



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

Date: November 7, 2006

To: Council Member Lisa Goodman, Community Development Committee

**Subject: Amend Parcel D West Redevelopment Contract for the Portland
Condos and Washington Live/Work and consent to the assignment
and assumption of the Parcel D East Redevelopment Contract for Park
Avenue East Lofts**

Recommendation:

1. Consent to the assignment and assumption of the Redevelopment Contract between the City of Minneapolis and Brighton Park East LLC (an affiliate of Brighton Development Corporation) to Sherman Associates, Inc. (or an affiliate) for the redevelopment of the Park Avenue East site at 201 Park Avenue South as outlined in this report.
2. Authorize staff to negotiate amendments to the Redevelopment Contract with Sherman Associates, Inc. for the Park Avenue East site for a new development project as described in this report.
3. Authorize the execution of a Second Amendment to the Amended and Restated Redevelopment Contract between the City of Minneapolis and Brighton Nine/Portland LLC (an affiliate of Brighton Development Corporation) for portions of Parcel D West that would allow for the Washington Live/Work project to consist of commercial and office uses and would allow for an extension of the closing date of the Portland Condos project, subject to payment of extension fees.

Previous Directives:

- August 18, 2006, City Council authorized CPED staff to award a pollution remediation contract to the lowest responsible bidder for pollution remediation on the Portland Condos site not to exceed \$460,000 and to execute the necessary agreements; funding was provided in 2003 by the Metropolitan Council's TBRA program.
- June 16, 2006, City Council approved the execution of an amendment to the Amended and Restated Redevelopment Contract for portions of Parcel D West; amended the 2006 General Appropriation Resolution by increasing Fund CWM by \$125,000 for shoring costs associated with the soil remediation to be reimbursed by Brighton upon closing; and

increased the 2006 Revenue Budget for Fund CWM by \$272,492 (\$125,000 for shoring costs to be reimbursed and \$147,492 for a holding fee to extend the property closing to June 1, 2007).

- March 31, 2006, City Council accepted and appropriated a SAFHB planning fund allocation in the amount of \$25,000.00 to allow for an archaeological survey on Parcel D West, The Portland site, located at the corner of Portland Avenue and 2nd Street South.
- July 7, 2005, City Council approved an Amended and Restated Redevelopment Contract for Parcel D West to allow development of the property.
- January 17, 2003, City Council accepted and appropriated a TBRA grant from Metropolitan Council in the amount of \$460,000.00 for soil remediation on the ultimate Portland Condos site.
- July 7, 2001, City Council approved a land sale of the Washburn Crosby Mill and Parcel D West to the Minnesota Historical Society and Brighton Development Corporation.
- June 29, 1992, the MCDA acquired Parcel D as a part of the Milwaukee Depot acquisition.

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Approved by: Chuck Lutz, Deputy Director CPED _____

Mike Christenson, Director of Economic Development _____

Presenters in Committee: Carrie Flack, Sr. Project Coordinator

Financial Impact

- Action is within the Business Plan
- Other financial impact – Up to an additional \$73,746 in fees could be collected for the Portland Condos site by extending the closing of the project from June 1, 2007 to December 31, 2007.

Community Impact

- Neighborhood Notification – A special DMNA meeting has been scheduled to discuss the proposed new development project on November 8, 2006. This project is also being presented to the Industry Square Project Committee on November 8, 2006. In addition, the land use and planning approvals will require additional notification be sent to the neighborhood group allowing additional opportunity for comments.
- City Goals – Connected Communities – great spaces and places, thriving neighborhoods; Enriched Environment – greenspace, arts, sustainability; A Premier Destination – visitors, investment and vitality.
- Comprehensive Plan – 2.8 Minneapolis will develop the existing economic base by emphasizing business retention and expansion; 2.9 Minneapolis will strengthen long-term confidence in the economy by building innovative public to private sector partnerships; 4.9 Minneapolis will grow by increasing its supply of housing; 4.11 Minneapolis will improve the availability of housing options for its residents; 4.15 Minneapolis will carefully identify project sites where housing redevelopment and or housing revitalization are the appropriate responses to neighborhood conditions and market demand; 9.5 Minneapolis will support the development of residential dwellings of appropriate form and density; 9.6 Minneapolis will work with private and other public sector partners to invest in new development that is attractive, functional, and adds

value to the physical environment. In addition, the project is consistent with the Historic Mills District Master Plan and Update.

- Zoning Code – Housing is permitted as a conditional use in district C3A and the proposed new commercial and retail uses are permitted uses.
- Other– Not applicable

Supporting Information

This report provides an update on the status of development projects on Parcel D -- the two blocks bounded by Washington Avenue South, Portland Avenue South, 2nd Street South and Chicago Avenue South. It recommends that the City consent to the assignment and assumption of the Redevelopment Contract between the City of Minneapolis and Brighton Park East LLC (an affiliate of Brighton Development Corporation) to Sherman Associates, Inc. (or an affiliate) for the redevelopment of the Park Avenue East site at 201 Park Avenue South. If the City Council consents to this assignment, it is staff's intention to present a new term sheet for the Park Avenue East site at the December 12 Community Development Committee meeting. It also recommends a second amendment to the Amended and Restated Redevelopment Contract for Parcel D West that would allow for a potential change in use on Washington Live/Work, as described below, and an extension of the closing date on the Portland Condos as described below, subject to the payment of extension fees.

Parcel D East – Status of Development Projects and Recommendations

Parcel D East is the block between Washington Avenue South and 2nd Street South and between Chicago Avenue South and Park Avenue South. This block consists of three development projects:

- Park Avenue East Lofts ("PAE"), a proposed 44-unit market-rate condominium building located at 201 Park Avenue South. Brighton Development Corporation ("Brighton") has had development rights to this site since 2001.

PAE has struggled with presales due to the slowing condo market. In addition, Brighton has received negative feedback from prospective buyers with regard to the residential units facing the adjacent Mill Quarter Ramp.

Under the terms of the redevelopment contract, Brighton must close on PAE by December 31, 2006. The project's original closing date was December 31, 2005, and Brighton has paid \$25,000 monthly (or \$250,000 to date) to extend the closing deadline. Brighton's extension payments have been used to pay debt service on the Mill Quarter ramp (see below).

- St. Anthony Mills Apartments (SAMA), a 93-unit affordable housing development, developed by Brighton. Construction on SAMA began in 2005 and is nearing completion.
- The 324-stall Mill Quarter Ramp, completed in 2005. Currently, the ramp has contracts for approximately 224 leased spaces and averages 60-70 transient spaces per day. Of the 224 lease spaces, 147 spaces are accessible 24 hours per day, 7 days per week. The remaining 77 leased spaces are on the roof of the ramp and are under contract with Borson for the duration of the construction of SAMA. As SAMA nears completion, those spaces will be available for daily or monthly parking.

The City built the Mill Quarter Ramp as part of the overall redevelopment efforts to provide parking for the Mill City Museum, office tenants in the area and the SAMA project. The ramp was financed in part by a \$2.6 million grant from the State of Minnesota and general obligation (G.O.) tax increment bonds issued by the City which

have a final maturity in 2032. Net parking revenues from the ramp, along with tax increment generated by development on the PAE site, will pay for annual debt service on the bonds (approximately \$260,000 per year).

If Sherman Associates' proposed commercial project on the PAE site (see description below) is ultimately approved and successfully negotiated, construction would likely begin in late 2007 and would be complete by the end of 2008. It is currently projected that net parking revenues from the ramp together with tax increment from the proposed Sherman project will annually be approximately \$37,000 short of the annual debt service on the bonds beginning in 2010. This is an improvement over a projected annual debt service shortfall of \$71,000 for the Brighton project.

Any delays in construction will increase the debt service shortfall that is currently projected to begin in 2010. The magnitude of this increase is a function of the length of the delay and the valuation of the project constructed on the PAE site. The Mill Quarter Ramp is thus far exceeding initial cash flow projections. Should this trend continue in the years after 2009, the annual debt service shortfall figures noted above would be reduced or possibly eliminated. At this time staff is continuing to explore various alternatives to funding any potential debt service shortfalls that may develop during the life of the bonds.

Sherman Associates Proposal for Park Avenue East (PAE)

Sherman Associates, Inc. ("Sherman") has approached the City and Brighton with a non-housing proposal for the PAE site, which will consist of a minimum of a 4 to 5-story building with not less than 60,000 sq. ft. of retail, commercial or office space with below grade parking. Sherman would purchase the property for \$1,230,000, which is the price that was negotiated with Brighton. Its Fair Reuse Value has not changed. Sherman would use an existing \$419,000 environmental remediation grant to clean up the site. Sherman has requested no additional financial assistance from the City. Sherman would be required to install the streetscaping along Washington Avenue South and 2nd Street South, consistent with the current redevelopment contract, and seek all required zoning and planning approvals. Sherman intends to close on this property by September 2007 with construction to begin within 30 days of closing.

Sherman appears to have solid tenants interested in his proposed development. It will result in new services for residents and office workers in the Mill District area. It will also result in an increased employment base. In addition, Sherman's proposal addresses the concern that further delaying construction on the site will increase the debt service gap on the Mill Quarter Ramp.

Staff is recommending that the City consent to transfer of the development rights to PAE from Brighton to Sherman. Staff will negotiate any necessary changes to the redevelopment contract with Sherman to accommodate the new project and return the Community Development Committee on December 12 with a Term Sheet for an Amended and Restated Redevelopment Contract.

The assignment will accomplish three objectives:

1. It will allow development on PAE to occur more quickly than if Brighton's rights expired and the City issued an RFP for the site. An RFP process could easily delay a project by one year or more depending on the market, thereby exacerbating the debt service gap on the Mill Quarter Ramp.
2. The Sherman development will result in complementary uses that are important to residents and office workers in this emerging downtown neighborhood.

3. It will allow Brighton to focus on two other projects on Parcel D West, as described below.

Parcel D West – Status of Development Projects and Recommendations

Parcel D West is the block between Washington Avenue South and 2nd Street South and between Portland Avenue South and Park Avenue South. This block consists of three development projects:

- Park Avenue West Lofts, a 43 unit market-rate condominium development, developed by Brighton, was completed in 2005.
- Washington Live/Work, located on the corner of Portland and Washington, is a 28-unit market-rate condominium (14 live units and 14 work units) with 58 parking stalls, to be developed by Brighton. The project closed in November 2005, and remediation work has been completed. Construction is to begin in late spring 2007.

Expected development costs for the Washington Live/Work project are much higher than anticipated. Brighton has received interest from commercial and office tenants and has requested to modify uses of this site.

- The Portland Condos, located on the corner of Portland and 2nd Street will consist of 44 condominium units, 1800 square feet of retail/commercial space and 80 below-grade parking stalls. Brighton's pre-sales on this development are close to the 35%, which is their lender's requirement for construction to begin. Brighton has paid an extension fee of \$12,291 per month since June 2006 (or \$61,455 through October) to retain its rights to the site.

Staff is recommending that the Parcel D West Redevelopment Contract be amended to include the changes outlined below:

1. That the Live/Work Improvements be redefined to mean new construction of an approximately 4 or 5-story building containing retail, commercial or office space over a portion of the Parking Improvements.
2. That the City "decouple" the PAE and Portland projects by deleting cross references and requirements in the Parcel D West Redevelopment Contract that relate to the PAE site, e.g., the requirement that Brighton close on PAE by December 31, 2006 as a condition precedent to Brighton Nine/Portland closing on the Portland Condos property.
3. That the closing deadline for the Portland Condos site be extended from June 1, 2007 to December 31, 2007.
4. That Brighton Nine/Portland will continue to pay a \$12,291 monthly holding fee for the Portland Condos site (based on 10% of the land cost) until closing (a total of \$233,529.00 if Brighton doesn't close until December 31, 2007).