



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

Date: October 12, 2004

To: Council Member Lisa Goodman, Community Development Cmte

Prepared by: Erik Hansen, Phone 612-673-5022

**Presenter in
Committee:** Erik Hansen

Approved by: Chuck Lutz, Deputy CPED Director _____

Subject: Authority to execute an amendment to *Contract for Private Redevelopment by and between Minneapolis Community Development Agency and Graco Inc.*

RECOMMENDATION: Authorize staff to prepare and enter into an amendment to *Contract for Private Redevelopment by and between Minneapolis Community Development Agency and Graco Inc.* based on the terms identified within this report.

Previous Directives: MCDA Board of Commissioners and the City Council authorized the Graco Campus Expansion Tax Increment Plan, related Tax-Increment District, redevelopment contract and Phase One Tax-Increment Pay-As-You-Go Note business terms on August 14, 2000. Report to the CPED Director approved on August 3, 2004 to continue negotiations on the proposed amendment after August 18, 2004.

Financial Impact (Check those that apply)

- X** No financial impact - or - Action is within current department budget.
(If checked, go directly to next box)
- Action requires an appropriation increase to the Capital Budget
- Action requires an appropriation increase to the Operating Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain):
- Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact (Summarize below)

Ward: 3

Neighborhood Notification: Saint Anthony West organization is aware of the amendment negotiations

City Goals: Complies with the goal to create an environment that maximizes economic development opportunities within Minneapolis by focusing on the City's physical and human assets.

Comprehensive Plan: Complies with Policy Statement 2.2 Minneapolis will support existing economic base by providing adequate land and infrastructure to make city sites attractive to businesses willing to invest in high job density, low impact, light industrial activity

Zoning Code: Use complies with current I2 – Medium Industrial District and MR - Mississippi Critical Area Overlay zoning.

Living Wage/Job Linkage: Graco has already completed obligation in Phase One of the Contract and has voluntarily continued in the program.

Summary

Graco Inc. (Graco) approached the City of Minneapolis (City) in spring of 2003 with a request to modify their redevelopment contract, signed on August 18, 2000. Graco requested a change to the requirements for Phase Two of the contract, written to include two phases. Graco, a world leader in fluid handling equipment, informed the City that manufacturing techniques had changed and that these changes led to the reduction in the need of facility space on their campus located at 88-11th Avenue Northeast. Their request was to change the contract so that Graco was no longer required to build a new "Main Plant" due to the reduced need of space and to allow additional time to determine if it was to further expand.

Staff worked with Graco representatives for more than 18 months and has agreed to terms of an amendment that will accommodate Graco's request as well as address the most important remaining obligations under the original contract. The terms, explained in more depth below, breaks the second phase into two stages. In Stage One, Graco completes all the public improvements that were required when the City established the Tax Increment District in 2001, including the demolition and environmental remediation of the Main Plant. Graco also constructed a 43,000 square foot office building to replace the office space in the Main Plant. Stage Two will allow for Graco to notify the City if any further expansion will in fact be needed. If Graco notifies the City then Graco is able to make public improvements that will be associated with the expansion, including the relocation of a storm water sewer beneath 9th Avenue Northeast. The amendment extends Graco performance time from August 18, 2004 to June 5, 2006. The June 5, 2006 date coincides with the statutory deadline of expenditure in the Tax-Increment District.

The City will finance the public improvements with Tax-Increment Pay-As-You-Go (PAY-Go) Notes. These PAY-Go notes will not exceed \$2,633,000, total for both stages. Only available Tax-Increment from the *Graco Campus Expansion Tax-*

Increment District will be eligible for repayment of the PAY-Go Notes. The amendment does not change the financing instrument or the maximum cost of the PAY-Go Note. Staff will return to the City Council for authority to issue the Phase Two PAY-Go Notes when Graco submits all invoices for Phase Two – Stage One eligible expenses.

In the proceeding sections please find the details of the amendment, how the amendment changes the current contract, and a map to assist in locating parcel identified in the text.

Terms of the proposed amendment

The terms of the amendment will be as follows (refer to attached map for campus building locations):

Phase two will be completed in two possible phases: Phase Two – Stage One and Phase Two – Stage Two

Phase Two – Stage One minimum improvements include the demolition of the Main Plant, construction of a new 43,000 square foot office building on the Main Lot Parcel and construction of an approximately 100 space surface employee parking facility on the Main Plant Parcel, as well as landscaping of the balance of the Main Plant Parcel and Main Lot Parcel and the Marshall Street frontage between the Technical Center and 8th Avenue NE.

Phase Two – Stage Two minimum improvements will be the construction of additional manufacturing, office, research and warehouse facilities within the campus if market conditions warrant expansion.

The City will reimburse Graco for any public improvement that occur in Phase Two from the following list of eligible expenses

Eligible expenses for Phase Two – Stage One include:

1. Improvements on the Main Plant and Main Lot Parcel including:
 - a. demolition and clearance
 - b. asbestos removal and other environmental remediation
 - c. geotechnical soil correction
 - d. Reclamation of the parcel including the construction of a surface parking lot and landscaping.
2. Excavation and construction of storm water holding pond and associated landscaping.
3. Landscaping and streetscaping along Marshall Street, 8th Avenue, Ramsey Street and the Technical Center's western boundary. Any improvements on Marshall Street shall conform to Marshall Street improvement plan.

Eligible expenses for Phase Two – Stage Two include:

1. Relocation of storm sewers beneath 9th Avenue NE.
2. Surface parking expansion.
3. Geotechnical corrections of soil, environmental remediation, and City required repairs replacement, construction, or installation of streets, curbs, gutters and sidewalks associated with Stage Two improvements.
4. Landscaping and streetscaping along Marshall Street, 8th Avenue, Ramsey Street and the Technical Center's southern boundary. Any

improvements on Marshall Street shall conform to Marshall Street improvement plan.

The City will finance the public improvements with two Tax-Increment PAY-Go Notes

The first Phase Two Tax-Increment Pay-As-You-Go Note will bear an interest rate of 4.5 percent for Phase Two – Stage One public improvements and the second Note will bear an interest rate of prime at the time construction commences for Phase Two – Stage Two. The City will issue the notes upon submission of proof of all eligible expenses for each stage. Only tax-increment funds from the current *Graco Campus Expansion Tax Increment Financing District in the Graco Campus Expansion Tax Increment Plan* will be available to repay these notes. The Phase One note has priority over these issues. The Phase Two PAY-Go notes will not exceed \$2,633,000, total for both stages. The City issued the Phase One PAY-Go Note for \$475,000 and paid Graco \$700,000 for the removal of a storm water parcel beneath the Riverside Expansion Parcel. Available Tax-Increment will repay the City expenditure pro rata as the Phase One PAY-Go Note is satisfied.

Graco has begun Phase Two – Stage One and will deliver a description of Phase Two – Stage Two on or before April 1, 2006

Graco has begun work on its minimum improvements for Phase Two – Stage One, including the demolition and remediation of the Main Plant parcel and the construction of the 43,000 square foot office building. Graco will determine what improvements, if any, will occur in Stage Two – Phase Two and inform the City on or before April 1, 2006. All public improvements shall be complete and invoices submitted to the City no later than June 5, 2006 the statutory deadline for eligible improvements.

How the terms of the proposed amendment changes the current contract

The amendment changes the current contract in the following ways:

The amendment replaces “Phase Two” with “Phase Two – Stage One and Phase Two – Stage Two”

This allows Graco the flexibility to complete remaining requirements that enabled the City to establish the Tax-Increment District (Main Plant demolition and remediation) as well as construct new facilities if market conditions change.

The amendment removes the requirement to notify the City prior to the beginning of Phase Two – Phase One

In the current contract, Graco was to provide notification to the City indicating the start of Phase Two. Due to prolonged negotiations and the need to begin the improvements this was not possible. Both Graco and

the City worked in good faith to come to an agreement on the proposed amendment and both parties were aware that Graco was proceeding.

The amendment removes the requirement of construction of a new Main Plant on the Main Plant Relocation Parcel

Graco requested that this provision be removed from the contract due to change in manufacturing technology and the company's ability to reduce the need for manufacturing facilities as a result. In the original agreement, Graco anticipated the need for more facility space. Since the execution of the contract, advances in manufacturing technology have reduced Graco's space needs and the firm's ability to accommodate all of its production in the Riverside Plant. However, Graco is able to build on the Main Plant Relocation parcel in Phase Two – Stage Two if it determines that it needs additional manufacturing space.

Phase Two public improvement eligible expenses remain the same as in the Contract except for the following conditions

The amendment splits eligible expenses into two stages. Stage One includes all the original conditions except for the relocation of the storm sewer beneath 9th Avenue NE. Stage One has the additional eligible expenses of landscaping and streetscaping that are not in the original contract. Stage Two includes the storm sewer relocation and the related expense if Graco determines to move forward. Graco will notify the City of the improvements that it will do in Stage Two on or before April 1, 2006.

The amendment extends the deadline for eligible expenses from August 18, 2004 to June 5, 2006

The amendment extends the deadline for completion of improvements to coincide with the statutory deadline. The state TIF statute requires that the developer complete and pay for all eligible public redevelopment expenditures no later than five years from the date that the County certifies the Tax Increment District. Hennepin County certified the *Graco Campus Expansion Tax Increment Financing District* on June 5, 2001.

The amendment permits expenditures outside the Tax-Increment District

As allowed by state TIF statute, the amendment permits Graco to include expenses outside the *Graco Campus Expansion Tax Increment Financing District* in its calculation of eligible expenses. These expenses will not exceed 15 percent of available tax increment and will need to be inside the Graco Campus Expansion Project Area. This provision will provide Graco with the opportunity to construct streetscaping elements on the east side of Marshall Street if it chooses. This provision is in response to the Saint Anthony West neighborhood request for improvements that could occur in the project area but might not be within the boundaries of the smaller tax-increment district.

Map of the Project Area

