



**JOINT CITY COUNCIL AND HOUSING AND REDEVELOPMENT AUTHORITY WORK SESSION
RICHFIELD MUNICIPAL CENTER, BARTHOLOMEW ROOM
MARCH 6, 2023
6:00 PM**

Call to order

1. Discuss Best Buy's request to terminate the Minimum Assessment Agreement between the City of Richfield and Best Buy.

Adjournment

Auxiliary aids for individuals with disabilities are available upon request. Requests must be made at least 96 hours in advance to the Acting City Clerk at 612-861-9712.



STAFF REPORT NO. 6
WORK SESSION
3/6/2023

REPORT PREPARED BY: Melissa Poehlman, Executive Director

DEPARTMENT DIRECTOR REVIEW: Melissa Poehlman, Community Development Director
3/1/2023

CITYMANAGER REVIEW: Katie Rodriguez, City Manager
3/1/2023

ITEM FOR WORK SESSION:

Discuss Best Buy's request to terminate the Minimum Assessment Agreement between the City of Richfield and Best Buy.

EXECUTIVE SUMMARY:

The Interchange West / Lyndale Gateway Tax Increment Financing (TIF) District was established in 1999. This District is a "scattered site" redevelopment District with multiple projects and outstanding obligations, including the Best Buy corporate headquarters, Mainstreet Village and Casteel Place Townhomes. The current discussion will only focus on the Best Buy portion of the TIF District.

In March 2000, the Richfield Housing and Redevelopment Authority (HRA) entered into a Contract for Private Development (Contract) with Best Buy to facilitate the redevelopment of the area along I-494 that is now home to the Best Buy Headquarters. The benefits noted at the time included redefining the southern edge of Richfield with a corporate image and bringing a large employer to the community. Additionally, including Best Buy in a TIF District would offer a revenue source for replacement housing through its contribution to the Housing and Redevelopment Fund.

In order to handle the traffic demands of a large employer, significant infrastructure improvements were required, including the reconstruction of the Penn Avenue / I-494 bridge. As part of the Contract with Best Buy, the City agreed to issue General Obligation Bonds (Bonds); the principal and interest payments of which would be paid back over time with tax increment generated by the project. The Bond remains outstanding, with the final payment due on February 1, 2024.

In order to insure that adequate tax increment would be generated to pay the Bonds and provide a revenue source for replacement housing, Best Buy and the City entered into a Minimum Assessment Agreement (MAA). The MAA requires that during the life of the TIF District the value upon which Best Buy's taxes are calculated does not fall below \$118.5 million. The value of the Best Buy parcel exceeded the MAA amount until 2014. Since that time, the value has remained at the minimum.

Best Buy has submitted the attached request for termination of the MAA. HRA staff and financial consultants from Ehlers have been reviewing the request and the potential impacts to the HRA and Best Buy, should the HRA and City wish to grant this request. Current projections show there will likely be sufficient tax increment to make the Bond payments. Thus, no property tax levy would be required. However, it is likely that value of

the property would be lower than \$118.5 million and that the tax increment anticipated in the next two years to further the HRA's housing goals would decrease.

Best Buy also requested that the HRA provide an accounting of payments to Best Buy and "pooling" over the life of the TIF District. This analysis is ongoing.

This work session will provide an opportunity for both Best Buy representatives and HRA staff and consultants to holistically present issues that policymakers should consider as discussions between the parties moves forward.

DIRECTION NEEDED:

Provide staff and Best Buy with initial feedback.

BACKGROUND INFORMATION:

A. HISTORICAL CONTEXT

See Executive Summary

B. POLICIES (resolutions, ordinances, regulations, statutes, etc):

Procedures for the modification and/or termination of a Minimum Assessment Agreement are dictated by State Statute. The HRA Attorney will be present to discuss.

C. CRITICAL TIMING ISSUES:

Best Buy has indicated to staff that they would like the MMA terminated as soon as possible. In order to reduce pay 2024 taxes, Best Buy will need to submit to the County by June 30.

D. FINANCIAL IMPACT:

Specific impacts will vary. HRA and Best Buy representatives will have an opportunity to present and answer questions about the impacts of this decision.

E. LEGAL CONSIDERATION:

The HRA Attorney will be present to respond to legal questions.

ALTERNATIVE(S):

N/A

PRINCIPAL PARTIES EXPECTED AT MEETING:

Julie Eddington, HRA Attorney, Kennedy & Graven Rebecca Kurtz & Jeanne Vogt, HRA Financial Consultants, Ehlers Tracy Smith, Senior Director and Tax Counsel, Best Buy Dan Lopez, Director Government Affairs, Best Buy William Griffith & Timothy Rye, Attorneys for Best Buy, Larkin Hoffman

ATTACHMENTS:

Description	Type
□ Best Buy - Min. Assessment Termination Request	Exhibit



Best Buy
Tax - C6-901
Mobile: 612-817-8573
tracy.smith4@bestbuy.com

November 22, 2022

VIA U.S. Mail and Email to MPoehlman@richfieldmn.gov

Melissa Poehlman, Executive Director
Richfield Housing and Redevelopment Authority
6700 Portland Avenue
Richfield, MN 55423

Re: Termination of Minimum Assessment Agreement Between Richfield HRA and Best Buy

Dear Ms. Poehlman:

Thanks so much for meeting with me and the Best Buy team on November 1, 2022, to discuss both the orderly winddown of the Lyndale Gateway/Interchange West Tax Increment Financing District (the "TIF District") and the termination of the longstanding Minimum Assessment Agreement between Richfield HRA and Best Buy dated March 5, 2003 (the "Minimum Assessment Agreement"). This letter addresses the second item above and is our formal request to terminate the Minimum Assessment Agreement, including obtaining the required consent of the City Council, before December 31, 2022.

Background

The Best Buy Corporate Headquarters (the "Campus") is located in the Interchange West TIF District, which was combined with the Lyndale Gateway District and is referred to in this letter as the "TIF District." As we discussed in our meeting, the City and Best Buy have a long history of working cooperatively to build this corporate campus and upgrade local streets and utilities, and to provide funding for reconstruction of the Penn Avenue interchange.

In 2010, Best Buy consented to the issuance of refunding bonds, which resulted in significant savings retained by the HRA under the Fourth Amendment to Contract for Private Development. Over the years, the TIF District has provided more than \$10 million in support of the HRA's programs and housing initiatives. Since 2003, the Campus has drawn thousands of employees and business visitors to the City each day who support local businesses including hotels, retailers, convenience stores, and restaurants. In addition, Best Buy has been proud to engage as a good corporate citizen supporting the Richfield community through funding and sponsorships. This includes supporting local youth at our Teen Tech Center at the Richfield Middle School and the Minnesota Independence College & Community, as well as sponsorships of community events like the July 4th fireworks and Richfield Police and Fire Safety Awareness Day.

Importantly, as the end of the TIF District approaches in 2026, Best Buy is facing an uncertain macroeconomic environment and a seismic shift in workplace expectations, behavior and utilization. Many employers, including Best Buy, have implemented hybrid work policies to meet new post-pandemic employee expectations where more flexibility is demanded. Specifically, we allow a flexible workweek where employees work three days per week in the office, and have the option to work two days from a remote location. We believe this shift to be permanent in the marketplace. In that context, Best Buy remains focused on keeping the Campus buildings viable and productive for corporate use and as a driver of economic activity for Richfield. To support those efforts Best Buy must be attentive to the costs of operating the Campus, including keeping property taxes competitive. Richfield's own interests of attracting workers and commerce to its City clearly are furthered by supporting these same efforts.

Discussion

Without a doubt, the Minimum Assessment Agreement results in the Campus being significantly overvalued for property tax purposes – particularly given the amount of available office space in the Twin Cities following the recent pandemic. To remain a viable and attractive corporate office building in the Twin Cities, property taxes must be competitive and based on fair market value – like essentially all other corporate offices in the Twin Cities. Best Buy's efforts to attract workers, commerce, and potentially new lessees to its Campus also clearly will benefit the City. First, full utilization of the Campus will bring more people to the City on a daily basis and additional commercial traffic to the City. Second, the City's long-term tax base will be enhanced and stabilized. This will become even more important when the TIF District ends in the near future and tax increment is replaced with tax payments to the City's general funds.

Moreover, Best Buy has ensured that the original intent of the TIF financing arrangement, including limited risk to the City, has and will come to fruition. The termination of the Minimum Assessment Agreement is entirely consistent with its original purpose, namely, to ensure the source of repayment of the bonds issued to build the interchange at Penn Avenue and I-494. Since the final payment of the bonds is scheduled for February 2024, based on taxes already assessed and payable in 2023, the City faces absolutely no risk related to the few remaining bond payments.

In the meantime, Best Buy necessarily is focused on bringing the assessed value of the Campus for property tax purposes in line with its peer properties, and competitors, in the market. In this regard, Best Buy is merely taking steps to pay fair taxes based on the Campus's fair market value; rather than paying artificially inflated property taxes pursuant to the Minimum Assessment Agreement – an agreement that no longer serves its intended purpose. Best Buy respectfully requests that the HRA approve the termination of the Minimum Assessment Agreement, including the City Council's consent, before December 31, 2022. This timing will help ensure that the Campus will be subject to property taxes based on its fair market value for 2023 taxes payable in 2024.

Best Buy's request provides a win-win for both Best Buy and the City of Richfield. The City pays off its bond obligations with tax increment generated by the Campus in 2023 and terminates the Minimum Assessment Agreement without risk to the City or its taxpayers. Best Buy, in turn, takes an important

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step toward paying fair, competitive property taxes on the Campus building, which will help attract opportunities to fill the excess space. Best Buy and the City will work together to help support the viability of one of Richfield's cornerstone properties with a flow of employees and commerce to the City for years to come.

We appreciate our longstanding partnership with the City of Richfield and look forward to addressing these important issues in a timely manner for the benefit of the City, its residents, and Best Buy.

Sincerely,



Tracy M. Smith
Senior Director & Tax Counsel

cc: Julie A. Eddington (JEddington@Kennedy-Graven.com)
Julie Urban (JUrban@richfieldmn.gov)
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