



**Request for City Council Committee Action
From the Department of Community Planning & Economic Development**

Date: September 28, 2004

To: Council Member Lisa Goodman, Community Development
Cmte
Council Member Barbara Johnson, Ways and Means/Budget
Cmte

Prepared by: George Kissinger, Phone 612-673-5014
**Presenter in
Committee:** George Kissinger, Senior Project Coordinator

Approved by: Chuck Lutz, Deputy CPED Director

Subject: Ivy Tower Redevelopment Agreement- amendment changing project's primary use from office to owner occupied housing (including affordable housing)/hotel and related tax increment financing provisions; approval and adoption of corresponding amendments to the Ivy Tower Tax Increment Financing Plan and Ivy Tower Redevelopment Plan (resolution)- public hearing.

RECOMMENDATION: That the Redevelopment Agreement with Ivy Tower Minneapolis, LLC be amended: changing the project's primary use from office to owner occupied housing (including affordable housing) and hotel (along with supportive on-site parking and limited commercial retail space) and allowing for a change in the TIF structure through a combination of tax exempt tax increment revenue bonds and taxable tax increment pay as you go revenue note. That, subject to public hearing, Amendment No. 1 to the Ivy Redevelopment Plan and Amendment No. 1 to the Ivy Tower Tax Increment Financing Plan is approved in accordance with the accompanying resolution, Enclosure (1).

Previous Directives: December 14, 2001, approval of terms and authorization of Redevelopment Agreement, approval and adoption of related Tax Increment Financing Plan and Redevelopment Plan (Resolution 2001R-516). October 1, 2002, amendment extending Developer's performance and Conditions Precedent to Acquisition under Redevelopment Agreement from February 28, 2003 to

February 28, 2004 with possible further six month extension to August 31, 2004 if Redeveloper shows progress toward leasing and financing. Redeveloper to consider adding housing component in effort to enhance project feasibility. September 3, 2004 amendment to Redevelopment Agreement extending time of Developer's performance up to May 31, 2005 (up to 9 months).

Financial Impact (Check those that apply)

- No financial impact - or - Action is within current department budget.
(If checked, go directly to next box)
- 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
- Other financial impact (Explain): See body of report.
- Request provided to the Budget Office when provided to the
Committee
Coordinator

Community Impact (Summarize below)

Ward: 7

Neighborhood Notification: The Downtown Minneapolis Neighborhood Association (DMNA) had been previously informed on the Ivy Tower Project. The DMNA was forwarded advance drafts of the proposed Modification No. 1 to the Ivy Tower Redevelopment Plan and the proposed Modification No. 1 to the Ivy Tower Tax Increment Financing Plan. Proper notice of public hearing to consider Modification No. 1 to the Ivy Tower Redevelopment Plan and Modification No. 1 to the Ivy Tower Tax Increment Financing Plan was published on September 16, 2004.

City Goals: The Ivy Tower Project furthers the City goals of preserving the historic environment while also enhancing downtown as a place to live, work, play and do business.

Comprehensive Plan: The historic restoration of the Ivy Tower Building will help preserve the "City's Form" by preserving a structure that helps define the City's unique identity in the region.

Zoning Code: Zoning is B4S-2 and the project will comply.

Living Wage/Job Linkage: The Developer will comply with CPED policies on prevailing wage and apprenticeship programs.

Background/Supporting Information.

As initially proposed in mid 2001, the Ivy Tower project consisted of the historic restoration of the Ivy Tower Building accompanied by development of approximately 235,000 square feet of new high-rise office space. During the initial term of the Redevelopment Agreement with Ivy Tower Minneapolis LLC (Developer), several new office projects came on line and the office market became over built with a resulting Class A office vacancy rate holding in the near 20% range. There was, and there continues to be, an overabundance of vacant office space in the downtown market.

At the time of the first requested time extension in 2002, the Developer was encouraged to look at housing as a replacement for offices given current market conditions.

Current Status.

The first contract extension was for a period of 18 months. Just prior to the expiration of that extension, the Redeveloper asked for, and received, additional time (up to an additional 9 months) to further refine the project concept and to ultimately secure project financing for a \$72 million mixed-use housing/hotel project. The Developer has conducted market research, obtained new cost estimates, brought in a key equity partner and has developed a new business plan responding to both the current real estate market and to the synergy that results from common area amenities available to both the housing and hotel components of the project. Offices have been replaced by owner occupied housing of approximately 89 units (including 20% affordable in accordance with the City's Affordable Housing Policy). There is now a hotel component (approx. 131 rooms) along with supportive commercial/retail space featuring a fitness center/ spa-solon. There is now sufficient on-site underground parking to support the project (156 spaces). Historic restoration of the Ivy Tower remains integral to the project.

Pre development work has focused on housing feasibility and market analysis, developing and sizing of the hotel component, planning overall project functionality and developing a new design concept. Planning has included revised costing as well as structuring the project's debt and equity financing. This work has progressed to the point where the Developer has been able to work with the City on the necessary redevelopment contract amendment and accompanying modifications to the project's Redevelopment Plan and Tax Increment Financing Plan. The project's current sources and uses, Enclosure (2) shows expenses exceeding revenues by approximately \$870 thousand. This is not considered a significant number as it represents just over 1% of this \$72 million project. It is understood the project will, by necessity, have a balanced budget at time of financing.

Proposed Modification to the Ivy Tower Redevelopment Plan and Ivy Tower Tax Increment Financing (TIF) Plan- Public Hearing.

As a result of the shift from office to housing and hotel uses within the project, the Redevelopment Plan will need to be modified. Housing, and affordable housing, will be added as an additional public objective. Land use will be changed from primarily office to primarily housing and hotel uses. Accompanying Land Use Map and Site Plans have been changed accordingly. See Enclosure (3), Modification No. 1 to the Ivy Tower Redevelopment Plan.

The original TIF Plan called for TIF assistance through the issuance of taxable revenue notes payable solely from tax increment generated from the Ivy Tower TIF District and potential developer payments, subject to corporate and personal guarantees. The original TIF Plan calls for such notes in an amount not to exceed \$9.5 million.

With the project development program changing from office to housing/hotel, and with the kind and structure of debt instruments now acceptable in the lending market, the TIF must be restructured. As a result, it is proposed that the TIF Plan be modified to allow for the issuance of tax exempt tax increment revenue bonds (supported solely from tax increment generated by the project's housing component) along with the issuance of a taxable pay-as-you-go tax increment revenue note (supported solely from tax increment generated by the balance of the project- excluding housing). Neither the bonds nor the note is a general obligation of the City. The size of these financing instruments is currently estimated to be approximately \$5.1 million for the bonds and approximately \$3.3 million for the note. They will, together, total less than the original \$9.5 million amount previously approved. See Enclosure (4), Modification No. 1 to the Ivy Tower Tax Increment Financing Plan.

Amendment to Redevelopment Agreement.

The Redevelopment Agreement with Ivy Tower Minneapolis LLC will also require further amendment as a result of the before mentioned changes to the project. Changes to major terms are outlined as follows.

- 1) Reference will be made to these modifications to the Redevelopment Plan and Tax Increment Financing Plan.
- 2) Minimum Improvements, as defined, will consist of the historic restoration of the Ivy Tower, environmental remediation, approximately 89 housing units (20% of total units being affordable to buyers earning no more than 50% of the Minneapolis/St Paul MSA median income), approximately 156 underground parking spaces, approximately 134 hotel rooms and approximately 20,000 square feet of supportive commercial space, skyway connections and public space.

- 3) The tax increment being provided by the City to the Redeveloper will be through the issuance of tax exempt tax increment revenue bonds and through the issuance of a taxable tax increment revenue note in amounts not to exceed the amounts permitted by the TIF Plan, as modified. The sources and uses of these funds will be as specified in Modification No. 1 to the Ivy Tower Tax Increment Financing Plan. Authorizing TIF resolutions specifying exact amounts and repayment schedules will be approved at a later time.
- 4) The Recapture Agreement will be changed to reflect the exclusion of housing sales proceeds from Net Cash Flow and Sale Distributions, as defined, to the extent such proceeds are not distributed but rather held as an equity contribution for conversion of hotel construction financing to permanent financing.