



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

Date: July 24, 2007
To: Council Member Lisa Goodman, Chair, Community Development Committee

Subject: Project Analysis Authorization: Coloplast project (1525, 1601, 1615 West River Road)

Recommendation:

1. Authorize staff to continue the analysis of the Coloplast project proposal; and
2. Negotiate terms and conditions of a redevelopment contract with Coloplast; and
3. Prepare a redevelopment plan and tax increment financing plan for this project, subject to final determination of project eligibility, required reviews, public input, notices, and hearings.

Previous Directives:

- A report is being presented on July 24, 2007, that will accept and appropriate Environmental Remediation Grants awarded by the Minnesota Department of Employment and Economic Development (DEED) Contamination Clean Up and Investigation Grant Program and Metropolitan Council Livable Communities Tax Base Revitalization Account (TBRA) Grant Program totaling \$944,500 for the Coloplast project.
- On April 27, 2007, the City Council authorized staff to submit applications for remediation grant funds for various projects, including Coloplast, to the Minnesota Department of Employment and Economic Development (DEED) Contamination Clean Up and Investigation Grant Program, The Metropolitan Council Livable Communities Tax Base Revitalization Account (TBRA) Grant Program, and the Hennepin County Environmental Response Fund (ERF).

Prepared by: Carrie Flack, Sr. Project Coordinator

Approved by: Charles T. Lutz, Deputy Director _____

Jack Kryst, Director, Development Finance _____

Presenters in Committee: Carrie Flack, Sr. Project Coordinator

Financial Impact

- No financial impact

Community Impact

- Neighborhood Notification: This project was presented to the Above the Falls Citizen Advisory Committee on May 22, 2007, and the Jobs Park Committee on June 19, 2007. Both groups have submitted letters of support. The Northside Residents Redevelopment Council has also indicated support for the Coloplast project.
- City Goals: One Minneapolis - Equal Access, Equal Opportunity, Equal Input
- Comprehensive Plan: 2.8 Minneapolis will develop the existing economic base by emphasizing business retention and expansion; 2.9 Minneapolis will strengthen long-term confidence in the economy by building innovative public to private sector partnerships; 9.6 Minneapolis will work with private and other public sector partners to invest in new development that is attractive, functional, and adds value to the physical environment.
- Zoning Code: The proposed project is currently in compliance with zoning code and will follow all required City processes for new construction and the campus expansion portion of the project. The Coloplast project is scheduled for City Planning Commission on July 16, 2007.
- Living Wage/Business Subsidy Agreement - Yes No
- This will be executed prior to executing the final loan agreement.
- Job Linkage - Yes No
- Other

Supporting Information

Background

Coloplast is located at 1601 West River Road in Ward 5 on property owned by a company it acquired known as the Mentor Corporation. Mentor Corporation was founded in Minneapolis in 1969 to manufacture urology products. In 1972, Mentor moved to the West River Road site in Minneapolis. The original building included research and development, manufacturing, sales and administration. As the company grew, it purchased additional property along West River Road, including buildings at 1525, 1601 and 1615 West River Road.

In 1985, Mentor purchased a medical device company in Santa Barbara, California, and moved the headquarters to California. The West River Road site then became the research and development and manufacturing site for Mentor Urology, specializing in continence management devices as well as implantable devices to cure erectile dysfunction.

In June 2006, Coloplast A/S of Denmark bought the urological business of Santa Barbara - based Mentor Corporation, including the facilities on West River Road in Minneapolis. Coloplast is not new to the United States. Since 1990, sales and distribution facilities have been located in Marietta, Georgia. Once the purchase of Mentor Corporation took place, a search began to determine the preferred site for a new North American headquarters. The headquarters location is important because Coloplast is projecting significant growth in the US market.

In July 2006, Coloplast announced that they would like Minneapolis to be the site of their North American headquarters. The reasons included: the existing Mentor labor force of approximately 300 employees; the presence of a strong medical device industry; the availability of a well educated and trained labor force; and, the belief that Minneapolis can accommodate long-term growth projections of Coloplast for the next 50 years.

Development Project

Coloplast occupies 140,000 square feet at the West River Road location. The scope of the current project is to construct a new six-story, 90,000 sq. ft. "first-class" headquarters office building and 40,000 sq. ft. of new product development. The existing manufacturing

space will be renovated with a portion of the warehouse space in the building being converted to a research and development use. There are two buildings on the site that will be demolished: a 14,975 sq. ft. two story office building located at 1601 West River Road and a 67,275 sq. ft. single-story manufacturing building located at 1615 West River Road. With the existing building and new construction, the total amount of square footage on the site will be 197,050 sq. ft., with approximately 284 on-site parking spaces.

Coloplast is relocating a portion of its healthcare manufacturing operations to a facility in Vadnais Heights. This move is to accommodate the new construction on the site and to satisfy the parking need. It is the intent of Coloplast to relocate the displaced healthcare manufacturing back to the West River Road Headquarters location upon the acquisition of additional land in the area as a potential second phase of the project.

The new office tower will accommodate 200 new headquarters employees with room for significant growth. Coloplast will also make improvements to the existing manufacturing area by increasing the space dedicated to research and development. These improvements represent the first of three expansion projects proposed over the next eleven years. A site plan and elevation are attached as **Exhibit 1**.

Requested TIF Assistance

The total development cost (TDC) of the project is currently projected to be approximately \$38 million. At this point, all development costs are preliminary and subject to further CPED review and analysis.

Coloplast is currently requesting 25 years of tax increment financing (TIF) assistance to fund \$3.5 million in upfront demolition, rehabilitation and other TIF-eligible project costs. This request is significantly longer than the 10-15 years of TIF assistance that has been provided to other commercial projects in the City in recent years. Initially their application also requested TIF assistance through the City's issuance of a TIF revenue bond. However, this request has subsequently been revised to request TIF assistance through the City's issuance of a TIF pay-as-you-go revenue note, which is the more typical form of TIF financing provided to commercial projects in the City of Minneapolis.

The proposed timeline is as follows:

- Consideration of Project Analysis Authorization (PAA) by the City Council in August 2007
- Consideration of redevelopment contract terms and the creation of the redevelopment project and TIF District by the City Council in October or November 2007
- Construction start in late 2007 or early 2008

Results of Preliminary Staff Analysis

Based on a preliminary review and analysis of the project, staff concludes that: 1) Coloplast's Application for Public Financial Assistance is substantially complete (although additional information will be needed to proceed, 2) the project appears to meet various state statutory requirements and tests (the "but-for" test, etc.), 3) the project site qualifies for inclusion in a "redevelopment" TIF district, and 4) some level of tax increment financing assistance appears to be justified. If PAA is approved, a more thorough analysis and evaluation will be conducted by staff to identify the exact need for TIF assistance, the specific costs to be funded with TIF, etc.

As we proceed with the project analysis stage, staff will be addressing a number of the business term issues: 1) the appropriate level of public assistance, 2) the creation of a Redevelopment TIF district, and 3) possible City issuance of a Pay As You Go Note.

Project Analysis Fee

If the Project Analysis Authorization is approved by the City Council, Coloplast will be required to pay a nonrefundable project analysis fee totaling \$17,500 (\$3,000 has already been received with the application submission for the blight analysis). The additional \$14,500 fee is based on the estimated cost of staff time and other expenses up to the point in time when the request for public financial assistance is either approved or denied by the City Council. Acceptance by the City of the application and project analysis fee does not signify a commitment on the part of the City to approve any requested public financial assistance.

Additional Public Assistance

In addition to the environmental remediation grants awarded to the Coloplast project totaling \$944,500, it is anticipated that the City will seek authorization to apply, accept and appropriate funds from the Minnesota Department of Employment and Economic Development (DEED) Minnesota Investment Fund in the amount \$500,000 for equipment related to the Coloplast campus expansion project.

Additional City staff technical assistance was provided to Coloplast prior to and upon filing the necessary land use applications. The Coloplast project is scheduled for consideration by the City Planning Commission on July 16, 2007.

Coloplast has also requested City assistance with additional site assemblage to allow for future expansion. Staff is currently evaluating the assistance requested and the feasibility of providing additional assistance. Staff will seek further Council direction or approvals if necessary.