MINUTES

Mankato Economic Development Authority
Regular Meeting
August 12, 2024 - 6 p.m.
IGC - Mankato Room

1. **Call Meeting to Order**

Members Present: Jenn Melby-Kelley, Jessica Hatanpa, Kevin Mettler, Mike Laven, Dennis Dieken, Michael McLaughlin, and Chair Najwa Massad.

Staff Present: Executive Director Susan Arntz, Community Development Director Mark Konz, Facilities Project Manager Jim Tatge, and City Clerk Renae Kopischke.

2. **Approval of Agenda**

Ms. Hatanpa moved and Ms. Melby-Kelley seconded a motion to approve the agenda as written. The motion carried unanimously.

3. **Approval of Minutes**

Mr. Laven moved and Mr. McLaughlin seconded a motion to approve the Economic Development Authority minutes of the Regular Meeting of May 13, 2024. The motion carried unanimously.

4. **Economic Development Authority Business**

A. Mr. Tatge reported that the Economic Development Authority reviewed the feasibility of Capital Improvement Project 11109; 919 Mayvis Boulevard Renovation at their March 4, 2024, meeting. He indicated that the project includes replacement or installation of gypsum wall board, floor coverings, wall base, painting, kitchen cabinets, bathroom remodel, lighting, interior/exterior doors, and select windows.

Mr. Tatge stated that bidding documents were developed, and the project was advertised for public bidding on July 2, 2024. He noted that six contractors submitted bids for the project with Land to Home Development, Inc. being the lowest responsible bidder at $64,700, meeting all requirements set forth by the authority and federal regulations. He noted that the contract has a substantial completion date of December 31, 2024.

Mr. Dieken moved and Ms. Hatanpa seconded a motion to approve the Resolution considering bids on Capital Improvement Project 11109; 919 Mayvis Boulevard Renovation. The motion carried unanimously.

B. Mr. Konz reported on the redevelopment proposal for 101 East Main Street, 121 East Main Street and 118 South 2nd Street from Hotel Mankato, LLC. He stated that the proposal involves demolishing two vacant buildings and constructing two adjoining hotels with a total of 282 hotel guest rooms, a rooftop restaurant including an outdoor patio, 168-stall underground parking garage and nine surface parking stalls. He summarized that at the intersection of Riverfront Drive and Main Street, a four-story extended stay Element by Westin is proposed with 126 all-suite guest rooms, and at the intersection of Second and Main Street, a 10-story AC by Marriott with 156 hotel guest rooms. He explained that the two hotels would be adjoined by a common lobby with a direct connection to the existing City skywalk, providing hotel guests with direct access to the Civic Center. He added that the hotels will share common guest amenities.

Mr. Konz indicated that the estimated project cost is $92,710,000 and construction is anticipated to begin in late 2024 or early 2025 and be completed in 2026. He noted that it is anticipated there will be a total of 116 full-time equivalent jobs created for both hotels and the rooftop restaurant.

Mr. Konz stated that the developer is requesting financial assistance in the form of pay-as-you-go tax increment financing (TIF) from the city through the creation of a redevelopment TIF district that would be used to assist with the redevelopment of the site. He mentioned that the costs were additional costs as compared to developing a “greenfield” vacant site that wasn’t previously developed. He commented that the developer is seeking TIF reimbursement of up to $16,834,000, which includes costs for building demolition, site demolition, soil corrections, earth retention, site improvements, site lighting, water, sanitary and storm hookups, dewatering, construction fencing, site preparation, parking and other improvements.

Mr. Konz pointed out that an application to the Minnesota Department of Employment and Economic Development (DEED) was submitted requesting up to $1,859,385 for building demolition, site demolition, soil corrections, earth retention, site improvements, site lighting, water, sanitary, storm, dewatering and construction fencing, and it is anticipated grant awards will be announced in September 2024.

Mr. Konz explained that the city would not upfront the funds as the developer would receive two payments per year after the property taxes are paid for the term of the TIF District, depending on whether the reimbursable costs are repaid earlier. He noted that during the term of the reimbursement, the local taxing jurisdictions will still collect and retain the taxes associated with the original tax capacity as part of ad valorem taxes.

Mr. Konz commented that the city contracts with Baker Tilly to review financial assistance requests. He noted that the Council’s policy decision has been to limit the tax increment reimbursements to 15 years to account for the additional tax capacity to be realized before significant depreciation in the asset is realized. He indicated that the request is for 26 years, as the developer has stated that the maximum term of assistance will be necessary to attract equity investors and provide desired market returns as necessary to deliver an additional funding source to offset the extraordinary redevelopment costs of the project site.

Mikaela Hout, Baker Tilly, stated that their financial analysis and available financing assumptions, indicate that without financial assistance, the project would not be feasible due to the extraordinary redevelopment costs mixed with current market conditions. She indicated that the analysis found the developer’s return without the proposed TIF assistance is 7.36%, which is below the feasibility benchmark;

therefore, the project would be unlikely to proceed but for the requested TIF assistance. She added that they also reviewed the estimated impact on project returns with assistance for a term of 10 and 15 years, with the return on 10 years being 8.01% and on 15 years 8.67%. She mentioned that the developer has indicated that it would fall far below the desired and necessary return threshold and may impact the ability of the project to proceed as proposed. She touched on the returns without assistance and with assistance over 10, 15 and 26 years.

Ms. Hout explained that the financial analysis included a review of third-party benchmark surveys, which are nationwide surveys of real estate investors, which identify the return benchmarks the responders would need to realize in order to pursue a project. She referred to the Price Waterhouse Cooper ("PWC") Rest Estate Investor Survey that was reviewed, which identified a national average of desired unleveraged returns for investment in hotels ranging from 9.00% to 12.00% with an average of 10.5%. She pointed out that the PWC benchmark is conservative and represents the responses of major institutional equity real estate investors who are primarily investing in institutional-grade property on a national level, and that assistance over 10 and 15 years does not fall within the benchmark, but a term of 26 years would fall within the PWC benchmark. She added that the analysis included a review of the Debt-Coverage Ratio, which is another measure for evaluating the project feasibility, and it was found that the estimated debt coverage ratios indicate that public assistance will be required to obtain debt financing for the project.

It was noted that the applicant has received a preliminary letter of commitment for private project financing; thus, should staff be directed to prepare tax increment documents, that would also include preparation of documents to decertify TIF District No. 43-1 which was created in 2022 in reference to previous redevelopment plans for the Landmark building (121 East Main Street and 118 South 2nd Street). A new TIF District would be created to encompass the entire redevelopment site of 101 East Main Street, 121 East Main Street and 118 South 2nd Street.

Ms. Hatanpa commented on 15-years being used for past projects and noted that she felt it was two projects combined which, by being developed at the same time, likely creates some efficiencies; thus, she was comfortable with the 26 years.

Mayor Massad indicated that she was in favor due to the need and scope of the project.

Mr. McLaughlin noted the changes in downtown and growth as well as the need for hotels downtown.

Mr. Mettler mentioned the view from across the bridge and felt it would be a good addition to the community.

Mr. Laven quoted the section of the EDA policy that states eligible projects that include infrastructure improvements and demolition of underutilized industrial and commercial sites to reuse previously developed land/buildings. He felt that requirements had been met and if the buildings remained in their current state, there would be a further decline.

<u>Mr. Laven moved and Mr. Mettler seconded a motion directing staff to prepare materials for a hearing on October 15, 2024, regarding creation of tax increment district No. 50-1 for a 26-year term and approval of a development agreement as well as decertification of TIF District No. 43-1</u>. The motion carried unanimously.

C. Mr. Arntz stated that the PHA Annual Plan is a comprehensive guide to public housing agency policies, programs, operations, and strategies for meeting local housing needs and goals. She commented that the plan that represents the role of the agency and programs in the community that follows strategic planning identified in the community consolidated plan, strengthens ties to community service agencies, fair housing, and accesses tools necessary to achieve established goals.

Ms. Arntz added that the plan has been posted for public comment and Resident Advisory Meetings will be held in August with a summary of any comments received being shared at the September 9, 2024, Public Hearing.

Mr. Laven moved and Mr. McLaughlin seconded a motion to set September 9, 2024, as the date of public hearing for the Annual Agency Plan and 2024 Public Housing Capital Funding. The motion carried unanimously.

5. **Reports/EDA Comments**

None.

6. **Adjournment**

There being no further business, Ms. Hatanpa moved and Ms. Melby-Kelley seconded a motion to adjourn. With all members voting in favor, the meeting adjourned at 7:41 p.m.

Prepared by:	Approved by:
___________________________	___________________________
Renae Kopischke City Clerk	Najwa Massad Chair