



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

Date: February 25, 2014

To: Council Member Lisa Goodman, Chair, Community Development and Regulatory Services Committee

Subject: Amendment to the 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 an amendment to the Memorandum of Understanding on April 27, 2012. (2) The City Council approved the Memorandum of Understanding and Modification No. 21 to the Model City Urban Renewal Plan on December 12, 2008. (1) The City Council approved the Model City Urban Renewal Plan on October 23, 1970.

Department Information

Prepared by: Rebecca Parrell, Senior Project Coordinator (673-5018)

Approved by: Charles T. Lutz, Deputy 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: (1) the parking configuration and (2) non-compliance with the minimum floor area ratio (FAR) requirement of the pedestrian overlay district.

First, the parking configuration 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. Second, the site design did not comply with the 1.0 minimum floor area ratio (FAR). The clinic design totaled 60,000 square feet on the 3.05 acre block, resulting in only a 0.45 FAR.

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 MOU outlined that:

- upon completion of the construction of the clinic and development parcel improvements, HHS and the City will 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 will go first to reimburse City expenses from the sale, second to reimburse HHS for its defined equity contribution in acquiring the site (defined as \$2.0 million), and third to be shared equally between the City and HHS;
- any sale must be for the greater of (1) the appraised value of the Development Parcel at the time of sale or (2) \$2.0 million;

- HHS will approve a sale if the amount they receive is \$2.0 million or greater; and
- the HHS Board of Directors can be asked to approve any sale that would result in less than \$2.0 million to HHS.

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 has added dentistry offerings, integrative health services, and advanced radiology services with MRI capacity.

In late 2010, after construction was complete, HHS was engaged in planning a possible relocation of some of its 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.

However, in December 2011, HHS requested two more years before completing the property ownership transfer to allow them additional time to reach greater clarity around the future needs of the clinic’s clients and opportunities for expanded HHS services at this location. Allowing additional time for planning would provide HHS the opportunity to determine how to best to serve their clients’ needs. If HHS was able to develop the block to meet the minimum 1.0 floor area ratio (FAR) and limit all street-level parking lots to no more than 60 feet of street frontage, the City’s development objectives would be met and the need to transfer the property for the City to recruit additional development would be eliminated. Additionally, the timing of the market viability of the parcel for private development, other than an expanded health care campus, was uncertain. Significant infrastructure investments that would impact the development potential of the parcel were under consideration– including reopening Nicollet at Lake, the 35W Transit Access project and possible street car line development on Nicollet. With time, there would be greater certainty regarding the timing of future public infrastructure improvements in the immediate area, putting the City in a better position to consider when to issue a Request for Proposals to sell the property for redevelopment.

For these reasons, in April 2012 City Council authorized amending the Memorandum of Understanding to:

1. extend the date of transferring the parcel to the City of Minneapolis to December 31, 2013;
2. 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 was originally stipulated in the memorandum and (b) a reasonable number, as needed for continued use of the Whittier Clinic, but in no event more than 8; and
3. 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.

Recommended Changes to the Terms of the Memorandum of Understanding

Hennepin Healthcare System has again requested additional time before transferring ownership of the development parcel to the City of Minneapolis as they continue to evaluate the future needs of the clinic's clients and broadening HHS services at this location. Staff recommends granting this additional time request because we believe the market potential of the site for uses other than an expanded HHS facility is currently low given timing uncertainties with infrastructure investments including reopening Nicollet at Lake one block to the south. Staff requests authorizing an amendment to the MOU further extending the property transfer deadline to December 31, 2014 with five, one-year extensions possible, if authorized by the CPED Director before December 1 of each year 2014, 2015, 2016, 2017, and 2018.

Staff also requests authorization to amend language in the MOU related to recouping City costs to explicitly include appraisal, closing, staffing, marketing, and surveying costs. City costs eligible for reimbursement from the sale proceeds will be capped at \$200,000 by the amended MOU.

Attachments

- A. Site Plan