

**REPORT OF
INSPECTION PROCEDURES AND RESULTS
FOR
DETERMINING QUALIFICATIONS OF A
TAX INCREMENT FINANCING DISTRICT
AS A REDEVELOPMENT DISTRICT**

**167th Avenue Redevelopment TIF District
Ramsey, Minnesota**

LHB Project No. 090335

November 25, 2009



Prepared For The
City of Ramsey

Prepared by



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TABLE OF CONTENTS

	<u>Page</u>
PART 1	Executive Summary3
	Purpose of Evaluation3
	Scope of Work4
	Conclusion4
PART 2	Minnesota Statute 469.174, Subdivision 10 Requirements4
PART 3	Procedures Followed.....7
PART 4	Findings.....7
	A. Coverage Test7
	B. Condition of Building Test9
	1. Replacement Cost9
	2. Code Deficiencies9
	3. System Condition Deficiencies.....10
	C. Distribution of Substandard Structures11
PART 5	Team Credentials12
APPENDIX A	Property Condition Assessment Summary Sheet
APPENDIX B	Building Code and Condition Deficiencies Reports
APPENDIX C	Property Condition Assessment
	Building Replacement Cost Reports
	Code Deficiency Cost Reports
	Photographs

PART 1 – EXECUTIVE SUMMARY

PURPOSE OF EVALUATION

LHB was hired by the City of Ramsey to inspect and evaluate the properties within a Tax Increment Financing Redevelopment District (“TIF District”) proposed to be established by the City. The proposed TIF District is located West of Saint Francis Boulevard NW, bisected by 167th Avenue NW (Diagram 1). The purpose of LHB’s work was to determine whether the proposed TIF District meets the statutory requirements for coverage, and whether seven buildings on seven parcels, located within the proposed TIF District, meet the qualifications required for a Redevelopment District.



Diagram 1 – Proposed TIF District

SCOPE OF WORK

The proposed TIF District consists of seven (7) parcels with two (2) residential and five (5) commercial structures. All of the buildings in the proposed TIF District received an on-site interior and exterior inspection on August 13 and August 14, 2009. Building code and Condition Deficiency reports are located in Appendix B.

CONCLUSION

After inspecting and evaluating the properties within the proposed TIF District and applying current statutory criteria for a Redevelopment District under *Minnesota Statutes, Section 469.174, Subdivision 10*, it is our professional opinion that the proposed TIF District qualifies as a Redevelopment District.

The remainder of this report describes our process and findings in detail.

PART 2 – MINNESOTA STATUTE 469.174, SUBDIVISION 10 REQUIREMENTS

The properties were inspected in accordance with the following requirements under *Minnesota Statutes, Section 469.174, Subdivision 10(c)*, which states:

Interior Inspection

“The municipality may not make such determination [that the building is structurally substandard] without an interior inspection of the property...”

Exterior Inspection and Other Means

“An interior inspection of the property is not required, if the municipality finds that

- (1) the municipality or authority is unable to gain access to the property after using its best efforts to obtain permission from the party that owns or controls the property; and
- (2) the evidence otherwise supports a reasonable conclusion that the building is structurally substandard.”

Documentation

“Written documentation of the findings and reasons why an interior inspection was not conducted must be made and retained under section 469.175, subdivision 3(1).”

Qualification Requirements

Minnesota Statutes, Section 469.174, Subdivision 10 (a) (1) requires two tests for occupied parcels:

A. Coverage Test

...“parcels consisting of 70 percent of the area of the district are occupied by buildings, streets, utilities, or paved or gravel parking lots”

The coverage required by the parcel to be considered occupied is defined under *Minnesota Statutes, Section 469.174, Subdivision 10(e)*, which states: “For purposes of this subdivision, a parcel is not occupied by buildings, streets, utilities, or paved or gravel

parking lots unless 15 percent of the area of the parcel contains building, streets, utilities, or paved or gravel parking lots.”

B. Condition of Buildings Test

...“and more than 50 percent of the buildings, not including outbuildings, are structurally substandard to a degree requiring substantial renovation or clearance;”

1. Structurally substandard is defined under *Minnesota Statutes, Section 469.174, Subdivision 10(b)*, which states: “For purposes of this subdivision, ‘structurally substandard’ shall mean containing defects in structural elements or a combination of deficiencies in essential utilities and facilities, light and ventilation, fire protection including adequate egress, layout and condition of interior partitions, or similar factors, which defects or deficiencies are of sufficient total significance to justify substantial renovation or clearance.”

Definition of Substantial Renovation

Because “Substantial renovation” can mean different things to different people, LHB has attempted to clarify exactly what we consider to be “substantial renovation” as it relates to *Minnesota Statutes, Section 469.174, Subdivision 10(a) (1)*.

- a. First we researched national standards as to how much building owners should budget for annual maintenance and repair on their buildings as a percentage of replacement cost of the building.
 1. According to the University of California “*Facilities Renewal Budget Model*” report of 1999, building owners should budget between two and three percent of current replacement value of their buildings for maintenance and repair work. This does not include routine janitorial work and routine items such as changing light bulbs and filters.
 2. According to the Building Research Board of the National Research Council, one and one-half to three percent of a building’s replacement value should be budgeted for maintenance and repair.
- b. Based on this information, LHB utilized two and one-half percent as the desired amount of maintenance and repair that should be budgeted annually to keep a building in good working condition. We recognize through experience that only a small percentage of sophisticated building owners actually budget for and spend this amount of money every year on maintenance and repair. This is because most business owners are driven by other budgetary issues and tend to neglect the building maintenance and repair line items in their annual budgets.
- c. By establishing how much a building owner should be budgeting per year for maintenance and repairs, LHB is of the opinion that we could more easily establish an amount that would be considered “substantial” in comparison. If an owner is budgeting 2.5 percent of the building’s replacement cost annually, most

business owners or home owners would have to take out a loan to cover the cost of a substantial building improvement. Assuming they had a fixed level of income to work with, they would have to keep the loan payment at a level very near the original 2.5 percent they should have been budgeting each year. In addition, they still would have to budget for the original 2.5 percent on top of the loan. In most cases, the mortgage terms would have to extend out to a point beyond the life expectancy of the building they were trying to improve, as most buildings built in the past fifty years are not designed to last beyond 40 years.

- d. Based on the calculations described above, we have defined substantial renovation for purposes of *Minnesota Statutes, Section 469.174, Subdivision 10(a)(1)*, as renovation with costs exceeding 20% of the building's replacement value.
 - e. Our goal in applying this 20% test is to provide a consistent threshold of renovation costs that must be met before we will even consider whether the building is structurally substandard within the meaning of the statute. If a building does not have building deficiencies that require renovation with costs exceeding 20% of replacement value we will not classify that building as structurally substandard. However, if a building does meet the 20% test we will not automatically classify that building as structurally substandard merely because it meets that test. A building that meets the minimum threshold test of necessitating renovation with costs exceeding 20% of replacement value will only be classified as structurally substandard if, in our professional judgment, the types of building deficiencies and the cost to correct the deficiencies satisfy the requirements of section 469.174, subd. 10(c)(1).
 - f. We do not count energy code deficiencies toward the thresholds required by *Minnesota Statutes, Section 469.174, Subdivision 10(b)*) defined as "structurally substandard", due to concerns expressed by the State of Minnesota Court of Appeals in the *Walser Auto Sales, Inc. vs. City of Richfield* case filed November 13, 2001.
2. Buildings are not eligible to be considered structurally substandard unless they meet certain additional criteria, as set forth in Subdivision 10(c) which states:

"A building is not structurally substandard if it is in compliance with the building code applicable to new buildings or could be modified to satisfy the building code at a cost of less than 15 percent of the cost of constructing a new structure of the same square footage and type on the site. The municipality may find that a building is not disqualified as structurally substandard under the preceding sentence on the basis of reasonably available evidence, such as the size, type, and age of the building, the average cost of plumbing, electrical, or structural repairs, or other similar reliable evidence."

“Items of evidence that support such a conclusion [that the building is not disqualified] include recent fire or police inspections, on-site property appraisals or housing inspections, exterior evidence of deterioration, or other similar reliable evidence.”

- g. LHB counts energy code deficiencies toward the 15 percent code threshold required by *Minnesota Statutes, Section 469.174, Subdivision 10(c)* for the following reasons:
- The Minnesota energy code is one of ten building code areas highlighted by the Minnesota Department of Labor and Industry website where minimum construction standards are required by law.
 - The index page of the 2007 Minnesota Building Code lists the Minnesota Energy Code as a “Required Enforcement” area compared to an additional list of “Optional Enforcement” chapters.
 - The Senior Building Code Representative for the Construction Codes and Licensing Division of the Minnesota Department of Labor and Industry confirmed that the Minnesota Energy Code is being enforced throughout the State of Minnesota.
 - In a January 2002 report to the Minnesota Legislature, the Management Analysis Division of the Minnesota Department of Administration confirmed that the construction cost of new buildings complying with the Minnesota Energy Code is higher than buildings built prior to the enactment of the code.
 - Proper TIF analysis requires a comparison between the replacement value of a new building built under current code standards with the repairs that would be necessary to bring the existing building up to current code standards. In order for an equal comparison to be made, all applicable code chapters should be applied to both scenarios. Since current construction estimating software automatically applies the construction cost of complying with the Minnesota Energy Code, energy code deficiencies should also be identified in the existing structures.

PART 3 – PROCEDURES FOLLOWED

- A. LHB was able to schedule interior and exterior inspections for all seven buildings in the proposed TIF District on August 13 and 14, 2009. We also inspected the golf clubhouse located on parcel 9, but determined it would be more appropriate for inclusion if this were a proposed Renewal and Renovation District.

PART 4 – FINDINGS

A. Coverage Test

1. The total square foot area of each parcel in the proposed TIF District was obtained from City records, GIS mapping and site verification.

2. The total square foot area of buildings and site improvements on the parcels in the proposed TIF District was obtained from City records, GIS mapping and site verification.
3. The percentage of coverage for each parcel in the proposed TIF District was computed to determine if the 15 percent minimum requirement was met. The total square footage of parcels meeting the 15 percent requirement was divided into the total square footage of the entire district to determine if the 70 percent requirement was met.

Finding:

The proposed TIF District met the coverage test under *Minnesota Statutes, Section 469.174, Subdivision 10(e)*, which resulted in parcels consisting of 100 percent of the proposed TIF District being occupied by buildings, streets, utilities, paved or gravel parking lots, or other similar structures (Diagram 2). This exceeds the 70 percent area coverage requirement for the proposed TIF District under *Minnesota Statutes, Section 469.174, Subdivision (a) (1)*.

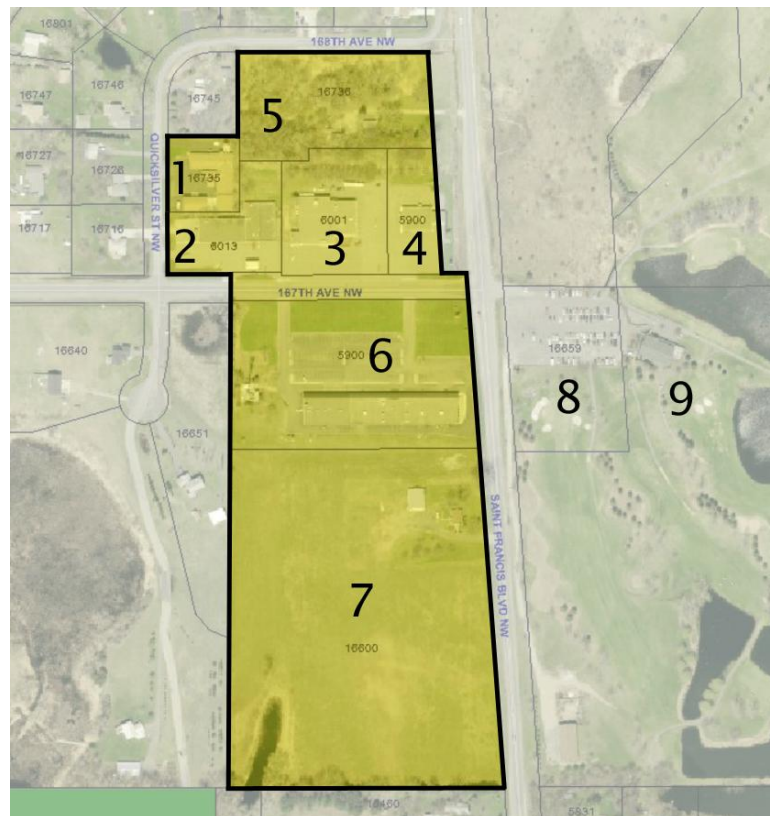


Diagram 2 – Coverage Diagram

Shaded area depicts a parcel more than 15 percent occupied by buildings, streets, utilities,
Paved or gravel parking lots or other similar structures

Note: parcel 7 includes a municipal infrastructure project that does not appear in this aerial photo.

B. Condition of Building Test

1. Replacement Cost

The first step in evaluating a building to determine if it is substandard to a degree requiring substantial renovation or clearance is to determine its replacement cost. This is the cost of constructing a new structure of the same square footage and type on site. Replacement costs were researched using R.S. Means Cost Works square foot models for 2009.

A replacement cost was calculated by first establishing building use (office, retail, residential, etc.), building construction type (wood, concrete, masonry, etc.), and building size to obtain the appropriate median replacement cost, which factors in the costs of construction in Ramsey, Minnesota.

Replacement cost includes labor, materials, and the contractor's overhead and profit. Replacement costs do not include architectural fees, legal fees or other "soft" costs not directly related to construction activities. Replacement cost for each building is tabulated in Appendix A.

2. Code Deficiencies

The next step in evaluating a building is to determine what code deficiencies exist with respect to such building. Code deficiencies are those conditions for a building which are not in compliance with current building codes applicable to new buildings in the State of Minnesota.

Minnesota Statutes, Section 469.174, Subdivision 10(c), specifically provides that a building cannot be considered structurally substandard if its code deficiencies are not at least 15 percent of the replacement cost of the building. As a result, it was necessary to determine the extent of code deficiencies for each building in the proposed TIF District.

The evaluation was made by reviewing all available information with respect to such buildings contained in City Building Inspection records and making interior and exterior inspections of the buildings. LHB utilizes the 2007 Minnesota State Building Code as the official code for our evaluations. The Minnesota State Building Code is actually a series of provisional codes written specifically for Minnesota only requirements, adoption of several international codes, and amendments to the adopted international codes.

After identifying the code deficiencies in each building, we used R.S. Means Cost Works 2009; Unit and Assembly Costs to determine the cost of correcting the identified deficiencies. We were then able to compare the correction costs with the replacement cost of each building to determine if the costs for correcting code deficiencies meet the required 15 percent threshold.

Finding:

Four (4) out of seven (7) buildings (57.1 percent) in the proposed TIF District contained code deficiencies exceeding the 15 percent threshold required by *Minnesota Statutes, Section 469.174, Subdivision 10(c)*. A complete Building Code and Condition Deficiency report for each substandard building in the proposed TIF District can be found in Appendix B of this report.

3. System Condition Deficiencies

If a building meets the minimum code deficiency threshold under *Minnesota Statutes, Section 469.174, Subdivision 10(c)*, then in order for such building to be “structurally substandard” under *Minnesota Statutes, Section 469.174, Subdivision 10(b)*, the building’s defects or deficiencies should be of sufficient total significance to justify “substantial renovation or clearance.” Based on this definition, LHB re-evaluated each of the buildings that met the code deficiency threshold under *Minnesota Statutes, Section 469.174, Subdivision 10(c)*, to determine if the total deficiencies warranted “substantial renovation or clearance” based on the criteria we outlined above.

System condition deficiencies are a measurement of defects or substantial deterioration in site elements, structure, exterior envelope, mechanical and electrical components, fire protection and emergency systems, interior partitions, ceilings, floors and doors.

The evaluation of system condition deficiencies was made by reviewing all available information contained in City records, and making interior and exterior inspections of the buildings. LHB only identified system condition deficiencies that were visible upon our inspection of the building or contained in City records. We did not consider the amount of “service life” used up for a particular component unless it was an obvious part of that component’s deficiencies.

After identifying the system condition deficiencies in each building, we used our professional judgment to determine if the list of deficiencies would total more than 20 percent of the replacement value of the building when added to the cost of total code deficiencies. For example, if a building with a replacement value of \$100,000 had 17 percent code deficiencies, we would look at the list of system condition deficiencies and make a professional judgment that the cost of fixing the system condition deficiencies would be at least \$3,000 (3 percent), in order for that building to be considered substandard.

Finding:

In our professional opinion, four (4) of the seven (7) buildings (57.1 percent) in the proposed TIF District are structurally substandard to a degree requiring substantial renovation or clearance, because of defects in structural elements or a combination of deficiencies in essential utilities and facilities, light and ventilation, fire protection

including adequate egress, layout and condition of interior partitions, or similar factors which defects or deficiencies are of sufficient total significance to justify substantial renovation or clearance.

C. Distribution of substandard structures

Much of this report has focused on the condition of individual buildings as they relate to requirements identified by *Minnesota Statutes, Section 469.174, Subdivision 10*. It is also important to look at the distribution of substandard buildings throughout the geographic area of the proposed TIF District (Diagram 3).

Finding:

The substandard buildings are reasonably distributed throughout the geographic area of the proposed TIF District.

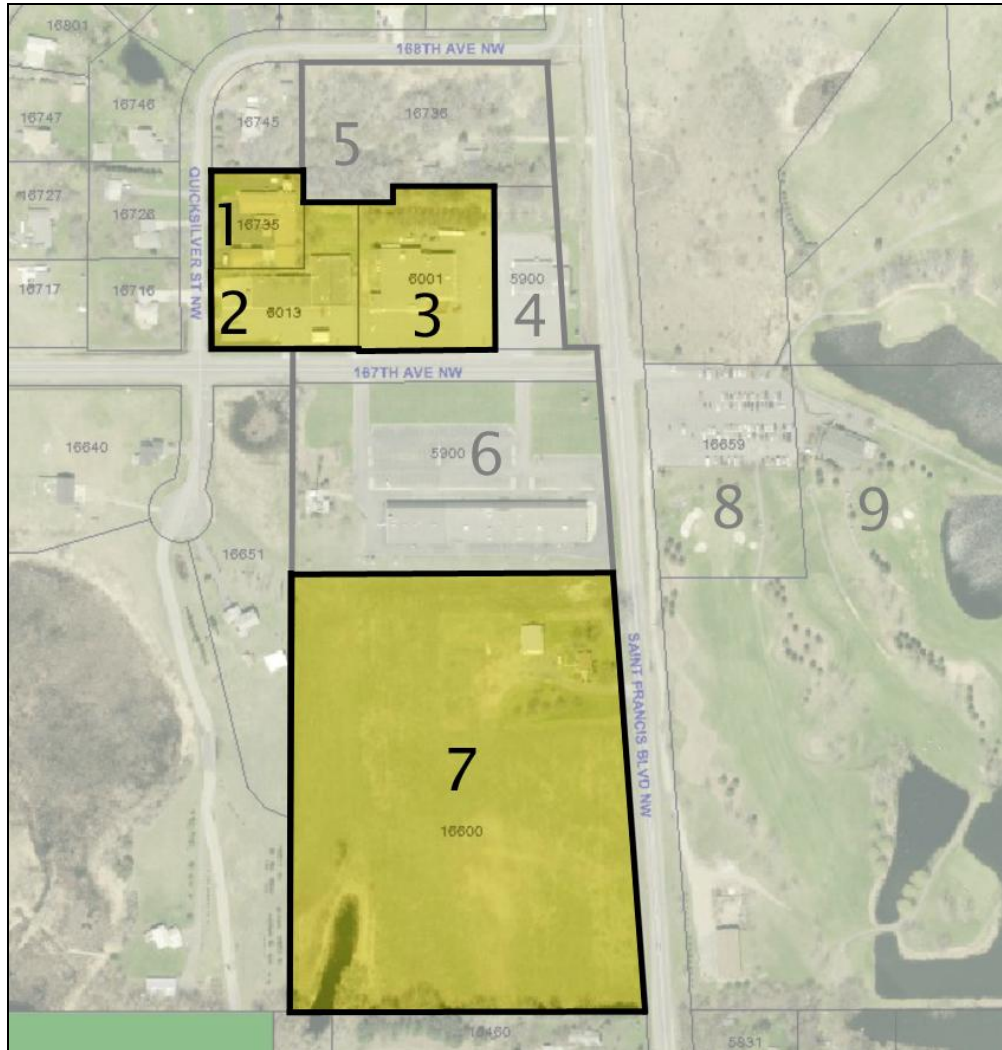


Diagram 3 – Substandard Buildings
Shaded area depicts parcels with substandard buildings

PART 5 - TEAM CREDENTIALS

Michael A. Fischer, AIA LEED AP - Project Principal/TIF Analyst

Michael has nineteen years of architectural experience as project principal, project manager, project designer and project architect on municipal planning, educational, commercial and governmental projects. He is a Vice President at LHB and currently leads the Community Design Group in LHB's Minneapolis office. Michael completed a two-year Bush Fellowship at the Massachusetts Institute of Technology in 1999, earning Masters Degrees in City Planning and Real Estate Development. Michael has served on over 35 committees, boards and community task forces, including a term as City Council President and Chair of the Duluth/Superior Metropolitan Planning organization. He is currently a Planning Commissioner in Edina, Minnesota. He was one of four architects in the country to receive the National "Young Architects Citation" from the American Institute of Architects in 1997.

Stephen Schuller– Project Manager/Inspector

Steve's more than 30 years of architectural work is complemented by project management, land development, and home building experience. For 15 years, he was a partner in McKeon-Schuller, Inc., a Rochester, Minnesota-based firm with a range of projects from housing to commercial buildings. Steve was also a partner in Five Star Homes, constructing townhomes and custom residences. Steve's extensive knowledge of both housing design and construction gives him an advantage in his current role as a project manager at LHB.

Lydia Major, MLA, ASLA – GIS/Mapping

Lydia recently joined LHB's Urban Design and Planning group, bringing with her a passion for design that benefits the client, the community, and the environment. Her experience includes designing and drafting commercial and residential properties at a variety of scales. Lydia integrates her skills with AutoCAD, ArcGIS, and the Adobe Creative Suite to produce plans, color renderings, booklets, and other presentation materials. Communication is a critical component in all projects, and Lydia's uses her education as a writer to create compelling project documents, including proposals, requests for variance, and other public-relations materials.

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APPENDICES

APPENDIX A	Property Condition Assessment Summary Sheet
APPENDIX B	Building Code and Condition Deficiencies Reports
APPENDIX C	Property Condition Assessment
	Building Replacement Cost Reports
	Code Deficiency Cost Reports
	Photographs

APPENDIX A

Property Condition Assessment Summary Sheet

APPENDIX B

Building Code and Condition Deficiencies Reports

APPENDIX C

**Property Condition Assessments
Building Replacement Cost Reports
Code Condition Cost Reports
Photographs**