The CITY of EDINA

Tax Increment Financing Redevelopment Agreement with France Equities, LLC for 7200-7250 France Avenue

April 11, 2019 Edina HRA

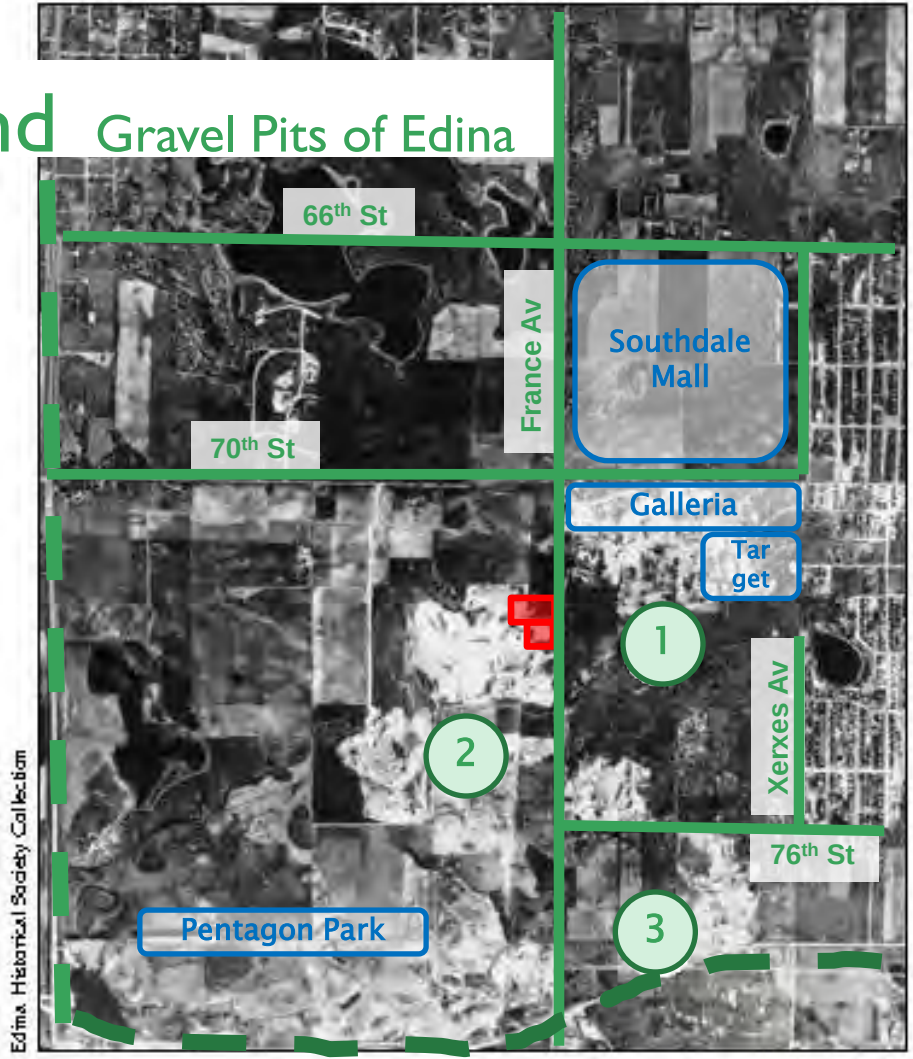
April 16, 2019 Edina City Council

Overview

- Background
- What is TIF
- TIF in Edina
- Staff Evaluation
- Final Recommended Terms
    - TIF Note structure
    - Public Benefits

Background

Gravel Pits of Edina



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The large white areas in this 1951 aerial photo shows how much of the Greater Southdale Area was originally used as gravel pits.

1) Glacier Sand and Gravel
2) Oscar Roberts Company
3) Hedberg and Sons

Source: Edina Historical Society as published in Winter 2016 *About Town* magazine

Background Gravel Pits of Edina

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The Prestige Office Building

7250 France Ave

Built 1972-74

The Oscar Roberts Company

7200 France Ave

Built 1967-69

Background - Current Conditions

7200 France Ave.

- Class “C” office space
- Aging and outdated
- Property sold several times in recent years as developers struggled to find a solution to reposition the property to modern uses
- Only 5 tenants remain

7250 France Ave.

- Class “C” medical office space
- Not permitted to be occupied due to structural instability of underground parking structure
- Vacant - No tenants remain

Background - Current Conditions

Photo 33: 7250 Parking ramp deteriorated precast concrete

Photo 34: 7250 Parking ramp structural steel shoring

Photo 35: 7250 Parking ramp deterioration at bearing wall and steel angles and plates added to support deck above

Photo 36: 7250 Parking ramp temporary shoring

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7250 France Ave.

Source: Stantec Consulting; Existing conditions report dated Feb. 6, 2019

Background - Approved Site Project

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GRANTED FINAL REZONING APPROVAL APRIL 2019

Background - Approved Site Project

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GRANTED FINAL REZONING APPROVAL APRIL 2019

Background - 2015 Community Vision

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"**Future-Oriented** … We stand on the foundation of our traditions, but are not afraid to adapt and change as the city evolves." (page 5)

"**Transportation Options** - … develop the sidewalk, trail and bike networks to improve accessibility and connectivity ..." (page 8)

"**Live and Work** … promote the development of a mix of commercial amenities, including restaurants and cultural amenities, which … can further act as connection points or hubs within the fabric of neighborhoods and development areas." (page 10)

Commercial Development… promote the continued vitality of existing core retail zones (page 9)

"**Residential Development Mix** … Continue to explore options for new multi-family housing throughout the city in mixed-use areas and near public spaces… create affordable housing options close to transit, shopping and employment centers " (page 7)

Background - 2018 Small Area Plan

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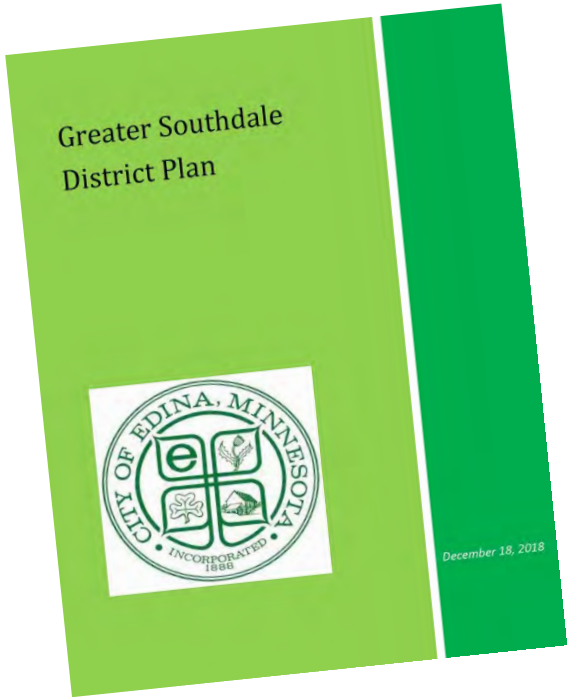


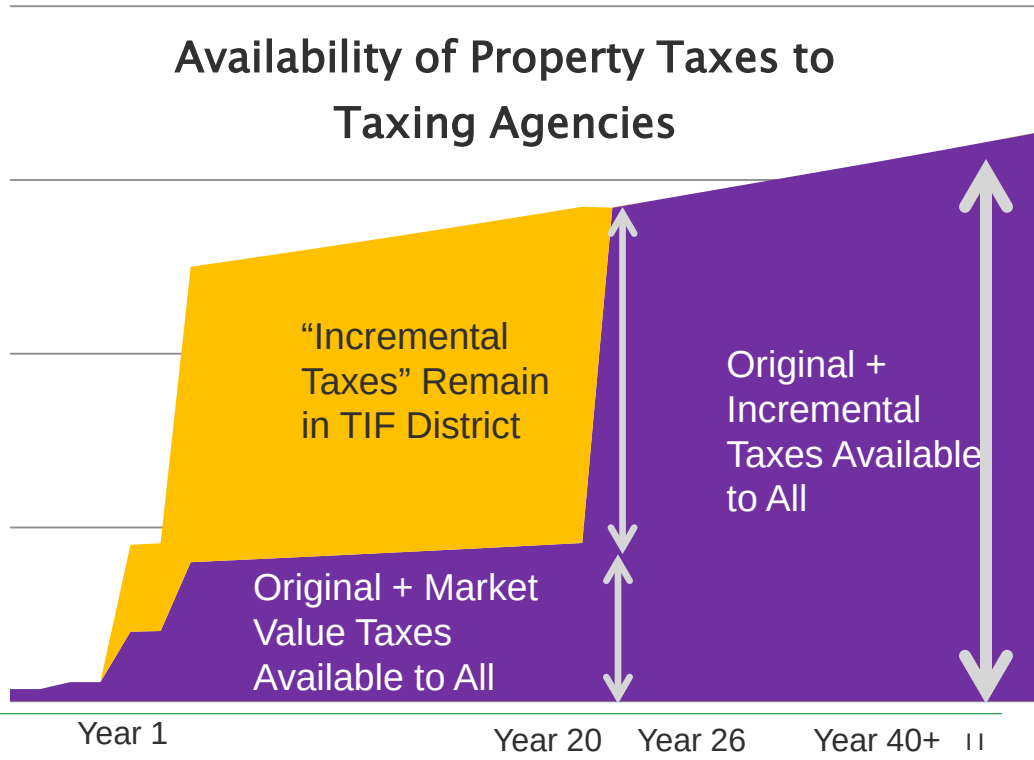
Small Area Plan approved Dec 2018

Recommended several design elements that the developer is willing to deliver as part of the whole site redevelopment:

- creation of north/south public route on the west side of France Ave.
- Generous set backs on public streets
- Limited height of new structures
- Quality architecture
- Create proper transition to adjacent neighbors

What is TIF?

- Economic development financing tool
  - Used throughout the U.S.
- Governed by Minnesota Statute
  - modified each year to prevent misuse and remain relevant for community goals
- Enabled by City Council
- "Tax Increment" Financing - uses growth in tax base to fund private investment and public infrastructure



What is TIF?

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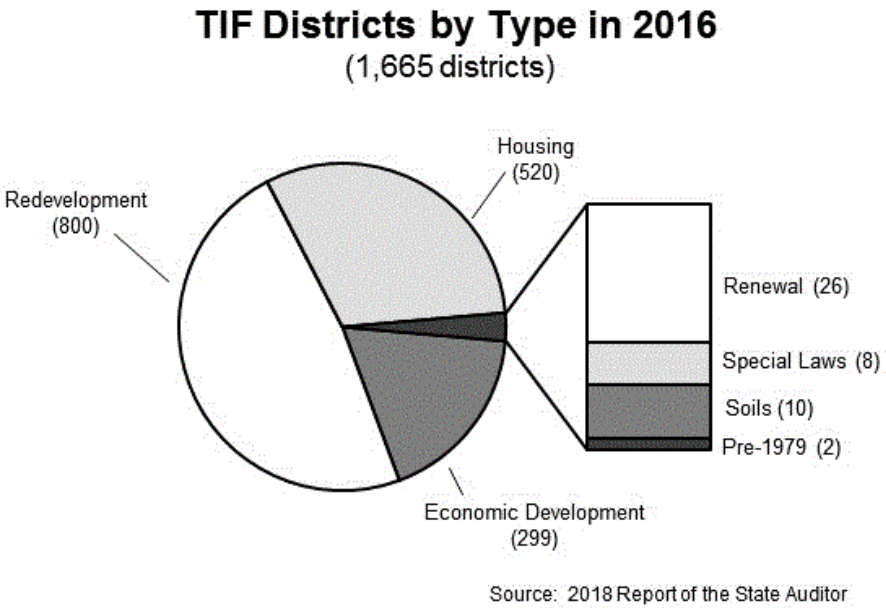
Types of Districts	Duration Limit
Economic Development	8 years
Renewal and Renovation	15 years
Edina Special Housing	20 years
Soils Condition	20 years
Housing	25 years
Hazardous Substance	25 years
Redevelopment	25 years

Reference: MN House Research Dept



What is TIF?

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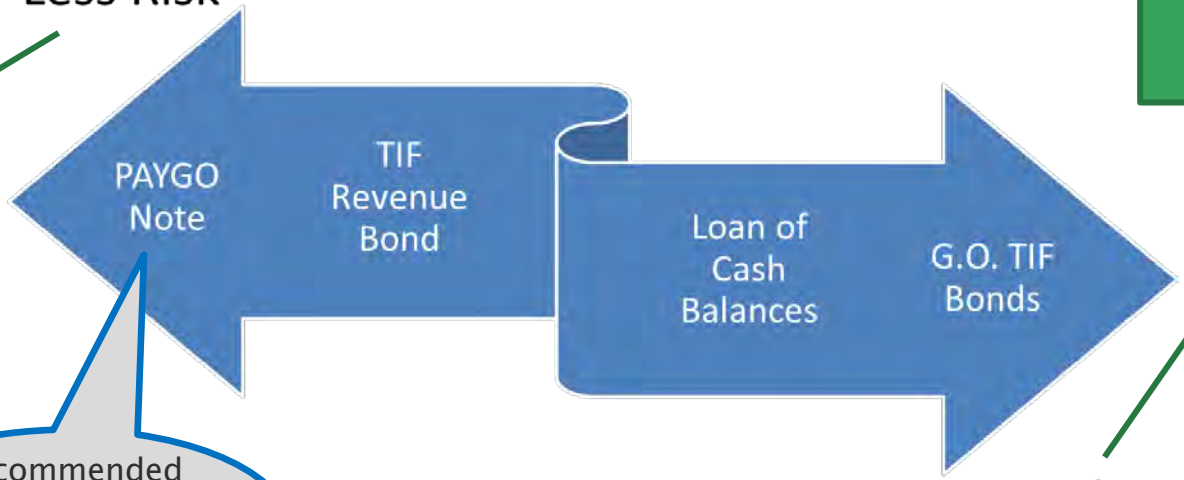
How can cities fund TIF improvements?

Less Risk

Preferred method in Edina



Recommended for the 7200/7250 project

More Risk

Usually avoided in Edina (unless special conditions exist)

What is TIF?

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Steps to Establish, Fund and Monitor TIF
(defined in Minnesota TIF Statutes)

Step1)
Create "District"

- Boundaries
- Maximum Budget
- Term
- Qualifications
- But-for

Action taken at 3-19-19 Public Hearing

Step2)
Consider Funding for Specific Projects

- Private developments
- Public improvements

Action considered today

Step 3)
Monitoring & Compliance

- 4-year knock down
- 5-year construction
- Annual reporting
- De-certification

What is TIF? … The "but for" Test

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What is the "but-for" test?

Before creating a TIF district, a local government must find that in its opinion the development would not have happened *but for* the use of TIF (hence, the term "but-for" test).

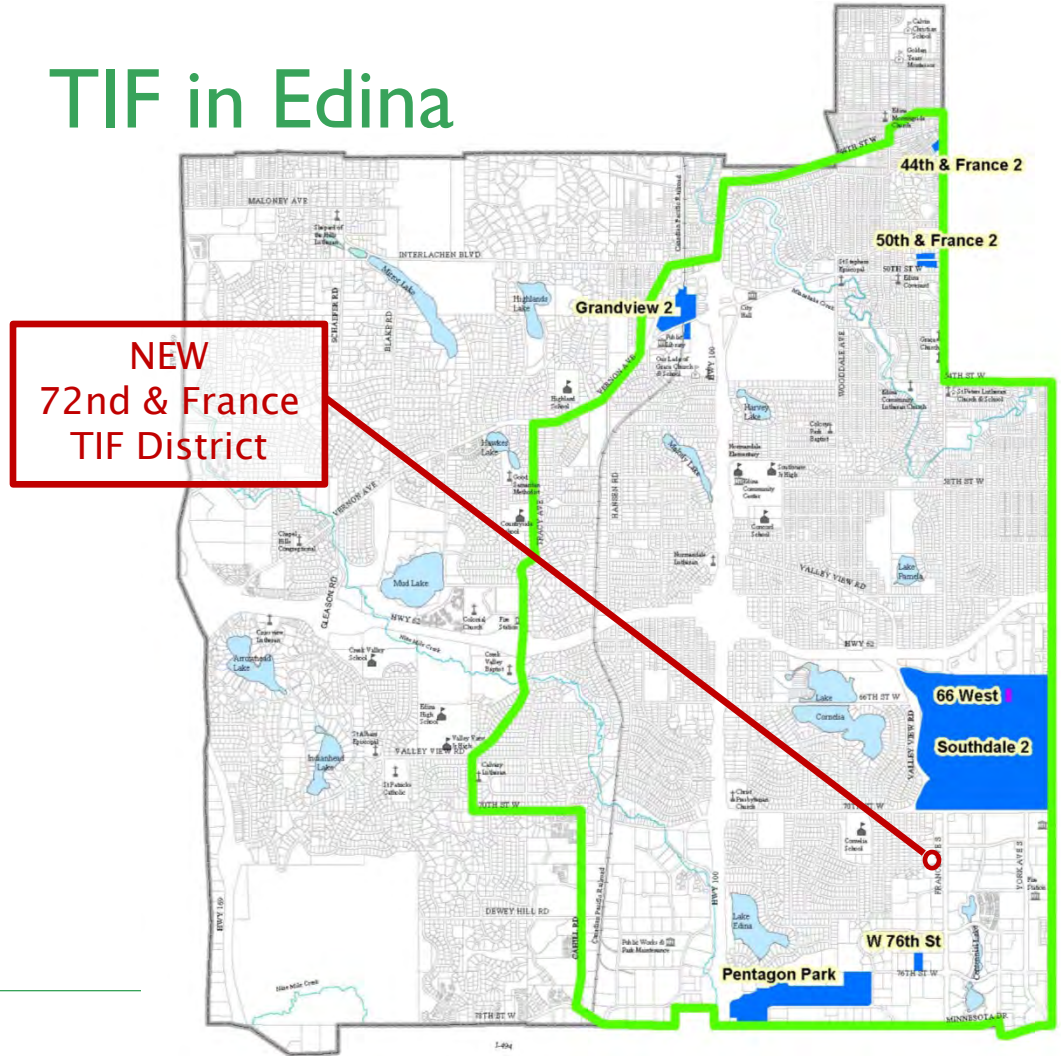
Staff Note: this does not imply that NO project will be able to move forward, but that a project of the scale, scope and quality of that proposed will be able to move forward

What is the purpose of this test?

- To prevent excessive or unnecessary use of TIF – If a development would have been done anyway, why should TIF be used to assist it?
- To protect the interests of overlapping governmental units (typically the county and school district). If authorities use TIF for developments that would be built anyway, TIF diverts potential tax revenue from the county and school to the development authority and city.

Source: Office of Legislative Auditor, *Tax Increment Financing* p. 42 (1986) – edited for brevity.

TIF in Edina



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Edina has used TIF financing since the 1970s.

Edina has 8 active TIF Districts:

- Southdale 2
- Pentagon Park
- 66 West
- Grandview 2
- 50th & France 2
- 44th & France 2
- 76th Street
- 72nd & France

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52 NEW Commercial Redevelopment Projects since 2010

TIF in Edina

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Only 6 of **52** major projects since 2010 received pledges of Tax Increment

1) Southdale Center, 2012
2) 66 West Apartments, 2015
3) Nolan Mains / 50th & France Parking Ramps, 2017
4) Pentagon Village (South), 2018
5) 4500 France, 2018
6) 7200-7250 France, 2019 PENDING

TIF in Edina

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Edina updated the TIF Policy in 2011.

In Edina, incremental property taxes are typically used to reimburse developer for eligible expenses after successful completion of the project. This eliminates financial risk to the City.

TIF is considered for use under limited conditions:

1) Projects that deliver measurable benefit to the general public
2) To cover the financial gap of constructing affordable housing
3) To avoid an outdated facility from having a blighting influence on neighboring properties

The amount of TIF pledged is limited to that required to fill a financial gap in the budget.

TIF in Edina

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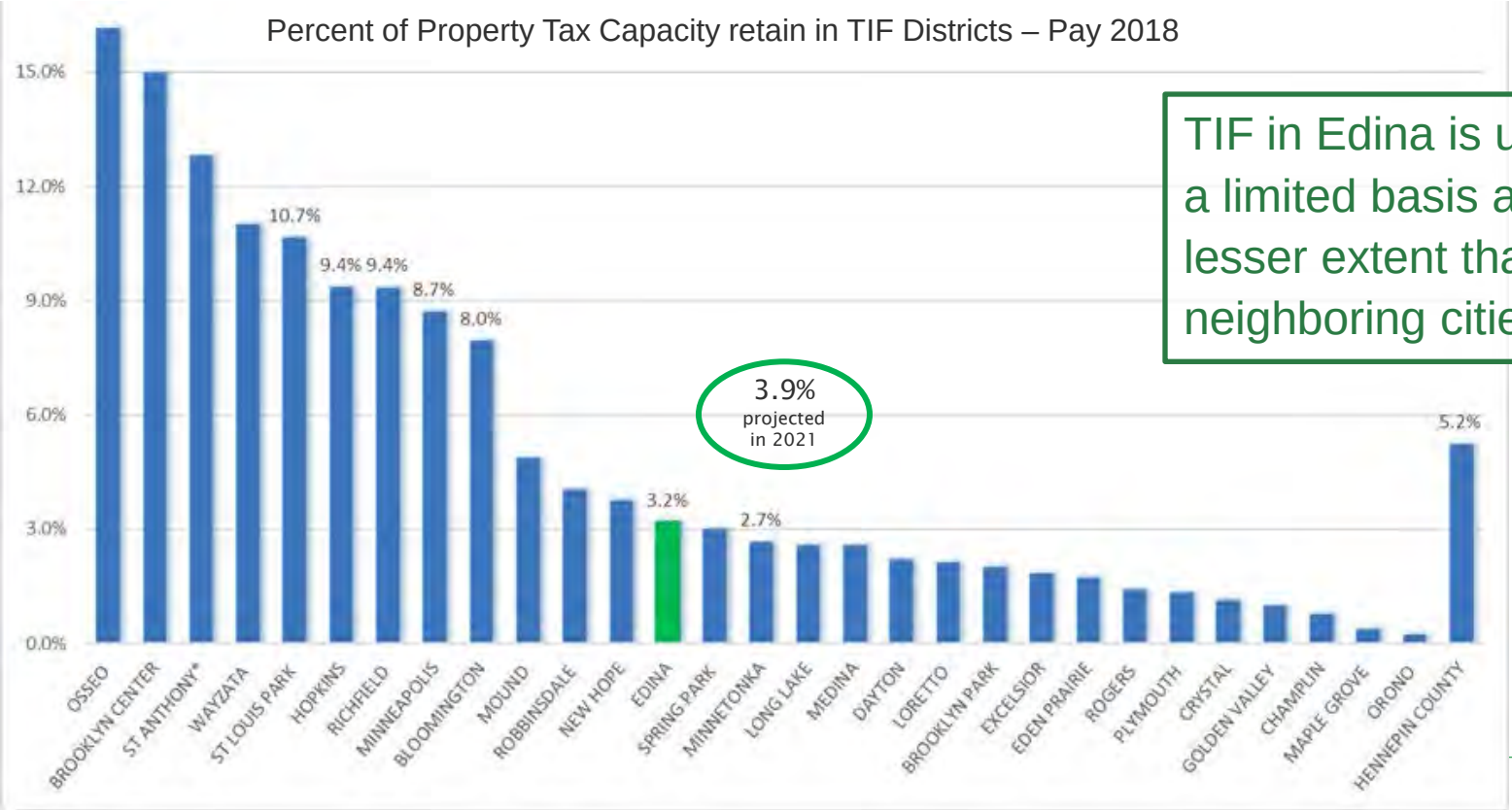

TIF in Edina is used on a limited basis and to a lesser extent than neighboring cities

TIF in Edina

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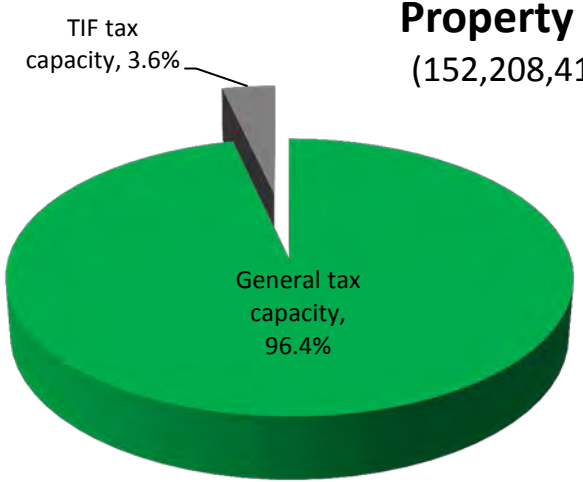
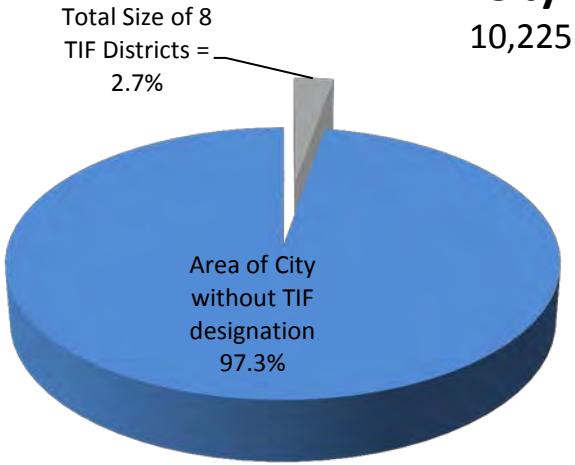
City of Edina
Property Tax Capacity
(152,208,410 for Pay 2019)



Source: Edina Assessing Dept.

City of Edina
10,225 Total Acres



Source: City of Edina

Note: These percentages will be reduced when the 209-acre Southdale 2 District decertifies in 2021.

Staff Evaluation – Overview

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The developer requested $12 million in TIF support to make their project viable.

This request has been analyzed and evaluated. A substantial budget gap has been confirmed.

This gap can be resolved through the combination of:

- Additional developer equity
- Tax Increment Financing
- Outside grants

Staff Evaluation – Impact to Tax Base

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	Current conditions (2018)	After full development (2022)	Percent Change
Property Tax Capacity	217,506	1,250,287	+575%
Estimated Market Value	$10,950,300	$94,245,600	+861%

The 20-year revenue flow of increment property taxes is conservatively estimated to be $12,050,000.

Staff Evaluation – Required Improvements

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Minimum Improvements

- All demolition and site preparation for 5.19 acres
- Delivery of two apartment buildings with street level commercial space
  - 62 of the 301 units to be affordably priced for 25-years
- Commence and complete for-sale townhouses
- Preserve mature grove of trees
- Deliver all easements

Staff Evaluation – Pro Forma Review

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USES	Amount	Percent
Acquisition and Land Costs	$ 11,500,000	10.3%
Site and Construction Hard Costs (total) including the following major elements:	$ 87,879,716	78.7%
Improvements to W. 72nd Street	$ 1,200,000	–
Demolition, Remediation & Earthwork	$ 3,243,700	–
Structured Parking	$13,579,370	–
Site Utilities	$ 1,790,000	–
Misc. Public Realm improvements, including streetscape along all public roads and shared street	$ 1,598,900	–
Soft Costs (total) including the following major element:	$ 7,376,782	6.6%
Developer & Related Fees	$ 4,310,000	–
Financing Costs (total)	$ 3,942,672	3.5%
Lease-up Reserves (total)	$ 1,003,857	0.9%
TOTAL	$111,703,027	100%

SOURCES	Amount	Percent
Equity	$ 30,862,027	27.7%
Mortgage	$ 68,841,000	61.6%
TIF Note	$ 12,000,000	10.7%
Grants	$ TBD	0%
TOTAL	$111,703,027	100%

Staff Evaluation – Developer Reimbursement

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The project budget includes more than $22 million in costs that are deemed "TIF qualified" under Minnesota Statute including:

- public realm improvements
- Storm water
- affordable housing
- demolition and site work
- structured parking
- professional fees

Staff recommends that a maximum of <u>$12 million</u> be reimbursed in a <u>limited number of categories</u>

Description of TIF Reimbursable Costs
Demolition, remediation and site preparation (excluding any grant income)
Streetscape and public realm improvements (excluding any grant income)
Storm water improvements (excluding any grant income)
Affordable housing (62 units)
TIF-related Professional Fees
Total not to exceed $12,000,000

Staff Evaluation – Compliance with TIF Plan

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- Plan for TIF District approved March 2019
- $28.4 million Budget
  - Over 20 year term
  - With interest earnings
  - Excludes base taxes distributed to other taxing agencies (County, Schools, City, etc)
- Actual amount can change within established categories* but not exceed the total

Projected Uses of Tax Increment Funds

Acquisition*		$1.0 M
Site improvements*		$3.2 M (11%)
Utilities*		$1.8 M
Affordable Housing*		$5.4 M (19%)
Other Improvements*		$3.5 M (12%)
Administrative*		$2.7 M (10%)
Interest		$10.7 M (38%)
	Total	$28.4 Million

Source: Page 2-6 of approved 72nd & France TIF Plan

Staff Evaluation – Alternatives considered

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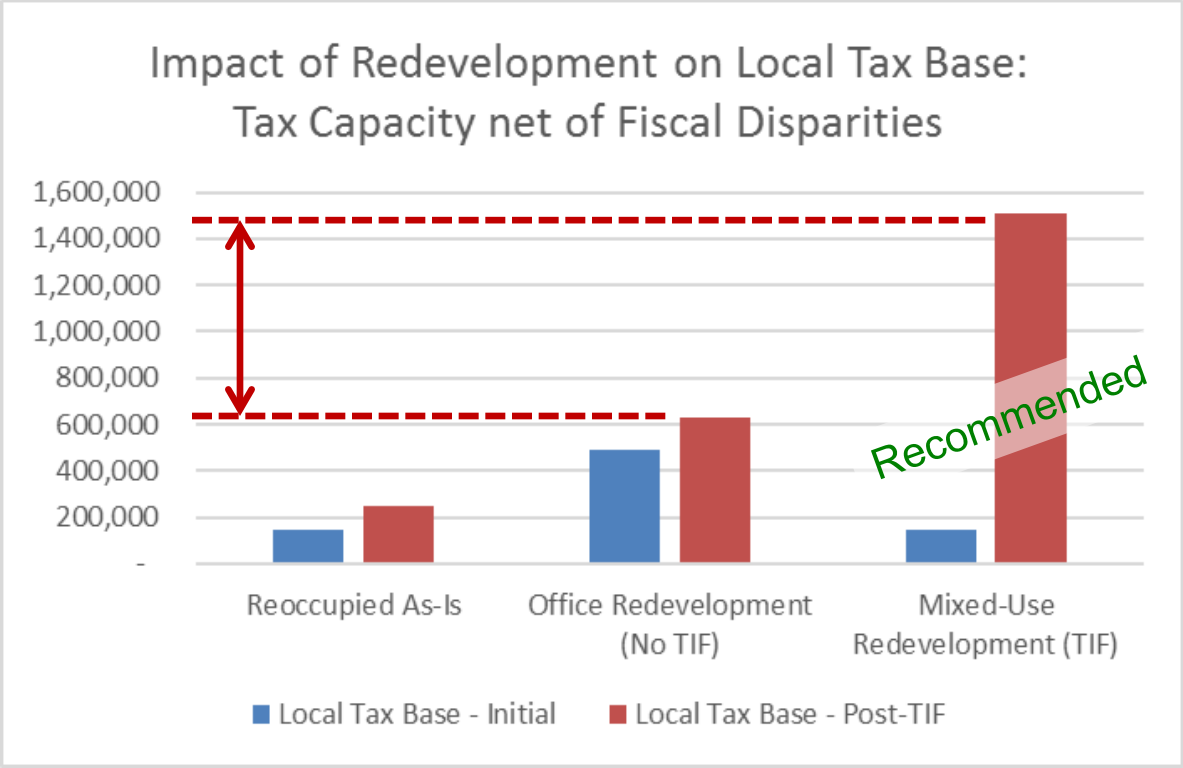
Staff recommends mixed-uses with TIF participation, since it delivers the highest long-term tax benefit to the community in addition to providing affordable housing and other community benefits



Summary of Final Terms

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Actions Taken or in Process

- Term Sheet was approved February 2019
  - The full Redevelopment Agreement is based on these approved terms
- 20-year Special Housing TIF District was approved March 2019
- Final site plan approvals secured April 2019
- Grants are being pursued from MN DEED and Met. Council

Summary of Final Terms

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Public Financial Participation via TIF Note

- Issued AFTER all conditions successfully achieved
  - complete apartments & commercial
  - begin first townhouse
  - deliver all easements
- Sized based on actual costs at completion
  - Not to exceed $12.0 million
  - earns 5.5% interest (to match loan)
  - $500,000 penalty if townhouses not completed on time
  - Payable from incremental taxes generated from the site or pooled monies (if preferred by City)
- "Lookback" at earlier of complete sale or 15 years
  - "Clawback" of excess profits greater than 16% IRR

Summary of Final Terms

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Affordable Housing by Private Developer

- 20% of total units priced to be affordable to families earning 60% Area Median Income (AMI)
- Units distributed among studio, 1-bed, 2-bed, and townhouse style
- Units are scattered throughout both buildings
- All residents have same access to all amenities
- Basic term extended to 25-years
- City retains first right to purchase at affordable rates for 20-years if building is sold or converted to condominium
- Both parties agree to discuss – in good faith – opportunities to extend term past 25 years prior to termination

Summary of Final Terms

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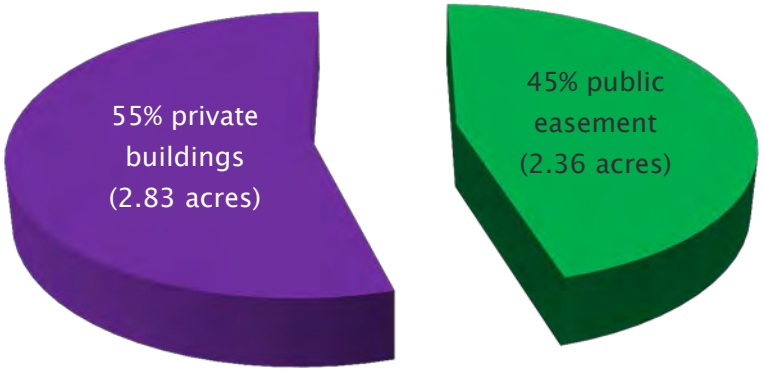
Public Land Use Easements

- Conservation of 25,000 Sq Ft of mature wooded area
- Permanent public access easements:
  - along 72nd, France and Gallagher street edges (40,070 Sq Ft)
  - shared street/woonerf (27,400 Sq Ft)
  - second level outdoor plaza (10,336 Sq Ft)

- Developer retains right to establish reasonable rules to ensure these areas are properly used and to keep public activities from disturbing the residents

Land Area dedicated to Private & Public Uses



Summary of Final Terms

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Additional Public Use Rights

- Public use of approx. 217 covered parking stalls on Level 1 and P1

  - Developer retains right to establish reasonable time limits and rules to ensure adequate parking is available for customers in these areas

- Shared use of the 238,000 cubic feet underground stormwater facility to benefit neighboring properties

Source: PC World website

Source: CADdetails.com website

Summary of Final Terms

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<u>Road Improvements paid by Developer</u>

- Road improvements along W. 72nd St
  - France to Lynmar
  - Hinder cut-through traffic into neighborhood
  - traffic calming
  - specific features subject to Engineering Dept. based on community input *(photo is an example only)*

The City Engineering Dept. will also pursue additional traffic calming improvements to W. 72nd Street using local funding sources.

Summary of Final Terms

The CITY of EDINA

In conclusion,

1) The HRA's legal counsel has prepared a Redevelopment Agreement that contains full detail of the obligations and responsibilities of the City and Developer.
2) The Developer/owner has executed this Agreement.
3) Staff recommends that the City and HRA execute this Agreement.

Questions / Discussion