

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

Date: February 15, 2011

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

Subject: Land Sale Public Hearing
824 Hennepin Avenue South / Brave New Workshop

Recommendations:

1. Approve the sale of 824 Hennepin Avenue South for a purchase price of \$725,000 to Improvisational Investments, LLC, a Minnesota limited liability company and an affiliated entity of Into the Mystic Productions, Inc., d/b/a Brave New Workshop, that will lease the Property to Into the Mystic Productions, Inc.;
2. Authorize the escrow of \$50,000 from the land sale proceeds for approved seller-deferred maintenance items;
3. Authorize \$640,000 Purchase Money Mortgage financing to the Purchaser;
4. Authorize the appropriate City staff to enter into agreements with the Purchaser in accordance with the terms herein and the attached Term Sheet.

Previous Directives:

- January 18, 2008, City Council approved a staff recommendation to reject the one proposal received responding to the Request for Proposals for the acquisition and development of 824 Hennepin Avenue seeking to lease the second floor of the theater and authorized staff to explore options for future long-term leasing of the building.
- December 14, 2004, City Council recommended extending the existing Management and Operating Agreement with the Historic Theatre Group (HTG).
- July 23, 2004, City Council approved the termination of the lease of 824 Hennepin Avenue by SGH Entertainment (formerly Hey City Theater Company), authorized the CPED director to enter into a Management and Operating Agreement with HTG and directed staff to prepare a Request for Proposals ("RFP") seeking a long term user, lessee or purchaser of the building.
- February 13, 2004, City Council authorized a lease extension for SGH Entertainment through February 28, 2005.
- March 25, 2003, MCDA executive director authorized MCDA staff to execute the necessary agreements to restructure the lease for the property at 824 Hennepin Avenue.
- February 28, 1995, MCDA (now CPED) acquired 824 Hennepin Avenue South.
- January 30, 1995, MCDA Board of Commissioners approved the terms and conditions for the purchase of 824 Hennepin Avenue for \$500,000 and the execution of the Purchase Agreement with Hirshfield's, Inc., approved the lease of 824 Hennepin Avenue to Stagetime Productions, 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 for building renovations and leasehold improvements.

Prepared by: Ann Calvert, Principal Project Coordinator, Phone 612-673-5023
Approved by: Charles T. Lutz, Deputy CPED Director _____
Catherine A. Polasky, Director Economic Policy & Development _____
Presenters in Committee: Ann Calvert, Principal Project Coordinator

Financial Impact

- Action is within the Business Plan
- Other financial impact: Sale of the Property will generate land sales proceeds and eliminate future property management costs. The property also will begin to pay real estate taxes, allowing the Ninth and Hennepin Tax Increment District to be made whole.

Community Impact

- Neighborhood Notification: Downtown Minneapolis Neighborhood Association reviewed this proposal on January 11, 2011, and recommended it be approved.
- City Goals: The recommended project will help achieve the Jobs and Economic Vitality goal (businesses... stay here, thrive here; and strong commercial corridors) and Livable Communities/Healthy Lives goal (plentiful arts, cultural and recreational opportunities).
- Sustainability Targets: Brave New Workshop plans to continue its existing extensive green initiatives in the new location and believes that the central location also will allow more patrons to access the theater using transit (as described in the report).
- Comprehensive Plan: On January 24, 2011, the Planning Commission determined the sale and proposed use of this parcel are consistent with the Comprehensive Plan.
- Zoning Code: Property is zoned B4S-2, and no zoning approvals are expected to be needed.
- Living Wage/Business Subsidy Agreement Yes____ No X
- Job Linkage (voluntary) Yes____ No X
- Other: On December 27, 2010, CPED Staff completed a land sale review of this parcel, including a finding by Planning staff that the proposed use and sale are consistent with adopted City policy and departmental objectives.

Supporting Information

<u>PARCEL</u>	<u>ADDRESS</u>	<u>SALE PRICE</u>
Downtown-1	824 Hennepin Avenue South	\$725,000, with \$50,000 to be escrowed for seller-deferred maintenance costs

PURCHASER

Improvisational Investments, LLC, a Minnesota limited liability company and affiliated entity of Into the Mystic Productions, Inc. Improvisational Investments, LLC, will lease the Property to Into the Mystic Productions, Inc. d/b/a Brave New Workshop (Brave New Workshop)
 2605 Hennepin Avenue South
 Minneapolis, MN 55408

PROPOSED SALE:

Brave New Workshop will complete seller-deferred maintenance items on the existing two-story structure and will use the building for its comedy performances, corporate training and other related purposes.

The lot size is 7,389 total square feet.

LAND DISPOSITION POLICY:

This property is an existing redeveloped building and is being sold pursuant to a Request For Proposals for use as a theater, entertainment and training facility.

FINANCING:

Brave New Workshop has requested the City finance its purchase of the property (see below for further detail).

OFFERING PROCEDURE:

Request for Proposals. The sales price of this property does reflect the full re-use value.

COMMENTS:

Supporting Information

A Request for Proposals for acquisition of the City-owned property at 824 Hennepin Avenue South was issued in mid-2010. Three proposals were received, and this report recommends approval of sale of the property to one of those proposers – Brave New Workshop - through an affiliated entity.

Property Background

The project site is 824 Hennepin Avenue South, also known as Hennepin Stages, in downtown Minneapolis. The property houses a two-story building with separate theater spaces on each floor and four parking stalls behind the building. The MCDA purchased the property in 1995 from Hirshfield's Paint for \$500,000 on a contract for deed which was paid off in February 2010. The MCDA used internal loans (\$500,000 from the Leveraged Investment Fund (LIF) loan and \$390,000 from the CDBG-funded Community Economic Development Fund (CEDF)) to fund the \$100,000 contract-for-deed acquisition down payment, as well as building renovation and related expenses.

The redeveloped property was leased under a 15-year lease to Stagetime Productions/Hey City Stages, with the expectation that the lease payments would re-pay the contract-for-deed and the two internal loans. The facility operated successfully for several years, and the national objectives of the initial partial CDBG funding were met by that project. Lease payments during this time paid off not quite half of the \$400,000 contract-for-deed principal and reduced the principal balance on the LIF loan to just over \$100,000, but did not reduce the \$390,000 CEDF loan balance.

This lease was terminated in 2004 for non-performance, and the MCDA, then City, have operated the property since that time. Since lease termination, the City has spent over \$600,000 to retire the remaining contract-for-deed balance and pay on-going property management costs. The property is located in the Ninth and Hennepin Avenue Redevelopment Project/Tax Increment district. However, it has not generated property taxes since 2004 when the Hey City Theater lease was terminated. This has negatively impacted the viability of the tax increment district because the property's base value has reduced (by about \$9,000 per year) the amount of tax increment available to make the required payment to the other project in the tax increment district. The tax increment district fund currently has a deficit of about \$170,000.

Requests for Proposals were issued in 2004 and 2007, but did not result in successful proposals and sale of the property. The property is currently operated for the City by Hennepin Theatre Trust (HTT) under an agreement under which HTT collects 20 percent of the weekly rent paid by groups renting the space while the City collects 80 percent of the weekly rent and is responsible for all property management (e.g., utilities, repairs, building insurance). The result has been a net expense to the City (about \$140,000 in 2010), with the concern that major building systems (especially the HVAC system) might require significant repair or replacement at any time. As a result of the City's limited funding for capital improvements, there are multiple deferred maintenance items that will need attention from the buyer.

An appraisal of the property was completed this year to inform the RFP. After adjusting the estimated value to reflect the estimated \$200,000 cost to replace the existing HVAC system, the current re-use value was established at \$600,000 - \$700,000.

Summary of Three Proposals Received

1. Brave New Workshop (BNW) proposes to move their main stage production, corporate in-house training and portions of their public arts education to Hennepin Stages from their Uptown location (while continuing to operate their improvisation school at the Uptown location). They anticipate as many as 220 main stage performances per year, as well as an extensive schedule of classes, fundraising performances/activities, seminars and corporate meetings that would bring the total annual number of events to about 400-500 in the 824 Hennepin location. BNW offered \$725,000 to purchase the building, with the proposal that \$640,000 of that amount would be paid through a purchase money mortgage to the City at 6% interest payable over 15 years. They also are requesting that \$50,000 of City's land proceeds be escrowed and disbursed to them to pay for seller-deferred maintenance that was not undertaken by the City. Under BNW ownership, the property would pay real estate taxes (estimated to be from \$25,000 to \$45,000 per year, depending on how the property is valued upon sale) and the D.I.D assessments.
2. Hennepin Theatre Trust (HTT) proposed to continue using the building for small-scale theatrical, musical and educational programming. Under its management agreement, HTT has booked the property for a total of 97 performances in the current year and would expect to be able to increase that level of activity once it had ownership and could program further into the future. The building also would serve as the hub for HTT's student and adult education and provide office space for HTT. HTT believes the value of the building if it were in good condition is \$838,000 and planned \$589,900 in building improvements. Therefore, HTT offered \$247,900 to purchase the building, with \$200,000 of that amount to be financed through a no-interest loan from the City to be repaid from cash flow. The City would have a 50% share in appreciation if the building were sold within ten years. The property would be exempt from real estate taxes under HTT ownership, but HTT offered to pay the property's D.I.D. assessments. HTT also offered to lease the property for ten years if the City decides not to pursue a sale at this time. Under the lease proposal, the City would make significant investments to deal with deferred maintenance. HTT would retain all revenue and cover all expenses and would make a payment sufficient to repay the capital improvements cost.
3. Joseph Pavicic submitted a proposal to have multiple universities and schools throughout Minnesota submit business plans to use the space for theatrical productions and entrepreneurial training. Mr. Pavicic requested that the City donate the building and agreed to split ticket sale revenue with the City.

Recommended Proposal and Terms

As noted, staff recommends that 824 Hennepin Avenue South be sold to Improvisational Investments, LLC, and leased to Into the Mystic Productions, Inc. d/b/a Brave New Workshop, in accordance with the terms outlined in the attached term sheet.

The Brave New Workshop proposal offers several advantages. It will bring the strong and well-known "Brave New Workshop" brand to the primary entertainment district of downtown Minneapolis and will generate extensive activity along Hennepin -- people attending performances, training, classes and other events. This also will generate a potential customer base for downtown dining establishments. The company's corporate training

program will be more accessible to businesses in Minneapolis and those traveling from elsewhere. BNW has the goal of being the "Greenest Theater in the Country" and has pursued many sustainability initiatives, including using LED stage lights to greatly reduce electrical use, cutting paper use and using 100% post-consumer recycled paper products. BNW also has an active philanthropic program and hosts many fundraising events. Finally, the addition of the 824 location will allow BNW to further expand its improvisational education for adults and youth (already the third largest in the nation).

Brave New Workshop also offered a purchase price of \$725,000 that is significantly higher than the other two proposals and, even with the seller deferred escrow credit of \$50,000, the net sale proceeds of \$675,000 are within the re-use value for the property. A cash sale would have been preferable to the City financing the acquisition, but financing would have been difficult for BNW to secure in today's credit environment. The recommended finance terms are considered comparable to a market loan, if one were available, so neither the land sale nor financing terms are considered a subsidy to Brave New Workshop. The proposal will allow the City to receive a net of about \$35,000 at closing, plus about \$65,000 per year for 15 years (a total of about \$972,000 in principal and interest payments over the 15 years). The City will also no longer be responsible for significant ongoing property management costs in excess of \$100,000 per year. In addition, the property will begin to once again generate real estate taxes of \$25,000 or more per year, which will strengthen the Ninth and Hennepin Avenue Tax Increment District's ability to meet its financial obligations without needing to dip into the City's scarce flexible dollars. As outlined in the term sheet, Brave New Workshop has agreed to give the City a share of any windfall appreciation if the property is sold within 15 years.

824 HENNEPIN TERM SHEET

Property: 824 Hennepin Avenue South

Seller: City of Minneapolis (City)

Purchaser: Improvisational Investments, LLC, a Minnesota limited liability company that will lease the Property to Into the Mystic Productions, Inc., d/b/a Brave New Workshop (Buyer)

Sales price: \$725,000

Deed: City to provide a quit claim deed and insurable title. The deed will include provisions that will prevent use of the Property for the prohibited uses listed in the Request for Proposals.

"As Is" sale: Buyer is buying the Property as is. The City will share any information it has about the Property's condition, including its environmental condition, but will have no future responsibility for same.

Expected closing date: Late April, 2011

Purchase financing terms: Down payment of \$85,000 at Closing. The balance of \$640,000 will be paid to the City on a monthly basis, amortizing over fifteen years at 6% per year. The balance may be prepaid without penalty and will be secured by a note and first mortgage.

Pro-rated costs: Any costs related to the Property, including utilities and special assessments, will be pro-rated between the City and Buyer as of the Closing date.

Deferred maintenance escrow: \$50,000 of the sales proceeds will be escrowed at Closing and paid to the Buyer upon submission of documentation of eligible expenditures for replacement, upgrade and/or repair of the heating/ventilation/air conditioning system and other deferred maintenance items, if any, to be specified in the purchase agreement to be entered into by the City and Buyer. Any deferred maintenance must be completed within two years after Closing to be eligible for funding from the escrow. Any escrow balance after the two-year term will be the City's funds.

Use of property: For fifteen years after Closing (or until the purchase financing is repaid in full or the Property is sold), the Buyer will commit to use the property for at least 150 performance events open to the public every year, computed on a five-year rolling average. With prior notice to the City, the required number of events in a year may be pro-rated if the Property is unavailable for events for part of that year due to a major repair or capital project. Subject to the deed restrictions on prohibited uses noted above in the Deed section, this provision will not limit the Buyer's right to use the property for other purposes allowed under zoning, including corporate training and entertainment, improvisational classes and performances, and events not open to the public.

Sale of property: If the Buyer desires to sell the Property within 15 years after Closing, the Buyer will make reasonable efforts to sell the Property for another theater/entertainment use by distributing marketing information to potential theater/entertainment buyers in the Twin Cities area.

Share of appreciation: If the Buyer sells the Property within fifteen years after Closing, the City will receive a 50% share in any windfall appreciation in the Property's value. Said share will be calculated as follows:

- a) Future sales proceeds (net of any costs of said sale),
- b) Less initial purchase price of \$725,000,
- c) Less a reasonable return on the original net purchase price of 6% per year, compounded annually,
- d) Less any capital investments made by BNW in the interim between acquisition and sale,
- e) Equals "windfall appreciation."

The share of windfall appreciation will be secured by a windfall appreciation mortgage that will be subordinate to the City's first mortgage for the purchase money. In the event the purchase money loan is repaid early and the Buyer desires to refinance, the windfall appreciation mortgage may be subordinated to a replacement first mortgage in an amount that does not exceed the sum of b), c) and d) above (including any capital improvements funded by the new loan). This mortgage will terminate at the earlier of: 1) the end of the 15 years if there is no sale, or 2) the sale of the Property by BNW to a third party and payment of any share of appreciation to the City.

Other requirements: The Buyer will comply with the City's Prevailing Wage Policy and apprenticeship requirements for any work funded in full or in part through the Deferred Maintenance Escrow. Given the fair market value nature of the land sale and purchase financing, the Buyer will not be required to comply with the City's Affirmative Action or Small and Underutilized Business requirements. In addition, because job generation is not the primary purpose of the transaction, there will be no Living Wage/Business Subsidy/Job Linkage requirements.

Purchase agreement/purchase money loan agreement terms: The agreement will include standard terms, including insurance (e.g., property, key man) to protect the City's interest in the Property.

Due Diligence: The parties agree that, notwithstanding the conditions of this term sheet or the accompanying Offer to Purchase, Buyer's obligation to purchase the Property will be conditioned upon Buyer's satisfaction of the condition of the Property, the status of title and other customary due diligence matters. Buyer agrees to promptly commence, at its sole cost, such due diligence as it deems appropriate.

Authorizing sale of land Downtown Disposition Parcel Downtown-1.

Whereas, the City of Minneapolis, hereinafter known as the City, pursuant to a Request For Proposals has received an offer to purchase Disposition Parcel Downtown-1 in the Downtown West Neighborhood, from Improvisational Investments, LLC, hereinafter known as the Purchaser, the Parcel Downtown-1, being the following described land situated in the City of Minneapolis, County of Hennepin, State of Minnesota to wit:

LEGAL DESCRIPTION

Downtown-1; 824 Hennepin Avenue

All that certain parcel or parcels of land located in the City of Minneapolis, County of Hennepin, State of Minnesota, more particularly described as follows:

Commencing at the point of intersection of the Northwesterly line of Hennepin Avenue with the dividing line between Lot 7 and 8 in Block 6, Wells, Sampson & Bell's Addition to Minneapolis; thence Northeasterly along the Northwesterly line of said Hennepin Avenue a distance of 50 feet to an intersection with the dividing line between Lots 8 and 9 in said Block 6; thence Northwesterly along the dividing line between said Lots 8 and 9 and same extended a distance of 116 feet to a point in Lot 5 of Block 6, Hoag and Bell's Addition to Minneapolis; thence Southwesterly parallel with the Northwesterly line of Hennepin Avenue eight feet to an intersection with a line drawn parallel with and 19.68 feet North of the South line of said Lot 5 in Block 6, Hoag & Bell's Addition to Minneapolis; thence Westerly parallel with the South line of said Lot 5 a distance of 85.7 feet, more or less, to the Easterly line of Ninth Street; thence South along the Easterly line of Ninth Street 19.68 feet to the Southwest corner of Lot 5, Block 6, Hoag & Bell's Addition to Minneapolis; thence East along the South line of said Lot 5 to its intersection with the dividing line between Lots 7 and 8 in Block 6, Wells, Sampson & Bell's Addition to Minneapolis; thence Southeasterly along said dividing line to the point of beginning. Above described premises comprising all of Lot 8 in Block 6, Wells, Sampson & Bell's Addition to Minneapolis, and part of Lot 5 in Block 6, Hoag & Bell's Addition to Minneapolis, according to the recorded plat thereof, and situate in Hennepin County, Minnesota.

Abstract Property.

Whereas, the Purchaser has offered to pay the sum of \$725,000, for Parcel Downtown-1; the offer includes a commitment to operate the existing redeveloped building as a theater, entertainment and training facility. This offer is in accordance with the City's Request for Proposals for Purchase and Potential Redevelopment of 824 Hennepin Avenue; and

Whereas, the Purchaser 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, February 4, 2011, a public hearing on the proposed sale was duly held on February 15, 2011, 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:

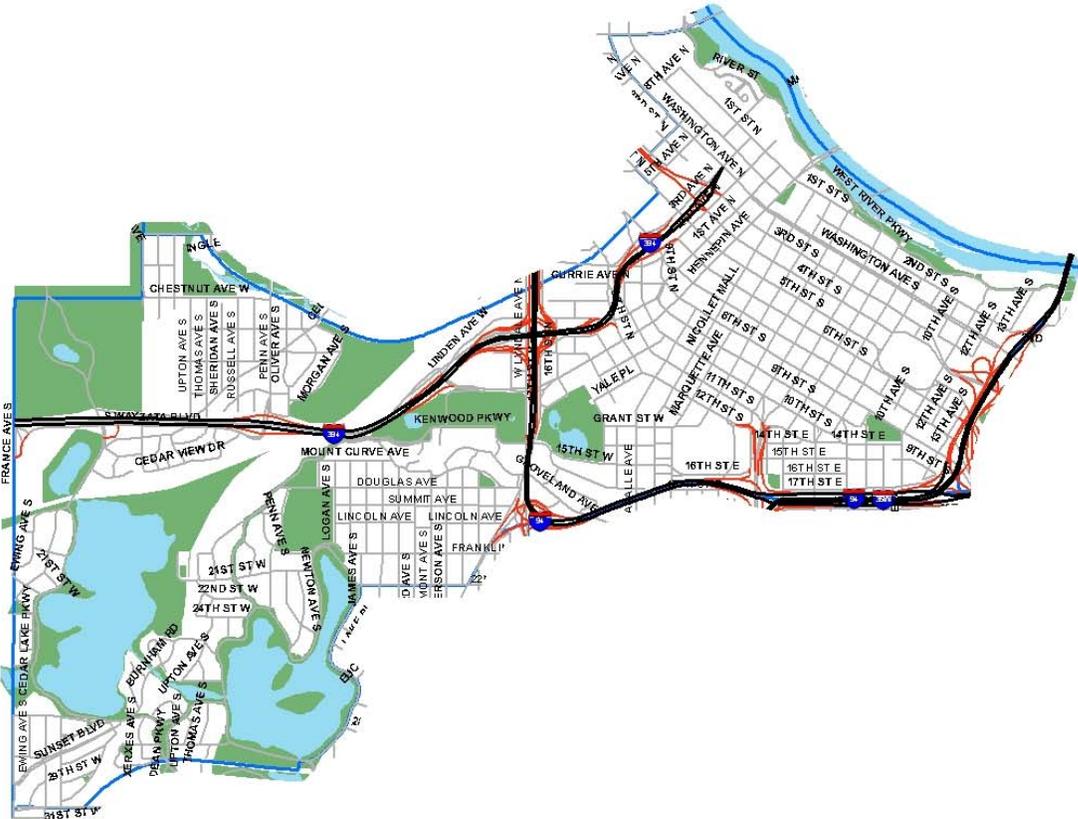
That the re-use value, for uses in accordance with the Downtown plan, as amended, is hereby estimated to be the sum of \$600,000 - \$700,000, for Parcel Downtown-1.

Be It Further Resolved that the acceptance of the offer and commitment is hereby determined to be in accordance with the City's approved disposition policy and it is further determined that the Purchaser possesses the qualifications and financial resources necessary to acquire and operate the Parcel in accordance with the City's Request for Proposals for Purchase and Potential Redevelopment of 824 Hennepin Avenue.

Be It Further Resolved that the offer be and the same is hereby accepted, subject to the execution of a contract for the sale of land. Furthermore, that upon publication of this Resolution, the Finance Officer or other appropriate official of the City be and the same is hereby authorized to execute and deliver the contract to the Purchaser; 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 the Finance Officer or other appropriate official of the City is hereby authorized to execute and deliver a conveyance of the land to the Purchaser 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 and delivered by the Finance Officer or other appropriate official of the City.

WARD 7



0 0.25 0.5 Miles

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

Date: February 1, 2011
 Subject: Land Sale – Public Hearing
 Brave New Workshop
 Address: 824 Hennepin Avenue South
 Purchaser: Improvisational Investments, LLC, a Minnesota limited liability company that will lease the Property to Into the Mystic Productions, Inc., d/b/a Brave New Workshop (Buyer)

Disposition Parcel No. Acq Date	Address	CPED Acq. Costs	Less Net Sales Price	Write Off/Net Sale Proceeds
Downtown-1 2/28/1995	824 Hennepin Avenue South	\$500,000	-\$675,000	\$0/+ \$175,000

Re-Use Value Opinion	Less Sales Price	Write-Down
\$600,000 – \$700,000	-\$725,000	\$0

Write-Down

Reason: Not applicable

Developer History with CPED:

None with the LLC created for this project, but Brave New Workshop has been successful in Minneapolis since 1958.

Developer Information:

- Single Individual(s)
- 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