

# DESTINATION MEDICAL CENTER CORPORATION

## RESOLUTION NO. 49-2017

### Approving the Urban on First Development, With Conditions

The following Resolution was offered by James Bier, seconded by Mark Hickey

#### 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 February 1, 2017, and attached hereto as Exhibit A, the City has requested approval of the Urban on First development project (the “Proposed Project”), and that City expenditures and financing in the amount of up to \$3,800,000 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 Minnesota Statutes, 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; . . . (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; . . . and (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; . . . .

F. 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 Discovery Square district as described in the Development Plan.

G. 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; 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; and making related site improvements; 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 \$3,800,000 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 the following: 1) evidence of financing satisfactory to the Board or Executive Committee, such evidence to be presented within 90 days following final City approvals for land use and planning, but in any event no later than June 18, 2017; and 2) as compared to the specifications of the Proposed Project set forth in Exhibit A: if there is an increase or decrease in the floor area ratio of the Proposed Project that will result in more than a ten percent (10%) change, or one of the approved uses of a multi-use project is eliminated, then the Proposed Project must return to the DMCC Board for reconsideration of the approvals contained herein.

**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	_____	_____	_____
Michael E. Dougherty	_____	_____	_____
Mark Hickey	<u>X</u>	_____	_____
Susan Park Rani	<u>X</u>	_____	_____
R. T. Rybak	<u>X</u>	_____	_____
Tina Smith	<u>X</u>	_____	_____

RESOLUTION ADOPTED on February 8, 2017.

ATTEST:



\_\_\_\_\_  
Tina Smith, Chair  
Destination Medical Center Corporation

**EXHIBIT A**

CITY OF ROCHESTER CORRESPONDENCE

# ROCHESTER

*Minnesota*

FIRST CLASS CITY • FIRST CLASS SERVICE



TERRY A. SPAETH  
Redevelopment Director  
City Administrator's Office  
201 4th Street S.E., Room 266  
Rochester, MN 55904-3781  
507-328-2000  
Fax 507-328-2727

February 1, 2017

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 Titan / Opus Urban on 1st Development Project

Dear Chair Smith and DMCC Boardmembers:

The City of Rochester provides the following information relating to the Urban on 1st Project for your consideration at your February 8, 2017 meeting.

1. DMCC Board action requested. Grant approval of the prepared resolution to approve the Urban on 1st 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: of the Project as a DMC Public Infrastructure Project and of the Development Assistance Agreement (DAA) for the Project.
2. Current project status/schedule. The City of Rochester has land use, planning and zoning authority for all projects in the City including 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, January 4, 2017 the Project received unanimous approval of the City Council for the Incentive Development Preliminary Plan. The developer has submitted the Incentive Development Final Plan application and the City Council will consider approval of the Incentive Development Final Plan for the Project at a public hearing, in March, 2017. The City approves incentive development projects under a two-phase process involving review of a preliminary plan at public hearings before both the City Planning and Zoning Commission and the Rochester City Council and 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, that would provide the final land use approval needed for the Project. If the land use is approved a separate City Public Works Development Agreement (DA), addressing public infrastructure construction and utility service matters, would also need to be considered and approved by the City Council in order for the Project to proceed.

- 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 \$4 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 February 22, 2017 meeting, contingent upon final land use approval.

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 Urban on 1st Development project the staff will be recommending to the Mayor and City Council that the City provide \$3.8 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 February 22, 2017. 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 \$3.8 million level of assistance. Approval by the DMCC Board of the Urban on 1st 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 financing gap, 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 public assistance comprises approximately 1/10<sup>th</sup> of the project development cost. In the instance of this Project there would be a conservatively estimated 25% 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. Urban on 1st Capital Project Investment.

(1) General State Infrastructure Aid (GSIA). The Urban on 1st project developers have submitted information that shows that the overall project cost is estimated at \$38.1 Million. That \$38.1 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 \$1,047,750. Under the City "pay as you go" TIF approach however, the annual GSIA payments will start lower than that and will grow to the \$1,047,750 over several years.

(2) State Transit Aid (STA). That same \$38.1 Million investment amount is multiplied by 0.75% to determine the State Transit Aid (STA) annual payment equivalent amount, which is \$285,750 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 \$3.8 Million is multiplied by 2.55 to determine the amount of GSIA that can be secured from that \$3.8 million matching contribution, which is \$9.69 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. The applicant is proposing a 6 story, 156 unit market rate rental apartment project, that also has approximately 9000 square feet of commercial retail space on the ground floor along the 1<sup>st</sup> Avenue SW frontage. The project contains 162 structured parking spaces, enclosed within the development site. The project is located south of 4<sup>th</sup> Street SW and has building frontage along both South Broadway and 1<sup>st</sup> Avenue SW and is located within the DMC Discovery Square subzone.

b. From the developer submissions: "The primary goal of the development is to provide the level of vitality that this prominent site deserves. In its current state as a surface parking lot, an opportunity has been found to enhance the 1st Avenue pedestrian experience. This site serves as an outstanding in-fill site in the Discovery Square district of the Destination Medical Center (DMC) District of Rochester. Enhancing the vibrancy of this site will contribute to the

liveliness and character of 1st Avenue and Rochester as a whole. This mix of residential and retail uses will attract more activity to the site at all hours.

5. How does the proposed Project address the DMC Development Plan goals and objectives? (these are addressed more thoroughly in the developer's application and in the DMC EDA report, but these are a few that the City staff would note):
  - a. The Project is within the DMC Discovery Square subzone and the proposed mixed use development acts as a catalyst by providing a density of housing that supports the existing commercial development in the vicinity and will support additional development within the Discovery Square subzone.
  - b. The Project will provide a capital investment of \$38 million within the DMC development plan area.
  - c. The Project provides for commercial and retail space to activate the ground level along the 1<sup>st</sup> Avenue corridor, which functions as a "Main Street" for retail and downtown vibrancy, which is consistent with the Rochester Downtown Master Plan.
  - d. It has been conservatively estimated by the City staff that approximately 25% of the TIF created by the project will be available for other DMC District public realm improvements.
  - e. The project develops an underutilized property (surface parking) along the downtown's major pedestrian street with a development that provides an excellent opportunity for persons to live in proximity to their workplace and minimize auto dependency.
  - f. The project is bicycle and pedestrian oriented, and is also adjacent to transit routes.

Respectfully Submitted,



Terry Spaeth  
Redevelopment Director