



City of Blaine Anoka County, Minnesota

Blaine City Hall
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Blaine MN 55449

Legislation Details (With Text)

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|-----------------------|---|----------------------|---|----------------------|--------------------------|
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| Title: | ARTIS REIT FINANCIAL REQUEST PROPOSAL | | | | |
| Sponsors: | Erik Thorvig | | | | |
| Indexes: | | | | | |
| Code sections: | | | | | |
| Attachments: | 1. Developer Narrative, 2. Proposed Campus Site Plan, 3. Exhibit - Extraordinary Site Requirements Plan | | | | |

| Date | Ver. | Action By | Action | Result |
|-----------|------|-----------------------|-----------------------------------|--------|
| 6/30/2022 | 1 | City Council Workshop | Informational: no action required | |

WORKSHOP ITEM - *Erik Thorvig, Community Development Director*

ARTIS REIT FINANCIAL REQUEST PROPOSAL

Artis REIT has an opportunity to deliver a Class A Industrial campus on undeveloped land at the northwestern quadrant of the interchange of Interstate 35W and County Rd J (85th Avenue NE), a major east-west arterial. The proposed development will include:

- Three (3) multi-tenant office/manufacturing/warehouse buildings:
 - Building A - 118,500 SF
 - Building B - 98,900 SF
 - Building C - 100,000 SF
- 28' - 32' interior clear heights
- Campus site improvements with comprehensive stormwater management design and cohesive, native landscaping
- Flexible parking and dock arrangements

The proposed project costs are estimated to exceed \$35,000,000. Job creation is unknown given the speculative nature of the spaces.

Development Purpose & Need:

Artis REIT owns and internally manages approximately 3.8 million square feet of industrial properties throughout the Twin Cities metro. Occupancy is 98%. The proposed development provides the opportunity to grow the portfolio and bring local and national industrial employers

to the City of Blaine. The cost of the investment is over \$35 million. Enclosed is a rendering of the proposed campus plan.

CBRE Group, Inc. (CBRE) represents Artis REIT in leasing and brokerage. Despite the pandemic and political uncertainties locally and nationally, the industrial real estate market has remained resilient. CBRE notes the manufacturing sector has the greatest need, even though wages in the field are 16% higher compared to the average wage across the state. To date, CBRE is in conversations with several prospective companies interested in the development.

TIF & City Financial Assistance Request Details:

The proposed development is consistent with City of Blaine zoning (PBD-Planned Business District) and is compatible with surrounding land uses of primarily light and heavy industrial. Logistically, the site has great access to Interstate 35W, specifically ingress and egress from/to the south - making it a highly desirable location for warehouse/manufacturing assembly employers above all others (i.e., office, retail, residential).

Over the years, several traditional developers have considered the property however all have selected other locations due to the inherent barriers associated with the site. Artis REIT, as a primary owner and property manager of real estate, sees potential in the property through public-private partnership and commitment to long-term success.

For the project to move forward, Artis REIT is requesting a combination of tax increment financing (TIF) and City of Blaine financial assistance to off-set extraordinary costs of developing the site. However, but for the proposed financial assistance outlined within the table below, the project is not feasible.

| Project Component | Marginal Cost(\$) |
|--|--------------------------|
| <u>Site Requirements</u> | |
| MN WCA Wetland Mitigation (Market Rate \$2.50/SF) | \$644,688 |
| DNR Rare Species Mitigation | 12,800 |
| Mass Soil Import (90,000 CY) | 600,000 |
| Required Stormwater Storage Systems | 1,400,000 |
| Pipe Public Drainage Ditch (Max. Developable Area) | 443,400 |
| Change Basins B3 & B4 to Underground System | 83,000 |
| High Water Table (Dewatering Costs) | 98,500 |
| Site Retaining Walls (Max. Wetland Preservation) | 82,600 |
| Financial Assistance Request | \$3,365,000 |

When financial assistance is requested by a developer, city staff works with a consultant (Baker Tilly) to review the project pro-forma. The main purpose of the review is to ensure that any

financial assistance provided does not unduly enrich the developer and is warranted based on the demonstration of extraordinary costs. In addition, the developer needs to demonstrate that the project would not happen, but for the city financial assistance. It was determined by the consultant that financial assistance is warranted for the project based on a thorough analysis of the project pro-forma and expected return on investment by the developer.

Baker Tilly also provided TIF projections to determine how much TIF would be generated by the development if a new economic development TIF district was created. The estimated TIF generated over the nine-year term of the district would be \$2,667,969. After year nine, the city will receive the full taxable benefit of the property and the TIF district would expire.

Incentive Options

The following are several options for the city council/EDA to consider:

Option 1 - TIF and Wetland Credits

TIF - \$2,667,969

Wetland Credits - \$644,688

TOTAL - \$3,312,657

This option provides the maximum amount of TIF to the developer. TIF would be provided by formation of a new economic development TIF district.

The developer has identified the need to purchase wetland credits from the EDA in the amount of \$644,688 (\$2.50/sf.) which is included in the extraordinary costs. The EDA does have the ability to provide wetland credits at no cost. The EDA wetland bank was created to allow developers to purchase wetland credits from the EDA, and those proceeds would be used for economic development related projects in the future. The current balance from wetland credit sale proceeds is \$1,554,282. The EDA has approximately 35 acres remaining of wetland credits available at a present value of \$3.8M. If wetland credits were provided to the developer at no cost, it would reduce the remaining value of credits from \$3.8M to approximately \$3.15M.

Option 2 - TIF Only

TOTAL - \$2,667,969

This option provides the maximum amount of TIF to the developer. TIF would be provided by formation of a new economic development TIF district.

Option 3 - Combination TIF and Wetland Credits at lesser amount

TIF - \$2,667,969

Wetland Credits - amount between \$0 - \$644,688

This option provides the maximum amount of TIF to the developer. TIF would be provided by

formation of a new economic development TIF district.

The EDA could provide a lesser amount than the full \$644,688 needed for wetland credits. Option 1 explains the financial impacts to the EDA by providing wetland credits at no cost.

Option 4 - TIF at a lesser amount

The EDA could provide a lesser amount of TIF. The benefit to the City/EDA is that the TIF district could be decertified sooner, however this option does not benefit the developer to a level where they would proceed with the project.

Comparisons

| Project | Year | Project Impact | EDA Assistance | % of Project Cost |
|-----------------------------|-------------|---|------------------------------|--------------------------|
| CSM - Aveda | 2004 | -125,000 sf bldg. -\$3.9M project | \$1,000,000 | 25% |
| Infinite Campus | 2015 | -100,000 sf bldg. w/parking ramp -\$17.5M project | \$800,000 | 4.5% |
| Streamworks | 2016 | -88,000 sf bldg. -\$6M project | \$400,000 | 6.6% |
| Crown Iron Works | 2019 | -75,000 sf bldg -\$12M project | \$1,200,000 | 10% |
| ARTIS (Proposed) | 2021 | -317,000 sf bldg. | \$3,312,657 (maximum amt) | 9.3% |

The City/EDA has provided TIF and other financial incentives for industrial projects in the past. The following table compares the level of assistance provided for past projects using the % of project value.

Discuss the proposal and provide staff direction regarding the level of assistance, if any, the city council/EDA is interested in providing.