

DESTINATION MEDICAL CENTER CORPORATION

RESOLUTION NO. 93-2020

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

The following Resolution was offered by Kim Norton, seconded by Nick Campion.

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 February 5, 2020, and attached hereto as Exhibit A, the City has requested approval of the Mortenson Discovery Square Two Development Project (the “Proposed Project”), and that City expenditures and financing in the amount of up to \$7,300,000 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

(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

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: installing, constructing or reconstructing elements of public infrastructure required to support the overall development of the Development District; 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 \$7,300,000 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) an agreement by the parties to the development assistance agreement of a “look-back” provision with respect to a pro-rata reduction in tax increment financing reimbursements based on the final financial structure, including lease commitments, of the Proposed Project; 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 DMCC Resolution No. 51-2017 is incorporated fully herein by reference.

BE IT FURTHER RESOLVED, that City and EDA staff are requested to provide updates with respect to financing, parking strategy, schedule, and other elements of the Proposed Project at the DMCC Executive Committee meeting scheduled for March 26, 2020.

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 7 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>	_____	_____
James R. Campbell	<u>X</u>	_____	_____
Nick Campion	<u>X</u>	_____	_____
Michael E. Dougherty	_____	_____	_____
Kim Norton	<u>X</u>	_____	_____
R.T. Rybak	<u>X</u>	_____	_____
Paul D. Williams	<u>X</u>	_____	_____
Pamela Wheelock	<u>X</u>	_____	_____

RESOLUTION ADOPTED on February 6, 2020.

ATTEST: 

R.T. Rybak, Chair
Destination Medical Center Corporation

EXHIBIT A

EXHIBIT A

Memorandum

To: DMCC Board of Directors

Cc: Kathleen Lamb, Kathleen Brennan, Lisa Clarke, Patrick Seeb, Steve Rymer, Aaron Parrish, Brent Svenby, Josh Johnsen

From: Terry Spaeth

Date: February 5, 2020

Subject: DMCC Board approval for the Discovery Square 2 project

The City of Rochester provides the following information relating to the Mortenson Discovery Square 2 Project for your consideration at your February 6, 2020 meeting.

1. DMCC Board action requested. Grant approval of the prepared resolution to approve the Mortenson Discovery Square 2 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 City’s Community Development Team has been working with the Mortenson Team regarding the Site Development Plan approval

process and requirements. The Site Development Plan application has not yet been submitted. It is anticipated the application will be submitted in the near future for approval by the Community Development Team.

- 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 \$8.2 Million in assistance to close the financial “gap” for this Project.
- c. 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 Discovery Square 2 project the staff will be recommending to the Mayor and City Council that the City provide up to \$7.3 million of “PAYGO” tax increment financing assistance, or 15 years of TIF (whichever comes first) for this Project with a look back provision that will reduce the level of TIF assistance on a pro rata basis depending on impact, in the event that the developer has secured a major tenant for occupancy in the building prior to construction completion. Of that above mentioned recommended level of project TIF assistance, it is also recommended that \$7.3 Million of that amount be “credited” to the City’s local contribution amount. This increases the City’s contribution from the existing \$75.2 Million to \$82.5 Million. The City EDA will consider this as a component of the Development Assistance Agreement (DAA) at a future meeting. It should be noted that the City team has been working closely with the DMC EDA team 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 team. The DMC EDA and City teams are in agreement regarding the recommended amount of assistance and the developer has indicated that they can proceed with the Project with the recommended level of assistance. Approval by the DMCC Board of the Discovery Square 2 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’s review of the financial information provided by the developer which showed a financing gap, was based on our experience in reviewing other TIF projects over the years and a financial analysis of the submitted developer information by Baker Tilly, the City’s financial consultant, which performs such reviews for many communities. The

public assistance is estimated to equate to approximately 75% of the available annual tax increments for 15 years.

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. Discovery Square 2 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 \$44,786,278. That 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 \$1,231,623..
- (2) State Transit Aid (STA). That same \$44 Million investment amount is multiplied by 0.75% to determine the State Transit Aid (STA) annual payment equivalent amount, which is \$335,897 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 DMC credit contribution of \$1.95 Million is multiplied by 2.55 to determine the amount of GSIA that can be secured over time from that \$7.3 million matching contribution, which is \$18,615,000.

4. Summary of the Proposed Project.

- a. The proposed project is located along 2nd Avenue SW, between 4th and 5th Streets SW, adjacent to the existing Discovery Square One building. The project consists of approximately 124,000 square feet of office, research lab, conference and amenity space.

5. How does the proposed Project address the DMC Development Plan goals and objectives?

- a. The Project is within the DMC Discovery Square subzone and the proposed development will strengthen the Discovery Square innovation district and acts as a catalyst for future job growth by providing opportunities for research, educational and collaborative space within the Discovery Square subzone.
- b. The Project will provide a capital investment of nearly \$45 million within the DMC Development Plan area and will increase tax base by over \$900K annually, based upon existing tax rates.
- c. The Project has the potential to create 530 permanent jobs and over 700 construction jobs.

- d. The Project develops an underutilized property 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.