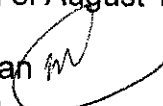


SAINT PAUL PORT AUTHORITY

MEMORANDUM

TO: CREDIT COMMITTEE
Regular Meeting of August 16, 2011

DATE: August 11, 2011

FROM: Monte M. Hilleman 
William M. Morin

SUBJECT: SUBSTANDARD BUILDING AND OCCUPANCY FINDINGS; AND
AUTHORIZATION OF EPA REVOLVING LOAN FUNDS AND OTHER
FUNDS FOR TAX INCREMENT FINANCE DISTRICT FOR BEACON
BLUFF (FORMER 3M MAIN PLANT CAMPUS)

Action Requested:

The Port Authority Board of Commissioners:

- Determine that building 24 at Parcel 2 and the building located at 890 East 7th Street at Parcel 6 of the former 3M Main Plant Campus (see Compass Rose reports attached to proposed resolution) are substandard and should be demolished in preparation for redevelopment and the potential creation of a tax increment financing district.
- Determine that Parcel 2 is currently occupied by improvements for purposes of the tax increment financing requirement.
- Authorize the use of the Port Authority's EPA Revolving Loan Fund and other Port Authority funds to pay costs associated with the Beacon Bluff project, includes the demolition of the above referenced buildings along with remediation and site improvement costs, which advances are expected to be repaid by tax increments and/or other sources.

Public Purpose:

The Port Authority seeks to create jobs and increase the tax base of Saint Paul through the brownfield redevelopment of the Beacon Bluff site (former 3M Main Plant Campus). We believe the entire site can be redeveloped with over 1,000,000 square feet of light industrial, office and commercial/retail buildings, yielding approximately 1,000 well-paying jobs. When redeveloped, this business center will generate over \$80 million in private investment in a new buildings and equipment, and approximately \$2 million in annual property taxes. Parcel 2 will serve industrial land uses in this mixed use redevelopment. Parcel 2 is projected to generate over 150,000 square feet of new construction with one or more buildings and approximately 150 jobs created or retained. This represents approximately \$12,000,000 of private sector building investment and over \$350,000 in annual property taxes. Parcel 6 will serve commercial/retail land uses and is projected to generate approximately 20,000 square feet of new construction and approximately 20 jobs

created or retained. This represents over \$3,500,000 of private sector building investment and over \$90,000 in annual property taxes.

Background:

The Saint Paul Port Authority acquired the former 3M Main Plant Campus in two phases with 35 acres purchased in December 2008 and the remaining 11 acres purchased in December 2009. Environmental investigation has found that 3M activity and pre-3M activity left behind soil and groundwater contamination. Pursuant to the sale contract with 3M, they have taken responsibility for the cleanup of contamination directly attributable to their operations at the site. Some structures at the site, including building 24, were recommended as appropriate for demolition by the 3M Community Advisory Committee after a negotiated minimum time frame for international marketing in an effort to find a buyer willing to purchase the building for reuse with a significant amount of job creation/retention and investment. Such a buyer has not been identified. The demolition of 890 East 7th Street was reviewed by the Dayton's Bluff Community Council (District 4) in December 2010 and the District 4 board unanimously voted to support the Port's acquisition and removal of 890 East 7th Street.

The redevelopment of this site is a priority for the Port Authority, neighborhood groups, and elected officials. To accomplish our goals for the site, the Port Authority may need to explore financing a portion of the project through the creation and certification of a Redevelopment TIF District. The Port Authority Board is not approving a TIF District at this time, but only making findings so this property can be included in a district after further evaluation and preparation has occurred. The Port Authority has yet to begin discussions with the City of Saint Paul regarding the creation of a district and the use of increment financing. The creation of a TIF District would return to the Board for approval at a later date.

The publicly bid construction contract for demolition and remediation to prepare parcel 2 for redevelopment and remove 890 East 7th Street was approved by the Board in June 2011.

Declaring the buildings substandard prior to demolition is a statutory requirement to keep the option available to include the parcels in a future district, if one is created. It does not mandate or require the use of TIF in the future.

Substandard Determination:

Compass Rose Inc prepared reports analyzing the substandard condition of the buildings which reports have been reviewed by legal counsel at Leonard, Street, and Deinard. Both the Compass Rose report and legal counsel have found that the buildings in question meet the requirements of Section 469.174, Subd. 10 of Minnesota Statutes for inclusion in a Redevelopment Tax Increment District.

Specific evaluation involved testing the following:

1. Condition of Building: Defects in structural elements or combination of other deficiencies justify substantial renovation or clearance.
2. Code Test: Cost to bring existing building up to code is more than 15% of the costs of building a new building.

Making these findings, and others to be made at a future date, will allow building 24 and 890 East 7th Street to be included in determining eligibility (even after being demolished) for a 25-year Redevelopment Tax Increment District, which yields the most funds to pay project costs.

Coverage Determination

An additional requirement of the creation of a Redevelopment TIF District is a determination as to whether at least 15% of the area of each of the parcels to be included in the District was occupied by improvements. The Compass Rose report has found greater than 15% coverage on Parcel 2.

Redevelopment TIF District:

Section 469.174, Subd. 10 of Minnesota Statutes states that, when establishing a TIF Redevelopment District, a parcel of land may be treated as though it is improved with a structurally substandard building and improvements if (among other things):

1. The parcel was occupied by a structurally substandard building and improvements within three years of the request for certification of the Redevelopment District.
2. The removal was financed by the Port Authority.
3. The Port Authority finds by resolution before the demolition or removal that the parcel was occupied by a structurally substandard building and after that demolition and clearance the Port Authority intends to include the parcel within a Redevelopment District.

The Port Authority is not creating a TIF district at this time but is declaring its intention to include the property in a potential TIF District in the future, if such a district is created.

EPA Revolving Loan Fund and other advances:

Prior to creating a Tax Increment District at the Beacon Bluff site, the Port Authority must advance funds to the project in anticipation of repayment by tax increment and other sources. The Port Authority intends to utilize available funds from an EPA Revolving Loan Fund and other Port Authority sources that, together with interest, shall be authorized expenditures in accordance with a Tax Increment Financing Plan for a District.

The EPA Revolving Loan Fund has already been awarded to the Port Authority and will represent an inter-governmental loan between Port Authority – Department of Finance and

Port Authority – Department of Development. Upon Board approval, steps will be taken to execute a loan agreement for a loan up to \$1,000,000 for ten years that bears an interest rate tied to the five year treasury plus 50 basis points.

Recommendation:

We recommend the Board determine building 24 at Parcel 2 and 890 E. 7th Street of the former 3M Main Plant Campus are substandard and should be demolished in preparation for redevelopment and the potential creation of a tax increment financing district and that Parcel 2 is occupied for purposes of the TIF requirement. We further recommend that the Board authorize the use of the Port Authority's EPA Revolving Loan Fund and other Port Authority funds to pay costs associated with demolition of the above buildings along with remediation and site improvement costs, which advances are expected to be repaid by tax increments and/or other sources, as provided in the resolution.

Attachment:

Proposed Resolution containing Compass Rose reports and draft Leonard, Street and Deinard opinion