

HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA

REPORT TO THE COMMISSIONERS

DATE: December 9, 2015

REGARDING: RESOLUTION APPROVING THE ESTABLISHMENT OF THE SCHMIDT KEG HOUSE REDEVELOPMENT TAX INCREMENT FINANCING DISTRICT, APPROVING A TAX INCREMENT FINANCING PLAN THEREFOR; AUTHORIZING EXECUTION OF A TAX INCREMENT DEVELOPMENT AGREEMENT; AND APPROVING A HRA BUDGET AMENDMENT; DISTRICT 9, WARD 2.

Requested Board Action

Approval of the attached resolution authorizing the following: a) establishing the Schmidt Keg House Redevelopment Tax Increment Financing District (“TIF District”); b) approving a Tax Increment Financing Plan; c) authorizing the execution of a Tax Increment Development Agreement; and d) approving an HRA Budget Amendment.

Background

Schmidt Keg House, LLC (the “Developer”) has acquired the former Schmidt Brewery Keg House. The 28,000 square foot structure was constructed in 1937, and is long-vacant and much-deteriorated. The Developer is proposing an adaptive reuse of the building which includes commercial space, a restaurant, and a large, central, open-market space with stalls for individual artisans, artists, and craftspeople (the “Project”). See Attachment B for a rendering of the Project.

The proposed development will connect local artisans with regional and national markets, both attracting visitors and exporting products. The development of the Schmidt Keg House will also increase the connections between the former industrial site and the surrounding neighborhood by adding businesses to the neighborhood commercial district.

The Developer is experienced in both these types of projects and this area of Saint Paul; it has acquired, renovated, and leased three buildings on West 7th Street. The focus of these projects has been on increasing economic contribution from historic commercial structures.

The Project is in an area zoned T3, and is a permitted use. See **Attachment C** for a Map/Address of the Property, and **Attachment E** for a demographic profile of District 9, the Saint Paul Planning District in which the Project is located. No businesses will be displaced, and no land acquisition took place as a result of eminent domain.

Budget Action

The HRA Budget Amendment is outlined in Attachment A to the Resolution.

Future Action

The City Council will hold a public hearing on December 16, 2015, to approve establishment of the TIF District.

Financing Structure

The Developer has proposed the following permanent sources and uses to complete renovation of the Keg House building. They are seeking both Federal and State historic tax credits for the Project, which will provide a one-time tax credit of 40% of the eligible costs to the owner. The Developer is proposing to syndicate the federal tax credits and to engage a non-profit partner to secure the state tax credits – both will require a bridge loan to cover the construction period. The DEED/TBRA funding has already been secured.

<u>Uses</u>		<u>Sources</u>	
Acquisition	\$ 550,000	Member Equity	\$ 800,000
Construction Costs	\$ 6,165,057	Federal Historic Tax Credit Equity	\$ 1,039,958
Soft Costs	\$ 738,000	State Historic Tax Credit Equity	\$ 1,071,144
Development Fee	\$ 924,759	DEED/TBRA	\$ 200,000
Capitalized Construction Interest	\$ 142,114	Deferred Developer Fee	\$ 924,759
Syndication Fee	\$ 24,000	Permanent Loan	\$ 3,507,467
Commercial Leasing Commissions	\$ 140,000	TIF Proceeds	\$ 1,226,251
Loan Related Expenses	\$ 85,649		
Total Uses	\$ 8,769,579	Total Sources	\$ 8,769,579

Tax Increment Financing (TIF) Assistance

Due to the high cost of redeveloping and adaptively reusing an historic building, the Project is feasible only through assistance, in part, from tax increment financing. The building has been surveyed and qualifies as a substandard building, and all other conditions have been or will be met to qualify the parcel as a Redevelopment District under Minnesota Statutes. Upon final analysis of the amount of tax increment financing needed, the TIF will be structured as a Pay-As-You-Go Note to the Developers, pledging no more than 90% of the tax increments collected by the HRA from the TIF district, for TIF-eligible redevelopment expenses, including interest. The remaining tax increment is budgeted for administration costs. The principal amount of the note will not exceed \$1,700,000 and the interest rate is estimated to be 5.25%. Pay-As-You-Go obligations are limited obligations without scheduled payments, and revenues are first used to pay interest and then to retire principal. The HRA makes no representation that the pledged increments will be sufficient to pay principal and interest. See **Attachment F** for Schmidt Keg House TIF Plan.

PED Credit Committee Review

The Credit Committee will review the proposed TIF assistance on December 7, 2015, to ensure the terms are consistent with PED policies.

Compliance

The Developer has signed and submitted a letter recognizing the compliance requirements that may apply to this project. These requirements include Vendor Outreach, Affirmative Action, City Labor Standards, Living Wage Ordinance, and the Two-Bid Policy.

Green/Sustainable Development

The Project will comply with the Saint Paul Sustainable Development Policy. The Developer plans to recycle debris, use locally-sourced materials, and reuse the existing built environment wherever possible.

Environmental Impact Disclosure

A Remedial Action Plan has been written and is being implemented with financial support from DEED and the Met Council.

Historic Preservation

The Jacob Schmidt Brewing Company Historic District has been designated as a Saint Paul Heritage Preservation Site. The developer is using Federal and State Historic Tax Credits as part of the equity financing for the Project. The Project's plans and specs, which are intended to meet the requirements of the State Historic Preservation Office and National Park Service, will need to be reviewed by HPC PED staff and the HPC Commission. It is anticipated that no 106 review will be required.

Public Purpose/Comprehensive Plan Conformance

The Project, which is consistent with both the District 9 Plan and the Comprehensive Plan, will:

- Create construction jobs and eventually permanent jobs.
- Prepare a vacant building for future redevelopment, bringing new commercial activities to West 7th Street.
- Achieve historic preservation of this historic property for adaptive reuse.
- Continue redevelopment of the larger historic district, and compliment recent and future development projects.
- Increase the tax base in Saint Paul.

Recommendation:

The Executive Director of the HRA recommends approval of the attached resolution authorizing: establishment of the Schmidt Keg House Tax Increment Financing District; approval of a Tax Increment Financing Plan; execution of a Tax Increment Development Agreement; and an HRA Budget Amendment.

Sponsored by:

Commissioner Thune

Staff:

Ross Currier 651-266-6611

Attachments

- **Attachment B – Project Rendering**
- **Attachment C – Map**
- **Attachment D – Public Purpose**
- **Attachment E – District 9 Profile**
- **Attachment F – Schmidt Keg House TIF Plan**