



Request for City Council Committee Action from the Department of Community Planning and Economic Development

Date: April 17, 2012

To: Council Member Lisa Goodman, Chair, Community Development Committee

Subject: Memorandum of Understanding between the City of Minneapolis and Hennepin Healthcare System, Inc. for the acquisition and future development of real property

Recommendation: Amend the Memorandum of Understanding as outlined in this report

Previous Directives: (1) The City Council approved the Memorandum of Understanding and Modification No. 21 to the Model City Urban Renewal Plan on December 12, 2008. (2) The City Council approved the Model City Urban Renewal Plan on October 23, 1970.

Department Information

Prepared by: Rebecca Parrell, Project Coordinator (673-5018) Approved by: Charles T. Lutz, Interim Director, CPED _____ Catherine A. Polasky, Director of Economic Policy and Development _____ Presenters in Committee: Rebecca Parrell

Financial Impact

No financial impact
 Action is within the Business Plan

Community Impact

City Goals: Livable Communities, Healthy Lives ~ Thoughtful neighborhood design with density done right

Comprehensive Plan: 1.10 Support development along Commercial Corridors that enhances the street's character, fosters pedestrian movement, expands the range of goods and services available, and improves the ability to accommodate automobile traffic. 4.1.2 Seek out and implement long-term redevelopment projects that catalyze revitalization and private sector investment.

Zoning Code: A Planned Unit Development (PUD) with two parcels was approved by the City Planning Commission on December 8, 2008. The north parcel is developed with the HCMC Whittier Clinic building and the south parcel is currently developed as surface parking for the Whittier Clinic, but is slated for future development within the PUD.

Background Information

In 2008, Hennepin Healthcare Systems, Inc. (HHS) proposed to construct a new 60,000 square foot medical clinic on the city block bounded by Nicollet Ave, Blaisdell Ave, West 28th St and West 29th St. The 3.05 acre site was located in the Nicollet Franklin Area Pedestrian Oriented Overlay District and zoned I1 at the time. The Planning Commission denied HHS's initial project

application for two primary reasons: the parking configuration and non-compliance with the minimum floor area ratio (FAR) requirement.

The parking design was not consistent with two zoning requirements: on-site parking must be located to the rear of the site, to the interior of the site, within the principal building served, or entirely below grade and street-level parking lots are limited to no more than 60 feet of street frontage. The HHS proposal showed surface parking extending for 360 feet along Blaisdell Ave and 300 feet along West 29th St. The minimum floor area ratio (FAR) for this site is 1.0, but the HHS site design totaled 0.45.

With the denial, Planning staff suggested a phased development would allow the initial phase to move forward as designed, yet provide for the full block to meet the parking and FAR requirements in the future. HHS agreed to a second phase of development for the site, but as a healthcare provider did not desire to incur a commitment to develop a phase II themselves and asked the City to take responsibility for the future development phase. In December 2008, the City Council approved a Memorandum of Understanding (MOU) with HHS that outlines terms for transferring ownership of a phase II development parcel for future sale. In a related action, the City Planning Commission approved a Planned Unit Development (PUD) with two parcels on December 8, 2008. With the submittal of plans for a phase II development that would minimally include, but not be limited to a Conditional Use Permit (CUP) amendment for the PUD and site plan review, Planning Staff would expect that any proposal comply with the minimum FAR and associated parking requirements. The north parcel is developed with the HCMC Whittier Clinic building and the south parcel is currently developed as surface parking for the Whittier Clinic, but is slated for the phase II development within the PUD.

The construction of the Whittier Clinic and related improvements were complete in October 2010. The clinic building sits on the north parcel of the PUD and the southern parcel is known as the "development parcel," now a 1.4-acre parking lot with 81 surface parking spaces for use by the Whittier Clinic. Since opening, the Whittier Clinic added dentistry offerings, integrative health services, and advanced radiology services with MRI capacity.

Terms of the Memorandum of Understanding and Recommended Changes

The MOU outlined that upon completion of the construction of the clinic and development parcel improvements, HHS and the City would enter into a purchase agreement for the transfer of the development site to the City. HHS will operate and maintain the parking lot and improvements on the development parcel until such time that the City sells the parcel. Proceeds from the sale of the property go first to reimburse City expenses from the sale, second to reimburse HHS for its defined equity contribution in acquiring the site (\$2,000,000), and third to be shared equally between the City and HHS. HHS retains the right to approve or deny any proposed sale at any sale price; however, HHS must approve a sale if they receive at least \$2 million plus 50% of any appraised sale price over \$2 million.

In late 2010, after construction was complete, HHS was engaged in planning a possible relocation of some of services, potentially as additional square footage next to the Whittier Clinic. If services were relocated and new space constructed next to the Whittier Clinic, HHS would need the development parcel to accommodate the expansion. Without threatening the City's ability to transfer ownership under the terms of the MOU, CPED Management decided to provide HHS with one year, to the end of 2011, to complete their planning phase, prior to transferring ownership. In December 2011, HHS requested an additional two years to allow them time to reach greater clarity around the future needs of the clinic's clients, as well as opportunities for HHS services at this location. Allowing two more years for planning the future of this clinic and site will provide HHS with time to see how things come together and how best to serve the needs of their clients. Additional time will also allow for greater clarity on an

expected timeframe for reopening Nicollet Avenue at Lake Street, essential to market potential of the development site for anything other than an expanded health care campus.

Staff recommends amending the MOU to extend the date of transferring the parcel to the City of Minneapolis to January 1, 2014. We recommend granting the requested extension for two main reasons. First, the reason the City became involved in acquiring the development parcel was due to HHS not being in a position in 2008 to fully develop the entire block to meet the zoning requirements. If through the institution's planning, HHS is able to fully develop the block to meet the zoning requirements, the need for the MOU goes away. Second, the timing of the market viability of the parcel for private development other than an expanded health care campus is uncertain. Significant infrastructure investment that would impact the development potential of the parcel are currently under consideration— including reopening Nicollet at Lake, the 35W Transit Access project and possible street car line development on Nicollet. In two years, there should be greater certainty regarding future public infrastructure improvements in the immediate area, and the City will be a better position to consider issuing a Request for Proposals to sell the property for redevelopment.

There are two other changes to the MOU recommended by staff at this time. They are:

1. Modify the existing language for the required temporary parking spaces during construction of the phase II development to be (a) located in a place that is reasonably accessible by clinic users, but not necessarily on site as is currently required in the memorandum and (b) a reasonable number, as needed for continued use of the Whittier Clinic, but in no event more than 81.
2. Require that the number of parking spaces remaining for use by HHS on the development parcel be determined after an assessment of the parking lot usage and modal split of Whittier Clinic clients.