

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

**REPORT TO THE COMMISSIONERS**

**DATE: JUNE 28, 2017**

**REGARDING: RESOLUTION APPROVING THE DEVELOPMENT AGREEMENT WITH RATHSKELLER RENAISSANCE, LLC, FOR THE SCHMIDT RATHSKELLER BUILDING PROJECT AND TERMINATION OF EXISTING AGREEMENT WITH WEST 7<sup>TH</sup>/FORT ROAD FEDERATION.**

## **Requested Board Action**

The specific actions being requested of the HRA Board are as follows: a) approve a TIF Development Agreement with Rathskeller Renaissance, LLC (the “Developer”); b) approve termination of the Development Agreement, Loan Agreement and Note with the West 7<sup>th</sup>/Fort Road Federation (the “Federation”); and c) conduct a Public Hearing to convey the property included in the TIF Development Agreement to the Developer in order to redevelop the historic Schmidt Rathskeller building.

## **Background**

The Jacob Schmidt Brewery property is a major landmark in the economic history of Saint Paul. In 1899, Jacob Schmidt established the Jacob Schmidt Brewing Company in partnership with his son-in-law Adolph Bremer and Adolph’s brother, Otto. In 1901, Schmidt’s daughter Marie, and Adolph relocated the family business to the current Schmidt site and started an ambitious construction program for what became one of the most prominent breweries in the nation. In 1935, the traditional German-style Rathskeller was created to house corporate and community events. The Rathskeller is still home to a historic and significant portrait of Jacob Schmidt, Otto Bremer, and Adolph Bremer, three “titans” of Saint Paul industry.

The Rathskeller was acquired for redevelopment in 2011 by the Fort Road Federation, a neighborhood-based, private, non-profit development company. The HRA provided \$1,895,715 to the Federation to acquire and stabilize the Rathskeller, and purchase the adjacent Keg House property, in preparation for subsequent development. The Federation sold the Keg House property to Schmidt Keg House Holdings, LLC in 2014 for \$550,000. The proceeds were

deposited into an escrow fund to be used toward the completion of the Rathskeller project and will be transferred to the Developer by the Federation for that purpose.

In recent years, the Federation has stabilized the Rathskeller building by replacing the roof, and mitigating lead-based paint, asbestos, and soil pollution. It has also conducted predevelopment activities, maintained the property and the site, and addressed all holding costs. In all, there has already been approximately \$2 million of City/HRA, Met Council, and DEED funds invested in the development. The Federation conveyed the Rathskeller property to the HRA in 2015 in order to reduce holding costs and allow for greater public control over redevelopment efforts, and entered into a License Agreement with the HRA to continue predevelopment work and ongoing maintenance.

On December 9, 2015 the HRA Board approved amending the Koch-Mobil TIF district, established February 11, 2014, to expand the Project Area to include the Schmidt Brewery area, and authorized a Pay-Go TIF note to the Federation in an amount not to exceed \$1.4 million in order to cover the anticipated financing gap in the Rathskeller project.

After spending years trying to secure approximately \$5,000,000 in additional financing sources, and searching for commercial tenants who will value and preserve the historic elements, the Federation has turned to the Developer, Rathskeller Renaissance LLC, to secure the financing to complete the project, and the tenants who will contribute to the economic vitality of West 7<sup>th</sup> Street.

The managing partner of Rathskeller Renaissance LLC is Craig Cohen, with experience in these types of developments in this area of Saint Paul. Mr. Cohen has acquired, renovated, and leased three buildings on W. 7<sup>th</sup> Street, and is currently developing the historic Schmidt Keg & Case House. It is anticipated that some tenants unable to be located in the Schmidt Keg House will move across Webster Street to the Schmidt Rathskeller. Likely tenants include an authentic German restaurant in the Rathskeller space and a European-style café in the courtyard side-space. The Federation will be relocating their offices to the Rathskeller and will continue hosting the annual German Fest in the historic Brewery District.

To support the new redevelopment strategy for the Schmidt Rathskeller site, staff recommends terminating the Development Agreement with and TIF assistance for the Federation and entering into new agreements with the Developer for the project. The TIF Development Agreement and property transfer will require that the Developer secure all financing necessary to complete the project before a closing on the property can occur. Due to the subsidy necessary for the completion of the project, staff recommends selling the property to the Developer for a dollar.

The TIF assistance originally approved for the Federation was in the form of a Pay-As-You-Go note with a principal amount not to exceed \$1,400,000 to be repaid with tax increments generated from the Koch-Mobil TIF district. The amount now recommended for the Developer is \$1,290,260 based on the Developer's anticipated gap. No TIF proceeds will be disbursed until the project has been completed and all TIF-eligible costs have been certified.

The Rathskeller project is in an area zoned T3, and the proposed uses are permitted. See **Attached Map** for a Map/Address of the Property, and the **Attached District 9 Profile** 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**

N/A – All City and HRA funds for this project have previously been approved.

#### **Future Action**

N/A

#### **Financing Structure**

The Developer has proposed the following sources and uses to complete the renovation of the Rathskeller building:

**Sources:**

|                         |              |
|-------------------------|--------------|
| Commercial Loan         | \$ 2,184,000 |
| Tax Credit Equity/Loans | \$ 1,830,000 |
| Keg House Escrow*       | \$ 500,000   |
| STAR Funds*             | \$ 450,000   |
| Pay-Go TIF Note*        | \$ 1,290,260 |
| Def. Developer Fee      | \$ 468,133   |
| Member Equity           | \$ 316,866   |

**Uses:**

|                    |              |
|--------------------|--------------|
| Pre-development    | \$ 250,000   |
| Construction       | \$ 5,120,889 |
| Professional Fees  | \$ 607,546   |
| Developer Fee      | \$ 668,133   |
| Financing Costs    | \$ 284,191   |
| Leasing Fees       | \$ 58,500    |
| Operating Reserves | \$ 50,000    |

**Total Sources****\$ 7,039,259****Total Uses****\$ 7,039,259**

The sources marked with an asterisk (\*) have been previously approved for this project.

The Pay-Go TIF Note will be issued by the HRA to the Developer in a principal amount not to exceed \$1,290,260 once the final sources and uses for the project are known. The repayment of the TIF note will be from a pledge of 20% of the Koch-Mobil TIF district collections commencing with tax pay year 2015. Staff estimates the TIF note will be repaid by tax-pay year 2022. 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 all principal and interest during the term of the TIF Note.

**PED Credit Committee Review**

The Credit Committee reviewed the TIF assistance on December 7, 2015 and found it to be consistent with PED policies.

**Compliance**

Rathskeller Renaissance, LLC has acknowledged receiving City/HRA compliance documents specifying that the following compliance requirements are applicable to this project:

- Vendor Outreach Program, Chapter 84.01

- Affirmative Action, Chapter 183.04
- Little Davis-Bacon Labor Standards
- Living Wage Ordinance

### **Green/Sustainable Development**

The project will meet the City of Saint Paul Sustainable Building Policy.

### **Environmental Impact Disclosure**

The response actions included in the approved 2008 Response Action Plan (RAP) have been completed.

### **Historic Preservation**

The Jacob Schmidt Brewing Company Heritage Preservation District is a locally designated historic district. Rathskeller Renaissance, LLC will be seeking Federal historic designation to utilize Federal and State Historic Tax Credits as part of the equity financing for the Rathskeller project. The project plans, which are intended to meet the requirements of the State Historic Preservation Office and National Park Service, will need to be reviewed by PED Historic Preservation staff and the Saint Paul Heritage Preservation Commission. It is anticipated that no 106 review will be required because there are not Federal funds in the project.

### **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 7<sup>th</sup> Street.
- Achieve historic preservation of this historic property for adaptive reuse.
- Continue redevelopment of the larger historic district and complement recent and future development projects.
- Increase the tax base in Saint Paul

**Statement of Chairman (for Public Hearing)**

“Being duly authorized by the Board of Commissioners to conduct this Public Hearing, the hearing is now open. This is a Public Hearing called for the purpose of conveyance of a certain Parcel of land located in the West Seventh neighborhood by the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota (HRA).

Notice of time, place, and purpose of this hearing was published in the Saint Paul Pioneer Press on June 17, 2017. The Affidavit of Publication of the Notice of Public Hearing will be made a part of these proceedings.

The HRA proposes to convey the following property in the West Seventh neighborhood:

| <b><u>PROPERTY DESCRIPTION</u></b>    | <b><u>PURCHASER/DEVELOPER</u></b> | <b><u>PRICE</u></b> |
|---------------------------------------|-----------------------------------|---------------------|
| Schmidt Brewery Addition, LOT 2 BLK 2 | Rathskeller Renaissance, LLC      | \$1                 |
| Schmidt Brewery Addition, OUTLOT B    | Rathskeller Renaissance, LLC      | \$1                 |
| Schmidt Brewery Addition, OUTLOT C    | Rathskeller Renaissance, LLC      | \$1                 |
| Schmidt Brewery Addition, LOT 1 BLK 2 | Rathskeller Renaissance, LLC      | \$1                 |

The property will be conveyed for the development of commercial space. Is there anyone who wishes to be heard on this sale? If not, the Chair will declare this Public Hearing adjourned.”

**Recommendation:**

The Executive Director recommends conveyance of the Schmidt Rathskeller property and approval of the TIF Development Agreement with Rathskeller Renaissance, LLC for the Schmidt Rathskeller building project, and the Termination of the existing Development Agreement, Loan Agreement, and Note with West 7<sup>th</sup>/Fort Road Federation.

**Sponsored by: Commissioner Noecker**

**Staff: Ross Currier, 266-6611**

## **Attachments**

- **Attachment – Map**
- **Attachment – Public Purpose**
- **Attachment – District 9 Profile**