



Housing and Redevelopment Authority
Established 1974

Date: February 10, 2022

To: Chair and Commissioners of Edina Housing & Redevelopment Authority

From: Bill Neuendorf, Economic Development Manager

Subject: 7001 France Avenue – Recommended Terms of Tax Increment Financing

Information / Background:

Mortenson Development and Orion Investments are the developers for the 5.7-acre commercial site located at 7001-7025 France Avenue. The site is currently occupied by a US Bank branch and a vacant office building.

The developers secured preliminary approval to rezone the property to allow four separate buildings to be constructed on the site. This new plan will subdivide the “super block” into four parcels that are rescaled to create a more traditional layout that encourages walkability and a more connected sense of community.

US Bank intends to construct a new branch on Site D. The remainder of the property (Sites A, B & C) is intended to be redeveloped with new Class A office space, new retail space, new luxury residential apartments and new parking structures to serve the site. The developers intend to invest approximately \$251 million into the site (not including the new bank). Upon completion, this degree of redevelopment will transform the aging 1960’s suburban-style commercial site into a modern mixed use site that sets a new tone for redevelopment in the Greater Southdale District.

The developers requested that Tax Increment Financing be provided to help defray the high cost of redevelopment.

Staff has met with the developer for more than one year to understand the financial conditions that require public financing. Staff has engaged legal and financial advisors at Ehlers Associates and Dorsey & Whitney to scrutinize the financial pro forma and prepare terms and conditions by which TIF could be used to support the redevelopment of this site. While these advisors work for the City / HRA, the cost of this work has been borne by the developers.

The negotiation of this Term Sheet has been particularly challenging in an environment that is influenced and constrained by the ongoing pandemic and uncertainty in the market place. While this ambitious multi-phase project is located in a desirable location, the developer faces many challenges:

- The construction industry is hindered by ongoing supply chain issues and rapid unpredictable escalation of commodity and material prices.
- The continued labor shortage also tends to drive up costs and extend schedules.
- The need to maintain continuous bank operations delays the start of the office and residential buildings. This schedule adds additional uncertainty regarding pricing, availability and demand.
- While residential demand continues to be high, the demand and lease-up pace for new office space is unpredictable. This unpredictability applies even to an established commercial site on France Avenue which is traditionally in high demand. The continued delay of “return to office” plans by large employers interject another degree of uncertainty regarding the office revenue.
- The final unusual challenge is the wide variety of options available to large investors who finance ambitious projects across the United States. The reputation and image of the Twin Cities has been damaged by the murder of George Floyd and the subsequent civic unrest. Some investors are hesitant to make long term commitments in this environment.

Despite these significant challenges, the developer is prepared to proceed. From the developer’s perspective, the potential opportunity outweighs the challenges. City staff is supportive of this new investment as it will reinvigorate this portion of the Greater Southdale District and set a new direction that should inspire future redevelopment sites. Staff is especially supportive of the new commercial space as it will provide a modern Class A office space that is built from the ground up to embrace changes to the office environment due to pandemic conditions. Edina has not seen new Class A office space of this scale for more than 20 years.

Ehlers has scrutinized the financial pro formas for each Phase and the total project. Ehlers has determined that the financial gap is approximately \$22.0 million. Ehlers also confirmed that “but for” the use of TIF, a project of this scale, caliber and quality will be unable to secure private financing.

Dorsey has prepared a Term Sheet that abides by applicable Minnesota Statutes that govern Tax Increment Financing. These terms also follow the spirit of Edina’s TIF policy and practice which is typically more limited than allowed by Minnesota Statute.

Summary

A Term Sheet has been prepared to articulate the fundamental structure of public financing for this redevelopment site. The developers and City staff are mutually supportive of the terms and conditions expressed in this Term Sheet.

The Term Sheet follows the general format and strategic approach typically used by Edina for redevelopment projects that include a mixture of uses and a wide variety of public benefits. While some of the terms are different than recommended in the past, staff believes these terms follow the spirit of Edina's TIF policy.

The structure of the terms maintain all financial risk with the developer. The developer will provide up front financing. TIF will only be used to reimburse the project for pre-determined eligible costs after each phase of the project is successfully completed.

The recommended terms reflect the highly unusual reputational, economic, and public health conditions that exist today. These terms should not be considered as setting a different precedent for TIF application in Edina. Each request for Tax Increment Financing evaluates a project on its unique merits and the unique environmental conditions.

Staff recommends that the Term Sheet be approved. Staff also seeks authorization to continue to work with Ehlers Associates and Dorsey & Whitney to prepare a binding Redevelopment Agreement based on the approved terms for formal consideration in the future.

Recommended Action:

Approve the Term Sheet and authorize staff to work with legal and financial advisors to prepare a binding TIF Redevelopment Agreement based on the approved terms.

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700 I France Avenue

Recommended Terms for Tax Increment Financing

Report to:

Edina Housing & Redevelopment Authority

February 10, 2022

Request for TIF

- Summary

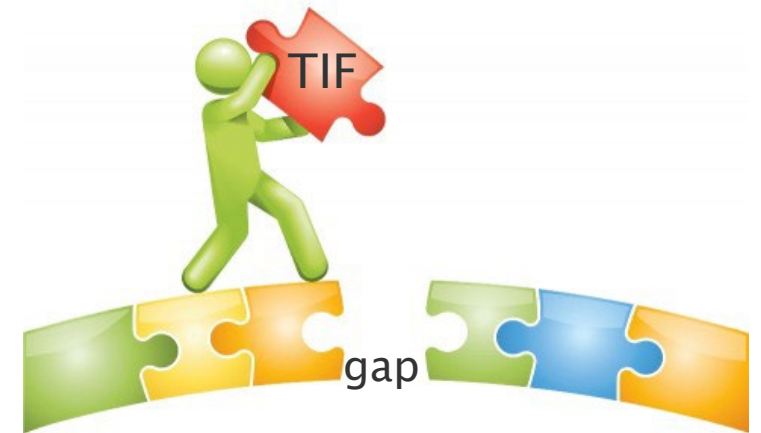


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Developer requested \$22 to \$25 million over 15 years to make redevelopment project of this scale and quality financially viable.

This request has been analyzed and evaluated.

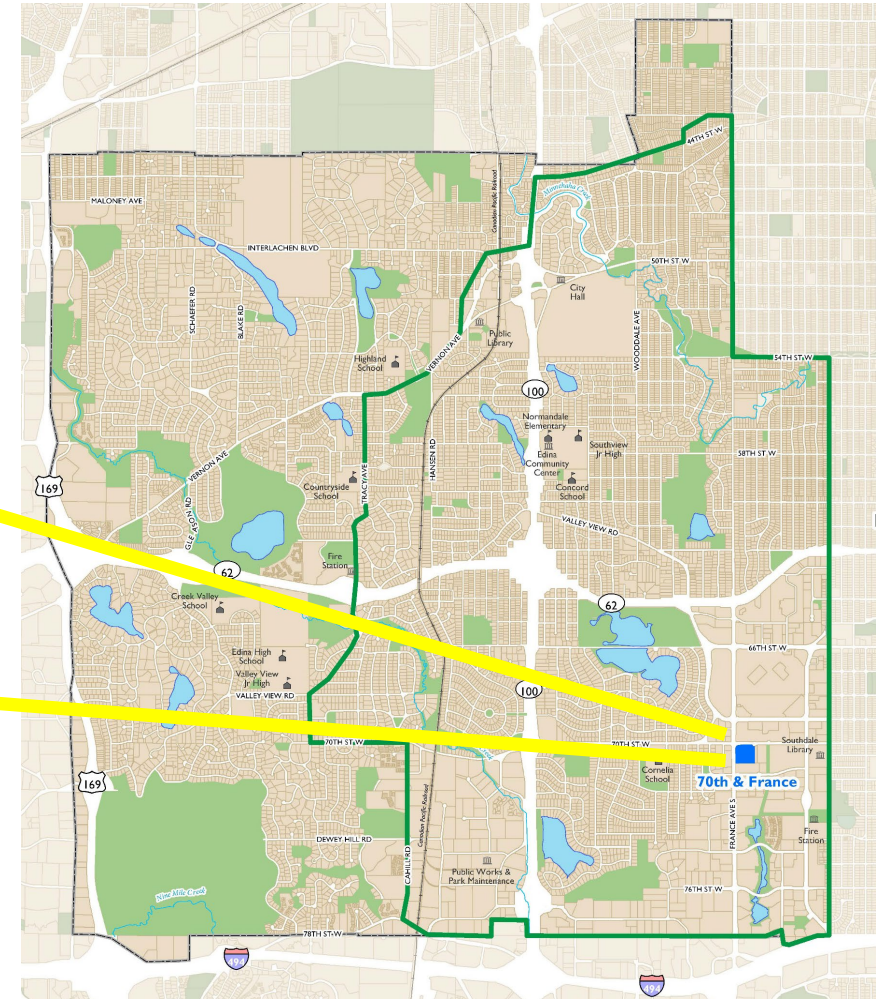
- A budget gap of \$22 million has been confirmed.
- Gap can be resolved through the combination of:
 - Tax Increment Financing
 - DEED or Met. Council grants



Project Location



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Developers



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Brent Webb, Development Executive

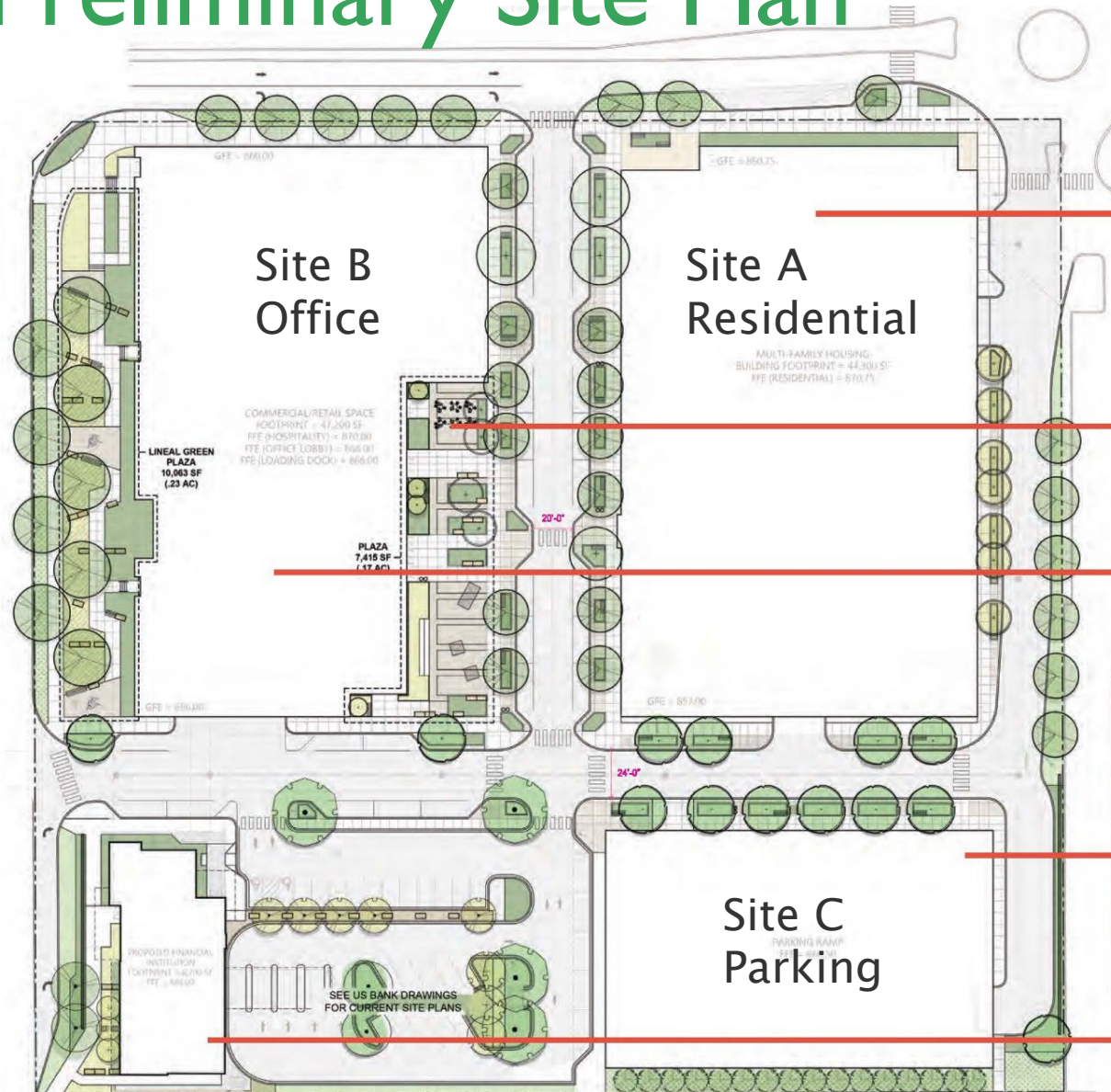


Ted Carlson, Founder, CIO

Preliminary Site Plan



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SITE A
~490,000 GROSS SF
~267 DWELLING UNITS
317 RESIDENTIAL PARKING STALLS
127 COMMERCIAL PARKING STALLS

PLAZA & POCKET PARK
~7,500 SF

SITE B
~275,000 GROSS SF
~165,000 SF OFFICE
~35,000 SF COMMERCIAL OFFICE
128 BELOW GRADE PARKING STALLS

SITE C
~170,000 GROSS SF
~1,300 SF BICYCLE FACILITY
540 PARKING STALLS

SITE D - US BANK (PHASE 1)
- SITE PLAN APPROVED

Preliminary
Zoning
Approved
November
16, 2021

Preliminary Renderings



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Preliminary Renderings



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Preliminary Renderings



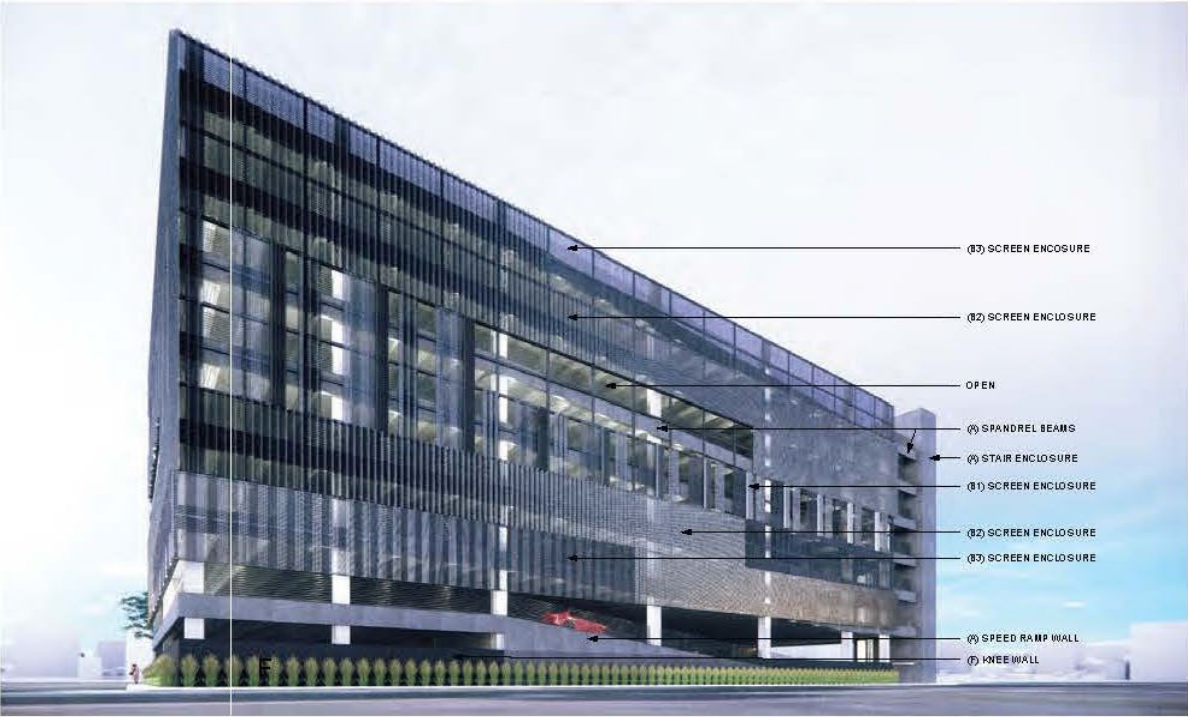
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Preliminary Renderings



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3 - VIEW FROM SOUTH, DUSK



4 -VIEW FROM EAST (DREW AVE), DAY

Preliminary Plan and Renderings

- Many Public Benefits Possible



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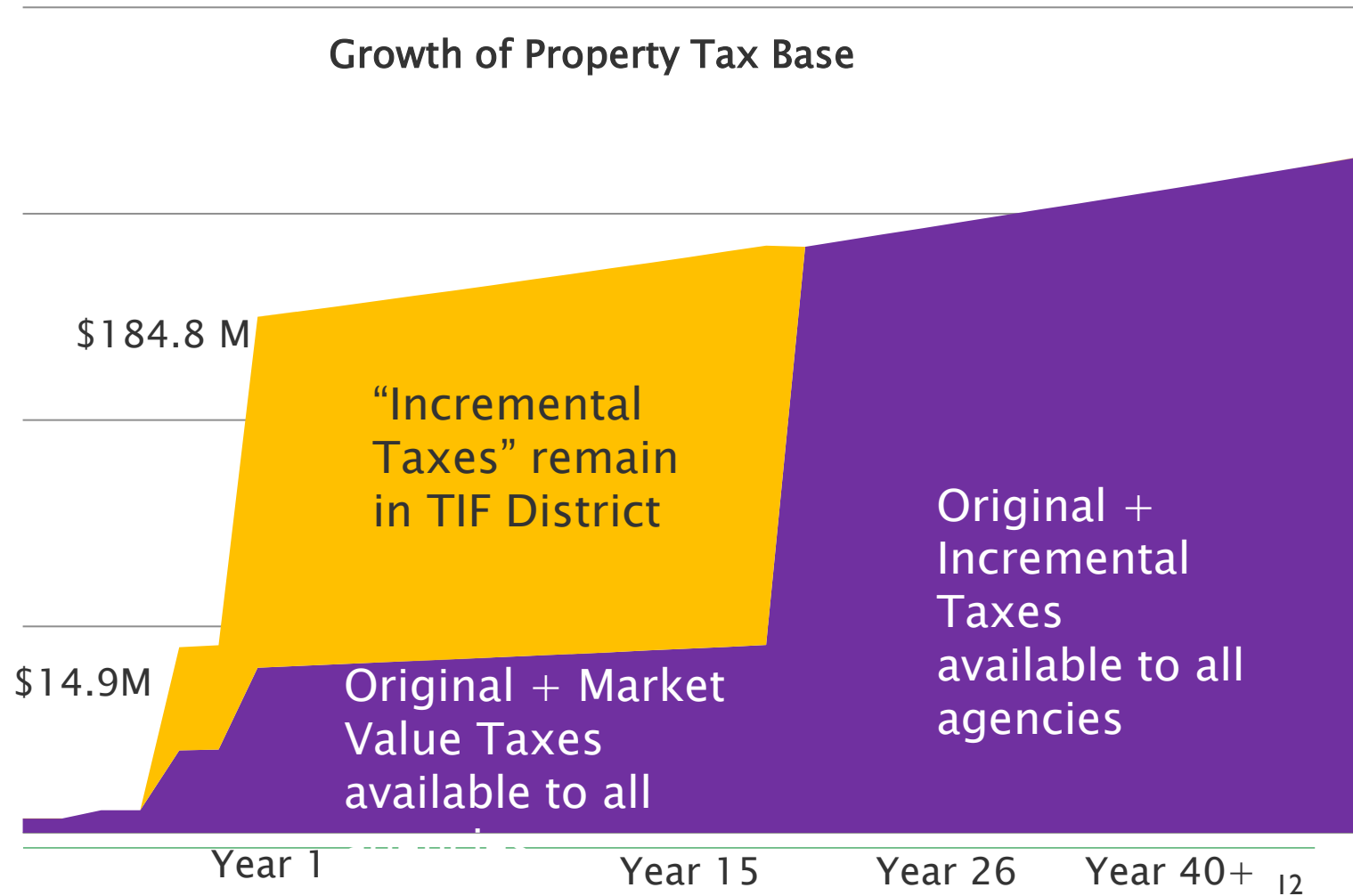
- FIRST project to apply Southdale Design Guidelines
- FIRST to comply with Sustainability Policy
- FIRST new Class A office building in 20+ years
 - post-pandemic design
 - attract new tenants and new employees
- NEW structured parking for shared use
 - public easement (limited)
 - Conversion to fee title ownership if parking no longer needed
- Other Contributions
 - property tax base
 - park dedication fees
 - SAC/WAC
 - housing trust fund

What is TIF?

- Economic development financing tool used throughout the U.S.
- Governed by Minnesota Statute
- Enabled by City Council
- “Tax Increment” Financing - uses growth in property tax base to fund private investment and public infrastructure



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Staff Evaluation – Tax Base Growth



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	Current conditions (2022)	Estimate after redevelopment (2026)	Estimated Growth
Estimated Market Value	\$14.9 M	\$184.8 M	12x
Annual Property Taxes Paid	\$484,579	\$2,467,494	5x

- This degree of growth would not happen if the site was remodeled or rebuilt as a simple commercial structure
- Redevelopment projects of this scale and caliber deliver a tremendous boost to the tax base
- Without TIF, the proposed project does not appear to be viable

Staff Evaluation – Sources and Uses

Phase I – Site Work and Site A (housing)



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Source of Funds	Amount	
First mortgage	\$ 88.5 M	
Other loan	\$ 4.5 M	
Total Debt	\$ 93.0 M	68.3%
Developer	\$ 4.3 M	
Capital Partner	\$ 38.8 M	
Total Equity	\$ 43.1 M	31.7%
Total	\$136.1 M	

Uses of Funds	Amount	
Land acquisition	\$ 7.3 M	5.3%
Hard Costs / Construction *	\$103.1 M	75.7%
Permits/fees	\$ 7.5 M	5.5%
Soft Costs	\$ 2.3 M	1.7%
Financing Costs	\$ 3.9 M	2.9%
Developer Fee	\$ 4.8 M	3.5% cap
Escrow / Reserves*	\$ 7.2 M	5.3%
Total	\$136.1 M	

* Includes \$3.0 M construction contingency and \$5.4 M development contingency

Staff Evaluation – Sources and Uses

Phase 2 – Site B/C (office and parking)



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Source of Funds	Amount	
First mortgage	\$ 75.1 M	
Other loan	\$ 15.3 M	
Total Debt	\$ 90.4 M	78.2%
Developer	\$ 2.5 M	
Capital Partner	\$ 22.6 M	
Total Equity	\$ 25.1 M	21.8%
Total	\$115.5 M	

Uses of Funds	Amount	
Land acquisition	\$ 6.7 M	5.8%
Hard Costs / Construction *	\$ 83.6 M	72.4%
Permits/fees	\$ 1.3 M	1.1%
Soft Costs	\$ 5.4 M	4.7%
Financing Costs	\$ 3.8 M	3.3%
Developer Fee	\$ 4.0 M	3.5% cap
Escrow / Reserves*	\$ 10.6 M	9.2%
Total	\$115.5 M	

* Includes \$1.9 M construction contingency and \$4.6 M development contingency

Staff Evaluation – Eligible TIF Costs



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Statutory Eligible Expenses	Estimated Cost
Land Acquisition	\$12,000,000
Parking (structured)	\$15,494,364 (Ph I) \$16,207,091 (Ph II)
Site prep, storm water	\$3,283,200 (Ph I) \$1,927,841 (Ph 2)
Storm water management	\$716,800 (Ph 1) \$709,325 (Ph 2)
Demolition and remediation	\$800,000
Public plaza with streetscape and art	\$1,133,005 \$ 300,000
City TIF advisors	<u>\$ 175,000</u>
TOTAL =	\$52.4+ million

- Follow Minnesota statutes regarding eligible expenses
- Follow Edina policy regarding TIF reimbursement

Staff Evaluation

– Phase I Operating Pro Forma



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Phase I (site prep & apartment)	Upon Stabilization
Residential Income (267 units)	\$10,842,371
Commercial Income	\$ 26,068
Effective Gross Income =	\$10,868,439
Operating Costs	\$1,762,389
Management Costs	\$ 1,982,477
Total Expenses =	\$3,744,866
Net Operating Income (NOI)	\$7,123,573
+ TIF Note Payment	\$ 474,451
NOI (with TIF Assistance) =	\$7,598,024
Total Development Cost =	\$136,097,379
Cash on Cost Annual Return (without TIF) = 5.23% BELOW MARKET	
Cash on Cost Annual Return (with TIF) = 5.58% (NTE 6.00%)	

Staff Evaluation

– Phase II Operating Pro Forma



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Phase II (office and parking)	Upon Stabilization
Office & Retail Income (232,700 Sq Ft)	\$8,150,550
Vacancy Loss	– \$ 407,528
Expense on Vacancy	– <u>\$188,682</u>
Effective Gross Income =	\$7,554,341
Management Costs	<u>\$11,635</u>
Total Expenses =	\$11,635
Net Operating Income (NOI)	\$7,542,706
+ TIF Note Payment	<u>\$ 1,684,223</u>
NOI (with TIF Assistance) =	\$9,226,929
Total Development Cost =	\$115,481,417
Cash on Cost Annual Return (without TIF) = 6.53% BELOW MARKET	
Cash on Cost Annual Return (with TIF) = 7.99% (NTE 8.00%)	

Recommended Terms

- Private Investment



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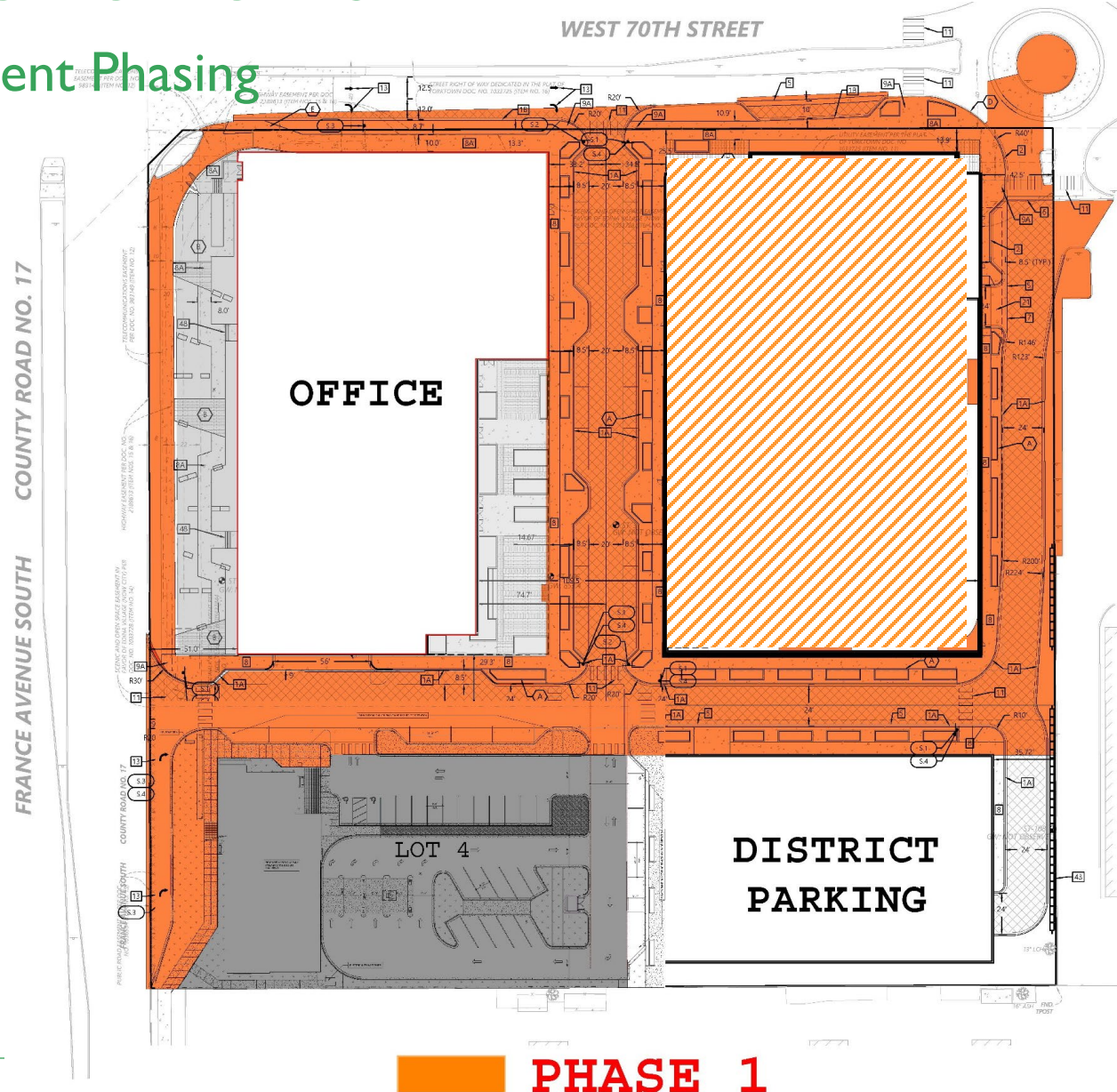
1. Developer secures debt and equity
 - Phase I = \$136.1 million
 - Phase II = \$115.5 million
2. Developer to pursue grants from DEED and Met. Council
3. Developer bears all financial risk
4. Finance and build in two phases, if necessary ^(6d)
 - Phase I begins in 2023
 - Phase II start date TBD ★ “Five year rule” applies

Recommended Terms

- Development Phasing



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Phase 1 Residential and site work

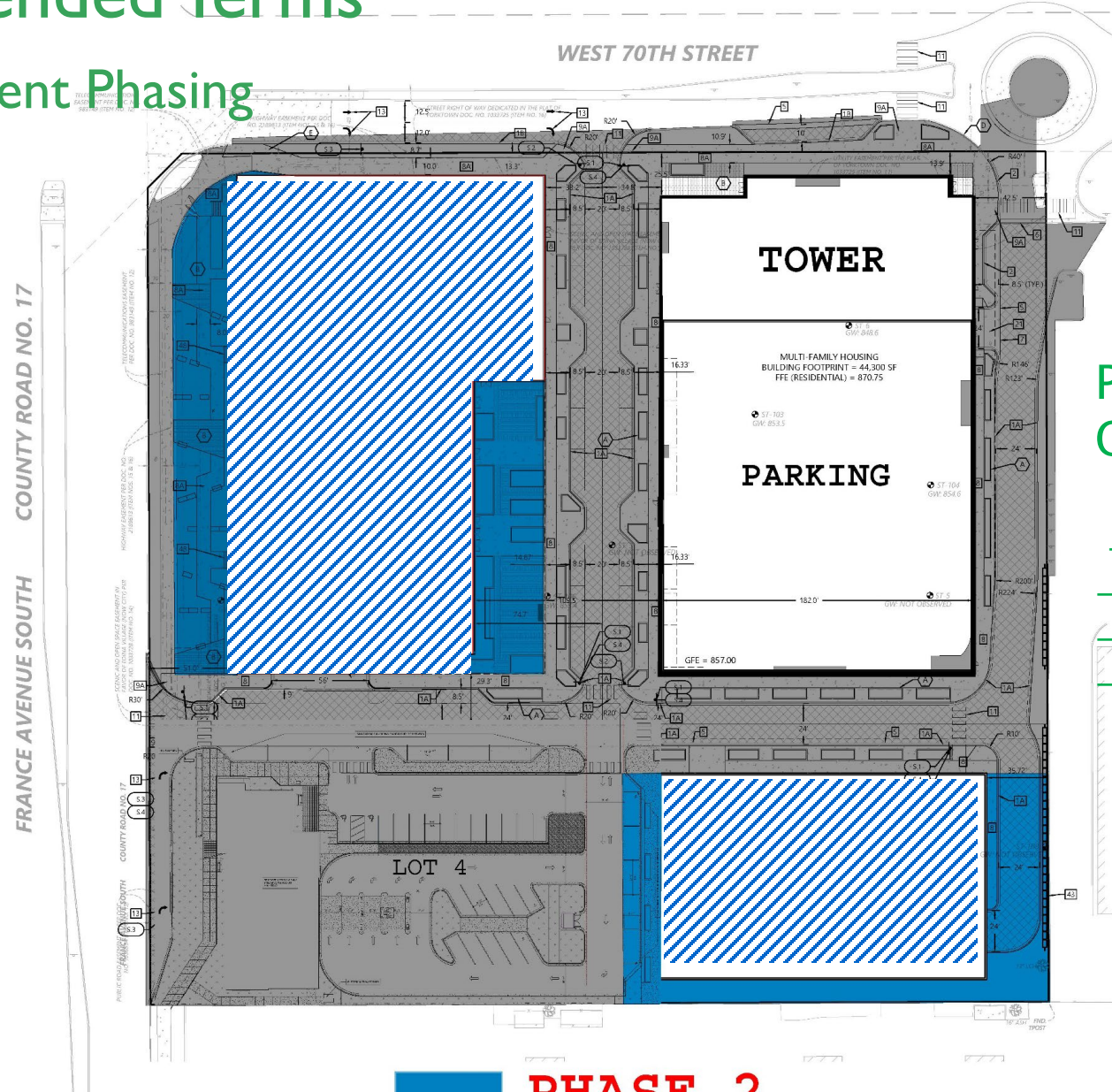
- Demo: March '22 to July '23
- Site prep: Jan '23 to Oct '23
- Construction March '23 to June '25
- Occupancy: Dec '24 to Aug '25

Recommended Terms

- Development Phasing



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Phase 2 Office, parking and plaza

- Site Prep: July '23 to June '25
- Construction: March '23 to June '25
- Occupancy: Oct '24 to June '25
- Full tenant buildout TBD

PHASE 2

Recommended Terms

- Public Financing Participation (7d)



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1. Create a 15-year Renewal TIF District
2. Pledge adequate package to secure financing without over-subsidizing
3. City & HRA to pledge up to \$22.0 million via Pay-Go TIF Notes (8.7%)
 - NTE \$5.0 million for Phase I site prep (3.7% of TDC)
 - NTE \$17.0 million for Phase II site prep and parking (14.7% of TDC)
4. City & HRA bear NO financial risk
 - Notes payable AFTER completion of each phase
 - Notes payable only from incremental property taxes collected from site

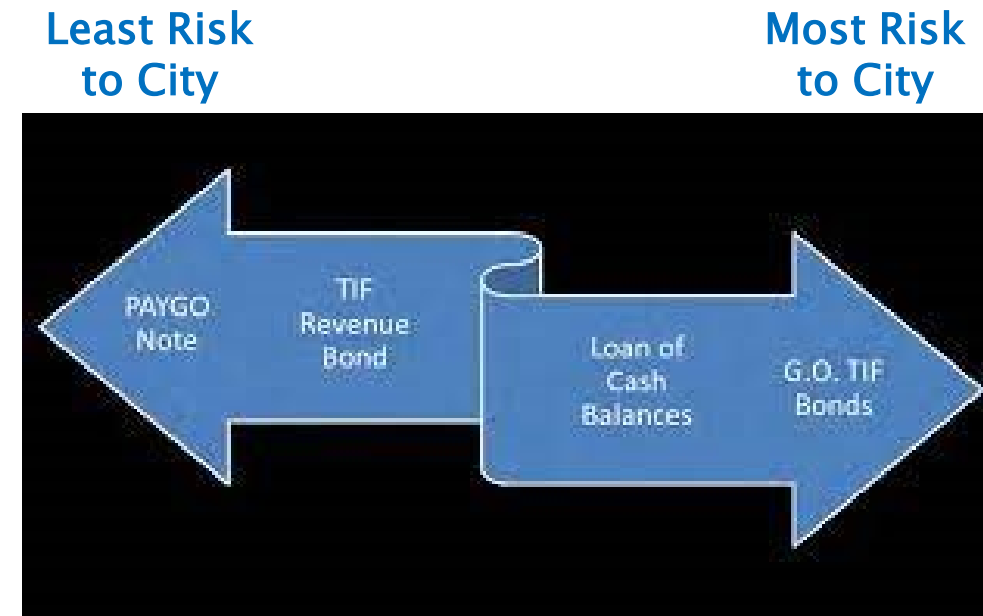
Recommended Terms

- Pay Go TIF Notes (7d)

- Issued after each Phase completed and documented
- Notes may be down-sized based on “return on cost” after actual costs incurred
 - 6.00% ROC for Phase I
 - 8.00% ROC for Phase 2
- Interest bearing at 4.25% (to match debt)



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Recommended Terms

- TIF Notes “Lookback” and “Clawback” (7d)



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- Phase I Note:
 - Lookback upon sale or 10 years after issuance earliest
 - Note terminates and clawback applied if excess returns realized:
 - 20% IRR in years 1 - 4
 - 18% IRR in years 4 - 7
 - 16% IRR in year 8 plus
 - Clawback is 50% of excess profit, not to exceed value of TIF Note
- Phase II Note:
 - Lookback upon sale or 10 years after issuance (earliest)
 - Clawback applied if excess returns realized:
 - 22% IRR in years 1 - 4
 - 19% IRR in years 4 - 7
 - 16% IRR in year 8 plus
 - Clawback is 50% of excess profit, not to exceed value of TIF Note
 - Note survives if clawback is less than balance due

Recommended Terms

- TIF Reimbursable Expenses



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Total Reimbursable Costs (Phase I and II combined)		Approx. Cost
1)	Demolition, remediation	\$ 800,000
2)	Site improvements including site prep, utilities, dewatering, internal roadways, surface parking, sidewalks, landscaping, streetscaping, stormwater	\$ 7,817,000
3)	Public plaza with art	\$ 1,233,000
4)	Public parking	\$11,950,000
5)	City's expenses for TIF study	\$ 200,000
Total =		\$22,000,000

Only a portion of the \$54.2 million in statutory costs will be considered “reimbursable”

Recommended Terms

- Expenses NOT eligible for TIF reimbursement



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Description of In-eligible Work

A	Private (executive) parking for office building
B	Private (residential) parking for residential high rise
C	Construction costs of office building
D	Construction costs of residential high rise
E	Design & other soft costs of private buildings
F	Any costs of the single-story bank

no
T I F
used for
these items

Recommended Terms

- Miscellaneous Conditions



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Public Parking Facilities (8a)

- Identified as “public parking”
- Vehicle counting system
- Enhanced design features such as decorative wall panels and murals
- Incorporate safety & security features such as visible stair lobbies, cameras, and blue light phones
- Include bike storage & repair facility

Public Plaza (8b)

- Approx 7,500 Sq Ft
- At least 2 public sculptures
- Security cameras
- Engage professional firm to program events and activities for the plaza

Public Benefits

- Subdivision of “Super Block”



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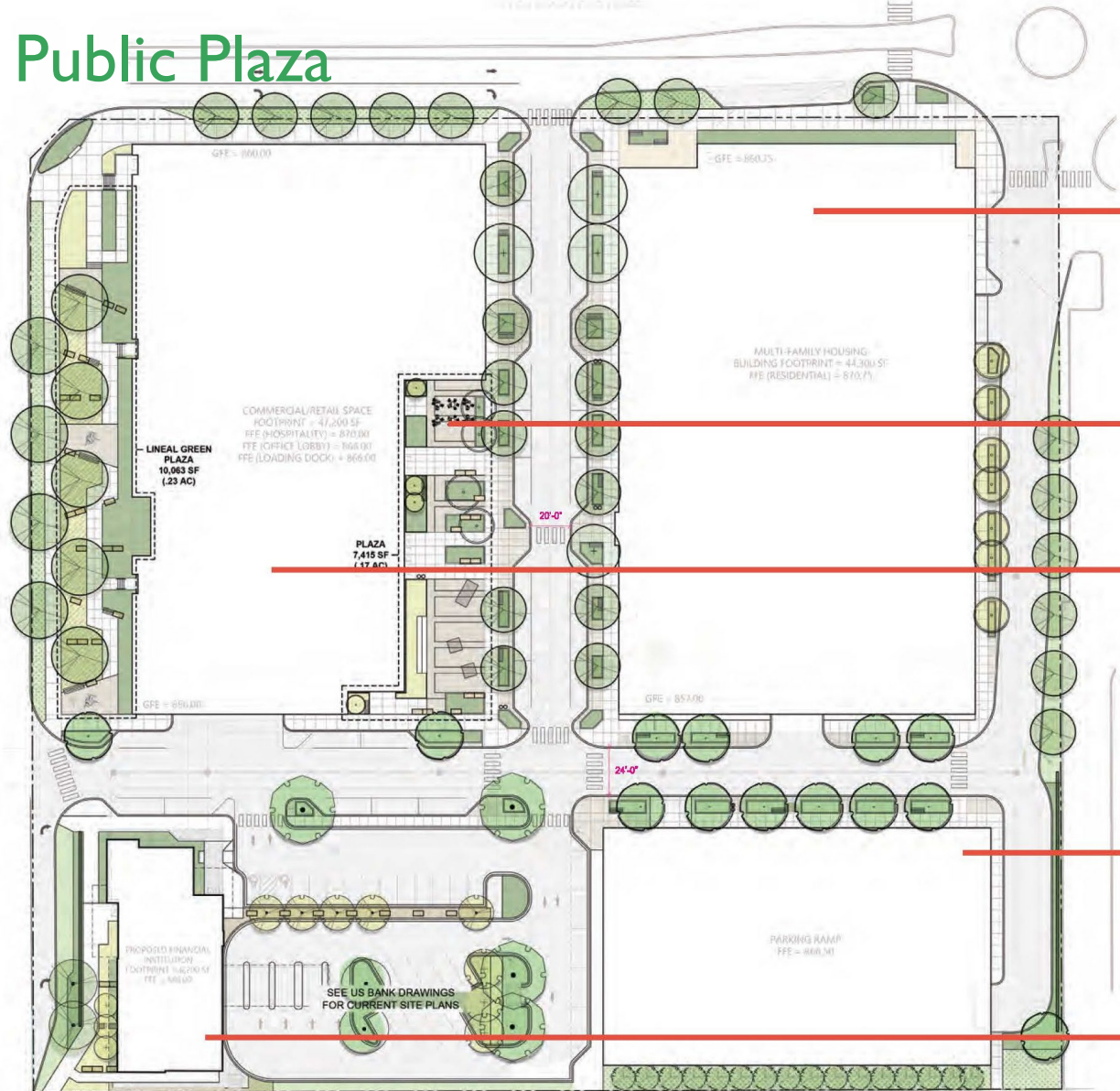
- Site plan creates four separate building pads
- Permanent easements for new private roads and sidewalks
 - 71st Street
 - Ewing Avenue
 - Drew Avenue
- Increases level of connectivity
- Distributes traffic among multiple routes
- Provides access within the site
- Creates future access routes for adjacent parcels

Greater Southdale Area District
Design Experience Guidelines

Public Benefits – Public Realm, Streetscapes and Public Plaza



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Greater Southdale Area District
Design Experience Guidelines

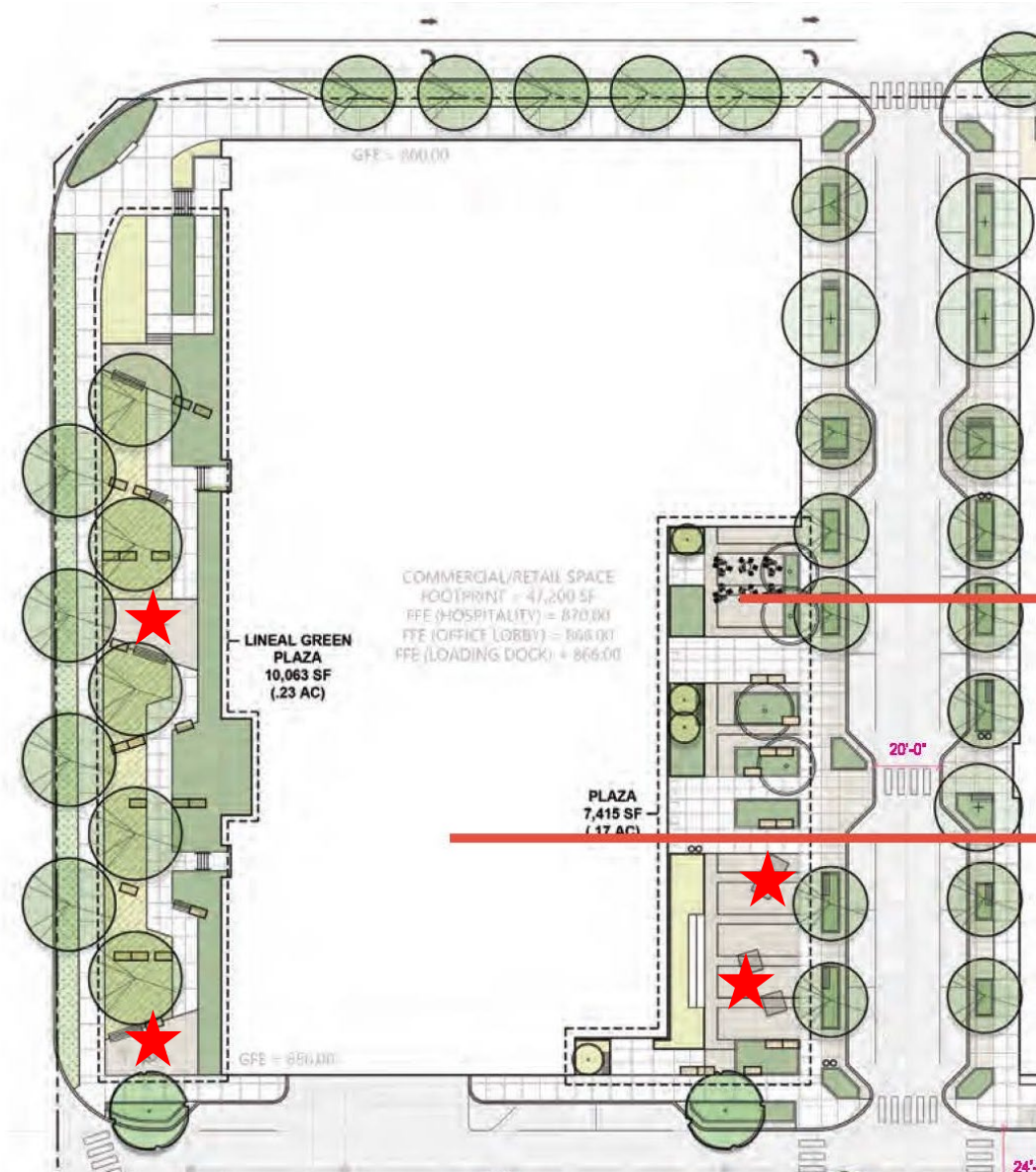
- Streetscape, sidewalks, landscaping along 70th St and France Ave
- Streetscape, sidewalks, landscaping and on-street parking along interior roadways
- Public plaza at 71st and Ewing
- Permanent public easements
- Privately owned, privately maintained
- Allow Metro Transit bus stops

Public Benefits – Public Art (8c)



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Greater Southdale Area District Design Experience Guidelines



- Two public art sculptures along France Ave.
- Two public art sculptures in interior plaza
- At least 1 additional sculpture encouraged
- Public easement to remain on site
- Privately owned
- Privately maintained
- Selected with community input
- \$300,000+ budget

Public Benefits

- Sustainability Features (8d)

- Compliance with Edina's new Sustainability Policy
- LEED, SB2030, EnergyStar, ParkSmart or similar
- Solar Panels and solar-ready rooftops
- Electric Vehicle chargers
- Stormwater Management



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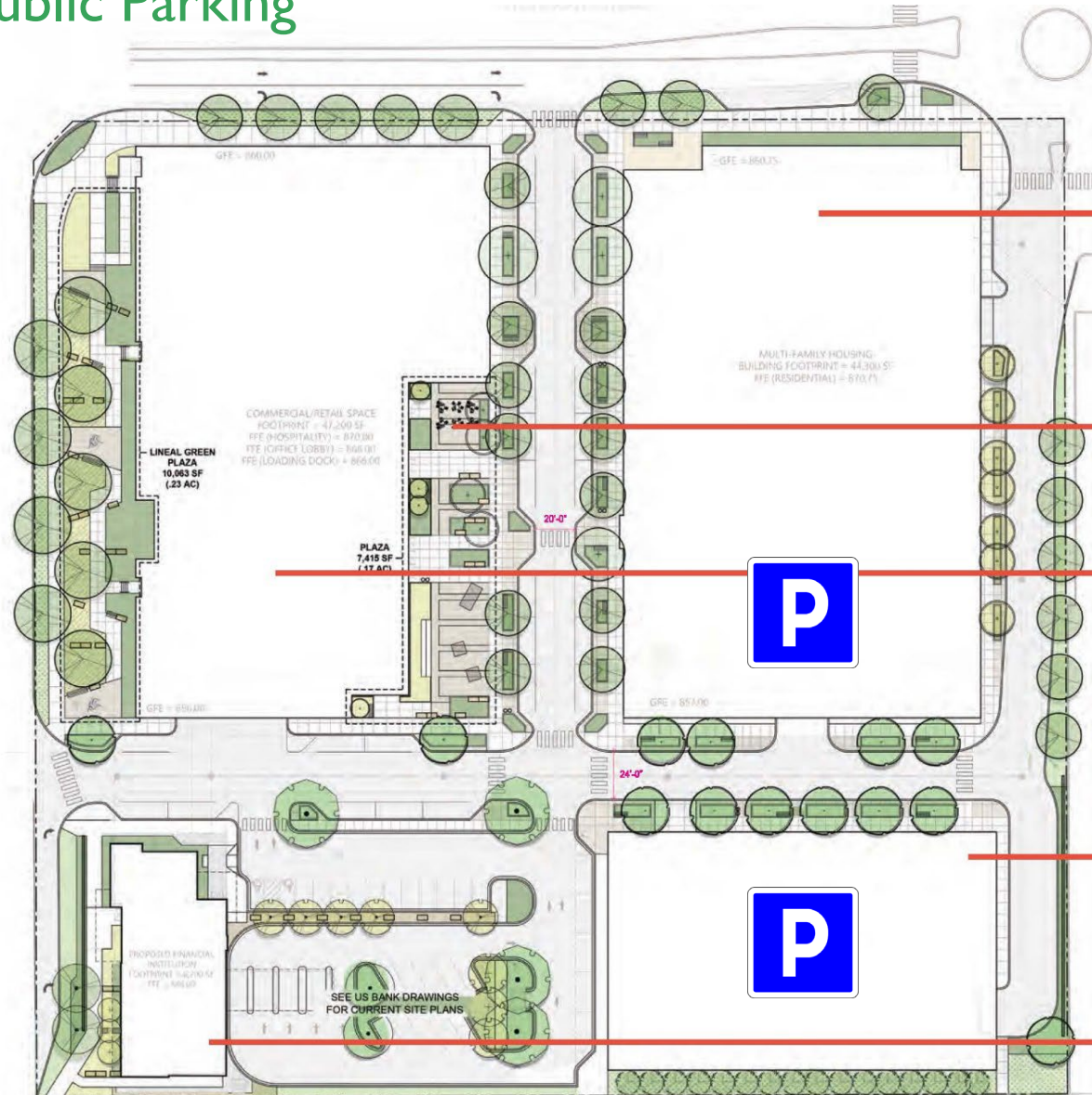


Public Benefits

- District & Public Parking



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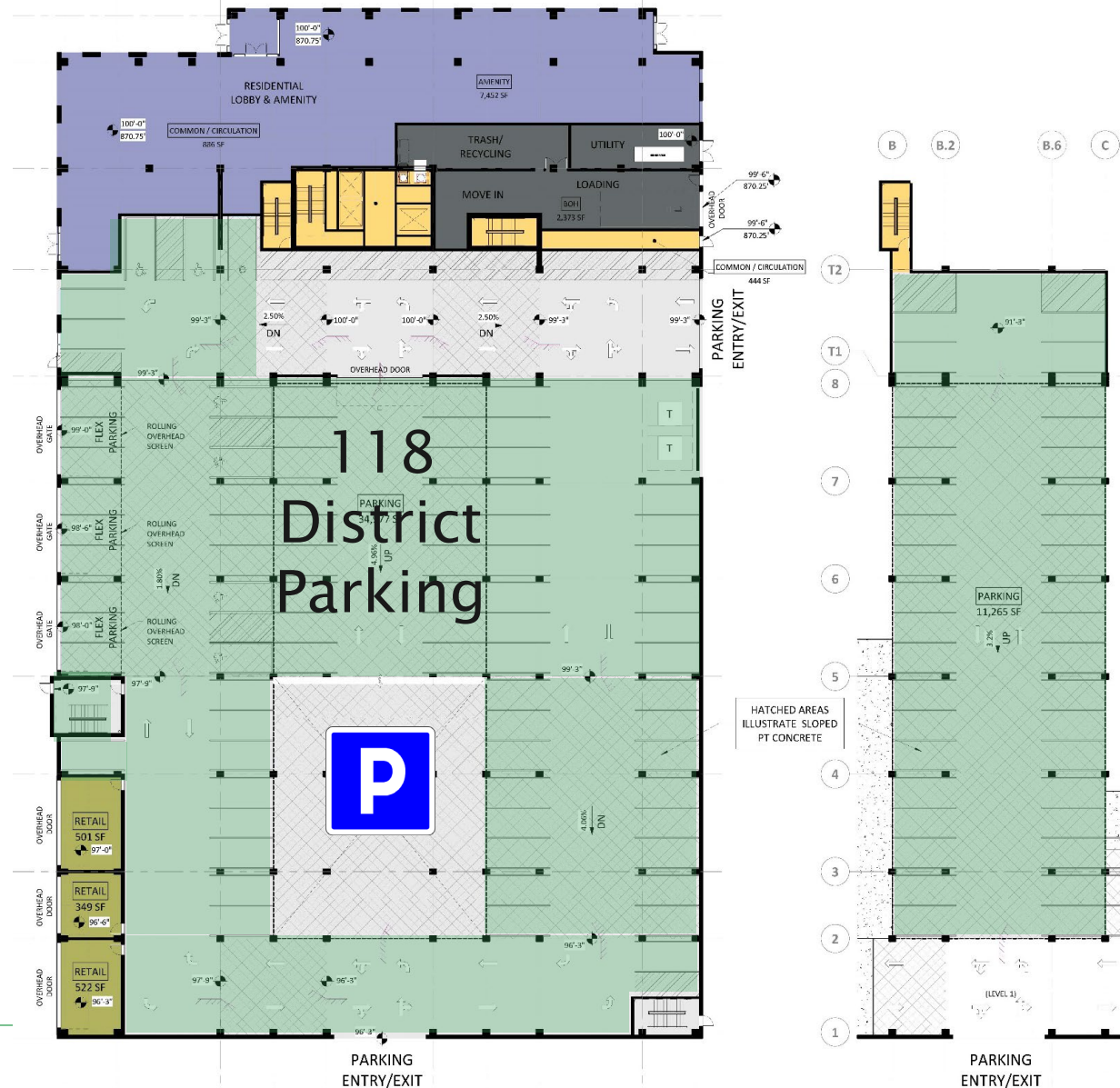
Greater Southdale Area District
Design Experience Guidelines



Public Benefits – Site A District Parking



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Available:
24 / 7 / 365

Reasonable time
limits and
restrictions

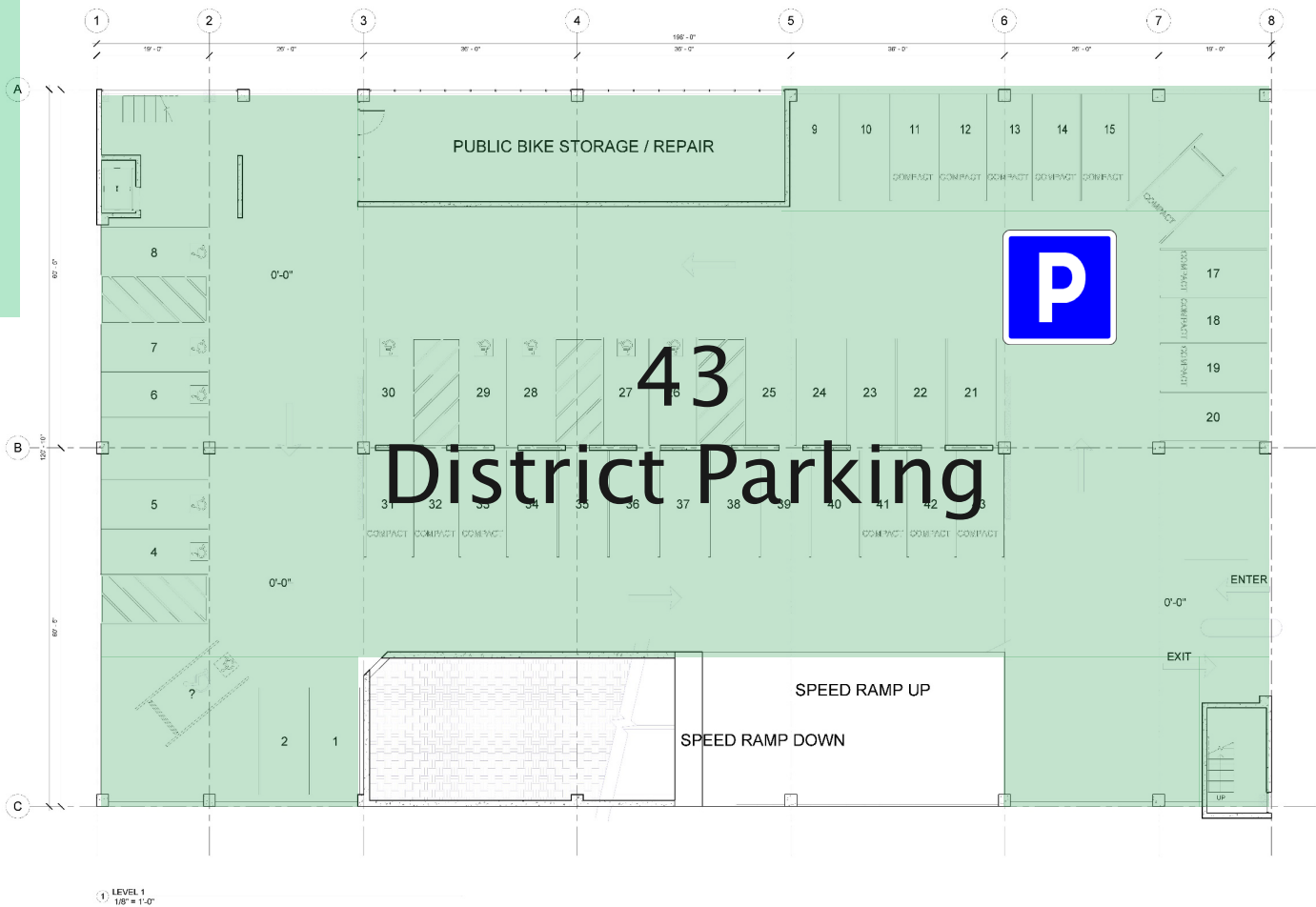
Public Benefits – Site C District Parking



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Available:
24 / 7 / 365

Reasonable time
limits and
restrictions



REVISIONS
NO. DATE DESCRIPTION

The City of Edina, Minnesota, is not responsible for the design, construction, or operation of the project. The City of Edina, Minnesota, is not responsible for the design, construction, or operation of the project.

Signed:
Name:
License No.:

phase PRELIMINARY DEV / PUD
date 9/13/2021
PDC MEB
drawn by SA
project number 21-008
project name

70th & FRANCE

FLOOR PLANS

Public Benefits – Site C Public Parking



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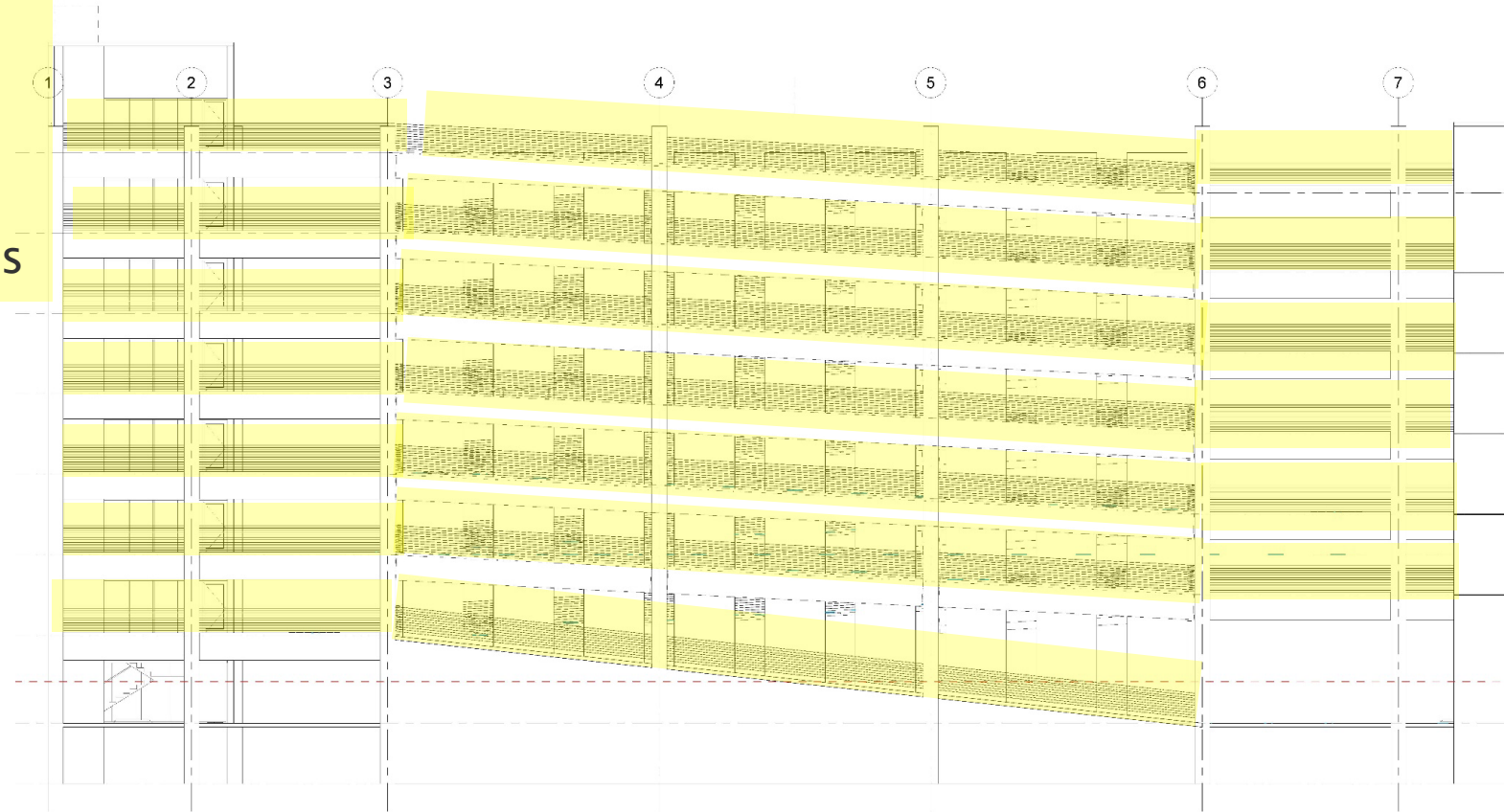
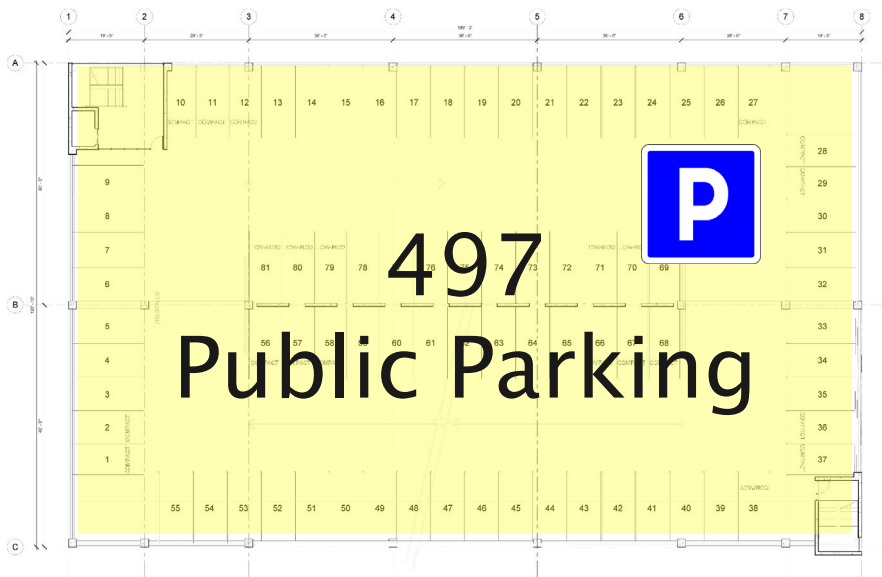
Available:

M–F late afternoon, evenings & nights

Sat, Sun all day

Holidays all day

Reasonable time limits and restrictions



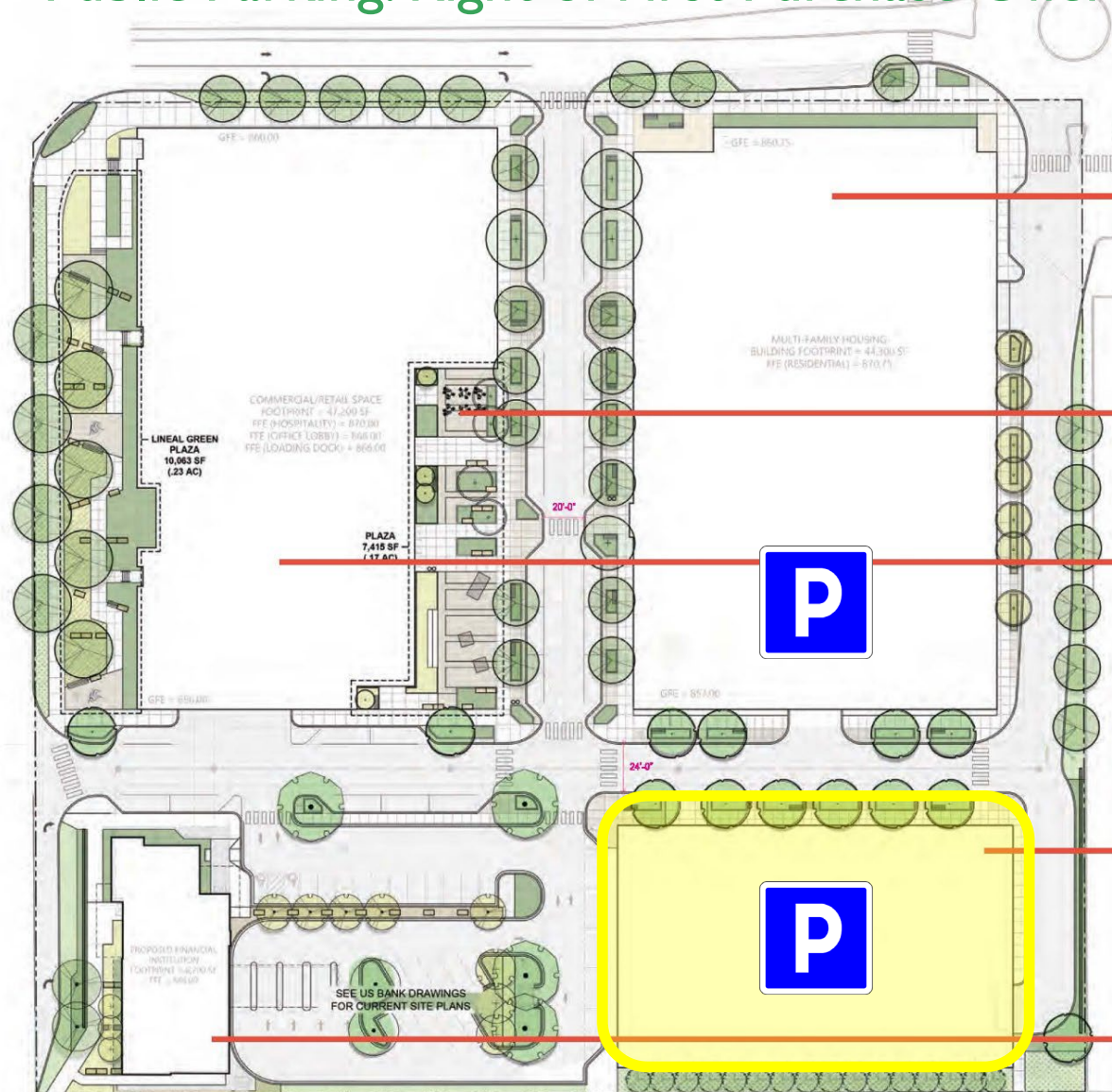
East–West Cross Section

Public Benefits

- Public Parking: Right of First Purchase Offer



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Due to the reduced availability of public parking during business hours, the HRA has secured the alternative benefit:

- First right to purchase the Site C land for nominal amount (\$1)
- If owner determines that 540 parking stalls are no longer needed on the site or
- If owner is unable to fulfill the easement obligation to provided public parking or
- If owner allows Site C to fall into disrepair and has not cured the default

Public Benefits

- Advancing Diversity and Equity Goals (8f)



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- Goals identified
 - Portion of work awarded to qualified MBE and WBE companies
 - Portion of total job hours filled by BIPOC
 - Portion of total job hours filled by women
- Good faith efforts required
 - Developer must follow “community participation plan”, monitor progress and report results
 - Penalty only if no effort made



Image Source: Commercial Construction and Renovation

Recommended Actions



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In summary, staff recommends:

- 1) Creation of a 15-year Renewal TIF District (not 25-year)
- 2) Approval of Term Sheet to include two TIF Notes not to exceed \$22.0 million (8.7%) based on completion of phases and delivery of public benefits
- 3) Authorization to prepare binding legal agreement based on these terms





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Questions / Discussion