



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

Date: September 26, 2006

To: Council Member Lisa Goodman, Community Development Committee
Council Member Paul Ostrow, Ways and Means/Budget Committee

Subject: Authority for the City of Minneapolis to issue a Tax Increment Pay-As-You-Go Note to Graco Inc. for eligible expenses under Phase Two of the redevelopment contract between the two parties.

Recommendation: Authorize staff to prepare and issue a Phase Two Tax Increment Pay-As-You-Go Note for eligible expenses in the amount of \$1,085,597.19 and terms identified within this report.

Previous Directives: On October 12, 2004, staff was given the authority to execute an amendment to the redevelopment contract. CPED Director approved staff to continue negotiations on the proposed amendment to the redevelopment contract on August 3, 2004. 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. On August 10, 2000, the MCDA Executive Director approved a capital advance of \$670,000 from the Common Project Reserve to the Graco Campus Expansion project for Phase One. On July 19, 1999, the MCDA Board directed staff to negotiate terms of an agreement for additional expansion by Graco, Inc. in NE Minneapolis. In addition, the Board authorized the Executive Director to enter into a development agreement with Graco, Inc. for the relocation of the Graco Corporate Headquarters. In January of 1999, the MCDA Board directed staff to prepare a tax increment financing plan and negotiate terms of a redevelopment agreement for Graco's expansion.

Prepared by: Steve Peterson, Intern Phone 612-673-5170
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Approved by: Chuck Lutz, Deputy CPED Director _____
Mike Christenson, Economic Policy and Development Director _____

Presenters in Committee: Steve Peterson and Erik Hansen

Financial Impact

- No financial impact
- Action is within the Business Plan

Community Impact

- Neighborhood Notification: Staff notified Saint Anthony West on the 2004 amendment to the contract. Staff also worked with the neighborhood during the original TIF plan development in 1999.
- City Goals: Complies with the City's "Premier Destination Goal" which strives to make Minneapolis the economic leader in the region with a vast potential for growth and development. Further, a strategic direction under this goal is to be a talent mecca for jobs which is consistent with the action requested in this report.
- 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.

Supporting Information

Staff received a request for the issuance of the Phase Two Tax Increment Financing (TIF) PAYGO Note and supporting documentation on May 30, 2006. After examination, staff has confirmed that all submitted activity is eligible under the current Contract for Private Redevelopment as amended and that the City can issue a Note in the amount of \$1,085,597.19 for Phase Two-Stage One. This note would be the final TIF instrument for the Graco Campus Expansion Tax Increment Financing District (District).

Phase One

The MCDA Board of Commissioners and the City Council authorized the Graco Campus Expansion Tax Increment Plan, related Tax Increment Financing District, redevelopment contract, and Phase One Tax Increment Pay-As-You-Go Note business terms on August 14, 2000. The City established this District for Graco, Inc. to assist with the expansion and development of its corporate campus. Public benefits included blight and pollution remediation, public improvements, park and streetscaping improvements, an increased tax base, and both job retention and a significant net increase in employment. The 130 new "Living Wage" jobs created by Graco between 2000 and 2005 greatly exceeded the company's goal of 47 new "Living Wage" jobs as described in the Contract for Redevelopment.

The City issued a TIF Note for Phase One in the amount of \$475,000 (at 9.5% interest) and advanced a reimbursable infrastructure payment from the MCDA of \$670,000.

Phase Two

The City and Graco entered into an amendment to the redevelopment contract on December 30, 2004 (Contract Amendment), to reflect changes in manufacturing technology and the marketplace. The Contract Amendment extended the deadline for eligible expenses from August 18, 2004, to June 5, 2006. As of June 5, 2006 (the statutory deadline to complete eligible activity), no additional eligible activity can qualify for reimbursement from revenue in the current District.

The Contract Amendment divided Phase Two eligible activities into two stages (see below for the definition of Phase Two-Stage One and Phase Two-Stage Two minimum improvements; see Attachment 1 for locations). The expenses related to eligible activities defined in this report reflect all completed activity in Phase Two-Stage One.

Phase Two-Stage One Minimum Improvements and Eligible Activity

Phase Two-Stage One minimum improvements included the demolition of the Main Plant, construction of a new 43,000 square foot office building on the Main Lot Parcel, construction of an approximately 110 space surface employee parking facility and storm water management facility on the Main Plant Parcel, and landscaping on the balance of the Main Plant Parcel, Main Lot Parcel, and the Marshall Avenue frontage between the Technical Center and 8th Avenue NE (see Attachment 1 for locations).

Eligible expenses were received for Phase Two-Stage One and include the following (see Attachments 1 and 2):

- i) demolition and clearance of the structures that comprise the "Main Plant" located upon the Main Plant Parcel of the Redevelopment Property;
- ii) asbestos removal and other environmental remediation of the Main Plant Parcel of the Redevelopment Property;
- iii) geotechnical soil correction or environmental remediation for the Main Plant Parcel or Main Lot Parcel;
- iv) site reclamation of the Main Plant Parcel or Main Lot Parcel, including the construction of a surface parking lot and site improvements and landscaping at or upon the Main Plant Parcel or Main Lot Parcel;
- v) excavation and construction of a surface storm water management facility and landscaping on the Main Plant Parcel;
- vi) site improvements and landscaping for Phase Two-Stage One on the Main Lot Parcel;
- vii) site improvements and landscaping on the Marshall Street and 8th Avenue frontage on the Main Plant Relocation Parcel, such landscaping to be in the general conformity with the anticipated plans for improvement of Marshall Avenue; and

- viii) other site improvements, including repair, replacement, construction or installation of streets, curbs, gutters, and sidewalks required by the City in accordance with City specifications.

Phase Two-Stage Two Minimum Improvements and Eligible Activity

Phase Two-Stage Two minimum improvements included the construction of additional manufacturing, office, research, and warehouse facilities within the campus and/or the construction of an expanded surface employee parking facility on the Main Plant Parcel. As described in the Amendment to the Redevelopment Contract, Graco is not required to complete Phase Two-Stage Two minimum requirements due to recent changes in manufacturing technology and the marketplace. Graco would only proceed with Phase Two-Stage Two activities if market conditions warranted facility expansion.

Graco chose not to proceed on Phase Two-Stage Two improvements before the statutory deadline of June 5, 2006. Therefore, no future request for reimbursement from revenues in this TIF district will occur. In addition, Graco is not required to complete Phase Two-Stage Two minimum improvements.

Phase Two TIF Note

Based on the eligible expenses described above, staff certified \$1,085,597.19 of eligible expenses for Phase Two-Stage One (Attachment 2). Supporting documentation further describing the expenses is available upon request. In accordance with the Contract for Redevelopment, the City will issue a Phase Two TIF Note at an annual interest rate of 4.5% which may assist Graco in financing these public improvements. The Phase Two TIF Note's principal value is less than \$2,633,000 (the maximum allowable for Phase Two expenses as authorized in the Contract).

Staff projections of future property taxes collected within the Graco Campus Expansion Tax Increment Financing District indicate that the Available Tax Increment will fall short of amortizing the Phase Two TIF Note (see Attachments 3, 4, and 5). In September of 2006, Graco reimbursed the City in the amount of \$269,146 for overpayment of tax increment resulting from Hennepin County's readjustment of their property taxes.

Tax Increment revenues from the entire District (Phase 1 and Phase 2) will first pay principal (\$475,000) and interest (9.5% annually) on the Phase One Note. Second, principal of the MCDA infrastructure advance in the amount of \$670,000 will be refunded. Remaining revenues will be available for repayment of the Phase Two TIF Note until the District expires on December 30, 2027. Three projections, based on property taxes increasing of 0%, 2% and 4% yearly, show available revenue to retire the Phase Two Note to be \$0.00, \$283,906.33 and \$825,264.13 respectively (see Column 11 of Attachments 3, 4, and 5). These calculations include a 10 percent administrative fee payable to the City to reimburse its costs associated with the District.

Although the projections referenced above indicate insufficient Available Tax Increment to fully amortize the TIF Note, staff recommends valuing the Phase Two TIF Note at \$1,085,597.19 (equal to all eligible activity expenses). After consultation with the

Assistant City Attorney assigned to this matter, language will be added in the TIF Note referencing the expected shortfall in Available Tax Increment revenue.

Anticipated TIF Shortfall

Staff does not project that available revenue from the life of this district will completely amortize the Phase Two Note. On the maturity date of the Graco Campus Expansion Tax Increment Financing District, December 30, 2027, this Phase Two Note shall be deemed paid in full and the City shall have no further obligation under this Phase Two Note even if the aggregate of the Available Tax Increment that has actually been paid to Graco on the maturity date is less than the full principal and interest amount of this Phase Two Note. Furthermore, the City is not responsible for any shortfall in principal and interest if available tax increment does not fully amortize the Phase Two Note.

Map of the Project Area



Graco Phase Two-Stage One Eligible Tax Increment Expenses

Eligible Expenses	Contractor (Invoice/Change Order Number)	Expenses
i. Demolition and clearance of Main Plant Parcel	Veit & Company Inc. (0324.4)	\$ 318,965.00
	Veit & Company Inc. (0324.4)	\$ 477.00
	Veit & Company Inc. (0324.4)	\$ 3,858.00
	Subtotal	\$ 323,300.00
ii. Asbestos removal and environmental remediation for Main Plant Parcel	Veit & Company Inc. (0324.4)	\$ 13,920.00
	Veit & Company Inc. (0324.4)	\$ 10,003.00
	Veit & Company Inc. (0324.4)	\$ 2,711.00
	Veit & Company Inc. (0324.4)	\$ 12,074.00
	Veit & Company Inc. (0324.4)	\$ 12,118.00
	Nova Consulting Group (040423)	\$ 124,827.00
	Nova Consulting Group (040432)	\$ 20,761.00
	Nova Consulting Group (040441)	\$ 9,522.50
	Luminaire Recyclers Inc. (16890)	\$ 11,603.75
	Luminaire Recyclers Inc. (16891)	\$ 8,995.00
	Subtotal	\$ 226,535.25
iii. Geotechnical soil correction or environmental remediation for Main Plant or Main Lot Parcel	Belair (38366)	\$ 141,112.00
	Braun Intertec (223919)	\$ 6,358.22
	Braun Intertec (224645)	\$ 194.00
	Belair (2)	\$ 11,074.00
	Environmental Resource Group (003589)	\$ 4,470.00
	Veit & Company Inc. (54905)	\$ 1,815.00
	Subtotal	\$ 165,023.22
iv. Site reclamation (parking, landscaping, site improvements) on Main Plant or Main Lot Parcels	Veit & Company Inc. (043674-3)	\$ 31,686.90
	Veit & Company Inc. (043674)	\$ 5,110.00
	Subtotal	\$ 36,796.90
v. Excavation and construction of surface storm water management facility and landscaping on Main Lot Parcel	Arteka (1885)	\$ 51,200.00
	Veit & Company Inc. (043674)	\$ 180,710.00
	Veit & Company Inc. (043674)	\$ 8,750.00
	Subtotal	\$ 240,660.00
vi. Site Improvements and landscaping on Main Lot Parcel	Lan-De-Con (2402)	\$ 86,565.00
	McGough Construction (20)	\$ 1,247.00
	Subtotal	\$ 87,812.00
vii. Site improvements and landscaping on Marshall Street (landscaping)	Subtotal	\$ -
viii. Other site improvements (streets, curbs, sidewalks, gutters)	McGough Construction/Xcel Energy (6)	\$ 2,779.46
	McGough Construction (20030903)	\$ 2,690.36
	Subtotal	\$ 5,469.82
Total: Phase Two-Stage One		\$ 1,085,597.19

**FORM OF TIF NOTE
UNITED STATES OF AMERICA
STATE OF MINNESOTA
COUNTY OF HENNEPIN
CITY OF MINNEAPOLIS**

**TAX INCREMENT LIMITED REVENUE NOTE
(Graco Campus Expansion Phase Two)**

The City of Minneapolis (the "City"), hereby acknowledges itself to be obligated and, for value received, promises to pay to the order of Graco Inc., a Minnesota corporation (the "Developer"), solely from the source, to the extent, and in the manner hereinafter provided, the principal amount of this Note, being One Million Eighty-Five Thousand Five Hundred Ninety-Seven and 19/100 Dollars (\$1,085,597.19) or such lesser amount as may equal the certified Public Costs, with interest at the Note Rate, in the installments specified in this Note, on the Payment Dates.

Capitalized terms not defined elsewhere in this Note shall have the meanings below:

“Available Tax Increment” means the Tax Increment received by the City during the period preceding each Payment Date, less (i) the amount of Tax Increment, if any, which the City must pay to the school district, the county and the state pursuant to *Minnesota Statutes*, Sections 469.177, Subds. 9, 10, and 11; 469.176, Subd. 4h; and 469.175, Subd. 1a, as the same may be amended from time to time; and (ii) actual administrative costs of the City in an amount not to exceed 10% of the Tax Increment.

“Certificate of Completion” means a Certificate issued by the City to the Developer pursuant to Section 4.05 of the Contract certifying that Minimum Improvements have been substantially completed.

“Contract” means that certain Redevelopment Contract by and between the City and the Developer dated August 18, 2000 and amended December 30, 2004.

“District” means the Graco Campus Expansion Tax Increment Financing District within the Redevelopment Project.

“Maturity Date” means the earlier of (i) February 1 of the year following the final year of Tax Increment collection from the District; and (ii) the date when the principal and interest amount of this Note has been paid in full.

“Minimum Improvements” means the Phase One Minimum Improvements and the Phase Two Minimum Improvements as described in the Contract.

“Note Rate” means four and one-half percent (4.5%) simple interest per annum.

“Payment Date” means August 1 of 2025 or such earlier date if the Property increases in valuation at extraordinary rates above recent, historical increases (the year of first Available Tax Increment collection from the District payable toward this Note) and each August 1 and February 1 thereafter until the Maturity Date, provided that in no event will any payment date occur after the expiration date for the District.

“Previous Encumbrances” means the Phase One TIF Note and the City advanced funds to the Redevelopment Project as provided in Section 3.05(a) of the Contract.

“Property” means the real property legally described in the Contract.

“Public Costs” means actual Public Costs as defined in the Contract, not in excess of \$1,085,597.19 related to the Minimum Improvements and which are approved by the City pursuant to the Contract.

“Public Costs Certification” means a certificate in substantially the form attached to the Contract, by which the City certifies the Public Costs pursuant to the terms of the Contract.

“Redevelopment Project” means the Graco Campus Expansion Redevelopment Project, which includes the Property.

“Tax Increment” means that portion of the property taxes generated by the Property and Minimum Improvements that is actually remitted to the City as tax increment under the Tax Increment Act.

“Tax Increment Act” means *Minnesota Statutes*, Section 469.174-469.1799, as amended, or any successor statutes applicable to the District.

On each Payment Date, the City shall pay the Developer an installment equal to the Available Tax Increment. The Note is subordinated to the Previous Encumbrances. The City estimates that upon amortization of the Previous Encumbrances, there shall not exist sufficient Available Tax Increment to amortize the Note. To the extent that on any Payment Date there is insufficient Available Tax Increment to make a scheduled payment, such failure to make a scheduled payment shall not constitute a default under this Note. If the Developer or other Minimum Improvements’ owner fails to pay all or a portion of the property taxes due and owing on the Minimum Improvements, then upon such failure to pay, no interest as required by the Note shall accrue on an amount equal to the amount of the Available Tax Increment that would have been paid to the City had such property tax amounts been paid.

Interest shall accrue on the initial principal amount of this Note from the initial Payment Date. Each payment under this Note, whether a scheduled payment or any other payment, shall be applied first to current interest, then to accrued unpaid interest and then to the unpaid principal amount of this Note.

On the Maturity Date, this Note shall be deemed paid in full and the City shall have no further obligation under this Note even if the aggregate of the Available Tax Increment that has actually been paid to the Developer as of the Maturity Date is less than the full principal and interest amount of this Note. Furthermore, if the Property generates sufficient Available Tax Increment the obligation of the City to make any scheduled payment shall terminate if and to the extent that the full principal and interest amount of this Note has been paid in full prior to the Maturity Date. This Note may be prepaid in full or in part at any time without penalty.

Each payment on this Note is payable in any coin or currency of the United States of America which on the date of such payment is legal tender for public and private debts and shall be made by wire transfer, check or draft made payable to the Developer and mailed to the Developer at P.O. Box 1441, 88 11th Avenue NE, Minneapolis, MN 55440-1441, or such other address as the Developer shall provide in writing to the City's notice address as set forth in the Contract.

The Note is a special and limited obligation and not a general obligation of the City, which has been issued by the City pursuant to and in full conformity with the Constitution and laws of the State of Minnesota, including *Minnesota Statutes*, Section 469.178, subdivision 4, to aid in financing a "project", as therein defined, of the City consisting generally of defraying certain public redevelopment costs incurred by the Developer within and for the benefit of the Project.

THE NOTE IS NOT A DEBT OF THE STATE OF MINNESOTA (THE "STATE"), OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY OF MINNEAPOLIS, MINNESOTA, EXCEPT THAT THE CITY SHALL BE OBLIGATED TO MAKE PAYMENTS FROM AVAILABLE TAX INCREMENT AS SET FORTH HEREIN, AND NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY, SHALL BE LIABLE ON THE NOTE, EXCEPT FOR THE CITY'S OBLIGATION TO MAKE PAYMENTS FROM AVAILABLE TAX INCREMENT AS SET FORTH HEREIN, NOR SHALL THE NOTE BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN AVAILABLE TAX INCREMENT AS SET FORTH HEREIN.

This Note shall not be transferred to any person, unless the City has been provided with an opinion of counsel acceptable to the City that such transfer is exempt from registration and official statement delivery requirements of federal and applicable state securities law and an investment letter reasonably acceptable to the City.

This Note shall not be payable from or constitute a charge upon any funds of the City, and the City shall not be subject to any liability hereon or be deemed to have obligated itself to

pay hereon from any funds except the Available Tax Increment, and then only to the extent and in the manner herein specified.

The Developer shall never have or be deemed to have the right to compel any exercise of any taxing power of the City or of any other public body, and neither the City nor any person executing or registering this Note shall be liable personally hereon by reason of the issuance of registration thereof or otherwise.

IT IS HEREBY CERTIFIED AND RECITED that all acts, conditions and things required by the Constitution and the laws of the State of Minnesota to be done, to have happened, and to be performed precedent to and in the issuance of this Note have been done, have happened, and have been performed in regular and due form, time, and manner as required by law; that this Note is issued pursuant to the Tax Increment Act; and that this Note together with all other indebtedness of the City outstanding on the date hereof and on the date of its actual issuance and delivery, does not cause the indebtedness of the City to exceed any constitutional or statutory limitation thereon.

IN WITNESS WHEREOF, the City of Minneapolis, by action of its City Council, has caused this Note to be executed by the manual signature of its Finance Officer, and has caused this Note to be dated _____, 2006.

CITY OF MINNEAPOLIS

By _____
Patrick Born
Its Finance Officer

Approved as to form:

Assistant City Attorney