

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

Date: November 18, 2008
To: Council Member Lisa Goodman, Chair, Community Development Committee
Referral to: Council Member Paul Ostrow, Chair, Ways and Means/Budget Committee
Subject: Land Sale Public Hearing
38th and Chicago Redevelopment Area Plan
Great Street Gap Financing Loan

Recommendation: (1) Approve the sale of 3749 Chicago Avenue South to Artspace Projects, Inc. or an affiliate or related entity for \$510,000 in conformance with the terms described herein. (2) Increase the 2008 Revenue Budget for the Community Planning and Economic Development agency Fund 01SPH – Community Development (01SPH-8900900-348501) by \$510,000. (3) Approve a loan to Artspace Projects, Inc. or an affiliate or related entity, for an amount not to exceed \$425,000 in conformance with the terms described herein. (4) Authorize the execution of necessary documents by and between the City and Artspace Project, Inc., consistent with recommendations provided herein.

Previous Directives: (1) The Minneapolis City Council approved the issuance of up to \$510,000 in Tax-exempt 501(c)(3) Bank Qualified Bank Direct MCDA Revenue Bonds for this project on October 24, 2008. (2) On August 5, 2008, CPED acquired 3749 Chicago Avenue South for \$510,000 with the Capital Acquisition Revolving Fund (CARF). (3) On June 20, 2008, Council adopted the *38th and Chicago Redevelopment Area Plan*, identifying 3749 Chicago Ave S as property that may be acquired. (4) On April 18, 2008, Council reserved \$500,000 of the Capital Acquisition Revolving Fund (CARF) for CPED to acquire 3749 Chicago Ave S. (5) On March 21, 2008, Council adopted the *38th St & Chicago Ave Corridor Framework/Small Area Plan: with focus on Chicago, Bloomington and 4th Ave Business Nodes*. (6) In the 2008 Operating budget, \$350,000 from fund 01400 (Community Development Block Grant) was appropriated for the Great Streets program.

Prepared by: Rebecca Parrell, Project Coordinator (673-5018)
Approved by: Charles T. Lutz, Deputy Director, CPED _____
Catherine A. Polasky, Director, Economic Policy and Development _____
Presenter in Committee: Rebecca Parrell

Financial Impact

- * Action is within the Business Plan
- * Reimburse the \$510,000 CARF expenditure for the property acquisition
- * Use of up to \$425,000 of the approximately \$600,000 Great Streets Community Development Block Grant fund
- * Eliminate property management costs
- * Achieve the national objective to address blight on an area basis

Community Impact

Neighborhood Notification: The City provided the four adjacent neighborhoods with a 45-day neighborhood review of the *38th and Chicago Redevelopment Area Plan*, which identifies 3749 Chicago Ave S for possible City acquisition. Powderhorn Park Neighborhood Association (PPNA) moved to support the plan on May 8, 2008. Central Area Neighborhood Development Organization (CANDO) moved to support the plan at their regular monthly meeting on May 15, 2008. Bancroft Neighborhood Association (BNA) moved to support the plan at their full board meeting on June 12, 2008. Bryant Neighborhood Organization (BNO) did not make a formal statement on the plan, but active neighborhood members sent individual letters of support.

Comprehensive Plan: On October 6, 2008, the City Planning Commission approved the sale of this parcel as being consistent with the Comprehensive Plan for use as a fire arts studio and classroom space for sculptural welding, blacksmithing, jewelry-making, glass-working, foundry, and other fire arts.

- 1.1 Promotes opportunities and activities that allow neighbors and residents to get to know each other better
- 2.9 Strengthen long-term confidence in the economy by building innovative public to private sector partners
- 4.1 Encourage reinvestment along major corridors
- 4.2 Coordinate land use and transportation planning on designated Community Corridors through attention to the mix and intensity of land uses, the pedestrian character and residential livability of the streets
- 4.4 Provide a wide range of goods and services for city residents, to promote employment opportunities, encourage the use and adaptive reuse of existing commercial buildings, and to maintain and improve compatibility with surrounding areas

The Minneapolis Plan for Sustainable Development DRAFT:

Policy 9.1: Integrate and utilize arts and culture as a resource for economic development.

Collaborate with community-based arts organizations (such as Artspace, Metropolitan Regional Arts Council, and Springboard for the Arts) to build capacity and knowledge among organizations engaged in developing cultural facilities.

Policy 9.7: Preserve and strengthen arts education opportunities for Minneapolis youth and adults.

City leaders will advocate for arts education and lifelong learning through the arts.

Zoning Code: Art studios are a permitted use in the C2 Neighborhood Corridor Commercial District if they meet all specific development standards. The Minneapolis Zoning Board of Adjustment voted on March 6, 2008 to approve a variance on the specific development standards for an artist studio to allow for metalwork (Fire Arts Center) at 3749 Chicago Avenue in the C2 Neighborhood Corridor Commercial District, per the conditions of the variance approval from the Minneapolis Zoning Board of Adjustment. CPED-Planning must review and approve final plans.

City Goals: Enriched environment * Connected communities * Lifelong learning second to none

Sustainability Targets: Economically vital neighborhood commercial nodes create attractive urban neighborhoods for redevelopment, support efficient growth, and reduce the need for car travel to obtain necessary goods and services.

Living Wage/Business Subsidy Agreement: Exempt- Artspace's investment in the purchase of the site and in site preparation is at fair market value

Job Linkage: Yes

Other: On August 18, 2008, Planning Staff completed a land sale review of this parcel, and the adopted *38th St & Chicago Ave Corridor Framework/Small Area Plan* identifies this building as a priority for preservation. The proposal from Artspace CAFAC accomplishes that along with the plan recommendation of seeding the startup of an arts practice and instruction space as a key strategy for revitalizing the intersection of 38th and Chicago.

Supporting Information

<u>PARCEL</u>	<u>ADDRESS</u>	<u>SALE PRICE</u>
38th & Chi - 27	3749 Chicago Avenue South	\$510,000

The lot size is 80' x 122.1' = 9,768 total square feet

PURCHASER

Artspace Projects, Inc. or an affiliate or related entity
250 3rd Avenue North, Suite 500
Minneapolis, MN 55401

PROPOSED DEVELOPMENT

The Chicago Avenue Fire Arts Center (CAFAC) was founded in 2007 by artists who reside in the area near 38th and Chicago, provide arts education in fine and industrial art forms that are produced by heat, spark, or flame. This includes sculptural welding, blacksmithing, jewelry-making, glassworking, foundry, electronics, and others. The general term for these forms is "fire arts."

The individuals behind the vision for CAFAC have the combination of talents and experience necessary to make this venture successful. Heather Doyle (CAFAC Artistic Director) has been involved in metal arts for 18 years as an artist and metal fabricator and has been teaching sculptural welding and blacksmithing for the past four years. Victoria Lauing (CAFAC Managing Director) has worked for the past nine years in continuing education at Minneapolis Community and Technical College (MCTC), where she manages arts and enrichment programs, including metal arts classes. CAFAC's board of directors brings a well-rounded array of professional experience to the venture, including real estate, law, business administration, project management, sales and marketing, writing, and graphic and web design.

The CAFAC founders are committed to bringing their artistic skills and instructional abilities to the community. In order to fulfill their mission, they need a physical space to provide classes in fire arts and access to fire arts tools and equipment. Among the services, classes, programs, and activities they plan to provide are:

- fire arts classes open to the community, from youth to adult, beginner to master-level artisans;
- studio rental facilities to working and emerging artists;
- a membership program;
- gallery space for student and visiting artists' work;
- partnerships with local schools providing educational opportunities for youth;
- public art projects, including a summer program for inner city youth;
- an inviting storefront, providing artists an opportunity to display and sell their work;
- special events, including fundraisers and neighborhood celebrations; and
- educational, team-building programs for corporate clients.

The CAFAC founders identified the historic Nokomis Theater at 3749 Chicago Avenue South (long ago converted to an auto repair use) as an ideal location for CAFAC home when it was listed for sale in 2007. In January 2008, they secured a purchase agreement for \$510,000. When the organization was unable to secure financing to purchase the building on their own, they turned to the City of Minneapolis and Artspace Projects, Inc. for assistance in realizing their plans and the *38th St & Chicago Ave Corridor Framework/Small Area Plan*. The City assumed CAFAC's purchase agreement on July 11, 2008 and acquired the property on August 5, 2008 for \$510,000. This report recommends selling the property to Minneapolis-based not-for-profit Artspace Projects, Inc. or an affiliate or related entity (Artspace) for \$510,000. Artspace will then lease the building to CAFAC to provide classes in fire arts and access to fire arts tools and equipment.

Artspace will spend six months conducting building renovations to transform the building at 3749 Chicago Avenue South into The Chicago Avenue Fire Arts Center. Table one below shows the breakdown of \$240,000 in improvements planned for the transformation.

Table 1. Planned Physical Improvements

Building	Cost
Tuck Pointing	\$ 16,000
Roof Patching & Flashing	\$ 18,105
Demolition	\$ 47,767
Plumbing	\$ 25,879
Electrical	\$ 37,380
Abatement/Boiler Removal	\$ 13,980
Loft Construction	\$ 77,805
BUILDING TOTAL	\$ 236,916
Site Work	Cost
Patch Pavement	\$ 2,000
Fence Repair	\$ 500
Painting	\$ 500
Plantings/Landscaping	\$ 500
Signage	\$ 1,000
SITE WORK TOTAL	\$ 4,500
PHYSICAL IMPROVEMENTS TOTAL	\$ 241,416

LAND DISPOSITION POLICY

This property will be improved by rehabilitation as defined by City policy and is being sold for use as a fire arts studio and classroom space for sculptural welding, blacksmithing, jewelry-making, glass-working, foundry, and other fire arts.

PROJECT FINANCING

Artspace proposes to finance their purchase of 3749 Chicago Ave S with three primary sources: up to \$510,000 in Bank Qualified Bank Direct tax-exempt revenue bonds, up to \$425,000 in a Great Streets Gap Financing loan, and a \$75,000 City 2% commercial corridor loan. The Minneapolis City Council approved the issuance of up to \$510,000 in Tax-exempt 501(c)(3) Bank Qualified Bank Direct MCDA Revenue Bonds for this project on October 24, 2008. The final amount of revenue bonds issued for the project will not exceed 65 percent of the bank adjusted appraised value of the property. At the writing of this report, the bank's appraisal was not complete. Given the City's appraisal of the property dated May 2008 and the planned

physical improvements for the renovation of the property, a likely range for the revenue bonds is \$475,000 to \$425,000. Therefore, this staff report requests Council authorization for up to \$425,000 in a Great Streets Gap Financing loan. The gap that remains after the revenue bond financing is determined will be filled with this Great Streets Gap Financing loan. The Great Streets Gap Financing loan terms will be at four percent interest with two years payment deferral, eight years interest-only payments, and a balloon at year ten.

The remaining \$39,500 of development sources will come from CAFAC fundraising, a NRP façade improvement matching grant from the Powderhorn Park Neighborhood Group and a Great Streets façade improvement matching grant from the Bancroft Neighborhood Association. Table two below charts the development sources for the project. Table three breaks out the development uses for the project.

To date, CAFAC has raised \$51,200 to pay predevelopment costs, including a \$20,000 earnest payment, \$2,500 market study, \$1,800 Phase I Environmental Investigation, \$750 IRS non-profit status application fee, \$1,200 for a technology consultant, and \$19,500 in consultant fees. They have developed a list of funders whom they will approach for longer-term capital support. The list includes over 25 foundations, over 20 supply and equipment vendors, several businesses and individuals, and the 4 neighborhood organizations that converge at the 38th and Chicago intersection. To narrow this list, they are working with organizational development staff at Artspace to identify funders that have investment objectives consistent with the organization's objectives. They are also participating in the Pohlads Foundation's *Twice the Gift* holiday program and planning a fundraising event to be held at the building to raise capital for purchasing equipment.

Table 2. Development Sources

Sources	Financing	Rate	Term	Annual Debt Service
First Mortgage (BQ Wells Fargo) *	\$ 510,000	5.5%	20	\$41,857
Great Streets Gap Loan **	\$ 350,000	4.0%	10	\$42,523
CPED 2% Loan	\$ 75,000	2.0%	10	\$8,281
Great Streets Façade Improvement Matching Grant ***	\$ 5,000			
Powderhorn Park Façade Improvement Matching Grant ***	\$ 5,000			
Philanthropic Grants	\$ 29,500			
TOTAL DEVELOPMENT SOURCES	\$ 974,500			

* Final amount not to exceed 65% of the bank adjusted appraised value of the property

** Payments deferred years 1-2, interest-only payments years 3-10 with principal payment based on cash flow

*** Based on availability.

Table 3. Development Uses

Uses	Notes:
Land & Building Acquisition	\$ 510,000
Physical Improvements	\$ 236,916 See Physical Improvements Chart
Site Work	\$ 4,500 See Physical Improvements Chart
Contingency 10%	\$ 24,142
Legal - Owner	\$ 15,000
Lender's Fees - Bank	\$ 6,725 Orig. fee, Appraisal/Environ Review, UCC, Mtg Tax
City Fees - Lender	\$ 12,500 Bond Counsel and Other Costs
Title Insurance & Fees	\$ 2,000
Construction Period P&I	\$ 12,750 Assumes 6 months
Market Study	\$ 3,600

Equipment	\$ 49,648	
RE Taxes During Construction	\$ 3,250	Assumes 6 months
Appraisal	\$ 5,000	
Survey	\$ 600	
Artspace Development Costs/Fee	\$ 50,000	
Utilities During Construction	\$ 2,000	Assumes 3 months
Phase I	\$ 1,800	
CAFAC Reserves	\$ -	(Held by CAFAC)
Operating Reserves	\$ 34,000	6 months DS + 6 months Op. Exp. (held by lender)
TOTAL DEVELOPMENT COSTS	974,431	

Artspace and CAFAC are negotiating a lease agreement. The base rent CAFAC will pay to Artspace is based on the debt service Artspace will pay on the Wells Fargo Bank Qualified bonds, the Great Streets Gap Loan, the 2% loan, a 1.15 debt coverage cushion, and a two percent annual inflator. The additional rent Artspace will charge is based on, in decreasing order of cost: property insurance, real estate taxes, Artspace management fee, replacement reserves, legal fees, audit fees, and a three percent annual inflator.

Including the debt coverage cushion and annual inflator on the base rent is intended to not only cover Artspace's expenses, but also to charge CAFAC rent numbers that will mirror the annual debt service projected CAFAC might pay in 2019, the end of year ten when Artspace plans to sell the property to CAFAC and CAFAC restructures the outstanding debt. If CAFAC is able to make full base rent payments as projected, with the cushion and inflator, Artspace will see a positive net cash flow significant enough to distribute the standard Artspace management fee (the base number being reduced) and annual contingency payments on the City's Great Streets Gap Loan to reduce the principal loan balance (see Exhibit A). After the Artspace payment, seventy-five percent of the remaining cash flow will be paid to the City to pay down the Great Streets principal balance. Artspace will be responsible for reporting annually to the City; CPED staff will monitor the reports and availability of cash flow for debt service. It is possible there won't be cash flow available to make contingency payments, but by requiring contingency payments based on cash flow rather than requiring principal and interest payments on the Great Streets loan allows flexibility for CAFAC's operating income in their early years.

The operating projections for CAFAC show their income and expense projections. The largest share of CAFAC's projected income is from fundraising for their first year, after which class fees become the largest source of income for the organization, at 46 percent. CAFAC based their class fee projections on the prices of and increases in classes offered by one of the founding members of CAFAC over the past six years at Minneapolis Community and Technical College (MCTC). CAFAC expects very little overlap between the classes at CAFAC and the MCTC because MCTC has limited access to facilities for continuing education classes, which CAFAC will offer. The largest share of CAFAC's projected expenses goes toward rent their first year, after which rent, staffing, and class support, each consume around 30 percent of the expenses (see Exhibit B).

RISK ASSESSMENT

As a new organization, with no financial track record, CAFAC's operating projections are uncertain. Even though CAFAC demonstrates positive annual cash flow, it is possible they will not be able to make their full rent payments to Artspace. Artspace understands this risk. As a non-profit real estate developer for the arts, Artspace has been active for over 20 years. Within that time, Artspace developed and continues to own and operate 22 real estate projects. Of these projects, 19 involved the adaptive re-use of older industrial and commercial structures. Each provides space for individual artists and arts organizations. In the past three years,

Artspace completed four projects totaling \$50 million. As the borrower of the BQ bonds from Wells Fargo and the Great Streets Gap Loan, Artspace is committed to make payments and assist CAFAC, should they fall short of their projections in their early years of development. As an organization, they have the experience, mission, and financial capacity to do so.

It is also important to note that CAFAC needs to raise \$40,000 for closing in December 2008. At the writing of this report they do not have the full amount and may need to work with Artspace to cover it in the interim. Another risk is that since we currently don't know what the final revenue bond amount will be we don't know if the \$425,000 maximum Great Streets Gap loan will be sufficient to fill the gap. If it isn't, CAFAC and Artspace will need to cover any remaining gap.

OFFERING PROCEDURE

Artspace submitted an Offer to Purchase the property at 3749 Chicago Avenue South from the City of Minneapolis for \$510,000, the price agreed to by the Chicago Avenue Fire Arts Center and the property owner in their purchase agreement from January 2008 and the price the City acquired the property for on CAFAC's behalf. On October 2, 2008, the CPED staff appraiser determined the Estimated Reuse Value to be \$480,000.

The City agreed to assume CAFAC's purchase agreement at \$510,000 for three primary reasons. First, the site was being used for auto body repair and therefore at risk of reuse for a similar activity. Auto-oriented uses are inconsistent with the City's adopted revitalization goals for the intersection. Second, the proposed use by CAFAC meets two specific goals and two recommendations listed in the recently adopted small area plan for the area. Third, the commercial node at 38th and Chicago is a priority node for investment in revitalization strategies as defined by the Great Streets program, and in a CDBG target area. Artspace is acquiring the property for the full price that the City and CAFAC paid.

ADDITIONAL INFORMATION

The City Council adopted the *38th St & Chicago Ave Corridor Framework/Small Area Plan* in June 2008. The plan was a product of an extensive community engagement process, "to support the ongoing improvement and revitalization of the area of 38th Street and Chicago Avenue by proposing specific policies and strategies to guide its evolution." Many artists live in the four neighborhoods at the 38th and Chicago intersection, and one key component of the small area plan explores many ways for the arts and artists to revitalize the area.

What CAFAC has planned for their organization and physical space meets two goals and two recommendations articulated in the small area plan. The two goals are to support and promote artistic activity already taking place and to make artistic activity accessible to artists and non-artists alike. The two recommendations are to establish a high-visibility arts center by seeding the startup of an arts practice and instruction space near the intersection of 38th and Chicago and to encourage public art and arts-infused development by supporting projects that directly involve young people and area residents in the creation and installation of art in the public realm of 38th and Chicago.

EXHIBITS

- A. Artspace Real Estate 10-Year Projections
- B. CAFAC Operating 10-Year Projections

Authorizing sale of land 38th and Chicago Redevelopment Area Plan
Disposition Parcel No. 27.

Whereas, the City of Minneapolis, hereinafter known as the City, has received an offer to purchase and develop Disposition Parcel No. 27 in the 38th and Chicago Redevelopment Area Plan, from Artspace Projects, Inc. or an affiliate or related entity, hereinafter known as the Redeveloper, the Parcel No. 27, being the following described land situated in the City of Minneapolis, County of Hennepin, State of Minnesota to wit:

LEGAL DESCRIPTION

38th & Chi - 27; 3749 Chicago Avenue South

Lots 18 and 19, Block 1, Chicago Avenue and Lyndale Addition to Minneapolis.

Being registered land as is evidenced by Certificate of Title No. 1225628.

Whereas, the Redeveloper has offered to pay the sum of \$510,000, for Parcel 38th & Chi - 27; 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 7, 2008, a public hearing on the proposed sale was duly held on November 18, 2008, 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 38th and Chicago plan, as amended, is hereby estimated to be the sum of \$480,000, for Parcel 38th & Chi –

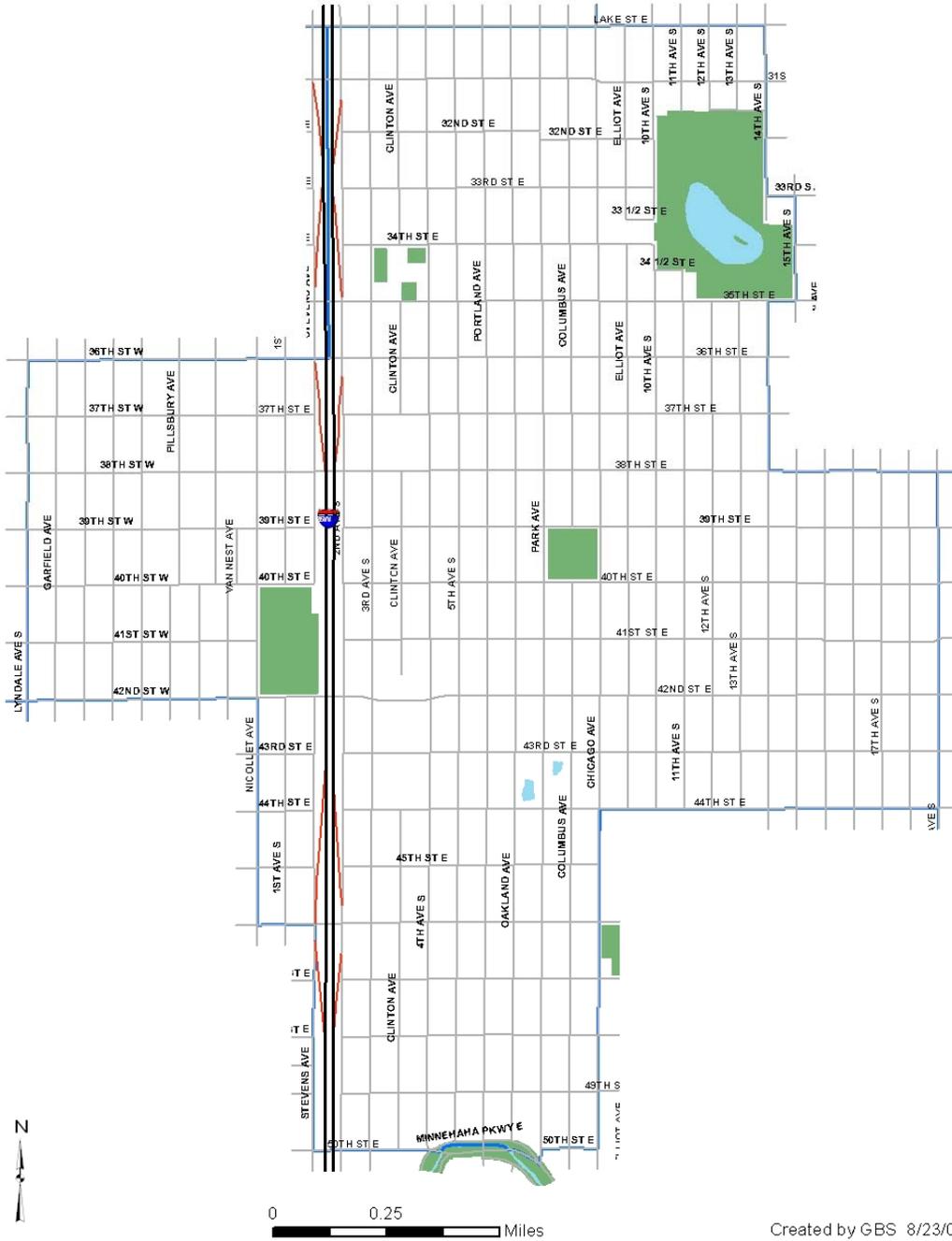
27; however, the City is selling Parcel No. 27 for the sum of \$510,000.

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.

WARD 8



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

Date: October 28, 2008
 Subject: Land Sale – Public Hearing
 38th and Chicago Redevelopment Area Plan

Address: 3749 Chicago Avenue South
 Purchaser: Artspace Projects, Inc. or an affiliate or related entity

Disposition Parcel No. Acq Date	Address	Total CPED Costs	Less Sales Price	Write Off
38th & Chi - 27 8/5/08	3749 Chicago Av S	\$510,000	(-) \$510,000	\$0

Re-Use Value Opinion	Less Sales Price	Write-Down
\$480,000	\$510,000	(\$30,000)

Write-Down N/A
 The property is being sold in excess of the re-use value.

Developer History with CPED

Artspace Projects, Inc. is a non-profit real estate developer for the arts which has successfully completed several projects with the City. Most notably, Artspace has a redevelopment agreement with the City to develop The Minnesota Shubert Performing Arts and Education Center at 516 Hennepin Avenue in downtown. Other Artspace properties in the City of Minneapolis include Grain Belt Studios, Hennepin Center for the Arts, and Traffic Zone Center for Visual Art.

Developer Information

- Married Individual(s)
- Limited Liability Partnership of the State of Minnesota
- Limited Liability Company of the State of Minnesota
- Corporation of the State of Minnesota
- Nonprofit Corporation of the State of Minnesota
- Other