



Request for City Council Committee Action From the Department of Public Works

Date: June 20, 2006

To: Honorable Sandra Colvin Roy, Chair Transportation & Public Works Committee

Subject: **Public Hearing: Sale of city-owned property at 2850 20th Avenue South**

Recommendations:

- a) Conduct a public hearing on the proposed sale of the city-owned property at 2850 20th Avenue South, as required by Minneapolis Ordinance Section 14.120.
- b) Direct the proper City officers to negotiate and execute a purchase agreement in accordance with the requirements of the Request for Proposals to Midtown Eco Energy, LLC for \$557,500. Further, authorize the proper City Officers to sign any other necessary documents to facilitate the sale of this property.
- c) Direct that the sale proceeds be used to reimburse Public Works for associated expenses of selling and ceasing operations at this facility and deposited into the Property Disposition Fund 6200/923/9242 Land Sales.

Previous Directives:

- June 16, 2006: Set Public Hearing for June 20, 2006 for Proposed Sale.
- March 31, 2006: Direct City Engineer to issue a Request for Proposals (RFP) for the sale of the South Transfer Station for the purpose of a biomass combined heat and power generation facility.
- December 23, 2005: Direct City staff to return to the T&PW and HEE Committees with RFP, or a recommendation of an alternative to the RFP process for the development of the South Transfer Station into a biomass combined heat and power generation facility before the City Council meeting of March 31, 2006. If an RFP is issued, it shall be issued no later than April 4, 2006, with a response date of no later than May 12, 2006 and shall include the following criteria: Project description, Project management and team, Site purchase price and terms, Predevelopment sources and uses budget, Construction sources and uses budget, Operating pro-forma, Project time line with milestones, and a description of the community benefit and impact.
- July 23, 2004: Direct the proper City officers to continue negotiations for the sale of the City of Minneapolis South Transfer Station located at 2850 20th Av S, with the Green Institute for the purpose of a proposed combined heat and power biomass plant.
- May 14, 2004: Direct the proper City officers to negotiate terms and conditions of an option for the sale of the City-owned property at 2850 20th Avenue South to the Green Institute for the purpose of a proposed combined heat and power biomass plant and to return to the T&PW Committee by its July 13, 2004 meeting with proposed terms and conditions for such an option. By this action, the Council expressed its will as to the preferred disposition of the South Transfer Station if it is sold, but reserved the decision to sell it pending review of Solid Waste planning.

Prepared by: Greg Goeke, Facilities Manager, 673-2706

Approved by:

Steven A. Kotke, Acting City Engineer, Director of Public Works

Presenter: Greg Goeke, Facilities Manager, Property Services

Permanent Review Committee (PRC) Approval X Not Applicable _____
Policy review Group (PRG) Approval _____ Not Applicable X

Financial Impact (Check those that apply)

No financial impact - or - Action is within current department budget (If checked, go directly to Background/Supporting Information)

Action requires an appropriation increase to the Capital Budget

Action requires an appropriation increase to the Operating Budget

Action provides increased revenue for appropriation increase

Action requires use of contingency or reserves

Business Plan: Action is within the plan. Action requires a change to plan.

Other financial impact (Explain): If directed by Council, a future action will appropriate a funding mechanism(s) for purposes of relocating the existing Public Works facility.

Request provided to department's Finance Dept. contact when provided to the Committee Coordinator

Community Impact:

Neighborhood Notification: NA

City Goals: NA

Comprehensive Plan: NA

Zoning Code: NA

Background/Supporting Information

On March 28, 2006, Council directed staff to issue a Request for Proposals (RFP) to solicit proposals for the sale of the South Transfer Station, 2850 20th Avenue South, for development into a biomass combined heat and power generation facility. The RFP was issued on April 4, 2006. Proposals were due on May 19, 2006.

General Requirements of Request for Proposals

The sale of the property is conditioned to its use for the development and operation of a biomass energy facility. In the RFP, interested parties were requested to submit proposals for the sale of the property. The major topical requirements of the proposals included:

- type and scope of biomass project to be developed
- organization and experience of parties comprising the project team
- purchase price of the property
- capital pro forma for the biomass project
- operating pro forma of the biomass project (10-year operating period)
- discussion of public benefits attributable to the project
- anticipated project schedule

On May 19, 2006, a sole proposal, submitted by Kandiyohi Development Partners, LLC, referred to as the Midtown Eco Energy project, was received by the City for staff review.

Staff Review

The submittal requirements of the RFP were structured to give the City the ability to evaluate multiple proposals and make a recommendation. With only one proposal submitted, staff evaluation of the project focused solely on whether or not the proposal met basic submittal requirements. Staff did not evaluate the viability or feasibility of the proposed project. All financial requirements and other related delivery requirements of the RFP will remain in effect and will be submitted and reviewed at later date as part of the closing and transfer of the property.

Content Requirements

As shown in Table 1, the proposal submitted conforms with the content requirements of the RFP relative to cover page, purchase price of property, description of the project, identification of parties, preliminary capital pro forma, preliminary operating pro forma, description of public benefits, schedule for development, executed "Consent for Release of Response Data", and contracting requirements of the City of Minneapolis.

The proposal features a fluidized bubbling bed boiler system capable of producing 200,000 pounds of steam per hour for powering a 24.5 MW steam turbine generator. The plant can also support the sale of hot water for heating a potential customer base including Abbott Northwestern and Midtown Exchange. Electricity generated by the plant is proposed to be sold to a local/regional utility. The proposed facility will be primarily wood fired, but the intended permit strategy will allow up to 30% of agricultural byproducts such as cornstalks and cobs. No other fuel types are identified for the plant. On-site fuel storage will support 48 hours of plant operation.

Kandiyohi Development Partners, LLC leads a project team including:

Project Role/Project Team

- Finance - Piper Jaffray, Rural Utility Service, CornerStone, MSP Real Estate
- Legal - Smith Partners
- Engineering - Unifield, Utility Engineering
- Environmental - CH2M Hill, Smith Partners
- District Energy - FVB Energy
- Operations - Great River Energy
- Fuel Supply - AllWood, Tree Top, Mpls. Park & Recreation Board, Great River Energy

The proposal included letters of endorsement from the project team and community organizations, as well as letters of commitment for about 50% of the annual fuel requirements of the plant.

Evaluation Criteria

Table 2 provides a review of the proposal from the perspective of the evaluation criteria identified in the RFP:

- Minimum technical and financial qualifications of the Project Team and proposal
- Proposed Purchase Price of the property and any associated conditions
- Anticipated financial viability of the project as evidenced by the capital and operating pro forma and development schedule

- Experience and the financial and organizational capacity of the Project Team in successfully planning and completing development projects of similar type and scale
- Public benefits that would be provided by the project
- Conformance with the Contracting Requirements of the City
- Overall quality of the submission with particular emphasis on project description and schedule

As noted in Table 2, the project team as presented in the proposal conforms to the minimum technical requirement of the RFP. The proposal also agrees to the fair market price and asbestos abatement allowance specified in the RFP.

The total capital budget for developing the biomass plant is \$86.26 million, comprised of long-term debt (76.25%), tax equity (19.94%) and developer equity (3.89%). Commercial operation of the plant is scheduled for April 2008.

The proposal documents the experience and capacity of the project team for the proposed project. The documentation includes descriptions of similar projects developed by team members and letters of endorsement from interested community groups.

Public benefits include local jobs for construction and operation of the plant, property tax revenues, possible revenue-sharing with local community groups, and reduced emissions compared to conventional coal fired power plants and facility heating systems.

The proposal agrees to the terms of the solicitation and contracting requirements of the city with the following exceptions:

- Possible extension of option period by 90 days upon showing of “substantial progress”
- Possible extension for closing on property by 180 days upon showing of “substantial progress”

On June 8, staff met with Kim Havey and Michael Krause, Principals of Kandiyohi Development Partners, LLC to discuss and clarify the exception requests in their proposals.

Based on the meeting staff recommends:

- 1) In order for a 90-day request for extension of the option period to be granted, it must be received by end of business (4:00 PM) on December 1, 2006, substantial progress toward the completion of option conditions would be as reasonably determined by the City, and a 90-day window of notification must be preserved between the time the option is exercised and closing and
- 2) Any extension for closing on the property could only be approved by City Council action and that the request shall include a negotiated cash reimbursement to the City for reasonable holding costs and lost revenue.

Table 1

Content Requirements		Compliant
Cover Page	Project Team's name and mailing address	Yes
	Project Team's current legal status	Yes
	State ID number	Yes
	Contact person's name, title, phone number, fax number and e-mail address	Yes
	Signature of authorized corporate officer for each entity proposing as a partnership or team	Yes
Purchase Price of the Property	Indicate the proposed purchase price for the property with a discussion of conditions that are contingent to the price	Yes
Description of the proposed Biomass Energy Project	Use of existing structure	Yes
	Type of services to be provided by the project, capacity of associated equipment, and customer base	Yes
	Type of biomass and other fuels to be used by the facility	Yes: wood & agricultural biomass
	Source of biomass supply	Yes: Local - 50% of need
	On-site storage capacity of biomass	Yes: 48 hours
	Project permits and associated permit strategy	Yes
	Preliminary schematic plans and elevations	Yes
Identification of Parties Offering the Proposal	Description of the respective roles of the Project Team and a summary of the team's experience in working together	Yes
Preliminary capital pro forma for the Biomass Energy Project	Capital pro forma of the project should show the anticipated sources and uses of funds	Yes
Preliminary operating pro forma of at least 10 years for project operation	Clearly delineate operating revenues, provide line item operating expenses with corresponding annual projections of operating income, taxes and tax credits, net income and cash flow	Yes
Description of the public benefits	Description of the anticipated public benefits associated with the proposal	Yes
Schedule for Project Development	Schedule and conditions for project	Yes
Executed "Consent for Release of Response Data"	Mandatory for complete submittal	Yes
Contracting Requirements	Description of how the Project Team will conform to the contracting requirements	Yes

Table 2

Evaluation Criteria	General Considerations								
Minimum technical and financial qualifications of the Project Team and proposal	Project team has requisite minimum project experience: three projects of similar scope over past three years Minimum financial requirements were eliminated from the solicitation								
Proposed Purchase Price of the property and any associated conditions	Offered fair market value less cost of asbestos abatement \$575,000 less up to \$350,000 for asbestos abatement								
Anticipated financial viability of the project as evidenced by the capital and operating pro forma and development schedule	<table border="0" style="width: 100%;"> <tr> <td>Total Capital Budget:</td> <td style="text-align: right;">\$86.26 M</td> </tr> <tr> <td>Developer Equity:</td> <td style="text-align: right;">\$ 3.00 M</td> </tr> <tr> <td>Tax Equity:</td> <td style="text-align: right;">\$17.20 M</td> </tr> <tr> <td>Long-Term Debt:</td> <td style="text-align: right;">\$66.06 M</td> </tr> </table>	Total Capital Budget:	\$86.26 M	Developer Equity:	\$ 3.00 M	Tax Equity:	\$17.20 M	Long-Term Debt:	\$66.06 M
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Developer Equity:	\$ 3.00 M								
Tax Equity:	\$17.20 M								
Long-Term Debt:	\$66.06 M								
Experience and the financial and organizational capacity of the Project Team in successfully planning and completing development projects of similar type and scale	Project team appears to have experience and expertise necessary for anticipated project Endorsement letter (non-binding) regarding ability to finance project								
Public benefits that would be provided by the project	Local jobs for construction and operations New property tax source Suggestion of revenue sharing with local community groups (no details provided)								
Conformance with the Contracting Requirements of the City	General conformance with noted exceptions: Possible extension of option period by 90 days upon showing of "substantial progress" Possible extension for closing on property by 180 days upon showing of "substantial progress"								
Overall quality of the submission with particular emphasis on project description and schedule	Material presented in manner requested by solicitation								