obtain information on all lease files to provide the Council with an annual report, but I haven't yet received the information I would need to prepare an annual report.

At this time, the Finance Committee is asked to make a recommendation to the City Council on the proposed lease rate revisions and draft Resolution, per Sec. 2-55(a) of the City Codes, which states: *“To the committee on finance shall be referred all policy matters related to the financial condition of the city including regular revenue and expenditures reviews; department budget preparation and reviews; auditing and passing upon all bills and claims presented against the city; and auditing of all books of accounts of all city officers. This committee shall also consider all policy matters related to apportionment, property rented or leased by the city and all zoning matters.”*

I look forward to discussing the proposed revisions with the Finance Committee.