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**EDA WORK SESSION**  
**MUNICIPAL CENTER COUNCIL CHAMBERS**  
**1616 HUMBOLDT AVENUE, WEST ST. PAUL, MN 55118**  
**MONDAY, JUNE 22, 2020**  
**IMMEDIATELY FOLLOWING THE REGULAR COUNCIL MEETING**

**CITY COUNCIL (and other public) MEETINGS: OPEN**

Public meetings are now being held in person in the Council Chambers and are open to the public with social distancing restrictions. Meetings will continue to be broadcast and streamed online for viewers to watch from the safety of their homes.

**SEATING:** A limited number of attendees will be allowed into the Council Chambers to view live meetings. Seats are first come-first serve. Due to the limited seating, overflow space will be available in the City Hall lobby and Lobby Conference Room with screens playing the meeting live.

1. Call To Order
2. Roll Call
3. Agenda Items
  - 3.A. Dominion/Signal Hills Development Review

Documents:

[EDA MEMO - KMART SIGNAL HILLS REDEV.PDF](#)  
[ANALYSIS MEMO 6-16-20.PDF](#)  
[TERM SHEET 6-16-20 REDLINE.PDF](#)

4. Adjourn

*If you need an accommodation to participate in the meeting, please contact the ADA Coordinator at 651-552-4108 or email [ADA@wspmn.gov](mailto:ADA@wspmn.gov) at least 5 business days prior to the meeting*  
[www.wspmn.gov](http://www.wspmn.gov)      *EOE/AA*

To: **EDA President and Board**  
From: **Executive Director Jim Hartshorn**  
Date: **June 22, 2020**

## **Kmart/Signal Bank Site Redevelopment**

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### **BACKGROUND INFORMATION:**

Last December, the EDA reviewed a request for public assistance from Dominion. They proposed redeveloping approximately 12 acres on the north side of Signal Hills. At that time, their pro forma did not factor in prevailing wages (per City ordinance) on construction projects requiring public financial assistance. Since then, they have updated their pro forma to reflect prevailing wages. Ehlers Associates conducted a review of the updated budget and pro forma, and based on their review, the project would require 16 years of tax increment financing totaling \$5 million. Attached please see Ehlers memo explaining their analysis and a Term Sheet.

If the Board supports the terms listed in the attachment, then staff will bring back Development and TIF Agreements at a future EDA/Council meeting for approval.

### **FISCAL IMPACT:**

		<b>Amount</b>
<b>Fund:</b>	<b>EDA</b>	<b>N/A</b>
<b>Department:</b>	<b>EDA</b>	
<b>Account:</b>		

### **STAFF RECOMMENDATION:**

Review and direct staff.

### **ATTACHMENTS:**

1. Memo reviewing pro forma analysis
2. Term Sheet

# Memo

**To:** Ryan Schroeder, City Manager  
Jim Hartshorn, Community Development Director

**From:** Keith Dahl and Stacie Kvilvang, Ehlers

**Date:** June 22, 2020

**Subject:** Kmart Redevelopment Project – Analysis of TIF Request

In December of last year, the EDA reviewed and considered a request for public financial assistance from Dominion in connection to the Kmart redevelopment site. Since that time, several assumptions and development costs have changed due to the City’s prevailing wage ordinance. This memo has been prepared, at the request of the City, to review the updated project and determine the amount of supportable TIF assistance.

Dominion is now proposing to construct a 247-unit affordable senior apartment and a 146-unit, non-age restricted affordable apartment. Construction would begin in the fall of 2020 with a total development cost (TDC) of approximately \$122.7 million. This represents an increase of over \$23 million from their previous proposal with most of the increase directly related to the prevailing wage requirements which were not previously included. Prevailing wage increased project costs by approximately \$15.3 million, the addition of 24-units increased the project costs by about \$4.4 million, and the remaining \$3.3 million increase is made up of auxiliary financing costs and developer fees which are based on the TDC.

Due to the increased costs, Dominion requested 26 years of Tax Increment Financing (TIF) assistance in the form of a pay-as-you-go (PAYGO) TIF Note to fill a development gap in their project.

We’ve conducted a review of the updated development budget and pro forma and based on our review, Dominion’s requested financial assistance is more than what is necessary for the project to become “financially feasible”. We’ve concluded that the project would only require 16 years of assistance totaling \$5 million, which Dominion agrees with.

The tables below provide a synopsis of the sources and uses associated with the project:

<b>SOURCES</b>			
	<b>Amount</b>	<b>Pct.</b>	<b>Per Unit</b>
First Mortgage (Tax-Exempt)	55,530,000	45%	141,298
TIF Mortgage	5,000,000	4%	12,723
First Mortgage (Taxable Tail)	10,310,000	8%	26,234
Tax Credits	37,124,631	30%	94,465
Deferred Developer Fee (100% of Total Fee)	11,129,774	9%	28,320
Deferred Contractor Fee (72% of Total Fee)	3,556,511	3%	9,050
<b>TOTAL SOURCES</b>	<b>122,650,916</b>	<b>100%</b>	<b>312,089</b>

<b>USES</b>			
	<b>Amount</b>	<b>Pct.</b>	<b>Per Unit</b>
Acquisition Costs	6,365,000	5%	16,196
Construction Costs	84,423,429	69%	214,818
Contractor Fee	4,908,306	4%	12,489
Professional Services	3,973,600	3%	10,111
Financing Costs	6,694,172	5%	17,034
Developer Fee	11,129,774	9%	28,320
Cash Accounts/Escrows/Reserves	5,156,635	4%	13,121
<b>TOTAL USES</b>	<b>122,650,916</b>	<b>100%</b>	<b>312,089</b>

Please contact either of us at 651-697-8500 with any questions.

## Term Sheet

This Term Sheet by and between the West St. Paul Leased Housing Associates I, LLP (the “Developer”) and the West St. Paul Economic Development Authority (the “EDA”) is intended to set forth the general terms upon which the parties hereto are willing to enter into a Development Agreement. This Term Sheet shall not be deemed conclusive or legally binding upon either party and neither party shall have any obligations regarding the property defined below unless and until a definitive TIF and Development Agreements are approved by the EDA and executed by both parties.

1. Developer: West St. Paul Leased Housing Associates I, LLLP
2. Property:
  - a. Existing Commercial - PID #42-01700-50-012
  - b. Kmart - PID# 42-01700-55-060 (approximately 392,350 sq. ft. (90%))
  - c. Signal Hills - PID# 42-01700-55-051 (approximately 44,450 sq. ft. (6%))
3. TIF District:
  - a. Parcels 42-01700-55-060 (Kmart) and 42-01700-55-051 (Signal Hills) are decertified from County CDA TIF District #10
  - b. Signal Hills Company II, LLP or current owner of parcel 42-01700-55-051 agrees to forgo the remaining obligation currently outstanding until February 1, 2023
  - c. Establishment of TIF District No. 1-6, a Housing District
4. Minimum Improvements: Construction of an approximately ~~137146~~-unit affordable non-age restricted apartment and ~~232247~~-unit affordable senior apartment.
5. Compliance with Low- and Moderate-Income Requirements: The TIF district is a Housing District that requires annual compliance with certain income requirements. In this case, at least 40% of the residential units in the Project must be occupied or available for occupancy by persons whose incomes do not exceed 60% of the area median income.

The Developer must submit documentation evidencing that they comply with the low to moderate income requirements.
6. Construction Schedule: Commence construction by ~~June-October 301~~, 2020, and complete by ~~June-October 301~~, 2022. For the purpose hereof, “Commence” shall mean beginning of physical improvement to the Property, including demolition, grading, excavation, or other physical site preparation work. “Complete” shall mean that the Minimum Improvements are sufficiently complete for the issuance of a Certificate of Occupancy.
7. Public Assistance: Subject to all terms and conditions of the Development Agreement, the EDA will issue a pay-as-you-go TIF Note in an approximate amount of ~~\$3,640,000~~5,000,000 and reimburse the Developer from 90% of available tax increments received from the County. The interest rate will not exceed the lesser of 5% or the actual financing rate incurred on the project.

8. Payment Dates: First payment date will be August 1, 2022 and each February 1 and August 1 thereafter for a final payment date of ~~August February 1, 2035-2038~~ (period of ~~13-516~~ years).
9. Minimum Assessment Agreement: The Minimum Improvements to be constructed upon the Property are anticipated to have an assessed value of ~~\$46,125,000~~\$49,125,000 by January 2, 2022.
10. Lookback: The Developer acknowledges that the TIF Note will be reduced on a dollar for dollar basis if actual Total Development Costs are less than the amount stated in the TIF Agreement (shown as an exhibit).
11. Fees: The EDA acknowledges that the Developer has deposited \$10,000 to pay for the reasonable out-of-pocket legal, financial and legal consultant and administrative fees associated with this transaction. The Developer is required to deposit an additional \$20,000 for creation of the TIF District and drafting of the TIF and Development Agreements by ~~February 1~~July 1, 2020. If additional dollars beyond this are required, prior to the execution of a Development Agreement, the EDA shall notify the Developer in writing and the Developer will be required to deposit additional funds. Any unused funds will be returned to the Developer.
12. Taxes:
  - a. Developer covenants to pay property taxes and maintain customary insurance.
  - b. Developer will notify the EDA of a tax petition being filed to reduce the market value or property taxes on any portion of the Property.
  - c. If a tax petition is pending, the EDA will continue to make payments on the TIF Note in accordance with the values contained in the Minimum Assessment Agreement.