

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

REPORT TO THE COMMISSIONERS

DATE: APRIL 12, 2017

REGARDING: RESOLUTION APPROVING AND AUTHORIZING THE EXECUTION OF A TAX INCREMENT FINANCING DEVELOPMENT AGREEMENT WITHOUT CONDITIONS FOR THE MINNESOTA MUSEUM OF AMERICAN ART PROJECT, DISTRICT 17, WARD 2

Requested Board Action

Approve and authorize a Tax Increment Financing Development Agreement without Conditions for the Minnesota Museum of American Art Project.

Background

On June 27, 2012, the HRA established the Pioneer Endicott Tax Increment Financing District (a redevelopment TIF district) by RES #12-1232 and adopted a TIF Plan (the “TIF District”). The TIF District includes the 16-story Pioneer building, and the two six-story Endicott buildings. The buildings were originally constructed in 1889 and are nationally designated historic structures that include Cass Gilbert architectural design of the Endicott building, Italian marble throughout, unique stairwells, original hardwood flooring, and decorative wrought iron.

The buildings have been redeveloped into 234 market-rate apartments and approximately 55,000 square feet of shell commercial space by Pioneer Endicott LLC (Rich Pakonen, chief member). This includes 6,660 square feet leased by the Minnesota Museum of American Art (“Museum”) for use as offices and project space. The Museum is a qualified non-profit corporation established in 1927; additional information on the Museum is included in an **Attachment**.

On December 9, 2015, the HRA approved RES #15-2180 authorizing the execution of a Tax Increment Financing Development Agreement providing up to \$900,000 in principal from the TIF District to reimburse the Museum for certain TIF-eligible public redevelopment costs for the Museum’s proposed expansion project renovating approximately 30,000 square feet, to include classrooms, community spaces, and galleries devoted to American and Minnesota art and craft. The prior resolution is included as an **Attachment**. The assistance was conditioned on the receipt

of State bonding in the approximate amount of \$8,000,000 for a total project cost of \$19,020,000.

The Museum has secured private sources for their project but has not been able to secure the State bonding. The Museum has developed a strategy, however, to immediately move ahead with the education wing portion of the project, dubbed “The Center for Creativity.” They have worked with the architects and contractor to divide the project into two independently viable parts, allowing the education wing and skyway connections to be built this year, and the museum gallery facility to be built out separately with the State bond proceeds immediately upon passage of a bonding bill. The Museum is requesting \$8.5 million in State bonds through the Port Authority.

The Museum is now proposing to renovate approximately 20,000 square feet on the first floor of the Pioneer and Endicott buildings (141 East 4th Street), and to construct a public entrance from the skyway level, to move ahead with the Center for Creativity. The Center for Creativity will include classrooms and community spaces and will be the go-to art education resource for thousands of Saint Paul public school children. The Center for Creativity will be completed using private donations, New Markets Tax Credits (through Sunrise Bank), Historic Tax Credits (through US Bank), Cultural STAR funds, and the TIF assistance – but without State bonding. The estimated total cost is \$11,824,187.

The Museum plans to start the Project in the second quarter of 2017, with construction completion in the first quarter of 2018 and a Museum opening in the summer of 2018. The Gallery project timing will be dependent on State bonding.

The museum is in an area zoned B4 and their Project is a permitted use. A map of the Project is attached. The demographic profile of District 17, the Saint Paul planning district in which the Project is located, is attached. No businesses will be displaced, and no land acquisition took place as a result of eminent domain.

Budget Action

The original TIF budget adopted contemplates the requested expenditures and no further action is necessary.

Future Action

No future action is anticipated for this Project.

Financing Structure

The Museum's Center for Creativity Project includes the following sources and uses:

	<u>Est. Amount</u>
Sources of Funds	
Private Fundraising	\$5,909,187
Landlord Contribution	\$250,000
New Markets Tax Credit Equity	\$1,965,000
Historic Tax Credit Equity (Fed & State)	\$2,700,000
Cultural STAR Award (2014)	\$100,000
HRA TIF Assistance	\$900,000
TOTAL SOURCES	\$11,824,187
Uses of Funds	
Construction	\$5,440,000
Architecture/Eng./Project Consultants	\$1,362,000
Financing, Legal and Consultants	\$425,000
NMTC/HTC Fee Reserves	\$1,027,937
Interest Reserve	\$306,250
Contingency	\$600,000
	<u>\$9,161,187</u>
Museum Launch	\$1,663,000
Endowment	\$1,000,000
TOTAL USES	\$11,824,187

Tax Increment Financing (TIF) Assistance

Due to the high cost of redeveloping and adaptively reusing this large open space within historic buildings, the Project is feasible only through public assistance, in part, from tax increment financing. The budget adopted in the TIF Plan is shown on the following page.

TIF Plan Budget	Estimated Amount
Tax Increment Revenue	\$10,728,000
Tax Increment Uses	
Land/Building Acquisition*	\$1,100,000
Site Improvement/Prep Costs*	\$1,400,000
Other Qualifying Public Improvements	\$1,072,800
Construction of Affordable Housing	\$1,610,000
Administrative Costs	\$1,072,800
Interest Expense	\$4,472,400
Total Tax Increment Uses	\$10,728,000

The HRA issued a \$2,500,000 Pay-As-You-Go TIF Note (includes items above marked with an asterisk) to Pioneer Endicott LLC, pledging 65% of the tax increments collected from the TIF District, to complete the housing and shelled commercial space in the historic structures (the “Pioneer Endicott LLC Note”). This project has been completed. The HRA delayed the first receipt of tax increments until 2015. The projected Pay 2017 tax increments are \$560,717 for the TIF District.

The terms for the Museum’s TIF approved in 2015 will not change. The assistance to the Museum will utilize tax increment from the TIF district in the form of a Pay-As-You-Go TIF Note. The principal amount of the note will not exceed \$900,000 (from the “Other Qualifying Public Improvement” line item in the TIF Budget) and will include a maximum interest rate of 5.25% (the “Museum Note”). Repayments under the Museum Note will be made from an annual pledge of 12% of the tax increments collected or \$60,000 whichever is greater, commencing with Tax Pay Year 2015 until the Tax Pay Year of the full repayment of the Pioneer Endicott LLC Note. In the year following the full repayment the pledged amount will increase to 40% of the tax increments collected for a two-year period. Staff projects the Pioneer Endicott LLC Note will be fully repaid in 2027, and therefore the Museum Note would receive increment through 2029. All payments made by the HRA under the Museum Note shall first be applied to accrued interest and then to principal. If the pledged tax increments are insufficient to pay any accrued interest due, such unpaid interest shall be carried forward without interest. The HRA makes no representation that the pledged increments will be sufficient to pay the principal and interest.

The requested tax increment assistance would be used for certain eligible public redevelopment costs identified in the substandard building condition study, which includes, but is not limited to: fire and safety improvements; heating and cooling systems; mechanical improvements; elevator improvements; and construction of a new skyway link bridge for public use.

PED Credit Committee Review

The PED Credit Committee reviewed the Project on November 30, 2015, and determined the terms of the TIF financing are consistent with PED's policies.

Compliance

The Museum has submitted the 1st Developer Letter. The compliance requirements for this Project include the following:

- Vendor Outreach Program
- Labor Standards
- Affirmative Action
- Project Labor Agreement
- Two Bid Policy
- Living Wage Ordinance

The above compliance will be required for the State bond financed project as well (the Gallery Phase).

Green/Sustainable Development

The Project will comply with the Saint Paul Sustainable Development Policy. The Museum will be following the State's B3 Program guidelines for the State bond financed project (a requirement of State Bonding).

Environmental Impact Disclosure

N/A

Historic Preservation

The Project includes a designated historic structure and will require local and SHPO review.

Public Purpose/Comprehensive Plan Conformance

The Project will create 65 construction jobs and an estimated 8.5 new permanent jobs (for total employment of 16). The Project will result in an estimated 20,000 annual visitors to downtown.

The following details how this Project is consistent with the Downtown Station Area Plan Policies:

1. 2.2 Land Use, Policy 2: promote the innovative re-use of historic buildings.
2. 3.3 Re-Imagining 4th Street, Strategy 4: promote infill and redevelopment sites as premier downtown mixed-use redevelopment opportunities.

The Board of Directors of the CapitolRiver Council adopted a resolution in support of the Museum's Project and request for tax increment financing assistance.

Recommendation:

The Executive Director recommends approval of the Resolution which approves the execution of a TIF Development Agreement without a condition for State Bonding.

Sponsored by: Commissioner Noecker

Staff: Jenny Wolfe, 266-6680

Attachments

- **Attachment – HRA RES #15-2180**
- **Attachment – Museum Description**
- **Attachment – Map of Project**
- **Attachment – District 17 Demographic Profile**
- **Attachment – Public Purpose Form**