City of West St. Paul
Economic Development Authority Work Session Minutes
December 9, 2019

1. **Open Work Session**

   President Napier called the meeting to order at 5:47 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 EDA Executive Director Jim Hartshorn EDA Assistant Treasurer Char Stark City Clerk/EDA Secretary Shirley Buecksler Keith Dahl, Financial Specialist – Ehlers Stacie Kvilvang, Senior Municipal Advisor – Ehlers Nick Andersen, Vice President & Project Manager – Dominium Eric Omdahl, Senior Development Associate - Dominium Matt Hodges, Development Analyst – Dominium

3. **Agenda Items**

   A. Dominium Project Discussion

   Executive Director Hartshorn presented. On August 26, 2019, Representatives from Dominium Development Company attended the EDA work session to receive feedback from the Board on a multi-family housing project proposed on the former KMART site at Signal Hills.

   Their proposal includes purchasing 12 acres located on the northern side of the Signal Hills mall. The project includes two buildings one of which is four stories with 137 units. The rents would be consistent with workforce housing. The second building would be five stories with 232 units for independent senior living. Both buildings are currently proposed with flat roofs.

   Dominium has requested tax increment financing (TIF) toward the cost of site cleanup, building demolition and related site work. Ehlers has reviewed the TIF request and determined that a public subsidy is necessary in order for the project to proceed. See attached memo from Keith Dahl, Financial Specialist with Ehlers.

The proposed development cost of this project per the pro forma is $98.8M. Land and construction costs are at $75.9M of that number (remainder includes working capital, developer fee, financing cost, and professional services). The County Assessor has determined the taxable market value of the land and building at $46,125,000 ($125,000/door). In 2023, the projected first full year of taxable value, the projected tax bill would be at $498.9K with available TIF (at 90%) of $365.1K. This project meets the EDA's criteria for a business subsidy.

The project would involve rezoning the parcel to an R-4 Multi-Family Residential district. This zoning designation is consistent with the Comprehensive Plan, which calls for mixed-use at Signal Hills mall and is consistent the housing plan. Dominium would also apply for tax-exempt bonds and 4% affordable housing tax credits through Dakota County. The existing TIF District would need to be retired, a new District created, and a development agreement entered.

This project, in order to proceed, needs to access a County tax credit allocation for which there could be multiple applicants (one potential is known at this time). If the Board is inclined to wish the project to move forward, it needs to do so in a timely fashion.

Mr. Andersen said that he wants to be sure the Board's questions are addressed. As a recap of the project, he said they are proposing two separate buildings. In terms of traffic study, the conclusion was that the traffic generated by this land use would be far less than the traffic generated by the former Kmart. Looking at the numbers, the amount of traffic was a fraction of that. On the market study, there's really robust demand for this type of housing right now. Occupancy rates are high for these types of projects. The market study report included data from affordable and market rate projects, and the affordable properties were 1% vacant. Mr. Andersen said they worked with Ehlers on TIF and that they can speak to that. Those are the three takeaways form the last meeting, he said.

President Napier said Kmart had about 5 to 12 cars there, on average. It wasn't a big draw there. The community was concerned about the traffic related to Butler, which is currently a mess during rush hour. That's where some of the residents will come forward to talk about.

Looking at the map, Commissioner Justen said the whole bottom line shows no access into the Signal Hills area from the south end of the property. Once concern about the traffic study is cars used to come through the Signal Hills lot to get in and out of the

Kmart lot, so they will need to take Butler, which will modify the traffic study. Concern is the traffic study cannot take that into account so the comparable is not quite there.

Commissioner Vitelli said if the project were to move forward, his estimation is the majority of traffic going south will take Livingston to Orme and then to Robert.

President Napier said when it comes to traffic, anything on this site will generate more vehicles. His one concern is TIF and said he is one that has been saying our city is getting "over-TIF'd" and we won't see those benefits until sometime down the road. He wants to be careful on that part of this project. Commissioner Vitelli reiterated that and said he wouldn't go past 12 years, based on the advice of our financial advisors.

Ms. Kvilvang said there are two primary things to know about TIF and tax credit housing. With TIF, that property has an existing property value on it. That face value stays frozen through the term of the district. The taxes that are generated will still go to the County, the City and the School District. It should be noted that that share may go down when the tax classification changes from commercial and it may be a little less but you'll be getting the base taxes that you've always been getting today. What the development has the ability to do is get the increased taxes from the development. If they're paying $100,000 today in taxes and in the future after the development is done, they're paying $500,000 in taxes, that $400,000 is what is available to assist with qualified costs. When you build tax credit housing/affordable housing, 100% of what they do is qualified costs for that development so you can give assistance to them. When you look at tax credit projects, the way that they get paid is not the way they typically get paid for a market rate deal. For a market rate deal, a developer will have a developer fee that is usually 3-5% of their total development costs, paid a little over time. The second way they get paid is from cash flow off that project, over time. In a tax credit property, the only way they get paid is through a developer fee. They are allowed to have a higher percentage of a developer fee. In order to make these deals work, they have to defer the developer fee, and Dominium is deferring 100% of their developer fee. Their partners are willing to have that fee capped for a longer period of time, so their ability to get paid is at risk. When we did our analysis and came up with the 12 year term, we looked at how long it takes for them to get that developer fee. What we're showing is that in 11 years, they should be able to have that deferred developer fee paid over time. After that, there will be cash flow. The reason we look at the deferred developer fee and when it is actually paid is because Dominium doesn't put in traditional equity. Their equity comes from tax credit investors. We don't look at it from a traditional cash on cash or cash on cost return that's out there. When we worked the numbers with Dominium, that's where we came up with 12 years. We view this as something that is still financially feasible for them to do at that term.

Mr. Andersen said at 12 years of TIF, we're deferring 100% of our developer fee. Instead of our fee being paid at closing or at construction completion, we're deferring it and not paying it until the project is operating. That's very a-typical. The investor would view that as being too risky. We started out with a 20 year TIF request, which we thought would get the project financed. After going through everything, we thought we could get comfortable with 15 years of TIF. A difference between the 15 and 12 year TIF is about a $700,000 swing. We may not be able to get a tax investor for this deal. We think there needs to be a fee on the front end, so we have concerns about the 12 year increment. He said he is not confident we can move forward on 12 years of TIF, and that's our hang-up right now.

Commissioner Vitelli also noted that the land acquisition costs appear to be a bit higher than normal and suggested they go back to the land owner. Mr. Andersen said they had that conversation with them but that didn't get them anywhere.

Commissioner Vitelli said he is reluctant to put more money in. If that's the problem, he said he is reluctant to put more money in Signal Hills' pocket. He said he likes the project and that we have talked for years about a grand scheme for that property, if we could get Signal Hills to sell everything and have some nice buildings in there, nice projects like around the Hy-Vee in Eagan. He said they need to go back and squeeze Signal Hills some more, if they want more than 12 years.

Executive Director Hartshorn asked Ms. Kvilvang about a look back provision. If the project performs better, then we could cut if off early. But if it performs worse, then we don't. Ms. Kvilvang said the difficulty here is they plan to sell that note and monetize it up front. Mr. Andersen said they wouldn't be able to market the sale of the note with that contingency out there.

Commissioner Pace agreed with Commissioner Vitelli but if they're unwilling to move on their price, he has a hard time with three years killing the deal. That's why we're asking Ehlers for their opinion. Other than that, he is not concerned about the traffic.

Mr. Andersen said it's not like they want to throw out the project on a $700,000 difference but we need to be comfortable that we can put the financing together in order to move forward. We're going to make a decision on whether or not we want to go spend a million dollars on architectural plans to bring this project to a closing and I can't start spending that money without the confidence that I can get it financed.

City Manager Schroeder said he is having the same struggle as everyone on both sides here. From his perspective, he looks at it as essentially a $100M project and the TIF is $3.3 to $4M of that. $700,000 out of $100M, there's got to be some ability to find that within the project. He said he hadn't heard about the note sale before and didn't know it existed. From an investors perspective and Dominium's perspective, you're trying to eliminate risk. Part of what Mr. Andersen is saying, with $4M of TIF, I feel better about my level of risk than I feel at $3.3M. My struggle is if there's a construction cost savings or operation cost savings, excess revenue or decreased expenses, currently there's not a handshake on how to address that. My hope has been during our discussions is to try to find something that satisfies both sides of that. So far, we haven't been able to accomplish that. I want to emphasize what Mr. Andersen said that, in order to continue down the path, it becomes real money fairly quickly. Part of what they're looking for, whether it's formal or informal, is they want to be reasonably comfortable that they understand what level you're very comfortable. Because if you say you're pretty comfortable and they go spend a bunch of money but you come back and say you're not comfortable, that's a bit of a problem. We need to figure out how to give them an appropriate message, where is the line and where isn't it.

Commissioner Pace said, on the same lines, they could also incur extra costs and could also incur less cash flow. Schroeder said that has been part of the discussion.

Commissioner Pace said, in his personal opinion, that he'd be comfortable with them moving forward. If it turns out to be 15 years, they need to apply for other subsidy monies.

Mr. Andersen said that cost isn't as big a concern as the design process and that they've already incurred a lot of costs on the project.

Commissioner Fernandez asked if they have exhausted all of their resources to bring it to 12. Mr. Andersen said he thinks they have and that they went back to the seller, shared their conceptual plans with the contractor, and that's the biggest assumption is the construction pricing. Going back to their owners, he said they had started out with a 20 year request. After vetting that, they were comfortable going to 15. But the 12 year TIF assumes we defer our entire fee on the project and our owners just couldn't get comfortable with that. Part of what they look at is what other things we're working on and where we want to spend our time, as well. The ability to get the project financed and, compared to other projects we're working on, they settled on 15 as being what they're comfortable with.

Commissioner Justen said Ms. Kvilvang, if the 12 year was predicated on the full deferment, if it would change her estimation if it was not a full deferment. She replied that their analysis was on the full deferment of the fee. If it's something less, it means more cash flow to them earlier on. The issue is, even if we look at given the benefit of 5% vacancy, it still gets you to the same point in time that the deferred developer fee is paid back. She said they are happy to go back and look for any flexibility but doesn't know if it's up to 15 years. Commissioner Justen questioned if that would change her analysis on 15 years but Ms. Kvilvang said no.

Commissioner Vitelli asked if they do prevailing wage. Mr. Andersen said he doesn't think there would be a requirement, not at the price point they have in their financial model now. The construction cost would increase from what was in Ehlers' analysis.

Commissioner Eng-Sarne said, for three members of Council, this is our first conversation like this. She said she takes seriously the recommendations from Staff and can sense their discomfort. $700K in what we do is still a significant amount of money, and we have constituents asking us to be frugal.

Commissioner Justen said, in fairness, that what you're looking for is the temperature of everyone in the room. He said that he is in a spot where he really likes the project but have had more pushback from residents on this that it isn't what they envision for that area. He said he is also concerned about getting affordable housing in town. In honesty, he said it will be hard for him to go back to residents who are not excited about it and why we green lit a higher term than our consultant recommended. Commissioner Justen said he could feel comfortable with the 12 and protected the taxpayers.

Commissioner Fernandez said he wants the project because it hits a lot of important elements. He said we did have movement from 20 to 15 and wouldn't want to lose this project, which could inevitably be a catalyst to the rest of the area. He said he is in favor at 15 and moving forward. Commissioner Pace agreed.

President Napier said, the fact that Signal Hills purchased the links that we are missing in this project and we have had several studies done on this area, this fits in exactly as they said. He is a firm believer that if this investment goes in and the money is available to make it look beautiful without skimping so much that lighting or the façade gets cheapened, he would support the 15 if Ehlers agrees that this could work. It will create some activity there, he said.

President Napier said he is really excited that someone is looking at this site. He said he would hate to see it go away but understands our fiscal responsibility.

Commissioner Vitelli said, if what President Napier and Commissioner Fernandez are saying that it will enhance the remainder of the Signal Hills property, then Signal Hills should reduce their price by $700K.

President Napier said he would hope that Ms. Kvilvang has looked at the real estate portion of that. Ms. Kvilvang said it is high for your market.

President Napier said if he had a retail space, he would want it here, and wants to fight for this project.

Commissioner Vitelli reiterated that he doesn't want it to go away but is not going to negotiate.

Commissioner Eng-Sarne said she is also in support of affordable housing with walkability, which is great for the community.

President Napier directed Schroeder, Hartshorn and Ms. Kvilvang to meet and work this out.

Commissioner Pace asked if this is time sensitive. Mr. Andersen said it is, in the sense that the Dakota County Community Development Agency will be issuing the bonds to finance the project. After they get their allocation of bonds for 2020, they will have enough bonds to fund both buildings. There is a project moving forward in Eagan and, if that is ready to close and start construction before us, they could get a portion of those bonds which would put us in a situation to finance only one of the two buildings next year. We would have to wait until 2021 to finance the second building. It's a matter of when the entire project can move forward, he said.

Schroeder said we will work with Ehlers and Dominium between now and the January 13, 2020 meeting with the intent to bring back something the Board can approve as a development agreement, if we can get it there and something they can rely upon.

Commissioner Justen asked if it would be fair to ask how many are at 12 and how many at 15.

Responses:
President Napier: 15.
Commissioner Fernandez: 15
Commissioner Pace: 15
Commissioner Justen: 12
Commissioner Berry: 12
Commissioner Vitelli: 12 and not negotiating
Commissioner Eng-Sarne: not a hard 12 or 15; willing to look at the whole

Schroeder said part of what they said is that they will take another look.

President Napier thanked everyone for coming.

4. **Adjourn**

Motion was made by Commissioner Eng-Sarne and seconded by Commissioner Justen to adjourn the meeting at 6:27 p.m.

All members present voted aye. Motion carried.

David J. Napier
President
City of West St. Paul