

Memorandum

REPORT TO: City Commission

FROM: David Fine, Economic Development Manager
Brit Fontenot, Economic Development Director

SUBJECT: Resolution Amending a Development Agreement Relating to a Project in the South Bozeman Technology Tax Increment Financing District (Montana State University Innovation Campus)

MEETING DATE: February 10, 2026

AGENDA ITEM TYPE: Resolution

RECOMMENDATION: Authorize the Mayor to sign the amendment to the Development Agreement.

STRATEGIC PLAN: 2.2 Infrastructure Investments: Strategically invest in infrastructure as a mechanism to encourage economic development.

BACKGROUND: In 2022, Bozeman City Commission approved a Development Agreement with the master developer of the Montana State University Innovation Campus to install essential public infrastructure to allow for the future development of the campus as a place for private investment, MSU research, and technology transfer. As part of this agreement the developer used private funds to build the infrastructure with a commitment that tax increment generated in the district could reimburse eligible costs related to that public infrastructure. The two primary buildings associated with the development agreement, an office and manufacturing building leased to Aurora Innovation, and a flexible multi-tenant building called Engine Works (formerly Industry), were expected to generate adequate tax increment to support debt service on bonds to reimburse the developer for up to \$3.6 million (\$3,599,178) in public infrastructure costs. Preliminary valuations provided by the Montana Department of Revenue (DOR) suggest that DOR is meaningfully undervaluing the project, which could lead to a shortage in future revenue to pay future debt service on tax increment revenue bonds issued to reimburse the full infrastructure amount. The proposed amendment to the development agreement addresses this new information.

The amended development agreement honors the spirit of the original development agreement to attempt to fully reimburse the developer for the eligible costs of public infrastructure, while acknowledging that existing revenue might not support debt service on the full \$3.6 million in eligible costs. The amendment allows the city to issue tax increment revenue bonds

for a lesser amount (currently estimated at \$2.8 million with a debt service coverage ratio of 1.7), while agreeing to reimburse for the remaining \$799,178 using “Surplus Tax Increment” as defined in the agreement. This arrangement protects the city by ensuring adequate debt service coverage for any bond issuance related to the agreement, while making the remaining payments over time through free cash flow, an arrangement sometimes referred to as “pay-go”. Pay-go agreements place more risk on the developer with payments only occurring when there is available tax increment revenue.

UNRESOLVED ISSUES: None at this time.

ALTERNATIVES: As directed by the City Commission.

FISCAL EFFECTS: This project does not change the original development agreement's intent to reimburse the developer for the eligible costs of public infrastructure up to \$3,599,178 from tax increment proceeds available in the South Bozeman Technology District.

Attachments:

[Resolution amending Dev Agmt.v2.docx](#)

[BZN Development Agreement -- MSUIC.First Amended.v3.docx](#)

[BZN Development Agreement -- MSUIC.v4 signed executed.pdf](#)

Report compiled on: January 27, 2026