

**City of West St. Paul  
Economic Development Authority Work Session Minutes  
July 13, 2020**

**1. Call to Order**

President Napier called the meeting to order at 7:43 p.m.

**2. Roll Call**

Present: President Dave Napier  
Commissioners Wendy Berry, Lisa Eng-Sarne,  
Anthony Fernandez, John Justen, Bob Pace and Dick Vitelli

Absent: None

Also Present: City Manager Ryan Schroeder  
City Attorney Kori Land  
Police Chief Brian Sturgeon  
Community Development & Executive Director Jim Hartshorn  
City Clerk/EDA Secretary Shirley Buecksler

Keith Dahl and Stacie Kvilvang, Ehlers, Inc.  
Nick Anderson, Dominionium

Motion was made by Commissioner Eng-Sarne and seconded by Commissioner Vitelli to approve the agenda.

Vote: 7 ayes / 0 nays. Motion carried.

**3. Agenda Items**

**A. Signal Hills Redevelopment Proposal**

Community Development Director Hartshorn said Dominionium is an affordable rental housing developer with over 30,000 apartments in 31 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. Dominionium 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 Bedroom	\$ 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.

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
<b>TOTAL</b>	<b>\$32,522</b>	<b>\$11,195</b>	<b>\$10,264</b>	<b>\$2,241</b>	<b>\$56,221</b>	<b>\$34,293</b>	<b>\$5,725</b>	<b>\$26,206</b>	<b>\$122,446</b>

  

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
<b>TOTAL</b>	<b>\$258,297</b>	<b>\$88,915</b>	<b>\$81,517</b>	<b>\$17,799</b>	<b>\$446,528</b>	<b>\$0</b>	<b>\$78,163</b>	<b>\$0</b>	<b>\$524,691</b>

*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, Construcion 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 Dominion'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).

Nick Anderson of Dominion presented information on the development for Council.

Comments:

- Commissioner Justen asked for clarification on the 10 developers that looked at the site. When did the ground lease go away? Hartshorn said it was in 2019 when Signal Hills purchased Kmart. We went back to half of the developers, but there was no interest. Dominion came in last fall. If this project didn't go forward, the ground lease is no longer an impediment.
- Commissioner Berry asked if we are not doing what the study told us to do, which was market rate and retail? President Napier said we are, technically, doing what the study told us because this is housing and retail.
- Commissioner Justen asked if Dominion was on the ULI? Hartshorn could not recall. Commissioner Berry said TJ McElroy from Dominion was on it.
- Commissioner Justen said he wants to look at the \$9.2M annually upon completion of the project. With 393 units and doing the math, each unit in here according to that number, will contribute \$23,410 per year going into local businesses. We have a capped income of \$60,000 to qualify. Mr. Anderson said it depends on family size, but the income range will be \$32,000 to roughly \$72,000. Commissioner Justen said a unit at \$60,000 – that scenario, if average, that's 39% of their income going to local businesses after rent, medical and all other costs. He questioned the \$9.2M and, when he hears those numbers, something doesn't sit right. He is certain that 40% of his income cannot be dedicated to local business.
- Commissioner Justen asked about the per unit build cost. Mr. Anderson said the hard costs for the senior project are about \$185,000/unit and the hard cost for the family project is slightly over \$200,000/unit, primarily because the family project is more square footage per unit. To address the \$9.2M in local business estimate, Mr. Anderson said he took a study that was done by the National Association of Home Builders to measure the impact of two hypothetical projects. That data point isn't meant to say that the residents in the project will spend that money in the local economy. The addition of those households, however, will cause that amount of spending within the local economy. There are multipliers they use that say if someone spends a dollar in the local economy, someone else has money to spend in the local economy, as well.
- Commissioner Justen asked if that was also an affordable project and based on the same income levels? Mr. Anderson said yes.
- Commissioner Justen said he has concerns with the \$9.2M number being inflated. Mr. Anderson said there are four to five staff per project on site. With operating a building, there are vendors, suppliers, maintenance crews, HVAC repair, and more that go along with maintaining a building, and all of that has local economic impact.
- Commissioner Justen asked how many bids were sent out. Mr. Anderson said there were upwards of 50 subcontractors and two bids for general contractor. Commissioner Justen said two bids is not enough and doesn't see the prevailing wage impact.
- Commissioner Vitelli said it is typical of a developer of this nature to have contractors that they prefer to work with and Weiss may be their preferred general contractor. The general contractor will then solicit bids to their preferred

subcontractors that they have a proven track record with that they can perform and do the job. Mr. Anderson said Weiss is helping to solicit multiple bids from multiple subcontractors. He said they have worked hard to get the numbers down and know that this additional request is not something to be taken lightly.

- Commissioner Berry asked how subcontractors are vetted to be sure wage theft won't come up again? Mr. Anderson said on a prevailing wage, there would be a sworn cost construction statement provided by the general contractor. In addition, the idea of a project labor agreement has been brought up. That's something we are open to if it makes everyone more comfortable. When we hire a subcontractor and they hire another subcontractor it does get difficult to have control over everything that is happening, but we act on anything that comes up.
- Commissioner Berry asked if staying with prevailing wage makes it safer for employees? Mr. Anderson said yes, along with some other controls and things they put in place to help with that, as well.
- Commissioner Vitelli asked if they would be amenable to a project labor agreement with their building trades? Mr. Anderson said yes.
- Commissioner Justen asked if the lower bid was taken between the two bids? Mr. Anderson said yes. On the front end, they were working with Eagle Builders but then transitioned to Weiss. Commissioner Justen believes Weiss owns Eagle, which concerns him about how this was bid and doesn't seem like competitive bidding. Mr. Anderson said the formula is set with Dakota County and they see it as more important to focus on the subcontractor bidding.
- Commissioner Justen said he has received comments from residents who are not in favor. His questions are related to the people he represents. He said he is having trouble with the numbers and citizens who may not dig this deeply into it may look at it in regards to their taxes for 18 years (two years to finish plus 16 years of TIF).
- President Napier said we need to clarify some financial things. If you were to leave it and walk away, the average resident would think we're going to get in their pocketbook for the next 16 years but that's not right. We need to clarify that they will not be paying an extra tax revenue into this. President Napier said we need either the City Manager or Ms. Kvilvang to clarify the actual tax impact for residents. We need to understand the financial impact from the average resident in our community.
- Commissioner Justen said another project that didn't ask for TIF is a differential for the taxpayer.
- Commissioner Vitelli said the bank building has been empty since 1997. He has been on this Council for 21 years and we've been trying to find something to go into Signal Hills for 21 years. We could walk away from this project and sit for another 21 years. He feels the arguments Commissioner Justen's arguments are not valid because the argument we've been getting from residents against this project is they don't want to pay tax dollars for it. TIF is not their money. TIF is generated from the increment of this project and after this project, we can see what tax benefit we will get from this project.
- Commissioner Fernandez asked if we are getting upfront money and park dedication money from this project. When would we see it and have access to that? City Manager Schroeder said there are three things: the building permit fee, the park dedication fee, and the admin costs, which is 10% of the TIF that is generated – we

would get that during 16 years of TIF. As was mentioned, the tax jurisdictions continue to get the current tax that is generated. That doesn't go away. He said the current tax on that property doesn't get touched. The sources and uses in the development pro forma, the building permit and park dedication fees, is \$994,000 that would basically be a 2021 revenue if it starts in 2020.

Stacie Kvilvang of Ehlers presented financial information, history of this site and an explanation of TIF.

In December 2019, Ms. Kvilvang said the City Council approved 12 years at \$3.282M TIF but Dominion needed 15 years. After that, the compromise was 13.5 years at \$3.6M, and then prevailing wage issue came up. And we came back now with 16 years and \$5.5M. She said she is confident and comfortable with that number. Talking about labor contracts, that's something we can put in the TIF agreement as a requirement.

Ms. Kvilvang said it's a short term investment for long term gain, and benefits to the City include:

- Redevelops vacant property in the city and achieves a long-term redevelopment goal
- Provides 393 units of high-quality affordable housing
- Provides over 200 construction jobs paying prevailing wage
- Provides 794% increase in City's portion of taxes starting in year 17
- Provides \$41,000/year to the City in annual funding for affordable housing
- Provides \$480,000 to City's Park Improvement Fund

Comments:

- President Napier asked Ms. Kvilvang, of the projects she has worked on, how many lookbacks have paid off that reduced TIF? Ms. Kvilvang said 10-15% of them perform as expected, 10-15% perform worse than expected, and about 80% come in about where expected.
- President Napier asked what the total permit fee cost will be. The building permit fee is about \$408,000 and the park dedication fee is about \$280,000.
- Commissioner Berry asked if they can request more TIF later? Ms. Kvilvang said there may be but this is their second ask, so we don't anticipate they will come back.
- Commissioner Vitelli thanked Ms. Kvilvang for the great presentation and loves the project.
- Commissioner Fernandez said this is a legacy project and is ready to move forward.
- Commissioner Justen said he is not in favor. He is not against TIF but the situation has changed and he cannot in good conscience move forward with this. We were looking at \$3.6M with a shorter term but feels like the excuse that's being used is prevailing wage and for us enforcing an law that's on the books. If we hadn't brought it up and agreed, Dominion would have had to do prevailing wage. He sees many problems in the numbers and the idea that it's been vacant

for many years. Residents think it won't offset their taxes. They don't think they're paying \$5M for this project. They are understanding that the offset of their taxes moving forward will not get the benefit if we had a different developer with different TIF. Or if Dominion had come in with \$3.6M and a shorter term.

- Going through the Renaissance Plan and studies of this plan, President Napier said it checks every box we had outlined for this property. The project fits what we have outlined in our plan. The emails he is getting are saying "don't raise my taxes," but that's not true - we are not doing that. We have our expert from Ehlers and said he relies a lot on City Manager Schroeder that these numbers work to generate new jobs and much needed economic impact to our community. President Napier said he is a big supporter of this project. We have a chance to make an impact for our community on this site. He said he was very concerned with the numbers but we have to rely on our financial experts, City Manager Schroeder, and Community Development Director Hartshorn. He said he is ready to move forward with it.
- Commissioner Pace said that President Napier said it perfectly and he is ready to move forward.
- Commissioner Vitelli quoted Kevin Hendricks who said, "Don't give up a good project waiting for the perfect project." This is a good project and what is best for West St. Paul. He has no reservations about moving forward.
- Commissioner Eng-Sarne said at the last meeting we were talking about comparable properties at 16 years of age. We were given 808 Barry Place, which is 16 years old. She went there and looked around at the condition of it. She asked people if they liked living there and had conversations with people. She was able to tour the inside, the pool and the units and it is still in great condition. It was a really good experience.
- Commissioner Berry was uncomfortable with \$5M but was fine with what they had at \$3.6M. The reason is, surely, they knew prevailing wage existed and they were okay with the TIF then. Nothing has changed, so she is not comfortable with the \$5M.
- Commissioner Fernandez is ready to move forward and is confident to make a decision from what he's heard. He appreciates Commissioner Eng-Sarne going out and doing what she did.
- Schroeder said the questions that Commissioner Justen and others have had are good questions and it's good to demand the answers. Staff has questioned the numbers, as well, throughout the process. There is a significant difference between a market multi-family housing project and a tax credit project. What gives him comfort about all of that, along with having experts analyze this, is having that lookback and our opportunity to put 'circuit breakers' in the TIF agreement and the development agreement. We will have language in that agreement that assures that, to the extent it's reasonably possible, we will be able to audit this and assure that the sworn construction statement stuff is, in fact, sound. That's the protection that we have that we control that agreement and it's incumbent upon us to ensure that we manage that well. We can manage that well. That satisfies him when he asks the same questions as Commissioner Justen was asking. Whether the multiplier effect on retail dev is \$9M or \$10M or \$6m, it

doesn't matter to him because he knows there is going to be some spinoff that occurs. There is leveraging that occurs and some of those benefits will happen. We will realize an increased revenue stream from development. There will be a Planning Commission review and the TIF agreement for review, as well. If there are questions between now and when the TIF agreement comes before the Commission, we have time to ask those questions.

President Napier asked City Attorney Land about the next steps we should be taking. Attorney Land said she sees sufficient support around the table that Staff can continue the process to vet the project. There is a project timeline and they will strive to meet those. It will come back to the EDA for a formal vote, at which point they will have the opportunity to put in the record what their position is and vote your conscience. We are hearing there is a sufficient number of head nods to move forward.

Commissioner Vitelli added that all of the Commissioners received the same emails from residents. He replied and explained to each how Tax Increment Financing works and many return emails said they understand it's a different situation. He is also comfortable that Mr. Anderson is willing to do a PLA on this.

#### **4. Adjourn**

Motion was made by Commissioner Berry and seconded by Commissioner Justen to adjourn the meeting at 9:14 p.m.

All members present voted aye. Motion carried.

David J. Napier  
President  
City of West St. Paul