



# City of Blaine Anoka County, Minnesota

Blaine City Hall  
10801 Town Sq Dr NE  
Blaine MN 55449

## Legislation Text

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**WORKSHOP ITEM** - *Erik Thorvig, Community Development Director*

### **ARTIS REIT FINANCIAL REQUEST PROPOSAL**

This item was originally discussed at the January 11, 2021 workshop. There was no clear consensus from the City Council regarding providing financial assistance for this project. Since that meeting staff has gathered additional information to assist the City Council in making an informed decision regarding the proposal.

#### Mechanics of Tax Increment Financing (TIF) and Wetland Credits

At the January 23, 2021 City Council retreat, staff provided background information on the mechanics of TIF, wetland credits and other EDA funding sources.

The following is additional project-specific information related to TIF.

- **TIF Source** - If TIF is provided for this project, the TIF funds are generated from the increase in value and taxes paid by this project. In other words, the increased tax revenue from this project basically goes back to the developer to finance a portion of the project for a duration of eight (8) years. The estimated TIF generated by the project is \$2,667,969. It's important to note that only \$899,681 of that amount is the city's allocation. TIF also captures the school district and county portion of taxes. The school districts portion would be \$800,180 and the county's portion would be \$787,628. The increment to be generated from this project is not available for use elsewhere or for some other project. In addition, TIF provided for this project would not utilize other taxpayer funds or EDA funding sources that could be used for other economic development activity in the City.
- **City Risk** - Any TIF payment would be structured where annual TIF payments for a period of eight (8) years would be provided to the developer (PAYGO financing). There is no financial risk to the City as any payment to the developer requires them to perform and maintain the value of the project otherwise the developer will receive less or no TIF.
- **The "But-For" Test** - In order for a new TIF district to be created and funds provided to a developer, the developer must demonstrate that the project would not occur as proposed, but for the City assisting in the financing of the project through TIF.

The developer has provided City staff and the City's financial consultant (Baker Tilly) thorough information regarding the project pro-forma. The main purpose of the review is to ensure that any financial assistance provided does not unduly enrich the developer or land seller and is warranted based on the demonstration of extraordinary costs. 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.

The property has never been developed. Staff is aware of several reputable industrial developers that have looked at the property within the last five years. Because of the extraordinary costs associated with developing the site those developers chose not to proceed. ARTIS is the first developer willing to complete a thorough due diligence analysis which revealed the need for TIF assistance in order to make the project financially feasible. Staff believes that any developer looking to maximize development on the site is going to incur extraordinary costs and therefore require the need for TIF.

A project could still occur in the future without the need for (or possibly require less) TIF assistance. However it would not maximize value on the site and:

- The project would not happen within the same timeframe as the proposed ARTIS project and the City would not immediately benefit from the positive impact of said project such as job growth, impact on area retail/service businesses and impact to the Blaine housing market.
- The development would be at a lesser value and level of private investment.
- The development would be less square footage which doesn't maximize the level of jobs.
- Another project may have not have as high a quality of amenities and aesthetic finishes.

By providing TIF for the proposed project, the City investment is maximizing the project which accomplishes the following:

- Maximizes the development footprint and private investment which creates the highest tax value and in-turn tax revenue to the City in the future.
- Creates the most building square footage which will provide for the maximum amount of jobs.
- High-finish architectural design.

- City of Blaine TIF Policy - The City of Blaine updated its TIF policy in 2018 (see attached). The policy outlines objectives and guidelines for when the City should consider using TIF. Without going into the details of the policy in this staff report, the community development director and finance director believe the proposed project and level of assistance is consistent with the guidelines set-forth in the policy.

### Current Industrial Vacancy in Blaine

The developer has indicated that, at this time, all three buildings would be built as speculative, meaning they do not have any secured tenants. For a developer to consider constructing a project of this scale and investment without secured tenants shows that they are confident there is a strong market in Blaine for office/manufacturing/warehouse users.

The developer's broker provided information regarding current industrial vacancy rates in Blaine. The current vacancy rate is 3%, which is the lowest it's been since 2017 and is significantly lower than neighboring communities. There is only one existing vacant industrial space in Blaine over 30,000 sf. currently available. Lastly, there is currently positive absorption for industrial space in Blaine for the first time since 2016. Positive absorption means more space was leased up than was made available on the market. It indicates a relative decrease in the supply of available industrial space available in Blaine.

If additional industrial space is not made available in Blaine, the City would likely lose opportunities for businesses to either locate or expand within Blaine and those businesses would locate in other communities.

### Potential Job Creation

The developer's broker has provided information regarding the types of businesses looking at the project and the potential job creation (attachment titled Blaine 35 Active Prospects). Potential job creation based on current prospects ranges from 225-260 jobs. The businesses looking at the project do not currently reside in Blaine and therefore would be new jobs to the community.

Industrial job growth is vital to any community. These types of businesses employ people that live in Blaine, eat at Blaine restaurants and shop at Blaine stores. Certain sectors that Blaine is trying to attract such as high-end grocery, restaurants and retail analyze many things in their service area, including job creation centers such as industrial parks. Projects such as what ARTIS is proposing can only be seen as a benefit to Blaine and the sectors Blaine is trying to attract.

### Future Tax Generation

If a TIF district is created, the City and other taxing authorities would receive the full positive tax impact of the project after eight years. It is estimated the City's share of annual property tax

revenue at that time would be between \$95,000 and \$125,000 as a result of the project.

If the project does not move forward the property would remain vacant and undeveloped for an unknown period of time and the City would only collect property tax generated from a vacant parcel of land - about \$5,500 annually.

#### Previous Staff Report and Background on the Project

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 (85<sup>th</sup> 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.

<b>Project Component</b>	<b>Marginal Cost(\$)</b>
<b><u>Site Requirements</u></b>	
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
<b>Financial Assistance Request</b>	<b>\$3,365,000</b>

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's 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.