



Legislation Text

File #: 17-1167, **Version:** 1

City Council Meeting Date: December 12, 2017

To: Mayor and City Council

From: Ben Martig, City Administrator
Chris Heineman, Community Development Director

Consider approval of First Amendment of Ground Lease Declaration of Restrictions and Release of Parcels.

Action Requested:

The Northfield City Council considers approval of proposed First Amendment of Ground Lease Declaration of Restrictions and Release of Parcels.

Summary Report:

The Northfield Hospital & Clinics (NH+C) has provided traditional nursing home services to the community since 1963. While the options for senior care services has expanded significantly during these years, the range of options has not expanded within the NH+C system. While the nursing home located on the Northfield Hospital campus is a preferred facility, annual losses have averaged from \$750,000 - \$1,000,000 and the current model is not sustainable.

In 2015, NH+C began to evaluate alternatives for providing senior care services, including potential partnerships with other service care providers. A feasibility study was conducted in June of 2017 that indicated a new model of services would reduce the cost of care to seniors and would not be as susceptible to changes in government payment systems. A partnership would also reduce the risk to the NH+C if they were to offer a range of services alone.

In July of 2017, the NH+C Board of Directors took action to maintain the current Long Term Care Center and work with other partners to provide independent, assisted living, and memory care services. A facility with assisted living and memory care is being pursued which will be constructed next to the hospital campus in partnership with Yanik Companies (owner/developer). The first phase of the proposed campus will offer up to 95 independent living, assisted living, and memory units, with services provided by Benedictine Health Systems. There would be ability for an additional expansion to the north of a similar size and scope at a future date. The proposed ground lease amendment requires the developer to commence this future phase by December 31, 2026. Otherwise, parcel 2 terminates their development rights and provides the City the right to develop and use the recaptured Parcel 2 in accordance with the original lease.

In November of 1999, a long-term lease agreement was entered into between the City of Northfield and St. Olaf College to enable the City to be the anchor tenant and build a hospital and related facilities on the approximately 60-acre site. In order to move forward with the proposed senior housing project, staff is recommending that an amendment to the current ground lease between the City of Northfield and St. Olaf College be considered. A copy of the proposed lease is included for your consideration. City Attorney Hood

will be at the December 12 meeting to address any questions regarding the proposed lease agreement.

Property Taxes & Market Value Growth

Construction costs for the first phase of the proposed project is estimated at \$24 million. Based on a comparable senior assisted living project in Dakota County, the first phase of the project could be assessed at approximately \$21 million. Based on this information, the following would be an estimated tax impact for Northfield with this Phase I project based on 2018 proposed tax rates:

<u>Local Taxing Jurisdiction</u>	<u>Estimated Annual Property Taxes (12-8-17)</u>
Dakota County	\$69,477
City of Northfield	\$158,967
<u>Northfield Public Schools</u>	<u>\$86,359</u>
Total Property Taxes	\$314,803

The estimated market value increase of \$21 million would equate to a real growth in our tax base of about 1.5% from the 2017 total estimate market value payable in 2018 of \$1,386,709,300.

Sewer and Water Fees

<u>City Fees</u>	<u>Estimated Project Fee</u>
Sewer Area Charge (SAC) = \$5,952 per acre	\$41,664
Water Area Charge (WAC) = \$2,020 per acre	\$14,140

** Please note that staff is continuing to research the history to ensure these full fees had not been previously paid.*

Development Costs

The details of the development costs would be addressed at a future date when the Development Agreement would be brought forward. Staff is continuing to research the issue. According to initial audits provided by the Northfield Hospital and Clinics, they paid the City \$2,320,397 for road improvements and the extension of utilities related to the new campus from Cedar Avenue.

For the infrastructure costs, NH+C understood that allowing the developer to tie into the utilities is what made the project financially feasible. The project to the east could not move forward with the \$2.3M cost unless the hospital contributed \$2M. For the west location, NH+C worked with the assumption they funded the initial infrastructure costs through hospital funds rather than through direct city funds. Strategically, NH+C felt there was an advantage to having this program being adjacent to the campus relative to caring for our elderly patients. They also felt that working cooperatively with the developer could help ensure the project viability without looking for TIF or other funding enhancements. The NH&C's position regarding utilities and the road were assumed by the hospital when the campus was established. In an effort to support the financial model for this program NH+C did not anticipate passing any of our utility costs on to the developer. This approach requires no cash from the medical center and supports a program that can then afford to provide services to Medicaid waiver seniors.

NH+C's recommendation is to approve the modification of the land lease gift from St. Olaf with the

understanding that if the project does not ultimately meet city standards, the land would return to the city and the medical center.

Comprehensive Plan Compliance

The Comp Plan designates this parcel as Developed Land with Neighborhood General residential characteristics. These characteristics deal with grid street pattern, larger lot development and the relationship of buildings to the street. According to the Comp Plan, this is an infill project.

The proposed development supports the following goals of the Comp Plan:

- Economic Development 4.2 - Seek opportunities for the Northfield Hospital to be a stimulus for economic development.
- Housing 3.3 - Encourage developments with a mix of housing price ranges and incomes. Options should be considered for both owner-occupied and renter-occupied units.

The proposed development does not support the following Comp Plan goal; however, there is no land near downtown that is available or suitable for this type of development:

- Land Use 2.2 - Provide and support new opportunities for residents to live in or near the downtown.

Use and Zoning

Specialized Care Facilities include nursing homes, independent living, assisted living, memory care and hospice. They are permitted in the PI Public Institutional, N2 Neighborhood General, and C2 Highway Commercial. These facilities are allowed in the residential R2 and R3 zones, but these are discontinued districts that cannot be designated for new development.

The current PI zoning of the parcel is the optimum zone district for this development. It specifically allows the campus type development proposed. C2 zoning was created for highway commercial uses and would not be proper zoning along North Ave. N2 zoning could be used, but it would trigger subdivision for each individual building and the construction of a public road, as each lot requires frontage on a public street. The road into the hospital is private. The applicants have stated that the infrastructure costs associated with other sites would make the project cost prohibitive. The details of the shared use of the private access road will be dealt with in a future development agreement.

Design Standards

Public and Institutional zoning in Northfield currently contains no design standards. It was created with the most flexibility to accommodate the wide variety of public uses, including campus style layouts. Some uses defined in the LDC require special treatment through Use Specific design standards; however, there are none defined for Specialized Care Facilities. All development in Northfield must always meet the General Development Standards in LDC Section 3 regarding things like fencing, buffers, screening, parking, landscaping, lighting and protective performance standards.

There are standards for Multi-Family Dwellings in the N2 zone. However, these technically would not apply because Specialized Care Facilities are a separate and distinct use from Multi-Family Dwellings. If applied anyway, these standards have minimal architectural controls apart from articulating facades and courtyards.

Specialized Care Facilities are allowed in the C2 Highway Commercial zone. As previously stated, this zoning is improper for the parcel in question because its location is not along the highway or near other C2 zoned property. In addition, this design would automatically trigger several variances in the C2 for building placement and setbacks.

At this preliminary stage, the applicant has not completed design elevations to review. Once submitted, we could evaluate the project against the design criteria in the C2 zone for a better picture of how the project meets the Northfield aesthetic (see attached LDC examples).

Additional land development code design standards are included in the attachments.

Compatibility with surrounding uses

There have been questions raised regarding the compatibility of a senior facility next to a commercial/industrial area. It is envisioned that a new “hybrid” commercial/industrial zone district will be established for the NW business park area. This zoning will incorporate compatibility standards to minimize off-site impacts.

Our current code also provides insight into compatibility. Having Specialized Care Facilities as a Principal Permitted Use in the C2 Highway Commercial zone infers that these uses can be compatible. Negative effects of incompatible uses are minimized by the use of buffer strips. Landscaped buffers of 25 to 40 feet in width are required between commercial/industrial and residential uses, so future development will need to respect any existing buildings on the hospital grounds.

The built environment will also affect compatibility. Phase 2 of this project will border the existing solar farm to the west. Phase 1 will be set back from the property line and will have buildings oriented east west to maximize solar exposure and to reduce views of future development to the west. The units in the building will have views to the north or south, so they will not be overlooking commercial development in the business park.

Alternative Options:

A vote against the agreement would terminate the project as the amended lease amendment is essential for next steps in the approval process.

Financial Impacts:

The proposed \$24 million project is taxable. Based on comparable information from the Dakota County Assessor’s office, the project will generate approximately \$300,000 in property taxes for the City of Northfield, Northfield School District, and Dakota County. Please see the “Summary Report” background for more information on financial impacts.

Tentative Timelines:

- ✓ November 28th - Project presentation to Joint Hospital Board and City Council at Northfield Hospital & Clinics.
- ✓ November 30th - Hospital Board review lease agreement for advisory recommendation to Council.
- ✓ December 5th - City Council review proposed lease amendment.
- December 12th - City Council meeting - consider lease amendment.
- January 9th - City Council development agreement review and discussion.
- January 16th - City Council consideration of development agreement.