



**To:** Members of Edina Housing and Redevelopment Authority    **Agenda Item #:** HRA V.  
**From:** Bill Neuendorf *Bill Neuendorf*    **Action**   
Economic Development Manager    **Discussion**   
**Date:** May 20, 2014    **Information**   
**Subject:** Approve Master Redevelopment Agreement with Pentagon Revival, LLC.

## Action Requested:

Approve the Master Redevelopment Agreement with Pentagon Revival, LLC and authorize staff to execute the terms of the Agreement.

## Information / Background:

### THIS ITEM IS IDENTICAL TO CITY COUNCIL ITEM VIII. C.

After approval of the new Pentagon Park Tax Increment Financing District on February 18, 2014, staff negotiated a proposed Master Redevelopment Agreement with the ownership group of the Pentagon Park properties. This proposed Agreement was prepared based on the authorization given by the City Council and HRA members on March 18, 2014 and the general direction expressed at the February 4, 2014 and May 6, 2014 Work Sessions. City staff was assisted by special legal counsel Dorsey and Whitney and public finance advisors, Ehlers & Associates.

This proposed Agreement will formally establish a public/private partnership that will enable the use of future incremental property taxes generated at the revitalized site to reimburse the redeveloper for costs of new public improvements and site preparations necessary to attract substantial new investment.

In accordance with the preliminary zoning approval, the redeveloper anticipates that the site will be razed and redeveloped in multiple phases to include approximately 1.4 million square feet of new office, a new 400-450 room hotel and new service retail. A future phase may substitute new multi-family housing for office space. Numerous public improvements will be necessary to achieve this vision. The total cost of the anticipated private and public improvements exceeds \$500 million dollars.

This proposed Agreement will govern future City financial participation in the redevelopment of this area. Ehlers & Associate has reviewed the financial pro-forma (Exhibit D). The pro-forma indicates that the project is financially viable. It also confirms the overall "but-for" test since a funding gap exists without TIF assistance.

In the future, the City Council and HRA will also be asked to approve the “but for” test for each phase of the project. This “but for” analysis will include a dozen or more factors in evaluating the future level of TIF assistance. These factors include but are not limited to:

1. Amount of equity and projected return on equity.
2. Interest rate and term of financing
3. Level of development fees, management fees, and other affiliated fees
4. Rent levels and any concessions to tenants
5. Pre-leasing of project and quality of tenants
6. Potential inflation on revenues or expenses
7. Leasing and brokerage fees

The appropriate level of TIF assistance for each phase will depend upon the specific project, interest rates, the amount of risk the developer is taking, and the industry standards at that time. The City intends to retain the public finance advisor to evaluate and make recommendations on the level of TIF assistance in each future phase.

After many rounds of negotiations, the Redeveloper is agreeable to the terms of the Agreement. Significant deal points of the proposed Agreement are summarized below.

Staff recommends that the City Council execute the attached Master Redevelopment Agreement to stimulate redevelopment of the outdated commercial structures and to incentive substantial private reinvestment in the Southeast Edina Redevelopment Project Area.

### **Master Redevelopment Agreement (RDA) Summary**

- The City retains full authority to approval final development plans for each phase (Article III)
- The Redeveloper is solely responsible for redevelopment of private property (Article IV)
  - Private investment at risk
  - No local tax dollars at risk (Section 7.1)
- Redeveloper assumes cost of public improvements at sole risk (Article V)
  - Public streets, sidewalks and streetscape
  - Connections to regional trail
- The 42-acre project will be redeveloped in multiple phases over multiple years (Article VI)
  - Details and timing of each Phase is market driven, there are few firm delivery dates
  - Two significant milestones
    - Redeveloper will begin clearance of the south parcel tower & wings by December 2016
    - Redeveloper will pay for reconstruction of W. 77th Street after 100,000 sq. ft. of new construction completed
- The Master Redeveloper retains flexibility to bring in Secondary Redevelopers or to transfer parcels before or after redevelopment. (Article XII)

- Future incremental tax revenue (TIF) split between Redeveloper and City on pro-rata basis
  - City retains 10% for administrative costs
  - Redeveloper has access to \$54 million, plus interest (Section 8.2a)
  - In addition to the 10%, City has access to at least \$2.5 million (with interest) plus up to \$5.5 million (without interest) for off-site public improvements yet to be determined (Section 8.2b)
- City and HRA will evaluate financial gap separately for each Phase (Section 8.4)
- City will issue pay-as-you-go TIF Note(s) to reimburse Redeveloper for qualified costs
  - TIF Note issued only after redeveloper has incurred costs and completed public improvements
  - If public parking is funded, TIF Note issued only after costs incurred and related buildings completed
  - TIF payments come from new taxes created within the TIF boundaries, and are not general obligation bonds
- All state-qualified costs will be recognized to satisfy 5-year rule of MN TIF Law (Section 8.2c)
  - Only locally-approved costs will be reimbursable to the redeveloper, including: building demolition; site preparation; soils correction; storm water retention; public improvements such as roads, sidewalks, and utilities; and parking structures (Sections 7.2 & 7.3)
  - Parking structures reimbursed with TIF will have a permanent easement to allow public use (Exhibit C)
- City retains ability to cancel Agreement if Redeveloper defaults on key obligations (Section 6.3 & Article XIII)
  - Failure to demolition Phase I by December 2016
  - Lack of development activity for two years between phases
- City retains the ability to “look back” and review project finances to verify the need for the full TIF Note (Section 7.4)
  - Evaluated element-by-element and phase-by-phase
  - If IRR of land sale or building sale exceeds fixed percentage, “look-back” will apply
  - Amount returned to the City is limited to 25% of excess profits and not to exceed 25% of the TIF Note on a sliding scale
  - Cumulative amount of look-backs to be trued-up after project completion but no later than 20-years after Agreement is executed

**Attachments:**

Proposed Master Redevelopment Agreement with Exhibits

The attachment is included with City Council Item VIII. C.

HRA Item V. is identical to Council Item VIII. C.