



City of Blaine Anoka County, Minnesota

Blaine City Hall
10801 Town Sq Dr NE
Blaine MN 55449

Legislation Text

File #: WS 22-098, Version: 1

Workshop Item - *Erik Thorvig, Community Development Director*

Title

Rainbow Village Proposal

Background

In 2021, Roer's Companies presented a development proposal for the Rainbow Village shopping center at 551 87th Avenue. The development proposal presented in 2021 included demolition of the former Rainbow grocery store and construction of 250 units of multi-family housing. The new owner of the strip center was also proposing aesthetic upgrades to the exterior of the center including new building elevations, site signage, lighting, and landscape upgrades. The development plan included a request for Tax Increment Financing (TIF) to off-set redevelopment costs and allow for the rent structure of the building to be slightly less than market-rate and target rent levels for those making 70% of the area median income, or approximately \$82,740 for a family of four.

The June 14, 2021, workshop focused on whether the City Council would be interested in changing the existing land use designation from CC (Community Commercial) to HDR-2 (High Density Residential-2) to accommodate the multifamily building at up to 60 units/acre. This action requires five affirmative votes from the City Council. Direction at the workshop indicated there was interest from at least five councilmembers to change the land use. Feedback was provided to the developer about designing the site so the impact to the single-family residential properties across Jefferson Street would be reduced.

The October 11, 2021, workshop focused on whether the City Council would support providing TIF. The developer request was \$7,225,000. The Council was generally supportive of providing some level of TIF, but potentially not to the level that would allow the project to move forward. There was discussion about the rent structure and how that resulted in the need for TIF beyond the extraordinary redevelopment costs.

Minutes from the June 14, 2021, and October 11, 2021, workshops are included.

Since last fall, the city has finalized the Northtown Area Redevelopment Plan and reviewed existing EDA fund balances to better understand the potential financial commitment needed in the Northtown area to catalyze private redevelopment consistent with the plan. The Northtown plan identifies a shift in land uses from a predominately retail area to a mix of retail, residential, office and civic uses. The market study completed identifies the demand for up to 750 additional Class "A" multi-family units in the next ten years for the area. Class "A" generally means market rate/luxury buildings with high-end exteriors, interior amenities, and high-quality construction. The master plan identifies redevelopment of this site consistent with the proposed plan. With that said, the master plan was based on the previous proposal submitted by Roer's. Pages from the Northtown plan related to the market study and short-term phases are attached.

The property owner has been patiently waiting to bring a proposal forward until the Northtown plan was finalized. Roer's is still interested in developing a multi-family project on the site. A proposal was presented at the July 18, 2022, workshop. The site plan and project has changed since the discussions in 2021. General differences are:

- 220 units of market rate apartments - The number of units has been decreased since the original proposal and the rents are now proposed to be market rate for the area and higher than previously proposed.
- The building has been shifted to the west to create a larger setback from the residential properties on Jefferson Street.

The attached narrative provides further information on the project, including unit makeup, amenities, etc.

Several questions/concerns were brought up by the city council at the July 18 workshop related to location and height of the building, buffer from the residential properties to the east and general neighborhood desire for the project. Additional information has been provided by the property owner/developer. Drawings are included which show the relationship of the new building to the existing, vacant grocery store space. The proposed apartment will be 54' further from the property line than the existing building. The drawings show a "stepped-down" building where portions of the north and south ends of the building are three stories versus four. The massing view shows comparison in height to the existing (in yellow) and proposed building (in white).

Staff has compiled information on adjacent properties to the north and east. The information provided shows age of houses, property values, when the homes were purchased and for what amount and what properties are currently rentals. There was discussion at July workshop about obtaining feedback from adjacent residents on the proposal prior to formal submittal if the developer decides to move forward.

The City's current policy requires a neighborhood open house after formal application has been made and prior to the Planning Commission meeting. In this instance, the developer could hold an open house prior to formal application to gauge resident concerns and/or obtain feedback from residents on how to adjust the plan to mitigate neighborhood impacts.

The developer is still requesting TIF to off-set the redevelopment costs associated with the project. Tax increment financing is a tool the city may consider using to support financial assistance for the project, subject to meeting the "but for" test and need for public financial participation. A blight inspection confirming qualification of the building as substandard for inclusion in a TIF District has been completed to provide the basis for which a Redevelopment TIF District could be established.

City staff, with assistance from Baker Tilly, have been working with Roer's to understand the developer's financial pro-forma for the project and determine the amount of TIF necessary for the project to be financially feasible. The developer has identified the overall project cost to be \$53,637,851 which has increased from \$48,78,851 as proposed in 2021. The developer has requested \$7,500,000 in TIF.

Baker Tilly's analysis is attached. In summary, based on the financial analysis and available financing

assumptions, without financial assistance, the project would not appear to be feasible. Without assistance, the projected annual and cumulative rate of return is below industry standards for this type of project. The rate of return analysis indicates that the provided financing structure would not be financially viable without one or more of the following: 1) reduction in project costs 2) additional annual cash flow, and/or 3) additional funding sources. With annual public assistance the project is projected to achieve marketable returns. There are ranges of what would be considered market returns and are generally subject to the project type, market indicators, investor demands and financing structure. The level of public assistance is expected to have an impact on what the projected returns for the project could be.

If the city were to provide the full \$7.5M in TIF to the developer, the district could be closed in 20 years (see table 3a).

The concept of capturing “pooled” dollars was mentioned at the July workshop. Typical past practice in Blaine is to provide the developer the committed TIF funds and close out the TIF district in the shortest term possible. This allows the city to collect full property taxes that are generated from the development once the district is closed. Under a pooling scenario, the district would remain open for the full 26 years and the city would retain the maximum allowable amount (up to 25%) for eligible and qualifying redevelopment projects and expenses within the overall Northtown project area. The amount the city could retain is approximately \$4.8M (see table 3b). This is an additional funding source to pay for projects in the Northtown area including public infrastructure and/or providing assistance to other redevelopment projects without the need for additional TIF districts being created and/or use of existing EDA fund balances or general fund dollars. If this approach were used, it is a win-win for the project and city as the project can move forward and the city can retain a significant funding source to help redevelopment elsewhere in the district.

Mikaela Huot with Baker Tilly will present on the TIF information at the workshop.

Staff Recommendation

The Northtown area is a priority for the city. The property in its current condition is not providing a strong benefit to the overall area. The property is generating crime issues due to presence of a vacant building. The proposed project will bring significant new investment into the area and resolve several existing issues including removal of a blighted, vacant building and likely reducing crime because of the building being removed and new residents occupying the area 24/7.

This site was identified as a short-term project area in the Northtown plan. Arguably, this is the readiest site for redevelopment as there is a property owner wanting to reinvest and a developer interested in completing a project. Other alternatives for the site have been discussed including townhomes or new commercial development.

Roer's staff provided an opinion on the feasibility of rental townhomes based on their experience. They stated *“the rental townhome projects that are currently being constructed are typically being done on 10-20 acre sites. The reason for this is so that you can get enough townhomes to be efficient in having a full-time property manager, and to spread out the cost of a community amenity space (clubhouse and pool) as well as the cost of land. Townhome density is typically about 10-12 units/acre, so on this site we'd be in the range of about 45 townhomes. At that amount the land cost would be \$89,000 per townhome, which isn't economically feasible. Your payroll and expenses per unit would also much higher than normal because of the low unit count. Simply put, this site wouldn't*

be attractive to those who develop the type of townhomes the city would like to see. It may attract someone who would build cheap, B- level townhomes with no on-site management presence."

Staff believes that new commercial/retail development would be challenging as an initial project in the area as it wouldn't attract the tenant mix the city wants to see. This was reflected in the market study completed as part of the Northtown master plan. There likely won't be an upgrade in the commercial/tenant mix until some new residential projects are introduced in the area. Arguably, this is most problematic site in the area right now due to crime/blight, so having it be one of the first redevelopment projects for the area is important.

If this project does not move forward, it is unknown when another project may be proposed on this site or others in the Northtown area which could slow down overall redevelopment efforts. Alternatively, if this project were to move forward, it is possible that additional investment will begin to occur on other sites that have been identified in the short-term vision of the Northtown plan.

Attachment List

Concept Plan

Narrative

Pages from Northtown Plan

Short Term Northtown Plan

Baker Tilly Memo

Adjacent Property Information

June 14, 2021, Minutes

October 11, 2021, Minutes

July 18, 2022 Minutes