

DESTINATION MEDICAL CENTER CORPORATION

RESOLUTION NO. 149-2024

Approving Downtown Property Preservation Program to Address Public Infrastructure Projects within the City of Rochester’s Downtown Commercial Historic District, and approving Amendments to the 2024 Five Year Capital Improvement Plan

The following Resolution was offered by R.T. Rybak, seconded by Douglas M. Baker, Jr.

BACKGROUND RECITALS

A. The Destination Medical Center Corporation (“DMCC”) established five long-term goals for the Destination Medical Center (“DMC”) initiative, including creating a comprehensive and strategic plan, new jobs, tax revenues, and achieving the highest quality patient, companion, visitor, employee, and resident experience.

B. The DMCC has long recognized the important role of historic preservation to achieve these goals. The Development Plan adopted by the DMCC on April 23, 2015, as amended (the “Development Plan”) recommended strategies and programs to encourage preservation efforts: “The preservation of historic landmarks and districts is an important part of a City’s historic fabric. . . . As the DMC implementation process moves forward, we recommend the EDA work with federal agencies, state agencies and local organizations to evolve strategies and programs to incent historic preservation [in the] DMC District.”

C. On January 22, 2024, the City of Rochester (the “City”) established a downtown commercial historic district of thirty-two properties (the “Commercial Historic District”) located within the development district boundaries as adopted in the Development Plan (the “Development District”).

D. By correspondence to the DMCC dated May 16, 2024, and attached hereto as Exhibit A, staff from the City and the Destination Medical Center Economic Development Agency (the “EDA”) recommend establishing a downtown property preservation program (the “Program”). The Program would provide an application and general state infrastructure aid funding process for public infrastructure projects within the Commercial Historic District.

E. Under the recommended Program:

1. The City and the EDA staff will establish an application process and deadlines;
2. Each eligible project is subject to specific approval by the DMCC and the City;
3. The maximum amount of funding is \$500,000 per property (according to the property identification number) within the Commercial Historic District;
4. Multiple applications by one property identification number are permitted, subject to the maximum amount of funding above;

5. General state infrastructure aid (Minnesota Statutes, Section 469.47) funds approved by the DMCC and the City will not exceed fifty percent of any eligible project expenditure; and
 6. Funding will remain available until the earlier of December 31, 2029 or action by the DMCC and the City, in accordance with the statutes.
- F. The Program will require each applicant to demonstrate that the proposed project:
1. Satisfies the definition of a “public infrastructure project” under Minnesota Statutes, Section 469.40, subdivision 11;
 2. Lies within the Development District and is defined as a “contributing property” within the Commercial Historic District;
 3. Is consistent with the Development Plan;
 4. Achieves a capital improvement that is intended to be a permanent asset of the Commercial Historic District; and
 5. Satisfies the statutory requirements, including prevailing wages, American-made structural steel, as well as local requirements, such as sustainable building standard, women- and minority-owned construction contracting, and workforce development (collectively, “Program Requirements”).

G. 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;

(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: . . . utilities systems and related facilities; . . . streetscape improvements; drainage systems; sewer and water systems; subgrade structures and associated improvements; landscaping; facade construction and restoration; design and predesign, including architectural, engineering, and similar services; . . . construction costs, including all materials and supplies; wayfinding and signage; community engagement; . . . and other components of community infrastructure;

(5) acquire, construct or reconstruct, and equip . . . other facilities to encourage intermodal transportation and public transit; [and]

(6) install, construct or reconstruct, furnish, and equip . . . facilities to promote tourism and hospitality, conferencing and conventions. . . .

H. The DMCC Board approved the 2024 Five Year Capital Improvement Plan (the “2024 CIP”) on September 28, 2023 and approved the projects set forth in the first year of the 2024 CIP as public infrastructure projects within the meaning of Minnesota Statutes Section 469.40, subdivision 11, and consistent with the Development Plan. Final approval of each of the

capital projects remained subject to a later specific approval by the DMCC upon final determination of scope, costs, and availability of funds. The 2024 CIP was later approved by the City.

I. The 2024 CIP provided funding for the Strategic Redevelopment Fund, which was first approved in the 2021 Five Year Capital Improvement Plan. Staff has informed the DMCC that a portion of the funds from the Strategic Redevelopment Fund is available for reallocation. As set forth in Exhibit A, attached, staff from the City and the EDA request that the DMCC amend the 2024 CIP (1) to reallocate funds up to \$5,000,000 from the Strategic Redevelopment Fund to the Program; and (2) to approve the Program, subject to later specific approval of each project by the DMCC and the City upon final determination of scope, costs, satisfaction of statutory criteria, and availability of funds.

J. 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.

RESOLUTION

NOW, THEREFORE, BE IT RESOLVED, by the Destination Medical Center Corporation Board of Directors, that the DMCC approves the creation of the Downtown Property Preservation Program, subject to approval by the City, under the terms and conditions set forth in this resolution as consistent with the Development Plan, satisfying the components of a public infrastructure project within the meaning of Minnesota Statutes, Section 469.40, subdivision 11, and located within the Development District, all subject to final approval by the DMCC and the City of each proposed project under the Program upon final determination of scope, costs, availability of funds, and statutory criteria.

BE IT FURTHER RESOLVED, that the DMCC amends the 2024 CIP by reallocating funds reserved for the Strategic Redevelopment Fund, to the Program, in an amount not-to-exceed \$5,000,000, subject to approval by the City.

BE IT FURTHER RESOLVED, that in the expenditure of funds for the Program, the City and EDA must comply with the following:

1. Expenditures for the Program must satisfy the terms and conditions of this Resolution, including, but not limited to, the parameters of the Program and the Program Requirements as set forth in the Recitals, which are incorporated herein.
2. Provide certification that the Program expenditures comply with this Resolution and statutory requirements.
3. Provide annual reports to the DMCC Board concerning Program updates, expenditures, metrics to evaluate the success of the Program, and recommendations concerning future funding in the capital improvement plan.

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 transmit this Resolution to the City of Rochester, and 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 8 YEAS and 0 NAYS, as follows:

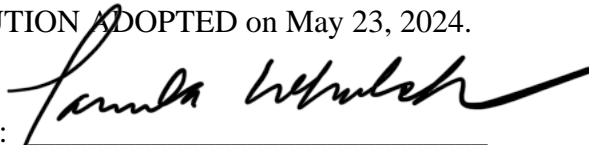
BOARD OF DIRECTORS

Destination Medical Center Corporation

	<u>YEA</u>	<u>NAY</u>	<u>OTHER</u>
Douglas M. Baker, Jr.	<u>X</u>	_____	_____
James R. Campbell	<u>X</u>	_____	_____
Brooke Carlson	<u>X</u>	_____	_____
Kim Norton	<u>X</u>	_____	_____
R.T. Rybak	<u>X</u>	_____	_____
Mark Thein	<u>X</u>	_____	_____
Pamela Wheelock	<u>X</u>	_____	_____
Paul D. Williams	<u>X</u>	_____	_____

RESOLUTION ADOPTED on May 23, 2024.

ATTEST:



Pamela Wheelock, Chair
Destination Medical Center Corporation

EXHIBIT A

Historic District DMC Funding

To: DMCC Board of Directors

From: DMC EDA

Date: May 16, 2024

Request of the board of directors:

To designate the Downtown Historic District as public infrastructure and advances a program of financial support of up to \$5 million for eligible capital improvements to properties within the district.

Overview:

With direction for the DMCC board, DMC EDA staff have worked in collaboration with the DMC EDA board, DMCC legal counsel, the City of Rochester, and other downtown stakeholders, to conduct further due diligence regarding a downtown property support program, including program parameters, funding application process, and goals. Staff continue to evaluate similar programs, including the DMC EDA-administered Main Street Economic Revitalization Program and the Rochester Downtown Alliance Facade Improvement Grant Program, as well as past historic property investments, to affirm the demonstrated need and applicability of this proposed program. Additional detail will be provided for the board discussion.

The Rochester City Council, after considerable deliberation, established a Downtown Historic District, a 32-property district (28 contributing buildings).

After significant evaluation, DMC EDA staff recommend directing support to the newly established downtown historic district. The framework for this approach is described in detail in the attached memo.

In summary:

1. Support for property rehabilitation, repair, and reuse within the Downtown Historic District is consistent with the DMC enabling legislation;
2. Investment in historic properties is contemplated in the DMC Development Plan;
3. A program which supports and incentivizes private investment in properties will advance DMC goals related to job growth, capital investment, tax base enhancement, and visitor/resident experience;
4. Resources of such a program were noted when the 2024 CIP budget was established under the line-item Strategic Redevelopment;
5. These resources will complement other programs and strategies to ensure a successful downtown historic district;
6. The impact of this program is predictable and measurable; progress will be reported annually.

May 16, 2024

TO: DMC Corp. Board of Directors

FROM: Destination Medical Center Economic Development Agency

RE: Historic District Analysis and Report

Background

On February 1, 2024, the DMCC board of directors directed the DMC EDA to prepare, and present at a future DMCC board meeting, parameters and goals for a potential downtown property support program.

In response to this direction, we engaged in due diligence informed by the following questions:

- I. Under the DMC Law, **can** the DMCC approve the establishment of and funding for a downtown property support program?
- II. Given DMC's development plan goals, **should** the DMCC approve the establishment of and funding for a downtown property support program?

We have summarized our findings regarding each of these questions below. Following that, we describe proposed program parameters and a recommended course of action for board consideration.

Due Diligence Analysis

- I. Under the DMC Law, can the DMCC approve the establishment of and funding for a downtown property support program?

A proposed project, public or private, may only receive DMC funding after three determinations are made by the DMCC and Rochester City Council: first, that the proposed project is within the DMC development district; second, that the proposed project meets one or more of the definitions of "public infrastructure project" under the DMC law; and, third, that the proposed project is consistent with the DMC Development Plan.

The DMC law prescribes that DMC funding may be approved for several uses, including:

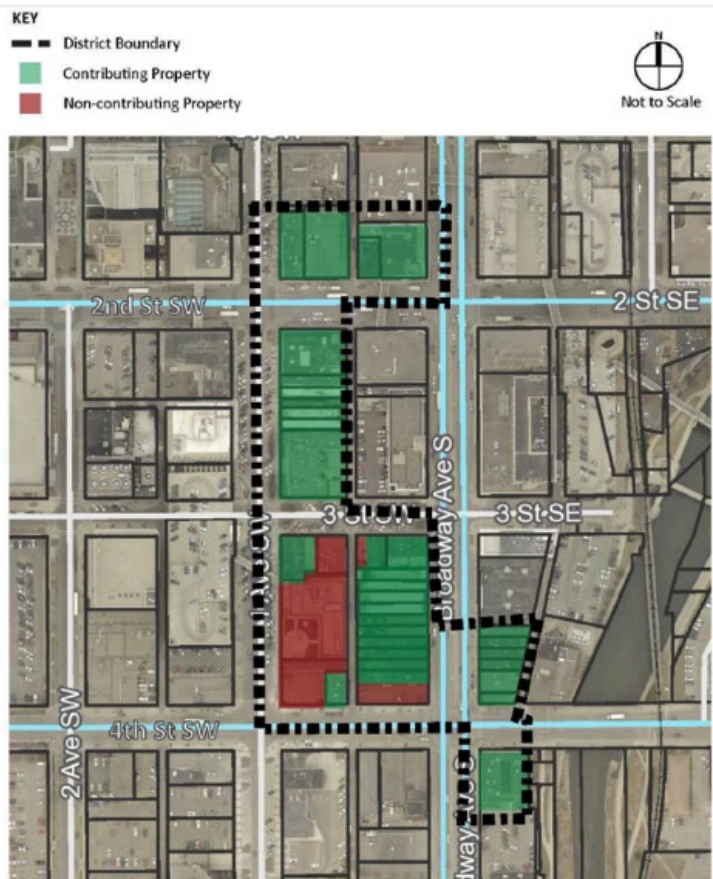
- A. Acquire real property and other assets associated with the real property;
- B. Demolish, repair, or rehabilitate buildings;
- C. Remediate...buildings as required to prepare the property for acquisition or development;
- D. Install, construct, or reconstruct elements of public infrastructure required to support the overall development of the destination medical center development district including, but not limited to...streetscape improvements...landscaping, façade construction and restoration, wayfinding and signage, and other components of community infrastructure;

E. 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.

II. Given DMC’s development plan goals, should the DMCC approve the establishment of and funding for a downtown property support program?

As we evaluated possible variations of a downtown property support program, the alignment between the City of Rochester’s designation of a Downtown Commercial Historic District and the DMC development plan increased the viability of a “historic property” funding program.

In January 2024, the Rochester City Council designated a downtown commercial historic district comprised of thirty-two properties:



The DMC development plan recognizes the importance of historic preservation and suggests possible means of support. From the plan:

“The preservation of historic landmarks and districts is an important part of a City’s historic fabric. The City of Rochester is currently undertaking a study to better define policies and ordinances around the City’s cultural assets. The DMC Master Plan (Section 6.0) and Infrastructure Plan (Section 8.0) recognize this study is underway and assumes the Development Plan will (defer) to City ordinances on this matter.”

As the DMC implementation process moves forward, we recommend the EDA work with federal agencies, state agencies and local organizations to evolve strategies and programs to incent historic preservation (in the) DMC District. A preliminary list of strategies that may be considered includes:

- A. Work with City and local organizations to identify historic assets, policies and ordinances that recognize an economic and cultural balance between development and preservation. Recommend policies and funding guidelines to support implementation of the plan.*
- B. Identify federal, state and other resources such as Historic Tax Credits (HTC's) that may assist developers and private investors in preservation of key assets.*
- C. Assist developers and private investors in applications for grants and/or funding proposals."*

In addition to the alignment between the City-designated historic district and the direction provided in the DMC development plan, several other considerations bolstered the case for a historic district support program:

- A. A designated historic district provides an initial project evaluation framework that can ensure that investments become permanent community assets, whether in a district-wide investment like streetscape enhancement or a property-specific capital improvement.
- B. A historic district support program can serve as an additional "tool" in the DMC toolbox, alongside prior and ongoing investments in public realm; district energy; streets and sewers; infrastructure supportive of specific workforce housing, bio-med-tech; bus rapid transit; area planning; and other growth-driven needs.
- C. Approving funds for investment in the historic district creates another promotional incentive to include in DMC retail, dining, and entertainment business recruitment and retention strategies.

Proposed Program

Following our due diligence analysis, we considered possible program parameters with a goal to address the following questions and issue a recommended course of action:

- I. What would qualify for DMC funding?
- II. What legal requirements and policy standards need to be considered?
- III. How much funding should be available for a proposed project?
- IV. How would DMC direct funding to historic properties?
- V. What would an application intake, review, consideration, and oversight process look like?
- VI. How much DMC funding should be designated for this program?

Addressing these questions has involved numerous informal discussions between DMC EDA and City officials, property owners, community non-profit organizations, business owner-operators, downtown residents, and others. The insights gleaned from these conversations have been invaluable and have informed our recommended programmatic approach.

Our advisory recommendations related to the resolution of each of the above questions are below.

I. What would qualify for DMC funding?

We recommend that any project considered for DMC funding meet the following criteria:

- A. Meet the DMC statutory definition of “public infrastructure project”.
- B. A proposed project must result in a capital improvement that is intended to be a permanent asset of the downtown historic district. Temporary or non-fixed assets would not be eligible for DMC funding.
- C. That the proposed project occur at a contributing property of the current downtown commercial historic district.

We further recommend that, for reporting and program evaluation purposes, the board require that projects be proposed and presented in four categories of investment:

- A. Adaptive Reuse: Conversion of property use, such as office to retail or restaurant, or renovating vacant second-story space for housing or commerce, etc..
- B. Building System Upgrades: HVAC, electrical, plumbing, etc.
- C. Building Safety and Preservation: Exterior envelope sealing, accessibility improvements, etc.
- D. Code Modernization: Improvements made to legaced properties in relation to ADA or other regulatory compliance, preparation of reuse, future reinvestment, sale, etc.

II. What legal requirements and policy standards need to be considered?

The DMC law requires that all projects financed with DMC funds must pay prevailing wage to project contracting teams and, if applicable, utilize American-made structural steel. These legal requirements must apply to any project approved under a historic district support program.

Additionally, the DMCC and Rochester City Council have adopted local policies related to sustainable building standards and women- and minority-owner construction contracting and workforce requirements. Unless waived or modified by the DMCC and City Council, these policies would be applied to any project approved under a historic district support program.

III. How much funding should be available for a proposed project?

In addition to the program eligibility requirements described above, we recommend that proposed project funding requests should be subject to funding requirements:

- A. DMC funding covers fifty percent of any eligible expenditure.\
- B. DMC funding be limited to a maximum of \$500,000 per property, as determined by the parcel identification number (PIN) of the eligible properties in the current City of Rochester Downtown Commercial Historic District.

- C. To allow property owners and tenants maximum opportunity to prioritize capital investments, funding may be applied for and received more than once, subject to the \$500,000 maximum described above.
- D. To align historic district construction activity with other major downtown improvements, including Link BRT and Bold. Forward. Unbound. in Rochester., program funding will remain available for request through December 31, 2029 or until rescinded by action of the DMCC.

To determine the total amount of funding to recommend for designation to the proposed historic district support program, we evaluated a selection of capital improvements made to downtown historic properties in recent years. This evaluation reflected input provided by property owners and tenants, who reported to us that building improvements are often reliant on business cash flow, construction seasonality or contractor availability, supply chain dependencies, and other determinants. The evaluated improvements involved expenditures in all of the evaluation categories proposed above: adaptive reuse, building system upgrades, building safety and preservation, and code modernization.

The evaluation provided us with an order-of-magnitude valuation of capital improvements across time, project, and property types.

IV. How would DMC direct funding to historic properties?

In determining a recommended course of action for the administration of this proposed historic district support program, we kept several considerations top-of-mind:

- A. The review and approval process and practices should preserve all of the DMC-related authorities and prerogatives currently held by the DMCC and Rochester City Council.
- B. For each proposed project, DMC EDA and City staff should review each funding request for program eligibility and provide a recommendation to the DMCC and City Council.
- C. As it has for all prior DMC-funded capital projects, the City of Rochester would manage the financial administration of the program, including ensuring project funding and documentation meets audit and reporting standards. These administrative responsibilities may result in additional staff costs for the City; if so, the City may request reimbursement of these costs by the DMCC.

V. What would a proposed funding request intake, review, consideration, and oversight process look like?

If this program is approved, we recommend creating a stand-alone, cost-free funding request portal on the DMC website. The portal would collect proposed project details, including location, description, and cost, and inform the applicant of any applicable DMC legal and policy project requirements. Staff contact information would be provided to all applicants, as well as an invitation to meet with staff to answer applicant questions.

The funding request portal would always remain open but, in order to provide time for staff review and board material preparation, closing dates will be established ahead of each regular DMCC board of directors meeting, where staff intend to present proposed projects.

For example, if this program is approved by the DMCC on May 23, 2024 and by the Rochester City Council on June 3, 2024, we anticipate being able to open the funding request portal by July 1, 2024 and follow the timeline below:

- A. August 15, 2024: Application closing date for September 2024 DMCC consideration
- B. Sept. 12, 2024: EDA board proposed project review.
- C. Sept. 26, 2024: DMCC board meeting + proposed project consideration
- D. Oct. 7, 2024: City Council meeting + proposed project consideration

This intake, review, and consideration cycle would be repeated prior to every regular DMCC board of directors meeting until program conclusion. Additionally, we recommend providing regular reports on the status of approved projects and the disposition of program funds.

VI. How much DMC funding should be designated for this program?

In full consideration of our due diligence analysis, recommended program eligibility and funding requirements, and review of select historic property investments, we recommend that the DMCC and Rochester City Council designate up to \$5 million for qualifying public infrastructure improvements within the City of Rochester Downtown Commercial Historic District, subject to annual CIP authorization and the program eligibility and funding requirements described in this memorandum and the associated board resolution. We further recommend that the funding be sourced from the DMC General State Infrastructure Aid (GSIA) previously approved as “Strategic Redevelopment” funding in the 2024 DMC Capital Improvement Program.