



## Request for City Council Committee Action from the Department of Community Planning & Economic Development

**Date:** November 19, 2013

**To:** Council Member Lisa Goodman, Community Development Committee

**Subject:** Project Analysis Authorization - DC Group Expansion (1977 W River Road N)

**Recommendation:** Direct and authorize staff to either 1) continue analysis of the DC Group Expansion proposal to determine if tax increment financing (TIF) assistance is appropriate and justifiable, or 2) discontinue further TIF analysis for the project. If further directed analysis concludes TIF assistance is appropriate, then staff requests authorization to negotiate the terms and conditions of a redevelopment contract and prepare redevelopment and TIF plans for the project as needed. All such terms and conditions, plans, and other provisions would be subject to future City Council review, discussion, and approval or denial.

**Previous Directives:** None

### Department Information

Prepared by: Carrie Flack, Senior Project Coordinator, 612-673-5010

Approved by: Catherine A. Polasky, Economic Development Director \_\_\_\_\_  
Charles T. Lutz, Deputy Director of CPED \_\_\_\_\_

Presenters in Committee: Carrie Flack, Senior Project Coordinator

### Financial Impact

- The \$11,925 Project Analysis Fee to be paid by the developer following Project Analysis Authorization by the Council will pay for staff time and other expenses associated with analysis of the project up to the point of establishment of a TIF district.

### Community Impact

- Neighborhood Notification – This project will be reviewed by the Northside Residents Redevelopment Council (NRRC)
- City Goals – Jobs & Economic Vitality, A City that Works
- Comprehensive Plan – This project supports many policies in Chapter 4, Economic Development.
- Zoning Code – This project will comply with all requirements of the applicable zoning district.

### Supporting Information

This proposed development project is located at the southwest corner of West River Road and West Broadway Avenue, 1977 West River Road North. The site is approximately 1.17

acres in size and consists of a 26,000 SF building with approximately 40 onsite parking spaces. This site is home to DC Group headquarters consisting of administrative and sales office uses as well as research/manufacturing/reconditioning facilities for approximately 66 employees.

DC Group was founded in Minneapolis in 1969 at the 1977 West River Road location and has been one of the fastest growing companies in its market for the last two and a half decades. DC Group is one of the nation's largest providers of maintenance and repair service to users of uninterruptible power systems, such as government, hospitals, critical data centers and similar users. Uninterruptible power systems are a critical element in the technology revolution, and are themselves extremely high technology equipment with demanding maintenance and servicing requirements.

DC Group services every brand of uninterruptible power supply system. Their engineers and maintenance technicians, based throughout the nation, provide immediate service for their customers. They are also a leader in preventative maintenance, replacement and reconditioning. As such, they maintain a large inventory of major parts and equipment to rapidly supply their customers. A second major component of DC Group's business is testing, repair and reconditioning of major power systems. This equipment is then resold to customers to allow minimal downtime from any system failures.

The DC Group has outgrown their current facilities but desire to remain at their current location in Minneapolis on West River Road. They currently have 66 employees at this location and plan to grow by approximately 39 employees for a total of 105 employees at this site. This proposed project consists of renovating approximately 15,550 SF of the existing facility and constructing an additional 23,500 SF with an 86-stall parking structure.

The final project ownership structure is still being finalized. DC Group, Inc. is a Minnesota business corporation and was incorporated in 1969 and is privately owned. The current building is owned by a real estate entity with the identical ownership as DC Group. The most likely structure is that the real estate holding entity, West River Road Investments, LLC, a Minnesota LLC, will be the developer and owner, and will lease the premises to DC Group, Inc. DC Group will provide suitable guarantees and other accommodations to allow the project to be creditworthy, and will have a lease payment to amortize any debt and pay all operating costs.

### **Project Financing Overview**

The estimated total development cost of the project is approximately \$6,058,500. Developer equity in the project includes \$1,211,700 (20%) cash. Staff will also explore secondary financing that may assist the project.

#### **Proposed Sources and Uses for DC Group – 1977 West River Road**

##### Sources

Mortgage 1	\$3,646,800	60%
TIF Note Sale Proceeds	\$750,000	12%
DEED/Met Council Grant	\$50,000	1%
Secondary financing	\$400,000	7%
<u>Equity – Cash</u>	<u>\$1,211,700</u>	<u>20%</u>
Total Sources	\$6,058,500	100%

### Uses

Feasibility/Due Diligence	\$27,500	0%
Land & Building Acquisition	\$	0%
Architecture/Engineering	\$420,000	7%
Construction Costs	\$5,039,000	83%
Development Costs	\$347,000	6%
Financing Costs	\$225,500	4%
<hr/> Total Sources	<hr/> \$6,058,500	<hr/> 100%

### **Proposed TIF Assistance**

The developer is requesting approximately \$750,000 in Pay-As-You-Go TIF assistance. This assistance is intended to pay for TIF-eligible costs such as demolition, geotechnical soil corrections, or structured parking. As staff further analyzes the project and the request for TIF assistance, it will include review of the sources and uses of funds, justification for the use of tax increment, terms of the TIF and other sources, and the eligibility of tax increment expenses. At this time, all development cost estimates are preliminary and subject to further review and refinement.

If the Project Analysis Authorization is approved by the City Council, staff will proceed with the project analysis to address (1) the appropriate level of tax increment financing assistance, if any (2) eligible costs that can be paid for with the various forms of assistance, (3) the qualification and establishment of a Redevelopment TIF district, (4) appropriate sources of financing and (5) any possible recapture of any City financial assistance.

### **Project Timeline**

The goal is to commence demolition in February 2014, with construction to commence on the renovation and additions immediately. The project should be completed before the end of 2014.

### **Project Analysis Fee**

Upon approval of the Project Analysis Authorization by the City Council, the developer will be assessed a nonrefundable project analysis fee of approximately \$11,925.00. This fee is based on the estimated cost of staff time and other expenses associated with analysis of the project for approval or denial at the City Council. Acceptance and review of the application and the PAA fee does not signify a commitment on the part of the City to grant approval of any public assistance. If analysis of this project requires additional work or there are unforeseen complexities, the City at its discretion may charge an additional fee to the developer.

### **Preliminary Staff Analysis**

After staff review and analysis, it is concluded that (a) the application for Public Financial Assistance is essentially complete (b) the requested amount of tax increment is reasonable based upon the preliminary information submitted and (c) it can be concluded that some level of public assistance may be justified. If approved, staff will continue to analyze the project data to determine the actual amount of assistance recommended. This will require verification of the information presented to staff to determine what the appropriate level of tax increment financing may be.

If the project analysis authorization (PAA) is approved by the City Council, staff will proceed into the project analysis stage to consider the projects requirements for the formation of a Redevelopment TIF District, which will allow the project access to the appropriate amount of TIF assistance.