



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

**Date:** March 23, 2004

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

**Prepared by:** John Harrington, Project Coordinator, Phone 612-673-5018

**Presenter in  
Committee:** John Harrington, Project Coordinator

**Approved by:** Chuck Lutz, Deputy CPED Director \_\_\_\_\_  
Jack Kryst, Director, Development Finance \_\_\_\_\_

**Subject:** Project Analysis Authorization for 1508 E. Lake St. (Revised)

**RECOMMENDATION:** Authorize staff to continue analysis of the 1508 E. Lake St. proposal; negotiate terms and conditions of a redevelopment contract with Neighborhood Development Center; prepare a redevelopment plan modification and tax increment financing plan for the 1508 E. Lake St. development within the Lake and Bloomington project area.

**Previous Directives:** In October 2003, the MCDA Board authorized filing an application with the Metro Council for Tax Base Revitalization funding to remediate asbestos and lead paint in the building.

**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
- Other financial impact (Explain):
- Request provided to the Budget Office when provided to the Committee Coordinator

**Community Impact** (Summarize below)

**Ward:** 6

**Neighborhood Notification:** The Midtown Phillips Neighborhood Organization and Powderhorn Park Neighborhood Association were notified of this project on January 13, 2004.

**City Goals:** Create an environment that maximizes economic development opportunities within Minneapolis by focusing on the City's physical and human assets.

**Comprehensive Plan:** 4.1 Minneapolis will encourage reinvestment along major urban corridors as a way of promoting growth in all neighborhoods.

**Zoning Code:** Will comply

**Living Wage/Job Linkage:** Will comply

### Background

The City has received an Application for Public Financial Assistance from the Neighborhood Development Center (NDC). The application specifically requests Tax Increment Financing Assistance for Renovation of the former Antiques Minnesota building at 1508 E. Lake Street.

The Neighborhood Development Center, with the financial assistance of a bridge loan from the Empowerment Zone, purchased the property in December, 2003. A previous effort by the City to assist in the acquisition and redevelopment of the site was unsuccessful. Compared to the previous effort, NDC has proposed a more creative financing package, including New Market Tax Credits (NMTC), and has established a broader partnership to facilitate tenancing the property and providing business development assistance to tenants.

### Project Description

**Site:** The site includes two separate tax parcels, one for the building itself, and the other for a parking area in back of the building.

**Development Entity:** The Neighborhood Development Center is a non-profit organization that provides training and financing to neighborhood entrepreneurs and facilitates community-based economic development in neighborhoods throughout Minneapolis and St. Paul. Its mission is to help communities in the inner cities of Minneapolis and St. Paul build their capacity and stability by helping emerging entrepreneurs develop successful businesses that serve the community. Close to 500 low/moderate income persons have received quality training in their own neighborhood in the past 32 months through NDC and its partners.

Other adaptive reuse projects in which NDC has played a major role include:

- Mercado Central at the southwest corner of Bloomington and Lake, (NDC is part-owner of the building and provides on-site management and other services to the tenants);
- Midtown Business Center north at 501 North Dale Street and Midtown Business Center South at 625 University Avenue (NDC was the developer of these two projects which had a combined total development cost in excess of \$2 million);
- Plaza Latino on Payne Avenue in St. Paul (NDC provided business development financing and services).

**Proposed Development:** NDC's development concept is to restore the building's street level entrances and windows and to lease the first floor of the building to 3-4 established retail businesses that will complement the surrounding area's retail mix. NDC will lease the entire third floor of the property to the HOBT Company which will enable HOBT to expand its programming and make the adjacent Avalon Theater, where its operations are currently located, more broadly available for use by other performing arts organizations. NDC will lease the building's second floor and basement as office space to organizations that complement the building's other users and surrounding neighborhood. NDC believes this project will restore this building as a community asset by reinvigorating street level commercial activity and by expanding the area's cultural amenities. This project will facilitate the redevelopment of a long vacant and blighted building in the Midtown Phillips neighborhood of south Minneapolis.

**Public Assistance Requested:** NDC has requested tax increment financing (fifteen year increment) with an estimated present value of \$261,772, based on a "Pay-Go" note at 7.5%.

In addition to the TIF financing, NDC anticipates receipt of the following public financial assistance:

Metro Council Tax Base Revitalization Grant	\$238,000	approved
Midtown Phillips NRP Grant	\$100,000	approved
Midtown Phillips NRP Grant	\$ 75,000	pending
Minneapolis Empowerment Zone loan	\$250,000	approved
Minneapolis Commercial Corridor CEDF/CDBG loan	\$250,000	in process
Minneapolis Business Development Fund	\$ 80,000	pending

**Proposed Timeframe:** NDC anticipates starting environmental remediation in May, 2004; construction (rehab) in June 2004; construction completion in October, 2004; and, (retail tenant) occupancy in November, 2004

**Current Status of Project:** The developer has purchased the building, is finalizing arrangements for the private construction and permanent financing (NMTC and first mortgage), and has secured letters of intent from tenants scheduled to occupy 80% to 90% of the leasable space.

## Results of Preliminary Staff Analysis

### **Public Purpose**

The proposed project will be consistent with the public purpose identified in the Lake and Bloomington Redevelopment Plan since it will eliminate blighted property, improve the City's tax base, and assist with commercial/retail development.

### **Consistency with City Goals**

The proposed project will be consistent with City Goals including “The City will strategically target and leverage its economic development resources to maximize economic development opportunities by focusing on specific industry sectors and locations (including commercial corridors and brownfields) where there are opportunities for transit or mixed use.” as well as “In addition, the City will support building capacity within the business community, in order to strengthen the business community's ability to attract new businesses and foster entrepreneurship.”

### **Consistency with Applicable Plans and Development Objectives**

The proposed project will be consistent with numerous elements of the Minneapolis Plan, including but not limited to:

4.4 Minneapolis will continue to provide a wide range of goods and services for city residents, to promote employment opportunities, to encourage the use and adaptive reuse of existing commercial buildings, and to maintain and improve compatibility with surrounding areas.

### **Sources and Uses Analysis**

The developer has provided a preliminary Sources and Uses statement. The information contained in it needs to be updated to reflect, at a minimum, a single, updated, consolidated capital sources and uses and cash flow operating statement that eliminates inconsistencies in the previously submitted documents; segregates sources/uses between construction and permanent financing; and, portrays how permanent financing will reflect a takeout of construction financing.

### **Financial Feasibility and Appropriate Level of Public Participation**

Based on the information provided by the developer, the project appears to be financially feasible. However, NMTC are a relatively new and complex financing mechanism. Assuming that the nuances needed to incorporate NMTC into the project's financing can be accommodated (an assumption staff believes is reasonable), prospective tenants honor their letters of intent, and the project's cost estimates contain an adequate contingency, preliminary review indicates that the project should be financially feasible. The level of public participation requested in Exhibit F1 of the Application (Sources and Uses – Permanent Financing) constitutes approximately 32% of the total development costs. However, approximately 6% of that is a TBRA grant from the Metropolitan Council for environmental remediation of asbestos and lead paint in the building.

The approximately \$1.3 million in public financing is anticipated to leverage an additional \$2.7 million in private financing, a private to public leverage ratio of 2.1 to 1.

### **Developer Qualifications**

The developer has successfully undertaken or had a significant role in several urban adaptive reuse projects similar to the one proposed. Furthermore, the developer has assembled a development team and is availing itself of additional resources such as those available through LISC to enhance the probability of a successful project.

The proposed development team consists of:

Developer:	Neighborhood Development Center
Development Partner:	Heart of the Beast Theater
Ground Floor Leasing (retail)/	
Limited Partner:	Latino economic Development Corporation (LEDC)
Marketing:	Cooperative Mercado Central
Owners Representative:	Development Representation Associates
Architect:	Collaborative Design Group
Attorney:	Leonard Street and Deinard
Property Management:	Neighborhood Development Center

### **Need for Consultant**

At this time, staff does not foresee the need for consultant services.

### **Proposal Strengths and Weaknesses**

**Strengths:** The proposal builds on past successes (Mercado Central and Heart of the Beast Theater) in the revitalization of Lake Street as a commercial corridor by drawing strength from and further supporting emerging entrepreneurial activity. The developer has experience with similar projects both as a developer and a property manager. The proposed development has neighborhood support and involves a number of development partners with experience in the targeted market. The project's financials reflect lease rates competitive with the retail market for the retail space and show a consistently positive cash flow.

### **Weaknesses**

As noted elsewhere, building rehabilitation costs could exceed budget if structural issues become apparent after work has begun. Mixing retail and arts-focused uses in the same building is likely to necessitate property management that balances the "bottom-line" with tenant needs to maintain positive cash flow. The use of NMTC will require refinancing in the seventh year. The complexity of the project financing will be reflected in the collateral arrangements for subordinate debt.

Project Analysis Fee

Based upon the preliminary analysis and review of the information in the Application for Public Financial Assistance, as well as other information provided by the developer, staff recommends a Project Analysis fee of \$2,000 to cover staff costs associated with the Tax Increment Financing only. The fee has been rounded up from staff's estimate that the analysis will require the level of effort shown in the table below. The project is being pursued primarily as a community development effort and the developer has been cooperative and forthcoming in providing requested information related to NMTC.

**Project Analysis Authorization (PAA) Fee**

**Antiques MN Building**

<u>City Employee</u>	<u>Estimated Hours</u>	<u>Estimated Cost</u>
Senior Project Coordinator	20.00	\$836
Senior Development Finance Analyst	20.00	\$836
Attorney	5.00	\$226
Total City Employee Costs	45.00	\$1,898

<b>EXHIBIT F1: Development Budget (Sources and Uses - Permanent Financing)</b>					
<b>"Antiques Minnesota Reuse" - 1508 East Lake Street Building</b>					
<i>Neighborhood Development Center</i>	<i>3/24/2004</i>			<i>Prepared by: JoAnna Hicks</i>	
				<i>651-291-2480</i>	
<b>Projected Development Costs:</b>					
<b>Estimated Hard Costs</b>					
				<i>Per SF</i>	
Total acquisition estimate			\$1,350,000	\$31.84	
Sitework			\$17,000	\$0.54	
Hazmat Abatement			\$200,915	\$6.37	
Construction Costs (including new roof)			\$1,616,600	\$51.24	
Tenant Finishes			\$75,000	\$2.38	
Construction Contingency (10%)			\$70,000	\$2.22	
<b>Estimated Hard Costs Subtotal</b>			<b>\$3,329,515</b>	<b>\$105.53</b>	
<b>Estimated Soft Costs</b>					
Architect and engineer			\$82,500	\$2.61	
1 Year Prepaid R. E. Taxes			\$44,000	\$1.39	
Insurance: Blder's Risk & Liability			\$5,000	\$0.16	
Survey and appraisal			\$9,000	\$0.29	
Phase I and II Environmental			\$7,450	\$0.24	
Developer Fee (5% of hard costs)			\$160,000	\$5.07	
Lease Up Fee			\$0	\$0.00	
Origination Fee			\$176,970	\$5.61	
Legal fees			\$29,000	\$0.92	
Construction Loan Interest			\$15,900	\$0.50	
Operating Costs During Construction			\$35,000	\$1.11	
Marketing costs			\$2,000	\$0.06	
Starting Replacement Reserve			\$20,000	\$0.63	
Starting Operating Reserve			\$20,000	\$0.63	
Soft Cost Contingency (5%)			\$10,826	\$0.34	
<b>Estimated Soft Costs Subtotal</b>			<b>\$617,646</b>	<b>\$19.58</b>	
<b>Estimated Total Development Costs</b>			<b>\$3,947,161</b>	<b>\$125.11</b>	
<b>Estimated total cost per square foot</b>	<b>\$93</b>				

<b>Projected Sources of Financing:</b>	<b>% TDC</b>	<b>Principal</b>	<b>Interest</b>	<b>Term</b>	<b>Monthly Payment</b>	<b>Annual Payment</b>
Wells Fargo First Mortgage (approved)	13%	\$530,000	6.75%	240	\$4,030	48,359
Wells CDC NMTC Equity Investment	37%	\$1,470,000				
LISC Second Mortgage	5%	\$180,000	7.00%	144	\$1,851	22,213
HOBT (Equity, NEA Grant, approved)	0%	\$10,000	1.00%	84	\$8	100
Midtown Phillips NRP Grant (\$100K approved)	4%	\$175,000	1.00%	84	\$146	1,750
Pohlad Foundation (approved)	3%	\$100,000	1.00%	84	\$83	1,000
Mpls Empowerment Zone (approved)	6%	\$250,000	3.00%	120	\$2,414	28,968
TIF Financing Stream (pending)	7%	\$261,772				
NDC REDI Mortgage (approved)	5%	\$200,000	10.00%	240	\$1,930	20,000
Rehab Tax Credit Syndication	5%	\$202,389	* \$0.90/\$1			
Met Council TRBD Fund (approved)	6%	\$238,000	1.00%	84	\$198	2,380
Business Development Fund (pending)	2%	\$80,000	2.00%	240	\$405	\$4,856
Commercial Corridor Fund (approved)	6%	\$250,000	3.00%	240	\$1,386	\$16,638
<b>Total Sources of Financing</b>	100%	<b>\$3,947,161</b>			<b>\$12,452</b>	<b>\$122,390</b>
<b>Surplus (shortfall)</b>		<b>(\$0)</b>				
<b>Notes:</b>						
**Assumes 34 residents from EZ are employed in building at >\$9.46/hr then \$85,000 of loan is forgiven						
NDC REDI Mortgage is interest only for 2 years, with ballon in year 10						