



M E M O R A N D U M

TO: All Members of the Metropolitan Council
FROM: Jon Cooper, Director
Metropolitan Council Office
SUBJECT: Supplemental Analysis of Bellevue Mall Economic Impact Plan
DATE: August 5, 2008

SUBSTITUTE RESOLUTION NO. RS2007-78 (CRAFTON, MITCHELL & TYGARD) –

On Monday, August 4, 2008, a second substitute resolution was filed approving a revised economic impact plan for the Bellevue Center mall, and authorizing the industrial development board (IDB) to take the necessary action to implement the plan. State law allows local industrial development boards to submit an economic impact plan for qualifying areas, which include areas containing an industrial park or certain commercial enterprises and office facilities. Once an economic impact plan has been approved by the local legislative body, the local industrial development corporation can issue bonds pledged by tax increment financing (TIF) based on the increased property taxes resulting from the development. TIF is a financing mechanism authorized by state law whereby the increased tax revenue generated by a development is used to pay the debt service on bonds issued for the construction of the project, which bonds are typically purchased by private financial institutions. Pursuant to state law, TIF can be used for a period of up to thirty years.

The original economic impact plan presented to the council proposed that the IDB issue bonds not to exceed a maximum amount of \$12 million, plus all costs associated with the issuance of the bonds and capitalized interest on the bonds during construction and two years after construction. Although the terms of the economic impact plan approved by the IDB provide a principal amount cap of \$12,287,000, the agreement between Metro and the developer is for a base principal amount of \$12 million. The proceeds of the bonds will be used to construct a public space at the mall, update the signalization on Sawyer Brown Road and Highway 70, construct a privacy wall on the north end of the mall property, build a sidewalk along a portion of Sawyer Brown Road, and upgrade the water and sewer lines in the area. While the public would see some benefit from these improvements, it was questionable whether this was a sufficient public benefit to justify the use of tax increment financing.

After several months of negotiations, the administration and the developer have agreed on a revised plan that would provide Metro with a new public library in the mall facility

in exchange for the use of tax increment financing. A new library in Bellevue has been a priority of the library board, and the board has approved a concept plan for the proposed regional branch library in the mall. Pursuant to the agreement, the developer will build out a 32,000 square foot library in the downstairs portion of the former Dillard's store with an opening date of not later than December 2010. It is estimated that the build out for the library space will cost \$4.5 million. The remainder of the tax increment financing will be used to construct a public space in the open area, and for the construction of a privacy wall, sidewalks, signalization improvements, and updating the water and sewer lines, as provided in the original economic impact plan.

It is estimated that the cost to Metro to construct a free-standing 32,000 square foot library in today's dollars would be in excess of \$13 million. As the council is aware, due to our limited debt capacity, it is unlikely that we could build a new library in the next several years. While Metro will not own the space in the mall, we will have a twenty year lease, plus options for four five-year extensions, at a dollar a year. Thus, Metro will have the benefit of the library facility for forty years with no out-of-pocket construction costs. Assuming a fair market rental of \$12 per square foot, the value of the lease would be \$384,000 a year, which is in line with the amount of tax increment financing being provided. In the event the library board decides that the plan is not working within the first three years, the developer will be required to pay us a relocation fee of \$1 million.

The current assessed value of the mall property is \$28 million, compared to \$68 million ten years ago. The economic impact plan forecasts that the Bellevue Mall development project will result in the addition of a \$180 million facility to the property tax rolls. Once the TIF period is over, this is expected to generate \$1.8 million per year in increased property taxes. In addition, the plan estimates Metro's local option sales tax receipts for the redeveloped mall to be \$7,875,000 million annually. Further, the mall is estimated to create 1,800 to 2,300 new jobs with an average salary of \$29,000 per year. It is also estimated that an additional 1,000 jobs will be indirectly created once the project is complete.

The council office would point out that the revised plan provides that the director of finance can request the IDB to increase the base principal amount of the TIF beyond the \$12 million for the construction and equipping of the library. The council office recommends that Rules be suspended to allow an amendment requiring that any increase above the base principal amount be approved by the council by resolution. While the administration has made it clear that the amount of TIF will be limited to \$12 million, it is appropriate that the council ratify any increase that may be proposed.