


SAINT PAUL PORT AUTHORITY

MEMORANDUM

TO: BOARD OF COMMISSIONERS
Regular Meeting of April 24, 2012

DATE: April 19, 2012

FROM: Monte M. Hilleman 

SUBJECT: **BUILDING 20 COMPLEX SUBSTANDARD BUILDING FINDINGS FOR
TAX INCREMENT FINANCE DISTRICT FOR BEACON BLUFF (FORMER
3M MAIN PLANT CAMPUS)
RESOLUTION NO. 4419**

Action Requested:

The Port Authority Board of Commissioners:

- Determine that the Building 20 complex at the former 3M Main Plant Campus (see Compass Rose report attached to proposed resolution) is substandard and should be demolished in preparation for redevelopment and the potential creation of a Tax Increment Financing (TIF) district.
- 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 building, remediation, and site improvements, 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 site can be redeveloped with up to 750,000 square feet of light industrial, office and commercial/retail buildings, yielding up to 1,000 well-paying jobs. When redeveloped, this business center will generate up to \$80 million in private investment in new buildings and equipment, and up to \$2 million 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. Pursuant to a Memorandum of Agreement with the US Environmental Protection Agency and the MN State Historic Preservation Office, we marketed the Building 20 complex for adaptive reuse. Marketing was conducted, initially with Port Authority brokers and subsequent to securing Ironton Asset Fund as a

developer, with their brokerage team, for more than two years. Ironton was unable to attract any interest in this complex. We were able to contract with Ironton to redevelop and preserve Building 21 the former 3M world headquarters building. As the site has historically been under-parked, the reuse of Building 21 requires additional land for parking. The demolition of the Building 20 complex will create space for the construction of a parking lot to serve Building 21 and facilitate its reuse.

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 TIF Redevelopment 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. This approach is consistent with prior board actions related to the demolition of the Building 99 complex in 2010 and the demolition of Building 24 in 2011.

The publicly bid construction contract for demolition and remediation to prepare this parcel for redevelopment will be recommended in a subsequent Board memo.

Declaring the building substandard prior to demolition is a statutory requirement to keep the option available to include the parcel 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 prepared a report analyzing the substandard condition of the parcel which has been reviewed by legal counsel at Leonard, Street, and Deinard. The Compass Rose report found that, for purposes of tax increment law, the parcel on which Building 20 is located is more than 15% "occupied" by that building, and that the building itself is substandard within the meaning of the statute. Leonard, Street, and Deinard concurs that the Port Authority has a sound basis for determining the parcel is occupied and that the building is structurally substandard (see attached opinion).

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 preserve the ability to qualify this property for a 25-year Redevelopment Tax Increment District, which yields the most funds to pay project costs.

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 if (among other things):

1. The parcel was occupied by a structurally substandard building 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, if one is created.

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 may 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.

A supplemental EPA Revolving Loan Fund has yet to be awarded to the Port Authority and would represent an inter-governmental loan between Port Authority – Department of Finance and Port Authority – Department of Development. Upon Board approval, steps may be taken to execute a Loan Agreement for a loan up to \$1,500,000 for ten years that bears an interest rate tied to the five year treasury plus 50 basis points.

Recommendation:

We recommend the Port Authority Board of Commissioners determine that the Building 20 complex at the former 3M Main Plant Campus is substandard and should be demolished in preparation for redevelopment of the property and the potential creation of a Tax Increment Financing District; and, 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 building, remediation, and site improvements, which advances are expected to be repaid by various sources, potentially including tax increments.

Attachment:

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