



City of Blaine Anoka County, Minnesota

Blaine City Hall
10801 Town Sq Dr NE
Blaine MN 55449

Legislation Details (With Text)

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Economic Development Authority - *Erik Thorvig, Community Development Director*

Reconsideration of Artis REIT Wetland Credits Financing Request

The EDA will be reconsidering the wetland credit request by Artis for a 300,000-sf. industrial project at 35W/85th Ave. On February 17, 2021 the EDA approved a 50% reduction of the wetland credit amount totaling \$322,344. The EDA will consider whether to fund the remaining 50%.

Artis REIT has an opportunity to deliver a \$35,000,000+, 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:
 - a) Building A - 118,500 SF
 - b) Building B - 98,900 SF
 - c) 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

On February 17, 2021 the EDA approved creating a new economic development tax increment financing (TIF) district providing approximately \$2.6M in financing for the project. The EDA also approved a reduction of \$322,344 (50%) in the cost of wetland credits.

At the March 8, 2021 City Council Workshop, notice was provided by the City Council noting that this item would be reconsidered at the April 5, 2021 EDA meeting.

Project Update

From the time the project was first initiated, the developer has identified the extraordinary costs of developing the site through completing their due diligence on the project. Staff is of the opinion that not only do the costs justify the need for city financial assistance, but also that the opportunity for a development on this particular piece of property with the type and scope of that proposed by Artis, is unlikely in the near future.

Additionally, since the February 17, 2021 EDA meeting, the developer has learned of a major project setback where the DNR did not accept the threatened and endangered species survey completed in August 2020 due to the mowed condition of the property. Prior to construction of Building B & C, the DNR is requiring a resurvey of the associated lots in an unmowed condition. Due to the biology of the plant species on record of being within the vicinity of the property, the survey can only be completed in August 2021. This leaves the construction of Building A as the only development option for 2021. Constructing only one building results in a construction cost premium of approximately 5% or \$400,000 due to lost economies of scale and construction efficiencies. Despite these project cost increases and others, the amount of public assistance requested of the City remains unchanged. The change in construction schedule will require restructuring of the timing of the TIF district.

Stakeholders and Beneficiaries

The following is information provided by the developer in the attached memo.

The primary stakeholders and beneficiaries of this development are the seller, Artis REIT, and the City of Blaine. From the outset, Artis REIT realized the challenges associated with the property and took significant care in determining the public/private assistance needed by all stakeholders to deliver a Class A development. Dollar amounts were not reached arbitrarily.

Regarding the seller, the property is approximately 30 acres and is under contract at a price of \$2.86/SF. This is significantly below market, which is between \$4 - \$5/sf. The seller has owned the property for 22 years with multiple development opportunities and land sale contracts failing to close. He is willing to accept the discount to facilitate a sale and finally see it developed.

Artis REIT is currently underwriting the development, assuming the City of Blaine meets the full level of assistance requested, at a yield on cost of approximately 6%. This includes waiving its development fee, which was previously considered in the analysis submitted to city staff last year. In accordance with company policy, this is traditionally not acceptable nor are returns below 7%. Since Artis' portfolio is hovering around 98% occupancy and acquisition costs continue to exceed development, exceptions to this rule are being considered.

Staff Note: This is the business decision that goes into determining whether a developer proceeds with a project. The project is still "risky" for the developer even with the city assistance and does not meet their typical minimum thresholds to proceed.

Finally, the City of Blaine and its residents, have the most to gain from this development. The remaining balance of wetland credits in question (or \$322,344) is a drop in the bucket to the overall economic benefit this project will generate and sustain. In addition to creating construction jobs and bringing local and national employers to the city, the development is fuel for growth in housing, products, and services (e.g., restaurants, grocery stores, retail, etc.), amongst others. On the flip side, the development assistance afforded by a 100% commitment to wetland credits provides the needed funds to meet quality construction considerations Artis REIT and the City of Blaine expect at this location. Examples include four-sided architecture consisting of a mix of quality materials, mature landscaping, and appropriate screening required for mechanicals and separation of adjacent

residential zoning districts. Funds to cover these requirements would otherwise be secured but for the extraordinary costs of the site.

Investment Committee Decision

The following is information provided by the developer in the attached memo.

On March 24, 2021 Artis REIT's Investment Committee sided in favor of greenlighting the development. Consistent with underwriting, this assumes approval of 100% wetland credit or an equivalent level of assistance. Pending final entitlement approvals, the campus will kick-off with construction of Building A in 2021 and conclude with Building B & C in 2022.

The Investment Committee's decision is significant. For perspective, Artis REIT's current financial commitment to the project is roughly 1% of the overall anticipated \$35 million investment. Artis currently has industrial development projects under construction in Houston and Phoenix. Although the Twin Cities market is very active, these markets are performing better and are competing for additional investment.

Staff Note: The Blaine project is competing with other internal Artis projects for funding. City financial assistance shows a commitment to the developer by the city.

Wetland Credit Information and Alternative Funding Sources

The project requires 5.92 acres of wetland credits. The project is impacting approximately 2.96 acres of wetlands. Replacement or mitigation through wetland credits is done at a ratio of 2:1. The EDA typically sells wetland credits to developers for \$2.50/sf. which equates to a total of \$644,688 for this project.

The EDA has the ability to provide wetland credits at either a reduced rate or 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 approximately \$2.125M. The EDA has approximately 28 acres of remaining wetland credits available at a present value of \$3.1M which would total approximately \$5.225M of funds eventually available. These calculations factor in the already approved 50% reduction in wetland credits to the current balance. If the remaining 50% is granted, the current balance would be reduced by \$322,344. The present value of the remaining 28 acres of credits would remain the same or potentially increase over time. The 28 acres remaining also factors in the reduction of six acres of credits as a result of this project.

There has been some discussion by the EDA regarding alternative funding sources to cover the remaining \$322,344 financial gap. The EDA has several funding sources for economic development activities. The following are those sources along with current balances:

EDA Wetland Bank - \$2.125M (current balance) + \$3.1M (value of remaining credits) = \$5.225M

EDA Pooled TIF - \$1.8M

EDA Redevelopment - \$4.4M

In general, these funds have limited restrictions and can be used interchangeably. The EDA could choose to use any of these funding sources to fund the remaining \$322,344 gap for this project.

This project meets the desired outcome of growth along the 35W corridor.

Not applicable.

If additional funding is approved, it would be in the amount of \$322,344. There are various options of which EDA accounts to fund this.

Not applicable.

Staff recommends discussing the proposed request and either approve additional funding via resolution or take no additional action.

Memo from Artis REIT
Site Plan

WHEREAS, ARTIS REIT is exploring the option of developing approximately 311,000 sf. of Class A industrial space near the intersections of the 35W Service Road and 85th Avenue in Blaine; and

WHEREAS, the developer has completed due diligence for the site and has identified approximately \$3.3mil in extraordinary costs related to site conditions; and

WHEREAS, the developer has requested city financial assistance to reduce the financial impact of said extraordinary costs; and

WHEREAS, the project requires 5.92 acres of wetland credits at a cost of \$644,688; and

WHEREAS, the city of Blaine EDA has the ability to provide wetland credits at a reduced rate to assist in financing the project; and

WHEREAS, on February 17, 2021 the EDA approved granting a 50% reduction in wetland credits at an amount of \$322,344; and

WHEREAS, the EDA reconsidered the remaining 50% reduction in wetland credits on April 5, 2021.

NOW THEREFORE, BE IT RESOLVED, that the Blaine Economic Development Authority hereby is willing to sell remaining wetland credits required for the project at a cost of \$0 to assist in the financing of the project.

PASSED by the Blaine Economic Development Authority this 5th day of April, 2021.