

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

Date: January 8, 2008  
To: Council Member Lisa Goodman, Chair, Community Development Committee  
Referral to: Council Member Paul Ostrow, Chair, Ways and Means Committee  
Subject: 824 Hennepin Avenue Request for Proposals

Recommendation: Approve staff recommendation to reject the one proposal received responding to the Request for Proposals for 824 Hennepin Avenue and authorize staff to explore options for future long term leasing of the building

Previous Directives: On December 14, 2004 City Council recommended extending the existing Management and Operating Agreement with the Historic Theatre Group. On July 13, 2004, City Council approved the termination of the lease of the 824 Hennepin Avenue Building by SGH Entertainment (formerly Hey City Theater Company), authorized CPED director to enter into a Management and Operating Agreement with HTG, and directed staff to prepare a Request for Proposals seeking a long term user, lessee or purchaser of the building. On February 13, 2004, City Council authorized a lease extension for SGH Entertainment through February 28, 2005. On March 25, 2003, the MCDA executive director authorized MCDA staff to execute the necessary agreements to restructure the lease for the property at 824 Hennepin Avenue. On January 30, 1995, the MCDA Board of Commissioners approved the terms and conditions for the purchase of 824 Hennepin Avenue and the execution of the Purchase Agreement with Hishfield, Inc., approved the lease of 824 Hennepin Avenue to Stagetime Productions, and waived the guidelines of the MCDA's CEDF Program to allow use of these funds downtown and authorized the expenditure of up to \$390,000 from CEDF and \$500,000 from the Leveraged Investment Fund.

Prepared by: Andrea Petersen, Project Coordinator, 673-5106 Approved by: Charles T. Lutz, Deputy CPED Director Presenters in Committee: Andrea Petersen
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**Financial Impact**

No financial impact  
 Action is within the Business Plan

**Community Impact**

Neighborhood Notification: Downtown Minneapolis Neighborhood Association Notified  
City Goals: A premier destination – Leverage Our Entertainment Edge  
Sustainability Targets: NA  
Comprehensive Plan: The property is located in the entertainment district described by the Minneapolis Downtown 2010 Plan.  
Zoning Code: B4S-2 Downtown Service District, DP Downtown Parking Overlay District  
Living Wage/Business Subsidy Agreement Yes\_\_\_\_\_ No x  
Job Linkage Yes\_\_\_\_\_ No x

## Supporting Information

In 1995, the MCDA purchased 824 Hennepin Avenue from Hirshfield's Paint for \$500,000 on a contract for deed. The MCDA then entered into a 10-year lease agreement for the property with Hey City Theater for the production of "Tony and Tina's Wedding." At the end of the initial run of that production, the building was renovated to accommodate separate productions on the first and second floors. The building remains laid out in that manner with a combination of permanent and moveable tables and chairs on each floor.

The MCDA used a \$500,000 Leveraged Investment Fund ("LIF") loan and \$390,000 CEDF loan to fund building renovation and related expenses. Additional leasehold improvements to convert the building to a theater were funded by the lessee at the time Hey City Theater. The monthly lease structure with Hey City Theater was designed to recoup the LIF loan, CEDF loan, contract for deed, and fund a repair reserve. The principal balance on the contract for deed is \$111,656 as of January 1, 2008 and has monthly payments of \$3,823 paid by CPED from project CBE0 C0020007 – Hey City Theater. The principal balance on the LIF loan is \$107,447 and the principal balance on the CEDF loan is \$390,000. The property is located in the Ninth and Hennepin Tax Increment district. When the building was leased on a long-term basis to Hey City Theater, property taxes were generated from the theater and paid by Hey City Theater, which were returned to the City as tax increment (TI) and used to fund monthly contract for deed payments.

The City's lease with Hey City Theater was terminated on July 23, 2004, after attempts to collect lease payments failed. The City authorized an interim management agreement with Historic Theatre Group ("HTG") to manage the theater on a short-term basis while a purchaser, lessee or permanent theater operator was sought through a Request for Proposals ("RFP") process during the fall of 2004. Only one party, HTG, responded to the RFP proposing to extend the management agreement through December 31, 2005. The HTG management agreement was subsequently extended through June 30, 2007.

Under the theater and management agreement with HTG, CPED compensated HTG for its theater management services. The gross income generated from theater revenue was first applied to management expenses, then applied to the monthly contract for deed with Hirshfields, and any remaining gross income was divided 75% to the MCDA and 25% to HTG. In order to keep the theater occupied during the interim period between the expiration of the HTG theater and management agreement and the City finding a long term use for the theater, the City entered into a standard agreement (contract under \$50,000) with HTG to assist with contracting the space to theater companies, staffing the theater with an on-site facility manager during shows, and ticketing until August 17, 2008.

A second RFP was issued October 4, 2007 seeking proposals for the purchase and potential redevelopment of the property with proposals due November 21, 2007 (Attachment A). One proposal was received from John Laurent and Steven Heckler for the 824 Blues Club (Attachment B). The proposal offers to lease the basement and first floor of the building "as is" for 10 years with an option to buy the building within the first

24-months of the lease for \$1,000,000. The 824 Blues Club would offer blues music six evenings a week from 7:00 p.m. to 1:00 a.m.

An 824 Hennepin Avenue RFP review team consisting of representatives from CPED Business Development, CPED Planning, Development Finance, City Council Ward 7, and the Downtown Minneapolis Neighborhood Association met on December 4, 2007 to discuss the 824 Blues Club proposal. The review team recommends that the City Council reject the 824 Blues Club proposal as non-responsive to the RFP. The RFP sought a purchase for the building rather than a lessee of only the ground floor and basement. While the proposers would lease only a portion of the building from the City, the blues club use would make continued second floor theater operations difficult due to noise and because the basement houses the majority of the theater dressing rooms.

CPED staff will explore long-term leasing options for the property at the direction of City Council. In the current scenario where the theater is operated under a management contract with HTG, the property is tax exempt and therefore no longer generates the TI needed to pay the contract for deed. City staff and HTG briefly discussed the possibility of a long-term lease option for the property. This discussion can continue at the recommendation of City Council.