



Legislation Text

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RESOLUTION APPROVING THE FIFTH AND SIXTH AMENDMENTS TO THE DEVELOPMENT AGREEMENT BETWEEN THE DULUTH ECONOMIC DEVELOPMENT AUTHORITY AND LAKEWALK PROPERTIES LLC FOR THE DEVELOPMENT OF THE LAKEVIEW APARTMENTS PROJECT.

CITY PROPOSAL:

Resolved, that, pursuant to the provisions of Minnesota Statutes §116J.994, Subdivision 3(d), and Resolution 10-0229, the city council of the city of Duluth does hereby approve the fifth and sixth amendments to the development agreement between the Duluth Economic Development Authority ("DEDA") and Lakewalk Properties, LLC ("Developer"), substantially in the form of those attached as Exhibit A and Exhibit B, related to the Lakeview Apartments multi-family residential development located at 333 East Superior Street and immediately west of 4th Avenue East in Duluth, Minnesota, increasing the amount of TIF assistance by \$1.3 Million, increasing the interest rate on the TIF note to 6.25%, and extending the start date to November 30, 2022.

STATEMENT OF PURPOSE: The purpose of this resolution is to obtain the city council's approval of the fifth and sixth amendments to the development agreement between DEDA and Lakewalk Properties, LLC for the development of the approximately 192-unit Lakeview Apartments project (the "Project") located at 333 East Superior Street. The project will be located on property formerly occupied by the Hacienda del Sol and the Voyageur Motel, structures that were demolished in 2021. The area has been designated as Tax Increment Financing ("TIF") District No. 31. DEDA entered into the original development agreement on August 26, 2019.

The fifth amendment was approved by DEDA at its May 25, 2022 meeting as DEDA resolution 22D-30. The sixth amendment was approved by DEDA at its July 20, 2022 meeting as DEDA resolution 22D-42.

The fifth and sixth amendments to the development agreement provide for the following modifications to the development agreement:

1. Increase in the total amount of TIF support to the Project from \$6.2 million to \$7.5 million;
2. Affirm the Project's intent to connect to the city's district heating system to utilize steam and/or hot water for the building's energy needs;
3. Increase the total interest payable on the TIF Note from 5% annually to 6.25% annually;
4. Require that construction shall start on the project, based on issuance of a building permit, no later than November 30, 2022.

The fifth and sixth amendments are consistent with the original TIF proposal, limiting the TIF support to a pay-as-you-go TIF note held by the developer or their financing partners. The term limit for the TIF district is 26 years; however, it is anticipated that the TIF note may be paid in full within year 19 of the district.

Changes in the total TIF support to the Project will allow it to proceed for construction. The Project's financing has been impacted by a changing interest rate environment for private debt support to the project's construction loan, as well as increasing construction costs in comparison to original project estimates from the time when the project was first proposed in 2018. The Project will represent a substantial amount of new housing construction in an area of the city where there is a high level of housing demand due to increased investment and new employment opportunities associated with projects such as the Essentia Health Vision

Northland project.

The proposed Lakeview Apartments remain an important complement to new housing construction in Duluth's downtown. Paired with the proposals supported through the dedicated funding through the American Rescue Plan Act to housing by the city, the Lakeview Apartments will be part of several hundreds of new housing units proposed or under construction in the downtown. The total increase in new housing units could exceed 450 new units based on currently funded proposals, which includes over 200 new units of affordable housing between the One Roof Community Housing Brae View project and the proposed apartment project at 131 West 1st Street.

Tax base impact statement: The current market value (payable 2019, set at time when the district was created) of the properties located in this 26-year Redevelopment TIF District (to be created by DEDA) is \$1,913,000 and the property is generating \$34,827 in net tax capacity. After the improvements are completed, the taxable market value will increase to approximately \$39,950,000 and the annual tax increment will be provided to the Developer to facilitate the redevelopment. After the TIF District is terminated, the development is anticipated to generate over \$736,607 per year in net tax capacity (based on the County Assessor's valuation of the completed property, not including inflation).