

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

REPORT TO THE COMMISSIONERS

DATE: DECEMBER 9, 2015

REGARDING: RESOLUTION APPROVING AND AUTHORIZING THE EXECUTION OF A TAX INCREMENT FINANCING DEVELOPMENT AGREEMENT FOR THE MINNESOTA MUSEUM OF AMERICAN ART PROJECT, DISTRICT 17, WARD 2

Requested Board Action

Approve and authorize a Tax Increment Financing Development Agreement 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 tax increment district includes the 16-story Pioneer building, and the two six-story Endicott buildings. The buildings were originally constructed in 1889 and are national designated historic structures that include Cass Gilbert architectural design of the Endicott building, Italian marble throughout, unique stairwells, original hardwood flooring, and decorative-rod 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). Approximately 97% of the apartments are occupied, and approximately 11,000 square feet of the commercial space is leased and occupied. 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 **Attachment B**.

The Museum is proposing to renovate approximately 30,000 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. The Museum will include galleries devoted to American and Minnesota art and craft, classrooms, and community spaces (the "Project"). HRA staff received an application from

the Museum requesting \$900,000 of tax increment proceeds to assist in the financing of their \$19,020,000 project.

The Museum has a 30 year lease with PE Master Tenant (Rich Pakonen, managing member), and is seeking \$8,000,000 in bonding for the Project from the State, through the Saint Paul Port Authority. Prior to commencement of construction, the lease will transfer to the Port Authority, a requirement of the State bonding. They are also seeking New Markets Tax Credits, and are in the pipeline of several entities for an allocation.

The Museum plans to start the Project in the third quarter of 2016, provided they receive State bonding, with construction completion in the 1st quarter of 2017 and a Museum opening in the summer of 2017.

The museum is in an area zoned B4 and their Project is a permitted use. See **Attachment C** for a Map/Address of the Property, and **Attachment D** for a demographic profile of District 17, the Saint Paul Planning District in which the Museum is located. 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 Project includes the following sources and uses:

| | <u>Est. Amount</u> |
|-----------------------------------|---------------------|
| Sources of Funds | |
| Private Fundraising | \$8,570,000 |
| Landlord Contribution | \$250,000 |
| New Markets Tax Credits | \$1,200,000 |
| State Bonding | \$8,000,000 |
| Cultural STAR Award (2014) | \$100,000 |
| City TIF Assistance | \$900,000 |
| TOTAL SOURCES | \$19,020,000 |
| Uses of Funds | |
| Capitalized Rent | \$2,000,000 |
| Architecture/Engineering | \$1,000,000 |
| Furniture, Fixtures and Equipment | \$1,070,000 |
| Construction | \$8,800,000 |
| Financing/Legal/Consultants | \$1,950,000 |
| Contingency | \$1,400,000 |
| <i>Subtotal</i> | <i>\$16,220,000</i> |
| Museum Launch | \$1,800,000 |
| Endowment | \$1,000,000 |
| TOTAL USES | \$19,020,000 |

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 below.

| | <u>Estimated Amount</u> |
|--------------------------------------|-------------------------|
| 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 substantially completed. The HRA delayed the first receipt of tax increments until 2015 and the scheduled amount to be received is \$275,056. The projected Pay 2016 tax increments are \$486,918.

Staff is proposing to utilize tax increment from the Pioneer Endicott TIF district in the form of a Pay-As-You-Go TIF Note. The principal amount of the note would not exceed \$900,000 (from the “Other Qualifying Public Improvement” line item in the TIF Budget) and would include an interest rate of 5.25% (the “Museum Note”). Repayments under the Museum Note would be made from a pledge of 12% of the tax increments collected or \$60,000 whichever is greater until the year following the full repayment of the Pioneer Endicott LLC Note, when 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

Green/Sustainable Development

The Project will comply with the Saint Paul Sustainable Development Policy. As a requirement of the State Bonding, the Museum will be following the State's B3 Program guidelines.

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 108 construction jobs and an estimated 8.5 new permanent jobs (for total employment of 16). The Project will result in an estimated 40,000 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 attached Resolution approving the TIF Development Agreement.

Sponsored by: Commissioner Thune.

Staff: Jenny Wolfe, 266-6680

Attachments

- **Attachment B – Museum Description**
- **Attachment C -- Map/Address of Project**
- **Attachment D -- Census Facts**
- **Attachment E -- Public Purpose Form**