

Request for City Council Committee Action from the Department of Community Planning and Economic Development and Department of Public Works

Date: March 23, 2010

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

Council Member Sandra Colvin Roy, Chair, Transportation and Public Works Committee

Referral to: Council Member Betsy Hodges, Chair, Ways and Means Committee

Subject: Bassett Creek Valley Exclusive Development Rights

Recommendation: (1) Grant Ryan Companies exclusive development rights to Linden Yards West through 2015 provided annual progress is demonstrated as described in this report. (2) If Linden Yards East is selected as the preferred site for a rail layover facility, direct City staff to work with the Hennepin County Regional Rail Authority (HCRRA) on a joint development strategy by December 31, 2010 to maximize development, including air rights after rail needs are accommodated. (3) Modify provisions related to Ryan's good-faith deposit of \$20,000 (currently in possession of the City) to provide that such deposit shall be fully refundable upon written request by Ryan to terminate their exclusive development rights, until 30 days after definitive conclusions of the negotiation period between the City and Hennepin County Regional Rail Authority regarding commuter rail storage, to allow Ryan to assess the impact of such agreement on their proposed development. (4) Direct City staff to continue its analysis of Ryan's proposal, negotiate mutually agreeable terms and conditions for one or more redevelopment agreements under the basic framework outlined in this report, and return to the Council for authorization and further direction when appropriate.

Previous Directives: March 6, 2009 - Approved agreement with Hennepin County Regional Rail Authority for Cedar Lake Trail permits that contemplated future sale of land for commuter rail car storage. November 7, 2008- Granted Ryan Companies five years' exclusive development rights provided that (a) annual progress is demonstrated and a research report is presented to City Council in approximately eight months, (b) either Ryan or the City may walk away at the end of the approximately eight month research period and Ryan's \$20,000 deposit will be refunded. February 15, 2008 - Approved zoning changes in Bassett Creek Valley from industrial to primarily commercial and high-density residential. January 12, 2007 - Approved Bassett Creek Valley master plan. June 22, 2001 - Directed City and MCDA staff to carry out the short term strategies for relocation and operation of the impound lot, concrete crushing, and Linden Yards operations storage facilities.

Prepared by:	Beth Grosen, Sr Project Coordinator (612)-673-5002
Approved by:	Charles T. Lutz, CPED Dep Director _____ Catherine A Polasky, Econ. Dev. Director _____ Steven Kotke, Public Works Director _____
Presenters in Committee:	Greg Goeke and Beth Grosen

Financial Impact

Other financial impact - Moving Public Works operations is discussed in this report. Future Council action would be required for sale to a private developer at fair market value; the conclusions of an independent land appraisal, based on current Ryan development plans, is discussed herein.

Community Impact

Neighborhood Notification - Presentations to the Harrison neighborhood on Jan 7, 2010 and the Bassett Creek Valley Redevelopment Oversight Committee (ROC) on Jan 19 and Feb 16 2010. Study sessions with ROC subcommittee on Feb 9,11,15. Presentation to Bryn Mawr Neighborhood Association on March 10, 2010. ROC recommendations are attached.

City Goals - Contributes to "A Safe Place to Call Home," "Connected Communities," "Enriched Environment," "A Premier Destination."

Sustainability Targets - Supports central infill development.

Comprehensive Plan - Redevelopment elements conform to the Minneapolis Plan for Sustainable Growth. Zoning Code - Proposed redevelopment elements would comply with the zoning regulations. It should be noted that rail car storage may be exempt from local zoning regulations.

Living Wage/Business Subsidy Agreement - Not at this time.

Job Linkage - Not at this time.

Background Information

Considerable planning and development study has focused on Bassett Creek Valley in the last ten years. Bassett Creek Valley is situated between I-394 and Glenwood Avenue, I-94 and Cedar Lake Road. The City's impound facility and Linden Yards storage operations are located in Bassett Creek Valley. The property has long been believed to be a prime redevelopment site due to its proximity to downtown. The construction of Van White Memorial Boulevard, linking north and south Minneapolis through the center of the valley, provides an opportunity for new site access. The Bassett Creek Valley master plan (adopted as a small area plan by the City Council in January 2007) identifies the Linden Yards area just north of I-394 for high density office and residential uses; the impound lot area east of Van White Boulevard medium density residential; and the impound lot area west of Van White Boulevard as future green, open-space use. The area was rezoned to be largely consistent with the land use policy in February 2008.

In November 2008, the Council approved a multi-point action granting Ryan Companies exclusive development rights to Linden Yards and the impound lot for a period of five years provided that because of the many complexities of the site, either Ryan or the City could walk away at the end of an approximately eight month research period to study issues such as Public Works operations relocation, land appraisal, and commuter rail car storage. Prior to the expiration of the 8-month period, Ryan, CPED and the City's Director of Public Works, Steve Kotke, agreed to an extension of the time period in order to resolve several issues, as permitted by the November 2008 Council action. The reports relating to public works operation, relocation, and land appraisal have been submitted to the City Council committees as "receive and file". This report serves to summarize issues that require Council direction.

Exhibit 1 is a series of maps depicting the changes to the city-owned land in Bassett Creek Valley proposed for the next ten years.

HCRRA Update

The City and HCRRA's agreement for Cedar Lake Trail permits approved in 2009 commits the City to working with HCRRA on heavy rail commuter car storage options in Minneapolis. This storage would be to accommodate future commuter rail lines like Northstar, not light rail car storage. Parsons Brinckerhoff (PB) has commenced a technical study for a proposed downtown intermodal station, including future commuter rail car storage, under contract with HCRRA. PB will also study Cedar Lake and other sites as part of the technical study, which will be completed by June 2010. Currently, the study is investigating the capacity of Linden Yards East to handle 14-18 trains (with a total of 80-100 cars) to be stored between 8 am and 6 pm each weekday; the trains would depart sequentially from a new multimodal station at 5th Street near the ballpark. LRT car storage and maintenance facilities for trains would happen elsewhere.

Development of joint land development strategies for Linden Yards East should be deferred until the study is completed in mid 2010 and more specific information is available regarding future rail storage requirements and other development consequences.

Ryan Companies Update

Ryan Companies was the strongest proposer of three respondents when the City issued an RFP in 2007. Ryan proposed to acquire the Linden Yards and eastern portion of the Impound lot in three phases over a 12-15 year process. Ryan included a bold concept of constructing a plinth (or platform) on both Linden Yards West and East in order to accommodate future rail development. This concept was determined in 2008 to be infeasible due to an additional \$50 million cost due to the great additional cost of pilings and structural support for buildings and streets constructed above the rail and several stories of parking. In spring of 2008 upon further investigation, Ryan Companies determined that a more conventional development approach with 10-15 story structures and adjacent parking ramps could be developed on Linden Yards.

Ryan Companies has been actively involved in the study process in 2009, particularly in identifying appropriate alternative real estate sites for the public works functions presently located in Bassett Creek Valley. Ryan representatives have also studied the technical issues related to air rights development if Linden Yards East is used for commuter rail storage. Communications will continue between Ryan and Hennepin County officials regarding the best approaches to coordinate timing of designs, technical issues related to rail spacing and pillar location, and leadership to maximize development on Linden Yards East.

Since Ryan responded to the RFP on these City-owned lands, the commercial and residential markets have slid further and further into the worst market conditions in a generation. The primary impact on Ryan's proposed development is the uncertain timing of future development. Ryan representatives believe that, given current market conditions, the Linden Yards West site likely provides the land necessary to meet market demand for office space in this submarket for the next 8 - 10 years and the Linden Yards East site likely provides capacity necessary to meet market demand for an additional 5 - 10 years.

Ryan is now suggesting a phased acquisition of the site, based on the market's ability to absorb future development. Considering the size of the site, selling Linden Yards West in two or more parcels appears reasonable.

Granting Ryan exclusive development rights to Linden Yards West for five years, through 2015, will provide Ryan the ability to actively market the property and secure tenants for the first projects. Ryan will submit an annual report in December of each year documenting yearly progress including marketing efforts, costs incurred, grant requests, engineering studies, and projected budgets. With satisfactory progress in the first five years, a future City Council would likely be asked to extend the rights for another multi-year term.

Benefits

Development in Bassett Creek Valley, commencing on Linden Yards West, can create over 2000 jobs for residents and spur more redevelopment in the Valley and north Minneapolis. This will also eliminate blight and create new buildings with a life far beyond 25 years. New housing will be added to the city, including affordable units.

Ryan's plans provide substantial new property tax value with office employment and residential densities compatible with light rail/TOD plans.

- Ryan 2008 projected building values for each phase:
 - Linden Yards West 840,000 sq. ft office, 408 housing units
\$100 million in office value, \$50 million in housing
 - Linden Yards East 782,400 sq. ft office, 196 housing units
\$100 million in office value, \$24 million in housing
 - Impound Lot East 280 housing units \$35 million in housing

Actual land sale values will be based on the overall financial structure of the project, revisions to the Ryan development plan upon further refinement and study, and market changes over time.

Finance –Costs

Land sale proceeds will be used to pay for replacement PW facilities elsewhere in the city. Initially, only a portion of Linden Yards West may be sold to accommodate the first office project and necessary infrastructure. Additional funding may come from state or county grant sources for infrastructure.

Tax increment financing to make development viable is estimated at \$15 million for office space and an estimated \$5 million for housing on Linden Yards West. This means no incremental additional property tax revenue coming to the city for the initial 20-25 year term.

Development Finance reviewed the pro forma and concluded there is likely no excess tax increment available for public works relocation costs, although current financial data is very preliminary and the City will ultimately determine the appropriate financing package. All TIF is projected to be used to address extraordinary piling costs, site prep costs, and public infrastructure. TIF for housing development would be used for extraordinary piling costs, site prep costs, and to underwrite the 20% affordable units. More detailed analysis will come at the time of the first project proposal when a corporate user is secured by Ryan.

Public Policy Considerations

There are several public policy considerations related to this project. Granting Ryan exclusive development rights will be a major step forward to implementing the BCV Master Plan and redeveloping this area. High density development adjacent to an LRT station at Van White is very important. Commuter rail car storage near the downtown Minneapolis station is also a critical component of an integrated regional rail transportation system.

Next Steps:

- City, HCRRA, and Ryan staff will collaborate to maximize development in Linden Yards East during planning in 2010.
- Ryan will market the Linden Yards West property to secure a corporate tenant and will document efforts including grant preparation and engineering studies.

Recommendations:

- Grant Ryan Companies exclusive development rights to Linden Yards West through December 31, 2015 provided annual progress is demonstrated through an annual report submitted in December of each year documenting progress including marketing efforts, project costs incurred, grant requests, engineering studies, and future project budgets. Ryan's report will be filed by City staff to the Community Development committee.
- If Linden Yards East is selected as the preferred site for a rail layover facility, direct City staff to work with the Hennepin County Regional Rail Authority (HCRRA) on a joint development strategy by December 31, 2010 to maximize development, including air rights after rail needs are accommodated.
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