

DESTINATION MEDICAL CENTER CORPORATION

RESOLUTION NO. 44-2016

Approving the Alatus 2nd Street Development, Contingent Upon Subsequent Approval of a Modification of the Development District and Evidence of Financing

The following Resolution was offered by Ardell Brede, seconded by Michael Dougherty.

BACKGROUND RECITALS

A. Under Minnesota Statutes, Section 469.41 Subdivision 13, a project must be approved by the Destination Medical Center Corporation (“DMCC”) before it is proposed to the City of Rochester (the “City”). The DMCC must review the proposed project for consistency with the Development Plan, adopted by the DMCC on April 23, 2015 (the “Development Plan”).

B. By correspondence to the DMCC dated December 7, 2016, and attached hereto as Exhibit A, the City has requested approval of the Alatus 2nd Street Development project (the “Proposed Project”), and that City expenditures and financing in the amount of up to \$10,500,000 be credited to the City’s \$128,000,000 local contribution as required by statute. The City’s expenditures and financing include funding from tax increment financing bonds.

C. Pursuant to Minnesota Statutes, Section 469.47, subdivision 4, the City’s local match contribution may be provided by the City from any source identified in Minn. Stat. Section 469.45 and any other local tax proceeds or other funds from the City and may include providing funds to assist developers undertaking projects in accordance with the Development Plan or by the City directly undertaking public infrastructure projects in accordance with the Development Plan, provided the projects have been approved by the DMCC.

D. Pursuant to Minn. Stat. Section 469.45, Subdivision 4, the City may elect to establish one or more redevelopment tax increment financing districts within the Development District to fund public infrastructure projects.

E. Minnesota Statutes, Section 469.40, subdivision 11, defines “public infrastructure project” as “a project financed in part or in whole with public money in order to support the medical business entity's development plans, as identified in the DMCC development plan” and expressly includes, among other items, the ability to

- (1) acquire real property and other assets associated with the real property;
- (2) demolish, repair or rehabilitate buildings; . . .
- (4) install, construct, or reconstruct elements of public infrastructure required to support the overall development of the destination medical center development district including, but not limited to, streets, roadways, utilities systems and related facilities, utility relocations and replacements, network and communication systems, streetscape improvements, drainage systems, sewer and water systems, subgrade structures and associated improvements,

landscaping, facade construction and restoration, wayfinding and signage, and other components of community infrastructure; (5) acquire, construct or reconstruct, and equip parking facilities and other facilities to encourage intermodal transportation and public transit; . . . (7) make related site improvements including, without limitation, excavation, earth retention, soil stabilization and correction, and site improvements to support the destination medical center development district; [and] (8) prepare land for private development and to sell or lease land

F. The majority of the site of the Proposed Project is located in the development district boundaries as adopted in the Development Plan (the “Development District”) and in the Saint Marys Place district as described in the Development Plan.

G. Pursuant to Resolution No. 42-2016, the DMCC authorized the submission of a proposed modification to the Development District to include the Proposed Project in the Development District. The DMCC intends to schedule a public hearing on the proposed modification, pursuant to statute, and take action on the proposed modification at its meeting on January 26, 2017.

H. The City and the Destination Medical Center Economic Development Agency (the “EDA”) have examined the Proposed Project applying the evaluation factors contained in the Development Plan, and now recommend the Proposed Project for approval. Copies of those reports are available and on file with the City and the EDA.

RESOLUTION

NOW, THEREFORE, BE IT RESOLVED, by the Destination Medical Center Corporation Board of Directors, that the DMCC finds that the Proposed Project is a public infrastructure project within the meaning of Minnesota Statutes, Section 469.40, subdivision 11, which provides for: acquiring real property and other assets associated with the real property; demolishing, repairing or rehabilitating buildings; installing, constructing or reconstructing elements of public infrastructure required to support the overall development of the Development District; acquiring, constructing or reconstructing, or equipping parking facilities and other facilities to encourage intermodal transportation and public transit; making related site improvements; and preparing land for private development; and that the DMCC approves the Proposed Project as consistent with the Development Plan.

BE IT FURTHER RESOLVED, that the DMCC approves the Proposed Project for the purposes of Minnesota Statutes, Section 469.47, subdivision 4, and supports the certification of the City’s expenditures of up to \$10,500,000 in tax increment financing identified in the Proposed Project, upon final approval by the City, subject to approval and certification by the State of Minnesota, Department of Employment and Economic Development, as part of the City’s \$128,000,000 local contribution.

BE IT FURTHER RESOLVED, that the approvals contained herein are expressly contingent upon: 1.) the DMCC approving a modification of the Development District, such that

the site of the Proposed Project will be entirely located with the Development District; and 2.) evidence of financing satisfactory to the Board, such evidence to be presented within 90 days concurrent with the 90 day period set forth in the City's approved development assistance agreement.

BE IT FURTHER RESOLVED, that the Chair or the Treasurer of the DMCC is authorized to take such actions as are necessary and appropriate to effectuate the findings and approvals of this Resolution.

The question was on the adoption of the Resolution and there were 6 YEAS and 0 NAYS, as follows:

BOARD OF DIRECTORS

Destination Medical Center Corporation

	<u>YEA</u>	<u>NAY</u>	<u>OTHER</u>
James V. Bier	<u>X</u>	_____	_____
Ardell F. Brede	<u>X</u>	_____	_____
James R. Campbell	<u>X</u>	_____	_____
Michael E. Dougherty	<u>X</u>	_____	_____
Mark Hickey	<u>X</u>	_____	_____
Susan Park Rani	_____	_____	_____
R. T. Rybak	<u>X</u>	_____	_____
Tina Smith	_____	_____	_____

RESOLUTION ADOPTED on ~~December 15, 2016~~.

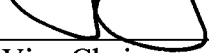
ATTEST:  _____
R.T. Rybak, Vice Chair
Destination Medical Center Corporation

Exhibit A



ROCHESTER

Minnesota



December 7, 2016

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Assistant City Administrator
City Administrator's Office
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Tina Smith
Chair, DMCC Board of Directors
130 State Capital
75 Rev. Dr. Martin Luther King Jr. Boulevard
St. Paul, MN 55155

Re: DMCC Board approval for the Alatus 2nd Street Development Project

Dear Chair Smith and DMCC Boardmembers:

The City of Rochester provides the following information relating to the Alatus project for your consideration at your December 15, 2016 meeting.

1. DMCC board action requested. The City asks the DMCC Board to grant approval of the prepared resolution to approve the Alatus 2nd Street Development (herein after "Project") as a DMC Public Infrastructure Project that is consistent with the DMC Development Plan. The approval as a DMC public infrastructure project by the DMCC Board is required before the City Council can act to approve it as a DMC Public Infrastructure Project. Such approval would need to be made contingent upon the City of Rochester's subsequent approval: (1) of the Project as a DMC Public Infrastructure Project; (2) of the Development Assistance Agreement (DAA) for the Project; and (3) of the Boundary Modification that has been initiated by the DMCC Board for this Project at your October 27, 2016 meeting. If those approvals are granted by the City of Rochester, then the DMCC Board would be requested to approve the Boundary Modification at your January 26, 2017 meeting.
2. Current project status/schedule. The City of Rochester has land use, planning and zoning authority for all projects in the City including those projects within the DMC Development Plan Area. In addition the City has the authority to provide financial assistance, if needed, to assist in the development of projects through Tax Increment Financing (TIF) including the authority to establish TIF districts within the DMC Development Plan area. The DMC legislation authorizes the City's use of TIF for DMC projects and to receive credit for the TIF financial assistance provided to DMCC Board approved projects towards the City's required \$128 Million local contribution.

- a. Land Use and Zoning Status. On Wednesday, November 30 2016, the Project received unanimous approval of the City Planning and Zoning Commission for the Restricted Development Final Plan. The City Council will consider approval of the Restricted Development Final Plan for the Project at a public hearing on December 19, 2016. The City approves restricted development projects under a two-phase process. There is a review of a preliminary plan at public hearings before both the City Planning and Zoning Commission and the Rochester City Council. There is consideration of a Final Plan at the City Planning and Zoning Commission as a non-hearing item, followed by the third public hearing at the City Council. If the City Council approves the Final Plan after the public hearing on December 19, 2016, that would provide the final land use approval needed for the Project. If the land use is approved, a separate City Development Agreement (DA) addressing construction and utility service matters would also need to be considered and approved by the City Council in order for the Project to proceed. The City's land use review for all projects covers all aspects of a project, including neighborhood impacts and comments, design, landscaping, utility and street infrastructure impacts, impact on all modes of transportation, and parking. Staff reports and comments can include more than 100 pages of information in the City Planning and Zoning Commission and City Council packets.
- b. Establishment of Tax Increment Financing (TIF) District and Development Assistance Agreement (DAA). The land use approvals would allow the Project to proceed to construction by the developer and are independent of any financial assistance considerations or approval as a DMC Public Infrastructure Project. However, the Developer has indicated that even with the land use approvals in hand the Project would not be able to proceed to construction and be financially feasible without or "but for" some financial assistance from the City or the DMCC. The developer has provided detailed financial information to document the need for \$11.5 Million in assistance to close the financial "gap" for this Project. As the DMCC Board is aware, the potential receipt of State DMC funding will grow over time but is lower/limited in these early years until private capital investments increase well beyond the minimum threshold for State DMC funding of \$200 Million. As both an alternative to State DMC funding to fund early stage DMC projects and in order to retain future bonding capacity for future DMC capital needs, the City can utilize its authority to establish a tax increment financing district within the DMC Development Plan Area to provide financial assistance through TIF to allow the project to proceed. The City Council will consider establishment of a tax increment district and terms and conditions of a Development Assistance Agreement (DAA) at its 12/19/2016 meeting if the Council approves the Restricted Development Final Plan following the public hearing. Obviously, if Final Plan were not to be approved then no decision on financial assistance would be needed.

In instances in which the City provides TIF financing for DMC Public Infrastructure Projects, the State legislation makes provision for the City to obtain credit for such costs towards its required \$128 Million City DMC contribution. For the Alatus 2nd Street Development project the staff will be recommending to the Mayor and City Council that the City provide \$10.5 million of tax increment financing assistance for this Project. The Council will consider this as a component of the Development Assistance Agreement (DAA) at their meeting on December 19, 2016. It should be noted that the City staff has been working closely with the DMC EDA staff in the review of all aspects of this Project including the proposed amount of financial

assistance that is recommended for the Project. The DMC EDA will be providing their comments on the Project separately and independently from the City staff. The DMC EDA staff and the City staff are in agreement concerning the recommended amount of assistance and the developer has indicated that they can proceed with the Project with that \$10.5 million level of assistance. Approval by the DMCC Board of the Alatus 2nd Street Development Project as a DMC Public Infrastructure Project will also mean that DMC provisions relating to prevailing wage rates, WMBE, and American-made steel will also apply for the construction of the Project.

The City staff's review of the financial information provided by the developer which showed a gap of \$11.5 Million, was based on our experience in reviewing many other TIF projects over the years and a financial analysis of the submitted developer information by Springsted, Inc., the City's financial consultant, which performs such reviews for many communities. The Springsted review did indicate that the requested \$11.5 Million was supported in their analysis. They also noted that the return on investment for the developer was within normal parameters with that amount of assistance included. In discussions with the developer we were subsequently able to agree upon a lower financial assistance amount of \$10.5 Million. The ratio of private investment to the public assistance would be approximately \$11 private investment to \$1 public. In the instance of this Project there would be a conservatively estimated 30% of the total TIF proceeds available for other public improvements within the district. The City staff believes that these are supportable measures for this Project.

3. Financial Impact Information.

The request for public funding as a proposed Public Infrastructure Project is what requires DMCC approval before the presentation to the City Council.

a. Alatus' Capital Project Investment.

- (1) General State Infrastructure Aid (GSIA). The Alatus project developers have submitted information that shows that the overall project cost is estimated at \$115 Million. That \$115 Million investment is multiplied by 2.75% to determine the amount of General State Infrastructure Aid (GSIA) payments that investment may be equal to annually, which is \$3,162,500. Under the City "pay as you go" TIF approach however, the annual GSIA payments will start lower than that and will grow to the \$3,162,500 over several years.
- (2) State Transit Aid (STA). That same \$115 Million investment amount is multiplied by 0.75% to determine the State Transit Aid (STA) annual payment equivalent amount, which is \$862,500 per year payable annually over several years, but lower in earlier years as noted in (1) above. An estimated 40% of the annual STA amount would be from the required local match provided by Olmsted County.
- (3) City TIF Contribution. The State GSIA can only be received if sufficient matching dollars have been spent by the City at the rate of \$1 City to secure \$2.55 GSIA. The proposed City TIF contribution of \$10.5 Million is multiplied by 2.55 to determine the amount of GSIA that can be secured from that \$10.5 million matching contribution which is \$26.775 Million. In the early years of the DMC initiative, the City expenditures will result in excess credits towards future State GSIA payments until the capital investments catch up. Those excess credits will carry forward for later years of the DMC initiative.

4. Summary of the Proposed Project.

- a. Rochester-Olmsted Planning Staff Report: "The applicant is proposing a mixed-use development consisting of commercial/office areas, a mixture of residential housing options and the parking facility. The commercial/office areas are located along 2nd St. Southwest on the first and second floors. The residential housing consists of 347 units broken into two general categories. The first is a 13 level L-shaped residential tower running along 2nd St., Southwest and 14th Ave. Southwest. The second type of residential housing units are townhomes/walk up units that front on 14th Ave. Southwest, 15th Ave. Southwest and in the alley between 14th and 15th Ave. Southwest. The parking facility consists of 560 parking stalls with four levels of parking, one underground and three above ground."
- b. From the developer submissions: "Alatus' vision for the proposed project is to create a transit-oriented residential mixed-use development located in close proximity to downtown Rochester and adjacent to Mayo's St. Mary's campus." "The project will consist of 347 market rate luxury apartment units, 560 enclosed parking stalls, and a best in class resident amenity package. In addition, approximately 21,000 sq. ft. of retail and office space will extend along the 2nd Street corridor along with high quality landscaping to highlight a welcoming pedestrian experience."
- c. Transportation and Parking. As with all other projects within the City, the transportation and parking impacts were evaluated by the City Public Works Department and Planning Department Transportation Planning staff. A Traffic Impact Report was required to be prepared for the project by the developer's consultant. The report was reviewed, recommended for revision, and subsequently approved as revised. Significant changes included a reduction in the originally proposed parking of 883 spaces to 560 parking spaces. The original proposal included parking that was to be made available for contracted private parking for off-site users. Those spaces for off-site parking were removed resulting in the reduced number of spaces. A concern of the City staff was that additional parking beyond the parking needed for the project itself would increase congestion on the east side of Highway 52 as well as on the on & off ramps at the Highway 52 interchange with 2nd St SW, and that the location may not be an appropriate location for such non-project related private parking. The reduced parking capacity is consistent with the DMC plan that calls for accommodating resident, customer, patient or visitor parking needs within the district, while the vast majority of employee needs are accommodated in lots outside the district and served by express shuttles or circulator service. The introduction of a significant number of peak hour commuters within the district boundary at a critical portal to downtown that is near capacity is not consistent with the plan. In addition, this reduction of the parking spaces addressed neighborhood concerns about increased traffic and traffic movements to the south on residential streets. Several other traffic and transportation improvements will also be required to be constructed as is stated in staff report on the Project that was reviewed by the City Planning and Zoning Commission on November 30, 2016 as follows:

Traffic and Transportation.

The applicant's submittal materials identify a number of modifications to the existing roadway network to accommodate the development of this project including:

- Additional ROW Dedication along 2nd Street SW
- Street Improvements along 15th Avenue SW to restrict vehicular traffic from exiting south on 15th Street SW
- Vacation of public Alley between 14th Avenue SW and 15th Avenue SW.

A Traffic Impact Report submitted with the Restricted Development Preliminary Plan has been accepted by the City of Rochester Public Works Department. The Traffic Impact Report identifies a number of recommended improvements to be completed prior to the project opening, including:

- Improvements & Modifications to 2nd Street SW.
- The applicant purposes to construct a temporary traffic signal at the intersection of 15th Avenue SW and 2nd Street SW.

The results and mitigation from the Traffic Impact Report reviewed and approved by the City of Rochester Public Works Department will be incorporated into the approval of the Conditional Use Permit – Restricted Development Final Plan for the Alatus 2nd Street Mixed Use Development Project.

The proposed project allows for the future implementation of the approved Official Map 19.

Respectfully Submitted,



Gary Neumann

Assistant City Administrator