

--MEMORANDUM--

TO: City Council

FROM: Gregory E. Buckley
City Manager

DATE: March 19, 2022

SUBJECT: TAX INCREMENTAL FINANCING CASH GRANT AND DEVELOPER'S
PERFORMANCE AGREEMENT WITH 3000 FOREST AVE, LLC

The Agreement that is on Monday's agenda for your consideration reflects financial terms previously approved by the City Council.

This proposed final Agreement is under review by the Developer—I was only able to get it to them this past Wednesday evening, although it is substantially similar to drafts that they have seen before. They were not able to complete a final review of this document with their attorney by Friday, but hope to do so on Monday.

I mention the above because at Monday's meeting I may need to report that the Developer has requested some changes in the language or needs more time to complete their review. If that is the case, I will recommend deferring final action until the Council meeting of March 28. I have also provided for discussion of this item in closed session at the end of the meeting, if there are issues raised that are best discussed in closed, prior to action on the Agreement.

That said, I thought it would be useful to provide a summary—for both the Council and the general public—of the project and the key provisions of this Agreement.

1. Agreement provides for City grant assistance, through Tax Incremental District No. 15 (TID 15), created by actions of the City Council and Joint Review Board in July 2021, to a project to redevelop the former Hansen the Florist property at 3000 Forest Avenue. That property has been sitting idle since 2004 and is identified as a "Priority Redevelopment Site" in the City's 2010 Comprehensive Plan.
2. Project consists of three new 15-unit apartment buildings, to provide 45 units of market-rate rental housing (33 2-bedroom, 12 1-bedroom). \$6.8 million estimated construction cost; \$4.2 million estimated assessed value upon completion (planned 3-year build-out, 2022-2024).
3. TIF assistance to consist of
 - A. \$650,000 *Developer Grant*, financed through City borrowing (20-year State Trust Fund Loan at 4 percent) and paid to Developer in installments as follows:
 - \$200,000 upon completion of footings and foundations for Building 1
 - \$125,000 upon Building 1 being completed and ready for occupancy
 - \$125,000 upon completion of footings and foundations for Building 2
 - \$200,000 upon Building 2 being completed and ready for occupancy

City loan used to fund the Developer Grant will be repaid from TID 15 over the next 20 years, using revenue from new property taxes paid by the development. Payment of this City debt obligation will be the *first priority* for use of such TID 15 revenue. If such annual revenue falls short of the amount required for such debt service payments (\$47,755 annually), the Developer will be required to make a “*Shortfall Payment*” to the City, to make up the difference.

- B. \$650,000 *TIF Grant*, to be paid in annual installments by the City to the Developer, from new property tax revenue created by the development and captured by TID 15, to the extent that such funds are available after first paying the annual debt service related to the Developer Grant. This \$650,000 TIF grant shall be considered an obligation of the City to the Developer and will accrue interest at a rate of 2 percent annually, starting April 1, 2022.

Based on the financial pro-forma for TID 15, prepared for the City by R.W. Baird, this development should generate sufficient tax incremental revenue (from new property taxes generated by the development) to cover debt service on the Developer Grant and to pay off this obligation in full by budget year 2043. Whether paid in full or not, the City’s obligation to the Developer under the TIF Grant will end in budget year 2043, per terms of the Agreement.

- 4. Safeguards for the City’s investment of TIF funds include:
 - A. The annual requirement for a “Shortfall Payment” by the Developer, if necessary to meet annual debt service on the borrowing for the Developer Grant. (Failure to make timely payment of a Shortfall Payment results in a 12 percent interest penalty on the amount owed.)
 - B. Requirement for a “Clawback Payment” of any portion for the Developer Grant that has been paid out to the Developer, if the total Project is not completed by the Project Completion Deadline of October 1, 2024.
 - C. Provision that payments to the Developer under the TIF grant, which are to start in 2024 (by December 1, 2024) will not be made unless the project has been completed timely and is operating in compliance with the Agreement.
 - D. A City first mortgage on the Development, for purposes of securing the annual Shortfall Payments and Clawback Payment, should either be required. While the proposed mortgage provides that the City will not name the Project’s private lender in any foreclosure action, the City’s first position mortgage should provide significant protection for its financial interest in the project.

I hope that this information is helpful as you consider this Agreement.