

**DESTINATION MEDICAL CENTER CORPORATION**

**RESOLUTION NO. 146-2024**

**Approving Civic Center North Apartments Project,  
Contingent Upon Evidence of Financing and Certain Conditions**

The following Resolution was offered by James Campbell, seconded by R.T. Rybak.

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. The Development Plan established certain goals and objectives of economic development, which include creating approximately 35,000 – 45,000 new jobs, attracting new business, and expanding existing business, as well as implementing strategies to attract, retain, and foster the development of a highly skilled workforce. The Development Plan also directed a comprehensive strategy to address all facets of building and sustaining the development district boundaries as adopted in the Development Plan (the “Development District”).

C. The Development Plan also pursued a housing mix that includes affordable and workforce units, as well as market-rate housing. The Five-Year Update to the Development Plan, adopted by the DMCC on November 19, 2020 in Resolution No. 109-2020, further emphasized the need for housing, particularly with a range of income accessibility, workforce housing, and housing near public transit. The DMCC has determined that affordable and workforce housing within the Development District forms a necessary component of workforce development to support the overall economic development goals and strategies.

D. The DMCC has directed the Destination Medical Center Economic Development Agency (the “EDA”) to be proactive and creative in generating new housing at all income levels. Accordingly, the EDA staff is recommending projects at an earlier stage in the development process to build more market support and enable developers to secure additional funding.

E. By correspondence to the DMCC dated May 16, 2024, and attached hereto as Exhibit A, staff from the City and the EDA have requested approval of the Civic Center North Apartments Project (the “Proposed Project”) as a public infrastructure project. The City undertook a request for proposals process to determine a preferred project team for the site, currently a paved parking lot owned by the City. The Proposed Project is located at 217 E Center Street, directly north of the Mayo Civic Center and along the Zumbro River. The site comprises a total of 1.78 acres, or approximately 77,537 square feet.

F. The Proposed Project is a residential development consisting of both market-rate and affordable housing units nearby downtown employers. As further detailed in Exhibit A, the Proposed Project contemplates 243 market-rate units in a 14-story structure and 76 units of

affordable housing in a 5-story, low-rise building. The buildings surround a 348-stall parking facility. The Proposed Project is designed to connect to the City's downtown thermal energy network. The outdoor space includes a public pedestrian trail along the Zumbro River connecting East Center Street and 1st Street NE. The high-density housing of the Proposed Project is hoped to spur restaurants and other retail uses nearby.

G. The Proposed Project advances a range of housing choices affordable to persons and families who comprise the Development District's workforce – with 13 units at 30% Adjusted Median Income (AMI), 38 units at 50% of AMI, and 25 units at 60% AMI – supporting the expansion of new jobs and economic development goals of the Development Plan.

H. 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.

I. The City plans expenditures and financing of up to \$13,000,000 in funding from tax increment financing bonds, without seeking credit to the City's \$128,000,000 local contribution. In addition, the City and the EDA request approval of up to \$3,000,000 in funding through general state infrastructure aid under Minnesota Statutes, Section 469.47, subdivision 3.

J. 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

(3) remediate land and buildings as required to prepare the property for acquisition or 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; . . .

(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 . . . .

(8) prepare land for private development . . . . [and]

(10) construct and equip all or a portion of one or more suitable structures on land owned by the city for sale or lease to private development . . . .

K. The site of the Proposed Project is located in the Development District and within the Downtown Waterfront District described in the Development Plan

L. 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.

M. The City and the EDA have examined the Proposed Project, applying the evaluation factors contained in the Development Plan, and now recommend the Proposed Project for approval.

### 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 or constructing 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, streetscape improvements, drainage systems, sewer and water systems, landscaping, facade construction, and other components of community infrastructure; acquiring or constructing parking facilities and other facilities to encourage intermodal transportation and public transit; making related site improvements, excavation, and earth retention; and remediating land and prepare the property for private development; and constructing suitable structures on land owned by the city for sale to 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 3, of up to \$3,000,000 in funding through general state infrastructure aid, upon final approval by the City, to reimburse eligible public infrastructure expenses.

**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 City’s expenditures of up to \$13,000,000 in tax increment financing identified in the Proposed Project, upon final approval by the City.

**BE IT FURTHER RESOLVED**, that the approvals contained herein are expressly contingent upon: 1) an agreement by the parties to the development assistance agreement as to both tax increment funding and general state infrastructure aid that secures public funds and enforces the income-affordability criteria set forth in the agreement for a period of at least thirty years, requiring repayment for breach or default; 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, schedule, and other elements of the Proposed Project.

**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.

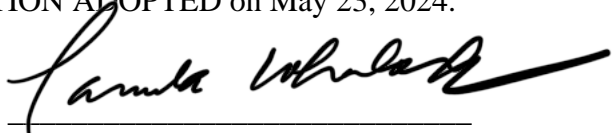
The question was on the adoption of the Resolution and there were 8 YEAS and 0 NAYS, as follows:

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

### Housing: Civic Center North

To: DMCC Board of Directors  
From: DMC EDA  
Date: May 16, 2024



#### Request of the board of directors:

The DMC EDA board of directors recommends that the DMCC designate the proposed development as a Public Infrastructure Project and provide \$3 million in DMC General State Infrastructure Aid. Also, the DMC EDA endorses City plans to finance up to \$13,000,000 in project expenditures from tax increment financing bonds authorized under DMC statute, without seeking credit to the City's \$128,000,000 local contribution. A resolution to this effect has been prepared by staff and is included in the DMC Corp. board meeting materials for your consideration.

#### Background:



Site: The site is located at 217 E Center Street, directly north of the Mayo Civic Center and along the Zumbro River as it runs through downtown Rochester. The site comprises a total of 1.78 acres, or approximately 77,537 square feet, is generally level, and has frontage along the north side of E Central Street and the south side of 1st Street NE. The site is currently a paved parking lot owned by the City of Rochester, which will be razed prior to the construction of the Subject.

The site was the subject of an RFP released by the City of Rochester in which this project team was selected to advance into further exclusive negotiations as the preferred development partner. That agreement, which has been extended, is due to expire in August 2024 if no development agreement is reached.

#### Team:

- Developer: Sherman Associates
- Design: ESG Architects
- Engineer: Kimley Horn



### Project Objectives:

The project is a residential development consisting of both market-rate and affordable housing units.

The market-rate building is 243 units, 14-story structure and the affordable building is a 76 unit, 5-story low-rise building.

The buildings surround a 348-stall structured parking facility.

The roof of the parking garage will include a mix of landscaping and amenity spaces such a swimming pool and areas for cooking, dining, lounging and recreation. The buildings contain exercise facilities, indoor and outdoor community spaces. Outdoor space along the river includes a public pedestrian trail along the river connecting East Center Street and 1st Street NE.

The project will provide 76 units at varying rent levels as outlined below. For reference, the 2024 Area Median Income (AMI) for Rochester for a single-person household is \$82,100. Typically, affordable housing cost is considered to be 30% of gross income.

- 13 units (17% of total) @ 30% AMI
- 38 units (50% of total) @ 50% AMI
- 25 units (33% of total) @ 60% AMI

The overall unit count and affordability targets are aiming to provide affordable housing opportunities in the downtown that are a quick walk to the downtown core, as well as build the amount of market rate housing available in the downtown core.

### DMC/City Priority Alignment:

The project aligns with the following DMC and City priorities as follows:

- Mixed-income housing project within the Downtown Waterfront subdistrict of the DMC
- Revitalizes underutilized site
- Provides a balanced and sustainable housing stock
- Promotes neighborhood stabilization and revitalization
- Increase to the city's tax base.
- First private development customer on the downtown Thermal Energy System
- Project is being designed to meet City and DMC Sustainable Design Requirements which will also benefit occupants in terms of lowering their monthly utility costs via improved building efficiency

### Financing:

The project is utilizing the following sources of funding:

- First Mortgage (project team is meeting with multiple lenders)
- Equity (from Development team)
- Public Infrastructure funding (City TIF + DMC proposed funding)
- 45L Tax credit equity
- IRA Funding
- MHFA
- TIF Loan

Following this is a memo from the City of Rochester further describing the proposed project and our financial evaluation.

**To:** DMCC Board of Directors

**From:** Strategic Initiative Team

**Date:** May 16, 2024

**Subject:** Use of DMC-enabled Tax Increment Financing District for Sherman Associates proposed Civic Center North Project

---

The City of Rochester provides the following information relating to the Sherman Project for your consideration. If this meets with DMCC Board approval, the next step would be a City Council request for action.

1. DMCC Board action requested. Grant approval of the prepared resolution to approve the Sherman Associates proposed Civic Center North 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 District. 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 District.
  - a. Land Use and Zoning Status. The City’s Community Development Team has been working with the Sherman Team regarding the Site Development Plan approval process and requirements. The Site Development Plan application was submitted on May 23, 2023, for approval by the Community Development Team. The current application is waiting on revisions.
  - b. Establishment of Tax Increment Financing (TIF) District and Development Assistance Agreement (DAA) and Approval as a Public Infrastructure Project as identified in the DMC Framework 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 \$18.5 Million in assistance to help close the financial “gap” for this Project. The City is recommending that \$13 Million in PAYGO TIF assistance be provided and \$3 Million DMC funding be provided to help the developer close a portion of the financial gap related to the increased infrastructure costs for District Energy. A public hearing on the establishment of a Tax Increment Financing District will be scheduled for a later date.

- c. 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 and City teams are in agreement regarding the recommended amount of assistance. Approval by the DMCC Board of the Sherman Project as a DMC Public Infrastructure Project will also mean that DMC provisions relating to prevailing wage rates, women- and minority-owned business contracting and workforce requirements, and American-made steel will also apply for the construction of the Project, as well as meeting the sustainably goals of the DMC.

The City’s review of the financial information provided by the developer which showed a financing gap, was based on a financial analysis of the submitted developer information by Baker Tilly, the City’s financial consultant, which performs such reviews for many communities. The TIF assistance is estimated to equate to approximately 95% of the available annual tax increments for 25 years.

### 3. Summary of the Proposed Project.

- The project is a residential development consisting of both market-rate and affordable housing units. The market-rate building is 243 units, 14-story structure and the affordable building is a 76 unit, 5-story low-rise building. The buildings surround a 348-stall structured parking facility. The roof of the parking garage will include a mix of landscaping and amenity spaces such a swimming pool and areas for cooking, dining, lounging and recreation. The buildings contain exercise facilities, indoor and outdoor community spaces. Amenity space along the river which includes a public pedestrian trail along the river connecting East Center Street and 1<sup>st</sup> Street NE.

4. How does the proposed Project address the DMC Development Plan goals and objectives?
  - a. The Project is within the DMC Downtown Waterfront subdistrict and the proposed development will provide opportunities for persons to reside in close proximity to downtown employers. More households in this district will attract other commercial investment near and around the Mayo Civic Center to create more restaurant and retail options.
  - b. The Project will provide a capital investment of nearly \$130 million within the DMC Development Plan area and will increase tax base by over \$816,000 annually, based upon existing tax rates.
  - c. The Project develops a surface municipal parking lot in a manner that is consistent with the Rochester Downtown Master Plan and the City's Comprehensive Plan. Infill development along the Zumbro river will enhance the public space for people using the trail network and adds to the character of the downtown waterfront.
  - d. The project incorporates various sustainability elements, which is consistent with the DMC vision. The project is being designed to connect to the planned district energy system.
  - e. The project construction will be subject to the prevailing wage rates, WMBE and American made steel provisions. Construction will create approximately 500 jobs.

