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CITY OF ROCHESTER MINNESOTA

REQUEST FOR ACTION

Development Support for Sherman Associates Development LLC for a Mixed-income Housing Project for the Civic Center North Lot.

MEETING DATE:
June 3, 2024

ORIGINATING DEPT:
City Administration

AGENDA SECTION:
Reports and Recommendations

PRESENTER:
Josh Johnsen

Action Requested:

Authorizing negotiation of development support with Sherman Associates Development LLC up to $13,000,000 in Tax Increment Financing assistance and up to $3,000,000 in Destination Medical Center (DMC) General State Infrastructure Aid (GSIA) for a mixed-income housing project on the Civic Center North Lot.

Report Narrative:

On March 21, 2022, the City Council approved Sherman Associates (Sherman) as the selected developer for the Disposition and Development of the Civic Center North Surface Parking Lot through an open Request for Proposal (RFP) process. The City entered into an Exclusive Negotiating Rights Agreement with Sherman Associates Development LLC for the potential development on November 2, 2022.

Council action is requested to continue development negotiations with Sherman Associates and conditionally approve development assistance of up to $13,000,000 in Tax Increment Financing (TIF) assistance and up to $3,000,000 in DMC General State Infrastructure Aid. Any fully-obligated funding decisions would come before the City Council/Rochester Economic Development Authority (EDA) prior to commitment to Sherman. A final Development Agreement will come to the Council as a Report and Recommendation sometime around August 2024.

The $3M in DMC GSIA funding is directly related to public realm enhancements and heating and cooling upgrades to connect to the City's thermal energy district. This would be the first private project to connect to district energy, making future projects more feasible by providing a proof of concept and reduction in shared energy cost. Sherman will continue to engage other gap funding partners to seek subsidies to fill their project gap. Sherman has adjusted their affordable housing proposal to be more competitive for Low-Income Housing Tax Credits and Minnesota Housing Finance Agency (MHFA) Infrastructure bonds.

An additional form of assistance is the right down of the City land provided for the development. The RFP included this as a potential form of Development Assistance and was included in Sherman's financial analysis to determine their project gap. The Olmsted County Assessor currently has the land valued at $4,151,200.

Sherman's initial RFP response included a proposal for a 13-story tower and a five-story mid-rise building containing 289 dwelling units with a shared 362-stall structured parking facility. Eighty (80) of the total units were affordable at 60% of AMI. Their current proposal is for a 13-story tower with 243 market-rate units and a five-story mid-rise building containing 76 units of senior housing at 30%, 50%, and 60% area median income. There will be a central parking structure to support both developments.

At the time of the RFP issuance, the City was coming out of the pandemic and the market was enduring supply chain issues and labor shortages. Since then, we have faced escalations in construction costs and high interest rates. These conditions have increased initial construction cost estimates from $373,749 for market-rate units and $329,595 for affordable units to $412,670 for market rate and $380,434 for affordable units. Total project costs increased from $102.2M in 2022 to an estimated $129.1M.

Additional project benefits include:

- Project Investment = $127M
- Construction Jobs = 500 positions
- Permanent Jobs = 8 positions
- District Energy Connection
- Site remediation
- Corridor landscaping and outdoor amenities

Next steps will include negotiations with Sherman on affordable housing development requirements, claw-back provisions, and project timelines. Sherman is applying for MHFA Infrastructure Bonds in July 2024 to reduce the financial gap for the affordable housing component.

Priorities & Foundational Principles:

Affordable Living
Economic Vibrancy & Growth Management

Policy Considerations & DEI Impact:

The development of the site will contribute to the City's Strategic Priority of Affordable Living by providing a dense development near the City's downtown core that provides a variety of apartment units at a variety of rental ranges, with a number of units renting to those individuals at or below 60% of the area median income.

All development proposals requesting TIF are analyzed individually and recommended only if the project advances the City Council's objectives towards affordable living, economic vibrancy, and growth management. Projects must also positively impact the City's Diversity Equity and Inclusion goals through housing opportunities, job creation, and quality of life.

TIF projects will also align with the other city initiatives and adopted plans including but not limited to:

- Promote economically diverse housing, entrepreneurship, and employment opportunities.
- Support the development of housing needs identified in the 2020 Maxfield Olmsted County Housing Needs Assessment.
- Conform with the principles in the Comprehensive Plan: 2040 Plan to Succeed.

- Meet the goals and objectives of the Destination Medical Center Development Plan.
- Support the initiatives of the Active Transportation Master plan.

Prior Legislative Actions & Community Engagement:

September 20, 2021: RFP for Disposition and Development of the Civic Center North Surface Parking Lot authorized.
September 19, 2022: Agreement – Sherman Exclusive Negotiating Rights
November 2, 2022: Sherman Associations Exclusive Negotiating Rights
July 10, 2023: Zoning Map Amendment for Civic Center Lot to Mixed Use Downtown Fringe.
August 7, 2023: First Amendment to Exclusive Negotiating Rights Agreement
March 23, 2024: DMC Corporation Board meeting approving potential funding.

Fiscal & Resource Impact:

Tax Increment Financing captures only the increased tax revenue from property improvements. The current value of the project (before improvements) is "frozen" and establishes the base amount collected for property taxes. Only the additional tax revenue created by the project is included in the increment collected for TIF purposes. At the end of the TIF district, or at the time the TIF obligations are paid in full (whichever occurs first) the entire taxable value is available to be collected by the taxing jurisdiction. The potential $3,000,000 assistance is DMC General State Infrastructure Aid that comes from the state as part of their DMC contributions.

Alternative Action(s):

No alternative actions recommended at this time.

Prepared By:

Joshua Johnsen

Attachments:

Letter - Sherman Associates Re: Civic Center North Lot Ongoing Negotiations