Request for City Council Committee Action from the Department of

Community Planning & Economic Development

Date: January 15, 2013
To: Lisa Goodman, Chair, Community Development Committee
Referral to: Betsy Hodges, Chair, Ways and Means/Budget Committee
Subject: DEED Redevelopment Grant Applications
(February 1, 2013 Application Deadline)

Recommendation:

1. Approve the attached resolution authorizing staff to submit applications to the Minnesota Department of Employment and Economic Development [DEED] Redevelopment Grant Program for the following projects: The Commons @ Penn Avenue, Washburn Center for Children and West Broadway Curve.
2. Approve and adopt the development grant application fee and grant administration fee policies outlined below.

Previous Directives:

The Commons @ Penn Avenue (2201-2213-2217-2221 Golden Valley Road, 1823 Penn Avenue): On June 29, 2012 the City Council approved an exclusive development rights agreement between the City and Building Blocks Non-Profit, Inc. On August 3, 2012 the City Council approved the submission of an application for DEED Redevelopment Grant Program funding for this project. On August 3, 2012 the City Council approved the submission of an application for a Metropolitan Council TBRA investigation grant for this project. On November 2, 2012, the Minneapolis City Council approved an AHTF deferred loan of up to $1,125,000 for this project. On December 7, 2012, the Minneapolis City Council approved the issuance of up to $5,000,000 in tax exempt multifamily housing entitlement bonds for this project.
Washburn Center for Children (1104-1118-1128 Glenwood Ave. and 275 Dupont Ave. N.): On November 9, 2012 the City Council approved the submission of environmental cleanup applications to DEED, the Metropolitan Council and Hennepin County on behalf of this project.
West Broadway Curve (1926-2022 W. Broadway Ave.): On December 13, 2011 the City Council approved the submission of an application for DEED Redevelopment Grant Program funding for this project. On February 10, 2012 the

City Council approved an AHTF award of up to $750,000. On February 28, 2012 the City Council adopted a resolution providing preliminary approval for the issuance of $5.8 million of tax exempt multifamily housing revenue bonds. On August 3, 2012 the City Council approved the submission of an application for DEED Redevelopment Grant Program funding for this project. On August 3, 2012, the City Council approved the submission of a grant application to the Metropolitan Council, seeking TOD/TBRA funding for this project.

Prepared by:	Kevin Carroll, Principal Project Coordinator	
Approved by:	Charles T. Lutz, Deputy Director, CPED	_____
	Catherine A. Polasky, Dir. of Economic Development	_____
Presenter in Committee: Kevin Carroll, 612-673-5181		

Financial Impact

X Other financial impact: There is no direct financial impact at this time. However, any DEED redevelopment grant that is ultimately approved by DEED will have a 50% "local match" requirement. For private sector projects, typical sources for the required match are developer funds, governmental assistance (if any) and/or grant proceeds from sources other than DEED.

Community Impact

Neighborhood Notification:

The Commons @ Penn Avenue (2201-2213-2217-2221 Golden Valley Road, 1823 Penn Avenue): The developer met with the Northside Residents Redevelopment Council in May, June and September to discuss this project.
Washburn Center for Children (1104-1118-1128 Glenwood Ave. and 275 Dupont Ave. N.): The Harrison Neighborhood Association and the Bassett Creek Valley Redevelopment Oversight Committee prepared separate letters of support dated September 4, 2012.
West Broadway Curve (1926-2022 W. Broadway Ave.): The Jordan Area Community Council provided a letter of approval/recommendation for the proposed project on August 29, 2011.

City Goals:
The projects identified herein will assist the City in achieving one or more of the following goals:

- Livable Communities, Healthy Lives (Strategic Directions: "Equitable, Integrated Transit Systems," "High Quality, Affordable Housing")
- A City That Works (Strategic Direction: "Infrastructure — streets, bridges, sidewalks, sewers, bike lanes & paths — well-managed and maintained")

Sustainability Targets:
The projects identified herein are expected to contribute to one or more of the following targets identified in or by the City's Sustainability Initiative: Stormwater, Brownfield Sites, Lead Poisoning and Affordable Housing.
Comprehensive Plan:
The projects herein are consistent with policies of the Minneapolis Plan for Sustainable Growth (adopted 10/2/09), including:

3.1.1 Support the development of new medium- and high-density housing in appropriate locations throughout the city.
3.2.1 Encourage and support housing development along commercial and community corridors, and in and near growth centers, activity centers, retail centers, transit station areas, and neighborhood commercial nodes.
3.3.3 Work to provide affordable housing for both rental and ownership markets at a broad range of income levels.

Zoning Code:
The proposed projects are either in compliance or will comply.

Living Wage/Business Subsidy Agreement: Yes__ No_X__
Job Linkage: Yes__ No_X__

1. Background/Supporting Information – February 1, 2013 Applications

DEED's Redevelopment Grant Program was created in 1998 to assist development authorities with costs for redeveloping blighted industrial, residential, or commercial sites where the need to recycle the land for a more productive use exists. Grants can pay for land acquisition, demolition, infrastructure improvements, soil stabilization when infill is required, ponding or other environmental infrastructure, and adaptive reuse of buildings, including remedial activities at sites where a subsequent redevelopment will occur. Grants pay up to 50 percent of redevelopment costs for a qualifying site. There is a 50 percent local match required from the eligible applicant.

When, as in this particular round, State bonds are the source of funding for the grant awards, eligibility is more restricted than it is when program costs are covered by the State's General Fund. To be eligible in the current round, a project must either (a) be constructed on publicly owned land and have a public purpose or (b) be public infrastructure associated with a private redevelopment project.

Priority, as per state statute, is given to projects with one or more of the following characteristics:

1. There is a need for redevelopment in conjunction with contamination remediation.

2. The redevelopment project meets current tax increment financing requirements for a redevelopment district and tax increment will contribute to the project.

3. There is redevelopment potential within the municipality.

4. There is proximity to public transit if located in the Minneapolis/St. Paul metropolitan area.

5. The project is multi-jurisdictional in nature and takes into account transportation, environmental impact(s) and the need for affordable housing.

From 1998 to 2001, the DEED Redevelopment Grant Program provided assistance to both metro and Greater Minnesota communities. In 2001, the Legislature modified the Program by creating a statutory preference or priority for Greater Minnesota projects. The City of Minneapolis was therefore not awarded any Redevelopment Grant Program funds between 2001 and 2006 (inclusive).

The 2007 legislature modified the Redevelopment Grant Program by making it a statewide program once again. Grant funds may currently be split between Greater Minnesota and the seven-county metropolitan area. At least 50% of the grant money must be awarded to sites located outside of the metro area, unless insufficient eligible applications are received for qualifying Greater Minnesota projects, in which case more than 50% of the available funds can potentially be awarded to metro-area projects.

The three anticipated City of Minneapolis grant applications referred to herein are expected to seek approximately $837,200 in Redevelopment Grant Program funds. DEED staff members have indicated that there will be approximately $3 million available in this round, with about $1.5 million available for metro-area projects (more than $1.5 million may be available for metro-area projects if relatively few applications are received for Greater Minnesota projects).

For this round, staff instituted a more rigorous review process, comparable to that which was used for the first time in the recent fall brownfield grant round (November 1, 2012 grantor application deadline). This new process required developers to submit a grant assessment worksheet that included a project fact sheet with information important to the City such as jobs created or displaced and the number of affordable housing units. The staff review also included an analysis of readiness measures, policy alignment and developer experience.

Details of Recommended Projects:

[This section of the report presents projects, in alphabetical order, that City staff recommend for submission to DEED. The summary descriptions were based upon information provided by the developers or by others familiar with the details of the projects in question.]

The Commons @ Penn Avenue (2201-2213-2217-2221 Golden Valley Road, 1823 Penn Avenue)
Projected DEED request: $250,000

"Building Blocks Non-Profit, Inc." intends to develop a three story, 45-unit multifamily apartment building with 4500 sq. ft. of ground floor commercial space on five contiguous parcels (.78 acre in total) in 2013. Three of the parcels are currently owned by Building Blocks' for-profit development partner, George Group Inc.; the other two parcels are currently City owned and are the subject of an exclusive development rights agreement between the City and Building Blocks that was approved by the City Council on June 29, 2012. The total projected development cost is $8,984,980.

The only approved plan for this immediate area is the comprehensive plan. The comprehensive plan shows this stretch of Penn Avenue as a Community Corridor.

While there is commercial zoning at the four corners of the intersection of Penn and Golden Valley Road, it is not a neighborhood commercial node. Community Corridors are primarily residential with intermittent commercial uses clustered at intersections in nodes. The commercial uses are generally small-scale retail sales and services, serving the immediate neighborhood. Housing is medium density (20-50 du/ac) transitioning to low density in surrounding areas. Multi-family residential with ground floor commercial (as proposed here) is in conformance with the goals of the comprehensive plan. The 45 units proposed would actually be high-density (at the low end of high–density category), but still within the amount allowed by the C1 District (the site is zoned C1).

The general concept of multifamily with ground floor commercial is in conformance with the plan, although more specific information on the proposed commercial uses will be needed to determine whether they will be in conformance with the comprehensive plan. The new residential building would require a site plan review (other applications may be necessary depending on the actual uses), which is a public hearing before the City Planning Commission.

DEED funding is being sought for new water/sewer connections, utility relocations, sidewalk improvements and street lights.

Washburn Center for Children (1104-1118-1128 Glenwood Ave. and 275 Dupont Ave. N.)
Projected DEED Request: $251,700

The Washburn Center plans to build a new 50,000 square foot, three story facility on this 2.42 acre site, to create an "expanded healing environment" that will serve Twin Cities children and families. It will include a focus on sustainable design (e.g., LEED certification) and enhanced access to public transportation. The projected total development cost is $21,000,000. The project site is zoned C2 Commercial, with the PO Pedestrian Oriented Overlay District. The project itself is classified as a "community center," which is a permitted use in the C2 District. The project will need site plan review approval and possibly some variances from the PO District. In general, the project design is supportable, but there may be changes recommended by staff during the Planning Commission review and approval process. The comprehensive plan designates this part of Glenwood Avenue as a Commercial Corridor. Commercial Corridors support a mix of uses, including office and institutional, with commercial uses dominating. A community center would be an appropriate use on a Commercial Corridor and would be in conformance with the comprehensive plan for land use. Grant funds, if awarded to this project, will be used for new sidewalks and curbs, storm sewer, street lighting and a bio-filtration basin.

West Broadway Curve (1926-2022 W. Broadway Ave.)
Projected DEED request: $325,500

The developer, CommonBond Communities, intends to construct a new three-story structure with underground parking and 53 units of mixed-income affordable workforce housing. The development site currently consists of 10 vacant lots (1.8 acres in total). The total projected development cost is $11,033,059. The

Minneapolis Plan for Sustainable Growth designates this stretch of West Broadway as a Commercial Corridor and references the West Broadway Alive Plan for specific guidance. The West Broadway Alive plan designates this area as appropriate for "Urban Scale" apartment buildings of three to five stories. This proposed land use would be in conformance with the comprehensive plan. It would require a site plan review, which is a public hearing before the City Planning Commission. When this project was first proposed, the zoning code classified the intended use as "supportive housing," which was subject to a ¼ mile spacing requirement that could not be satisfied in this instance. An appeal by CommonBond was heard by the Board of Adjustment on June 28, 2012; the Board upheld the prior determination that this project is supportive housing. CommonBond appealed that decision to the City Council's Zoning and Planning Committee. While that appeal was pending, the City Council approved (on December 14, 2012) a zoning text amendment, under which this project will no longer be considered supportive housing and will not be subject to the aforementioned spacing requirement. Grant funds, if awarded, will be used to relocate utilities, improve sewer/water infrastructure, construct new sidewalks, create curb cuts for parking areas, and install new exterior lighting and bicycle racks.

Details of Projects Not Recommended for Submission:

[This section of the report presents projects, in alphabetical order, that City staff do not recommend for submission due to concerns about project readiness and/or policy alignment. The summary descriptions were based upon information provided by the developers or by others familiar with the details of the projects in question.]

Bradshaw Building (106 Washington Avenue S.)
Projected DEED request: $70,000

The current property owner, Bradshaw Media LLC, in conjunction with its development consultant (The Ackerberg Group), has proposed to renovate a vacant 4-story commercial building in the Warehouse District. The first three floors are envisioned as the new location for a local digital media company; no tenants have yet been secured for the fourth floor. Grant funds were being sought for upgrades to the building's water service (which is currently inadequate for the installation of a required sprinkler system) and storm water system, either or both of which will also require replacing sections of the street and sidewalk. However, this proposal did not score well for readiness. Among other things, construction financing for this $2 million project has not yet been sought or secured, no discussions with either the area Councilmember or the affected neighborhood group have been documented, the proposed project schedule seems unrealistic (e.g., commencement of public utility upgrades in April and construction in May of 2013, even though construction financing will not be sought until March or April), and no land use review/approval has been sought. City staff does not consider this project ready for this DEED grant round.

Franklin Center (1200 East Franklin Center)
Projected DEED request: $166,882

The Franklin Center is a new construction building (2 stories, 17,000 square feet) that has been proposed for the corner of East Franklin Avenue and 13th Avenue South, ¼ mile from the Franklin LRT Station. The development entity would be a new nonprofit organization known as the Franklin Community Development Center. The building would replace a surface parking lot and a small storage building owned by the adjacent Trinity First Lutheran Church. Building occupants are expected to include Lemon Grass Café and Kitchen, Masterworks of Minneapolis (thrift store), City Vision (community outreach nonprofit), and HIRED (nonprofit employment training). DEED funding was being sought for site acquisition, sidewalks, stormwater management, and sewer/water connections. The total projected development cost is $3,174,388. This project is not being recommended for funding because the applicant failed to provide City staff with a copy of a fully-executed and dated purchase agreement or other evidence of site control, which is a threshold criterion for the City's grant readiness assessment.

2. Background/Supporting Information – Grant Application Fees and Grant Administration Fees

The City's adopted 2010 budget included this language regarding grant-related fees:

"The department is also exploring a new fee structure to help defray costs related to administering certain external grant applications and awards, e.g. brownfield remediation grants, Metropolitan Council Livable Communities grants, and other grants that do not compensate the City for required administrative services".

Brownfield Grant Programs. On April 16, 2010, the City Council approved grant application and grant administration fees for applications submitted (by City staff, on behalf of developers or property owners) to the brownfield grant programs maintained by the Minnesota Department of Employment and Economic Development [DEED], the Metropolitan Council [Tax Base Revitalization Account, or TBRA] and Hennepin County [Environmental Response Fund, or ERF]. The adopted City application fees were $500 per investigation application and $750 per cleanup application, with specified discounts in cases involving multiple concurrent applications to different grantors for the same project in the same grant round. The adopted City administration fee was 3% of the brownfield grant award amount. The purpose of these fees was to help partially defray the cost of the substantial amount of City staff time that is devoted to the grant application process and to the post-award administration of any awarded grants.

Metropolitan Council LCDA Grant Program. On January 28, 2011, the City Council approved similar City fees for the Metropolitan Council's Livable Communities Demonstration Account [LCDA] grant program. All applications submitted in response to the City's call for applications were required to submit a $750 City application fee, and projects that received an LCDA award were required

to pay a 3% City administrative fee. As was the case with the brownfield applications described above, LCDA applications for City projects are exempt from the application and administration fees.

Metropolitan Council TOD Grant Program. In early 2012, the Metropolitan Council implemented a new Transit-Oriented Development [TOD] grant program. The first round of this program resulted in TOD grant awards that were approved by the Metropolitan Council on April 25, 2012; awards for the second round of this program were approved on December 12, 2012. A third round in early 2013 is anticipated. The City is currently collecting a $750 fee for each TOD grant application that is processed by the City, and imposing a 3% administration fee for any TOD grant(s) awarded to the City. The basis for these fees was the fact that the TOD grant program provides funding in the form of brownfield [TBRA] grants and development [LCDA] grants that were already subject to adopted City fees (see two preceding paragraphs).

DEED Redevelopment Grant Program. The State of Minnesota, through its Department of Employment and Economic Development [DEED], periodically provides grant funding assistance through its Redevelopment Grant Program. On August 3, 2012, the City Council approved the adoption of City fees for this grant program that were comparable to those outlined above for various other grant programs – that is, a $750 City application fee and a 3% City administrative fee on any grant(s) awarded to the City. As with the previously adopted fees, the new fees were intended to partially offset City staff costs related to the City's involvement in a [DEED] grant program that provided significant financial benefits to developers and private property owners.

Local Housing Incentives Account [LHIA]. The LHIA is operated by the Metropolitan Council in partnership with Minnesota Housing and the Family Housing Fund. LHIA funds are awarded to cities to help them meet the affordable housing goals established in their comprehensive plans. In contrast with the other funding programs described in this report, developers apply directly for LHIA funds through Minnesota Housing's annual Super RFP process. Therefore, City staff has no role in the application process itself. Once awards are made, City staff members do administer the funds on behalf of the Metropolitan Council, similar to LCDA, TBRA, and other pass-through funding sources. The City does not currently charge application or administration fees related to LHIA funding. Staff recommends that the City continue to not impose application fees for the LHIA program, but that a 3% administration fee be adopted for projects that receive LHIA awards.

Fee Modification – Brownfield Grant Programs. On November 20, 2012, the City Council approved a staff recommendation to increase the City administrative fee for awarded brownfield grants from 3% to 7% for most awards (the prior 3% fee was retained for affordable housing projects and commercial projects located within Great Streets "intervene" areas). This fee modification was precipitated by a determination that the fee structure that was adopted in 2010 was only *partially* defraying City costs related to *only* the two City staff members who handle the grant application process(es) and a portion of the administration of post-award grant draws. The existing fee revenues did not cover the remainder of their grant-related work or any of the following categories of costs:

a. Staff time to negotiate and execute two sets of contracts (a contract with the grantors and a subrecipient agreement with the developer) for each grant awarded (in some cases, three grants and six contracts for a single project).

b. Project coordinator and engineering staff time to manage the contracts (evaluating eligible charges, overseeing draw requests, checking documentation, processing payments, etc.)

c. Required grantor reporting - quarterly status reports are now required for most grants, and outcome reports are generally required for approximately four years after project completion, or until the redevelopment benefits are realized (which can significantly extend the reporting obligation), depending on the grant program.

While other municipalities do not (as far as we know) charge fees for grant administration, they are not dealing with the volumes or complexities that are common in Minneapolis, with our relatively robust development market. For example, in the last two "regular" brownfield grant rounds, Minneapolis projects were awarded a total of 41 brownfield grants, while the next highest totals were nine (St. Paul), four (Duluth and Brooklyn Center), three (St. Louis Park), and two (Fairmont). Communities with lower grant volumes are more likely to be able to absorb the staff costs related to occasional grants. Further, many projects in other communities may fall into the category of City-involved projects like Minneapolis affordable housing projects, with can tap other funding sources to pay for a variety of staff work. Finally, the majority of Minneapolis projects receive multiple grant awards from more than one grantor, which significantly increases the complexity of administering the grants.

Recommendations. As a result of the incremental adoption and modification of City grant fees on a program-by-program basis, some variations currently exist. Eliminating them and standardizing the City's grant-related fee policies will simplify the process for all concerned. To that end, the following fee policies are recommended for the Council's consideration:

1. The City fees and fee policies outlined below will apply to the following grant programs:
   a. DEED brownfield grant program
   b. Metropolitan Council brownfield [TBRA] grant program
   c. Hennepin County brownfield [ERF] grant program
   d. Metropolitan Council [TBRA] investigation grant program
   e. DEED Redevelopment grant program
   f. Metropolitan Council LCDA grant program
   g. Metropolitan Council TOD grant program
      (including LCDA-type and TBRA-type grants thereunder)
   h. Metropolitan Council Local Housing Incentives Account [LHIA]

2. City grant application fees shall be $750 per application. No application fees shall be charged for LHIA funding requests because the City is not involved in the application process. For brownfield grant rounds that allow multiple (up to three – DEED, TBRA and ERF) applications per project per round, application fees shall be $750 for one application, $1,125 for two applications and $1,500 for three applications.

3. Application fees are non-refundable, and shall be retained regardless of whether an application (a) is ultimately submitted to a grantor or (b) results in a grant award.

4. City grant award administration fees shall be in an amount equal to 7% of the amount of any awarded grant(s). Neither grant fees nor City funds may be used to pay this fee. A lower grant administration fee (3%) will be applied to housing projects that comply with the City's Affordable Housing Policy (20% or more of the housing units at or below 60% of the Area Median Income) and commercial/ industrial projects located within areas the City Council has designated as "intervene" for Great Streets program investments. Grant administration fees shall not exceed $20,000 per grant for projects in compliance with the City's affordable housing policy.

5. Grant applications to support City projects are exempt from grant application fees and grant administration fees. City projects are those where the City is directly assuming responsibility for delivering an outcome, as in conducting redevelopment studies or constructing infrastructure.

6. For projects in compliance with the City's affordable housing policy, the grant administration fee is due at the time of closing with the project's primary lender. For all other projects, the grant administration fee is due when the Funding Agreement(s) between the City and the developer is/are executed.

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RESOLUTION of the CITY OF MINNEAPOLIS

Authorizing Applications to the Minnesota Department of Employment and Economic Development [DEED] Redevelopment Grant Program for the following projects: The Commons @ Penn Avenue, Washburn Center for Children and West Broadway Curve.

BE IT RESOLVED by the City Council of the City of Minneapolis:

That the City of Minneapolis (City) has approved the following Redevelopment Grant applications to be submitted to the Minnesota Department of Employment and Economic Development (DEED) on or by February 1, 2013: The Commons @ Penn Avenue, Washburn Center for Children and West Broadway Curve.

BE IT FURTHER RESOLVED that the City act as the legal sponsor for the projects contained in the Redevelopment Grant applications to be submitted to DEED on or by February 1, 2013 and that the Director of the Department of Community Planning and Economic Development (or his designee) is hereby authorized to apply to DEED for funding of the aforementioned projects on behalf of the City.

BE IT FURTHER RESOLVED that the City has the legal authority to apply for financial assistance, and the institutional, managerial and financial capacity to ensure adequate project administration.

BE IT FURTHER RESOLVED that the sources and amounts of the local matches identified in the applications are committed to the identified projects.

BE IT FURTHER RESOLVED that the City has not violated any Federal, State or local laws pertaining to fraud, bribery, graft, kickbacks, collusion, conflict of interest or other unlawful or corrupt practice.

BE IT FURTHER RESOLVED that upon approval of its applications by the state and acceptance by the City Council, the City of Minneapolis may enter into agreements with the State of Minnesota for the above-referenced projects and the City certifies that it will comply with all applicable laws and regulations as stated in said agreements.

BE IT FINALLY RESOLVED that upon approval of its applications by the state and acceptance by the City Council, the Finance Officer or his designee will be authorized to execute any agreements that may be necessary to implement the projects.