

Joint Council/Port Authority Meeting #11A
Monday, April 17, 2006, 5:30 p.m.
Bloomington Civic Plaza
1800 West Old Shakopee Road,
Bloomington, Minnesota 55431-3027

Call to Order

Mayor Gene Winstead called the City Council meeting to order at 5:42 p.m.
Port Authority Chair Robert Erickson called the Port Authority meeting to order at 5:45 p.m.

Roll Call

Council: Mayor Winstead, Councilmembers R. Axtell, S. Elkins, A. Grady,
K. Nordstrom, and S. Peterson.
V. Wilcox (*Absent*).

Port Authority: Chair Erickson, Commissioners R. Collins, A. Grady, D. House, T. Keller
& G. Winstead.
V. Wilcox (*Absent*).

Others: Mark Bernhardson, Dave Ornstein, Clark Arneson, Lori Economy-Scholler,
Terri Heaton, & Tom Barrett.

**Discussion of
Financial Models &
Legislative Strategies
Relating to
MOA Phase II**

Clark Arneson, Assistant City Manager explained that this meeting is more related to policy than a detailed analysis of the numbers. He acknowledged City department heads and Mall of America development and public relations representatives were present. His staff report relating to the Mall of America Phase II Public Finance Strategy highlighted the following:

- Attachments included in the packet.
- Background relating to the contract with the Mall of America. (Entered into by Port Authority and the City along with Mall of America Company (MOAC) and modified in 1988 but is still the going forward document. The contract references a provision relating to the amount of public investment the City and the Port Authority will put into the development, which should result in a 10% public investment by the City of Bloomington into the Mall of America project (defined as all phases of the MOA).
- Question for the Port Authority and the City Council: Is there interest in discussing options related to: An extension of Tax Increment Financing (TIF) Districts, an extension of the formula, and is there interest in pursuing legislative authorization for any other revenue source? (Currently, there are two TIF Districts in place – MOA Phase I, scheduled to expire in 2015 and MOA Phase II scheduled to expire in 2018.) Amendment of those TIF District expiration dates would require special legislative authority. Any change in the financial formula would also require a legislative amendment. He inquired if there was a comfort level on the Port Authority and City Council to allow staff to begin work on a legislative package to stretch one or a combination of the following: TIF District, TIF Formula, or a special tax. He mentioned that the MOAC representatives met with Bloomington's Legislative delegation and there is agreement on the Senate side to put a placeholder for bill language this session relating to the extension of the Malls two TIF Districts provided the Port and the Council support such action by the Legislature.
- A review of the Springsted financial cash flow models (Attachment A) that address three development scenarios for MOA Phase II: 5.6 million SF (the MOA's current plans which have been submitted to the City's Planning Division), 4.0 million SF (over 4.0 million SF triggers Minnesota Department of Transportation (MnDOT) state highway related improvements), and 3.0 million SF. He mentioned the IKEA development is 2.2 million, which is included in the 5.6 million SF.

Discussion continued

- Purpose of tonight's discussion relates to the TIF extension timeframe required for the various levels of development: 5.6 million SF (TIF would need to be extended to 2033), 4.0 million SF (extended to 2024), and 3.0 million SF (extended to 2018).
- City Manager Mark Bernhardson added that over time, between State, Federal, and Local, another estimated \$400 million of improvements will be needed in Airport South to allow the type of urban center development envisioned by the City.

Winstead began the Council discussion by stating that although he has no problem with the need to request a time extension for the TIF, he inquired if there was any other precedence for which the City went above the 10% public improvement contribution level and what have other cities have done and to what extent have they stretched the tax increment financing level for a project.

Terri Heaton, Senior Vice President of Springsted, Inc. replied that they generally see projects in the 0% to 20% range in the metro area.

Bernhardson added that the primary driver for the public subsidy of MOA Phase II is the parking structure.

Commissioner Collins stated that it's not unusual for subsidies to be involved in parking for higher density projects. He stated the fundamental question more so than time is the counted value ratio, as more time wouldn't be needed if the total public investment wasn't so large. He inquired as to what the City's comfort level is with regard to having an assurance that over time, the City doesn't end up overpaying for an appropriate level of public involvement.

Arneson replied that analyzing a project to determine a reasonable rate of return by the developer was not done for MOA Phase I, although City staff did do its due diligence in monitoring the public improvements on site. It was done on Bloomington Central Station but is not contemplated for MOA Phase II per the contract.

Collins commented that he would like reassurance that if the value of the public investment in Phase II exceeds reasonable expectations, the City could share in the upside of those improvements.

Chair Erickson stated that one principle the Port and Council should keep in mind is that the City can say no to a certain level of public investment and that there is a risk that, if it isn't done right, the addition onto the Mall could take and detract from surrounding development. He urged as many financial options be developed as possible and supported trying to get the Legislature to allow the City to discuss the TIF extension but that doing so doesn't in any way commit the City to beyond the 10% level of public investment.

Councilmember Peterson stated that he believes Council should carefully consider if the City wants to invest so heavily in one project to stimulate development, as there are other projects that could compete for such financing.

Grady inquired if the TIF Districts for both Phase I and Phase II are necessary, and if so, why. She inquired how this request would be sold to the constituents.

Bernhardson explained that it's an integrated project, and as the district lines stand now, a substantial part of that falls into TIF District I and 5.6 million SF of development can't be done only on a TIF extension of Phase II so both extensions are needed. He stated it will be easier to sell this to the State, as they would generate more revenue out of a 5.6 million SF development than they would out of a 2.2 million SF development. With the Phase II development, he stated the number of hotel rooms in Bloomington could increase to 9500 rooms and other values around Airport South have increased at a greater rate than they probably would have had the Mall of America not been there. If not for the Mall of America being located there, Light Rail Transit or Bloomington Central Station (BCS) would not have occurred. He stated the Mall of America has continued to increase in value where Office and other Commercial/Industrial development have seen more fluctuation.

Discussion continued Councilmember Elkins inquired if the capacity is maximized on I-494, does that constrain the City from development like the Airport parking lots north of BCS and other areas along the strip.

Charlie Honchell, Public Works Director stated that the 35W/494 interchange is the main bottleneck along 494 and believes it will remain as the worst area even as more development occurs in Airport South, which will increase problems on the east side.

Elkins inquired if the City needs to worry that Burnsville will do a Metro Significance.

Dave Ornstein, City Attorney replied that there are a couple of trigger points that could initiate Metro Significance but there is also an exemption for a project that has undergone an environmental review, as this particular project has on a couple of occasions. He stated it's possible that someone might try to initiate it but our defense would be that the rules regarding Significance state that if 30 days have lapsed since a review has been completed, it's exempt.

Winstead inquired about the possibility of a special taxing district as an additional revenue source and what the developer's tolerance might be to assess for some of these types of on-site improvements.

Bernhardson explained that even with the extensions and a change in the formula, in order to do a 5.6 million SF development, the developer would have to handle \$60 million of assessments but believes the idea could be explored. He stated the question for Council and the Port Authority is whether they want to give themselves the ability to extend the districts to some degree and an ability to change the counted value formula. Both would be subject to negotiations.

Collins stated that he agrees with Erickson and doesn't see any reason not to provide the maximum flexibility.

Erickson stated that with regard to parking capacity, he believes the entire Airport South area needs to be looked at and not just one project by itself. He stated anything the City could do to increase the envelope of time needed to capture the tax increment to support the parking, etc. in this area would be to the City's benefit.

Councilmember Axtell supports Option #4 but inquired as to the total amount of debt for both the City and the Port Authority.

Bernhardson replied the total debt service for Phase I is \$44 million and the City's is approximately \$20 million.

Commissioner House inquired what would happen to the Phase II development if the Legislature was asked and denied an extension of the TIF districts and a change in the formula.

Arneson replied that it would then be a developer's decision, as there is a contract in place today that survives with or without an extension by the Legislature. The developer would have to decide if they wanted to go ahead under that contract or not. They could stop development at this time having met their obligations to the City.

There was Council and Port Authority consensus to have staff proceed with Option 4, which is to seek legislative authority for an extension to the tax increment district(s) and the ability to consider modifying the formula for one of the following levels of development: 5.6, 4 or 3 million SF.

With regard to special taxing districts, Arneson explained that there is existing legislation that allows cities and port authorities to implement special taxing districts, which are generally improvement districts where, for example, landscaping is in place and an organization is taxed a special assessment to pay for the installation and/or maintenance of that improvement. He stated there is the possibility that such a process could be used throughout Airport South to fund and pay for some of the improvements, i.e. streetscape. He was not sure if additional legislative authority would be needed to do something like that or if something regarding off-site infrastructure could be added to it.

Discussion continued Erickson stated this underscores the importance of the strategic planning process and the City's ability to say yes to the type of development it wants for Bloomington.

Action by the Port Authority The Port Authority took the following action:
Motion was made by Collins, seconded by Keller, and all voting aye, to authorize staff to proceed with Option #4 and to initiate discussions with the developer and others to consider the use of special taxing districts and other tools as possible revenue sources.

Action by the City Council The City Council took the following action:
Motion was made by Peterson, seconded by Elkins, and all voting aye, to authorize the staff to proceed with Option #4 and to initiate discussions with the developer and others to consider the use of special taxing districts and other tools as possible revenue sources.

Adjourn Meeting Mayor Winstead adjourned the meeting at 6:50 p.m.

Barbara Clawson
Council Secretary