1. Agenda And Packet

   Documents:

   FEBRUARY 6, 2023 WORK SESSION AGENDA.PDF
   FEBRUARY 6, 2023 WORK SESSION PACKET.PDF

City of Excelsior
Notice of Work Session
of the Excelsior City Council

NOTICE IS HEREBY GIVEN that the City Council of the City of Excelsior will hold its work session on Monday, February 6, 2023 at 5:30 P.M. at the Excelsior City Council Chambers, 339 Third Street, Excelsior, MN 55331.

Members of the public may attend the work session either in person, at City Hall or by joining via Zoom either online or by telephone at:

Join Zoom Meeting
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Meeting ID: 861 1284 9682

City of Excelsior

City Council Work Session

Agenda

Monday, February 6, 2023

5:30 P.M.

1. Call to Order/Roll Call

2. Agenda Approval

3. 339 Third Street Financials

4. Adjournment

Note: The purpose of a Work Session is for the Council to discuss matters informally and in greater detail than is allowed at formal Council meetings. All meetings of the Council including Work Sessions will be open to the public. While the privilege of participating in these discussions is generally limited to the Council, staff, and consultants, the Mayor may open a discussion from the floor.

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THE CITY OF EXCELSIOR MINNESOTA

MEMORANDUM

City Council Item 4

Re: 339 Third Street Financials

Date: February 6, 2023

To: City Council

From: Kristi Luger, City Manager

Summary

The City has spent over a year working with Red Leaf Partners (RLP) on the 339 Third Street redevelopment, which includes a mix of apartments and rowhouses and expanding the number of public parking spaces. In November, the Council reviewed options for financing the City's share of the project costs. The purpose of tonight's meeting is to review how the finances have changed since November and options for covering a gap in the revenues and expenses.

Background

When the Council reviewed options for financing the costs of constructing a parking structure at the November 7 meeting, it approved a plan for the City to finance the cost of a 3-level parking structure and use Tax Increment Financing (TIF) proceeds to make the bond payments. The plan also pledged other sources of revenue to pay costs beyond what TIF would cover. A summary of the financing strategy for the parking structure that the Council selected in November is summarized below:

Expense	
Parking Structure	$9,423,202
Revenues	
TIF Bond (Par Amount)	$6,056,202
Land Sale Proceeds	$2,000,000
Parking Impact, Meters, and ARPA Funds	$617,000
Capital Funds	$750,000
Total Revenues	$9,423,202
Financing Gap	**$0**

Since November, the finances on this project have evolved as follows:

- In December, RLP discovered asbestos in the building and environmental contamination on the site, which is estimated to cost about $1,000,000 to remediate.
- In order to maintain the proposed site configuration and keep West Drive at least 24 feet wide, the City will need to acquire two parcels adjacent to West Drive. If the City has to acquire these parcels through litigation, it could cost as much as $100,000 (in acquisition price and other costs) to obtain them.

- Following the experience with the concession building change order request, staff recommends that the City retain an owner's representative. The owner's representative will review all change order requests associated with the public parking to ensure that any contingency expenses should be paid for out of the City's contingency budget. The owner's representative will be on an hourly contract with a total estimated cost of $60,000.
- The November budget included $70,000 for estimated legal and consulting expenses. Due to the complexity of this project, the actual expenses for these services may be closer to $100,000. Up to an additional $30,000 should be considered for budgeting under these line items. Legal fees will include approximately $5,000 to assist the City in minimizing the risk of change orders and contingency expenditures.
- The November budget included a placeholder for public parking signage but there was no dollar amount listed. It is estimated that the public parking signage will cost $20,000.
- The City was originally intending to pay for the Sewer Access Charge (SAC) and Water Access Charge (WAC) fees with TIF. The City may choose to retain a small percent of annual Increment In the revised budget to pay these fees, or allocate all of the increment to finance the improvements. The City will owe the Met Council $17,395 in SAC fees for the public parking spaces. The Council should discuss whether to include in the budget $7,000 in SAC fees and $14,000 in WAC fees that would be paid by the City to the respective enterprise funds. The $21,000 in fees to the City have not been included in the budget.

With the addition of the expenses listed above, there is now a gap between the expenses and the revenues that the City pledged in November. The following is a revised summary of the expenses and revenues on this project:

Expenses	
Parking Structure	$9,385,278
Environmental Remediation	$1,000,000
West Drive Properties	$100,000
Owner's Representative	$60,000
Additional Legal and Consulting*	$30,000
Public Parking Signage	$20,000
Met Council SAC Fees*	$17,395
Total Expenses	$10,612,673
Revenues	
Total Revenues	$9,423,202
Financing Gap	**$1,189,470**

* May be financed with small portion of annual withheld tax increment (estimated 2%)

To assist with the financing gap related to the environmental remediation, RLP has proposed that the City's financial obligation for the remediation costs be capped at $250,000 and that any remaining remediation costs be the responsibility of RLP. Any grants the City receives would first reimburse RLP's $750,000 contribution and then the City would be reimbursed their $250,000 contribution. If there are not enough grant funds to reimburse RLP, then RLP proposes that it would have the option to select from the following menu of project scope reductions:

- $25,000 – Simplify unique brick coursing design on rowhouse facades
- $203,487 – Remove Siren Park tower structure, classing, hardscape, and landscape
- $447,412 – Reduce project landscaping

  $675,899 – Total cost of options, RLP would fund any remaining financing gaps

There are a couple options for financing the approximate $1,189,000 funding gap depending on whether the Council is amendable to reducing the scope of the project to help cover the costs of remediation.

Financing Options with Value Engineering Alternative

If the Council is interested in capping the City's environmental expenses at $250,000 and allowing RLP the option to apply certain value engineering costs, the project financials would look like this:

Expenses	
Parking Structure	9,385,278
Environmental Remediation	$250,000
West Drive Properties	$100,000
Owner's Representative	$60,000
Additional Legal and Consulting *	$30,000
Public Parking Signage	$20,000
Met Council SAC Fees *	$17,395
Total Expenses	$9,862,673
Revenues	
Total Revenues	$9,423,202
Financing Gap	**$439,470**

* May be financed with small portion of annual withheld tax increment (estimated 2%)

There are a couple options for covering the remaining financing gap of approximately $439,000:

1. **Utilize the Capital Improvement Fund**
   The City Council had indicated in November that they would use $750,000 from the Capital Improvement Fund to avoid having to issue a bond for the project. The Capital Improvement Fund currently has an undedicated fund balance of approximately $2,200,000. Staff is also anticipating that there may be an excess fund balance of approximately $650,000 which is traditionally transferred to the Capital Improvement Fund. If the Council decided to use this fund to finance the new gap of $1,189,000 ($750,000 + $439,000), there would be a remaining balance of the Capital Improvement Fund of approximately $1,660,000.

2. **Sell Remnant Parcel for $500,000**
   RLP has offered to purchase the remnant parcel (the property behind 284 Water Street) from the City for $500,000. As part of the original proposal, the City was going to sell the remnant parcel with the west parking lot for $2,000,000. It was decided early in the process to exclude the remnant parcel from the overall redevelopment, so the City continues to retain ownership of this parcel and can chose to sell it.

Financing Options without the Value Engineering Alternative

If the Council is reluctant to have RLP apply certain value engineering costs, and grant funds fall short of what is necessary to cover environmental remediation costs, there would be up to a $1,219,000 financing gap. There are a couple options for the City to fund this gap:

1. **Utilize the Capital Improvement Fund**
   As indicated earlier in the memo, the Capital Improvement Fund currently has an undedicated fund balance of approximately $2,200,000. If the Council decided to use this fund to finance the $750,000 gap identified in November and the new gap of $1,189,000, this would leave a balance of $260,000. The Capital Improvement Fund could be replenished with the following sources:

Revenue Source	**Amount**	**Timing**
Redevelopment Grant	$54,000	April
Sale of 106 Center Street	$1,000,000	Late Spring/Early Summer
Transfer Excess General Fund Balance	$650,000 (estimated)	June (after audit)
Cleanup Grant	$650,000	July
Total Potential Revenue	$2,400,000	
New Fund Balance	$1.9M (no grants) - $2.6M	

2. Sell Remnant Parcel for $500,000

As stated earlier, RLP has offered to purchase the remnant parcel (the property behind 284 Water Street) from the City for $500,000. If the Council only selected this financing option, there would still be a funding gap of up to $700,000 that may disappear completely depending on the grant funding.

3. Wait and Potentially Issue Additional Debt

There are some factors that could impact the City's total share of the expenses. If grant funding comes in lower than anticipated, if interest rates are higher than estimated, or the project contingency budget is insufficient to cover the City's share of the contingency expenses; the Council may want to consider issuing another bond to cover the deficit. By May, the City will have a better sense of grant funding, interest rates, and project contingencies. The Council could choose to wait a couple months before making a final decision on financing. By July, the City should know the amount of grant funds that have been awarded.

The Council could do one or a combination of these options to finance the funding gap.

Potential Risks

In addition to the expenses listed above, there are some additional financial risks that the City is undertaking with this project.

1. Bond Interest Rates

The financial analysis includes an estimated interest rate of 4.5% assuming an April/May 2023 issuance. If the interest rates come in higher than the estimated 4.5%, it is anticipated that there may be a revenue shortfall to support full repayment of debt service payments. The City is mitigating this risk by adopting a 'Parameters Resolution' during the project approvals, which states under what parameters the City will issue a bond. If the interest rates are high when it's time to sell the bonds, the City would have the option under the Parameters Resolution to wait on timing for issuing the bonds if it's deemed advantageous to do so based on the current interest rate environment.

2. Contingency Budget

The City currently has a contingency budget of 2% of the total parking cost of $9,358,278, which is an amount recommended by the City's owner's representative and RLP. If this budget does not adequately cover the City's share of the unexpected costs, the City will have to come up with additional financing. The City is mitigating this risk by having additional legal counsel review the Guaranteed Maximum Price (GMP) agreement and is hiring an owner's rep who will ensure that the costs allocated to the City's contingency budget are appropriate and within the parameters of the GMP agreement.

3. **Construction Delays**

   The estimated tax increments generated from the project are based on the assumption of construction commencing in 2023 with partial value generated for assessment as of January 2, 2024 and taxes payable 2025. The project would be completed by December 31, 2024 for assess January 2, 2025 and taxes payable 2026. A delay in the start of construction may impact the increment the City is expecting to receive in order to make the bond payments. It is important to note City staff is relying on parking revenues (impact and meter funds) received starting in 2023 to make the early year(s) interest payments. Staff is in the process of exploring additional tools/financing structures to mitigate this risk.

Staff Recommendation

Slightly modify RLP's value engineering proposal to include the following:

- Cap the City's financial obligation for the remediation costs at $250,000.
- Any grants the City receives will be dispersed in the following order:
  - Reimburse RLP for actual environmental remediation expenditures of up to $750,000 (or 75% of the total environmental remediation costs, whichever is less).
  - Reimburse the City for its actual share of the environmental remediation costs (up to $250,000).
  - Any additional grant funds will be retained by RLP (subject to the terms of the grant).
- In the event the City is awarded grants totaling less than $750,000 or 75% of the environmental remediation costs, the City (rather than RLP) will have the option to select one of the project scope reductions or pay the difference between the grant award and the environmental remediation costs.

Memo

To:	Members of the City Council Kristi Luger, City Manager, City of Excelsior Kevin Staunton, Assistant City Manager, City of Excelsior
From:	Mikaela Huot, Director
Date:	February 2, 2023
Subject:	Updated Financial Analysis and Revenue Projections for Proposed 339 3rd Street Redevelopment Project to include Financing of Public Parking

Background

The City of Excelsior (the "City") has been working with Red Leaf Partners (the "developer") on the planned redevelopment of the current city hall and west parking lot site in downtown. The project will include 50 units of new residential rowhomes (11 units) & multifamily apartments (39 units) and underground parking that would serve both the private residential development and increase the capacity of public parking. The project would replace and expand the City's existing surface parking capacity. The developer and City have established a public/private partnership for financing of the residential, private and public parking components of the project.

The project was initially proposed as the developer financing 100% of the total development costs that included redevelopment of the existing substandard building with subsequent construction of a 50-unit residential rental housing building with 78 private and 134 public parking spaces. The developer represented that the private portion of the project could be financed without financial assistance, but a financial gap would exist when including both the public (construction of up to 134 parking spaces) and private (residential units and supporting 78 parking spaces) components of the project. Tax increment financing was identified as a tool the City could use to close the financial gap and assist with financing a portion of the parking costs. Many communities use tax increment as a financing tool to capture the incremental taxes generated from a redevelopment project to finance extraordinary costs.

The scenarios for financing of the project were presented to Council for consideration at the November 7, 2022 City Council meeting and included both developer pay-as-you-go and upfront bond financing, as well as consideration for 223 (partial P3) or 247 (full P3) public parking spaces. The Council made the decision to proceed with the full P3 parking structure that would provide for up to 247 total public parking spaces and preference for financing as upfront. Several assumptions have been made and updated based on final numbers prepared for the developer by the construction contractors for purposes of preparing the revised financial analysis related to bond financing for the project. The purpose of this memo is to provide a summary of the financial analysis and outline of assumptions.

Project Financing

There are generally two ways in which assistance can be provided for projects, either upfront or on a pay-as-you-go basis. With upfront financing, the City would finance a portion of the project costs through the issuance of bonds or as an internal loan. Future tax increments would be collected by the City and used to pay debt service on the bonds or repayment of the internal loan. With pay-as-you-go financing, the developer would finance all project costs upfront and be reimbursed over time for a portion of the costs as incremental revenues are generated.

Pay-as-you-go-financing is generally more acceptable than upfront financing for the City because it shifts the risk for repayment to the applicant. If tax increment revenues are less than originally projected, the applicant receives less and therefore bears the risk of not being reimbursed the full amount of their financing. However, in some cases pay as you go financing may not be financially feasible. With bonds, the City would still need to make debt service payments and would have to use other sources to fill any shortfall of tax increment revenues. With internal financing as another mechanism of upfront financing, the City reimburses the loan with future revenue collections and may risk not repaying itself in full if tax increment revenues are not sufficient.

The original development proposal included the developer redeveloping the project site to include construction of the new multifamily housing development with private parking stalls to serve the residents and public parking stalls to replace existing parking lot stalls that will be redeveloped. The developer conveyed that the project was financially feasible to redevelop and construct the private housing project and supportive parking but would need assistance through tax increment financing to construct the entire project including the lost public parking spaces. Tax increment revenues from the new development would be an additional source of funds to finance the extraordinary parking costs not supported by the project.

When project and financing discussions first began upon the City and developer entering into an exclusive agreement for redevelopment of the project site, tax increment revenues had initially been projected to support the original concept of constructing replacement parking with developer pay-as-you-go financing using tax increments from a redevelopment TIF District.. However, after further review of the concept and consideration of total public parking spaces, the City requested the developer consider increasing the level of public parking spaces as an enhancement to the development to include an additional 110 parking stalls. Due to the limitation of how much the tax increment revenues would support, the City considered alternate methods of funding the project including bonds and other City funds to finance the additional parking spaces (110 additional stalls).

Based on the previous analysis and discussion, City Council indicated the preferred method of financing would be upfront through the issuance of general obligation (G.O.) tax increment revenue bonds to finance TIF - eligible expenses and offset the cost of the additional public parking spaces. Annual tax increment revenues generated by the new development would be used to repay the annual debt service on the bonds. The City would use existing funds to finance the remaining costs not supported by the tax increment bonds. We have received updated construction cost estimates for the entire project and breakout for the parking construction.

The financial analysis is based on the cost estimate of the final design schematics for the project in the GMP as presented to City staff on January 30, 2023. The attached financing scenario assumes City bond financing for the project with revenues that include both upfront City funds to reduce the bond amount and tax increment revenues from the new project to support repayment of the bonds based on the following assumptions for the project:

- 244 stalls with full P3
    - 134 original planned spaces plus 110 additional spaces
- $35,036 hard construction cost per stall
- $38,464 total development (including soft costs) per stall
- ***Total estimated public parking cost of $9,385,278***

City staff and Council have identified several funding sources that may be considered to finance the gap between the costs supported by the tax increment revenues (approximately $6,056,202) and total development costs ($9,414,564) as listed below:

1) Tax increment revenues from new tax increment district (starting in 2025)
    a. $8,846,942 less 2% for admin/City retainage expenses
2) Annual parking revenues (starting in 2023)
    a. $36,000/year parking impact
    b. $50,000/year parking meters
3) Upfront city funds (available in 2023 with bond issuance)
    a. $200,000 parking impact funds
    b. $120,000 parking meter funds
    c. $297,000 ARPA funds
    d. TBD – Other City funds memo

Tax Increment Analysis
The following assumptions were used to estimate the amount of projected revenues:

- Total project area (2 parcels)
  - Parcel ID: 34-117-23-11-0076
  - Parcel ID: 34-117-23-11-0077
  - *City owned property and currently tax exempt*
- Total estimated base value of $2,000,000
  - Based on initial purchase price estimate
  - Additional refinement based on tax status change
- Estimated total market value upon completion
  - $22,177,500
  - Split between apartments and rowhomes
    - Multifamily apartments: rental classification (39 units)
      - $310,000 - $345,000/unit
    - Rowhomes: rental classification (11 units)
      - $820,000 – $890,000/unit
- Maximum term of tax increment redevelopment district
  - 26 total years
  - Ability to delay receipt of first increment (up to 4 years)
- Construction commences in early-mid 2023 and completes by December 31, 2024
  - 100% assessed in January of 2025 for taxes payable in 2026
- Present value assumptions
  - Interest rate of 4.5% (City Bonds)
- Tax rates, class rates and future market values remain constant
  - Tax rates (payable 2022)
    - Total: 99.065%
  - Class rates.
    - Residential Rental: 1.25%
  - 2.25% annual market value inflator
  - Administrative retainage: 2%
    - (maximum 10%)

Tax Increment Estimates
Based on the assumptions outlined above, the projected tax increment revenues that could be generated by the project are shown in the chart below.

Tax Increment Revenue Estimates	
Estimated Base Value	$2,000,000
Total Estimated Taxable Value upon Completion	$22,177,500
Total estimated annual increment (year 2)	$256,257
Total estimated gross increment (26 years)	$8,846,942
Estimated total annual City admin retainage (2%)	$176,940
Estimated total net revenues (98%) for 26 years	**$8,670,002**
Estimated available parking revenues of $86,000 (impact and meter fees collected over 26 years)	$2,408,000
Total projected available revenues over maximum 26-year period	**$11,078,002**
Estimated Net Bond Proceeds	**6,056,202**

Summary of City Bond Financing Scenarios for Full P3 Parking Construction with 244 Parking Spaces

	City Funds and Bonds Full Allocation 2% annual growth Add'l Upfront Funds	City Funds and Bonds Full Allocation 2% annual growth Annual CF Deficit	City Funds and Bonds Full Allocation 1% annual growth Annual CF Deficit	City Funds and Bonds Full Allocation 0% annual growth Annual CF Deficit
Total number of parking spaces	244	244	244	244
Estimated hard cost per stall	35,036	35,036	35,036	35,036
Total parking hard costs	8,548,836	8,548,836	8,548,836	8,548,836
Total soft costs	865,728	865,728	865,728	865,728
Total development costs	9,414,564	9,414,564	9,414,564	9,414,564
Total Estimated TIF (98%)	8,670,002	8,670,002	7,345,631	6,456,357
Total Estimated Parking Revenues	2,408,000	2,408,000	2,408,000	2,408,000
Total Estimated Revenues (TIF and Parking)	11,078,002	11,078,002	9,753,631	8,864,357
Estimated Net Bond Proceeds	6,056,202	6,797,564	6,797,564	6,797,564
Estimated Surplus/Deficit	(3,358,362)	(2,617,000)	(2,617,000)	(2,617,000)
Upfront City Funds				
ARPA and Parking Revenues	617,000	617,000	617,000	617,000
Land Sale Proceeds	2,000,000	2,000,000	2,000,000	2,000,000
Other Revenues (TBD)	*750,000*	-	-	-
Total Upfront City Funds	3,367,000	2,617,000	2,617,000	2,617,000
Financing Gap	8,638	(741,362)	(741,362)	(741,362)
Par Amount of Bonds	6,180,000	6,921,362	6,921,362	6,921,362
Estimated Annual Debt Service	(416,421)	(466,375)	(466,375)	(466,375)
Estimated Annual Revenues	419,462	419,462	368,524	334,321
Estimated Annual Surplus / (Deficit - Levy)	3,041	(46,914)	(97,851)	(132,054)