AGENDA

Economic Development Authority
Monday, February 10, 2025
(following the Council Meeting at 6 p.m.)
IGC/Atrium - Mankato Room

1. **Call Meeting to Order**

2. **Approval of Agenda**

3. **Approval of Minutes**

   Economic Development Authority Meeting of January 13, 2025

4. **Economic Development Authority Business**

   A. Preliminary review of updated request for possible tax increment assistance for 830 North Broad Street; by request of MAH BKS, LLC.

   B. Resolution to authorize application to Minnesota Housing for the Housing Trust Fund Grant program and EDA matching funding.

   C. Motion recommending use of project-based Housing Choice Vouchers for the MAC-V Radichel Veteran Townhomes.

   D. Motion canceling February 10, 2025, as the date of public hearing to consider conveyance of 49 Public Housing Units under the Section 18 Disposition Program to the City of Mankato.

5. **Reports/EDA Comments**

6. **Adjournment**

Economic Development Authority

Meeting Date: 02/10/2025

Title: Minutes

Submitted By: Renae Kopischke, City Clerk

Agenda Item:

Economic Development Authority Meeting of January 13, 2025

Attachments

Minutes

MINUTES

Mankato Economic Development Authority
Regular Meeting
January 13, 2025 - 7:05 p.m.
IGC - Mankato Room

1. **Call Meeting to Order**

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

   Staff Present: Executive Director Susan Arntz, Community Development Director Mark Konz, Associate Director of Housing and Economic Development Nancy Bokelmann, and City Clerk Renae Kopischke.

2. **Approval of Agenda**

   Ms. Hatanpa moved and Mr. Mettler seconded a motion to approve the agenda as written. The motion carried unanimously.

3. **Approval of Minutes**

   Ms. Melby-Kelley moved and Mr. Dieken seconded a motion to approve the Economic Development Authority minutes of the Regular Meeting of December 9, 2024 as written. The motion carried unanimously.

4. **Economic Development Authority Business**

   A. Ms. Bokelmann reported that staff were contacted by the Minneapolis HUD Field Office and the Pipestone HRA to consider the consolidation of the Pipestone HRA's Housing Choice Voucher program into our program. She stated that the Pipestone HRA has an allocation of 53 vouchers (23 leased and eight families on their wait list) and has had substandard ratings for several years due to the underutilization of their vouchers. She noted that the two multi-county HRAs in southwestern MN have considered consolidation but, under new leadership, do not have the capacity to expand their voucher programs.

   Ms. Bokelmann indicated that a consolidation would allow the vouchers to be utilized in Blue Earth County, as currently, the Mankato EDA is in shortfall funding, using 100% of the program budget for 89% of the allocated vouchers with 917 families on the waiting list. She added that in addition to considering these vouchers, the EDA has applied for 25 Bridges vouchers through MN Housing and anticipates 80 -90 vouchers through MN Housing's Bring It Home Voucher Program. She commented that these additional vouchers expand affordable housing opportunities in the community and are supported by the Affordable Housing Action Plan and the Strategic Plan for the city.

Ms. Bokelmann explained that to consolidate the vouchers, HUD requires a contractual relationship with the Pipestone HRA or another entity to assist the EDA in the administration of vouchers in Pipestone County. She mentioned that the EDA will need to contract for services with the Pipestone HRA to conduct necessary inspections and assist in coordinating certifications that would best meet participant needs in Pipestone County due to the distance between our jurisdictions. She stated that a Pipestone preference would be utilized and prioritize families that could be served under contract with the Pipestone HRA. She concluded that information on the next steps for a consolidation would be provided by the Minneapolis HUD Field Office, including consideration of which entity, the Mankato EDA or Blue Earth County EDA, would be recommended for consolidation.

Ms. Hatanpa moved and Mr. Mettler seconded a motion for staff to proceed with the Minneapolis Field Office and Pipestone HRA in considering a consolidation. The motion carried unanimously.

B. Ms. Bokelmann stated that the United States Department of Housing and Urban Development requires the annual review and adjustment, if required, of tenant-furnished utilities. She noted that utility allowances are based on reasonable consumption of energy for conservative families to provide essentials needed to provide a living environment that is safe, sanitary, and healthful. She summarized the analysis method used and indicated that this year's analysis was conducted by The Nelrod Company.

Ms. Bokelmann indicated that the utility allowance schedule was adjusted using the latest HUD projections where needed, and the new rates show slight decreases in electric and gas rates and increases in water and sewer rates. She summarized that the use of this schedule provides average utility costs for participants who pay their own utilities and streamlines efficiency in calculating rent subsidies using standard rates under the Housing Choice Voucher program, Public Housing and other affordable housing projects that access these schedules throughout the county.

Ms. Bokelmann noted that the allowances are based on typical costs of utilities paid by energy-conservative households that occupy housing by size and type in a community. She added that the PHA must use the appropriate utility allowance for the lesser of the size of dwelling unit actually leased by the family or the family unit size as determined under the PHA subsidy standards.

Mr. Dieken moved and Ms. Melby-Kelley seconded a motion approving the Resolution adopting the EDA Housing Choice Voucher Program Utility Allowance Schedule . The motion carried unanimously.

C. Ms. Bokelmann stated that the Mankato Economic Development Authority (EDA) operates a public housing portfolio of 179 units and approved the conversion of 49 scattered site units from the Section 9 Public Housing program through the Section 18 Disposition program into long-term, Project-Based Section 8 rental assistance that provides a stable and predictable annual subsidy on December 11, 2023.

Ms. Bokelmann commented that through this disposition, the EDA agreed to sell the 49 scattered-site public housing units to the City of Mankato for less than fair market value and the city will continue to serve low-income households under the Section 8 Project-Based Voucher Program administered by the EDA.

She mentioned that under the disposition, the units will be subject to a Declaration of Restricted Use Agreement requiring the rental properties to serve low-income households for a term of 30 years, with such use agreement to be a recorded covenant running with the land and binding on successors and assigns of the city.

Mr. Laven moved and Mr. Mettler seconded a motion setting February 10, 2025, as the date of public hearing to consider the conveyance of 49 public housing units under the Section 18 Disposition program to the City of Mankato. The motion carried unanimously.

5. **Reports/EDA Comments**

None.

6. **Adjournment**

There being no further business, Mr. Laven moved and Ms. Hatanpa seconded a motion to adjourn. With all members voting in favor, the meeting adjourned at 7:22 p.m.

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

AGENDA RECOMMENDATION

Economic Development Authority **4. A.**

Meeting Date: 02/10/2025

Agenda Item:

Preliminary review of updated request for possible tax increment assistance for 830 North Broad Street; by request of MAH BKS, LLC.

Recommendation/Action(s):

Review and discussion. The EDA has the following options:

1. Request staff to provide clarification or provide additional information to be reviewed at a future meeting; or
2. Adoption of a motion directing staff to prepare materials for a hearing on April 14, 2025 regarding creation of tax increment district No. 48-1 and approval of a development agreement after obtaining a preliminary letter of commitment for project financing from a private lender; or
3. Decline to proceed with considering assistance.

Summary:

On January 8, 2024, the EDA preliminarily reviewed a request from MAH BKS, LLC for tax increment assistance for a redevelopment proposal at 830 N. Broad Street for a 3-story, mixed-use building. At that time, the EDA adopted a motion directing staff to prepare materials for a public hearing. On January 22, 2024, the City Council adopted a resolution setting March 25, 2024 as the date of public hearing. The public hearing was later cancelled by the request of MAH BKS, LLC to further examine the project financing and feasibility.

MAH BKS, LLC (the "Developer") previously proposed demolishing the existing substandard structure and constructing a 3-story mixed-use building (commercial and residential). The Developer has revised the redevelopment plans and is now proposing to construct a new, two-story commercial building comprising of 6,784 square feet. The estimated total project cost is $2,346,220 and construction is anticipated to occur in 2025 and 2026. It is anticipated there will be up to 25 full-time equivalent jobs created that would be associated with the new building.

Tax Increment Financing Review

The Developer is requesting pay-as-you-go tax increment financing (TIF) from the City through the creation of a redevelopment TIF district. The TIF assistance would be used to assist with the redevelopment of the site, including demolition, removal of paved surfaces from the public right-of-way, utility upgrades, curb-cut relocation, building pads, and soil stabilization. These are additional costs as compared to developing a "greenfield" vacant site.

The Developer is documenting extraordinary costs that may be eligible for assistance under the City of Mankato's Economic Development Guidelines. The Developer is seeking TIF reimbursement of up to $490,000, which includes $95,000 for building demolition, $50,000 for environmental remediation, $50,000 for public improvements, $120,000 for site improvements, and $103,800 for property acquisition associated with the completion of the project. Additional details related to the public and site improvements are further discussed below:

Public improvement costs:

- Relocation for the property entrance away from Madison Ave.
- Sidewalk repairs along Broad Street
- Utilities along/in boulevard
- Curb cut repairs and road patching on Broad Street
- Alleyway parking lot entrance

Site improvement costs:

- Foundation excavation
- Utilities within property boundary
- Building pad construction and soil stabilization
- Final grading of site

The City would not upfront the funds as that would require either internal City debt financing or bond issuance. Instead, the developer would receive two payments per year after the property taxes are paid for the term of the TIF District or earlier, depending on if the reimbursable costs are repaid earlier. This is referred to as pay-as-you-go reimbursement. 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.

The City contracts with Baker Tilly to review financial assistance requests. The table below summarizes the tax increment revenue estimates over 10, 15 and 20 years, and are also detailed within Baker Tilly's attached financial analysis memo.

Projected Tax Increment Revenue Estimates

Existing Property Value	$173,800
Estimated Original Net Tax Capacity (Base)	$2,758
Estimated Total Completed Value	$1,042,600
Estimated Total Tax Capacity	$20,102
Captured Tax Capacity (Total less Original)	$17,344
x 2024 Local Capacity Rate	95.377%
Estimated Total Gross Tax Increment Revenue (less OSA deduction of 0.36%)	$16,482
Less: 5% for Administrative Expenses (Maximum Percentage is 10%)	$824
Estimated Net Annual Available Revenue	$15,658
City Policy 15 Year Term	
Total Estimated Gross Tax Increment (15 years)	$249,390
Estimated City Retained (5%)	$12,465
Total Estimated Net Tax Increment (15 years)	**$236,925**

Total Estimated Present Value Net Increment with 5% interest rate	**$155,000**
Reduced 10 Year Term	
Total Estimated Gross Tax Increment (10 years)	$164,820
Estimated City Retained (5%)	$8,240
Total Estimated Net Tax Increment (10 years)	**$156,580**
Increased 20 Year Term	
Total Estimated Gross Tax Increment (20 years)	$332,520
Estimated City Retained (5%)	$16,620
Total Estimated Net Tax Increment (20 years)	**$315,900**
Total Estimated Present Value Net Increment with 5% interest rate	**$188,000**

The City 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. The anticipated principal value of the pay-as-you-go tax increment with a 15-year term is $155,000, plus 5% carrying interest costs - $81,925. The interest costs are derived to align at, or slightly below, the private financing since the Developer must fund the activities upfront. The TIF projections assume the Developer will receive TIF reimbursement in the amount of $15,795/year in years 2027 through 2041.

Based on Baker Tilly's financial analysis (attached) and available financing assumptions, without financial assistance, the project would not be financially feasible. The analysis found the developer's return without TIF assistance is 6.09%, which is below the feasibility benchmark; therefore, Baker Tilly concluded that the project would be unlikely to proceed but for the requested TIF assistance. Baker Tilly also reviewed the estimated impact on project returns with assistance for a term of reduced term of 10 years, a term of 15 years, and an increased term of 20 years which ranges between 6.90% - 7.35%.

Baker Tilly's financial analysis also 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. The benchmarks can be used for establishing the likelihood of a proposed project proceeding without assistance ("But-For" Test), as well as the reasonableness of the assistance request. The Price Waterhouse Cooper ("PWC") Rest Estate Investor Survey was reviewed, which identified a national average of desired unleveraged returns for investment in office projects ranging from 7.25% to 10.0% with an average of 8.84% and, national average for investment of commercial space ranging from 5.5% to 9%. The PWC benchmark is a conservative benchmark and represents the responses of major institutional equity real estate investors who are primarily investing in institutional-grade property on a national level. Increasing the term of TIF assistance to 20 years would result in an estimated return of 7.35% and would meet the lower range of office projects and mid-range of desired investor returns.

Additionally, Baker Tilly's analysis included a review of the Debt-Coverage Ratio, which is another measure for evaluating the project feasibility. Baker Tilly found the estimated debt coverage ratios indicate that public assistance will be required to obtain debt financing for the project.

The City's Economic Development Policy states eligible projects include infrastructure improvements and demolition of underutilized industrial and commercial sites to reuse previously developed land/buildings. The project specifically aligns with principle 3.09 "Fostering the successful redevelopment of vacant and underutilized commercial and industrial properties". The project is also located in the Targeted Areas for redevelopment.

In summary, the EDA is asked to review the proposal and provide comments and request additional information if necessary. If acceptable, the next step in the process would be to direct staff to obtain a preliminary letter of commitment for financing from the Developer and then prepare tax increment documents for a public hearing. Contingent on receiving a preliminary letter of commitment for financing, the public hearing could be set on February 24, 2025, for the April 14, 2025 meeting. It is recommended to obtain a preliminary letter of commitment for financing before preparing tax increment documents because there have been recent instances where a TIF District was created, and the project didn't begin. It results in certified districts that haven't or don't proceed. In this case, the Developer has provided documentation for preliminary commitment for private financing for the project.

Attachments

General Location Map

Financial Review from Baker Tilly

Site Plan

Floor Plans and Building Plans

Proposed Schedule

General Location Map

Date: January 2025

Author:

Baker Tilly Municipal Advisors, LLC
30 East Seventh Street, Suite 3025
St. Paul, MN 55101
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MEMORANDUM

TO: Courtney Kramlinger, City of Mankato

FROM: Mikaela Huot

DATE: January 30, 2025

SUBJECT: Financial Review of Revised Broad Street Project Proposal Assistance Request and Proposed Tax Increment Financing Redevelopment District No. 48-1

Executive Summary

At the request of the City of Mankato, Baker Tilly Municipal Advisors has undertaken a review of the updated request for TIF assistance by MAH BKS, LLC (the "developer") for redevelopment of 3 properties including 2 vacant lots and a third lot with a substandard building to include construction of a new two-story commercial building comprising of 6,784 square feet. The total development cost for the project is estimated to be $1,631,111 and will increase to approximately $1,979,711 with the inclusion of tenant improvements. The request for financial assistance is through tax increment financing to provide additional cash flow support to the project and offset a portion of the extraordinary redevelopment costs. The developer's request for submitted to the City was for up to $490,000 as further described within the memorandum. The projected amount of available tax increment is less than what has been requested and identified as TIF-eligible costs. Based on a current value estimate of approximately $1,042,600 for the new building upon completion, the projected total increment available over terms of 10-, 15- and 20-years ranges from $115,000, $155,000, and $188,000, respectively, assuming a 5% interest rate.

Prior to establishing a tax increment financing district, there are findings that need to be made by the City that include: 1) determination that the project qualifies as a TIF district, 2) determination that the project as proposed would not proceed without public assistance (meeting the "but-for" test), and 3) the increased market value of the property to be developed is greater with tax increment than if no public assistance is provided. When reviewing a request for financial assistance it is important to understand how the level of financial assistance would impact the ability of the project to proceed as proposed and maximize new value created on the current project site.

Review of the sources and uses and operating proforma based on the developer assumptions with pay-as-you-go assistance as compared to no assistance provides an understanding of financial feasibility for this project and need for public assistance. The purpose of the analysis is to test the level of assistance that may be needed using those assumptions and to see if the recommended structure is reasonable while remaining consistent with the City's objectives for providing tax increment assistance.

Based on the financial analysis and available financing assumptions, without financial assistance, the project would not be feasible due to the inability of the project to support financing of the extraordinary redevelopment costs mixed with current market conditions. Without assistance, the projected annual and cumulative rate of return to the developer is projected to be below industry standards for this type of project. The 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 (tax increment revenues), and/or 3) additional funding sources. With annual public assistance, the project is projected to be more financially feasible by providing additional cash flow (annual tax increment revenues) to the project. The level of public assistance is projected to have a positive impact on what the projected returns for the project could be as compared to no assistance.

The purpose of the memorandum is to provide a summary of the preliminary tax increment revenue projections based on estimated post-development taxable values for the project, as well as provide a summary of the financial review of the development project costs and sources of revenue and operating pro forma as provided by the developer to assist the City with making a determination 1) if the project as proposed would be unlikely to proceed "but-for" the requested Tax Increment Financing (TIF) assistance, and 2) if assistance is necessary, to determine an appropriate level of public assistance that may be considered. Should the City choose to provide TIF assistance, annual tax increments generated by the TIF District would be pledged to the developer to reimburse for extraordinary redevelopment costs with a portion retained by the City for annual administrative expenses (5%).

Developer Request for Assistance

The developer has requested assistance from the City through tax increment financing assistance. The total development costs are approximately $1,631,111 and increase to $1,979,711 when incorporating financing of tenant improvements. The developer will finance the project costs through a construction loan, developer equity (cash and land), and Minnesota Main Street Economic Revitalization Program (MSERP) grant. Subject to meeting minimum debt coverage requirements, the construction financing would support between 72-80% of total development costs and the grant and equity would support remaining costs. Any TIF assistance would be provided as pay-as-you-go to increase cash flow to support debt repayment and equity investment. We would expect to see the primary debt financing percent in the range of 60-75%, subject to availability of cash flow revenue to support repayment. Without financial assistance, the overall project performance is lower than typical lenders and investors would tolerate, thus resulting in a financial gap. Due to the current market environment and interest rates, annual debt service payments remain higher with increased interest rate financing.

Typical extraordinary redevelopment costs that cannot be supported solely by the project alone could justify the need for public financial assistance and allow the project to proceed as proposed. In addition, current market conditions of increased interest rates requiring reduced debt financing and increased equity amounts have resulted in higher funding gaps. Tax increment financing from the City provides an additional funding source for the project that allows the developer to obtain an appropriate level of upfront funding and meet minimum debt coverage and investor return metrics. The MSERP grant is an additional source of funds to close the financing gap with eligible expenses including demolition and site improvement costs not supported by TIF. Summary of the sources and uses of funds is illustrated in Table 1 below.

The recommendation for a reasonable level of public assistance is balanced by a combination of extraordinary costs and projected financial cash flow performance of the project, public policy guidelines/considerations and potential financial parameters as further outlined below:

- Return on Investment: *(City benefits)*
- Purchase price and other development costs: *(reasonable ranges and supported by project)*
- Public to private investment: *(public participation 10%)*
- Public assistance (TIF) and private equity: *(public does not exceed private equity)*
- Extraordinary costs: *(redevelopment)*
- Financial gap: *(limit on private debt and equity)*
- Market conditions *(financing limitations)*
- Term of district collection: *(historically up to 15 years with maximum 26-year term)*
- Other identified public improvements: *(case by case basis to be determined)*

Sources and Uses of Funds

The proposed total development cost of the project is estimated to be $1,631,111 before financing of tenant improvements. Building shell construction costs are approximately $134 PSF, land acquisition is $26 PSF, sitework/demolition accounts of $39/PSF and remaining soft costs, including financing and developer fee is $35 PSF. Construction contingency is estimated to be $50,000 and approximately 5.5% of construction costs. Total estimated per square foot development cost of the project is $240. The estimated tenant improvement costs of $348,600 increase total development cost per square foot to $292.

The developer has identified the sources of funds for the proposed project, including debt, equity, a grant and TIF assistance. The developer is seeking TIF reimbursement of up to $490,000 for building demolition, environmental remediation, public improvements, site improvements and land acquisition on a pay-as-you-go basis.

Table 1: Sources and Uses of Funds

Sources			Uses		Percent	Per Unit
Bank Loan	1,223,333	75.00%	Land Acquisition	175,000	10.73%	26
Equity	327,778	20.10%	Site Work	170,000	10.42%	25
			Demolition	95,000	5.82%	14
MSERP Grant	80,000		Construction - Shell	906,111	55.55%	134
TIF	-	0.00%	Finance Fees	25,000	1.53%	4
		0.00%	Legal Fees	25,000	1.53%	4
		0.00%	Arch & Eng Fees	60,000	3.68%	9
		0.00%	Permit Fees	25,000	1.53%	4
		0.00%	Developer Fee	100,000	6.13%	15
		0.00%	Contingency	50,000	3.07%	7
		0.00%	TI Improvements	-	0.00%	-
Total	1,631,111	95.10%	Total	1,631,111	100.00%	240

Tenant Improvements	348,600

** Tax increment financing has been requested as pay-as-you-go and would not be an upfront funding source. The developer's request of $490,000 is more than the projected tax increment is projected to be over a 15-year period. As a result, the TIF amount has been adjusted to a range of $115,000, $155,000 and $188,000 subject to approved amounts. We would expect the developer to use tax increment revenues to support loan repayment and provide additional cash flow for equity returns. Actual TIF assistance subject to approvals.*

TIF Eligible Costs

The request of $490,000 includes $95,000 for building demolition, $50,000 for environmental remediation, $50,000 for public improvements, $120,000 for site improvements, and $103,800 for property acquisition associated with the completion of the project. Additional details related to the public and site improvements are further detailed below:

Public improvements costs:

- Relocation for the property entrance away from Madison Ave.
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Site improvements costs:

- Foundation excavation
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Tax Increment Revenue Assumptions

- Base taxable value and original net tax capacity
  - Parcel IDs:
    - R01.09.07.426.008
    - R01.09.07.426.009
    - R01.09.07.426.010
  - Existing value of $173,800
    - Classification as commercial-industrial
    - Estimated original net tax capacity value of $2,758
- New taxable value based on estimates provided by County
  - $1,042,600 total value estimate
    - Commercial-industrial office
- Increment based on difference between existing and new taxable value
  - Preliminary and may be further evaluated as project proceeds
- Property classification rates
  - Commercial industrial with class rates of 1.5% first $150,000 and 2% value above $150,000

- Maximum term of redevelopment district (up to 26 total years)
  - City maximum term for collection is 15 years
    - First year collection of increment elected for 2027
    - Collection years of 2027-2041
  - Alternate scenario term for collection is 10 years
    - First year collection of increment elected for 2027
    - Collection years of 2027-2036
- Construction commences and completes in 2025
  - 100% completed by December 31, 2026
    - Assess January 2027 for taxes payable in 2028
- Payable 2024 combined tax rate of 95.377%
- 0% annual market value inflator
- 5% retained by City for admin (maximum 10%)
- Present value rate of 5%

Projected Tax Increment Revenue Estimates	
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Total Estimated Present Value Net Increment with 5% interest rate	**$115,000**
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Total Estimated Net Tax Increment (20 years)	**$315,900**
Total Estimated Present Value Net Increment with 5% interest rate	**$188,000**

Project Financing
There are generally two ways in which assistance can be provided for most projects, either upfront or on a pay-as-you-go basis. With upfront financing, the City would finance a portion of the developer's initial project costs through the issuance of bonds or as an internal loan. Future tax increments would be collected by the City and used to pay debt service on the bonds or repayment of the internal loan. With pay-as-you-go financing, the applicant would finance all project costs upfront and would be reimbursed over time for a portion of those costs as revenues are available.

Pay-as-you-go-financing is generally more acceptable than upfront financing for the City because it shifts the risk for repayment to the applicant. If tax increment revenues are less than originally projected, the applicant receives less and therefore bears the risk of not being reimbursed the full amount of their financing. However, in some cases pay as you go financing may not be financially feasible. With bonds, the City would still need to make debt service payments and would have to use other sources to fill any shortfall of tax increment revenues. With internal financing, the City reimburses the loan with future revenue collections and may risk not repaying itself in full if tax increment revenues are not sufficient. The City has historically financed projects as pay-as-you-go for reimbursement to the developer of eligible costs.

The structure for consideration includes a developer pay-as-you-go note pledging the net increment to equal a principal note of approximately $155,000 with 5% interest rate over a 15-year period, or alternatively a reduced term of 10 years resulting in a pay-as-you-go note of $115,000 and an increased term of 20 years resulting in a note of $188,000. The City would retain 5% for administrative expenses and pledge 95% of net revenues to the project.

Operating Assumptions
The developer has provided a revised development proposal consisting of approximately 6,784 square feet of commercial office space within one two-story building. The estimated rents for the project upon completion are $18/square foot for commercial per month assuming triple net (NNN). In this structure, the developer would expect the tenants to finance the tenant improvements of $348,600. However, the developer is still analyzing various lease scenarios and may incorporate an adjusted gross lease that may impact the overall cash flow and projected lease rates for the office commercial space. Assumptions utilized for the operating proforma are generally reasonable as compared to industry standards and consistent with original application for assistance.

Financial Needs (Pro forma Analysis)
Upon approval of a TIF district and project, the City must make several findings, including the "but for" test: that the proposed redevelopment would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future. The developer has stated that but for the provision of tax increment financing, the project as proposed would not occur. Based on the developer's stated position relative to the need for tax increment financing assistance, the City could make its "but for" finding and provide tax increment assistance. We recommend, however, that the City review the provided assumptions to consider if the project meets the but-for test and, if so, what an appropriate level and type of TIF assistance may be based on the information submitted by the developer.

Following thorough evaluation of the project as provided allows the City to be prepared to make an informed decision based on the likelihood of the project needing assistance, as well as the appropriate level of assistance. To complete this analysis, we reviewed the developer's financial data and constructed ten-year operating project proformas, showing a result if the project received financial assistance as requested and did not receive assistance. Analysis of the proformas includes a review of the development budget, projected operating revenues and expenditures, and the project's capacity to support annual debt service on outstanding debt. The purpose of evaluating the operating proformas is to understand the potential cash flow performance through initial development of the project and the annual operations of the project over a 10-year period to assist with determining if the project is financially feasible and in need of public participation.

Measuring project feasibility is typically accomplished by analyzing a combination of 1) projected rate of return – both annual and cumulative and 2) estimated debt coverage ratio (DCR). Rate of return (IRR) analysis illustrates the projected return to the investor(s) using the available cash flow after payment of operating expenses and debt repayment as a measurement to the initial equity investment. Industry standards for certain development types indicate the level of investment a developer is willing to make based on projected returns from the project. Should the projected annual and cumulative returns fall below those standards, the project would require a reduced level of equity participation and/or increased cash flow to be feasible. Debt Coverage Ratio (DCR) is a calculation detailing the ratio by which operating income exceeds the debt payments for the project. If the DCR is greater than 1.0 it indicates the project has operating income that is greater than the debt-service payment by some margin; conversely if the DCR is less than 1.0, it indicates the project is incapable of meeting its debt-service payment and would need to seek additional revenue sources in order to pay its debt.

For a project to be considered financially feasible and likely to secure private financing, lenders are going to want to see a project with an estimated net operating income that exceeds the debt-service amount by a specific threshold or more. This is a test based on a stabilized year of revenue. Typically, we see lenders identifying a desired threshold for DCR of 1.10-1.20 or greater, meaning an expectation that the stabilized Net Operating Income of the project will exceed debt service by 1.10 to 1.20 times. The chart below illustrates our calculation of the projected stabilized DCR with and without requested TIF assistance, both on a one-year stabilized basis and additionally as a 10-year average.

Debt Coverage Analysis

Scenario	**Debt Coverage Ratio**	
Term of Review	**1-Year Stabilized**	**10-year Average**
Without Public Assistance	**0.94x**	**0.97x**
With Assistance	**1.10x**	**1.11x**

The estimated debt coverage ratios indicate that public assistance will be required to obtain debt financing for the project. Typical underwriting standards will require debt coverage ratios to be a minimum of 1.10-1.2x plus.

Return Analysis

To assist the City with making the ‘but-for’ test, we performed financial analysis to assist with projecting anticipated return on investments. The Internal Rate of Return (IRR) is a return-on-investment measurement that accounts for the time value of money, and accounts for the full development cycle including project construction, project operating, and finally the hypothetical sale of the completed asset. The inclusion of a hypothetical sale of the asset at the end of the pro forma period is necessary to include within the IRR analysis in order to account for the value of the asset that was created. It is not necessarily an indication that the asset will be sold at that time, but it is a mathematical assumption for purposes of calculating the overall return on investment.

The developer provided the sources and uses of funds and estimated rent assumptions for the project. We reviewed the provided information to prepare a 10-year pro forma period, including 1 year of construction followed by one year of stabilized operations. A hypothetical sale of the asset is assumed in year 10. In order to provide an estimate of the anticipated sale value of the asset we utilized a capitalization rate of 7% and 2% cost of sale allowance.

The capitalization rate is a percentage amount that is divided against a project’s Net Operating Income (“NOI”) to determine the anticipated sale value. By comparing the capitalization rate, or cap rate, used against market information we can evaluate the reasonableness of the developer’s hypothetical sale value assumption. The lower the cap rate used, the higher the projected value of the asset. Based on this review the developer’s capitalization rate for a presumed sale in 2035 of 7% is a reasonable assumption.

We utilized the 10-year pro forma to prepare an unleveraged return analysis. An unleveraged return is a return calculation that measures the return on investment against the total cost of the project. An unleveraged return does not break out the investment into equity and financing amounts, and instead measures the return against the total investment/cost of the project. An unleveraged return calculation is utilized in order to draw comparisons against third-party market benchmarks for real estate investment thresholds. Since debt & equity ratios often differ across multiple projects, these third-party market benchmark surveys utilize unleveraged return calculations so that return comparisons can be drawn on an equal basis. The table below outlines our unleveraged project returns.

Scenario	**Unleveraged IRR**
Without Assistance	**6.09%**
With Assistance (10, 15 and 20 year term)	**6.90% – 7.35%**

As a result of our analysis, we found the developer's return without the proposed TIF assistance of 6.09% to be below our feasibility benchmark, and therefore we conclude that the project would be unlikely to proceed but for the requested TIF assistance.

For comparison of the reasonableness of this return we reviewed third-party benchmark surveys that are nationwide surveys of real estate investors, which identify the return benchmarks the responders would need to realize in order to pursue a project. The benchmarks provided in these surveys can be used for establishing the likelihood of a proposed project proceeding without assistance ("But-For" Test), as well as the reasonableness of the assistance request.

One of the surveys we utilize is the Price Waterhouse Cooper ("PWC") Real Estate Investor Survey for the 4th quarter 2024. This survey identified a national average of desired unleveraged returns for investment in office projects ranging from 7.25% to 10.0% with an average of 8.84% and national average for investment of commercial space ranging from 5.5% to 9%. The PWC survey is a conservative benchmark and represents the responses of major institutional equity real estate investors who are primarily investing in institutional-grade property. Since the investors surveyed are basing their anticipated returns on their investment in constructed and operational developments there is a significantly lower risk threshold present and thus the desired returns cited are typically lower than what would be sought for a new construction development.

Since the PWC survey is a conservative benchmark it creates a low hurdle rate, and if a project fails to meet the average threshold identified within the PWC survey we can make the determination that the project would be unlikely to proceed "but-for" the requested assistance. In the case of this project without assistance we have calculated an unleveraged return of 6.09% which falls below the average return threshold and even the low end of the identified PWC range. This allows us to determine that the project would be unlikely to proceed but-for the requested assistance. Increasing the term of TIF assistance to 20 years would result in an estimated IRR of 7.35% and would meet the lower range of office projects and mid-range of desired investor returns.

In addition to the Internal Rate of Return analysis identified above, we also prepared a "cash on cash" investment return for the project upon stabilization. The cash-on-cash investment return is a single-year return calculation that measures the annual cash flow to the developer as a percentage of their equity investment. This is an annual test and the amount we calculated was based on the stabilized year, which is when the project would be operational and incurring debt-service on the private financing amount, as well as the average return over 10 years. For debt-service assumptions we utilized a current interest rate assumption of 7.25% (permanent financing) and a 20 or 25-year amortization. The developer's desire would be to obtain loan financing with 20-year amortization; however actual lease terms and future tenant income will dictate the actual loan terms. Current interest rate estimates maintain at 7.25%. To account for the varying levels of assistance within this analysis we increased the developer's equity amount subject to debt coverage and availability of cash flow to support debt service payments. The table below identifies the cash on cash returns we calculated for the project at varying assistance levels.

Scenario	**Cash on Cash Return**	
Level of Debt	**1-Year Stabilized**	**10-year Average**
Without Public Assistance	**1.00%**	**1.19%**
With Assistance	**4.98%**	**5.06%**

The projected cash-on-cash return analysis illustrates modest returns, and reflects the impact current permanent financing interest rates have on the potential return realized by the project. If the project were to achieve a lower permanent financing interest rate, the projected cash on cash return would be greater than what is shown here.

Conclusion

The developer has requested financial assistance for acquisition and redevelopment of the existing substandard building and adjacent property into a new commercial office development. The project has a financial gap due to extraordinary redevelopment needs of the building and project site and is seeking financial assistance from the City to close it. Through submission of the tax increment financing request and supporting financial information, the developer has indicated that the project would not occur as proposed without financial assistance from the City due to below market rates of equity returns and debt financing.

Following analysis of the developer's financing assumptions and considering current market environment, without financial assistance, the project would not be financially feasible. Without assistance, the projected equity rate of return and debt financing metrics are below industry standards. 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 (tax increment revenues), and/or 3) additional funding sources (grant/low interest financing). With public assistance through tax increment assistance with additional annual cash flow, 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.

Considered parameters for level of public assistance include the following:

- Return on Investment: *(City benefits)*
- Purchase price and other development costs: *(reasonable ranges and supported by project)*
- Public to private investment: *(public participation 10%)*
- Public assistance (TIF) and private equity: *(public does not exceed private equity)*
- Extraordinary costs: *(redevelopment)*
- Financial gap: *(limit on private debt and equity)*
- Market conditions *(financing limitations)*
- Term of district collection: *(historically up to 15 years with maximum 26-year term)*
- Other identified public improvements: *(case by case basis to be determined)*

The developer has requested tax increment financing from the City as a method of providing additional cash flow revenues required to achieve financial feasibility. The project will be privately financed through private debt and equity. Assistance would be provided through a pledge of annual tax increments to provide additional cash flow to support debt repayment, enhance cash flow and increase the developer's return. We typically review both the annual (upon stabilization) and longer-term (10-year period) investment returns to understand financial performance and verification of need for public assistance, as well as identifying those costs considered TIF-eligible as extraordinary to the project.

Next steps

There is a statutorily defined process that is required to be followed for the creation of a Redevelopment TIF District. This process includes the completion of an analysis of the eligibility of the site for creation as a Redevelopment TIF District, the drafting of a TIF plan describing the proposed redevelopment and the associated revenues, as well as the proposed uses of the TIF revenue. The TIF creation process includes a number of required steps and notices must be made, which are detailed in the TIF creation schedule. Ultimately this process would conclude at a public hearing, following which the City Council would have the ability to take action on the creation of the proposed TIF District.

If the Economic Development Authority is interested in pursuing the project further, the first step would be to direct staff to complete the necessary statutory steps to work towards a TIF public hearing date.

Thank you for the opportunity to be of assistance to the City of Mankato. We look forward to discussing the project and financing assumptions in greater detail.

Scenario 1: Reduced Term of 10 Years

Projected Tax Increment Report

City of Mankato, Minnesota
Tax Increment Financing (Redevelopment) District No. 48-1
Proposed Broad Street Redevelopment to include 2-story multi-tenant office building
Draft TIF Projections based on $1,042,600 EMV

Annual Period Ending (1)	Total Market Value (2)	Total Net Tax Capacity (3)	Less: Original Net Tax Capacity (4)	Retained Captured Net Tax Capacity (5)	Times: Tax Capacity Rate (6)	Annual Gross Tax Increment (7)	Less: State Aud. Deduction 0.360% (8)	Subtotal Net Tax Increment (9)	Less: City Retainage 5.00% (10)	Annual Net Revenue (12)	P.V. Annual Net Rev. To 12/30/25 5.00%
12/31/25	173,800	2,758	2,758	0	95.377%	0	0	0	0	0	0
12/31/26	173,800	2,758	2,758	0	95.377%	0	0	0	0	0	0
12/31/27	1,042,600	20,102	2,758	17,344	95.377%	16,542	60	16,482	824	15,658	14,202
12/31/28	1,042,600	20,102	2,758	17,344	95.377%	16,542	60	16,482	824	15,658	13,526
12/31/29	1,042,600	20,102	2,758	17,344	95.377%	16,542	60	16,482	824	15,658	12,882
12/31/30	1,042,600	20,102	2,758	17,344	95.377%	16,542	60	16,482	824	15,658	12,268
12/31/31	1,042,600	20,102	2,758	17,344	95.377%	16,542	60	16,482	824	15,658	11,684
12/31/32	1,042,600	20,102	2,758	17,344	95.377%	16,542	60	16,482	824	15,658	11,128
12/31/33	1,042,600	20,102	2,758	17,344	95.377%	16,542	60	16,482	824	15,658	10,598
12/31/34	1,042,600	20,102	2,758	17,344	95.377%	16,542	60	16,482	824	15,658	10,093
12/31/35	1,042,600	20,102	2,758	17,344	95.377%	16,542	60	16,482	824	15,658	9,613
12/31/36	1,042,600	20,102	2,758	17,344	95.377%	16,542	60	16,482	824	15,658	9,155
						$165,420	$600	$164,820	$8,240	$156,580	$115,149

(1) *Total estimated market value based on information provided by City and County*
Includes 0% annual market value inflator.

(2) *Total net tax capacity based on Commercial-Industrial rate of 1.5% up to $150,000 and 2% over $150,000*

(3) *Original net tax capacity based on existing land value for the property to be included in the development*

(4) *Total local tax capacity rate for taxes payable 2024*

Scenario 2: Increased Term to 15 Years

Projected Tax Increment Report

City of Mankato, Minnesota
Tax Increment Financing (Redevelopment) District No. 48-1
Proposed Broad Street Redevelopment to include 2-story multi-tenant office building
Draft TIF Projections based on $1,042,600 EMV

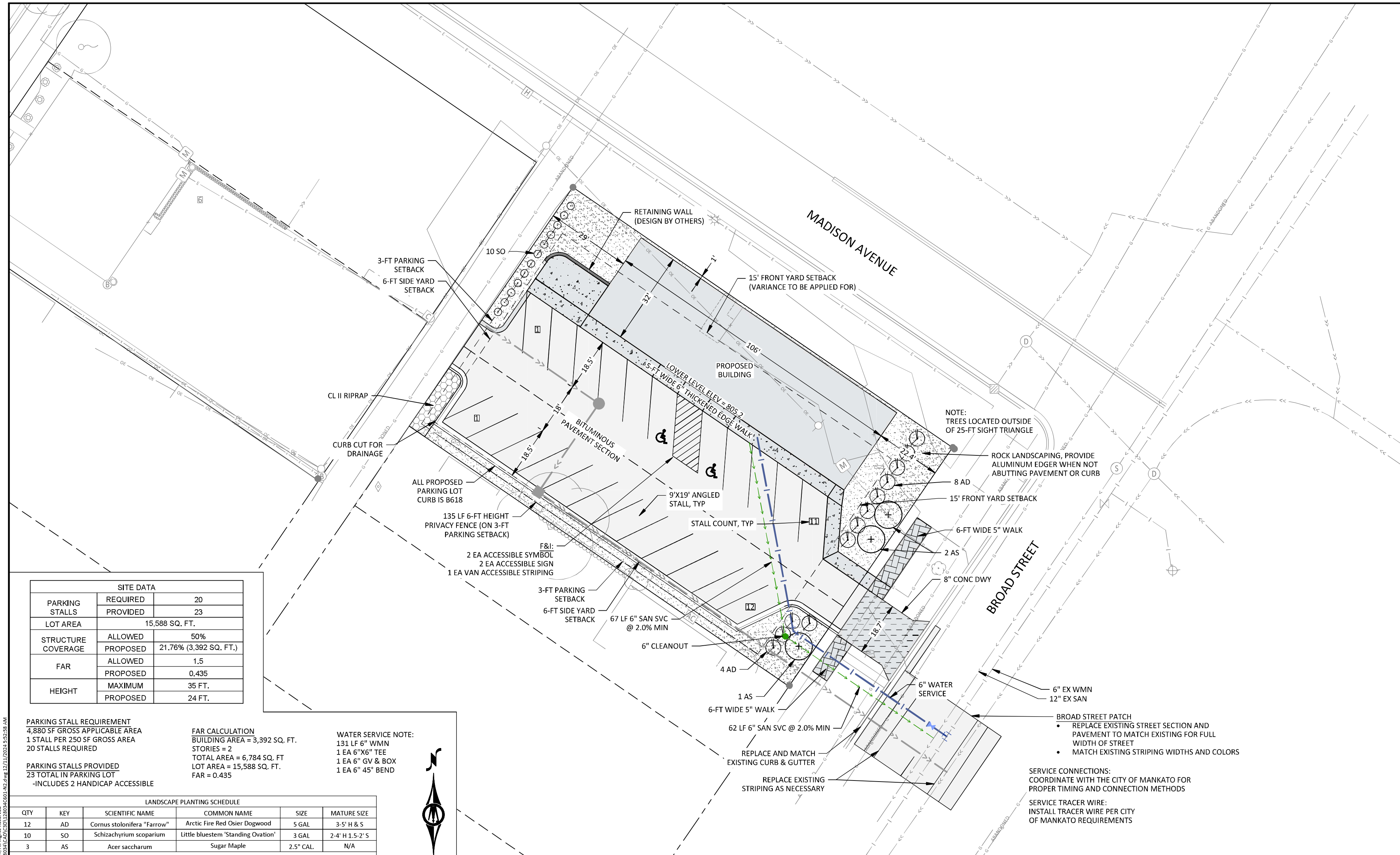
Annual Period Ending (1)	Total Market Value (2)	Total Net Tax Capacity (3)	Less: Original Net Tax Capacity (4)	Retained Captured Net Tax Capacity (5)	Times: Tax Capacity Rate (6)	Annual Gross Tax Increment (7)	Less: State Aud. Deduction 0.360% (8)	Subtotal Net Tax Increment (9)	Less: City Retainage 5.00% (10)	Annual Net Revenue (12)	P.V. Annual Net Rev. To 12/30/25 5.00%
12/31/25	173,800	2,607	2,607	0	95.377%	0	0	0	0	0	0
12/31/26	173,800	2,607	2,607	0	95.377%	0	0	0	0	0	0
12/31/27	1,042,600	20,102	2,607	17,495	95.377%	16,686	60	16,626	831	15,795	14,327
12/31/28	1,042,600	20,102	2,607	17,495	95.377%	16,686	60	16,626	831	15,795	13,644
12/31/29	1,042,600	20,102	2,607	17,495	95.377%	16,686	60	16,626	831	15,795	12,995
12/31/30	1,042,600	20,102	2,607	17,495	95.377%	16,686	60	16,626	831	15,795	12,376
12/31/31	1,042,600	20,102	2,607	17,495	95.377%	16,686	60	16,626	831	15,795	11,786
12/31/32	1,042,600	20,102	2,607	17,495	95.377%	16,686	60	16,626	831	15,795	11,225
12/31/33	1,042,600	20,102	2,607	17,495	95.377%	16,686	60	16,626	831	15,795	10,691
12/31/34	1,042,600	20,102	2,607	17,495	95.377%	16,686	60	16,626	831	15,795	10,182
12/31/35	1,042,600	20,102	2,607	17,495	95.377%	16,686	60	16,626	831	15,795	9,697
12/31/36	1,042,600	20,102	2,607	17,495	95.377%	16,686	60	16,626	831	15,795	9,235
12/31/37	1,042,600	20,102	2,607	17,495	95.377%	16,686	60	16,626	831	15,795	8,795
12/31/38	1,042,600	20,102	2,607	17,495	95.377%	16,686	60	16,626	831	15,795	8,376
12/31/39	1,042,600	20,102	2,607	17,495	95.377%	16,686	60	16,626	831	15,795	7,978
12/31/40	1,042,600	20,102	2,607	17,495	95.377%	16,686	60	16,626	831	15,795	7,598
12/31/41	1,042,600	20,102	2,607	17,495	95.377%	16,686	60	16,626	831	15,795	7,236
						$250,290	$900	$249,390	$12,465	$236,925	$156,141

(1) *Total estimated market value based on information provided by City and County*
Includes 0% annual market value inflator.

(2) *Total net tax capacity based on Commercial-Industrial rate of 1.5% up to $150,000 and 2% over $150,000*

(3) *Original net tax capacity based on existing land value for the property to be included in the development*

(4) *Total local tax capacity rate for taxes payable 2024*



BROAD STREET PATCH
- REPLACE EXISTING STREET SECTION AND PAVEMENT TO MATCH EXISTING FOR FULL WIDTH OF STREET
- MATCH EXISTING STRIPING WIDTHS AND COLORS

SERVICE CONNECTIONS:
COORDINATE WITH THE CITY OF MANKATO FOR PROPER TIMING AND CONNECTION METHODS

SERVICE TRACER WIRE:
INSTALL TRACER WIRE PER CITY OF MANKATO REQUIREMENTS

SITE DATA		
PARKING STALLS	REQUIRED	20
	PROVIDED	23
LOT AREA	15,588 SQ. FT.	
STRUCTURE COVERAGE	ALLOWED	50%
	PROPOSED	21.76% (3,392 SQ. FT.)
FAR	ALLOWED	1.5
	PROPOSED	0.435
HEIGHT	MAXIMUM	35 FT.
	PROPOSED	24 FT.

PARKING STALL REQUIREMENT
4,880 SF GROSS APPLICABLE AREA
1 STALL PER 250 SF GROSS AREA
20 STALLS REQUIRED

PARKING STALLS PROVIDED
23 TOTAL IN PARKING LOT
-INCLUDES 2 HANDICAP ACCESSIBLE

FAR CALCULATION
BUILDING AREA = 3,392 SQ. FT.
STORIES = 2
TOTAL AREA = 6,784 SQ. FT
LOT AREA = 15,588 SQ. FT.
FAR = 0.435

WATER SERVICE NOTE:
131 LF 6" WMN
1 EA 6"X6" TEE
1 EA 6" GV & BOX
1 EA 6" 45° BEND

LANDSCAPE PLANTING SCHEDULE

QTY	KEY	SCIENTIFIC NAME	COMMON NAME	SIZE	MATURE SIZE
12	AD	Cornus stolonifera "Farrow"	Arctic Fire Red Osier Dogwood	5 GAL	3-5' H & S
10	SO	Schizachyrium scoparium	Little bluestem 'Standing Ovation'	3 GAL	2-4' H 1.5-2' S
3	AS	Acer saccharum	Sugar Maple	2.5" CAL.	N/A
25	TOTAL PLANTINGS				

HORZ. SCALE 0 15 30 FEET

I HEREBY CERTIFY THAT THIS PLAN, SPECIFICATION, OR REPORT WAS PREPARED BY ME OR UNDER MY DIRECT SUPERVISION AND THAT I AM A DULY LICENSED PROFESSIONAL ENGINEER UNDER THE LAWS OF THE STATE OF MINNESOTA.
NOT FOR CONSTRUCTION
ALEC W. PIETZ, P.E.
LIC. NO. 59617 DATE XX/XX/XXXX

BOLTON & MENK

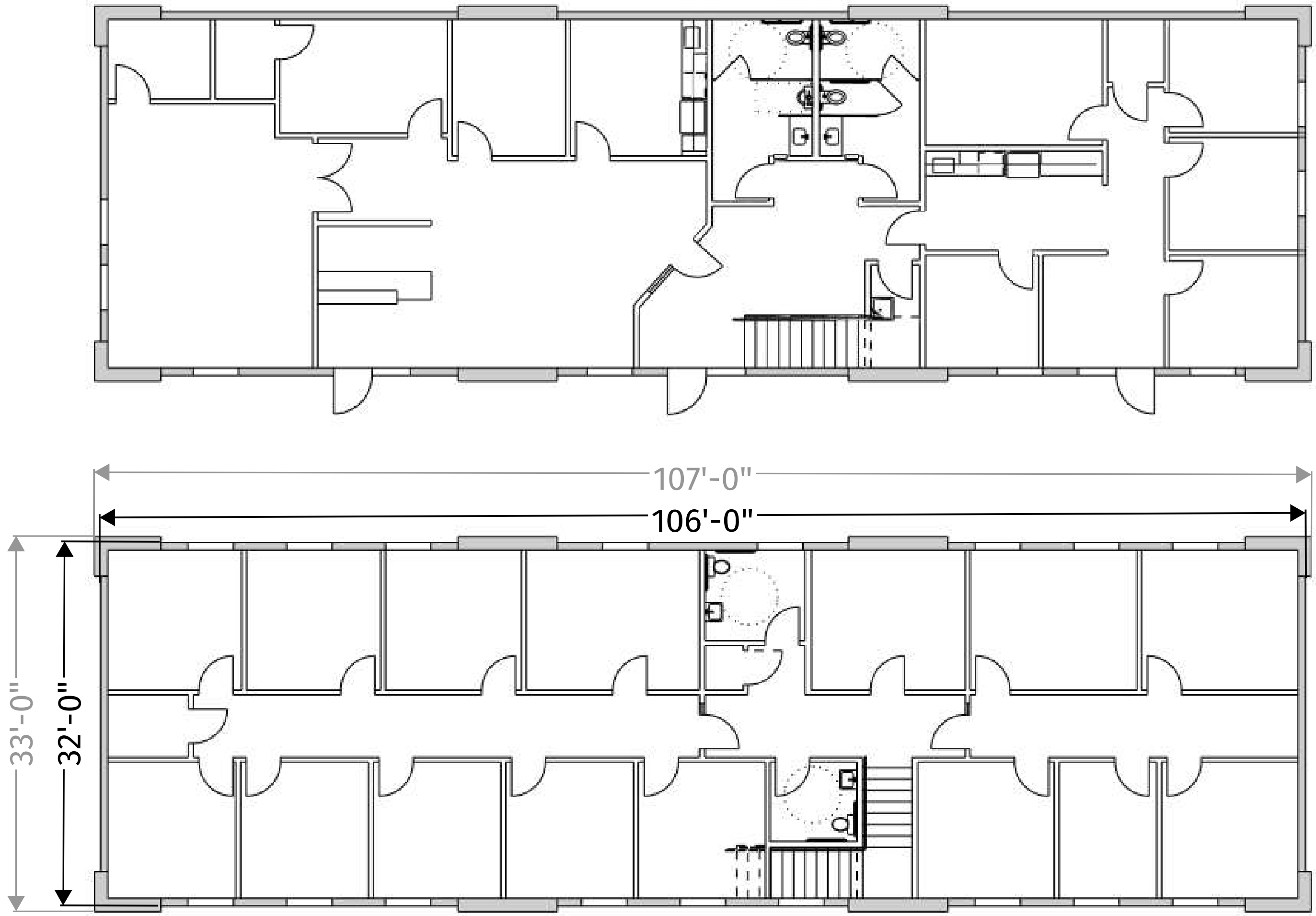
1960 PREMIER DRIVE
MANKATO, MINNESOTA 56001
Phone: (507) 625-4171
Email: Mankato@bolton-menk.com
www.bolton-menk.com

DESIGNED AWP
DRAWN AWP
CHECKED NPM
CLIENT PROJ. NO. 0M3.128034

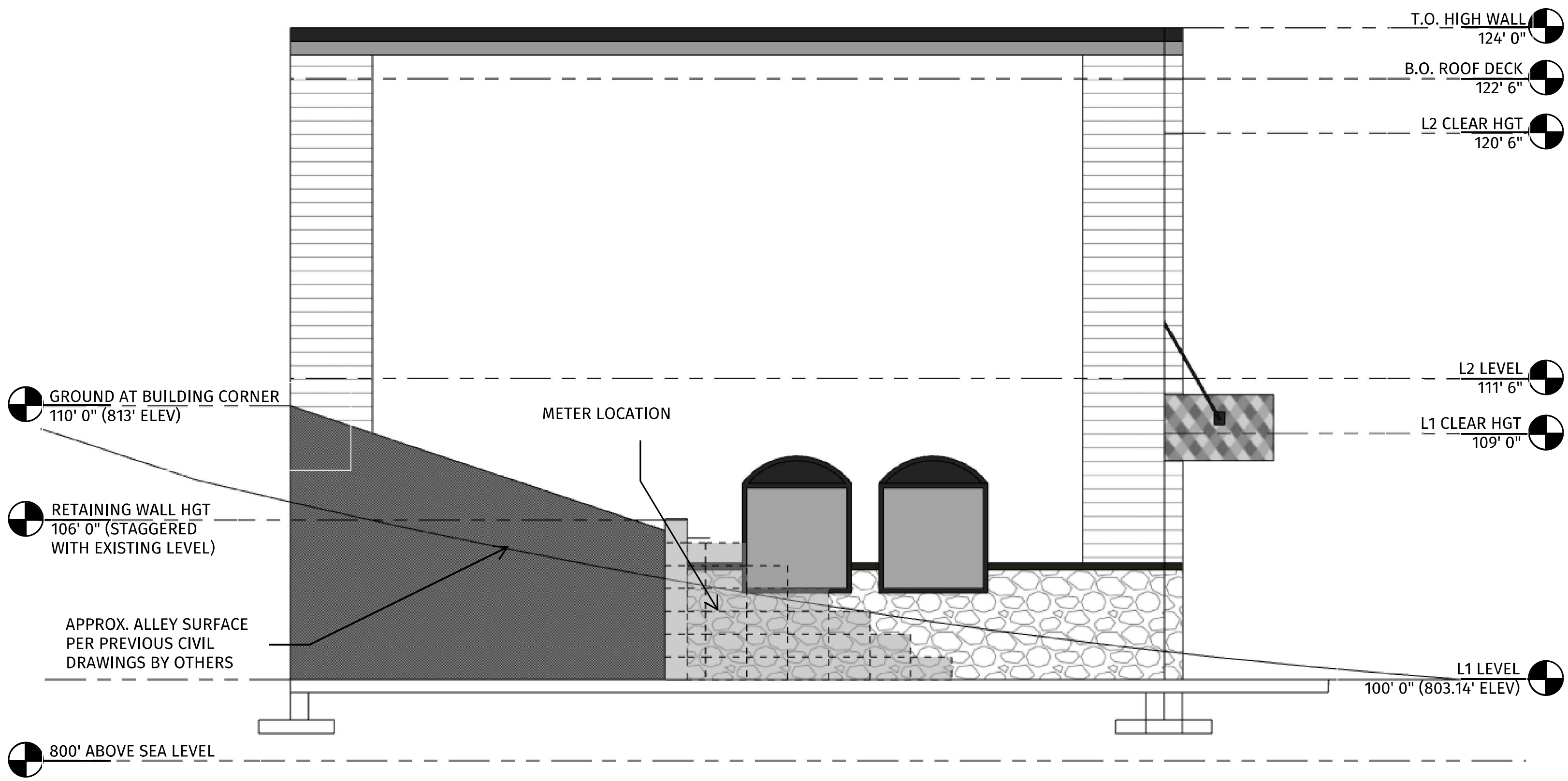
NO.	ISSUED FOR	DATE

MAH BKS 2, LLC
830 NORTH BROAD PROJECT
SITE & LANDSCAPING PLAN

SHEET C4.01

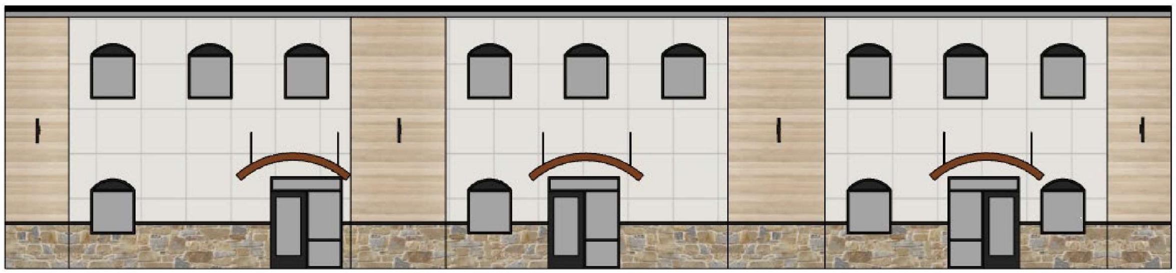


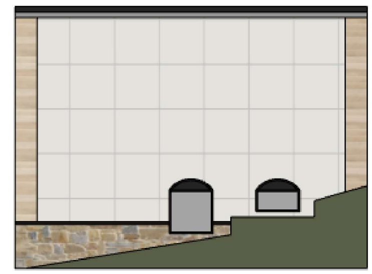
3,392 L1
3,392 L2
6,784 sf TOTAL



APX CONSTRUCTION GROUP

SECTION ELEVATION	10/18/2024
830 N. BROAD ST.	6





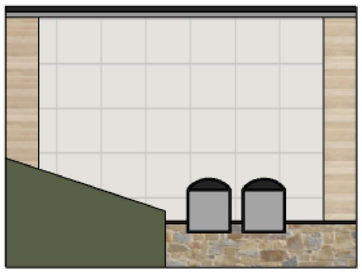
① PRELIMINARY ELEVATION -SOUTH SIDE

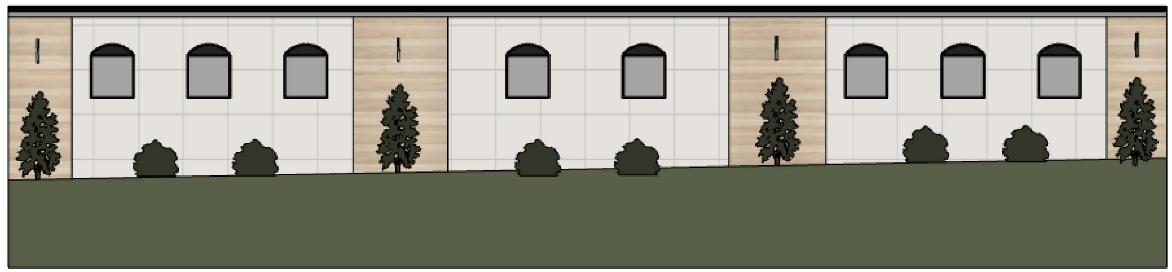
FINISH KEY | SEE MATERIALS LIST FOR MORE DETAIL			
A	WOOD-LOOK	561 sf	21.95%
B	METAL TRIM	125 sf	4.89%
C	LIMESTONE	337 sf	13.18%
D	HARDIE PANELS	1124 sf	43.97%
E	STORE FRONT	163 sf	6.38%
F	WINDOWS	246 sf	9.62%

② PRELIMINARY ELEVATION - EAST SIDE

FINISH KEY | SEE MATERIALS LIST FOR MORE DETAIL			
A	WOOD-LOOK	85 sf	12.39%
B	METAL TRIM	37 sf	5.39%
C	LIMESTONE	48 sf	7.00%
D	HARDIE PANELS	486 sf	70.85%
E	STORE FRONT	0 sf	0.00%
F	WINDOWS	30 sf	4.37%

APX CONSTRUCTION GROUP





3 ELEVATION - WEST SIDE (ALLEY)

FINISH KEY | SEE MATERIALS LIST FOR MORE DETAIL			
A	WOOD-LOOK	95 sf	14.50%
B	METAL TRIM	35 sf	5.34%
C	LIMESTONE	64 sf	9.77%
D	HARDIE PANELS	423 sf	64.58%
E	STORE FRONT	0 sf	0.00%
F	WINDOWS	38 sf	5.80%

4 ELEVATION - NORTH SIDE (MADISON AVE)

FINISH KEY | SEE MATERIALS LIST FOR MORE DETAIL			
A	WOOD-LOOK	417 sf	26.23%
B	METAL TRIM	107 sf	6.73%
C	LIMESTONE	0 sf	0.00%
D	HARDIE PANELS	915 sf	57.55%
E	STORE FRONT	0 sf	0.00%
F	WINDOWS	151 sf	9.50%

EXTERIOR PERSPECTIVES | 10/18/2024

830 N. BROAD ST. |

STONE B
VETTERSTONE | NATURAL STRATA
*more color variation
(Numerous Patterns are available

METAL PLANK
HARRYWOOD / CORK
*has some color variation to look natural

HARDIE SQUARE PANEL SIDING
48" X 48" - Metal Channel: Silver
Color shown: NAVAJO BEIGE
(Other colors available)

STOREFRONT / WINDOWS
FINISH: MATTE BLACK
ALUMINUM

METAL TRIM
FINISH: MATTE BLACK
ALUMINUM

CANOPY
FINISH: MATTE BLACK OR EARTHTONE

LIGHTING TO BE DOWNLIGHT ONLY.

City of Mankato, Minnesota

Timeline for
Establishment of

Tax Increment Financing (Redevelopment) District within
Redevelopment Project Area
(Broad Street Redevelopment)

Proposed Schedule of Events

Date	Event	Responsible Party
	Establishment of TIF Plan and TIF District	
Monday, February 10	Economic Development Authority Reviews Project	City & Baker Tilly
Monday, February 24	City Council-adoption of resolution calling for public hearing to be held on April 14, 2025	City & Baker Tilly
Monday, March 3	County Commissioner receives notification letter-Creation of Redevelopment District ***(at least 30 days prior to publication of notice of public hearing)***	Baker Tilly
Friday, March 14	County and School District receive impact letters and draft TIF Plan **(at least 30 days prior to public hearing)**	Baker Tilly
Wednesday, March 26	***Planning Commission Review of Development District Plan***	City & Baker Tilly
Thursday, April 3 **Deadline: April 1 by Noon**	Publication of notice of public hearing in Mankato Free Press Newspaper **(10-30 days prior to public hearing)**	Baker Tilly
Monday, April 14	City Council holds public hearing and adopts resolution approving TIF Plan and TIF District	City & Baker Tilly
By June 30, 2025	Request for Certification of TIF District to County and Filing of TIF District and Plan with State	Baker Tilly

AGENDA RECOMMENDATION

Economic Development Authority **4. B.**

Meeting Date: 02/10/2025

Agenda Item:

Resolution to authorize application to Minnesota Housing for the Housing Trust Fund Grant program and EDA matching funding.

Recommendation/Action(s):

Approve Resolution.

Summary:

Minnesota Housing established a Local Housing Trust Funds Grant Program to encourage local governments to create or fund Local Housing Trust Funds. The program uses state funding to match a portion of new housing trust fund dollars to encourage local investment in affordable housing across Minnesota. These funds may come from any source other than the state or federal government.

The grant funds:

- Must be used for households at or below 115% of state median income
- May be used for
    - Development, rehabilitation or financing of housing
    - Downpayment assistance
    - Rental assistance
    - Homebuyer counseling services
    - Administrative expenses, up to 10% of grant
- Must be used within five years

Since 2023, $5.8 million in one-time funding has been allocated by the State of Minnesota to the program. Local HTFs may be eligible to receive matching funds up to $225,000 depending on the amount of New Public Revenue the applicant uses as matching funds and contingent on the total available funds for the program. New Public Revenue in an amount up to $150,000 can be matched with grant funds at 100%. Additional New Public Revenue of more than $150,000 and up to $300,000 can be matched at 50%. The Request for Proposal (RFP) application will open on Wednesday, February 12, 2025. The application due date is Wednesday, March 19, 2025.

It is recommended that the EDA consider allocating the maximum matching funds from EDA general funds in the amount of $300,000 seeking $225,000 from MN Housing's Local Housing Trust Funds grant program.

The requested action is to approve by resolution the authorization of the application for Local Housing Trust Funds Grant program with Minnesota Housing and providing $300,000 in New Public Revenue as matching funds from the EDA. If a grant is awarded, the grant agreement will be submitted to the EDA for execution. It is anticipated that grants will be awarded in June 2025.

Attachments

Resolution

Authorizing the Submission of the
Local Housing Trust Funds Grant Application
Through Minnesota Housing and Allocating EDA Matching Funds

WHEREAS, on August 26, 2024, the City Council adopted the Ordinance establishing the Affordable Housing Trust providing a permanent source of funding and a continually renewable source of revenue to meet the housing needs of Moderate, Low-Income, and Very Low-Income households; and

WHEREAS, the Housing Trust Fund shall provide loans and grants to recipients for the following purposes: (1) acquisition, capital and soft costs necessary for the creation of new affordable and workforce housing (both rental and owner-occupied), (2) acquisition, rehabilitation, capital and soft costs necessary for the preservation of existing affordable and workforce housing (both rental and owner - occupied); (3) acquisition, capital and soft costs necessary for the creation of new mixed income housing (both rental and owner- occupied); (4) the rehabilitation of the existing housing stock; (5) assist with funding of programs that prevent and end homelessness; and (6) other housing expenditures that are consistent with Minnesota Statutes, Section 462C.16 Subd. (3).

WHEREAS, on August 26, 2024, the City Council established by resolution a Housing Trust Fund Advisory Committee to advise and assist the City Council, City Administration, and the Economic Development Authority of Mankato on city business or current issues related to affordable housing; and

WHEREAS, Minnesota Housing, a public body corporate and politic of the State of Minnesota, is accepting applications through a Request for Proposals for the Local Housing Trust Funds Grant Program.

WHEREAS, the Mankato EDA may provide New Public Revenue through its Housing Trust Fund to receive matching funds up to $225,000 from Minnesota Housing. New Public Revenue up to $150,000 can be matched with grant funds at 100%. Additional New Public Revenue of more than $150,000 and up to $300,000 can be matched at 50%.

NOW THEREFORE BE IT RESOLVED that the Mankato EDA authorizes the submission of the Local Housing Trust Funds Grant Program application through the Minnesota Housing and authorizes $300,000 in New Public Revenue using EDA general funds. The Mankato EDA will comply with all requirements imposed by regulations of MN Housing for the administration of the program.

BE IT FURTHER RESOLVED, that Susan MH Arntz, the Executive Director, is authorized, on behalf of the Mankato EDA to execute and deliver to Minnesota Housing, the application required to seek matching funding through Minnesota Housing's Local Housing Trust Funds Grant program, This resolution shall become effective immediately upon passage.

Adopted this 10th day of February 2025.

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Najwa Massad, Board Chair

Attest:______________________________
Susan MH Arntz, Executive Director

AGENDA RECOMMENDATION

Economic Development Authority **4. C.**

Meeting Date: 02/10/2025

Agenda Item:

Motion recommending use of project-based Housing Choice Vouchers for the MAC-V Radichel Veteran Townhomes.

Recommendation/Action(s):

Motion to approve.

Summary:

The Minnesota Assistance Council for Veterans (MAC-V) received notice that the Radichel Veteran Townhomes will not receive renewal funding for rental assistance through the Regional River Valleys Continuum of Care 2024 funding request to the US Department of Housing and Urban Development. MAC-V is requesting the use of Project-Based vouchers (PBV) for the eleven (11) units at the Radichel Veteran Townhomes to prevent the loss of housing subsidies for these veterans.

The Section 8 Housing Choice Voucher (HCV) Program provides rental assistance throughout Blue Earth County. The HCV program can project-based vouchers (PBV) with HUD approval, using up to 20 percent of its authorized units. The PBV are attached to specific units rather than using them for tenant-based rent assistance. The EDA may PBV to deconcentrate poverty and expand housing and economic opportunities. Currently, the EDA has used PBV for 48 of its allocated 115 PBV to expand affordable housing leveraging Low Income Housing Tax Credit projects at Dublin Crossing, Dublin Heights, Rosa Place I & II, Sinclair Flats, and in coming months at Lewis Lofts.

MAC-V's request for PBV at the Radichel Veteran Townhomes can provide long-term affordable housing assistance which, in the past, has had to be renewed each year. The assistance has flexibility and benefits for renters. The assistance can be transferred with a renter when they move as part of the HCV program, ongoing attrition, as well as remaining project-based in the unit for the next household. It also provides additional benefits for the renter with access to self-sufficiency and homeownership programs.

The recommended action is a motion to approve eleven (11) HCV Project-Based Vouchers to replace the lost rental assistance at the MAC-V Radichel Veteran Townhomes.

AGENDA RECOMMENDATION

Economic Development Authority **4. D.**

Meeting Date: 02/10/2025

Agenda Item:

Motion canceling February 10, 2025, as the date of public hearing to consider conveyance of 49 Public Housing Units under the Section 18 Disposition Program to the City of Mankato.

Recommendation/Action(s):

Motion to cancel Public Hearing.

Summary:

The EDA approved at their January 13, 2025, meeting to set February 10, 2025, as the date of public hearing to consider the conveyance of 49 Public Housing units to the City of Mankato. In conducting the title work for the public housing properties, it was identified that the properties are still deeded to the Housing Authority of Mankato. Although program administration was transferred to the EDA in 1997, necessary resolutions dissolving the HRA and transferring the assets to the EDA were not completed.

To convey the properties to the City of Mankato, it is recommended that the City resurrect the HRA temporarily to properly transfer 49 units to the city under the Section 18 disposition and the remaining 130 units to the EDA under Section 9 Public Housing and then dissolve the HRA.

The requested action is to cancel the public hearing and allow the City of Mankato to resolve the ownership of the properties with the HRA.