



Request for City Council Committee Action from the Department of Community Planning & Economic Development - CPED

Date: March 18, 2014

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

Subject: Downtown East Block 1 Development Rights Designation

Recommendation:

1. Designate Ryan Companies as the developer of the Block 1 Liner Parcel and Air Rights Plane; and
2. Authorize City staff to negotiate redevelopment contract terms, subject to City Council review and approval.

Previous Directives: December 13, 2013: The City Council approved a term sheet with Ryan Companies and the Minnesota Sports Facilities Authority (MSFA), authorized execution of agreements, passed resolutions authorizing issuance of taxable general obligation bonds and the creation of a development district and adopted an ordinance relating to the issuance of bonds. The December 13, 2013 City Council action related to the Downtown East project contemplated the issuance of a RFP for Block 1. July 19, 2013: The City Council authorized staff to negotiate term sheets and/or agreements with Ryan Companies and the Minnesota Sports Facilities Authority consistent with the general conceptual framework.

Prepared by: CPED, Finance, and City Attorney staff Approved by: Charles T. Lutz, Deputy Director CPED _____ Presenter in Committee: Bob Lind

Financial Impact:

Subject to final documentation and agreements, Ryan Companies is offering to pay the City \$5,650,000 for the purchase of the liner parcel and air rights plane. The City's Finance & Property Services Department has estimated that the Ryan Companies proposed project would generate approximately \$876,000 in upfront park dedication and building permit fees, as well as annual City taxes totaling \$1,240,000 by 2029. These annual taxes to the City include property taxes of \$796,000, lodging taxes of \$207,000 and entertainment taxes of \$237,000.

Community Impact:

Neighborhood Notification: March 17, 2014 and February 17, 2014 at the Mill District Neighborhood Association meetings and March 6, 2014 and February 6, 2014 at the

Downtown Minneapolis Neighborhood Association meetings a presentation of the responses to the Request for Proposals. January 16, 2014 briefing at community meeting co-sponsored by the Mill District Neighborhood Association, the East Downtown Council, the Downtown Minneapolis Neighborhood Association, and Elliot Park Neighborhood, Inc. Future City action to finalize the sale of the Liner Parcel and the Air Rights Plane will involve additional neighborhood group consultation and a public hearing with City Council. City Goals: Jobs & Economic Vitality, Eco-Focused, Livable Communities. Comprehensive Plan: Block 1 is guided for mixed use. Chicago Avenue is a designated commercial corridor. The area is also designated as part of the Downtown Growth Center. Zoning Code: Block 1 is zoned B4N Downtown Neighborhood zoning and in the Downtown Parking Overlay District.

Supporting Information:

Block 1 at 728 South 4th Street in downtown Minneapolis is being developed in conjunction with the Minnesota Sports Facilities Authority's ("MSFA") Multi-Purpose Stadium project directly east of Block 1 (the "Stadium Project") and the Ryan Companies' mixed use development project directly to the west (the "Downtown East Project"). The MSFA has retained Ryan Companies to construct an approximately six-story, 1,610-space parking ramp to be owned by the MSFA on Block 1. Ryan Companies plans to start construction on the ramp in 4th quarter of 2014 and complete the ramp by the end of 2015.

The MSFA granted the Block 1 development rights to the City pursuant to the Development Agreement, executed on February 10, 2014, among the City, the MSFA and Ryan Companies for the Downtown East Project. Conditions include that the air and liner development not adversely affect ramp access, operations or schedule and that any structural changes to the ramp be approved by the MSFA. The MSFA will cooperate in the vertical and horizontal subdivision of Block 1 to create the air and liner parcels (the "Property") and convey the Property directly to the developer selected by the City. It is important to note that the City will receive all of the net proceeds from the sale of the Property, even though MSFA will own the parking ramp.

On January 6, 2014, the City issued a Request for Proposals ("RFP") seeking development proposals for the liner and air rights parcels on Block 1. Notification of the RFP was e-mailed to CPED's distribution list of over 840 people in the development community both local and national. On January 13, 2014, CPED staff held a pre-proposal conference call to address questions and to accommodate out-of-town developers; thirty people participated in the call.

In response to the RFP, the City received development proposals from Mortenson Development and Ryan Companies. Mortenson Development is proposing a 300-room dual-branded Marriott hotel and Ryan Companies is proposing a 150-room Radisson Red hotel and a 200-unit apartment tower. CPED staff worked with the proposers to refine and clarify their proposals and gave each an opportunity to provide additional information or modifications to their proposals.

The timing of the developer selection is critical to meeting crucial deadlines. Under the Downtown East Development Agreement, and other related agreements, the Block 1 parking ramp must be open by the end of 2015. In order to start construction on the ramp this fall, the design work currently underway will need to be modified to accommodate the proposed development both atop and adjacent to the ramp. Designating the developer and thereby the development on the Property, will facilitate the completion of the parking ramp design work. The Downtown East Development Agreement contains an April 10, 2014 deadline for delivery of conceptual-level information and design documents to the MSFA with respect to such modifications to the Block 1 parking ramp.

Summary of Responses:

The following table is a summary of the two proposals.

Developer	Mortenson Development	Ryan Companies
Team Members	Summit Hotel Properties	Magellan Development Group for the apartment tower and Carlson Rezidor Hotel Group for the Radisson Red hotel
Proposed Use	300-room hotel dual-branded as AC by Marriott and SpringHill Suites by Marriott	150-room Radisson Red hotel that would be built under a 200-unit apartment tower within a single building structure that would consist of 10 floors of hotel as the base of the building, then 17 floors of apartments in the upper portion of the building.
Purchase Price to City	<ul style="list-style-type: none"> • Gross price of \$3 million, less the cost for structural upgrades to ramp to support development of Air Rights Plane. • Mortenson estimated the cost of structural upgrades at +/- \$2 million. • Net Purchase Price to City of +/- \$1 million. 	<ul style="list-style-type: none"> • Gross price of \$7,650,000, less the cost of parking ramp modifications. Ryan has estimated the cost of modifications to be \$2 million. • Ryan committing to locking in the net purchase price by assuming risks that the actual costs of ramp modifications are above \$2 million. • Net Purchase Price to City of \$5,650,000. • Ryan reserves right to add hotel rooms and/or apartment units and will increase the net purchase price to City by \$10,000/hotel room and \$10,000/apartment unit.
Gross Square Footage	Approximately 189,000 gross square footage (gsf)	Approximately 344,000 total gross square footage (gsf) residential and hotel; of which approximately 94,300 gsf hotel, 250,000 gsf residential and approximately 6,000 gsf restaurant/retail.

Developer	Mortenson Development	Ryan Companies
Expected Total Development Costs	\$63 million	\$101.4 million, approximately \$73.6 million for the apartment tower and approximately \$27.8 million for the hotel.
Project Amenities	<ul style="list-style-type: none"> • Hotel development provides further diversity of uses adjacent to office and residential uses. • Retail, entertainment and food and beverage components of the hotel will be located on the ground floor. 	<ul style="list-style-type: none"> • Hotel development provides additional diversity of uses. • Large restaurant-sized space wrapping the corner of 4th Street and Chicago Ave. • Pocket garden between the hotel/apartment entry and the ramp circulation components increases the sidewalk widths.
Parking Accommodations	<ul style="list-style-type: none"> • No additional parking is contemplated. • Project proposes to utilize the existing public parking in the six-story ramp. 	<ul style="list-style-type: none"> • No additional parking to be added to accommodate hotel guest parking • Up to 200 parking stalls will be built for apartment tower, adding a partial 8th floor to the ramp, which is included in the \$101 million development costs. • The top parking level will be covered as a green roof.
LEED	Sustainable building practices will be a part of the development with a commitment to LEED certified.	Sustainable building practices will be a part of the development with a commitment to LEED certified.
Anticipated Timeline	Construction to start January 2016, substantial completion in January 2017.	Construction to start May 2015, with substantial completion in August 2017.

Developer	Mortenson Development	Ryan Companies
Estimate of Public Financial Benefits	<ul style="list-style-type: none"> • City Finance Department has estimated the hotel will generate: (a) upfront park dedication and building fees totaling \$363,000, and (b) annual city taxes totaling \$1,277,000 by 2029. These annual taxes include city property taxes of \$390,000, city lodging taxes of \$414,000, and city entertainment taxes of \$473,000. • In addition to the various property tax increases and sales and lodging tax revenues, the project creates 600 construction jobs and 80 permanent FTE jobs at the hotel. 	<ul style="list-style-type: none"> • City Finance Department has estimated the hotel and apartment tower will generate: (a) upfront park dedication and building fees totaling \$876,000, and (b) annual city taxes totaling \$1,240,000 by 2029. These annual taxes include city property taxes of \$796,000, city lodging taxes of \$207,000, and city entertainment taxes of \$237,000. • In addition to the various taxes and fees generated, the project creates 975 construction jobs and approximately 125 FTE permanent jobs in the hotel, apartment tower and retail components.
City Finance Department staff's Estimate of Present Value of Financial Benefits to the City Over 25 Years	<ul style="list-style-type: none"> • \$15.2 million 	<ul style="list-style-type: none"> • \$19.8 million

The review and evaluation of the proposals include purchase price, maximization of development potential, contribution to the vibrancy of the area, team track record, project financial feasibility, and project readiness. The four development goals as outlined in the RFP were:

1. Maximization of property's development potential
2. Contribution to the vibrancy of the Downtown East area
3. Active ground floor uses
4. Leverage the value of nearby transit infrastructure investments

A team consisting of staff from CPED Economic Development and Planning, City Finance, City Attorney's office, and City Council staff from Wards 3 and 7 reviewed the proposals. It was the consensus of the review team that the Ryan Companies proposal was the most responsive to the requirements and objectives of the RFP.

1. The upfront net purchase price to the City for the Ryan Companies proposal exceeds the Mortenson Development proposal by \$4.65 million. The total annual city taxes generated by each of the two proposals (as described above) are very similar. Therefore, the present value of the estimated public financial benefits to the City over a 25-year time period of the Ryan Companies proposal exceeds the Mortenson proposal by approximately \$4.6 million. Additionally, the Ryan Companies proposal results in greater taxable market value from the completed project and, consequently, greater property tax revenues than the Mortenson proposal. This also benefits the County, School District, Park Board, and other taxing jurisdictions. Ryan Companies also

commits to lock in the net purchase price to the City by assuming the risks that the actual costs of the modifications to the ramp may be more than \$2 million.

2. The Ryan Companies proposal of developing both a hotel and apartment tower maximizes the development potential of the site more than the Mortenson's hotel-only proposal. The Ryan Companies proposal also provides the opportunity for greater vibrancy and street level activity on more of a 24/7 basis.
3. Both hotel proposals were not planning to add any additional parking capacity to the parking ramp to accommodate hotel guests, realizing that the easy access to LRT would account for a significant portion of hotel guests arriving by transit and taxi and would not require any parking capacity; thereby helping to stabilize and increase parking revenue by creating overnight parking demand without significantly reducing daytime parking supply. The addition of the apartment tower in the Ryan Companies proposal would add parking spaces to the ramp; however before making the investment in adding spaces, Ryan Companies will complete more due diligence to determine the number of additional spaces it would want to add to the ramp, thereby leveraging the easy access to nearby transit options.

The next steps in the project will involve the final design work on the parking ramp to accommodate the hotel and apartment tower, all of which is subject to approval by the MSFA, with construction on the parking ramp scheduled to begin in 4th quarter 2014 and be substantially completed by 4th quarter 2015; thereby permitting subdivision and conveyance of the Property and the work to begin on the hotel and apartment tower.

Staff is also seeking authorization to negotiate a term sheet for a redevelopment contract with Ryan Companies for the Property and expects to return to the City Council for approval of the land sale terms as soon as possible in the upcoming months.