

Legislation Text

File #: 19-1052, **Version:** 1

DATE: August 22, 2019

TO: Members of the Economic Development Authority

FROM: Nate Carlson, Economic Development Coordinator
Mitzi Baker, Community Development Director

Review of Subsidy Request by Rebound Real Estate, LLC.

SUMMARY AND ACTION REQUESTED:

The EDA Board shall review the Subsidy Application.

BACKGROUND:

Rebound Real Estate, LLC, in partnership with the Stencil Group, is requesting Tax Increment Financing (TIF) incentives and other Business Subsidies from the City of Northfield and Northfield EDA to assist with a major redevelopment project consisting of a 79-unit urban residential complex at the southwest corner of 5th Street and Washington Street, referred to as 5th Street Lofts. The developers, Rebound and Stencil, have provided an application for the TIF funds and the additional requests to make this a feasible project, which can be found attached to this report. The development team introduced their project to Community Development staff in the spring, to the EDA in June and to City Council in July 2019.

The City's financial consultant and staff completed a thorough review of the subsidy application and confirm this application meets criteria, and can be considered a feasible TIF project.

Rebound Real Estate and Stencil Group will be constructing a \$14.36 million urban residential complex at the southwest corner of 5th Street and Washington Street. This redevelopment project will have enclosed parking for tenants and may include public parking if the City chooses to participate in costs directly related to public parking. There are significant site improvements with this redevelopment project, as well as site acquisition costs. These costs, as well as the shortfall in operating cash flow, are eligible uses for TIF as well as other incentives that will be considered by the EDA and the City to make the project financially feasible.

The project Site Plan is expected to be reviewed by the Development Review Committee in the coming weeks. If financing for the project is secured, the developers intend to begin construction this fall.

Rebound Real Estate is requesting TIF assistance, EDA-land contribution, and an EDA Loan. The developers have included a potential public parking element for the City to consider which would include reimbursement for spaces that would be under the management and control of the City. The redevelopment project requires a land contribution of 510 Washington Street, which the EDA

authorized purchasing for \$212,000. Closing has not occurred and is scheduled for September 6. An EDA loan is requested to assist with site preparation in order to reduce upfront costs for the developer to prepare the site for construction. The Developer has provided a memo detailing that request, which is attached to this report.

A public parking cost reimbursement of \$920,000 over 10 years has been requested and would only apply if the City participates in creating public spaces within the project. The developer has indicated the public parking component is not necessary to complete this project. The City Council will be considering the public parking component for potential inclusion in the project. The EDA may offer insight on the public parking, but is not providing a formal recommendation to Council.

The total project costs are below and the subsidy request has been identified as well.

Redevelopment Cost	With Public Parking	Without Public Parking
Construction	\$ 11,400,000	\$ 10,400,000
Site Work	\$ 600,000	\$ 650,000
Design/Engineering	\$ 450,000	\$ 450,000
Other Cost	\$ 1,900,000	\$ 2,155,000
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Total Uses	\$ 14,360,000	\$ 13,655,000
Sources		
Bank Finar	\$ 10,770,000	\$ 10,241,250
EDA Loan	\$ 250,000	\$ 250,000
Equity	\$ 3,340,000	\$ 3,163,750
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Total Sources	\$ 14,360,000	\$ 14,360,000
Incentives		
Tax Increment Financing (25-Year Redevelopment District)	\$ 1,804,000 <i>(Present Value)</i>	\$ 1,804,000 <i>(Present Value)</i>
EDA Land Contribution	\$ 212,000	\$ 212,000
*City Parking Reimbursement (Over 10\$ *920,000)		

EDA Loan	\$	\$	250,000
	250,000		
Total Incentives	\$	\$	2,266,000
	3,186,000		

**This item is not technically an incentive; it is a cost reimbursement for City participation in developing public parking stalls within the project, should this feature be pursued.*

At this time, staff has identified that the City could approve a Redevelopment TIF District to facilitate this request. Staff has been consulting with the City's Financial Advisor from Ehlers, Nick Anhut, to facilitate the TIF process and project subsidy request. They have provided an initial analysis of the TIF request and have found that the redevelopment project could create a certain level in Tax Increment over the 25-year life of Redevelopment TIF District depending on when the financing is needed. The TIF would occur in a "pay-as-you-go" structure over the course of the district life. The District boundaries encompass the current project site south of 5th St and west of Washington, along with the City Parking lot north of 5th Street along Washington Street. Including the area north of 5th Street at this time presents opportunities to consider using TIF in the future, should the opportunity present.

Attached to this report are the necessary documents for EDA review:

- Completed Application
- Supplementary Memo materials from Developer
- TIF Advisor Increment Analysis and Project Memorandum

The EDA Loan review Committee met on August 14, 2019, to review the subsidy application. Following the discussion, Committee members recommend that the TIF request proceed to the Council for approval and that the EDA consider contributing the 510 Washington Street property to the project. However, the Committee did express concerns regarding the loan request from the developer. The Committee directed staff to communicate those concerns and negotiate terms of the loan that would limit the EDA's risks. The Committee meeting minutes are attached to this report.

The EDA Board shall review the following terms for the Rebound Real Estate, LLC request:

- TIF Amount Requested: \$1,804,000 (*Present Value*)
 - Type of TIF District: Redevelopment District (25-year duration)
 - TIF Funding Structure: "Pay-as-you-go"
- EDA Land Contribution: \$212,000
 - 510 Washington Street Property
 - Closing contingent upon Council TIF approval
 - Recourse provision if project is not completed within 2 years
- EDA Loan Request: \$250,000 Revolving Loan
 - Loan Terms Proposed: 15 years
 - Loan Amortization Proposed: 25 years
 - Loan Interest Rate proposed: Wall Street Journal Prime Rate at closing

- Interest-only payments: First 2 years
- Collateral Offered: 2nd Lien Position on Mortgage
- Potential Monthly Interest-Only Payments of \$208 (*1% starting Yr. 0 through Yr. 2*)
- Potential Monthly P&I Payments of \$1,390 (*4.5% starting after Yr. 2*)
- Closing contingent upon Council TIF approval

The EDA may comment on the Public Parking Component, but the Board will not provide a recommendation to the Council.

OPTIONS:

N/A

RECOMMENDATION:

N/A