



**City of Newport
Newport Economic Development Authority Workshop Minutes
February 4, 2016**

1. ROLL CALL

Commission Members Present – Tim Geraghty, Tom Ingemann, Bill Sumner, Tracy Rahm, Dan Lund

Commission Members Absent -

2. RED ROCK CROSSING DISCUSSION

Barb Dacy, Executive Director of the Washington County HRA, Melissa Taphorn, Deputy Executive Director of the Washington County HRA, and Jay Dema, Perkins+ Will, presented on this item as outlined in the February 4, 2016 Workshop packet and attached documents. Below is the discussion that took place for each section of the PowerPoint presentation.

Confirm Support for Red Rock Crossing

Commissioner Lund - I thought it was lacking in comparison of this particular site and its attractiveness relative to other sites for housing. I agree that market rate housing is in high demand but I'd like to see how this site compares to other sites. I think that could be done to improve the report. I also thought the hand waving of the smell issue was tough to stomach. We know South St. Paul's ordinance hasn't done anything. It also minimized the demand for industry square footage across the metro. It didn't really acknowledge that the square foot per person will go up. I think it mentioned how that site is better than other ones in the area based on visibility for industrial. I agree that retail and office aren't good for that area but I thought it pushed pretty hard to keep housing and downplayed the demand for industrial.

Mr. Dema - I tried to be careful in the study to recognize that if the option were to try to develop something without much intervention, industrial would have some advantages. I think there are some other inherent challenges. The size of the site is a bit small for industrial. I was trying to recognize that there are other proposed developments that are further along and would have an impact on demand.

Commissioner Lund - Housing wouldn't have any jobs, just a couple maintenance guys.

Commissioner Rahm - Unless you think about the fact that it brings more consumers.

Commissioner Lund - I know the City and County have different perspectives on this. The County has a broader view. From the City's perspective, our number one duty is the residents that are here today. We don't owe anything to the future residents. In my view, the best deal is to get a light industrial business there. We have other sites that would make a lot more sense for housing. The transit site got put there in particular because there are very few sites next to the rail. It's a great place for the transit station but we can't keep chasing that purpose. It's time to take a step back.

President Geraghty - I know but all along, we've been looking at it as transit-oriented development and this Council approved the site for the station. The reason we're here tonight is to give direction on the next use. I'm comfortable on housing and light industrial.

Commissioner Ingemann - I'd like to see housing in area 2, which makes more sense than area 1.

President Geraghty - The HRA is getting mixed messages.

Commissioner Lund - I agree with Tom. Do apartments pay the same as businesses for taxes?

Ms. Dacy - The industrial rate is different than apartments. There is a slight difference between market rate and affordable apartments.

Commissioner Lund - Not the valuation, the tax rate is different right?

Ms. Dacy - Yes.

Commissioner Lund - That's not reflective in the chart.

Ms. Taphorn - The valuation and tax rates are different. I don't have the rates off the top of my head. It has the same rate for retail and office. I haven't done the calculation for industrial. I believe retail and office have a higher rate than industrial and housing is lower. The point of this chart is to look at the different uses on a three acre parcel.

Commissioner Lund - We also have industrial areas that have much higher valuations per acre.

Commissioner Ingemann - They're just looking at the red rock corridor. This is my feedback. The apartments along Maxwell make sense, the apartments by Wilson Lines make sense, the apartments along the railway tracks doesn't make sense. The reason I say that is because there are 17 oil trains a day that come through Newport and that's an accident looking to happen.

Commissioner Lund - The sad truth is that if we have this apartment building, there will be people that will want to stay there but that doesn't mean we should put it there. We should put it somewhere where you would be happy to put your family. I wouldn't want my family living next to the tracks.

Ms. Dacy - So I'm hearing that you would like to stay away from multi-family next to the railway, apartments along Maxwell, and more industrial and commercial as opposed to housing. Is there a consensus around that?

President Geraghty - Yes, I'm comfortable with that.

Commissioner Ingemann - The housing along Maxwell works and a light industrial back in the corner makes sense.

Ms. Dacy - So both north and south of the tracks on Maxwell, you're suggesting apartments?

Commissioner Ingemann - Yes, my only problem is with the houses next to the tracks.

President Geraghty - I assume this is pretty flexible and you would bring a proposal to us.

County Commissioner Bigham - I would just want to say that it depends on who wants to build there. A lot of this is dependent on who wants to come. I know we've had a plan for quite a while and need to respect that this is dependent on which developers want to come. The other thing I want to say is that I know you're concerned about the current residents, we also have a responsibility to plan for the growth that is coming. We are expected to have over 100,000 new residents in Washington County by 2020 according to Met Council.

Commissioner Lund - Do you know what proportion of affordable housing in the County is already in Newport?

County Commissioner Bigham - Not off the top of my head.

Commissioner Lund - I would say a majority of our housing counts as affordable so we're already taking care of our share of the problem so that's where I come back to where it has to be a good deal for the people that are here.

President Geraghty - We want to end the evening by giving them direction. If we don't go with them then we're starting all over.

Commissioner Rahm - I was on the Planning Commission when we started planning and if we didn't seed that year, we wouldn't have anything. They're saying the next thing is apartments or industrial, we should be looking at those.

Commissioner Lund - I know but my thing is how much is it going to cost? My quick math is that it'll spend \$3 million, which is a lot, over the 25 years.

Ms. Dacy - We're going to get into discussion about TIF. I think I understand the direction for the first item. The next item is the first development and Melissa will talk about that.

Examine First Development

Commissioner Rahm - Can they go any sooner than spring 2017?

Ms. Taphorn - The last financing piece, low income housing tax credits, won't be ready until the fall so they can't. They would like to though.

Admin. Hill - Sherri and I met with them a couple weeks ago and they would like to start the CUP process soon so they are ready to go.

Commissioner Ingemann - I think that's a good location.

President Geraghty - How many units?

Ms. Taphorn - 42.

Commissioner Lund - Are you willing to pay, our \$800,000 share probably comes out to \$1.5 million over 26 years for 42 units.

Commissioner Ingemann - You need to get started somewhere.

Commissioner Lund - My \$3 million estimate was way low because they're talking about a \$2 million subsidy on this first one and we're on the hook for 40% of TIF financing.

President Geraghty - Right now, we're getting nothing off of that property.

Commissioner Lund - And we won't for 26 years.

Ms. Taphorn - I think you're jumping ahead and I don't think there is a \$2 million subsidy on this project.

Align Financing Tools with Market

Commissioner Lund - Why is area 1 the most expensive?

Ms. Taphorn - Because it's the biggest land value.

Commissioner Lund - How much did the County pay for that?

County Commissioner Bigham - I believe the whole project was \$6.5 million.

Commissioner Lund - Is there an opportunity to push back at the Transit Authority to say that they lost more money than they're trying to feed into this project? It seems like quite a lot. Area 1 has much less challenges than area 2.

Ms. Taphorn - I don't have the numbers in front of me.

Ms. Dacy - The bigger picture, what we're trying to do is jumpstart the development and take advantage of the opportunities that present themselves in the overall vision.

Commissioner Lund - The most important part of this and whether it's a good deal to the residents is how much it costs.

Ms. Dacy - Yes and what I was trying to point out is the future value of the \$59 million and the return that's been presented.

Commissioner Sumner - What is the date that the future market value is based on?

Ms. Taphorn - I believe it's present value.

Commissioner Lund - The idea that we get a say so with each project is comforting to me.

President Geraghty - Red Rock Square would be the first TIF area?

Ms. Taphorn - Yes.

President Geraghty - Is there a gap in area 1?

Ms. Taphorn - Yes, I'll have Stacie run those numbers and get them to you.

Commissioner Lund - So by declaring the entire area, we have the option to have a TIF anywhere in that area?

Ms. Taphorn - Yes.

Ms. Dacy - To conclude, we heard your comments on item #1 which was confirming support for redevelopment, we heard your comments on the next project, proposed workforce housing and explained the key elements for the special legislation. First, we would bring back a resolution to support a special TIF law to the EDA or Council. Second, we would begin to acquire separate properties in area 2. The workforce housing development would go through your land use process. Do you think you could support the special legislation?

President Geraghty - Yes. Do you have the bill drafted?

Ms. Dacy - Yes. We would bring it back for formal action at a future meeting.

Commissioner Lund - So just to recap, you have the project area and because of that, we can select different TIF districts in that area? Also, if we end up with leftover money, we can use it anywhere in the area?

Ms. Dacy - Yes.

President Geraghty - So if that passes, you would establish the project area in the summer?

Ms. Dacy - That's already been established but once the bill has been passed we can begin working with developers, establish the TIFs as developers come through.

Commissioner Lund - That seems fine. We need to see numbers on what our costs will be though.

Ms. Dacy - We'll be more than happy to come back with that.

Commissioner Lund - In my view, how much they're asking us to pay is a big factor. Is there any chance to put that development at Glen Road and 7th Avenue?

Ms. Dacy - Not at this time.

County Commissioner Bigham - We'll work with the HRA to look at that site in the future.

Ms. Dacy - We have had a couple phone calls from folks about that site.

Commissioner Lund - In my mind, that's a better spot.

3. ADJOURN

Signed: _____
Tim Geraghty, President

Respectfully Submitted:

Renee Eisenbeisz
Assistant to the City Administrator

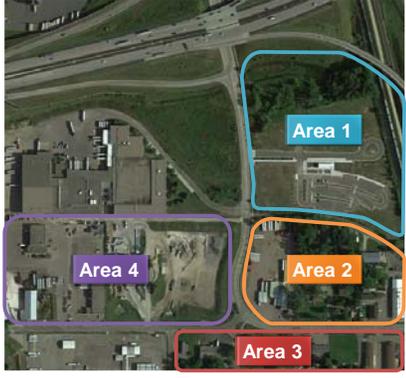


**RED ROCK
CROSSING**

Newport Economic
Development
Authority

Washington
County HRA

February 4, 2016



Workshop Agenda

1. Confirm Support of Red Rock Crossing Redevelopment
2. Examine Proposed First Development
3. Align Financing Tools With The Market
4. Potential Next Steps



Red Rock Crossing Vision

- Rejuvenate important part of City
- Create new living and job opportunities
- Attract new businesses
- Connect to Mississippi River and parks
- Upgrade streets and utilities
- Create transit-oriented design



• "Red Rock Corridor Redevelopment Plan" - 2012



Existing Joint Powers Agreement

- City Role
 - Provide vision for the area
 - Provide feedback to private developer selection
 - Conduct acquisition activities, as appropriate
 - Share expenses for grant applications and due diligence
 - Cooperate regarding municipal approvals, permits, and services
- HRA Role
 - Remove barriers to redevelopment – buy properties, relocate, soil clean up/remediation, or address other barriers
 - Obtain financing – HRA levy, TIF, grant programs, or other financing tools to create developable and marketable sites
 - Secure private developers – hold properties until resold to a private developer



1. CONFIRM SUPPORT FOR RED ROCK CROSSING

- A. Redevelopment process
- B. Summary of updated market study
- C. Two case studies
- D. Review potential development scenarios

A. The Redevelopment Process

- Why does redevelopment take time?
 - Need willing sellers and site control
 - Obtain upfront funds to buy properties and relocate
 - May need to remediate poor/contaminated soils
 - Changes in the market place
- What do developers need?
 - Need consistency of overall vision
 - Need clarity on what land uses and where
 - Need to know there is consistent support for "the vision"
 - Developers need time to put together their proposal and financing



B. Why Update the Market Study?

- Demographic change
- New competitive developments
- Improvement in the overall economy
- Red Rock Corridor transit plans have shifted from commuter rail to bus rapid transit (BRT)



Market Sector Comparisons

	RETAIL	OFFICE	INDUSTRIAL	HOUSING
Growth (Demand)	↑	↓	↑	↑
Competition (Supply)	↑	↓	↓	↓
Site	↓	↑	↑	↔
Other Factors	↓	↓	↑	↑
Overall Development Potential	Very Weak (until other dev occurs)	Very Weak	Strong (very short term)	Strong

↑ Strong Positive Change ↑ Positive Change ↑ Nominal Positive Change ↔ No Net Positive or Negative Change ↓ Nominal Negative Change ↓ Negative Change ↓ Strong Negative Change

Market Timing

Land Use	Timing
Housing: Market Rate	7+ years
Housing: Affordable	Now
Housing: Senior	3 years
Office	10+ years
Industrial	Now
Retail	5+ years (depends on other dev)



Market Feasible Development

Land Use	Within Next 5 Years	5 - 10 Years	10+ Years
Housing: Market Rate	NA	80 – 120 units	NA
Housing: Workforce/Affordable	80 – 100 units	80 – 100 units	80 – 100 units
Housing: Senior	NA	60 – 80 units	120 – 150 units
Office	NA	NA	60,000-80,000 sf
Industrial	50,000-100,000 sf	NA	NA
Retail	NA	10,000 sf	10,000 sf



C. Village in the Park Case Study (St. Louis Park, MN)

2003



2015



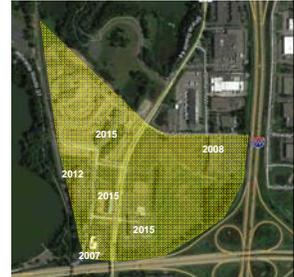
- Former Minnesota Rubber site
- Required new infrastructure
- 10+ years of planning
- 12 years to implement
- Over 300 units of new housing
- Over 30,000sf of retail

New Brighton Exchange Case Study (New Brighton, MN)

2003



2015



- Significant brownfield
- Required new infrastructure
- 15+ years of planning
- Implementation ongoing after 8 years
- Over 250 units of new housing
- 300,000sf of office



Vertical Development Offers More Value

Development Comparison and Taxes Paid on 3 Acre Site							
Use	# of Units	# of Sq/ft	Coverage	Units Per Acre	Value Per Unit or Sq/ft	Development Valuation	City Portion of Taxes
Market Rate Apartments	84	N/A	N/A	28	\$ 113,000	\$ 9,240,000	\$ 22,154
Affordable Apartments	84	N/A	N/A	28	\$ 113,000	\$ 9,240,000	\$ 49,200
Retail	N/A	32,800	25%	N/A	\$ 128	\$ 4,202,500	\$ 37,270
Office	N/A	32,800	25%	N/A	\$ 128	\$ 4,202,500	\$ 7,278
Industrial	N/A	38,000	30%	N/A	\$ 90	\$ 1,350,000	\$ 17,713

- \$11 million of value in 5 years (apartments & industrial uses)
- Potential for more value if a mixed use

Prepare for Private Sector

- Recommend acquiring properties in Area #2 to market a 6- 7 acre site for future development(s)
- Multiple ownerships
- Site preparation needed
- Should start now

2. EXAMINE FIRST DEVELOPMENT

- Proposal
- What does it mean financially?

A. Red Rock Square

B. Accomplishes Vision

- Confluence of market reality and community goals
- Attracts households at \$35,000 - \$75,000 incomes
- Financially feasible
 - Financing plan requires source only available in October 2016
 - All other financing committed
- Ready to proceed
 - Apply for conditional use permit in 2016
 - Construction start in Spring 2017
 - Estimated \$6 million in value

Workforce Housing – Resident Occupations

Occupation	Salary
Avg. Household Income	\$35,050
Landscape Worker	\$55,344
Floor Covering Manager	\$35,368
City St. Paul/Human Service	\$43,737
Teacher	\$37,803
Engineer	\$32,054
Accounting Asst.	\$33,512
PERS Care Attendant	\$26,364
Stylist	\$27,097
Retail	\$36,218
Factory Work	\$35,781
Social Sector/Disabled	\$17,052
Factory Work	\$32,488
Social Services/ Retired	\$25,266
Nursing Home Aid	\$44,221

**Forest Oak Apartments
36 Units**

- Retired – 8
- Management – 5
- Skilled Trade – 4
- Education/Coaching – 4
- Medical – 3
- Administrative/Clerical – 2
- Production – 2
- Hospitality – 2
- Distribution – 2
- Other – 4



Red Rock Square Benefits Newport

- \$10 Million Private Investment to Community
 - Creates new opportunities for local workforce
 - More people to support local business
- New Housing Option
 - Rents are higher than rents in community
 - Premium resident amenities (ie. fitness center)
 - Attract younger households to invest in the community
- Jumpstarts redevelopment interest
 - Reduces risk perceived by other types of developers
 - Captures less than 3% of demand
 - Move forward without infrastructure/amenity improvements



3. ALIGN FINANCING TOOLS WITH MARKET

- A. HRA Levy
- B. How would TIF work in Red Rock Crossing?
- C. Potential Special Law to help City

A. HRA Levy Investment

- \$1.6 million of HRA levy (2012 – 2016)
 - Approximately \$400,000/yr.
 - Acquisition and soft costs incurred
- 2 Sites acquired
 - Multiple parcels required for developable site
 - Resale price dictated by market and appraisal




B. TIF is Essential

Uses	Amount	Resources	Amount
Acquisition	\$3,600,000	Resale Proceeds	\$1,650,000
Relocation	\$565,000	HRA Levy	<u>\$1,200,000</u>
Demolition	\$325,000	Total	\$2,850,000
Soft Costs	<u>\$375,000</u>		
Total	\$4,865,000		

AREA 2 REDEVELOPMENT	
Total Costs	\$4,865,000
Total Resources	<u>\$2,850,000</u>
GAP	\$2,015,000

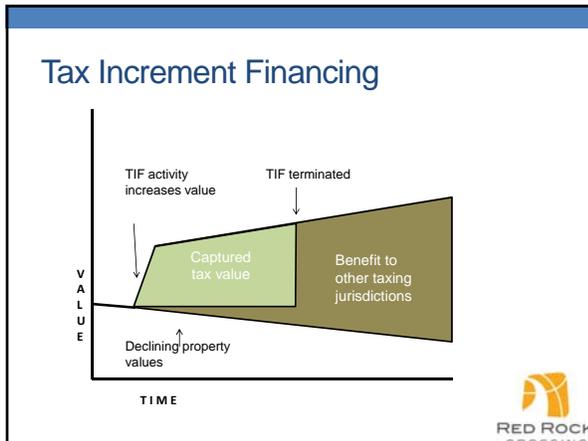


Increase in Market Value

AREAS 1-3	Original Market Value	Future Market Value	Percent Increase in Value
Red Rock Crossing	\$4,818,400	\$59,728,100	129.58%

- For \$6.8 million investment (TIF), City gets an 873% return
- TIF increment is captured to reimburse HRA acquisition costs
- If TIF districts were not established, increased value of over 1,200% will likely not be realized





C. TIF in Red Rock Crossing

- TIF Districts created for each development
- Establishes separate "clock"
- Challenges
 - Take 10+ years to develop
 - Substantial amount of the costs must be incurred at its inception

RED ROCK CROSSING

Determines all properties eligible

- Some parcels may not individually qualify
 - 70% Project Area occupied by buildings
 - 50% must be determined substandard

RED ROCK CROSSING

Pools Increment for Project Area

Project Area Established in 2012

RED ROCK CROSSING

Extends TIF timelines

Redevelopment may take 10 to 15 years
TIF laws allow 5 years

RED ROCK CROSSING

Potential Next Steps

- The City and HRA would cooperate on submission of a special law this session regarding TIF for Red Rock Crossing.
- The HRA would begin to acquire existing properties and assemble larger developable parcels in Area 2.
- The HRA and City would cooperate to increase amenities to support future development.

RED ROCK CROSSING