

To: R.T. Rybak, Chair, and members of Destination Medical Center Corporation
board of directors

From: Jeff Bolton, President, Destination Medical Center Economic Development
Agency board of directors

Lisa Clarke, Executive Director, Destination Medical Center Economic
Development Agency

Date: February 5, 2020

Re: Discovery Square Two

The DMC EDA board of directors recommends that the Destination Medical Center Corporation approve Discovery Square Two as a Public Infrastructure Project consistent with the DMC Development Plan.

The DMC EDA board of directors and staff worked with the developer to ensure integration between Discovery Square Two and One Discovery Square, a design that is complementary to the future Discovery Walk, and a necessary mix of office and wet lab space. The DMC EDA also recommends that the project pursue LEED Certification and conform to the DMC sustainable building policy. To provide for the infrastructure necessary to achieve these expectations, the DMC EDA board of directors recommends tax increment financing in the amount of \$7.3 million.

Additionally, the DMC EDA continues to work with the developer, the City of Rochester, Mayo Clinic, and other partners to pursue DMC Discovery Square business development, parking, and transportation objectives.

Our findings and recommendations are included in the enclosed report and based on a thorough independent review of the project using the criteria established by DMC Corporation. City of Rochester staff also conducted a thorough project analysis and concur with this recommendation.

Thank you,



Jeff Bolton
President of the Board of Directors



Lisa Clarke
Executive Director

DESTINATION MEDICAL CENTER CORPORATION

RESOLUTION NO. ___-2020

**Approving the Mortenson Discovery Square Two Development Project,
Contingent Upon Evidence of Financing**

BACKGROUND RECITALS

A. Under Minnesota Statutes, Section 469.41 Subdivision 13, a project must be approved by the Destination Medical Center Corporation (“DMCC”) before it is proposed to the City of Rochester (the “City”). The DMCC must review the proposed project for consistency with the Development Plan, adopted by the DMCC on April 23, 2015, as amended (the “Development Plan”).

B. By correspondence to the DMCC dated February 5, 2020, and attached hereto as Exhibit A, the City has requested approval of the Mortenson Discovery Square Two Development Project (the “Proposed Project”), and that City expenditures and financing in the amount of up to \$7,300,000 be credited to the City’s \$128,000,000 local contribution as required by statute. The City’s expenditures and financing include funding from tax increment financing bonds.

C. Pursuant to Minnesota Statutes, Section 469.47, subdivision 4, the City’s local match contribution may be provided by the City from any source identified in Minn. Stat. Section 469.45 and any other local tax proceeds or other funds from the City and may include providing funds to assist developers undertaking projects in accordance with the Development Plan or by the City directly undertaking public infrastructure projects in accordance with the Development Plan, provided the projects have been approved by the DMCC.

D. Pursuant to Minn. Stat. Section 469.45, Subdivision 4, the City may elect to establish one or more redevelopment tax increment financing districts within the Development District to fund public infrastructure projects.

E. Minnesota Statutes, Section 469.40, subdivision 11, defines “public infrastructure project” as “a project financed in part or in whole with public money in order to support the medical business entity’s development plans, as identified in the DMCC development plan” and expressly includes, among other items, the ability to

(4) install, construct, or reconstruct elements of public infrastructure required to support the overall development of the destination medical center development district including, but not limited to, streets, roadways, utilities systems and related facilities, utility relocations and replacements, network and communication systems, streetscape improvements, drainage systems, sewer and water systems, subgrade structures and associated improvements,

landscaping, facade construction and restoration, wayfinding and signage, and other components of community infrastructure; . . . (7) make related site improvements including, without limitation, excavation, earth retention, soil stabilization and correction, and site improvements to support the destination medical center development district

F. The site of the Proposed Project is located in the development district boundaries as adopted in the Development Plan (the “Development District”) and in the Discovery Square district as described in the Development Plan.

G. On April 27, 2017, the DMCC approved Resolution No. 51-2017, which requires additional review of projects upon material deviation from the approvals granted, to ensure that “as-built” projects are consistent with approvals that have been granted.

H. The City and the Destination Medical Center Economic Development Agency (the “EDA”) have examined the Proposed Project applying the evaluation factors contained in the Development Plan, and now recommend the Proposed Project for approval. Copies of those reports are available and on file with the City and the EDA.

RESOLUTION

NOW, THEREFORE, BE IT RESOLVED, by the Destination Medical Center Corporation Board of Directors, that the DMCC finds that the Proposed Project is a public infrastructure project within the meaning of Minnesota Statutes, Section 469.40, subdivision 11, which provides for: installing, constructing or reconstructing elements of public infrastructure required to support the overall development of the Development District; and making related site improvements; and that the DMCC approves the Proposed Project as consistent with the Development Plan.

BE IT FURTHER RESOLVED, that the DMCC approves the Proposed Project for the purposes of Minnesota Statutes, Section 469.47, subdivision 4, and supports the certification of the City’s expenditures of up to \$7,300,000 in tax increment financing identified in the Proposed Project, upon final approval by the City, subject to approval and certification by the State of Minnesota, Department of Employment and Economic Development, as part of the City’s \$128,000,000 local contribution.

BE IT FURTHER RESOLVED, that the approvals contained herein are expressly contingent upon: 1) an agreement by the parties to the development assistance agreement of a “look-back” provision with respect to a pro-rata reduction in tax increment financing reimbursements based on the final financial structure, including lease commitments, of the Proposed Project; and 2) evidence of financing satisfactory to the Board, such evidence to be presented within 90 days concurrent with the 90 day period set forth in the City’s approved development assistance agreement.

BE IT FURTHER RESOLVED, that DMCC Resolution No. 51-2017 is incorporated fully herein by reference.

BE IT FURTHER RESOLVED, that City and EDA staff are requested to provide updates with respect to financing, parking strategy, schedule, and other elements of the Proposed Project at the DMCC Executive Committee meeting scheduled for March 26, 2020.

BE IT FURTHER RESOLVED, that the Chair or the Treasurer of the DMCC is authorized to take such actions as are necessary and appropriate to effectuate the findings and approvals of this Resolution.

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EXHIBIT A

Memorandum

To: DMCC Board of Directors

Cc: Kathleen Lamb, Kathleen Brennan, Lisa Clarke, Patrick Seeb, Steve Rymer, Aaron Parrish, Brent Svenby, Josh Johnsen

From: Terry Spaeth

Date: February 5, 2020

Subject: DMCC Board approval for the Discovery Square 2 project

The City of Rochester provides the following information relating to the Mortenson Discovery Square 2 Project for your consideration at your February 6, 2020 meeting.

1. DMCC Board action requested. Grant approval of the prepared resolution to approve the Mortenson Discovery Square 2 Project (herein after “Project”) as a DMC Public Infrastructure Project that is consistent with the DMC Development Plan. The approval as a DMC public infrastructure project by the DMCC Board is required before the City Council can act to approve it as a DMC Public Infrastructure Project. Such approval would need to be made contingent upon the City of Rochester’s subsequent approval of the Project as a DMC Public Infrastructure Project and of the Development Assistance Agreement (DAA) for the Project.
2. Current project status/schedule. The City of Rochester has land use, planning and zoning authority for all projects in the City including within the DMC Development Plan Area. In addition the City has the authority to provide financial assistance, if needed, to assist in the development of projects through Tax Increment Financing (TIF) including the authority to establish TIF districts within the DMC Development Plan area. The DMC legislation authorizes the City’s use of TIF for DMC projects and to receive credit for the TIF financial assistance provided to DMCC Board approved projects towards the City’s required \$128 Million local contribution.
 - a. Land Use and Zoning Status. The City’s Community Development Team has been working with the Mortenson Team regarding the Site Development Plan approval

process and requirements. The Site Development Plan application has not yet been submitted. It is anticipated the application will be submitted in the near future for approval by the Community Development Team.

- b. Establishment of Tax Increment Financing (TIF) District and Development Assistance Agreement (DAA) AND APPROVAL AS A PUBLIC INFRASTRUCTURE PROJECT INCLUDED IN THE DEVELOPMENT PLAN. The land use approvals would allow the Project to proceed to construction by the developer and are independent of any financial assistance considerations or approval as a DMC Public Infrastructure Project. However, the Developer has indicated the Project would not be able to proceed to construction and be financially feasible without or “but for” some financial assistance from the City or the DMCC. The developer has provided detailed financial information to document the need for \$8.2 Million in assistance to close the financial “gap” for this Project.
- c. In instances in which the City provides TIF financing for DMC Public Infrastructure Projects, the State legislation makes provision for the City to obtain credit for such costs towards its required \$128 Million City DMC contribution. For the Discovery Square 2 project the staff will be recommending to the Mayor and City Council that the City provide up to \$7.3 million of “PAYGO” tax increment financing assistance, or 15 years of TIF (whichever comes first) for this Project with a look back provision that will reduce the level of TIF assistance on a pro rata basis depending on impact, in the event that the developer has secured a major tenant for occupancy in the building prior to construction completion. Of that above mentioned recommended level of project TIF assistance, it is also recommended that \$7.3 Million of that amount be “credited” to the City’s local contribution amount. This increases the City’s contribution from the existing \$75.2 Million to \$82.5 Million. The City EDA will consider this as a component of the Development Assistance Agreement (DAA) at a future meeting. It should be noted that the City team has been working closely with the DMC EDA team in the review of all aspects of this Project including the proposed amount of financial assistance that is recommended for the Project. The DMC EDA will be providing their comments on the Project separately and independently from the City team. The DMC EDA and City teams are in agreement regarding the recommended amount of assistance and the developer has indicated that they can proceed with the Project with the recommended level of assistance. Approval by the DMCC Board of the Discovery Square 2 Project as a DMC Public Infrastructure Project will also mean that DMC provisions relating to prevailing wage rates, WMBE, and American-made steel will also apply for the construction of the Project.

The City’s review of the financial information provided by the developer which showed a financing gap, was based on our experience in reviewing other TIF projects over the years and a financial analysis of the submitted developer information by Baker Tilly, the City’s financial consultant, which performs such reviews for many communities. The

public assistance is estimated to equate to approximately 75% of the available annual tax increments for 15 years.

3. Financial Impact Information.

The request for public funding, as a proposed Public Infrastructure Project, is what requires DMCC approval before the presentation to the City Council.

a. Discovery Square 2 Capital Project Investment.

- (1) General State Infrastructure Aid (GSIA). The project developers have submitted information that shows that the overall project cost is estimated at \$44,786,278. That investment is multiplied by 2.75% to determine the amount of General State Infrastructure Aid (GSIA) payments that investment may be equal to annually, which is \$1,231,623..
- (2) State Transit Aid (STA). That same \$44 Million investment amount is multiplied by 0.75% to determine the State Transit Aid (STA) annual payment equivalent amount, which is \$335,897 per year payable annually over several years, but lower in earlier years. An estimated 40% of the annual STA amount would be from the required local match provided by Olmsted County.
- (3) City TIF Contribution. The State GSIA can only be received if sufficient matching dollars have been spent by the City at the rate of \$1 City to secure \$2.55 GSIA. The proposed DMC credit contribution of \$1.95 Million is multiplied by 2.55 to determine the amount of GSIA that can be secured over time from that \$7.3 million matching contribution, which is \$18,615,000.

4. Summary of the Proposed Project.

- a. The proposed project is located along 2nd Avenue SW, between 4th and 5th Streets SW, adjacent to the existing Discovery Square One building. The project consists of approximately 124,000 square feet of office, research lab, conference and amenity space.

5. How does the proposed Project address the DMC Development Plan goals and objectives?

- a. The Project is within the DMC Discovery Square subzone and the proposed development will strengthen the Discovery Square innovation district and acts as a catalyst for future job growth by providing opportunities for research, educational and collaborative space within the Discovery Square subzone.
- b. The Project will provide a capital investment of nearly \$45 million within the DMC Development Plan area and will increase tax base by over \$900K annually, based upon existing tax rates.
- c. The Project has the potential to create 530 permanent jobs and over 700 construction jobs.

- d. The Project develops an underutilized property in a manner that is consistent with the Rochester Downtown Master Plan and the City's Comprehensive Plan.
- e. The project incorporates various sustainability elements, which is consistent with the DMC vision.
- f. The project construction will include wage rates, WMBE and American made steel provisions.

Mortenson Discovery Square Two Development Evaluation Report February 5, 2020

EXECUTIVE SUMMARY / RECOMMENDATION

STATEMENT OF RECOMMENDATION:

Based on information provided by Mortenson Development Inc. (the “Applicant”), Discovery Square Two (the Proposed Project) aligns with the Destination Medical Center (“DMC”) vision and is consistent with the DMC goals, objectives and values. Development of the Discovery Square subdistrict is among the highest priorities for the DMCC Board of Directors. The Proposed Project makes a significant contribution to the subdistrict by adding office and lab space, community amenities, and collaborative and entrepreneurial environments. It will help attract new companies and talent while enabling existing companies to grow and diversify within the subdistrict.

The following report evaluates the Proposed Project on all criteria as required by the Development Plan. Based on these criteria, the Destination Medical Center Economic Development Agency (“DMC EDA”) would categorize the Proposed Project as a high priority DMC project that has immense potential to help realize the vision, goals and objectives of the DMC initiative.

DMC EDA recommends DMC support for the project in the amount of \$7.3 million, using the City’s Tax Increment Financing, with the understanding that this support will count towards the City’s overall contribution of \$128 million to the DMC initiative.

We further recommend an on-going financial audit to ensure the project built is consistent with the project proposed and approved. It is understood that the applicant will provide all requested documentation to facilitate this audit and work in good faith with representatives of the DMCC and DMC EDA, or their consultants, in this process.

STATEMENT OF ELIGIBILITY:

Based upon information provided by Mortenson Development Inc. the Proposed Project meets the definition of “public infrastructure project” under the DMC Act, is consistent with the DMC Development Plan, and falls within the DMC Development District boundaries (Discovery Square Subdistrict).

PROJECT SUMMARY:

The Applicant proposes to develop a 124,000 Sq Ft science and technology building in the Discovery Square subdistrict, providing the market with additional capacity to attract new and retain/grow existing businesses in Rochester. Amenities within the proposed project are meant to be right sized to serve the Discovery Square subdistrict, including conference space which will serve the ecosystem of the Discovery Square subdistrict, street level activation to engage Discovery Walk, and digital infrastructure to support data intensive businesses.

Discovery Square Two will bolster the city’s tax base, increase the number of non-Mayo employers, diversify the downtown environment, broaden talent base and facilitate an entrepreneurial ecosystem. As the bioscience economy grows, demand for additional lab and office space will be anticipated to grow, enabling Discovery Square to achieve its potential as a new hub for life science research in the United States and cement Rochester’s status as America’s City for Health and Wellness.

RELEVANT PROJECT HIGHLIGHTS:

The following list outlines relevant project highlights for consideration:

- **General Project Information**
 - Located in Discovery Square DMC Subdistrict
 - 117,000 rentable square feet
 - Activates the ground floor with collaborative space and a rentable event space
 - Project will provide quality, high density innovation and lab space within a priority DMC subdistrict
- **Job Creation**
 - Discovery Square Two will be able to support approximately 531 long-term jobs
 - It will create approximately 800 construction jobs
- **Energy & Sustainability**
 - Project projected to perform 20% below energy code (ASHRAE 90.1 – 2010)
 - Project will have interior and exterior bike racks as well as a shower facility for occupants
 - Development will accomplish storm water management through the contemplative use of site materials and vegetation
 - Project committed to sharing utility data through 2030
 - Project will pursue LEED certification under version 4 of their rating system
- **Financial Details**
 - Total project cost: \$45 million
 - Tax capacity will increase from \$23,758 to a proposed \$953,907 per year
 - Financial gap identified by the developer is \$8.2 Million

EVALUATION REPORT

SECTION 1.0 PROJECT OVERVIEW

The Applicant proposes to develop a 124,000 Sq Ft science and technology building in the Discovery Square subdistrict, providing the market with additional capacity to attract new and retain/grow existing businesses in Rochester. Amenities within the proposed project are meant to be right sized to serve the Discovery Square subdistrict, including conference space which will serve the ecosystem of the Discovery Square subdistrict, street level activation to engage Discovery Walk, and digital infrastructure to support data intensive businesses.

Discovery Square Two will bolster the city's tax base, increase the number of non-Mayo employers, diversify the downtown environment, broaden talent base and facilitate an entrepreneurial ecosystem. As the bioscience economy grows, demand for additional lab and office space will be anticipated to grow, enabling Discovery Square to achieve its potential as a new hub for life science research in the United States and cement Rochester's status as America's City for Health and Wellness.

SECTION 2.0 MINIMUM ELIGIBILITY REQUIREMENTS OF DMC ACT

Check the following that apply to the Project:

- RR "Public Infrastructure Project"
- RR General Infrastructure Project or
- RR Within DMC Development District Boundaries

For a project to be eligible for DMC Funding, the project must be (1) a "public infrastructure project" and (2) within the DMC Development District Boundaries.

Per Minnesota Statutes, Section 469.40, Subdivision 11, a "Public Infrastructure Project" is described as a project financed in part or in whole with public money to support Mayo Clinic's development plans, as identified in the DMCC Development Plan, the Proposed Project would qualify as a "Public Infrastructure Project" as required by the DMC Act.

The Applicant provided a detailed list of eligible infrastructure related improvements including:

Site preparation and remediation, utility connections, streetscape improvements (sidewalk, landscaping and public elements), future subway access, vacation and utility relocations, DMC goal of energy efficiency, wired score for building technology infrastructure systems, and community accessible amenity spaces. The total cost for these improvements is in excess of the total amount requested public assistance.

The Proposed Project is within the DMC Development District Boundaries.

SECTION 3.0 EVALUATION CRITERIA

The DMC EDA's recommendation for the project outlined herein was formed in consideration of the following criteria:

- 3.1 DMC Vision, Goals and Objectives / Development Plan Strategies
- 3.2 Consistency with Development Plan and Other Planning Documents
- 3.3 Financial Viability
- 3.4 Consistency with Adopted Strategies, Phasing and Capital Improvement Planning
- 3.5 Targeted Business Enterprise Strategies
- 3.6 Compliance with Economic-Fiscal Goals and Objectives
- 3.7 Other Project Policy Considerations

SECTION 3.1 DMC VISION, GOALS AND OBJECTIVES / DEVELOPMENT PLAN STRATEGIES

Does the project include a plan for achieving the DMC vision, goals and objectives and is it critical to driving the strategies included in the Development Plan?

Is the project consistent with the stated DMC Goals & Objectives and specifically contributing to job creation?

- ***Does the project meet one or more of the goals and objectives established for the Development Plan?***

The Proposed Project builds off the momentum from DMC's flagship life science facility, One Discovery Square. The Project is critically important to the economic development plans of the district. It's estimated the facility will support more than 500 life science, technology and support jobs.

Is the project consistent with the DMC Vision?

- ***Is the project part of a bold and aspirational concept for the future?***

The Proposed Project is consistent with the DMC vision of creating a place to Live, Work, Play and Thrive. One Discovery Square is 98,000 SF in size, Two Discovery Square is planned to be 124,000 SF, for a combined total of 222,000 SF of new life science space. These projects, along with other recent developments, are contributing to a target of the 800,000 – 1,000,000 SF of life science space outlined in the DMC Development Plan.

- ***Does the project fit with the principles of the vision?***

With Mayo Clinic at its heart, the Destination Medical Center (DMC) initiative will be the catalyst to position Rochester, MN as the world's premier destination center for health and wellness; attracting people, investment and jobs to America's City for Health and supporting the economic growth of Minnesota and its biosciences sector." We believe the proposed project aligns with this core principle as it will serve as a physical example of the support and growth of the life sciences sector in Rochester and Minnesota as a whole. Further, based on the tenancy success in One Discovery Square, this project builds on the momentum and interest generated in the market from the vision of Discovery Square.

- ***Does the project provide a framework for growth in this sub---district?***

Yes, this project is being constructed largely off the success in recruiting companies to Rochester for One Discovery Square. The design of the second facility is meant to face and provide a welcoming interaction with Discovery Walk, the key public realm concept for the Discovery Square sub-district. The site plan incorporates possible expansion for a third facility as determined by market interest. Further, the expected growth in jobs will spur further housing, retail and professional services needs in the Rochester, MN market.

Does the project build infrastructure to support growth and drive investment?

- ***Would the investment occur without the public infrastructure to be funded?***

The Proposed Project does support growth in the form of life science jobs and a physical space to house the innovation desired for the Discovery Square sub-district. The Applicant states they

would not be able develop this project while meeting market rate of returns without public assistance. Based on our own independent analysis, we concur. To achieve the primary mission of Discovery Square as the innovation center of the DMC District, public infrastructure funding will need to be provided to realize the mission of the facility. Public infrastructure support is needed to support the Discovery Square concept which include: (1) a purpose built building that includes capacity for wet lab space; (2) provides auxiliary space to allow tenants to collaborate and innovate, and (3) helps maintain momentum within the sub-district and DMC around the life sciences sector.

- ***Is the proposed public infrastructure solely for the benefit of the project or does it also support the broader vision of the DMC District?***

As identified in the Infrastructure Master Plan, there are six (6) key areas of infrastructure requirements: (1) public utilities, (2) bridges, subways and skyways, (3) shared parking, (4) parcel development, (5) civic uses, cultural uses and public amenities, and (6) technology improvement. The Proposed Project includes elements encouraging pedestrian engagement, alternative modes of transportation, promotes sustainable building practice, is an infill project, and dramatically increases the tax base.

- ***Will the public funding accelerate private investment in the Development District or applicable sub district?***

The Proposed Project will likely continue a compounding reaction for development in the Discovery Square market. The Project is meant to act as the catalyst for future development and job growth within the district. Following the success of the flagship facility, its development is tied closely to the strategy, growth and success of Discovery Square.

Does the project provide a catalyst for/or anchor for an approved strategy?

- ***Can the project reasonably be expected to catalyze or anchor development in one of the six sub districts?***

The Proposed Project will be the catalyst for the Discovery Square subdistrict and the home of life science innovation. Its location is an anchor for the subdistrict and will generate momentum for other developments – life science and otherwise.

- ***Can the project reasonably be expected to catalyze necessary transportation/transit strategies?***

The Proposed Project will encourage the use of alternate means of transportation with the availability of bike storage and a shower for bike commuters. Moreover, as part of its design, a pedestrian connection will be established along 4th street to encourage pedestrians to walk along Discovery Walk – a corridor connecting Soldiers Field Park to Heart of the City. Additional parking is incorporated into the project design in order to help facilitate the development. This parking facility and spaces are outlined and included in the Integrated Transit Studies. There is not enough parking provided for all the anticipated employees of the building, so the use of transit and its anticipated these workers will comprise a portion of future transit system riders.

SECTION 3.2 CONSISTENCY WITH DEVELOPMENT PLAN, OTHER PLANNING DOCUMENTS

Does the project include a plan for achieving consistency with the Development Plan (and any updates thereto) and other relevant planning documents?

Is the project consistent with the DMC Planning Documents?

- ***Is the project consistent with the current DMC Master Plan, Transportation Master Plan, and/or Infrastructure Master Plan?***

The Proposed Project fits well with the vision and principles of the DMC Master Plan. It's essential to the success of the Discovery Square subdistrict. It's also consistent with the transportation and infrastructure master plans.

- ***Is the project consistent and/or supportive of the Finance Plan, Business Development Plan and other Implementation strategies of the DMC?***

Yes, a key strategy of these plans is to develop space to engage, develop and promote the life science sector. This project provides a key resource consistent with the DMC mission, build off the success of the first facility, and support future private development in the subdistrict.

Is the project consistent with the City/County Planning Documents?

- ***Is the project consistent with the RDMP Plan or City Comprehensive Plan?***

Yes, the proposed project is consistent with the RDMP Plan as a block suitable for redevelopment in the hopes of achieving higher density in the downtown core, recruiting new businesses to the City, and repurposing ground level parking lots.

- ***If a Transit/Transportation project, is the project consistent with the ROCOG long-range Transportation Plan?***

The ROCOG model was utilized for DMC to determine the effects of development and transportation system changes. One main area of the model considers the trips generated by land uses and activities. The Proposed Project will have limited impact on the current traffic flow, in addition the project is designed to incorporate various options for alternate transportation to reduce the single-vehicle traffic flow in the Development District.

The Proposed parking structure, bike parking facilities, location along Discovery Walk, and the development of residential options within walking distance help reinforce and carry the vision of the DMC Integrated Transit Studies.

Does the project support sustainability principles as a core objective in the development and operations of the project?

Yes, the Proposed Project will support sustainability principles and execute current best practices. In addition, there is an emphasis on sustainable initiatives in energy efficiency, alternative transportation, sustainable site selection, and water efficiency.

- **Energy Efficiency** – Based on early energy modeling efforts, the project is on track to meet the project energy goal included in the DMC Plan of a 20% reduction below ASHRAE 90.1-2010,

Minnesota's energy code. Through a combination of a highly efficient envelope and HVAC systems, the building is showing a considerable reduction below a baseline building built to current code standards.

- Sustainable Site Selection – As a means to connect the second facility to One Discovery Square, the project focused on landscaping and the user experience around the building. Through native vegetation selection that negates the need for a permanent irrigation system, on-site storm water storage, outdoor seating, among other strategies, the project incorporates numerous strategies to reduce its environmental impact and create an active street.
- Indoor Environmental Quality – Offices will have access to abundant natural daylight and views through expansive glazing.
- Materials and Resources –The building includes a dedicated area for collection and removal of recyclable materials and the project has committed to sharing waste and recycling data throughout the construction process. Further, the project is committed to explore materials that will promote the health of building occupants and visitors.
- Water Efficiency – The project will reduce its burden on municipal water supply by including the use of low-flow consumption fixtures and fittings.
- Third Party Green Building Certification – The project is committed to pursue LEED certification using version 4 of the rating system.
- Building Operation – The project is committed to share utility information through Rochester's Voluntary Energy Benchmarking program through 2030.

SECTION 3.3 FINANCIAL VIABILITY *[Form may vary based on size/scope of project]*

Does the project include a plan that is financially viable?

- R Project Summary (e.g. concepts, detailed program, project team, etc.)
- R Total Project Budget
- R Sources of funding, demonstrating a verifiable gap that justifies DMC Funding
- R Project Operating Pro Forma including an overview of any operations and maintenance funding that may be required
- R A Project Plan and/or Market Study supporting the demand/need for the project
- R Demonstration of financial capacity to support the project

Is the project supported by current market conditions and comprehensive feasibility studies?

Yes. The applicant has shared its data with the DMC EDA staff.

Does the project leverage additional private funds, maximizing the use of DMC Funds?

Yes, the proposed project leverages private funds. Of the total project cost, approximately 55% is lending and 30% developer equity.

Is the preliminary project finance plan comprehensive and viable based upon Project Team and financial capacity?

Yes. The financial plan presented is comprehensive and viable but only with the proposed public assistance of \$7.3 million.

Is the project inclusive of an Operation and Maintenance pro forma?

Yes. The project pro-forma accounts for estimates of operating costs against operating expenses but does not explicitly reference maintenance costs and expenses.

Is there a verifiable gap for funding based upon a reasonable return on private investment?

Yes. The DMC EDA staff have reviewed current market data related to lease rates, occupancy, and expected market rates of return for projects of this nature there is a financial gap. One key driver of the gap is that this development will proceed without a credit worthy anchor tenant already secured.

Is the proposed operating structure sustainable?

Yes, we believe the operating structure is sustainable. The applicant has performed at or above expectations on One Discovery Square. It is an experienced developer in many other markets which adds additional value to the work they are doing in Rochester.

Does the Project impose any financial obligations on the DMC or City for ongoing operational or maintenance support?

No. The City and DMC would have no on-going responsibilities for operational or maintenance support.

Has the project applicant agreed to execute the DMC Development Agreement?

If awarded TIF the applicant has stated that they will agree to execute the DMC Development Agreement consistent with all expectations of the City and DMC.

SECTION 3.4 CONSISTENCY WITH ADOPTED STRATEGIES, PHASING, AND CAPITAL IMPROVEMENT PLANNING

Is the project consistent with adopted strategies and/or one or more projects for the current implementation phase of the DMC initiative?

Is the project part of an approved strategy and current focus? Is the project outlined as an approved strategy for the project within the Development Plan?

The proposed project is consistent with the DMC priority surrounding Discovery Square and Transportation.

Is the project recommended as a focus for the particular phase of the project in the Development Plan?

The Proposed Project is in the Discovery Square subdistrict, one of the top three priorities for the DMCC. The tenanting strategy is intentionally set up to attract bio-science companies new to this market place, either start-up or established companies.

Is the project consistent with the DMC CIP?

- **If public, is the project specifically listed in the DMC---CIP? Or is the project necessary to facilitate a DMC related strategy?**

NA

- **If private, is the project otherwise compatible with the planned public improvements in the DMC---CIP?**

Yes

SECTION 3.5 TARGETED BUSINESS ENTERPRISE STRATEGIES *[Form may vary based on size/scope of project]*

Does the project include a plan for achieving Local Business, S/M/WBE Project Requirements and other project requirements, as applicable?

Has the applicant agreed to execute the DMC Development Agreement? (The terms of which are provided in form to all applicants)?

Yes, the Applicant has agreed to execute the DMC Development Agreement, understanding DMC goals for targeted business, and S/M/WBE requirements. The Applicant outperformed the city's goals surrounding WMBE targets on its first project, One Discovery Square.

SECTION 3.6 COMPLIANCE WITH ECONOMIC-FISCAL GOALS AND OBJECTIVES

Does the project include a plan to comply with or support the economic-fiscal goals and objectives of the DMC initiative?

Does the project generate substantial economic-fiscal gain based upon job projections?

Yes. The project is anticipated to provide 800 temporary construction jobs and 531 new permanent jobs.

Does the project maximize the opportunity for investment by attracting other private capital?

The project has approximately \$12 million dollars in committed private equity as part of the capital stack.

Is the project required (e.g. public works) to continue to seed investment in the DMC District?

The project will add to the overall eligible costs that are certified by DEED each year, increasing the amount of available public investment.

Does the project support the economic strategies of the project by providing civic/cultural uses and/or public amenities that support strategic growth in the DMC Development District and/or specific business development and economic development strategies that are adopted as part of the DMC Development Plan?

The project will add new, publicly accessible collaboration space, contribute to the sense of place surrounding Discovery Walk, and meet DMC design guidelines. It is designed to attract lifescience and technology businesses, both established and start up companies.

SECTION 3.7 OTHER PROJECT POLICY CONSIDERATIONS

Is the project inside the DMC Development District?

Yes.

If the project is not inside the DMC Development District, are they asking for a boundary change?

N/A

Does the project include any distinctive social and/or community benefits that are not specifically required by the DMC Act?

Discovery Square Two is entirely consistent with the DMC vision of attracting new investment, diversifying the economy, densifying the downtown, and leveraging transportation assets. It is being delivered by an experience developer with a proven track record in Rochester, elsewhere in the state of Minnesota, and across the country. In its most recent Rochester project, Mortenson outperformed most peoples' expectations for building lease up; exceeded the city's WMBE goals; contributed to our efforts for to grow the entrepreneurial ecosystem; and invested in marketing Rochester to the region and the country.