EXECUTIVE SUMMARY

TITLE: PLACE’s Application for Tax Increment Financing (TIF) Assistance

RECOMMENDED ACTION: This report presents staff’s review of PLACE’s application for Tax Increment Financing (TIF) assistance in connection with its redevelopment at the SE quadrant of Highway 7 & Wooddale Ave.

POLICY CONSIDERATION: Is the EDA willing to consider:

- Reimbursing PLACE with up to $5.66 million in tax increment assistance generated by the redevelopment over 15 years to assist the project’s financial feasibility?
- If so, does the EDA/City Council wish to proceed with a resolution calling for a public hearing for the establishment of the proposed Wooddale Station TIF District?

SUMMARY: Nonprofit developer, PLACE, submitted plans for a major redevelopment at the southeast quadrant of Highway 7 and Wooddale Ave, and the northeast corner of W 36th Street and Wooddale Ave. The proposed plans depict a mixed-use, mixed-income, transit-oriented, and environmentally sustainable development. Project components include: two apartment buildings with a total of 299 residential units (200 affordable and 99 market rate), a 110-room hotel, a 10,800 SF E-generation/co-generation/greenhouse facility, approximately 16,200 SF of ground floor commercial/retail space, and a one acre “urban forest.” There is a financial gap in the project’s residential financial pro forma. Accordingly, PLACE submitted an application for Tax Increment Financing (TIF) assistance.

FINANCIAL OR BUDGET CONSIDERATION: PLACE would acquire the assembled redevelopment site from the EDA and City for $6.457 million. Updated cost estimates show Total Development Costs (TDC) to be approximately $123 million. According to the analysis conducted by the EDA’s financial consultant, Ehlers, the residential portion of the project is not financially feasible due the high number of affordable units (200 of the 299 units or 67% of the project), corresponding restricted rents and related development costs. To offset the gap in financing the housing portion, the project demonstrates a need for up to $5.66 million in a pay-as-you-go tax increment generated by the overall development over a 15 year term. The requested $5.66 million of TIF assistance brings the housing portion of the project closer to financial feasibility; however, PLACE has significant work remaining relative to cost refinement, financing, fundraising and securing of equity partners before the project can proceed.

Upon the project’s completion, it is estimated that the total taxable market value of the redevelopment would be approximately $62 million. Provided the EDA is supportive of providing TIF assistance, the EDA will be asked to begin the formal process of establishing a redevelopment TIF district, which has a term of 26 years. The first step is to call for a public hearing date. A resolution calling for a public hearing for the establishment of the proposed Wooddale Station TIF District is scheduled for March 20th.

VISION CONSIDERATION: St. Louis Park is committed to providing a well-maintained and diverse housing stock.

SUPPORTING DOCUMENTS: Discussion

Prepared by: Greg Hunt, Economic Development Coordinator
Reviewed by: Michele Schnitker, Housing Supervisor/Deputy CD Director
Approved by: Tom Harmening, EDA Executive Director and City Manager
DISCUSSION

BACKGROUND: PLACE (Projects Linking Art, Community & Environment), a Minneapolis 501(c)(3) nonprofit developer, is proposing to redevelop a site located at the southeast quadrant of Highway 7 and Wooddale Ave and the northeast corner of W 36th Street and Wooddale Ave. The site is divided by the CP RR line and the Cedar Lake LRT Regional Trail and located in the Elmwood Neighborhood. The site consists of approximately 6.9 acres (4.9 AC on the north side and 2 AC on the south side). The site runs parallel to the Cedar Lake LRT Regional Trail and is situated on either side of the future SWLRT Wooddale Station.

LOCATION OF PLACE REDEVELOPMENT AT WOODDALE STATION

CURRENT PROPOSAL: PLACE proposes to acquire nine properties from the EDA and City, raze the former McGarvey Coffee and Nash Frame buildings, and construct a mixed-use, mixed-income, transit-oriented, environmentally sustainable development. Current plans depict four buildings split on the north and south sides of the future SWLRT Wooddale Station. PLACE’s revised project plans were reviewed and discussed at the February 13, 2017 Study Session where they were favorably received. As discussed at the Study Session, the proposed PLACE project consists of the following components:

- 2 apartment buildings with a total of 299 residential units between them (of which 200 would be affordable and 99 would be market-rate) including 99 mixed-income live/work units.
- 110-room hotel
- 10,800 sq. ft. e-generation /co-generation /greenhouse facility
- Approximately 16,200 sq. ft. of ground floor commercial/retail space for a café, coffee house, bike shop, and five microbusinesses
- 445 parking spaces (structured, surface, and street)
- 510,778 sq. ft. of total program space
- 1 AC “urban forest”

The entire project is being designed to achieve LEED Gold certification.
**PROPOSED DEVELOPMENT PROGRAM:** As discussed at previous study sessions, the proposed PLACE development would be constructed on the north and south sides of the SWLRT Wooddale Station as shown below.
North Side Components:

- **Residential/Commercial building**
  - 5 stories
  - 218 total dwellings
  - 152 apartments affordable for families with incomes up to 60% AMI, including 10 live/work units ($51,480 per year for a family of four)
  - 66 market rate apartments (including 8 live/work units)
  - Retail bike shop and repair: 2,484 sq. ft.
  - Makers Space: 2,724 sq. ft.

- **E-Generation/Co-generation/Greenhouse facility**
  - 1 story building with 10,800 total sq. ft.
  - Anaerobic digester and energy balancing equipment: 8,300 sq. ft. (scaled to accommodate organics generated exclusively from the PLACE project yet expandable to accommodate offsite organics).
  - Vertical greenhouse for urban agriculture: 2,500 sq. ft.

- **Urban Forest**
  - 1-acre urban retreat parallel to the Cedar Lake LRT Regional Trail

- **Parking**
  - 220 spaces including underground, surface (with solar canopy) and on-street parking
  - 5 car-share spaces

South Side Components:

- **Residential/Commercial**
  - 6 stories
  - 81 total dwellings
  - 48 live/work apartments affordable for families with incomes up to 60% AMI ($51,480 per year for a family of four)
  - 33 live/work market rate apartments (including 5 “Type II” live/work units (a special prototype that features an apartment connected to a 250 square foot micro-storefront that allows the household to affordably operate a street-level commercial business)
  - Cafe: 4,644 sq. ft.
  - Coffee House: 1,173 sq. ft.
  - Maker/Co-working Space (Work Hub): 2,724 sq. ft. (split between 2 stories)

- **Hotel**
  - 6 stories
  - 48,047 sq. ft
  - 110 rooms
  - Select service (*Fairfield Inn & Suites by Marriott managed by Aimbridge Hospitality*)

- **Parking**
  - 225 spaces including underground, structured and surface
  - 5 car-share spaces
**Affordable Housing & Housing Unit Mix**

Both apartment buildings are mixed income with a total of 99 market-rate units and 200 units affordable to households at 60% of the Area Median Income* (AMI) ($51,480 per year in 2016 for a family of four). Of these 299 units, 99 are designated as live/work spaces for creatives (58 affordable and 41 market rate). The project’s overall dwelling unit mix is as follows:

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Market Rate</th>
<th>Affordable</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Units</td>
<td>%</td>
<td>Units</td>
</tr>
<tr>
<td>Studio</td>
<td>26</td>
<td>26%</td>
<td>106</td>
</tr>
<tr>
<td>1 Bedroom</td>
<td>38</td>
<td>38%</td>
<td>52</td>
</tr>
<tr>
<td>2 Bedroom</td>
<td>27</td>
<td>27%</td>
<td>21</td>
</tr>
<tr>
<td>3 Bedroom</td>
<td>8</td>
<td>8%</td>
<td>19</td>
</tr>
<tr>
<td>4 Bedroom</td>
<td>0</td>
<td>0%</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>99</td>
<td><strong>200</strong></td>
<td>299</td>
</tr>
</tbody>
</table>

*Median household income is the level at which half the households have lower incomes and half the households have higher incomes; it is not an average.) In 2016 the AMI in Hennepin County for a family of four was $86,600.

**OVERVIEW OF THE PROJECT’S SOURCES AND USES**

There are five primary components within the PLACE project: affordable housing, market rate housing, hotel, commercial/retail/workhub, and e-generation/co-generation. Each component’s sources and uses statements, cash flow projections, and investor rate of return (ROR) were analyzed by Ehlers and staff to determine to what extent the project may have a financial gap justifying the use of TIF.
**Project Financing Sources**

PLACE’s anticipated financing sources for the project are as follows (as refined by Ehlers):

<table>
<thead>
<tr>
<th>PLACE Project, City of St. Louis Park</th>
<th>Total</th>
<th>%</th>
<th>Committed</th>
<th>%</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td># Source</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Investor Equity</td>
<td>3,500,000</td>
<td>3%</td>
<td>3,500,000</td>
<td>3%</td>
<td>Secured</td>
</tr>
<tr>
<td>2 Private Activity Bonds (Debt) - Residential</td>
<td>53,019,250</td>
<td>43%</td>
<td>27,100,000</td>
<td>22%</td>
<td>Pending</td>
</tr>
<tr>
<td>3 Private Activity Bonds (Debt) - Commercial</td>
<td>3,080,956</td>
<td>3%</td>
<td>-</td>
<td>0%</td>
<td>Pending</td>
</tr>
<tr>
<td>4 Private Activity Bonds (Debt) - E-Generation</td>
<td>3,772,732</td>
<td>3%</td>
<td>-</td>
<td>0%</td>
<td>Pending</td>
</tr>
<tr>
<td>5 Debt - Hotel</td>
<td>17,329,355</td>
<td>14%</td>
<td>-</td>
<td>0%</td>
<td>Debt source not yet identified</td>
</tr>
<tr>
<td>6 Equity - Hotel</td>
<td>5,392,729</td>
<td>4%</td>
<td>-</td>
<td>0%</td>
<td>Additional equity sources to be identified</td>
</tr>
<tr>
<td>7 City Loan</td>
<td>1,500,000</td>
<td>1%</td>
<td>-</td>
<td>0%</td>
<td>Pending</td>
</tr>
<tr>
<td>8 Equity - Investment Tax Credit Eq</td>
<td>1,994,187</td>
<td>2%</td>
<td>1,994,187</td>
<td>2%</td>
<td>E-Generation funding</td>
</tr>
<tr>
<td>9 Equity - 4% Low Income Housing Tax Credit</td>
<td>13,000,000</td>
<td>11%</td>
<td>13,000,000</td>
<td>11%</td>
<td>Affordable Apartment funding</td>
</tr>
<tr>
<td>10 Equity - New Market Tax Credits</td>
<td>2,814,233</td>
<td>2%</td>
<td>2,814,233</td>
<td>2%</td>
<td>E-Generation and Commercial Space funding</td>
</tr>
<tr>
<td>11 Grants/Rebates - Xcel Energy</td>
<td>4,350,000</td>
<td>4%</td>
<td>350,000</td>
<td>0%</td>
<td>Committed portion is for residential funding</td>
</tr>
<tr>
<td>12 Grants - Minnesota Pollution Control Agency</td>
<td>2,000,000</td>
<td>2%</td>
<td>-</td>
<td>0%</td>
<td>Pending</td>
</tr>
<tr>
<td>13 Grants - Watershed District</td>
<td>125,000</td>
<td>0%</td>
<td>-</td>
<td>0%</td>
<td>Timing TBD</td>
</tr>
<tr>
<td>14 Grants - Metropolitan Council TOD</td>
<td>2,890,000</td>
<td>2%</td>
<td>2,000,000</td>
<td>2%</td>
<td>Committed portion is for residential and E-Generation; remaining portion pending award April through September 2017</td>
</tr>
<tr>
<td>15 Grants - Hennepin County TOD</td>
<td>750,000</td>
<td>1%</td>
<td>750,000</td>
<td>1%</td>
<td>Secured</td>
</tr>
<tr>
<td>16 Grants - Hennepin County AMIF</td>
<td>500,000</td>
<td>0%</td>
<td>-</td>
<td>0%</td>
<td>Application submitted, awards May 2017</td>
</tr>
<tr>
<td>17 Grants - Hennepin County EBF</td>
<td>127,230</td>
<td>0%</td>
<td>-</td>
<td>0%</td>
<td>Application submitted, awards May 2017</td>
</tr>
<tr>
<td>18 Grants - MN Dept of Employment and Economic Development</td>
<td>535,348</td>
<td>-</td>
<td>-</td>
<td>0%</td>
<td>Timing TBD</td>
</tr>
<tr>
<td>19 Fundraising/TBD</td>
<td>366,677</td>
<td>0%</td>
<td>52,230</td>
<td>0%</td>
<td>Ongoing</td>
</tr>
<tr>
<td>20 Deferred Developer Fee</td>
<td>5,449,050</td>
<td>4%</td>
<td>5,449,050</td>
<td>4%</td>
<td>Committed</td>
</tr>
<tr>
<td>21 Rebate - Sales Tax</td>
<td>640,000</td>
<td>1%</td>
<td>640,000</td>
<td>1%</td>
<td>Affordable Apartment funding</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>123,058,954</td>
<td>100%</td>
<td>57,659,167</td>
<td>47%</td>
<td></td>
</tr>
</tbody>
</table>

*Committee sources update provided by PLACE 2-16-17*

1. **Tax Exempt Bonds.** The rental housing anticipates receiving funding through Low-Income Housing Tax Credits and tax exempt bond financing provided by the State/City. The City has no liability regarding the repayment of these bonds, and the administrative fee that it charges goes to the housing rehabilitation fund. At the October 10, 2016 Study Session, the City Council expressed a willingness to issue such a bond provided the Developer met all the criteria in the application process. On December 19, 2016, the City Council adopted a resolution authorizing PLACE to seek $55 million in multifamily housing bonds from the State. The $27.1 million allocation subsequently awarded was significantly less than anticipated given the oversubscription of housing bonds, but still sufficient to secure the project’s low-income housing tax credits by right. The term of financing is anticipated to be 35 years at 5%. The term is the maximum term for these types of bonds (and common) and the rate is on the higher end of recent housing projects; however, the assumed 5% is acceptable at this time due to the current uncertainty within the market. Allianz Life Insurance Company of North America will purchase the project tax credits. In April, the City Council will be asked to conduct a public hearing to consider providing final approval for the Bonds and related documents.

2. **Private activity bonds and tax credits.** PLACE will seek other tax-exempt private activity (conduit) bonds to fund the market rate housing. 501c(3) bonds, Investment Tax Credits, New Market Tax Credits, and an Xcel Energy rebate will likely fund the e-generation and commercial portions of the project. The bonds are likely to achieve the best rates and carry green credentials that will enhance marketing due to PLACE’s commitment to
sustainable design. Allianz Life Insurance Company of North America intends to purchase any taxable bonds. An Allianz-related company outside the life insurance marketplace intends to purchase some or all the tax-exempt bonds. Financing firm, Stifel, will purchase any of the bonds not immediately placed.

3. **Conventional financing.** PLACE will likely need to seek conventional financing for the hotel. However, at this time it currently assumes it could do it through 501c3 tax exempt bonds. The City’s bond counsel does not support this position, so PLACE has asked for an opinion from the IRS to determine bond financing feasibility. Ehlers analysis reviewed the hotel financing from a conventional perspective and has opined that this portion of the project would be financially feasible without any TIF assistance.

4. **Private equity raised from PLACE and the other project service providers.** PLACE raised $3,500,000 of private equity that has been expended to date on project feasibility. Additional equity will be required for the hotel if it is required to be financed conventionally.

5. **Public grants and fundraising.** With assistance from the City, PLACE has secured $2,750,000 million in grants from the Metropolitan Council and Hennepin County to offset qualified redevelopment costs. PLACE anticipates applying for an additional $8,137,578 in grants by September 2017. Additionally, PLACE has raised $52,230 in fundraising efforts and is looking to raise another $400,000 by groundbreaking. The status of each grant/fundraising effort is itemized below:

<table>
<thead>
<tr>
<th>Public Grants and Fundraising</th>
<th>Total</th>
<th>Secured</th>
<th>In Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Xcel Energy Grants</td>
<td>4,350,000</td>
<td>350,000</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Minnesota Pollution Control Agency</td>
<td>2,000,000</td>
<td>-</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Watershed District</td>
<td>125,000</td>
<td>-</td>
<td>125,000</td>
</tr>
<tr>
<td>Metropolitan Council Transit Oriented Development (TOD) Fund</td>
<td>2,850,000</td>
<td>2,000,000</td>
<td>850,000</td>
</tr>
<tr>
<td>Hennepin County TOD Fund</td>
<td>750,000</td>
<td>750,000</td>
<td>-</td>
</tr>
<tr>
<td>Hennepin County Affordable Housing Incentive Fund (AHIF)</td>
<td>500,000</td>
<td>-</td>
<td>500,000</td>
</tr>
<tr>
<td>Hennepin County Environmental Response Fund (ERF)</td>
<td>127,230</td>
<td>-</td>
<td>127,230</td>
</tr>
<tr>
<td>MN Dept of Employment and Economic Development</td>
<td>535,348</td>
<td>-</td>
<td>535,348</td>
</tr>
<tr>
<td>Fundraising/TBD</td>
<td>356,677</td>
<td>52,230</td>
<td>304,447</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>11,594,255</td>
<td>3,152,230</td>
<td>8,442,025</td>
</tr>
</tbody>
</table>

6. **Deferred Developer Fee.** In PLACE’s TIF application, they committed to defer 78% or $11,853,061 on a total requested developer fee of $15,100,000 to create and permanently maintain the project. However, as discussed further below, the requested developer fee exceeded industry norms and was reduced for the TIF review. As revised, the project would defer approximately 68% or $5,449,050 on a total developer fee of $8,001,622.
Project Uses
The Total Development Cost (TDC) to construct the project is approximately $123 million as summarized below (numbers refined by Ehlers):

<table>
<thead>
<tr>
<th>Uses</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition</td>
<td>6,547,600</td>
<td>5%</td>
</tr>
<tr>
<td>Construction Costs, SAC, &amp; Permits</td>
<td>82,317,051</td>
<td>67%</td>
</tr>
<tr>
<td>Environmental Abatement</td>
<td>2,853,361</td>
<td>2%</td>
</tr>
<tr>
<td>Professional Services</td>
<td>9,012,214</td>
<td>7%</td>
</tr>
<tr>
<td>Financing Costs</td>
<td>10,642,638</td>
<td>9%</td>
</tr>
<tr>
<td>Developer Fee</td>
<td>8,001,622</td>
<td>7%</td>
</tr>
<tr>
<td>Cash Accounts/Escrows</td>
<td>3,684,469</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>123,058,954</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

1. **Property Acquisition Cost:** As indicated above, the proposed purchase price for the nine subject properties is $6,547,600 ($3,995,480 for the north site and $2,004,520 for the south site) plus the EDA’s estimated holding costs of $547,600. The combined land acquisition price equals approximately $26 per SF or $21,900 per apartment unit, not accounting for the hotel, commercial space, and E-generation facilities.

The purchase price represents the City’s actual cost for acquiring and holding the land. It is within market range for market rate mixed use developments in first-ring suburbs but would be considered somewhat above market if this was an entirely affordable development. Given that the PLACE project is a mixed use project (albeit with a sizable affordable component) it was deemed appropriate by staff for the project to pay a market rate for an assembled site adjacent to a highway interchange and future LRT station.

PLACE would secure control of the site through a Purchase Agreement with the EDA as follows:

a. $5,047,600 at closing; and
b. The balance of $1,500,000 payable over 10 years at 4% interest.

2. **Developer Fee:** PLACE included an 11.2 percent developer fee across the project, which exceeds industry standards. By comparison, typical market rate housing, hotel, and commercial projects receive a 2-5 percent developer fee. Affordable projects typically receive an 8-11 percent developer fee (higher because affordable projects defer a majority of the fee up front and receive payment out of cash flow over time, if any).

For the purposes of this review, Ehlers modified the project’s budget to more closely align with market norms. The developer fee was revised to 4% for the market residential component, 3% for the commercial component, and 3% for the hotel component. The affordable component developer fee is at 11%, and the 11.2% E-generation developer fee is unchanged since it will not receive or contribute to the TIF.
3. **Residential Total Development Cost (TDC):** The TDC is approximately $292,000 per unit in the South building $273,000 per unit in the North building. These costs include related costs from the portion of the parking, common areas, amenities, soft and financing costs, etc. By comparison, most new construction projects that are similar in nature are currently between $220,000 and $250,000 per unit. This project exceeds the higher end of TDC for the residential portion and need to be further refined by PLACE.

**Project Cash flow projections**

1. **Apartment Rents/Commercial Leases:** The affordable unit rents are at the regulatory maximum rents for households at 60% of area median income (AMI), which translates to rents between $919/month for a studio and $1,524/month for a four-bedroom unit. Market Rate rents range between $1,185/month for a studio and $2,678 for a three-bedroom and are $1.86 sq/ft on average. This is somewhat conservative for first-ring suburbs as typical market rate projects are now above $2 sq/ft.

   Commercial rents on a triple net basis range from $16 sq/ft for in-line retail, $24 sq/ft for the café, and $41 sq/ft for the coffee house. PLACE’s proposed commercial rents are within the typical range for the market.

2. **Hotel Room Rates and Occupancy:** PLACE projects an average daily room rate of $124 and 68% occupancy. Both of these values are within the Metropolitan Area’s industry averages.

3. **Operating Expenses:** Residential operating expenses of approximately $3,000 per unit per year (before taxes, management fees, and reserves) is within industry standards.

**Redeveloper’s Request for Public Financing Assistance**

**Application for Tax Increment Financing**

Of the $123 million TDC, PLACE estimates the project will incur nearly $9.5 million in extraordinary costs* in redeveloping the subject site. These include the following.

<table>
<thead>
<tr>
<th>Extraordinary Cost Estimates</th>
<th>AMOUNT ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soil tests, environmental consulting, investigation &amp; permits</td>
<td>171,000</td>
</tr>
<tr>
<td>Asbestos abatement, building demolition and disposal (net of grants)</td>
<td>128,700</td>
</tr>
<tr>
<td>Soil correction (net of grants)</td>
<td>666,795</td>
</tr>
<tr>
<td>Utility design &amp; construction</td>
<td>696,261</td>
</tr>
<tr>
<td>Streets and roads</td>
<td>438,297</td>
</tr>
<tr>
<td>Structured parking</td>
<td>6,888,860</td>
</tr>
<tr>
<td>Woonerf</td>
<td>483,400</td>
</tr>
<tr>
<td><strong>TOTAL Extraordinary Costs</strong></td>
<td><strong>$9,473,313</strong></td>
</tr>
</tbody>
</table>

*Extraordinary costs are expenses encountered over and above those which a developer would typically expect to incur in a suburban development (e.g. asbestos removal, building demolition, contaminated soil removal and disposal, storage tank removal and disposal, shoring, utility replacement, specialized stormwater management, structured parking, etc.)
These costs inhibit the project’s financial feasibility and are the types of expenditures within a Redevelopment TIF District that are eligible for reimbursement with tax increment.

**Recommended Amount of TIF Assistance**

Ehlers analyzed the returns for each project component separately. Based on the submitted information, the hotel and commercial components can meet typical industry return expectations without the use of tax increment.

As previously noted, 200 of the 299 units will have affordable rents and income restrictions. The lower cash flow from the affordable rents limit how much debt the residential project can carry. The affordable housing will also use low income housing tax credit (LIHTC) equity, which means typical market based cash-on-cash return comparisons do not apply. For primarily affordable housing projects, Ehlers analyzes such criteria as the project’s ability to meet required debt coverage ratios and repay deferred developer fee in 10-15 years.

Ehlers recommends providing TIF in a principal amount of $5.66 million, with a maximum term of 15-years based upon its analysis of the development pro formas. The TIF would be in the form of a pay-as-you-go TIF Note and be made available exclusively to reimburse the developer for a portion of the extraordinary costs cited above. With this level of assistance, the residential development can repay the deferred developer fees in approximately 12 years and meet debt service coverage requirements. PLACE initially requested up to $8,000,000 of TIF assistance, which represents the maximum TIF generated over a 26-year term.

It is important to note that when evaluating these types of developments, it is challenging to accurately estimate a project’s precise financial success upon project stabilization. The objective is to assemble, within certain parameters, a pro forma that provides a comfort level to the investors in the project. Consistent with other recent redevelopment projects with which the EDA has been involved, a "look back" provision would be incorporated into the redevelopment contract with PLACE. Per the contract, the Redeveloper would be required to submit a final pro forma detailing the actual financial performance of the project. The look back provision ensures that if the project performs financially better than currently estimated, the EDA shares economically in the success of the project by reducing the amount of TIF assistance provided.

Providing tax increment financing assistance to the proposed redevelopment makes it possible to: construct a transit-oriented, highly sustainable project consistent with the Comprehensive Plan; bring the subject properties to optimal market value; provide the community with additional housing choices (both market rate and affordable); and create new employment opportunities and significant tax base. Such assistance would represent nearly 5% of total project costs. As a reminder, the tax increment would be generated by the project itself and would only be provided to the Developer once construction was satisfactorily completed and the Developer supplies statements verifying that it has incurred the specified qualified costs. The EDA would be obligated to provide assistance to the project only to the extent that the project generates sufficient tax increment to make the bi-annual payments.

**TIF Note**

It will take approximately 18 months to construct the proposed project. The first increment would be paid in 2019. The Note would terminate with final payment on February 1, 2034. The proposed assistance would be financed on a "pay-as-you-go" basis, which is the preferred financing method under the City's TIF Policy. The Note is currently estimated to bear interest at 5%, which is the
Redeveloper’s proposed bank financing rate for the project and will be further refined as they get closer to obtaining all financing for the project. The size of the TIF Note is based upon no inflationary value in the project (as with all projects). This is more conservative estimating and thus it is anticipated that the pay-as-you-go note will be paid off earlier than estimated. As with most of the EDA’s redevelopment contracts, PLACE will be required to execute a Minimum Assessment Agreement for the value utilized for projecting the amount of TIF assistance available.

**TIF District**
The subject site is within the City’s Redevelopment Project Area which is the portion of the city where the EDA may statutorily establish TIF districts. In order to provide the proposed PLACE project with tax increment a new Redevelopment TIF District would need to be established.

Consulting firm LHB was retained to conduct a TIF district feasibility analysis to determine if the subject site qualified as a Redevelopment District under *Minnesota Statutes, Section 469.174, Subdivision 10*. After inspecting and evaluating the subject properties and applying current statutory criteria, LHB concluded in its report that the proposed TIF district qualifies as a Redevelopment District based on the following findings:

- The proposed TIF District has a coverage calculation of 88.7 percent which exceeds the 70 percent requirement.
- 100 percent of the buildings are structurally substandard which exceeds the 50 percent requirement.
- The substandard buildings are reasonably distributed throughout the geographic area of the proposed TIF District.

The proposed TIF district would include the following nine parcels:

- 5925 State Hwy No 7
- 5815 State Hwy No 7
- 5725 State Hwy No 7
- 3520 Yosemite Ave S
- 3565 Wooddale Ave
- 3548 Xenwood Ave S
- 3575 Wooddale Ave
- 5816 36th St W
- 5814 36th St W

Such a TIF district could allow up to 26 years of tax increment. The 5925 Highway 7 property currently lies within the Elmwood TIF District. Therefore, that property would need to be decertified from the Elmwood TIF District in order to include it in the proposed Wooddale Station TIF District.

**Property Value and Taxes**
All the parcels in the proposed TIF district are currently tax exempt. The total market value of these parcels estimated for establishing the proposed TIF district’s base value is currently pending. The estimated market value of the property upon the proposed project’s completion (for TIF estimation purposes) is $61,700,000. Most of the new value would be captured as tax increment and used to make payments on the TIF Note until it is paid off and the TIF district is decertified. It is estimated that *PLACE* would generate over $1,063,000 in total property taxes annually. The City, County and School District would receive the property taxes collected on the subject site’s
Base Value. The project is estimated to generate a total of $631,976 in gross tax increment annually. Once the TIF Note is retired, the additional property taxes generated by the project would be paid to the local taxing jurisdictions.

It should be noted that the value of the project could be much higher than the estimated $61.7 million once it is assessed for tax purposes. This was a conservative value utilized only for estimating the amount of TIF the project would generate. Should the value of the project at the time of completion be higher than the estimated amount, the principal amount of the TIF Note would be paid back sooner than the projected 15 years and local taxing jurisdictions would receive the benefit of having the full value for tax purposes sooner than anticipated.

**Conformance and Analysis under the City’s TIF Policy**

PLACE’s proposed mixed-use project meets the following Minimum Qualifications as outlined in the City’s TIF Policy:

- Promotes neighborhood stabilization and revitalization by the removal of blight and the upgrading of existing housing stock.
- Provides a balanced and sustainable housing stock to meet diverse needs both today and in the future.
- The project will be consistent with the City’s Comprehensive Plan and Zoning Ordinances upon approvals.
- The Redeveloper has demonstrated that the proposed project is not financially feasible “but-for” the use of tax increment financing.
- The Redeveloper has a proven track record of successful real estate development performance (including affordable housing) and has demonstrated the capability to fully complete the project as proposed.

The proposed project meets the following “Desired Qualifications” as outlined in the TIF Policy:

- Creates a substantially higher ratio of property taxes paid before and after redevelopment and provides a significant increase in taxable market value.
- Facilitates new construction on a site which would not likely be redeveloped to its optimal use without such assistance.
- Redevelops underutilized property.
- Creates a high quality building (e.g. sound architectural design, quality construction and materials)
- Creates new employment opportunities.

In addition to the above, the proposed project would have the following additional benefits:

- Intensifies the subject site and makes optimal use of the property with an attractive mixed-use, mixed income, transit oriented, highly sustainable development that is walkable and human-scale.
- Results in the sale of City and EDA properties.
- Complements, integrates with, and strengthens the surrounding multi-family neighborhoods.
- Further increases the housing options available in the St. Louis Park and diversifies the local housing stock by providing market rate and affordable units as well as live/work units.
- Provides housing for more than 2-person families by providing units with 3 or more bedrooms.
- Helps stabilize the commercial businesses along W 36th St by increasing the potential customer base.
Incorporates Green Building design and features (portions of the project expect to achieve LEED Gold certification)

Lies within a SWLRT Station Planning Area as identified in the City’s Comprehensive Plan.

Incorporates Livable Communities and Transit Oriented Design principles.

Located along an existing transit route, regional trail and approved LRT corridor.

**Grading under Project Report Card**

PLACE’s TIF application for proposed redevelopment was graded according to the Project Report Card provided within the City’s TIF Policy. The application was graded as follows:

- **Promotes housing for large families.**
  PLACE will feature a housing mix ranging from studios to four bedroom units. As proposed, it will have 29 units with three or more bedrooms which represents 10% of the project’s unit mix. This percentage garnered a grade of “C” on the scale.

- **Provides economic integration of rental or ownership projects.**
  Of the proposed 299 apartment units, 200 (or 67%) would be designated as affordable. This percentage far exceeds the scale, thus a grade of “A” was provided.

- **Ratio of soft costs to Total Project Costs.**
  Soft costs of the total project were estimated at approximately $30.5 million or 25% of total project costs. This percentage represented a grade of “C” on the scale.

- **Ratio of private to public (TIF) financing.**
  $123 million in private development costs to $5.66 million in TIF resulted in a $21.74 private / $1 TIF ratio which garnered an “A” on the scale.

- **The value of the site before and after redevelopment**
  All the parcels in the proposed TIF district are currently tax exempt. The total market value of these parcels estimated for establishing the proposed TIF district’s base value is currently pending but an earlier estimate had established the district’s base value at $8.7 million (which is likely high). The projected market value upon redevelopment is approximately $61.7 million. If (for the lack of a better number) the earlier base value was used, the ratio value of the site before and after redevelopment would be $1:$7.00 which represented an “A” on the scale.

- **New Job Creation in City**
  The total number of new FTE jobs expected to be created in the city as a result of the proposed project is estimated at 118.5. This level of job creation garnered an “A” on the scale.

The proposed project received bonus points for:
- assembling all the properties required for the redevelopment
- redeveloping blighted/contaminated property
- being part of a mixed-use development
- adding value to the neighborhood
- achieving LEED gold medal status
- incorporating livable communities
likely stimulating further investment in the surrounding neighborhood
• being located in one of the city’s Priority Redevelopment Study Areas
• having a significant community impact

Upon calculation of all applicable factors and bonus points, the PLACE project received a final grade of “A” according to the Project Report Card within the TIF Policy.

**Conformance with the City’s Business Subsidy Policy**

Any TIF assistance provided PLACE’s proposed redevelopment would be exempt from state business subsidy requirements as it relates to housing, pollution control/abatement, and redevelopment (Section 116J.993, Subdivision 3). Therefore, no public subsidy hearing would be required; however, the EDA would still be subject to modified reporting requirements.

**Risk Assessment Summary**

1. **Financial**: the City is serving as the conduit issuer of PLACE’s revenue bonds. These are limited obligations secured solely by the revenues of the facility, and do not have any impact on the City’s bond rating, nor are the City or EDA liable for any default by PLACE. The EDA will provide a paygo tax increment revenue note. The EDA is only required to make payments on the TIF Note to the extent the improvements constructed by PLACE result in an increase in taxable market value/property taxes. There is no penalty to the EDA or City if no increment is generated, or if the increment generated is insufficient to fully pay the principal and accrued interest on the TIF Note.

2. **Real estate**: the EDA will convey the assembled property to PLACE. The deed from the EDA to PLACE will contain the usual reverter provisions that allow the EDA to retake title to the property if PLACE fails to construct the project. However, PLACE will likely be required to mortgage the property as security for its financing, and once that happens, the EDA’s right of reverter will be subordinated to the mortgage. From discussions with the developer, it appears that the EDA does not need to convey the property to PLACE at the time the temporary bonds are issued to finance a portion of the affordable housing component (and therefore the EDA will not have to subordinate its right of reverter to a mortgage at that time). This allows the EDA and City to retain ownership of the property until permanent financing is obtained for the entire project. If the developer is unable to secure its permanent financing for the entire project, the EDA and City retain the property. If PLACE does secure such permanent financing, it shows that the market believes the PLACE project is feasible and should give more comfort to the City and EDA. If the project fails and the lender forecloses on the mortgage, the EDA would not be able to exercise its right of reverter as to any portion of the property subject to the mortgage.

3. **Political**: there is a potential risk that a failed development would be a political black eye. However, it is likely that at least the housing portion of the overall development can be successfully completed. Furthermore, we believe that the City and EDA may be able to mitigate the risk of losing control of the entire property (as described above) if it considers requiring a Declaration of Restrictive Covenants to be filed against the entirety of the property. If a Declaration is filed of record against the property, even if a portion of the project is unsuccessful and a mortgage lender forecloses on that portion, the EDA would be able to enforce the restrictions on use provided in the Declaration.
Summary
Upon review and analysis of the developer’s financial pro forma, Ehlers determined that the residential portion of the proposed PLACE project is not financially feasible but for the provision of tax increment financing. However, even with the potential TIF support, questions remain on the project’s operating costs, capital costs, uncommitted funding sources, and hotel financing. PLACE has significant remaining financing and fundraising work to complete before the project could be financed.

PLACE’s proposed redevelopment meets the City’s objectives for the provision of Tax Increment Financing as specified in the City’s TIF Policy. The project meets all the Minimum and Desired Qualifications for providing TIF assistance and received a final grade of “A” according to the Project Report Card within the TIF Policy. Given these findings, staff supports reimbursing PLACE for up to $5.66 million in qualified development costs in the form of pay-as-you-go tax increment generated by the project so as to allow the redevelopment to proceed.

NEXT STEPS: As with all such TIF applications, it is at the EDA’s discretion as to whether it wishes to reimburse the PLACE project with the recommended level tax increment assistance. Provided the EDA supports providing financial assistance to the PLACE project as proposed, the EDA will be asked to begin the formal process of establishing the proposed Wooddale Station TIF District; the vehicle through which the assistance would be provided. The first step of which is to call for a public hearing date. A resolution calling for a public hearing for the establishment of the proposed TIF district is scheduled for March 20th. Subsequently the next steps in the TIF approval process would be as follows:

1. Call for Public Hearing related to issuance of private activity bonds
2. Approval of Wooddale properties purchase agreement with HCHRA
3. Negotiation of business terms for the provision of financial assistance with PLACE
4. Review of proposed business terms of Purchase & Redevelopment Contract
5. Approval of TIF Plan by Planning Commission
6. Public Hearing related to issuance of private activity bonds
7. Approval of Purchase & Redevelopment Contract & TIF District Public Hearing & Plan approval - EDA and City Council