

City of Minneapolis
Request for Committee Action

To: Community Development & Regulatory Services
Date: 2/16/2016
From: Community Planning & Economic Development
Prepared by: CPED, Finance and City Attorney staff
Presented by: Bob Lind, CPED, x5068
File type: Resolution
Subcategory: Land Sale

Subject:

Land Sale Public Hearing on 800 Washington Ave. S.

Description:

Recommendation:

1. Passage of Resolution approving the sale of 800 Washington Ave. S. to Mortenson Development, Inc. or an affiliated entity (the "Developer") for \$3,784,945 (\$155 psf);
2. Approving the proposed redevelopment contract terms;
3. Authorizing the execution of a redevelopment contract with the Developer and all other necessary documents related to the recommended actions with the Developer and/or the hotel operator, including without limitation an amended and restated declaration of easements related to the service alley, a declaration of restrictive covenants to the mined underground space, an easement agreement allowing physical connections to the parking ramp, and a parking agreement.

Previous Actions:

- September 11, 2015, City Council designated Mortenson Development, Inc. as developer of site for exclusive six-month period and authorized staff to negotiate the terms of redevelopment agreement.
 - October 22, 2010, City Council approved the sale of a portion of 800 Washington Ave. S. to the American Academy of Neurology (AAN).
 - July 2, 2010, City Council authorized staff to negotiate redevelopment contract terms with the AAN and granted exclusive development rights to Artspace Projects Inc. for a two-year term for the Washington Avenue frontage.
 - November 22, 2002, City Council authorized execution of a purchase agreement between the City and Hennepin County Regional Rail Authority to acquire the Parcel E property as part of the implementation of the Guthrie Theatre development. The City acquired the property in May 2003.
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Ward/Address:

Ward 3
Downtown East
800 Washington Ave S

Background/Analysis:

Community Impact

- Neighborhood Notification – The Downtown Minneapolis Neighborhood Association reviewed the project and the designation of Mortenson Development, Inc. as the developer for the project on September 21, 2015.
- Comprehensive Plan – Redevelopment of a vacant parcel for hotel/office/restaurant use in the Mill District is consistent with a number of goals in the Comprehensive Plan.

Purchase Price:

\$3,784,945 (\$155 psf)

Mortenson will pay the full purchase price to the City with the amount due to the City on the closing date. At the time of execution of the redevelopment contract, a non-refundable good faith deposit equal to 10% of the purchase price must be paid by Mortenson to the City to secure construction performance. This good faith deposit will be returned to Mortenson when the project is completed.

Purchaser/Developer:

Mortenson Development, Inc. or an affiliated entity
700 Meadow Lane North
Minneapolis, MN 55422

Land Disposition Policy:

This property is a buildable lot as defined by City policy and is being sold for development.

Offering Procedure:

The site was offered through a public advertisement via the request for proposal process. The purchase price of this property is at or above the fair market value as confirmed by a third party appraiser retained by the City.

Background:

On March 18, 2015, the City issued a Request for Proposals (“RFP”) seeking development proposals for a vacant parcel of land at 800 Washington Ave. S., commonly referred to as the “Guthrie Liner Parcel”. In response to the RFP, the City on May 20, 2015 received three development proposals from Saturday Properties, M.A. Mortenson and Sherman Associates. City 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. On September 11, 2015, the City Council designated Mortenson Development, Inc. as the developer for the site for an exclusive six-month period and authorized staff to negotiate the terms of a redevelopment agreement.

Mortenson plans to construct a nine story mixed use building consisting of:

- 203-room Hyatt Centric hotel on floors 1-8
- Restaurant and bar on the ground floor at the Chicago Avenue corner
- Neighborhood retail on the ground floor at the Ninth Avenue corner
- Office space on the 9th floor leased to the American Academy of Neurology (“AAN”), along with outside terrace space
- Ability to add a 10th floor of office space in the future for AAN
- Parking for the hotel and restaurant available through the Riverfront Ramp
- Total development costs of \$49.4 million

Parking for the project will be accommodated in the City’s Riverfront Ramp via a parking agreement. For a period of 20 years, the hotel operator will be granted parking rights in the Riverfront Ramp for the benefit of hotel and restaurant guests as outlined in the term sheet and subject to all prior rights granted to the Guthrie Theater.

A private service alley will provide access to both the AAN and the Hyatt Centric hotel project. The cost of constructing the service alley is included in Mortenson's total development cost of the project, and ongoing alley maintenance costs will be split between AAN and the hotel.

The City agrees that after closing, it will no longer remove snow from the top of the Riverfront Ramp by dumping it onto the service alley and vacant property. Public Works will determine in the next several months whether in the future the snow will be melted or dumped off the 9th Avenue side of the ramp. If closing on the property occurs prior to October 15, 2016, then Mortenson agrees to allow the City reasonable access to the service alley and the property at no cost to the City up until October 15, 2016 in order to potentially install snow melting equipment in the ramp. The City will also retain an easement in the service alley, which would be used to maintain and replace this equipment if it is installed.

This parcel is in the mined underground space area of the City that was conceptualized in the 1970s as part of the technology corridor. At the time, it was thought that equipment associated with the technology corridor could be accommodated underground where the temperature can be controlled. Consistent with other projects in the Mill District, the City will exclude such space from conveyance and thus preserve ownership for this potential future underground space mining.

Public Benefits:

The proposed development on this parcel is estimated to generate the following:

Annual City Property Taxes	\$246,847
Annual City Lodging Taxes	247,711
Annual City Entertainment Taxes on Lodging	283,099
Annual City Sales Taxes on Lodging	<u>47,183</u>
	\$824,840

In addition to the above estimated taxes as determined by City Finance staff, the project will also generate non-lodging entertainment taxes, downtown restaurant taxes, downtown liquor taxes, and non-lodging sales taxes.

The project will also benefit the City's Parking Fund through increased utilization and parking revenue from the Riverfront Ramp. Additionally, all of the land sale proceeds (after deducting sales expenses) must be used to retire a portion of the \$28 million in outstanding tax-exempt general obligation Riverfront Ramp bonds of the City. These bonds were issued by the City in order to purchase the entire block and construct the parking ramp. Retirement of approximately \$3.8 million in bonds will result in significant debt service savings to the Parking Fund in future years.

Labor Peace Requirements:

Because the City will not retain a proprietary interest in this project, the Developer and its hotel partner are not required to comply with the City's Labor Peace ordinance (Sec. 422.190). However, the City will strongly encourage the hotel operator to negotiate a labor peace agreement with the applicable labor organization(s) in the spirit of the ordinance.

Timing and Next Steps:

Subject to City Council approval of the above recommendations, staff expects to execute a redevelopment contract and close on the sale of the property sometime in the next six months.

The development will need to go through the land use application process. The development will be reviewed at a City Planning Commission – Committee of the Whole meeting for initial

feedback and the required land use applications will be reviewed and acted upon by the City Planning Commission.

Mortenson anticipates a 15-month construction period, with the project opening in the summer of 2017.

Financial Review:

No additional appropriation required, amount included in current budget.

- Elimination of future property management costs estimated at \$3,600 per year.

Future budget impact anticipated – See the Public Benefits section above for the benefits to the City from the proposed development. A new method of snow removal from the top of the City-owned Riverfront Ramp will be determined by Public Works in the next several months, and the cost of this snow removal will continue to be a City expense.

Enter future budget impact

Approved by the Permanent Review Committee – Not Applicable

Meets Small and Underutilized Business Program goals – Not Applicable

Attachments:

1. 800 Washington Resolution
2. 800 Washington Term Sheet
3. 800 Washington Site Plan