

DESTINATION MEDICAL CENTER CORPORATION

RESOLUTION NO. 53-2017

Approving the Mortenson Phase 1 Discovery Square Development Project, Contingent Upon Evidence of Financing

The following Resolution was offered by Michael Dougherty, seconded by James Campbell.

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, as amended (the “Development Plan”).

B. By correspondence to the DMCC dated July 27, 2017, and attached hereto as Exhibit A, the City has requested approval of the Mortenson Phase 1 Discovery Square Development Project (the “Proposed Project”), and that City expenditures and financing in the amount of up to \$4,900,000 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

. . . (2) demolish, repair or rehabilitate buildings; (3) remediate land and buildings as required to prepare the property for acquisition and development; (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; . . . (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 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. On April 27, 2017, the DMCC approved Resolution No. 51-2017, which requires additional review of projects upon material deviation from the approvals granted, to ensure that “as-built” projects are consistent with approvals that have been granted.

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: demolishing, repairing or rehabilitating buildings; remediating land and buildings as required to prepare the property for acquisition or development; 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 \$4,900,000 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 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 DMCC Resolution No. 51-2017 is incorporated fully herein by reference.

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	_____	_____	_____
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	<u> X </u>	_____	_____
R. T. Rybak	<u> X </u>	_____	_____
Tina Smith	_____	_____	_____

RESOLUTION ADOPTED on July 27, 2017.

ATTEST: _____


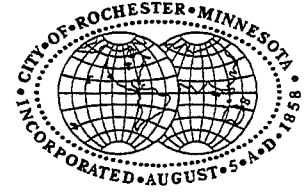

R.T. Rybak, Vice Chair
Destination Medical Center Corporation

EXHIBIT A

ROCHESTER

Minnesota

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July 27, 2017

Tina Smith
Chair, DMCC Board of Directors
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75 Rev. Dr. Martin Luther King Jr. Boulevard
St. Paul, MN 55155

TERRY A. SPAETH
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507-328-2000
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Re: DMCC Board approval for the Mortenson Phase I Discovery Square Development Project

Dear Chair Smith and DMCC Boardmembers:

The City of Rochester provides the following information relating to the Mortenson Phase I Discovery Square Project for your consideration at your July 27, 2017 meeting.

1. DMCC Board action requested. Grant approval of the prepared resolution to approve the Mortenson Phase I Discovery Square Project (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. The developer has been meeting with City staff regarding the zoning / land use requirements for the project. Based upon the proposed project, the staff has indicated the project is subject to approval of a Site Development Permit, which is an "over the counter" review and approval and does not require public review of the project. To date, a Site Development Permit application has not yet been submitted. It is anticipated the application will be submitted in the near future.
 - b. Establishment of Tax Increment Financing (TIF) District and Development Assistance Agreement (DAA) AND APPROVAL AS A PUBLIC INFRASTRUCTURE PROJECT INCLUDED IN THE

DEVELOPMENT PLAN. 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 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 \$5.5 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 years until private capital investments increase well beyond the minimum threshold for early 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 August 7, 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 Mortenson Phase I Discovery Square Development project the staff will be recommending to the Mayor and City Council that the City provide \$4.9 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 August 7, 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 the recommended \$4.9 million level of assistance. Approval by the DMCC Board of the Mortenson Phase I Discovery Square 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 1/7th of the project development cost.

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. Mortenson Phase I Discovery Square Capital Project Investment.

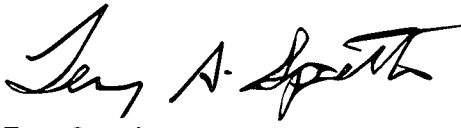
- (1) General State Infrastructure Aid (GSIA). The project developers have submitted information that shows that the overall project cost is estimated at \$35 Million. That \$35 Million investment is multiplied by 2.75% to determine the amount of General State Infrastructure Aid (GSIA) payments that investment may be equal to annually, which is \$962,500.
- (2) State Transit Aid (STA). That same \$35 Million investment amount is multiplied by 0.75% to determine the State Transit Aid (STA) annual payment equivalent amount, which is \$262,500 per year payable annually over several years, but lower in earlier years. 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 \$4.9 Million is multiplied by 2.55 to determine the amount of GSIA that can be secured over time from that \$4.9 million matching contribution, which is \$12,495,000.

4. Summary of the Proposed Project.

- a. The applicant is proposing a 4 story, 89,000 square foot building that provides for a combination of leased office and lab space. The project is located south of 4th Street SW, between 2nd and 3rd Avenue SW and is located within the DMC Discovery Square subzone. The project also provides for 150-160 surface parking spaces on the southerly portion of the development site.
 - b. Mortenson intends to construct a Bio Science Building that will be the first research building within Discovery Square. The building will include lab, office and collaborative spaces. The building will be approximately 89,000 gross square feet, or 80,000 rentable square feet. Mayo Clinic will lease 30,000 rentable square feet of the Building. The remaining 50,000 rentable square feet are being marketed to educators and to small, medium and large size companies whose presence within the building will help accomplish the mission of Discovery Square, which is to accelerate the translation of medicine from bench to bedside.
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 development acts as a catalyst for future job growth by providing opportunities for educational and collaborative space within the Discovery Square subzone.
 - b. The Project will provide a capital investment of \$35 million within the DMC Development Plan area.
 - c. The Project has the potential to create 400 new jobs with living wage levels.

- d. The Project develops an underutilized property (surface parking) in a manner that is consistent with the Rochester Downtown Master Plan and the City's Comprehensive Plan.
- e. The project incorporates various sustainability elements, which is consistent with the DMC vision.
- f. The project construction will include wage rates, WMBE and American made steel provisions.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Terry A. Spaeth". The signature is fluid and cursive, with the first name "Terry" being the most prominent.

Terry Spaeth
Redevelopment Director