



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

Date: April 15, 2014

To: Council Member Lisa Goodman, Chair, Community Development and
Regulatory Services Committee

Referral To: Council Member John Quincy, Chair, Ways and Means Committee

Subject: DC Group Expansion Project (1977 W River Road N): Conduct public hearing and approve DC Group Expansion TIF Plan and related plan modification, issuance of pay-as-you-go TIF note, proposed redevelopment contract business terms, and Grow North loan

Recommendation:

1. Adopt the attached City Council Resolution approving the DC Group Expansion Tax Increment Financing (TIF) Plan and Modification No. 2 to the Consolidated Redevelopment TIF District TIF Plan;
2. Adopt the attached City Council Resolution authorizing the issuance of a Limited Revenue Pay-As-You-Go Tax Increment Financing Note to West River Road Investments, LLC in a principal amount not to exceed \$451,500;
3. Approve the proposed redevelopment contract business terms as described in this report;
4. Amend the 2014 General Appropriation Resolution by establishing the Community Planning & Economic Development agency Fund 01CDC – DC Group Expansion (01CDC - 8900900) and approving an initial appropriation of \$5,000 in the fund;
5. Authorize a \$200,000 Grow North loan to DC Group consistent with the terms outlined in this report from the CDBG allocation budgeted for business development;
6. Authorize the appropriate City officials to execute a redevelopment contract, Loan Agreement and all other necessary documents related to the above recommended actions with West River Road Investments, LLC or an affiliated entity.

Previous Directives:

- On March 7, 2014, the City Council approved a resolution for the State Department of Employment and Economic Development (DEED) Job Creation Fund (JCF) supporting the application for the DC Group Expansion in the amount of \$514,000.
- On December 6, 2013, the City Council authorized staff to continue analysis of the DC Group Expansion to determine if tax increment financing (TIF) assistance is appropriate and justifiable.
- On June 28, 2013 the City Council approved conceptual guidelines for the Grow North program with specific terms to be approved on a case-by-case basis.

Department Information

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

Approved by: Catherine A. Polasky, Economic Development Director _____

Charles T. Lutz, Interim Director of CPED _____

Funding Source and Appropriation Language Reviewed by _____

Development Finance _____

Presenters in Committee: Carrie Flack, Senior Project Coordinator

Financial Impact

Action requires an appropriation increase to the Operating Budget

Dept. Name: CPED

Fund Name: Fund 01CDC – DC Group Expansion

Amount: \$5,000

Tax increment generated by the increased value of this property, as a result of the new development, will not be included in the City's general tax base. The tax increment will revert to the City's general tax base when the note is paid in full, which is anticipated to be in 17 years. The City will retain 10% of the tax increment generated each year for the payment of TIF administrative costs.

Community Impact

- Neighborhood Notification – On February 28, 2014, the Northside Residents Redevelopment Council, Northwest Minneapolis Business Association, and West Broadway Business and Area Coalition were notified of the opportunity to review and comment on the proposed TIF Plan and Modification No. 2. On March 26, 2014, they were notified that technical revisions had been made to the plans, clarifying the boundary of the property to be included in the new DC Group Expansion TIF District and having no impact on the fiscal or economic impacts of the proposed plans.
- City Goals – A hub of economic activity and innovation: Businesses, big and small, start, move stay and grow here
- Comprehensive Plan – On March 24, 2014, the City Planning Commission found that the proposed plans are consistent with *The Minneapolis Plan for Sustainable Growth*.
- Zoning Code – This project received approvals from the City Planning Commission on January 13, 2014 and will comply with permit approvals.

Background

This proposed development project is located at the southwest corner of West River Road North and West Broadway Avenue, 1977 West River Road North. The site is approximately 1.4 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 62 employees.

DC Group was founded in Minneapolis in 1969 at the 1977 West River Road North 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.

Project Overview

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 62 employees at this location and plan to grow by approximately 33 employees for a total of 95 employees at this site. The proposed project consists of demolishing approximately 10,370 square feet of the existing facility, renovating approximately 15,550 square feet and constructing an additional 23,500 square feet with an 86-stall parking structure. The addition will provide additional office and warehouse space.

Project Financing Overview

The estimated total development cost of the project is approximately \$7,279,500. Developer equity in the project includes \$1,920,000 cash.

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

Sources

NMTC (interest only)	\$3,600,000	
Bridge Loan – DEED JCF	515,000	
2% Loan Fund	50,000	(pending)
Business Development Fund	75,000	(pending)
TIF Note Sale Proceeds	451,500	
Brownfield grant	383,000	(pending)
Hennepin Co. TOD	85,000	(pending)
Grow North Loan	200,000	
<u>Equity – Cash</u>	<u>1,920,000</u>	
Total Sources	\$7,279,500	

Uses

Construction Costs	\$6,223,000
FF&E	50,000
Owners Contingency	100,000
Indirect Construction Costs	534,800
Supplemental	37,000
Financing Costs	79,000
NMTC Costs	60,000
<u>Soft Costs</u>	<u>195,700</u>
Total Uses	\$7,279,500

Proposed TIF Assistance

The total development cost (TDC) of the project is currently projected to be approximately \$7,279,500. The developer's application requested approximately \$750,000 in pay-as-you-go TIF assistance.

A blight analysis was completed which determined that the subject site qualifies as a redevelopment TIF district. The proposed development project will eliminate blight and provide 33 new jobs. The proposed development would not occur at this location without public financial assistance due to the extraordinary costs involved in the redevelopment of an industrial urban location when compared to other available development sites considered by DC Group.

Modification No. 2 to the Consolidated Redevelopment TIF Plan removes three parcels from the Consolidated Redevelopment TIF District (a special-legislation district certified in 2010) so that one of the parcels and portions of two of the other parcels may be included in the new DC Group Expansion TIF District.

CPED has determined that up to \$451,500 in tax increment financing assistance is justifiable. Such assistance will be provided to the project through the issuance of a TIF pay-as-you-go revenue note. The note will carry an annual interest rate of 5.50%, and it is currently projected that the note will be paid off utilizing 17 years of tax increment collections. The note will reimburse DC Group for qualifying rehabilitation and site costs.

Additional Public Financing

DC Group has applied for \$200,000 from the newly created Grow North Program from CDBG funds budgeted for business development. The intent of the program is to bring new jobs and business to North Minneapolis and provide an incentive to growing Northside firms to hire North Minneapolis residents. The Grow North program includes three benefits to qualifying companies to assist their expansion and facilitate hiring connections to North Minneapolis:

1. A loan of up to \$200,000 for capital investments with a forgivable component based on Northside resident hiring;
2. A Grow North Minneapolis Advantage program providing \$10,000 down payment assistance forgivable loan to company employees purchasing a home in North Minneapolis;
3. Training assistance grants to help employers hire qualified candidates.

Staff recommends a Grow North loan of \$200,000 to support DC Group's expansion. Loan forgiveness will be based on the number of New Northside Resident Employees employed. A New Northside Resident Employee means a new hire that resides in North Minneapolis and is employed full time at a living wage for at least 12 months OR an employee who becomes an owner-occupied homeowner in North Minneapolis. In order to qualify for any amount of forgiveness, a minimum of 15 jobs must be held by New Northside Resident Employees. Loan forgiveness will be at a rate of \$5,000 per New Northside Resident Employee. DC Group will receive \$75,000 in loan forgiveness if they achieve the minimum jobs goal. The entire loan will be forgiven if 40 New Northside Resident Employees are employed. The loan will have a fixed rate of 4% and a maximum loan term of 10 years for any portion of the loan that is not forgiven and will be secured with a subordinate mortgage on the property.

DC Group is also in the process of submitting an application for a \$75,000 loan from the City's Business Development Fund (BDF). The BDF financial tool is offered to Minneapolis-based businesses for assistance in redevelopment projects that have the potential for the creation of jobs that will be filled by Minneapolis residents. The BDF provides Minneapolis businesses loans of up to \$75,000 and the opportunity to earn prepayment credits for each Minneapolis resident hired within the first 3 years of the loan closing, with a maximum credit of half the BDF loan. DC Group will receive a maximum prepayment credit of \$37,500 for hiring 12 Minneapolis residents at living wage. BDF loans must be leveraged with conventional financing and these hires for credit qualification cannot also count toward

the hires for the Grow North loan forgiveness. Business Development Fund loans do not require City Council authorization provided that the loan meets Council-approved guidelines.

In addition, DC Group is also in the process of submitting an application for the City's Two-Percent Loan Program which provides financing to small Minneapolis businesses to purchase equipment and/or make building improvements. Two-Percent loans do not require City Council authorization provided that the loan meets Council-approved guidelines.

Lastly, DC Group has received approval of \$514,000 from the Minnesota Department of Employment and Economic Development (DEED) Job Creation Fund (JCF), and has applied for a DEED environmental remediation grant in the amount of \$383,000 and a Hennepin County Transit Oriented Development grant in the amount of \$85,000.

Total public assistance for the DC Group from Federal, State and City sources is potentially \$1,759,500 depending on grant awards. The total development cost is \$7,279,500 and the goal is to commence construction immediately. The project should be completed by spring 2015.

Proposed Business Terms

1. Minimum Improvements: DC Group must construct minimum improvements consisting of demolishing approximately 10,370 square feet of the existing facility, renovating approximately 15,550 square feet, constructing an additional 23,500 square feet with an 86-stall parking structure and related improvements on the 1977 West River Road site within 18 months after closing.
2. TIF Assistance: City will provide a pay-as-you-go TIF note not to exceed \$451,500 (annual interest rate of 5.50%) for qualifying TIF eligible expenses.
3. Grow North Assistance: City will provide a \$200,000 loan from the already appropriated CDBG allocation at a 4% interest rate for 10 years. Loan forgiveness is at \$5,000 per new Northside resident employees employed or an employee who becomes an owner-occupied homeowner in North Minneapolis with a minimum of 15 new jobs created and a maximum forgiveness not to exceed the total loan amount.
4. DC Group employees will be eligible for a down payment assistance forgivable loan of \$10,000 for their purchase of an owner-occupied home in North Minneapolis through the Minneapolis Advantage-Grow North program.

Attachments

- Proposed DC Group Expansion TIF Plan and Modification No. 2 to the Consolidated Redevelopment TIF District TIF Plan
- Resolution approving DC Group TIF Plan and Modification No. 2 to the Consolidated Redevelopment TIF District TIF Plan
- Resolution authorizing issuance of TIF note
- Written public comments received during 45-day review period
 - letter from DC Group
- Development Finance Committee comments