



June 6, 2019

The Honorable Melvin Carter  
Mayor, City of Saint Paul  
15 West Kellogg Boulevard  
390 City Hall  
Saint Paul, MN 55102

Council President Brendmoen  
and Members of City Council  
15 West Kellogg Boulevard  
310 City Hall  
Saint Paul, MN 55102

**RE: Hillcrest Golf Course Acquisition**

Dear Mayor Carter and City Council Members:

Below please find project briefing information, background and commitments related to the Port Authority's proposed purchase of the Hillcrest Golf Course.

**CORE ISSUE:**

Saint Paul lacks ready to develop land for economic development (ED). There are currently no development ready lots for light industrial zoned economic development projects, except for the last 3-acre (approx. 50K SF bldg) site at Beacon Bluff. Other options to create the land inventory for Port and City ED goals are far more costly, time consuming and difficult to secure. We've "made the market" for light industrial users along Phalen Boulevard and continue to see high demand for 100K SF+ users with high job counts for the East Metro, but not have sites to serve them.

**PUBLIC PURPOSE:**

To acquire site control and accelerate the redevelopment of 112 acres of land on the East Side of Saint Paul for an innovative mixed used, master planned development with substantial light industrial zoned land to accomplish the Port's economic development mission, by removing site prep risks and other barriers to private sector investment (significant topographic challenges, no infrastructure, no approved master plan, no zoning or other entitlements).

The site is a brownfield with initial due diligence investigations indicating significant presence of mercury soil contamination (prevalent in fungicides used until phase-out in the 1990s) as well as petroleum contamination from maintenance and operations. Current environmental remediation estimates are approximately \$2,500,000 depending on approved cleanup plan per an approved master plan.

**PORT AUTHORITY RISK PROFILE:**

- **Risk Required:** Since the 1960's the Port Authority has served as the City's primary commercial/industrial land redevelopment agency. This often requires securing fee title ownership (site control) of substandard properties with known impediments to private investment (contamination, geotechnical, infrastructure, blighted/obsolete buildings, access, etc.), nearly always without fully understood costs necessary to put the land back into production. This level of risk has been required of the Port Authority to achieve 22 business centers, with 550 companies and over 25,000 jobs, without which risk, likely would not exist within the city of Saint Paul.
- **Risk Tolerance:** The Port Authority understands the risks identified above and has adopted an organizational value of "Risk Taking". This approach and this level of risk tolerance is necessary to deliver on our mission.
- **Risk Capacity:** The Port Authority is committed to invest and absorb the risk identified in the Preliminary Sources-Uses, which identifies a ~\$6M exposure to the Port Authority to bring this site online.

***ALIGNMENT WITH EXISTING CITY & PORT ECONOMIC DEVELOPMENT GOALS:***

The site will serve as a growth opportunity for tech and innovation businesses/jobs initiated through the City's Full Stack strategy. Given the 'new construction' nature of these commercial spaces, they will lend themselves to early-mid growth cycle businesses with financeable track records that are ready to "Scale Up". Intentional and proactive marketing of the site (ex. Beacon Bluff "A Next Generation Business Center") for tech/innovation companies will benefit from the access to a) local workforce and b) proximity to the state's innovation pioneer, 3M.

The light industrial sites will serve to further the Port's track record of delivering high quality, well-paying jobs with low barriers to entry. The businesses locating at Hillcrest will be connected and required to engage with the local non-profit workforce service providers through the East Side Employment Exchange to drive local hiring (already funded by East Side Funders Group & SPPA).

A University of MN REMI analysis of the Port's recent mixed-use Beacon Bluff Business Center (61 acres, acquired in 2009, fully developed, with a few exceptions, by 2019), shows the following results after SPPA land development activity:

- *Direct/Indirect Jobs: 930 (2017) / 1490 (2022) / 1630 (2027)*
- *Labor Income: \$92.0M (2022) / \$100.3M (2027)*
- *Economic Activity: \$212.6M (2022) / \$235.1M (2027)*

**ECONOMIC DEVELOPMENT & OTHER OUTCOMES (PRELIMINARY):**

Assuming conventional approaches to infrastructure/parks/etc., the remaining net developable acreage has the capacity to produce:

- JOBS
  - Approximately 1,000 permanent FTE's (TBC per due diligence and master plan) and approximately 1,700 construction jobs
- HOUSING UNITS
  - An initial market assessment identifies the demand for approximately 1,000 housing units mixed between ownership/rental at a variety of densities and types
- ANNUAL PROPERTY TAXES
  - Around \$250,000,000 of new estimated market value, resulting in over \$5,000,000 in annual property taxes (TBC per due diligence and master plan)
- GREENSPACE / PARKS
  - Around 20 acres of Green Space/Parks/Wetlands/Stormwater amenities
- PROJECT LABOR AGREEMENT
  - Land development activity by the Port Authority and subsequent construction by any general contractor and subcontractors of whatever tier performing any work for the initial development of buildings or material improvements on the Property are required to enter into a Project Labor Agreement, this requirement extends to subsequent third-party purchasers, successors and assigns.
- SOCIAL EQUITY
  - Publicly bid construction contracts for land development activity by the Port Authority will utilize City of Saint Paul HREEO programs and goals, including the Vendor Outreach Program. The Port Authority is also working with project engineers and consultants to develop programs to recruit diverse local workforces to their respective disciplines.

**PROPOSED ACTIONS:**

- Secure SPPA Board approval of executed Contingent Purchase Agreement, Tues June 18
- Secure SPPA Board approval of General Obligation Bond Resolution (contingent upon City ordinance adoption for same), Tues June 18
- Secure SPPA Board approval of Bond Reimbursement Resolution, Tues June 18

- SPPA Board to request, on June 18, the City begin ordinance process for Port Authority General Obligation Bond issuance of \$10,000,000 for acquisition of Hillcrest.
  - Bond issuance is a Contingency to the Purchase Agreement
  - This levy accrues to the Port's line item, not the City's, on property tax statements
- Begin council ordinance approval process of Port GO Bond authority (1<sup>st</sup> reading by June 19, bonds issued as soon as practicable in 2019).
- Outright purchase from Local 455 to close by June 26, 2019.
- Port to manage mass grading, environmental remediation, infrastructure, etc. starting in 2021, to allow site marketing to start in 2021.

### **FINANCING:**

#### **REAL ESTATE FUNDAMENTALS**

- Economic terms of the Purchase Agreement are favorable for the Port Authority. The negotiated purchase price for the real estate is \$10,000,000, or \$2.05/SF. That represents a very significant cost efficiency compared to other options for the Port Authority to acquire the significant amount of land required to accomplish its economic development mission.
- For comparison, the Port acquired the 46.5 acres former 3M Headquarters site for \$2.65/SF. Buildable industrial land in Saint Paul transacts generally between \$3-5/SF. Ramsey County in 2019 valued the 112 acres at \$12,558,100 or \$2.58/SF (which does not account for the significant site issues identified above). The seller has agreed to a diminished value representing a \$2.4M spread to allow for Port Authority investment in remediation and infrastructure.
- Seller acquired the site for \$4.3M in 2011. They incurred annual operating losses leading to the closure of the operation in 2017. They have since incurred \$3.0M in debt on the property to build a training facility (off site) and another \$3.9M in debt to pay property tax recapture. The County has indicated a property tax refund of \$872K. In total, the seller will barely break even and if annual operating losses and investments are considered, they will have lost money on an ill-advised adventure into real estate.

#### **ACQUISITION**

- No Tax Increment Financing to be requested for infrastructure, no further City assistance for Port land development activities
- Port secures bridge financing for acquisition, from land sale closing through bond issuance
- SPPA to issue Port Authority General Obligation Bonds (as soon as practicable in 2019) in the amount of \$10,000,000

- Port bridge financing taken out by Port GO bonds
- Debt service on anticipated \$10M bond issue(s) approx \$750K/year
- Equal to \$5.00/year on a median value household
- Incremental property taxes begin as lots are sold. At project completion (estimated absorption 8-12 years) property tax receipts are projected to be over \$5,000,000 or 7x annual debt service on bonds
- Projected approximate net annual property tax benefit at completion of +\$4,250,000
- Port will work with City Finance to structure bonds to create the most efficient financing, while minimizing the 2020 levy impact.

### INFRASTRUCTURE

- Preliminary estimates show site infrastructure estimates of approximately \$22-24M
- SPPA to seek grants and monetize land sale revenues and assessments to fund infrastructure, no further request from SPPA for additional GO bonds for infrastructure is proposed
- Upgrades/req'ts above conventional approaches may require additional financing, beyond the estimate above
- The only off-site infrastructure improvement identified to date is 50' of sanitary sewer that throttles from 36" to 15" before connecting to Met Council interceptor, cost of approx. \$300K to upgrade

### PARKS

- Port Authority will adhere to parkland dedication ordinance at the time of platting
- Preliminary analysis supports ~5 acres of active, improved park area, at a cost of approximately \$2,500,000 which would be funded/constructed by the Port Authority and dedicated to, and maintained by the City (TBD per Master Plan)
- Preliminary analysis supports ~15 acres of passive green/open/buffer/wetland/stormwater amenity space which would be funded/constructed and held by the Port Authority and maintained via Common Area Maintenance charges to land buyers per land covenants

### CITY/PORT PARTNERSHIP:

- Port agrees to fund land prep costs, including environmental, infrastructure, and active/passive park/green space/wetland/stormwater amenity areas with no future requests for City financial contributions. Current estimate for Port Authority funds needed is approximately \$5.5M (with potential to offset via grants and other non-City sources)
- Port responsible for managing design/construction/delivery to market of development ready outlots in accordance with Master Plan

- Port contributes due diligence research to City's Master Plan/Tech Team (env/geo/civil/utilities/grading/market study/etc.)
- City responsible for implementing Master Plan process, already budgeted and in PED workplan for 2019 and agrees to initiate Master Plan by 3Q 2019 with an anticipated duration of 12-18 months
- Commitment by City to begin ordinance process, by June 19, 2019, to secure City approval of Port GO Bond Authority for issuance as soon as practicable in 2019
- Commitment by City to provide technical assistance to SPPA in relation to assessments to outlots for SPPA infrastructure expenses

**KNOWN UNKNOWNNS:**

- Required Environmental Review (AUAR/EIS/EAW): TBD dependent on master plan
- Final infrastructure and park costs (TBD by master plan)
- Incremental costs for advanced infrastructure and energy strategies (TBD, also master plan process)

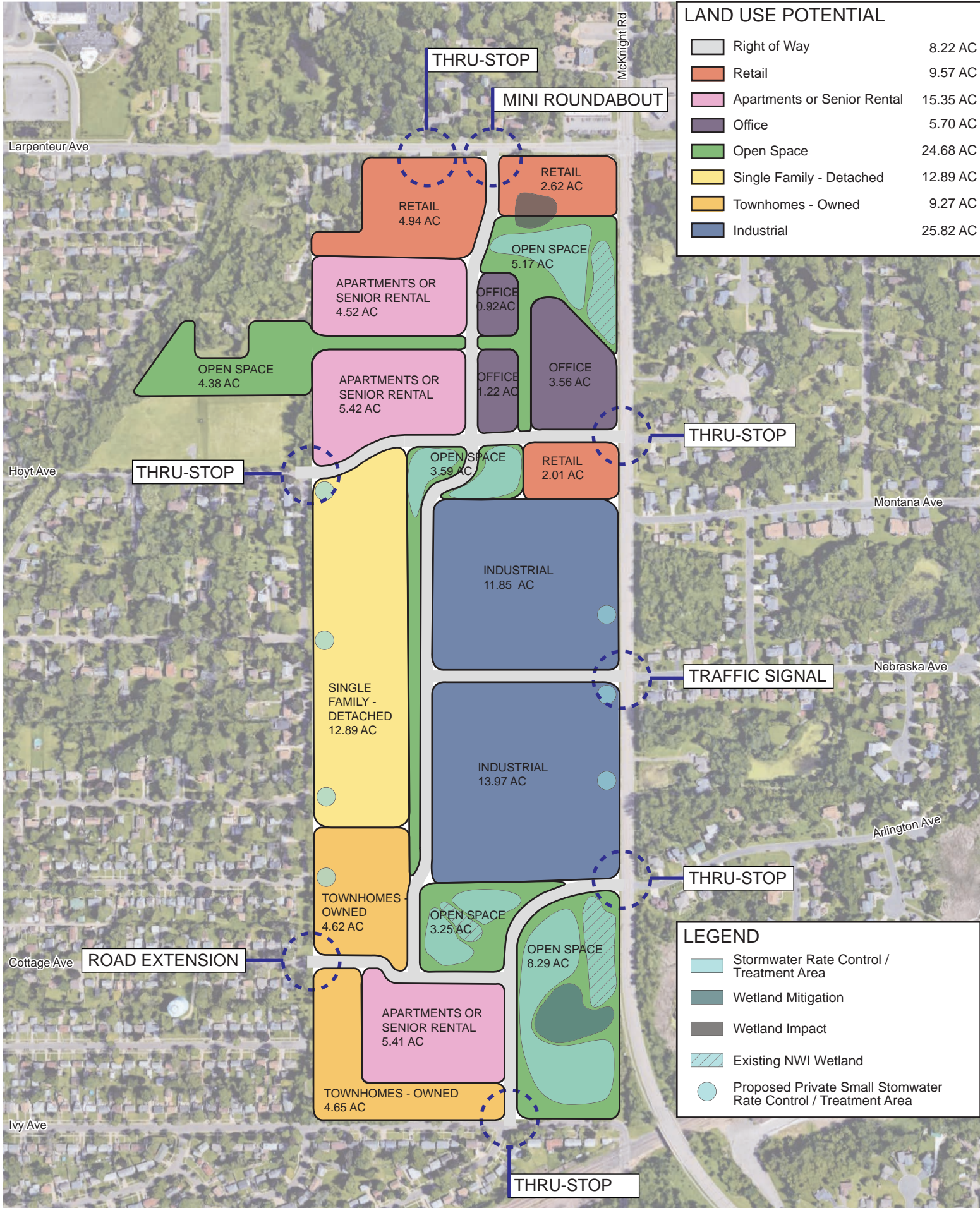
We are grateful for your previous partnerships on numerous projects and look forward to another successful endeavor.

Sincerely,



Lee Krueger  
President

Attachment



### LAND USE POTENTIAL

Right of Way	8.22 AC
Retail	9.57 AC
Apartments or Senior Rental	15.35 AC
Office	5.70 AC
Open Space	24.68 AC
Single Family - Detached	12.89 AC
Townhomes - Owned	9.27 AC
Industrial	25.82 AC

### LEGEND

	Stormwater Rate Control / Treatment Area
	Wetland Mitigation
	Wetland Impact
	Existing NWI Wetland
	Proposed Private Small Stormwater Rate Control / Treatment Area

