

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. Dominion 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. 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, Construction 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).

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