



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

Date: December 11, 2007

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

**Subject:** Land Sale Public Hearing - Status Update and Certain Modifications to Land Sale Terms related to West Bank School of Music

**Recommendation:** Approve, with amended terms, the sale of 1813 6th Street South to West Bank School of Music for \$25,000.

**Previous Directives:** CPED acquired 1813 6th Street South on December 31, 1986. A Land Sale report, Document 02-220M and Resolution 02-2653M were approved by the MCDA Board of Commissioners on September 27, 2002.

Prepared by: Judy Cedar, Senior Project Coordinator, Phone 612-673-5025

Approved by: Charles T. Lutz, Deputy CPED Director \_\_\_\_\_

Presenter in Committee: Judy Cedar, Senior Project Coordinator

### **Financial Impact**

- No financial impact
- Action is within the Business Plan

### **Community Impact**

- Neighborhood Notification: West Bank Community Coalition and Cedar Riverside Business Association continue to support this land sale to West Bank School of Music with the suggested modifications to the terms. Proposed revisions to the terms for sale were presented to the neighborhood groups this past summer.
- City Goals: CONNECTED COMMUNITIES In five years, Minneapolis will be a connected collection of sustainable urban villages where residents will live within walking distance of what they need or of public transit; there will be a connected network of transportation options; streets will be destinations; a mix of unique small businesses will be thriving; and Minneapolis' neighborhoods will have unique identities and character.

- Sustainability Targets: This land sale does not directly address a sustainability target.
- Comprehensive Plan: In 2002, the Planning Commission approved the sale of this parcel as being consistent with the Comprehensive Plan. Also, the Planning Commission (CPC) approved a rezoning of the parcel and a parking variance to seven (7) spaces in 2004. The Cuningham Group resubmitted a site plan, grading and drainage plan, storm water prevention plan and landscape plan CPED Development Services on September 27, 2007, for additional review. Cedar and Riverside Avenues are designated Community Corridors in the Minneapolis Plan. In addition, Cedar Riverside is designated as an Activity Center and a LRT Station Area.
- Zoning Code: The zoning designation is C-2, as approved by the CPC in 2004.
- Living Wage/Business Subsidy Agreement: Yes\_\_\_\_\_ No ✓
- Job Linkage: Yes\_\_\_\_\_ No ✓

### Supporting Information

<u>Parcel</u>	<u>Address</u>	<u>Sale Price</u>
CR 49-6	1813 6th Street South	\$25,000

### Purchaser

West Bank School of Music  
1813 6th Street South, Minneapolis, MN 55454

### Introduction

West Bank School of Music (WBSM or Purchaser) provides high-quality affordable instruction for people of all ages to develop their musical talents. Twenty-six (26) music teachers and three part time staff (two of which are part time intern students from Augsburg College) are involved with the WBSM. Neighborhoods most served by WBSM are predominately located in south Minneapolis but they also draw students from outlying suburbs and St. Paul. WBSM serves approximately 400 customers annually. The instructors teach private lessons, group classes, and student ensembles for more than 25 instruments and voice in a wide range of styles including jazz, blues, folk, rock, R&B, funk, hip-hop, bluegrass, old time, classical, Celtic, Latin and African.

In 2002, the MCDA Board of Commissioners authorized the sale of 1813 6<sup>th</sup> Street South to the West Bank School of Music subject to a number of terms including the creation of an escrow account for rehabilitation, obtaining an easement to secure access to the rear parking area and a recapture agreement. These terms have proved unachievable for a variety of reasons and revised terms of sale have been negotiated that will meet the needs of the Purchaser and the objectives of the City to retain a cultural institution in the Cedar Riverside neighborhood.

This report recommends approval of proposed revisions to Land Sale Document 02-220M, approved by the MCDA Board of Commissioners on September 27, 2002. The revised terms for sale:

- provide for a sale "AS IS" without warranty or further representation by the City;
- change the formula for recapture;
- eliminate a requirement to escrow rehabilitation funds of \$125,000; and,
- eliminate the requirement to obtain an access easement.

### **Site Information and Development Proposal**

The lot's land area is 5,445 square feet with dimensions of 33 x 165 feet. The lot is improved by a two story, wood frame, wood exterior structure built in 1900. West Bank School of Music has been the only tenant of this building since 1970. West Bank School of Music uses the adjacent property owner's driveway at 1811 6<sup>th</sup> Street South for ingress/egress to the rear parking area of the lot and intends to obtain a recordable easement. West Bank School of Music intends to continue using the building as a music school. Proposed improvements to the property include plumbing repairs, electrical upgrades, a parking lot build out, handicapped accessibility improvements and weatherization improvements. These improvements are estimated at \$30,000. Additional improvements are planned as capital grant funds are obtained by the non profit 501(c)3 organization.

### **Proposed Revisions of Land Sale Terms**

The following summarizes the proposed revisions to the terms of the Land Sale approved by the MCDA Board of Commissioners on September 27, 2002.

- The land sale authorized in 2002 was contingent upon the Purchaser setting up an escrow of \$125,000 that would be disbursed as rehabilitation work items are completed. This report recommends the elimination of this escrow requirement. Instead, the Purchaser commits to initially spend \$30,000 on the improvements mentioned above and making additional improvements to the property over time.
- The 2002 recapture percentage was 23% of net sale proceeds based upon the fact that the Purchaser had intended to make all their improvements to the property immediately. Now, because improvements will occur over time, we propose a gradual reduction of recapture percentages over a period of time so that the amount of recapture becomes zero once the Purchaser has owned the property for ten years as follows:
  - The sale price of \$25,000 was negotiated. The reuse value of the property as a music school is \$135,000. The amount of land writedown, then, is \$110,000, or 85.5% of reuse value. This makes the initial amount of recapture 85.5% of net sale proceeds (or refinance proceeds) upon a sale or refinance of this parcel by the Purchaser in the first year.

- o The amount of writedown would be credited by \$11,000 (ten percent) every year, beginning with the first anniversary of ownership by Purchaser, and the percentage of net land sale proceeds the City will recapture would be reduced accordingly over this same ten-year period. Recapture provisions are terminated on the 10<sup>th</sup> anniversary of the actual closing date.
- o The City's recapture of net sale proceeds can be reduced further by any actual costs of improvements (over and above the initial \$30,000 investment) to the property by the Purchaser. Pro-bono work would be considered for credit for the cost of materials only.

The following table outlines the recapture percentages amortized over ten years:

YEAR	<b>PERCENT OF NET SALE PROCEEDS DUE TO CITY UPON SALE</b>
1	81.48%
2	73.33%
3	65.19%
4	57.04%
5	48.89%
6	40.74%
7	32.59%
8	24.44%
9	16.30%
10	8.15%
11	0.00%

**Selling Property "AS IS" Without Any Warranty or Further Representations by the City of Minneapolis**

The previous land sale approval required that a recordable access easement be executed prior to closing. This provision was meant to allow for access to the parking area at the rear of the property.

The status of this easement is uncertain. The matter was brought to mediation in the summer of 2007, but mediation efforts failed and the access matter is now scheduled for trial by order of District Court, Fourth Judicial District. This trial is set to occur during a time period starting September 29 through October 24, 2008. The City of Minneapolis is listed as a defendant for this trial.

The Purchaser is eager to close now rather than wait until next fall (when the resolution of the easement issue is anticipated). Therefore, the Purchaser has agreed to purchase the property "AS IS" without any warranty or further representations by the City of Minneapolis. If the Purchaser should fail to obtain the easement, for any reason, then they would be required, by zoning regulations, to sod over the parking area and find an alternative parking solution for the school. This report recommends that the provision to require a recordable easement as a condition of closing be eliminated and an "AS IS" sale authorized. The "AS IS" sale will allow the Purchaser to access a grant from the McKnight Foundation as their source of funds for the land sale closing.

### **Conclusion**

The proposed revisions to the previous land sale approval acknowledge that the current terms and conditions for sale are not feasible. The revisions are proposed to allow the Purchaser to complete a sales transaction now and benefit from a grant from the McKnight Foundation. The revisions also provide incentives to the Purchaser to continue making improvements to the property, especially over the next 10 years, during the recapture term.

Authorizing sale of land Cedar Riverside Disposition Parcel No CR 49-6.

Whereas, the City of Minneapolis, hereinafter known as the City, has received an offer to purchase and develop Disposition Parcel CR 49-6 in the Cedar Riverside, from West Bank School of Music, hereinafter known as the Redeveloper, the Parcel(s) CR 49-6, being the following described land situated in the City of Minneapolis, County of Hennepin, State of Minnesota to wit:

#### LEGAL DESCRIPTION

CR 49-6; 1813 6th Street South

The West ½ of Lot 3, Block 188, Town of Minneapolis.

Whereas, the Redeveloper has offered to pay the sum of \$25,000, for Parcel CR 49-6; the offer includes a development plan and commitment to improve by rehabilitating the existing structure. This offer is in accordance with the Redevelopment Plan and/or Program; and

Whereas, the Redeveloper has submitted to the City a statement of financial responsibility and qualifications; and

Whereas, the City has had the re-use value reviewed by an appraisal expert, stating that the re-use value opinion is consistent with accepted methods of aiding the City in determining a re-use value for the Parcel; and

Whereas, pursuant to due notice thereof published in Finance and Commerce on Friday, November 30, 2007, a public hearing on the proposed sale was duly held on December 11, 2007, at the Minneapolis City Hall, 350 South 5th Street, Room 317, at 1:30 p.m., in the City of Minneapolis, County of Hennepin, State of Minnesota;

Now, Therefore, Be It Resolved by The City Council of The City of Minneapolis:

That the re-use value, for uses in accordance with the Cedar Riverside plan, as amended, is hereby estimated to be the sum of \$135,000, for Parcel CR 49-6.

Be It Further Resolved that the acceptance of the offer and proposal is hereby determined to be in accordance with the City's approved disposition policy and it is further determined that the Redeveloper possesses the qualifications and financial resources necessary to acquire and develop the Parcel in accordance with the Redevelopment Plan and/or Program.

Be It Further Resolved that the proposal be and the same is hereby accepted, subject to the execution of a contract for the sale of land. Furthermore, that the Finance Officer or other appropriate official of the City is hereby authorized to execute and deliver the contract to the Redeveloper; provided, however, that this Resolution does not constitute such a contract and no such contract shall be created until executed by the Finance Officer or other appropriate official of the City.

Be It Further Resolved that upon publication of this Resolution, the Finance Officer or other appropriate official of the City is hereby authorized to execute and deliver a conveyance of the land to the Redeveloper in accordance with the provisions of the executed contract and upon payment to the City for the purchase price thereof; provided, however, that this Resolution does not constitute such a conveyance and no such conveyance shall be created until executed by the Finance Officer or other appropriate official of the City.

**TOTAL ACQUISITION COSTS INCURRED BY CPED ATTRIBUTABLE TO THE FOLLOWING PROPERTY:**

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<b>Disposition Parcel No. Acq Date</b>	<b>Address</b>	<b>Total CPED Costs</b>	<b>Less Sales Price</b>	<b>Write Off</b>
CR 49-6 12/31/1986	1813 6th Street South	\$1.00	\$25,000	-\$24,000

<b>Re-Use Value Opinion</b>	<b>Less Sales Price</b>	<b>Write- Down</b>
\$135,000	\$25,000	\$110,000

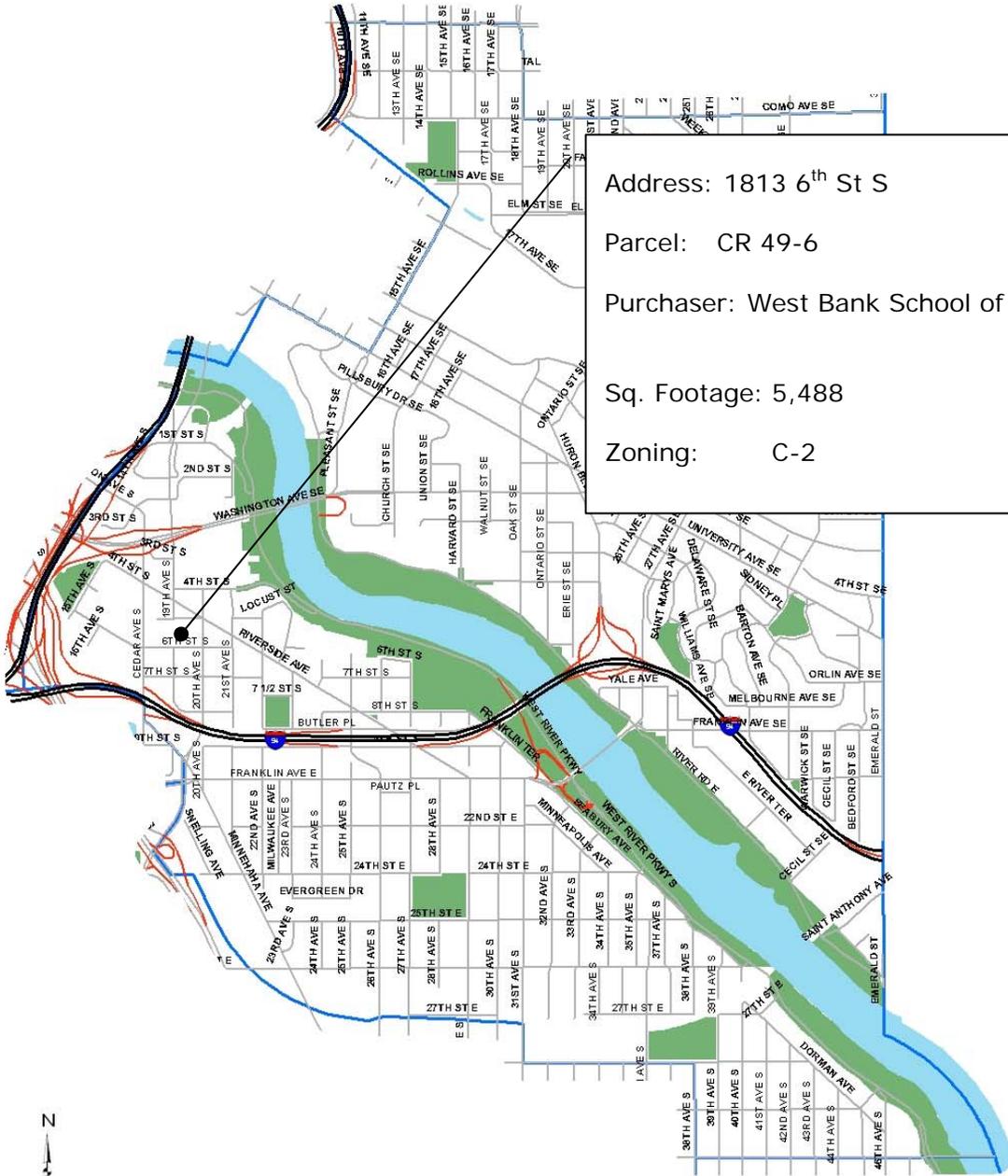
Write-Down

Reason: The writedown makes the purchase of this property affordable for the Purchaser.

Developer History with CPED: The Purchaser has been a tenant at this property since 1970 and has been the responsible party for ongoing maintenance and repairs.

Developer Information: Nonprofit Corporation of the State of Minnesota

# WARD 2



Address: 1813 6<sup>th</sup> St S  
Parcel: CR 49-6  
Purchaser: West Bank School of Music  
Sq. Footage: 5,488  
Zoning: C-2

0 0.25 Miles

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