



## **Business Subsidy Agreement Pre-Approval Report Amended**

### **TIF District #34 – Zenith (Historic Old Central High School) Redevelopment Project**

#### **Business Subsidy Recipient Information**

1. Name of Business or Organization: Saturday Zenith, LLC (dba Saturday Properties)
2. Address: 3546 Dakota Ave S, Suite D, St. Louis Park, MN 55416
3. Does the recipient have a parent corporation?  
No.
4. Did the recipient relocate as a result of signing this agreement?  
No.

#### **Summary Agreement Information**

1. Brief description of the proposed project

The project will consist of the renovation and revitalization of the historic central high school located on Second Street between Lake Avenue and 1<sup>st</sup> Avenue East in the Downtown Central Business District. This revitalized historic building will host approximately 87,000 square feet of space, resulting in no less than 120 apartment units and several common areas. Of these apartment units, 10% will be available at 60% or less of the Area Median Income. Prior to commencing construction, the building was vacant and in a dilapidated state, requiring tens of millions of dollars to restore the building's integrity. The renovation of the new building to historic standards will utilize private investment dollars, both state and federal historic tax credits, and Tax Increment Financing to create much needed affordable and market rate housing in downtown Duluth.

Since construction commenced in 2022, the project has been impacted by unforeseen conditions within the building itself and from a changing economic environment. This has caused unforeseen cost overruns, in addition to changes to property taxes and the interest rate environment. The Developer has found additional equity and investments to close the nearly \$10M gap as a result of these construction overages but is faced with nearly \$4M of additional redevelopment cost. These increases are driven by challenging building conditions that must be rehabilitated to meet historic building standards such as repair and replacement of a large

portion of the roof, additional lead-based paint and asbestos removal of uncovered surfaces, and plaster repair in unforeseen areas of the building.

2. Total value of proposed project

Total Development Costs:	Approximately \$56,007,000
Total projected estimated market value:	\$22,100,000

3. Summary of type(s) of subsidy and total dollar value for each

a. Grantor of assistance

i. Tax Increment Financing

1. City of Duluth/DEDA

2. Total value of assistance: \$5,465,000

ii. Federal Historic Tax Credits

1. Total value of assistance: \$7,102,000

iii. State Historic Tax Credit

1. Total value of assistance: \$7,261,000

b. Total dollar value of assistance

i. \$19,828,000 million or approximately 35% of the total project cost.

4. What other financing avenues were pursued?

a. Property Tax Abatement

b. Increased Federal and State Historic Tax credits

c. Additional investor equity or member loans

**Applicability of Current Duluth and State Laws**

1. Is this project covered under Duluth's Prevailing Wage law as defined in Article 2, Section 2-25? I

a. Yes.

2. Is this project covered under Duluth's Project Labor Agreement law as defined in Article 2, Section 2-29? If not, state the specific applicable exclusion.

a. Yes.

3. Is this project is covered by Duluth's Living Wage law as defined in Article 26, Chapter 2 of the Duluth City Code?

a. Yes.

4. Is this project covered by the business subsidy statute as defined in Minnesota Statutes 116J.993-.995 and subject to reporting?

a. No.

## Public Purpose and Public Benefit Criteria

1. Public Purpose Criteria. State which two (minimally) of the five public purposes this project meets with a brief explanation of why it the proposed project meets this criteria.
  - a. High quality jobs.
    - i. This project does not create any permanent high-quality jobs but will provide a revitalized historic building in a district that is in much need of affordable and market rate housing. It will also provide high-quality jobs during active construction.
  - b. Job retention
    - i. See (a) above.
  - c. Diversify Duluth's economy
    - i. The Central Business district contains Duluth's highest concentration of the commercial and retail businesses. Increased pedestrian traffic from this residential density will contribute to greater patronization of downtown businesses; this is much needed, particularly as the pandemic has resulted in additional vacant storefronts. Additionally, the current building is vacant; occupied buildings are safer and better maintained. This redevelopment will reinvest in and make use of a blighted structure in Duluth's downtown business neighborhood.
  - d. Quality of life
    - i. The revitalization of one large blighted building and creation of quality housing improves the neighborhood and instills greater confidence and pride in our community. Housing both below 100% AMI and market rate is in high demand in the downtown district. With direct access to local businesses and public transportation, tenants will be able to work and live independently. Also, access to the skywalk system is just one block south, allowing tenants easy access to businesses year-round.
  - e. Tax Base
    - i. As the property was previously owned by ISD 709, it is not generating any tax revenue. Once completed, the property will result in a net tax capacity of approximately \$303,000 (after the district terminates).
2. Preferential Public Benefit Criteria. Which other preferential public benefit criteria does this project meet, if any? Provide a brief explanation of how it meets the criteria.
  - a. Locally owned businesses
    - i. When available, local contractors will be hired to renovate the building. Currently, local contractor Kraus Anderson is the lead contractor on the development and has a history of hiring locally on projects as much as possible.
  - b. Workforce development and hiring low-income, unemployed and hard-to-employ residents
    - i. The construction of the project will be accompanied by hiring goals via a Community Benefit Agreement, including providing building trades-opportunities for women and those experiencing real barriers to employment.

- c. Protected class business owners
    - i. See above.
  - d. Other community benefits
    - i. The availability of housing that is located within the Central Business District is currently very limited. Additionally, more people living within downtown allows for more customers for the businesses in the district; people will be in the district both day and night, spending money. The project will connect to Duluth's Energy Systems, providing reliable heat to the building while contributing to a more renewable energy system and reducing emissions. Lastly, an occupied building is a safer building: the historic old central high school building is currently vacant and is a blighted structure on in the main commercial/retail districts within the city.
3. Duluth Comprehensive Plan and other City Plans
- a. What current City plans, if any, cover this project? How does the project relate to the applicable plans?
    - i. The future land-use designation of the redevelopment site is General Mixed Use (GMU). According to the Imagine Duluth 2035 Comprehensive Plan, the "GMU" encompasses the broadest range of uses and intensities:
      - 1. Large Redevelopments
      - 2. Residential
      - 3. Commercial
      - 4. Office
      - 5. Light Industrial
  - b. Additionally, the project adheres to the following principles identified in the Comprehensive Plan:
    - 1. Principle #1 – Reuse previously developed lands
    - 2. Principle #5 – Promote Investment in neighborhoods
    - 3. Principle #8 – Encourage mix of activities, uses and densities
  - c. Are there any special zoning or permitting exemptions that need to be made for this project? If yes, provide a brief explanation.
    - i. No

**Specific project goals**

- 1. For each public purpose state the specific, measurable and tangible goals that were set for the project:
  - a. Public Purpose - Type of goal
    - i. The public purposes stated will all be achieved once the blighted building has been revitalized and the 87,000 square foot building has been renovated.
  - b. Specific Goals established
    - i. Achievement of the Business Subsidy Goal in accordance with City Council Resolution 18-0515 shall be measured as follows: Developer agrees that on or before December 31, 2023, it shall have constructed the Project on the Property in accordance with the Development Agreement.

- c. Target Attainment Dates
  - i. See above.