



GRAND RAPIDS ECONOMIC DEVELOPMENT AUTHORITY MEETING AGENDA

**Thursday, April 11, 2024
Immediately following the closed meeting**

NOTICE IS HEREBY GIVEN, that a regular meeting of the Grand Rapids Economic Development Authority will be held in the City Council Chambers in the Grand Rapids City Hall, 420 North Pokegama Avenue, in Grand Rapids, Minnesota on Thursday, April 11, 2024 immediately following the closed session.

CALL TO ORDER

CALL OF ROLL

SETTING OF THE REGULAR AGENDA - *This is an opportunity to approve the regular agenda as presented, or to add/delete an agenda item by a majority vote of the Commissioners present .*

APPROVE MINUTES

1. Consider approving minutes from the March 28, 2024 Regular Meeting

APPROVE CLAIMS

2. Consider approval of claims in the amount of \$47,718.75

BUSINESS

3. Consider adopting a resolution supporting a modification to the development program for the City's Development District 1, establishing TIF District 1-16 and supporting a property tax abatement for certain property in the City.
4. Consider adopting a resolution supporting a modification of a tax increment financing district within City's Development District 1.

UPDATES

ADJOURN

MEMBERS & TERMS

Tom Sutherland - 12/31/2024 Council Representative

Molly MacGregor - 12/31/2024 Council Representative

Wayne Bruns - 3/1/25

Sholom Blake - 3/1/25

Al Hodnik - 3/1/27

Bill Martinetto - 3/1/27

Melissa Bahr - 3/1/30



GRAND RAPIDS ECONOMIC DEVELOPMENT AUTHORITY MEETING MINUTES

Thursday, March 28, 2024
4:00 PM

NOTICE IS HEREBY GIVEN, that a regular meeting of the Grand Rapids Economic Development Authority will be held in the City Council Chambers in the Grand Rapids City Hall, 420 North Pokegama Avenue, in Grand Rapids, Minnesota on Thursday, March 28, 2024 at 4:00 PM.

CALL TO ORDER

CALL OF ROLL

PRESENT

Commissioner Al Hodnik
President Sholom Blake
Commissioner Bill Martinetto
Commissioner Molly MacGregor
Commissioner Malissa Bahr

ABSENT

Commissioner Wayne Bruns
Commissioner Tom Sutherland

SETTING OF THE REGULAR AGENDA - *This is an opportunity to approve the regular agenda as presented, or to add/delete an agenda item by a majority vote of the Commissioners present .*

Approved without addition.

APPROVE MINUTES

1. Consider approving minutes from the March, 14 2024 Regular Meeting

Motion by Commissioner Hodnik, second by Commissioner Martinetto to approve the minutes from the March 14, 2024 regular meeting. The following voted in favor thereof: MacGregor, Bahr, Blake, Martinetto, Hodnik. Opposed: None, motion passed unanimously.

APPROVE CLAIMS

2. Consider approval of claims in the amount of \$2,226.73

Motion by Commissioner Martinetto, second by Commissioner MacGregor to approve the claims in the amount of \$2,226.73. The following voted in favor thereof: MacGregor, Bahr, Blake, Martinetto, Hodnik. Opposed: None, motion passed unanimously.

BUSINESS

3. Consider adopting a resolution approving the First Amendment to the Preliminary Development Agreement with Oppidan Incorporated.

Assistant Community Development Director Dan Swenson discussed meeting MHFA requirements and the March 26th approval of the IRRRB grant which extends agreement 180 days.

Motion by Commissioner Hodnik, second by Commissioner Martinetto to approve adopting a resolution approving the First Amendment to the Preliminary Development. The following voted in favor thereof: MacGregor, Bahr, Blake, Martinetto, Hodnik. Opposed: None, motion passed unanimously.

4. Consider adopting a resolution approving purchase agreements with the City and SE 7th Ave. Distribution LLC related to the L&M Supply Distribution Center Project

Assistant Community Development Director Dan Swenson gave background on the land and discussed agreement with the county and the FAA regarding a clear title.

Motion by Commissioner Martinetto, second by Commissioner Bahr to approve adopting a resolution approving the First Amendment to the Preliminary Development. The following voted in favor thereof: MacGregor, Bahr, Blake, Martinetto, Hodnik. Opposed: None, motion passed unanimously.

UPDATES

Busy summer with projects planned.

IRRRB getting active with housing across the Range.

ADJOURN

There being no further business, the meeting adjourned at 4:06 p.m.

MEMBERS & TERMS

Tom Sutherland - 12/31/2024 Council Representative

Molly MacGregor - 12/31/2024 Council Representative

Malissa Bahr - 3/1/30

Wayne Bruns - 3/1/25

Sholom Blake - 3/1/25

Al Hodnik - 3/1/27

Bill Martinetto - 3/1/27

DETAILED EDA BILL LIST - APRIL 11, 2024

DATE: 04/08/24
TIME: 08:46:51
ID: AP441000.WOW

CITY OF GRAND RAPIDS
DETAIL BOARD REPORT

INVOICES DUE ON/BEFORE 04/11/2024

INVOICE # VENDOR #	INVOICE DATE	ITEM #	DESCRIPTION	ACCOUNT #	P.O. #	PROJECT	DUE DATE	ITEM AMT
0301705 CASPER CONSTRUCTION INC								
27142-E	03/25/24	01	WAREHOUSE LAND GRUBBING	427-43-00-00-4300	20240870		04/11/24	28,710.00
				L&M DISTRIB CTR-MISCELLANE				
							INVOICE TOTAL:	28,710.00
							VENDOR TOTAL:	28,710.00
0504100 ECONOMIC DEVELOPMENT SERVICES								
022824-E	02/28/24	01	PROF SVCS DWNTN PLAN-FEB	427-35-00-00-3000	20240985		04/11/24	3,040.00
				DWNTWN PLNNG BLANDIN-PROF				
							INVOICE TOTAL:	3,040.00
33124-E	03/31/24	01	PROF SVCS DWNTN PLAN-MARCH	427-35-00-00-3000	20240927		04/11/24	5,480.00
				DWNTWN PLNNG BLANDIN-PROF				
							INVOICE TOTAL:	5,480.00
							VENDOR TOTAL:	8,520.00
0920060 ITASCA COUNTY TREASURER								
91-033-4401/2024-E	03/28/24	01	91-033-4401 KENT PROP 2024 TAX	427-33-00-00-4300	20240866		04/11/24	1,838.00
				AIRPORT S IND PK-MISCELLAN				
							INVOICE TOTAL:	1,838.00
91-033-4402/2024-E	03/28/24	01	91-033-4402 KENT PROP 2024 TAX	427-33-00-00-4300	20240866		04/11/24	5,280.00
				AIRPORT S IND PK-MISCELLAN				
							INVOICE TOTAL:	5,280.00
							VENDOR TOTAL:	7,118.00
1105530 KENNEDY & GRAVEN, CHARTERED								
180376-E	02/29/24	01	YANMAR BUS SUBSIDY	427-46-00-00-3040	20240859		04/11/24	164.50
				ASV CTR-LEGAL				
		02	SAWMILL TIF AGREEMENT	377-00-00-00-3040	20240859			211.50
				LEGAL				
		03	L&M WAREHOUSE SITE & DEV	427-43-00-00-3040	20240859			43
				L&M DISTRIB CENTER-LEGAL				

DETAILED EDA BILL LIST - APRIL 11, 2024

Item 2.

DATE: 04/08/24
 TIME: 08:46:51
 ID: AP441000.WOW

CITY OF GRAND RAPIDS
 DETAIL BOARD REPORT

INVOICES DUE ON/BEFORE 04/11/2024

INVOICE #	INVOICE DATE	ITEM #	DESCRIPTION	ACCOUNT #	P.O. #	PROJECT	DUE DATE	ITEM AMT
1105530 KENNEDY & GRAVEN, CHARTERED								
180376-E	02/29/24	04	FREE RNG COOP PURCH AGRMNT	427-38-00-00-3040	20240859		04/11/24	123.00
				DWNTWN BLK 36-LEGAL				
							INVOICE TOTAL:	937.50
							VENDOR TOTAL:	937.50
1309170 MN DEED								
E	04/01/24	01	APR ASV CDAP-17-0012-H-FY18	999-99-00-00-1000			04/11/24	1,000.00
				HOLDING ACCOUNT				
							INVOICE TOTAL:	1,000.00
							VENDOR TOTAL:	1,000.00
1920240 CHAD B STERLE								
1946-E	03/31/24	01	BLK 36 LEASE AGREEMENT	427-38-00-00-3040	20240983		04/11/24	1,413.75
				DWNTWN BLK 36-LEGAL				
							INVOICE TOTAL:	1,413.75
							VENDOR TOTAL:	1,413.75
2018225 TREASURE BAY PRINTING								
278595-E	04/02/24	01	BAHR NAME PLATE	227-00-00-20-2100	20240928		04/11/24	19.50
				OPERATING SUPPLIES				
							INVOICE TOTAL:	19.50
							VENDOR TOTAL:	19.50
							TOTAL ALL INVOICES:	47,718.75

DATE: 04/08/2024
 TIME: 08:48:09
 ID: AP443GR0.WOW

CITY OF GRAND RAPIDS
 DEPARTMENT SUMMARY REPORT

PAGE: 1

INVOICES DUE ON/BEFORE 04/11/2024

VENDOR #	NAME	AMOUNT DUE

ECONOMIC DEVELOPMENT AUTHORITY		
2018225	TREASURE BAY PRINTING	19.50
	TOTAL	19.50
TIF 1-11 SAWMILL INN REDEVELOP		
1105530	KENNEDY & GRAVEN, CHARTERED	211.50
	TOTAL	211.50
EDA - CAPITAL PROJECTS		
AIRPORT SOUTH INDUSTRIAL PARKS		
0920060	ITASCA COUNTY TREASURER	7,118.00
	TOTAL AIRPORT SOUTH INDUSTRIAL PARKS	7,118.00
DWNTOWN PLAN PJT-BLANDIN GRNT		
0504100	ECONOMIC DEVELOPMENT SERVICES	8,520.00
	TOTAL DWNTOWN PLAN PJT-BLANDIN GRNT	8,520.00
BLK 36 DOWNTOWN REDEVELOPMENT		
1105530	KENNEDY & GRAVEN, CHARTERED	123.00
1920240	CHAD B STERLE	1,413.75
	TOTAL BLK 36 DOWNTOWN REDEVELOPMENT	1,536.75
L&M DISTRIBUTION CENTER		
0301705	CASPER CONSTRUCTION INC	28,710.00
1105530	KENNEDY & GRAVEN, CHARTERED	438.50
	TOTAL L&M DISTRIBUTION CENTER	29,148.50
ASV-YANMAR EXPANSION PRJT		
1105530	KENNEDY & GRAVEN, CHARTERED	164.50
	TOTAL ASV-YANMAR EXPANSION PRJT	164.50
	TOTAL UNPAID TO BE APPROVED IN THE SUM OF:	\$46,718.75
CHECKS ISSUED-PRIOR APPROVAL		

DATE: 04/08/2024
TIME: 08:48:09
ID: AP443GR0.WOW

CITY OF GRAND RAPIDS
DEPARTMENT SUMMARY REPORT

PAGE: 2

INVOICES DUE ON/BEFORE 04/11/2024

VENDOR #	NAME	AMOUNT DUE

CHECKS ISSUED-PRIOR APPROVAL		
PRIOR APPROVAL		
1309170	MN DEED	1,000.00
TOTAL PRIOR APPROVAL ALLOWED IN THE SUM OF:		\$1,000.00
TOTAL ALL DEPARTMENTS		\$47,718.75



REQUEST FOR GRAND RAPIDS EDA ACTION

AGENDA DATE: April 11, 2024

STATEMENT OF ISSUE: Consider adopting a resolution supporting a modification to the development program for the City's Development District 1, establishing TIF District 1-16 and supporting a property tax abatement for certain property in the City.

PREPARED BY: Rob Mattei, Executive Director

BACKGROUND:

Staff will present the attached PowerPoint presentation as background for this item.

RECOMMENDATION:

REQUIRED ACTION: Make a motion to adopt a resolution supporting a modification to the development program for the City's Development District 1, establishing TIF District 1-16 and supporting a property tax abatement for certain property in the City.



Tax Increment Finance (TIF) & Tax Abatement Business Assistance Application

**Oppidan Inc.
Grand Rapids Workforce Housing Project**

April 11, 2024



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. 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.**



Project Background

Map of City Development District





Project Background

Grand Rapids Workforce Housing Project - Proximity to Major Employers





Project Background

Elevations





Project Background



Interior Finish Examples



Project Background



Interior Finish Examples



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



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



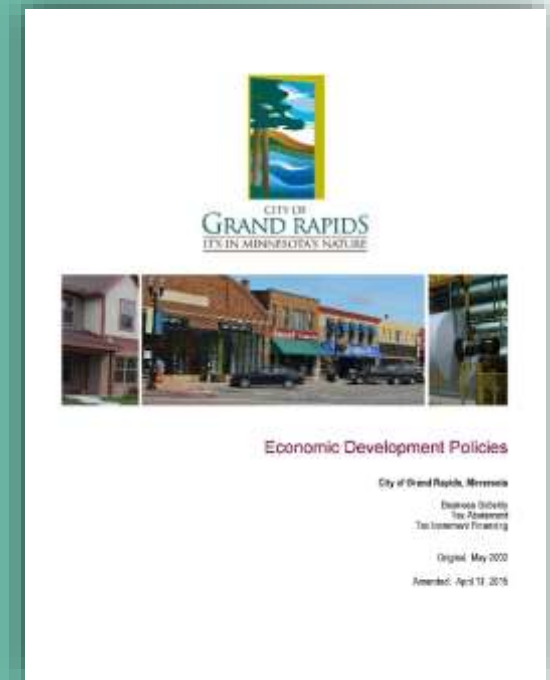
TIF & Abatement Business Assistance

- **The proposed TIF district would be an 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.**



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.**





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 the property taxes collected currently are still received and retained by the City 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.**



TIF & Abatement Business Assistance

- **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.



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 is 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.



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.**



Process

At this meeting, GREDA will review the application and consider adoption of a resolution supporting a modification to the Development Program for the City's Development District No. 1, establishing TIF District 1-16 therein and adopting a TIF Plan therefore

The City Council will hold a public hearing on April 22, 2024, 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. 1-16 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.**
- 4. 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.**



Questions?

MEMORANDUM

TO: Rob Mattei, EDA Executive Director

FROM: Rebecca Kurtz and Jessica Cook

DATE: April 4, 2024

SUBJECT: Oppidan Development Request for Financial Assistance

The Grand Rapids EDA (the “GREDA”) received a request for assistance from Oppidan Investment Company (the “Developer”) to construct a 132-unit rental housing community located at 2199 SW 8th Street on land current owned by GREDA. Citing a financial gap in the project related to construction costs, interest rates, and modest market rents, the Developer is requesting TIF and tax abatement as well as a land write-down to make the project financially feasible. In addition, the Developer is requesting that the EDA apply on its behalf to the Minnesota Housing’s Workforce Housing Development Program to obtain a forgivable loan for the project. The Workforce Housing Development Program is a competitive program with funding demand across the state far outstripping funding availability. The program requires a commitment of minimum matching local funds of one dollar for every two dollars of requested program funds.

This memo reviews the need for the local match based on our analysis of the developer’s project budget and projections, generally known as a pro forma. We used Minnesota Housing’s underwriting standards as the basis for our analysis. The table below depicts the Developer’s proposed sources and uses for the project.

SOURCES	Total	Percent	Per Unit
First Mortgage	\$ 13,762,000	41%	\$ 104,258
Workforce Housing Program	\$ 7,946,500	24%	\$ 60,201
TIF and Tax Abatement	\$ 2,084,000	6%	\$ 15,788
Developer Equity	\$ 8,011,653	24%	\$ 60,694
IRRB Grant	\$ 800,000	2%	\$ 6,061
Land Writedown	\$ 585,000	2%	\$ 4,432
TOTAL SOURCES	\$ 33,189,153	100%	\$ 251,433

USES	Total	Percent	Per Unit
Construction Costs	\$ 28,624,401	86%	\$ 216,852
Land	\$ 585,000	0%	\$ 4,432
Site Improvements/Infrastructure	\$ 412,000	1%	\$ 3,121
Soft Costs/Professional Fees	\$ 1,286,288	4%	\$ 9,745
Financing Costs	\$ 1,281,464	4%	\$ 9,708
Developer Fee	\$ 1,000,000	3%	\$ 7,576
TOTAL USES	\$ 33,189,153	100%	\$ 251,433

TIF and Tax Abatement

The Developer initially requested 26 years of tax increment assistance. However, since the project is designed for workforce housing – not affordable housing – it is not eligible for a 26-year housing TIF district. As an alternative, Ehlers has proposed that GREDA could create a 9-year Economic Development TIF District followed by 20 years of City-only tax abatement. The total value of the TIF and abatement in today's dollars (using a 6% discount rate) is estimated to be \$2,084,000.

As part of the Workforce Housing Program application, Minnesota Housing is looking for resolutions from the City of Grand Rapids that they will provide matching funds through the creation of a TIF District and adoption of a tax abatement program if the project receives Minnesota Housing funding.

Land Write-Down

The Developer is also requesting a land write-down to \$0. The Developer will still repay the City for the costs of bringing utilities and infrastructure to the site in the amount of \$412,000. The Developer has obtained an independent valuation of the land that estimates its value at \$585,000 or \$4,431 per unit. We would expect the cost of land to be between \$4,000 and 7,500 per unit, so the amount of the land write-down request is acceptable for the project and justified by the pro forma analysis. The land write-down counts as matching funds for the Minnesota Housing

Pro Forma Analysis

- **Project Financing:** The Developer proposes to finance the project with a mortgage in the amount of \$13.76 million, which is 42% of the total development costs. The amount of the first mortgage is constrained by the rental revenue available from the project. Based on current underwriting conditions, the Developer is maximizing its amount of first mortgage debt. The Developer is proposing to bring \$8 million in equity, which is 25% of total project costs. The proposed financing terms meet expectations for a project of this nature.
- **Total Development Costs:** The Total Development Cost of the project is \$33.2 million or \$251,433 per unit. Projects like this one are generally ranging between \$240,000 and \$300,000 per unit. The project does not include underground parking which helps reduce construction costs.
- **Rents:** Proposed rents range between \$1,143 per month for a studio unit, to \$1,830 per month for a 3-bedroom unit. On a per square foot basis, rents range between \$1.46 to \$1.80. The rents are based on a market study by Maxwell Research and are designed to be affordable to a person earning \$22 per hour or more, which represents about 224 of the anticipated jobs being added to the community.
- **Operating Expenses:** The operating expenses of approximately \$3,196 per unit per year are within than the typical range of \$3,000 to \$4,500 per unit per year (before management fees, property taxes, and replacement reserves).
- **Management Fee:** The management fee is projected at 5% of effective gross income (EGI). Management fees typically range between 3% to 5% of EGI. The proposed fee is within the acceptable range.
- **Developer Fee:** The developer fee of \$1,000,000 is 3% of total development costs. This is within the typical industry range of 3-5% for rental projects.

- Return on Investment – The project’s yield on cost return on investment (net operating income / total development costs) including the City’s assistance is 5.2% at stabilization. Yield on cost is a return on investment metric commonly used by multi-family housing developers. Developers typically need a yield on cost approaching 6.5% for feasibility. Based on this, we can conclude that providing City assistance is warranted for the project.

Recommendation:

Based on our review of the Developer’s pro forma, the project is being represented appropriately for the market. Since the projected return on investment is below market expectations, assistance from the City is justified to make the project financially feasible. The proposed assistance represents approximately 8% of the Total Development Cost and is summarized in the chart below.

PROPOSED ASSISTANCE	Total	Per Unit
TIF and Tax Abatement	\$ 2,084,000	\$ 15,788
Land	\$ 585,000	\$ 4,432
TOTAL ASSISTANCE	\$ 2,669,000	\$ 20,220

Please contact Rebecca at 651-697-8516 or Jessica at 651-697-8546 if you have any questions or comments.

**GRAND RAPIDS ECONOMIC DEVELOPMENT AUTHORITY
CITY OF GRAND RAPIDS
ITASCA COUNTY
STATE OF MINNESOTA**

RESOLUTION NO. _____

RESOLUTION SUPPORTING A MODIFICATION TO THE DEVELOPMENT PROGRAM FOR THE CITY'S DEVELOPMENT DISTRICT NO. 1, ESTABLISHING TAX INCREMENT FINANCING DISTRICT NO. 1-16 THEREIN AND SUPPORTING A PROPERTY TAX ABATEMENT FOR CERTAIN PROPERTY IN THE CITY

WHEREAS, the City of Grand Rapids (the "City") has proposed to adopt a Modification to the Development Program for the City's Development District No. 1 (the "Development Program Modification") and a Tax Increment Financing Plan (the "TIF Plan") for Tax Increment Financing District No. 1-16 (the "TIF District") located within Development District No. 1 (the Development Program Modification and the TIF Plan are referred to collectively herein as the "Program and Plan") all in accordance with Minnesota Statutes, Sections 469.124 through 469.133 and Sections 469.174 through 469.1794, all as amended (the "TIF Act"); and

WHEREAS, in accordance with the Program and the Plan, Oppidan, Incorporated or an affiliate thereof (the "Developer"), has requested tax increment financing assistance, property tax abatement assistance, and a land write down in connection with the proposed acquisition and construction of 132-units of multifamily workforce rental housing (the "Project") on certain property located within the City owned by the Grand Rapids Economic Development Authority (the "Property"); and

WHEREAS, the City Council will also consider granting a property tax abatement (the "Abatement") for the Property to begin following the decertification of the TIF District, pursuant to Minnesota Statutes, Sections 469.1812 through 469.1815, as amended (the "Abatement Act"); and

WHEREAS, description of the proposed Project and the proposed tax increment financing assistance, land write down and Abatement has been presented to the Board of Commissioners (the "Board") of the Grand Rapids Economic Development Authority (the "Authority"), and the Board has reviewed the Developer's proposal for the Project and information regarding the proposed financial assistance assistance; and

NOW, THEREFORE, BE IT RESOLVED by the Board of Commissioners of the Grand Rapids Economic Development Authority as follows:

1. The Authority supports the Program and the Plan and the use of a portion of the tax increment generated from the TIF District, a land write down, and the Abatement to assist the Developer with financing a portion of the extraordinary development costs of the Project.

2. The Authority supports granting the Abatement for the Property and the creation of the TIF District, the Program and the Plan and supports the provision of tax increment financing assistance to the Developer provided, however, that final authorization of tax increment financing assistance and tax abatement assistance for the Project is solely within the discretion of the City Council of the City following all proceedings required pursuant to the TIF Act and the Abatement Act.

Approved this April 11, 2024 by the Board of Commissioners of the Grand Rapids Economic Development Authority.

President

ATTEST:

Secretary



REQUEST FOR GRAND RAPIDS EDA ACTION

AGENDA DATE: April 11, 2024

STATEMENT OF ISSUE: Consider adopting a resolution supporting a modification of a tax increment financing district within City's Development District 1.

PREPARED BY: Rob Mattei, Executive Director

BACKGROUND:

Staff will present the attached PowerPoint presentation as background for this item.

RECOMMENDATION:

REQUIRED ACTION: Make a motion to adopt a resolution supporting a modification of a tax increment financing district within City's Development District .

**GRAND RAPIDS ECONOMIC DEVELOPMENT AUTHORITY
CITY OF GRAND RAPIDS
ITASCA COUNTY
STATE OF MINNESOTA**

RESOLUTION NO. _____

**SUPPORTING THE MODIFICATION OF A TAX INCREMENT
FINANCING DISTRICT WITHIN MUNICIPAL DEVELOPMENT
DISTRICT NO. 1**

WHEREAS, on November 28, 2022, after a duly noticed public hearing, the City Council of the City of Grand Rapids, Minnesota (the “City”) adopted a modification to the Development Program (the “Development Program Modification”) for the City’s Municipal Development District No. 1 (the “Development District”) and a Tax Increment Financing Plan (the “TIF Plan”) for Tax Increment Financing District No. 1-14: Arbor Wood (the “TIF District”), a redevelopment district located within the Development District, all in accordance with Minnesota Statutes, Sections 469.124 through 469.133 and Sections 469.174 through 469.1794, all as amended (the “Act”); and

WHEREAS, on April 22, 2024, the City Council will consider a modification to the TIF Plan for the TIF District, including but not limited to, updates to the project description, the name of the TIF District and the budget of the TIF District (the “TIF Modification”)

WHEREAS, in accordance with the TIF Modification, HWY35, LLC, a Minnesota limited liability company, or an affiliate thereof or an entity related thereto (collectively, the “Redeveloper”), has requested tax increment financing assistance in connection with the proposed redevelopment of an existing site for use as a cannabis extraction (manufacturing) lab and space for other cannabis related businesses (the “Project”) on certain property located within the City (the “Property”); and

WHEREAS, the proposed TIF Modification have been presented to the Board of Commissioners (the “Board”) of the Grand Rapids Economic Development Authority (the “Authority”), and the Board has reviewed the TIF Modification and the Redeveloper’s proposal for the Project and information regarding the proposed tax increment financing assistance; and

NOW, THEREFORE, BE IT RESOLVED by the Board of Commissioners of the Grand Rapids Economic Development Authority as follows:

1. The Authority supports the TIF Modification and the use of a portion of the tax increment generated from the TIF District to assist the Redeveloper with financing a portion of the extraordinary redevelopment costs of the Project.
2. The Authority supports the creation of the TIF District and the adoption of the TIF Modification; provided, however, that final authorization of tax increment financing assistance for the Project contemplated in the TIF Plan is solely within the discretion of the City Council following all proceedings required pursuant to the Act.

Approved this April 11, 2024 by the Board of Commissioners of the Grand Rapids Economic Development Authority.

President

ATTEST:

Secretary



Tax Increment Finance (TIF) Business Assistance Application

HWY 35, LLC Cannabis Grow and Manufacturing Project

April 11, 2024



Project Background

- **HWY 35 Properties, LLC of Minneapolis, MN (Developer) filed an application for Business Assistance requesting Tax Increment Financing (TIF) to partially address a financial gap in a proposed redevelopment of the former Ainsworth manufacturing site at 502 W. Co. Rd. 63 in Grand Rapids.**
- **Project Scope – Acquisition of the 135-acre site and existing abandoned industrial buildings, renovation and conversion of 240,000 sq. ft. of the main building, in two equal phases into a cannabis grow and state-of-the-art cannabis extraction (manufacturing) lab.**
- **Project Timeline and Cost – Phase 1 of the project buildout is proposed to begin in the first half of 2024, with occupancy of a portion of Phase 1 in the last half. Phase 2 is expected to begin immediately after with a substantial completion of both Phase by the end of 2026. The estimated total development cost is approximately \$71.1MM, which includes \$28.2MM of equipment.**



Project Background

Map of City Development District



Legend
City Limits/Development District

0 0.2 0.4 0.8 1.2 1.6 Miles





Project Background





Project Background





Project Background

Project Sources and Uses:

Sources/Revenue:		Uses/Development Costs (Both Phases):	
IRRR Financing	\$10,000,000	Property Acquisition	\$4,500,000
DEED Financing	\$10,000,000	Construction Costs	\$29,971,800
Equity	\$49,148,340	Professional Fees and Permits	\$3,500,000
TIF	\$2,000,000	Equipment	\$28,176,540
		Working Capital	\$5,000,000
Total:	\$71,148,340	Total:	\$71,148,340



Project Background

Current and Future Assessed Value Estimate:

	Base Value (Itasca County Assessor)	Future (Itasca County Assessor)
Land Value (135.0 acres)	\$724,100	\$4,041,879
Building Value	\$1,138,700	\$16,263,615
Total Value	\$1,862,800	\$20,305,494
Annual Property Taxes (Pay 2023 Rate)	\$62,000	\$765,000



Project Background

Jobs and Wages:

- **The HWY 35 project is expected to create approximately 200 full time jobs for each of the two phases of the project.**
- **The current state law requires that these jobs, exclusive of management, be union represented positions.**
- **The base wages for the 400 jobs will range from \$40,000 to \$130,000 annually.**



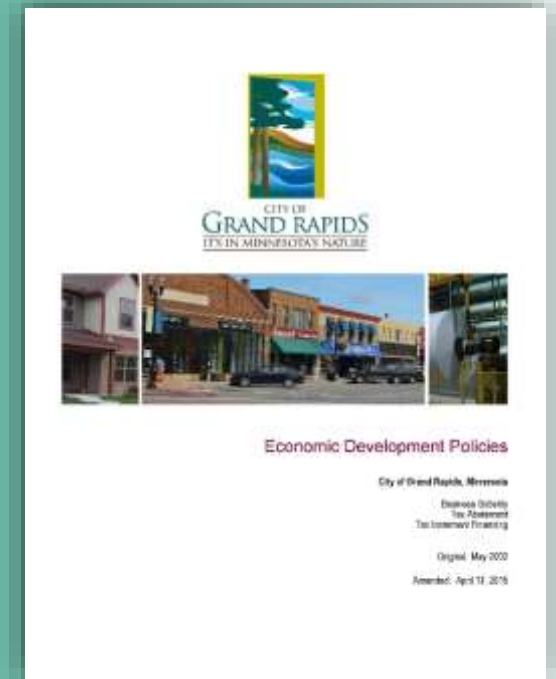
TIF & Abatement Business Assistance

- **The proposed TIF district would be a Redevelopment District which has a maximum term of 26 years.**
 - **Based upon the assumptions within Ehlers projection of revenue from the District, and if it were to be apportioned as most often is with 90% of the increment going to the Developer and 10% being retained by the City for administration of the District, it is estimated that the request of \$2,000,0000 in today's dollars would be captured in 8 years.**
 - **It is proposed by staff, in consultation with the Developer, Ehlers, City Administration and Finance, that the City consider the use of TIF Pooling, which allows a portion of tax increment to be collected for use outside of this TIF district, for other redevelopment projects. The pooling option for this project would be apportion the increment by providing 75% to the Developer, 10 % for the City's administration and 15% in a pooling fund. This will extend the expected term of the District from 8 to 10 years. This would generate approximately \$413K, present value for use on other redevelopment projects.**
- **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.**



TIF Business & Abatement Assistance

- **The Public Purpose Objectives, within the City's *Economic Development Policies*, which this project aligns with are:**
 - **To retain local jobs and/or increase the number and diversity.**
 - **To enhance and/or diversify the City's economic base.**
 - **To remove blight and/or encourage (re)development of commercial and industrial areas.**
 - **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.**





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 the property taxes collected currently are still received and retained by the City 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.



TIF & Abatement Business Assistance

- **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 business assistance in the amount of \$2,000,000 is justified to achieve a reasonable yield on cost (net operating income / total development costs).
 - Because of Yield on Cost being independent of debt and equity, it is appropriate to use to analyze this unique project. Yield on Cost at the rent levels that the Developer is assuming are at the low end of the normal market range with TIF assistance and would be at the higher end of normal with 20% higher rents. Without assistance, Yield on Cost would be well below market ranges.



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.**



Process

At this meeting, GREDA will review the application and consider adoption of a resolution supporting a modification to the Development Program for the City's Development District No. 1, establishing TIF District 1-14 therein and adopting a TIF Plan, therefore.

The City Council will hold a public hearing on April 22, 2024, to consider this request for TIF 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. 1-14 and approving the TIF Plan for the District.**
- 2. Approval establishing an inter fund loan in connection with the TIF District.**
- 3. Adoption of a resolution approving the Contract for Private Redevelopment with HWY 35 Properties, LLC and awarding the sale of, and providing the form, terms, covenants and directions for the issuance of its tax increment revenue note.**



Questions?

MEMORANDUM

TO: Board Members, Grand Rapids Economic Development Authority
FROM: Rebecca Kurtz and Schane Rudlang, Ehlers
DATE: April 8, 2024
SUBJECT: Financial Analysis for the HWY35 Properties, LLC Project

HWY35, LLC through their subsidiary HWY35 Properties, LLC (collectively “Developer”) has purchased a 138 acre, six-parcel site at 502 Co. Rd. 63, also known as the former Ainsworth site. The Developer intends to rehabilitate the site and lease 345,000 square feet of existing building space, primarily for cannabis related businesses (“Project”). HWY35, LLC will be seeking licensing from the Minnesota Office of Cannabis Management to perform and/or manage the cannabis business operations. The Developer has applied to the City of Grand Rapids (the “City”) and the Grand Rapids EDA (“GREDA”) to receive \$2,000,000 of tax increment financing assistance (“Assistance”) for the purchase and site development costs. Ehlers reviewed the request for Assistance which is summarized herein.

Financial Review

Ehlers evaluated the need for Assistance by analyzing the Developer’s sources and uses, budget, and financial projections, generally known as a proforma. We reviewed the Project based on industry standards for construction, land, and project costs; operating expenses; underwriting and financing criteria; and cash flow.

The analysis focused on the gap related to the acquisition and site development costs of \$14.5 million. HWY35 Properties purchased the site from a non-related entity for \$4.5 million. Site development costs are estimated to be \$10 million.

The tenant HWY 35 will complete the improvements to the current building estimated at an additional \$50.7 million plus an estimated \$5 million for working capital. The estimated total project cost is \$71.15 million.

The financing sources for this project are unique given the underlying nature of the tenant’s business. Investors will purchase promissory notes that will convert to shares in HWY35 LLC, if and when State licensing occurs and if the investors meet the requirements enacted by the State, which are unknown today. There are several tiers or tranches of investor shares which would receive varying returns. The Sources and Uses related to the acquisition and site improvements are summarized below.

SOURCES		
	Amount	Pct.
Developer Financing - Other Loans	\$ 3,300,000	23%
Developer Equity - A-Shares and B-Shares	\$ 9,200,000	63%
TIF Assistance	\$ 2,000,000	14%
TOTAL SOURCES	\$ 14,500,000	100%

USES		
	Amount	Pct.
Acquisition Costs and Closing Fees	\$ 4,500,000	31%
Site Costs	\$ 10,000,000	69%
TOTAL USES	\$ 14,500,000	100%

The Developer Equity in the form of shares above at 63% of project costs is higher than a typical development where equity requirements are 20-50% depending on the type of project. Higher equity requirements are common for projects that represent higher risk. Higher risk is typically commensurate with higher investment returns, which the Developer is targeting with this project.

Given the complexities discussed above, Ehlers focused the financial review of the Project considering the lease rates that the underlying tenant or tenants would pay in the building and looking at traditional revenues and expenses for an industrial building, which in essence the project really is - although with a novel industrial/manufacturing focus.

Yield on Cost is a standard financing metric used to determine project feasibility which divides Total Development Costs ("TDC") by Net Operating Income ("NOI") and is independent of equity and loans. Because of Yield on Cost being independent of debt and equity, it is appropriate to use to analyze this unique project. Yield on Cost at the rent levels that the Developer is assuming are at the low end of the normal market range with Assistance and would be at the higher end of normal with 20% higher rents. Without assistance, Yield on Cost would be well below market ranges. Therefore, the assistance amount of \$2 million is justified to bring Yield on Cost to within a normal, financeable, range.

Recommendation

Based on our review of the Developer's proforma and under current market conditions, the proposed development may not reasonably be expected to occur solely through private investment within the near future. We conclude a present value of up to \$2.0 million of TIF Assistance is warranted, which would be paid out via a pay-as-you-go TIF Note over 8-12 years.

Please contact either of us at 651-697-8500 with any questions.