EDA WORK SESSION

MUNICIPAL CENTER COUNCIL CHAMBERS
1616 HUMBOLDT AVENUE, WEST ST. PAUL, MN 55118
MONDAY, JULY 13, 2020
IMMEDIATELY FOLLOWING
REGULAR CITY COUNCIL MEETING

EDA WORK SESSION
Open EDA Work Sessions are held in person in the Council Chambers and are open to the public with social distancing restrictions. Meetings will continue to be broadcast and streamed online for viewers to watch from the safety of their homes. Closed EDA Work Sessions are not broadcast or streamed.
SEATING: A limited number of attendees will be allowed into the Council Chambers to view open EDA Work Sessions. Seats are first come-first serve. Due to the limited seating, overflow space will be available in the City Hall lobby and Lobby Conference Room with screens playing the meeting live. Closed EDA Work Sessions are not open to the public.

1. Call To Order
2. Roll Call
3. Agenda Items

3.A. Signal Hills Redevelopment Proposal

Documents:

EDA MEMO - KMART SIGNAL H REDEV 7-13-20 III.PDF
DOMINIUM ECONOMIC IMPACT CALC.PDF
DOMINIUM TIF TERM SHEET.PDF
DOMINIUM TIF ANALYSIS.PDF
DOMINIUM CONCEPT PLAN.PDF
2020 VS 2019 SOURCES AND USES - KMART SITE.PDF

4. Adjourn

If you need an accommodation to participate in the meeting, please contact the ADA Coordinator at 651-552-4108 or email ADA@wspmn.gov at least 5 business days prior to the meeting
www.wspmn.gov EOE/AA

CITY OF WEST ST. PAUL

EDA Report

To: **EDA President and Board**

From: **Executive Director Jim Hartshorn**

Date: **July 13, 2020**

Kmart/Signal Bank Site Redevelopment

BACKGROUND INFORMATION:

Dominium is an affordable rental housing developer with over 30,000 apartments in 21 states and they have 53 developments within the Twin Cities alone. They are proposing to redevelop approximately 12 acres on the north side of Signal Hills. The project includes the purchase and demolition of former Kmart building and Signal Bank. They plan to construct 247-units of senior apartments and 146-units of non-age restricted apartments. Dominium is applying for tax-exempt bonds and 4% affordable housing tax credits through the County. One hundred percent (100%) of the units in both buildings (family and senior) will be income restricted at 60% of area median income (AMI). Rent limits are set annually by the Department of Housing and Urban Development (HUD) and set at 30% of 60% of AMI. Income limits are adjusted by family size and rent limits for 2020 are shown in the table below:

Maximum Gross Monthly Rent		
Bedroom Size	**60% AMI**	
Studio	$	1,086
One Bedroom	$	1,164
Two Bedrooom	$	1,396
Three Bedroom	$	1,613

Total project cost is approximately $122M and includes payment of park dedication fees of $480,000 and building permit fees of $250,000+. The project will create approximately 228 local temporary construction jobs and after construction, an estimated 123 permanent jobs will be created. See attached Economic Impacts Table.

The project meets the EDA's criteria for a business subsidy and pursuant to our ordinance, would be required to pay prevailing wage since it is receiving TIF assistance. The project requires a rezoning from B-4 Shopping Center to PRD R-4 Multifamily, which is consistent with the Comp Plan (calls for mixed-use at Signal Hills) and proposed Housing Plan. Historically, Kmart and Signal Bank occupied the proposed development areas, but have been vacant for 3 and 23 years respectively (Kmart has been vacant since 2016 and Signal Bank has been vacant since 1997). Redevelopment of this area has been a priority of the City for many years and this project would redevelop this vacant and blighted area of the City.

The current market value for these two buildings is approximately $3.6M and generates approximately $122,400 in property taxes as noted in the table below. The estimated market value upon completion is approximately $49.125M and would generate approximately $524,700 in property taxes. Overall, this is a 1365% increase in property valuation.

As shown in the tables below, the City's portion of taxes currently is approximately $32,500 and upon completion, would be approximately $258,300 (increase of 794%). Ninety percent (90%) of the increased taxes would be captured for 16 years (term of assistance), but staff views this as a short-term investment for a longer-term gain in taxes generated for the City (prior support by the EDA was for a term of 13.5 years so this is an increase of 2.5 years). The EDA will retain 10% of the increased taxes and this amount is estimated to be approximately $724,000 over the next 16 years. The EDA can use these funds to pay administrative costs of the TIF district (staff and consultant time) or use the funds for other affordable housing projects in the City (single-family housing rehab, etc.).

Current Tax Calculations									
Property	City Portion	County Portion	School District	Misc	Total Local Taxes	Fiscal Disparities Taxes	Mk Value Taxes	State-wide Taxes	TOTAL
Kmart	**$29,090**	$10,014	$9,180	$2,005	$50,288	$30,674	$5,074	$23,901	$109,937
Signal Hills Bank	**$3,432**	$1,181	$1,083	$237	$5,933	$3,619	$651	$2,306	$12,509
TOTAL	**$32,522**	**$11,195**	**$10,264**	**$2,241**	**$56,221**	**$34,293**	**$5,725**	**$26,206**	**$122,446**

Future Tax Calculations									
New Use	City Portion	County Portion	School District	Misc	Total Local Taxes	Fiscal Disparities Taxes	Mk Value Taxes	State-wide Taxes	TOTAL
Family Apartments	**$95,958**	$33,032	$30,284	$6,612	$165,886	$0	$29,038	$0	$194,923
Senior Apartments	**$162,339**	$55,883	$51,233	$11,187	$280,642	$0	$49,125	$0	$329,767
TOTAL	**$258,297**	**$88,915**	**$81,517**	**$17,799**	**$446,528**	**$0**	**$78,163**	**$0**	**$524,691**

Note: As a commercial property, the Kmart/Signal Bank paid fiscal disparities (program that shares comm/Ind property tax base among metro counties) and State-wide taxes. Once converted to residential that would no longer be the case.

The EDA established its first TIF district in 2002. Since that time, it has created five (5) districts as noted below:

District	Project Name	Project	Type of Assistance	Amount	Term (Yrs)	Status
TIF 1-1	South Robert Street	Demolition assistance for Target	PAYGO	$ 731,000	10	Decertified
TIF 1-2	Walmart / Sherman Commercial and Town Homes	Construction of 14 town homes and Wentworth Commons Retail	PAYGO	$1,386,000	26	Active
		Acquisition of Oasis Market, Construciton of Library Drive and Repay EDA Loan	Bonds	$1,605,000	26	
TIF 1-3	Sherman Apartments	EDA reimbursement for land assembly	EDA Interfund Loan	$1,008,010	26	Active
TIF 1-4	Lowes	Demolition assistance for Lowes	PAYGO	$ 400,000	7.5	Decertified
TIF 1-5	Darts	Construction of 174-unit senior rental project affordable to persons at or below 60% of AMI	PAYGO	$1,622,000	15	Active

As shown in the table above, the EDA has only provided assistance to one other affordable apartment project. In 2018, the EDA provided 15 years of TIF assistance ($1.622M) for the redevelopment of Darts (TIF 1-5) into a 174-unit senior apartment project affordable to persons at or below 60% AMI (4% tax credit project like Dominium's).

If the Board supports the project/terms, then staff will proceed with the following schedule:

- July 13 – EDA work session review financials and provide direction on development and tax increment authorization.
- After July 13 – City request to County to decertify existing TIF district.
- July 21 – Planning Commission review of site plan, re-zoning and re-plat.
- July 27 – Council approval of review site plan, land use approvals.

- August 31 - EDA meeting to hold Public Hearing, approve two separate TIF agreements (senior/affordable)
- October - Construction shall commence (complete by October 2022).

FISCAL IMPACT:

		Amount
Fund:	**EDA**	**N/A**
Department:	**EDA**	
Account:		

STAFF RECOMMENDATION:

Review and direct staff.

ATTACHMENTS:

1. Economic Impact Table
2. Ehlers TIF Analysis
3. Term Sheet
4. Concept Plan

Estimated Economic Impact of Signal Hills Development Project

Estimated One-Year Local Impacts				
		NAHB Report Example 100-unit Family Project		Dominium 146-unit Family Project
Estimated Local Income	$	7,900,000	1.46	$ 11,534,000
Taxes and Other Local Government Revenue	$	827,000	1.46	$ 1,207,420
Local Jobs Created		122	1.46	178
		NAHB Report Example 100-unit Elderly Project		Dominium 247-unit Senior Project
Estimated Local Income	$	7,300,000	2.47	$ 18,031,000
Taxes and Other Local Government Revenue	$	768,000	2.47	$ 1,896,960
Local Jobs Created		113	2.47	279
		Total		Total
Estimated Local Income	$	15,200,000		$ 29,565,000
Taxes and Other Local Government Revenue	$	1,595,000		$ 3,104,380
Local Jobs Created		235		457

Estimated Annually Recurring Local Impacts				
		NAHB Report Example 100-unit Family Project		Dominium 247-unit Family Project
Estimated Local Income	$	2,400,000	1.46	$ 3,504,000
Taxes and Other Local Government Revenue	$	441,000	1.46	$ 643,860
Local Jobs Created		30	1.46	44
		NAHB Report Example 100-unit Elderly Project		Dominium 247-unit Senior Project
Estimated Local Income	$	2,300,000	2.47	$ 5,681,000
Taxes and Other Local Government Revenue	$	395,000	2.47	$ 975,650
Local Jobs Created		32	2.47	79
		Total		Total
Estimated Local Income	$	4,700,000		$ 9,185,000
Taxes and Other Local Government Revenue	$	836,000		$ 1,619,510
Local Jobs Created		62		123

Term Sheet

This Term Sheet by and between the West St. Paul Leased Housing Associates I, LLP (the "Developer") and the West St. Paul Economic Development Authority (the "EDA") is intended to set forth the general terms upon which the parties hereto are willing to enter into a Development Agreement. This Term Sheet shall not be deemed conclusive or legally binding upon either party and neither party shall have any obligations regarding the property defined below unless and until a definitive TIF and Development Agreements are approved by the EDA and executed by both parties.

1. Developer: West St. Paul Leased Housing Associates I, LLLP

2. Property:
   a. Existing Commercial - PID #42-01700-50-012
   b. Kmart - PID# 42-01700-55-060 (approximately 392,350 sq. ft. (90%))
   c. Signal Hills - PID# 42-01700-55-051 (approximately 44,450 sq. ft. (6%))

3. TIF District:
   a. Parcels 42-01700-55-060 (Kmart) and 42-01700-55-051 (Signal Hills) are decertified from County CDA TIF District #10
   b. Signal Hills Company II, LLP or current owner of parcel 42-01700-55-051 agrees to forgo the remaining obligation currently outstanding until February 1, 2023
   c. Establishment of TIF District No. 1-6, a Housing District

4. Minimum Improvements: Construction of an approximately ~~137~~146-unit affordable non-age restricted apartment and ~~232~~247-unit affordable senior apartment.

5. Compliance with Low- and Moderate-Income Requirements: The TIF district is a Housing District that requires annual compliance with certain income requirements. In this case, at least 40% of the residential units in the Project must be occupied or available for occupancy by persons whose incomes do not exceed 60% of the area median income.

   The Developer must submit documentation evidencing that they comply with the low to moderate income requirements.

6. Construction Schedule: Commence construction by ~~June~~ October 3~~0~~1, 2020, and complete by ~~June~~ October 3~~0~~1, 2022. For the purpose hereof, "Commence" shall mean beginning of physical improvement to the Property, including demolition, grading, excavation, or other physical site preparation work. "Complete" shall mean that the Minimum Improvements are sufficiently complete for the issuance of a Certificate of Occupancy.

7. Public Assistance: Subject to all terms and conditions of the Development Agreement, the EDA will issue a pay-as-you-go TIF Note in an approximate amount of $~~3,640,000~~5,000,000 and reimburse the Developer from 90% of available tax increments received from the County. The interest rate will not exceed the lessor of 5% or the actual financing rate incurred on the project.

8. Payment Dates: First payment date will be August 1, 2022 and each February 1 and August 1 thereafter for a final payment date of ~~August~~ February 1, ~~2035~~ 2038 (period of ~~13.5~~16 years).

9. Minimum Assessment Agreement: The Minimum Improvements to be constructed upon the Property are anticipated to have an assessed value of $~~46,125,000~~49,125,000 by January 2, 2022.

10. Lookback: The Developer acknowledges that the TIF Note will be reduced on a dollar for dollar basis if actual Total Development Costs are less than the amount stated in the TIF Agreement (shown as an exhibit).

11. Fees: The EDA acknowledges that the Developer has deposited $10,000 to pay for the reasonable out-of-pocket legal, financial and legal consultant and administrative fees associated with this transaction. The Developer is required to deposit an additional $20,000 for creation of the TIF District and drafting of the TIF and Development Agreements by ~~February 1~~July 1, 2020. If additional dollars beyond this are required, prior to the execution of a Development Agreement, the EDA shall notify the Developer in writing and the Developer will be required to deposit additional funds. Any unused funds will be returned to the Developer.

12. Taxes:
    a. Developer covenants to pay property taxes and maintain customary insurance.
    b. Developer will notify the EDA of a tax petition being filed to reduce the market value or property taxes on any portion of the Property.
    c. If a tax petition is pending, the EDA will continue to make payments on the TIF Note in accordance with the values contained in the Minimum Assessment Agreement.

Memo

To: Ryan Schroeder, City Manager
Jim Hartshorn, Community Development Director

From: Keith Dahl and Stacie Kvilvang, Ehlers

Date: June 22, 2020

Subject: Kmart Redevelopment Project – Analysis of TIF Request

In December of last year, the EDA reviewed and considered a request for public financial assistance from Dominium in connection to the Kmart redevelopment site. Since that time, several assumptions and development costs have changed due the City's prevailing wage ordinance. This memo has been prepared, at the request of the City, to review the updated project and determine the amount of supportable TIF assistance.

Dominium is now proposing to construct a 247-unit affordable senior apartment and a 146-unit, non-age restricted affordable apartment. Construction would begin in the fall of 2020 with a total development cost (TDC) of approximately $122.7 million. This represent an increase of over $23 million from their previous proposal with most of the increase directly related to the prevailing wage requirements which were not previously included. Prevailing wage increased project costs by approximately $15.3 million, the addition of 24-units increased the project costs by about $4.4 million, and the remaining $3.3 million increase is made up of auxiliary financing costs and developer fees which are based on the TDC.

Due to the increased costs, Dominium requested 26 years of Tax Increment Financing (TIF) assistance in the form of a pay-as-you-go (PAYGO) TIF Note to fill a development gap in their project.

We've conducted a review of the updated development budget and pro forma and based on our review, Dominium's requested financial assistance is more than what is necessary for the project to become "financially feasible". We've concluded that the project would only require 16 years of assistance totaling $5 million, which Dominium agrees with.

The tables below provide a synopsis of the sources and uses associated with the project:

SOURCES			
	Amount	**Pct.**	**Per Unit**
First Mortgage (Tax-Exempt)	55,530,000	45%	141,298
TIF Mortgage	5,000,000	4%	12,723
First Mortgage (Taxable Tail)	10,310,000	8%	26,234
Tax Credits	37,124,631	30%	94,465
Deferred Developer Fee (100% of Total Fee)	11,129,774	9%	28,320
Deferred Contractor Fee (72% of Total Fee)	3,556,511	3%	9,050
TOTAL SOURCES	**122,650,916**	**100%**	**312,089**

USES			
	Amount	**Pct.**	**Per Unit**
Acquisition Costs	6,365,000	5%	16,196
Construction Costs	84,423,429	69%	214,818
Contractor Fee	4,908,306	4%	12,489
Professional Services	3,973,600	3%	10,111
Financing Costs	6,694,172	5%	17,034
Developer Fee	11,129,774	9%	28,320
Cash Accounts/Escrows/Reserves	5,156,635	4%	13,121
TOTAL USES	**122,650,916**	**100%**	**312,089**

Please contact either of us at 651-697-8500 with any questions.

SITE PLAN: SENIOR + FAMILY HOUSING

AERIAL VIEW: SENIOR + FAMILY HOUSING

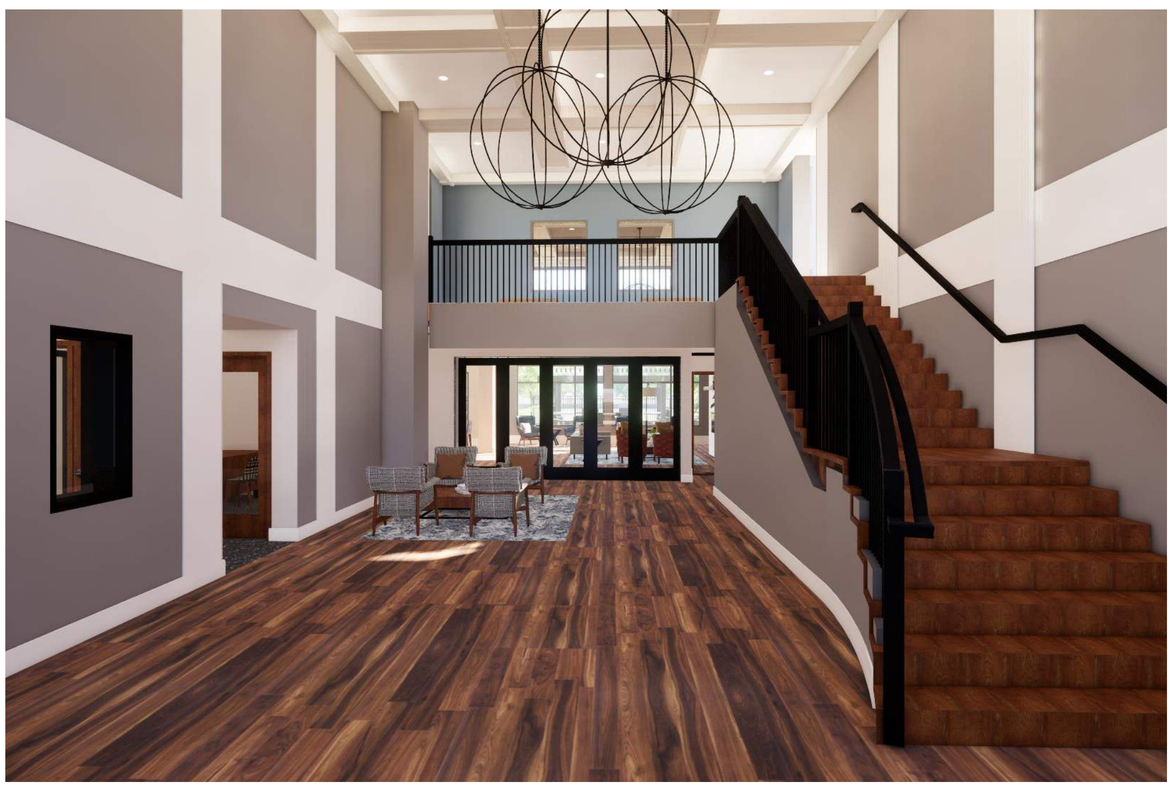
BKV GROUP

BUILDING SITE

WEST ST. PAUL
JULY 7, 2020

DOMINIUM

EXTERIOR VIEW: SENIOR HOUSING



INTERIOR VIEW: AMENITY SPACES

INTERIOR VIEW: UNIT PRECEDENT

BKV GROUP

SENIOR HOUSING

WEST ST. PAUL
JULY 7, 2020

DOMINIUM

EXTERIOR VIEW: FAMILY HOUSING

INTERIOR VIEW: AMENITY SPACES

INTERIOR VIEW: UNIT PRECEDENT

BKV GROUP

FAMILY HOUSING

WEST ST. PAUL
JULY 7, 2020

DOMINIUM

SENIOR: OUTDOOR AMENITY PRECEDENT

FAMILY: OUTDOOR AMENITY PRECEDENT

SENIOR: THEATER ROOM PRECEDENT

FAMILY: POOL PRECEDENT

SENIOR: FITNESS ROOM PRECEDENT

FAMILY: FITNESS ROOM PRECEDENT

BKV GROUP

FAMILY AND SENIOR AMENITIES

WEST ST. PAUL
JULY 7, 2020

DOMINIUM

West St. Paul New Construction

50 Signal Hills Center, West Saint Paul

SOURCE AND USE SUMMARY

	Old	Current	Difference	Footnote
Sources of Funds:	***Total***	***Total***		
Tax-Exempt (1st Mortgage)	$ 46,823,903	$ 55,530,000	$ 8,706,097	1
Taxable Tail (1st Mortgage)	8,013,124	10,310,000	2,296,876	1
Series A: TIF Loan	3,640,000	5,000,000	1,360,000	2
Low Income Tax Credit Equity	33,078,914	37,124,631	4,045,717	3
Deferred Developer Fee	7,802,856	11,129,774	3,326,918	4
Deferred Contractor Overhead/Profit	-	3,056,511	3,056,511	5
Total Source of Funds	**$ 99,358,797**	**$ 122,150,916**	**$ 22,792,119**	
Uses of Funds:				
Construction:	***Total***	***Total***		
Acquisition Costs	$ 6,365,000	$ 5,865,000	$ (500,000)	6
Construction Hard Costs	56,994,739	74,403,528	17,408,789	7
General Conditions	3,398,684	4,337,402	938,718	8
Builders Profit	1,132,895	1,445,801	312,906	8
Overhead	3,398,684	4,337,402	938,718	8
Construction Contingency	3,228,750	4,002,642	773,892	9
Met Council Sewer Access Connection	807,625	829,898	22,273	10
Park Dedication Fee	296,000	296,000	-	11
Building Permit Fees	314,444	408,889	94,445	12
Professional Services	2,408,800	2,874,772	465,972	13
Developer Fee	8,160,856	11,129,774	2,968,918	14
Total Construction Use of Funds	**$ 86,506,477**	**$ 109,931,108**	**$ 23,424,631**	
Financing:				
Cash Accounts/Escrows/Reserves	$ 10,926,866	$ 9,877,138	$ (1,049,728)	15
Construction Financing Costs	652,072	724,084	72,012	16
Permanent Finacing Costs	806,144	1,076,147	270,003	17
Closing Costs	197,650	273,455	75,805	18
Tax Credit Fees	269,588	268,984	(604)	19
Total Financing Use of Funds	**$ 12,852,320**	**$ 12,219,808**	**$ (632,512)**	
Total Uses of Funds	**$ 99,358,797**	**$ 122,150,916**	**$ 22,792,119**	

Footnotes

1. The project supports more debt as a result of an increase in the amortization term, a reduction in the interest rate, and additional units added to the project. This additional debt allows for project feasibility at $5 million in TIF assistance.
2. The TIF request increased because the construction costs increased when actual bid numbers were received in June.
3. Low income housing tax credit equity is a function of total eligible project costs. Since project costs increased, more federal equity comes into the deal.
4. Dominium is deferring 100% of its developer fee. Normally, financial feasibility for a tax credit housing project would require no more than 50% of this fee to be deferred. Dominium can still finance this project with 100% fee deferral because of our track record and strong balance sheet.
5. Dominium will be the general contractor, and the contractor fee was fully paid through capital sources originally, but now Dominium is planning to defer 72% of the fee to move the project forward. This is very atypical.
6. The seller has agreed to a price reduction of $500,000 to help with financial feasibility and reduce the required TIF assistance.
7. Construction costs have increased - the new number reflects a hard bid received on June 8th. Dominium added 24 new units (15/24 new units are in the senior building, Seniors prefer 1 and 2 bedroom units, so Dominium designed new 1 and 2 bedroom units that fit inside the 3 bedroom footprint. Additional units help with project financial feasibility. With fewer units, more TIF would be required.
8. General conditions, builders profit, and overhead are set fees determined by the Dakota County CDA and they are based off total construction costs, the cumulative fee for all those costs is 14% of total construction costs. The increase from 2019 to 2020 is directly related to the increased construction costs. It is important to charge the highest fee allowed because it generates additional Federal tax credit resources to the project.
9. Construction Contingency required by lenders increased when the construction costs increased.
10. Sewer Access Charges are set by Met Council. The amount charged increased when more units are added.
11. Park Dedication fees are the same
12. Building permit fees are larger now because off the actual construction costs
13. Professional services increased because the architect fee increased as a result of designing 24 more units.
14. The developer fee is a function of the total development cost and it is set by the Dakota County CDA. The developer fee increased because the total development cost increased. It is important to charge the highest fee allowed because it generates additional Federal tax credit resources to the project.
15. Cash Accounts/Escrows includes construction period interest, property tax and insurance escrows and a lender/investor required operating reserve. This cost came down as interest rates decreased since original underwriting.
16. Construction financing costs have increased slightly because the construction loan size increased to cover additional costs. The origination fee is a percentage of the total loan amount.
17. Permanent financing origination costs are larger now because the loans are larger and some of these costs (i.e. origination fee) are a % of the loan amount.
18. Title insurance and closing costs are larger because total project costs are higher now.
19. Tax credit fees are roughly the same.