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Public Hearing
Tax Increment Finance (TIF) Economic
Development District 1-17 &
Tax Abatement Business Assistance Application

Oppidan Inc.
Grand Rapids Workforce Housing Project

December 2, 2024



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Project Background

- **Oppidan Inc. of Excelsior, MN (Developer) filed an application for Business Assistance requesting Tax Increment Financing (TIF) to partially address a financial gap in a proposed housing development.**
- **Project Scope – The Developer’s application detailed a proposal for the construction of a 132-unit market rate apartment development with rents and unit mix designed for providing workforce housing.**
- **Project Timeline and Cost - The project is proposed to begin in the spring of 2025, contingent upon this business assistance and an award from Minnesota Housing Finance Agency Workforce Housing Development Program, which now has been received. The estimated total development cost is approximately \$33 million.**
- **Project Location – The project is proposed to be located on an appropriately zoned 15-acre GREDA owned parcel in the plat of Great River Acres.**



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Project Background

Map of City Development District





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Project Background

Grand Rapids Workforce Housing Project - Proximity to Major Employers

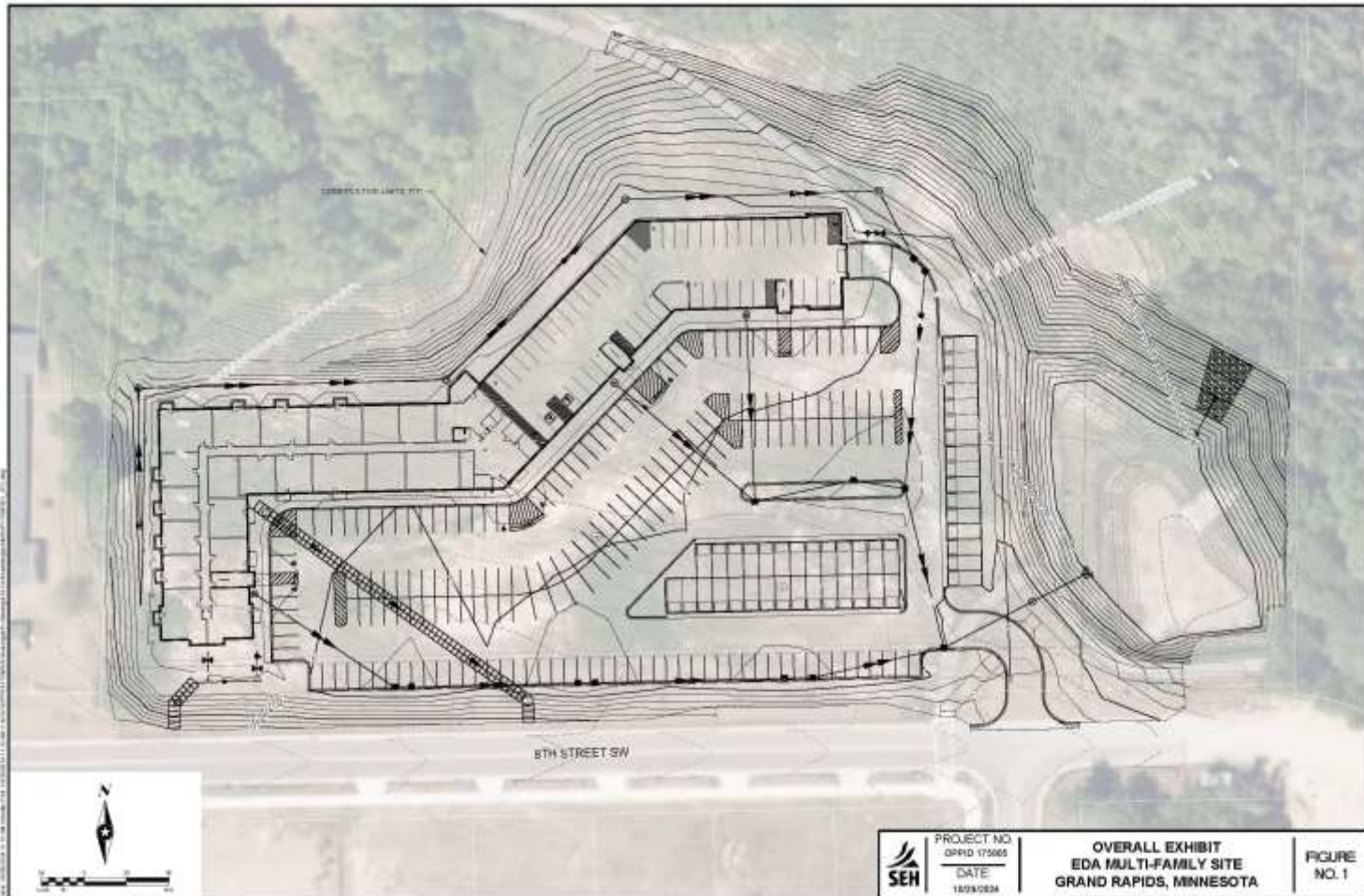


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Miles



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Project Background

Elevations





Project Background

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Interior Finish Examples



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Project Background



Interior Finish Examples



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Project Background

Project Sources and Uses:

Sources/Revenue:		Uses/Development Costs:	
First Mortgage	\$13,762,000	Special Assessments for Infrastructure	\$412,000
TIF Mortgage	\$1,369,000	Construction Costs	\$28,624,401
Equity	\$8,011,653	Professional Fees and Permits	\$1,286,288
MHFA WF Housing	\$7,946,500	Financing Costs	\$1,281,464
Tax Abatement	\$715,000	Development Fee (3.1%)	\$1,000,000
IRRRB	\$800,000	Acquisition	\$585,000
Land Write-Down GREDA	\$585,000		
Total:	\$33,189,153	Total:	\$33,189,153



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Project Background

Current and Future Assessed Value Estimate:

	Base Value – Pay 2022 (Itasca County Assessor)	Future (Itasca County Assessor)
Land Value (15.0 acres)	\$46,500	\$566,400
Building Value	\$0	\$12,297,400
Total Value	\$46,500	\$12,863,400
Annual Property Taxes (Pay 2023 Rate)	Exempt	\$253,779



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TIF & Abatement Business Assistance

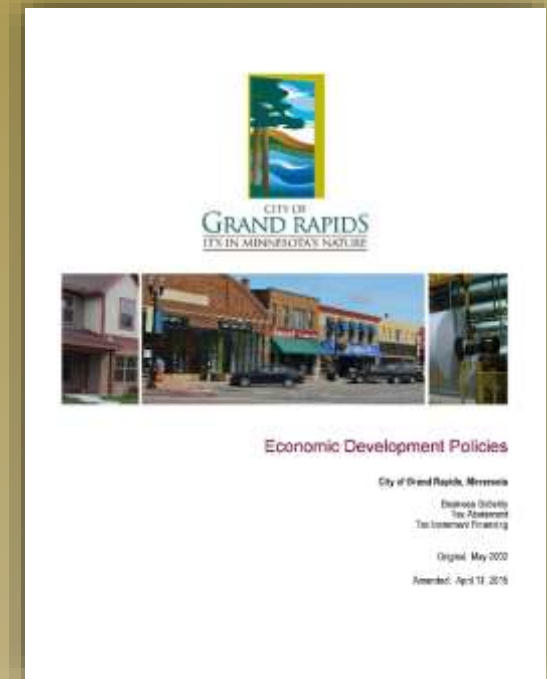
- **The proposed TIF district would be a Workforce Housing Economic Development District, which has a maximum term of 9 years.**
- **The proposed Tax Abatement would commence upon completion of the TIF district term and would continue until the amount of the request is provided. The maximum term for the Abatement is 20 years if the City is the only political subdivision that approves an abatement.**
- **The total value of TIF and Abatement in today's dollars (using a 6% discount rate) is estimated to be \$2,084,000.**
- **In Minnesota, TIF can be used for two purposes:**
 - **To finance public infrastructure that is related to the development, or**
 - **To induce or cause a development or redevelopment that otherwise would not occur. (The economics of the development won't work without the assistance, for reasons such as; added cost of building acquisition and renovation, development costs won't allow for market rate rents, added cost of site cleanup, etc.)**
 - **For this project, it will be used to induce or cause development as no public infrastructure is needed.**



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TIF Business & Abatement Assistance

- **The Public Purpose Objectives, within the City's *Economic Development Policies*, which this project aligns with are:**
 - **To create housing opportunities for senior and low to moderate income families.**
 - **To provide a diversity of housing types adjacent to the cultural, recreational, economic, natural, education and transportation systems.**
 - **To encourage additional unsubsidized private (re)development**
 - **To accomplish other public policies which may be adopted, projects that are consistent with those community values and objectives described within the Comprehensive Plan.**





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TIF & Abatement Business Assistance

- **TIF But-for Test**

- Under Minnesota statute, before a City can establish a TIF district for a project, the developer must demonstrate and the City must verify that, but-for the use of TIF, the project would not occur in the foreseeable future.

- **TIF Basics:**



- Important to note that although the property is currently tax exempt the base or pre-development value of property taxes will be collected and retained by the City and other taxing entities during the term of the TIF
- Only the increase in taxes resulting from the new development (increment) is delayed until the TIF commitment is satisfied.
- Upon that satisfaction, all property taxes resume full distribution to the taxing entities.



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- **TIF Need Analysis** – the City’s fiscal consultant Ehlers has analyzed the Developer’s updated project budget and pro forma, based upon industry standards and market ranges for rate of return, as well as development costs and revenues.
 - Based upon that analysis, it was determined that TIF & Tax Abatement assistance in the amount of \$2,084,000 over the full term is required to achieve a reasonable yield on cost (net operating income / total development costs) return of 5.2% at stabilization. Typically, developers need a yield on cost approaching 6.5% for feasibility.
 - Based upon Ehlers analysis, they concluded that providing the requested business assistance is warranted for the project.



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TIF & Abatement Business Assistance

- **Land Write Down** – In addition to the TIF and Tax Abatement assistance to the project a land write down by GREDA was also necessary to both deliver the required return and to also increase the eligible grant request of the MHFA Workforce Housing Development (WHD) Program.
- The current asking price for the GREDA property is \$485,000, with GREDA responsible for the levied infrastructure assessment of \$412,000. Without a write down the transaction would look like this:

$$\begin{array}{|c|} \hline \text{Purchase Price} \\ \$485,000 \\ \hline \end{array} - \begin{array}{|c|} \hline \text{Assessment} \\ \$412,000 \\ \hline \end{array} = \begin{array}{|c|} \hline \text{GREDA Proceeds} \\ \$73,000 \\ \hline \end{array}$$

- The MHFA Program allows a request equal to twice the amount of the local contributions, which includes land write down. A recent Brokers Opinion of Value completed for Oppidan valued the site at \$585,000, which means a full write down makes the project eligible for an additional 2X that, or \$1,170,000.

$$\begin{array}{|c|} \hline \text{Purchase Price} \\ \$585,000 \\ \hline \end{array} + \begin{array}{|c|} \hline \text{Assessment} \\ \text{(Developer Cost)} \\ \$412,000 \\ \hline \end{array} - \begin{array}{|c|} \hline \text{GREDA Write Down} \\ \$585,000 \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Developer Cost} \\ \$412,000 \\ \hline \end{array}$$

- With the write down scenario, GREDA doesn't receive net proceeds of \$73,000 but leverages an additional \$1.17MM of WHD Program eligibility.



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TIF Business Assistance

- **When approving a TIF Plan, the City Council must find (among other things) that:**
 - **The proposed development would not reasonably be expected to occur solely through private investment in the reasonably foreseeable future; and**
 - **The increased market value of the site that could reasonably be expected to occur without the use of TIF would be less than the increase estimated to result from the proposed development.**
- **The Draft Resolution, TIF Plan and its appendices address these required findings and describe the basis of the determined need for this public assistance in furthering the public purposes of creating housing opportunities for senior and low to moderate income families, providing a diversity of life cycle housing adjacent to cultural, recreational, economic, natural, education and transportation systems, and to improve the tax base and to improve the general economy.**
- **The proposed TIF involves pay-as-you-go financing, which means the developer will pay the costs of creating the improvements with their funds, and the increments, as they are generated by the new development, will be used to reimburse the developer for these costs over time.**



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Process

Previously GREDA reviewed the application and adopted a resolution supporting a modification to the Development Program for the City's Development District No. 1, establishing TIF District 1-17 therein and adopting a TIF Plan. GREDA has also held a public hearing to consider their sale of land.

The City Council is holding a public hearing today to consider this request for TIF and Tax Abatement Business Assistance. Actions that will be considered immediately following the Public Hearing will include:

- 1. Adoption of a resolution approving the establishment of TIF District No. 1-17 and approving the TIF Plan for the District.**
- 2. Approval of tax abatement for Oppidan after decertification of the TIF District**
- 3. Approval establishing an inter fund loan in connection with the TIF District.**

At a future meeting, the Council will consider adoption of a resolution approving the Contract for Private Redevelopment with Oppidan Inc. and awarding the sale of, and providing the form, terms, covenants and directions for the issuance of its tax increment revenue note.



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Questions?