



# Pentagon Park Redevelopment Agreement Overview

City Council Work Session

Item IV

May 6, 2014

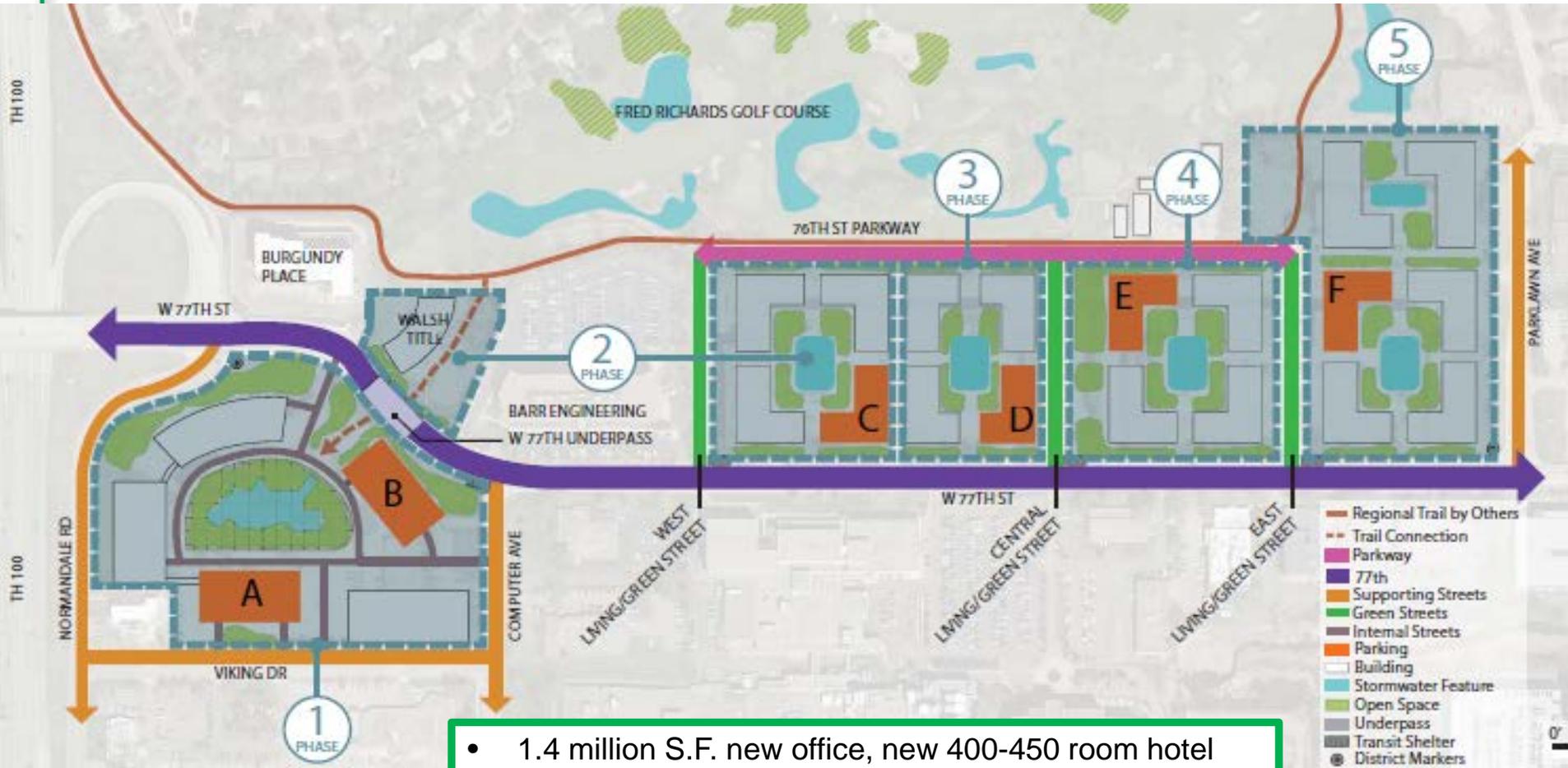




## Topics

- Project Summary & Master Plan
- Anticipated TIF & Planning Processes
- Project Pro-Forma
- Fundamental Deal Structure
- Significant Deal Points
  - Terminology
  - Qualified costs
  - Minimum improvements
  - Key dates
  - Default provisions
  - “Look-back” provisions
- Question & Answer

## Project Summary & Master Plan



- 1.4 million S.F. new office, new 400-450 room hotel and new service retail
- New public improvements to serve the area
- \$500+ million in new private investment on 42 acres

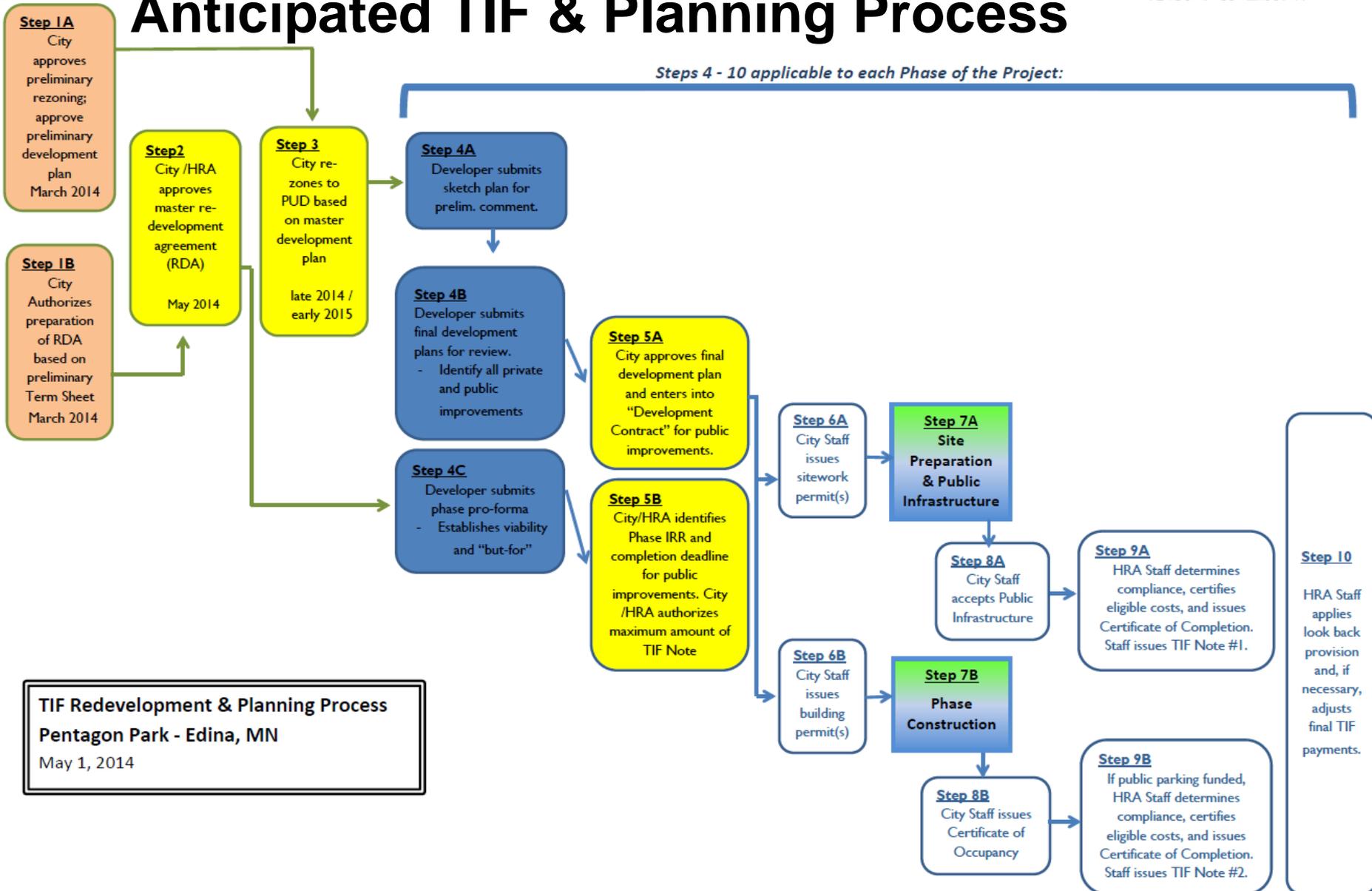


## Anticipated TIF & Planning Process

REGULATORY ROLE  
Plan Commission and City Council

FINANCING PARTNER ROLE  
City Council and HRA

Steps 4 - 10 applicable to each Phase of the Project:



**TIF Redevelopment & Planning Process**  
**Pentagon Park - Edina, MN**  
 May 1, 2014



City of Edina  
Pentagon Park  
Total Project

# Project Pro forma part 1

- Based on Developer projections
    - Reviewed by Ehlers
    - High costs of new infrastructure, soil stabilization and site preparation
- 1) Demonstrates project viability
  - 2) Demonstrates funding gap and the need for TIF to proceed (“but-for” test)

SOURCES			
	% OF TOTAL	% OF FINANCE	TOTALS
DEVELOPER FINANCING - Construction Loan	80.00%	80.00%	438,699,102
DEVELOPER EQUITY	9.75%	9.75%	53,474,776
TIF NOTE	9.85%	9.85%	54,000,000
<b>AMOUNT FINANCED</b>	<b>99.60%</b>		<b>546,173,878</b>
GRANT #1			2,200,000
<b>TOTAL SOURCES</b>	<b>100.00%</b>		<b>548,373,878</b>

IRR without TIF: -1.05%  
IRR with TIF: 14.91%

USES				
	PER S.F.	% OF TOTAL	SUBTOTAL	TOTALS
<b>ACQUISITION COSTS</b>	<b>1,445,000</b>			
Land Acquisition		1.82%	9,998,000	24,246,000
Land Commission		0.33%	1,796,000	
Stabilization		2.27%	12,452,000	
<b>SITE COSTS</b>				
Site Improvement Costs (Demo/Soils/Storm/Green Space)		6.83%	37,442,999	109,542,499
Parking Ramps		9.59%	52,570,500	
Infrastructure Costs (Public ROW Improvements)		3.56%	19,529,000	
<b>CONSTRUCTION COSTS</b>				271,472,867
Shell Construction		43.72%	239,725,000	
General conditions/Builder Profit		3.69%	20,240,134	
SAC/WAC		0.46%	2,495,459	
Contingency		1.64%	9,012,274	
<b>TENANT IMPROVEMENTS</b>				36,195,000
Tenant Improvements -		6.60%	36,195,000	
<b>SOFT COSTS</b>				
<b>PREDEVELOPMENT COSTS</b>				18,859,935
Architect & Civil		3.31%	18,138,747	
Space Planning	0.50	0.13%	721,188	
<b>INTEREST EXPENSE</b>				40,829,919
Construction Costs		7.20%	39,482,919	
Land Carrying Cost		0.25%	1,347,000	
<b>LEGAL</b>	1.31	0.34%	1,889,512	1,889,512
<b>REAL ESTATE TAXES</b>		1.14%	6,240,443	6,240,443
<b>LEASING</b>				11,559,881
Marketing	1.00	0.26%	1,442,375	
Commissions		1.85%	10,117,506	
<b>DEVELOPER FEE</b>		4.77%	26,144,570	26,144,570
<b>MISC</b>		0.25%	1,393,252	1,393,252
<b>Total Soft Costs</b>				106,917,512
<b>TOTAL USES</b>		<b>100.00%</b>		<b>548,373,878</b>

Project Pro forma  
part 2

INTERNAL RATE OF RETURN ANALYSIS - WITHOUT TIF					
Years	Year	Initial Investment	CASH Flow	Sale Price	Total Cash Flow
		0			0
1	2014	0	0	0	0
2	2015	(7,556,956)	0	0	(7,556,956)
3	2016	(8,302,555)	0	0	(8,302,555)
4	2017	(27,404,911)	(2,707,110)	0	(30,112,021)
5	2018	(26,659,313)	1,887,150	0	(24,772,153)
6	2019	(5,201,885)	(1,090,570)	12,806,825	6,514,369
7	2020	(5,201,885)	6,614,111	16,190,691	17,602,917
8	2021	(5,376,606)	1,626,067	25,465,853	21,715,313
9	2022	(5,376,606)	1,290,889	0	(4,085,717)
10	2023	(8,197,028)	(681,142)	8,616,533	(261,638)
11	2024	(8,197,028)	1,438,514	0	(6,758,414)
12	2025	0	(1,450,947)	10,557,516	9,106,569
13	2026	0	2,333,149	0	2,333,149
14	2027	0	2,458,504	17,959,982	20,418,485
	<b>Total</b>	<b>(107,474,778)</b>	<b>11,718,726</b>	<b>81,687,400</b>	<b>(4,168,861)</b>
					<b>-1.05%</b>

INTERNAL RATE OF RETURN ANALYSIS - WITH TIF					
Years	Year	Initial Investment	CASH Flow	Sale Price	Total Cash Flow
		0			0
1	2014	0	0	0	0
2	2015	(7,556,956)	0	0	(7,556,956)
3	2016	(8,302,555)	0	0	(8,302,555)
4	2017	(27,404,911)	(2,707,110)	0	(30,112,021)
5	2018	(26,659,313)	2,307,650	0	(24,351,663)
6	2019	(5,201,885)	434,180	23,111,256	18,343,550
7	2020	(5,201,885)	6,633,284	31,492,092	34,923,491
8	2021	(5,376,606)	3,122,638	41,518,231	39,264,263
9	2022	(5,376,606)	1,681,177	0	(3,695,429)
10	2023	(8,197,028)	(22,820)	14,493,328	6,273,479
11	2024	(8,197,028)	1,835,259	0	(6,361,769)
12	2025	0	(753,578)	16,135,619	15,381,941
13	2026	0	2,864,492	0	2,864,492
14	2027	0	3,198,784	25,090,183	28,288,966
	<b>Total</b>	<b>(107,474,778)</b>	<b>20,583,868</b>	<b>161,840,708</b>	<b>84,868,780</b>
					<b>14.81%</b>



## Fundamental Deal Structure, part 1

- Details and timing of each Phase is market driven
  - RDA contains flexible provisions to deal with market uncertainty
- Developer assumes cost of public improvements at sole risk
  - Public streets and streetscape
  - Connections to regional trail
- Future TIF revenue split between Developer and City:
  - City retains 10% for administrative costs
  - City to use up to \$8.0 million additional on public improvements yet to be determined
- Financial gap evaluated separately for each Phase



## Fundamental Deal Structure, part 2

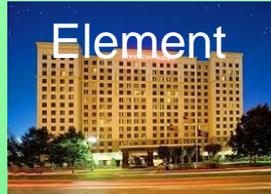
- Each phase to have separate TIF note(s)
- City will issue pay-as-you-go TIF Note(s) to reimburse Developer for qualified costs
  - Term of all payments no more than 26 years
  - TIF Note issued only after developer has incurred qualified costs and completed public improvements
  - If public parking is funded, TIF Note issued only after qualified costs and Certificate of Completion issued for related buildings.
  - TIF Notes bear 6% interest (to Developer)
  - TIF payments come from new taxes created within the TIF boundaries (not general tax levy)
  - TIF Notes can be held or transferred
- Repayment of Notes only if TIF revenue is created

# Significant Deal Points – terminology

1 Project, 5 Phases, Many Elements

Project

Element



Phase



## Significant Deal Points – qualified costs

- All state-qualified costs will be recognized to satisfy 5-year rule of MN TIF Law
- Only locally-approved costs will be reimbursable
  - Demolition
  - Site preparation & soils correction
  - On-site Storm water
  - Public improvements (roads, sidewalks, utilities, etc.)
  - Parking structures that include public parking

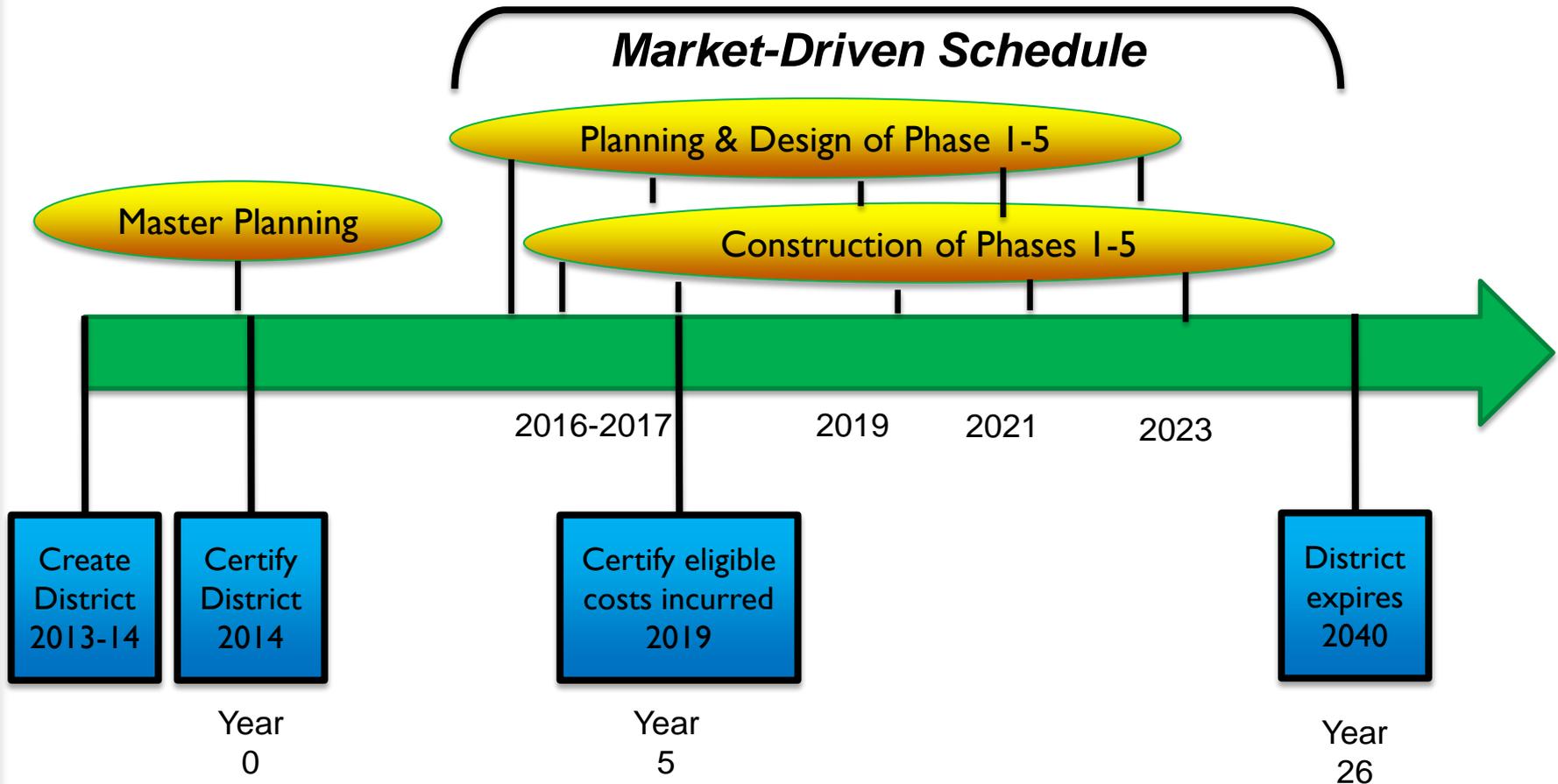


## Significant Deal Points – minimum improvements

- Developer will begin clearance of the south parcel Tower & wings by December 2015
- Developer will pay for reconstruction of W. 77<sup>th</sup> Street after 100,000 sq. ft. of new construction completed
- Developer will provide updates to City at least quarterly



# Significant Deal Points – key dates





## Significant Deal Points – default provisions

City can cancel agreement if:

- Demolition of Phase 1 does not occur by December 2016
- If no activity for two years between phases

City still obligated to make debt payments on any TIF Note issued before default

- Presuming TIF revenue is available to make payments



## Significant Deal Points – “look back” provisions

- City retains the ability to review project finances (IRR) after sale to verify the need for the full TIF Note
  - Evaluated phase-by-phase
  - If IRR of land sale or building sale exceeds fixed amount, “look-back” will apply
    - Threshold for land sale IRR determined in RDA
    - Threshold for building sale IRR determined at time of Final Development Plan approval
  - Amount withheld limited to 25% of profits greater than IRR and not to exceed 25% of the TIF Note
  - True-up look-back amounts after multiple phases complete (if necessary)



**Questions?**

**Discussion**