



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

Date: June 8, 2004

To: Council Member Lisa Goodman, Community Development Cmte

Prepared by: Sharrin Miller-Bassi Phone 612-673-5019
**Presenter in
Committee:** Sharrin Miller-Bassi, Project Coordinator

Approved by: Chuck Lutz, Deputy CPED Director _____
Jack Kryst, Director, Development Finance _____

Subject: Hollywood Theatre: Seeking Public Analysis Authorization and fee approval, site holding cost fee approval, extension of exclusive development rights, authorizing preparation of a redevelopment plan, approving continued analysis of funding concepts, directing staff to pursue tax abatement with Hennepin County, and directing staff to continue working on the Awsumb and Associates proposal

RECOMMENDATION: It is recommended that the City Council authorize project analysis, approve project analysis fees of \$2,000 and a site holding cost fee of \$15,000, authorize preparation of a redevelopment plan, approve continued analysis of the funding concepts described in this report including the use of tax abatement, grant exclusive development rights to the Awsumb Development team for 60 days, direct staff to pursue the tax abatement process with Hennepin County, and direct staff to continue working on the Awsumb and Associates proposal.

Previous Directives: On August 27, 1993, the MCDA Board directed staff to acquire and stabilize the Hollywood Theatre. On September 16, 1994, the MCDA Board granted Exclusive Development Rights to Hollywood Theatre Preservation, Inc. for a period of one year. On September 29, 1995, the MCDA Board extended Hollywood Theatre Preservation, Inc.'s Exclusive Development Rights for one year subject to certain conditions. On May 24, 1996, the MCDA Board concurred with staff that Hollywood Theatre Preservation had adequately addressed the September 1995 goals. On September 13, 1996 the MCDA Board extended Hollywood Theatre Preservation Inc.'s Exclusive Development Rights for an additional two months. On December 20, 1996, the MCDA Board rescinded Hollywood Theatre Preservation, Inc.'s Exclusive Development Rights. On July 17, 1999, the MCDA Board granted Exclusive Development Rights to

Fun In A Half Productions for 120 days to see if the proposed developer could obtain bids to complete the proposed rehab and begin operation of the theatre for under \$1,000,000 pursuant to the revised Scope of Restoration Agreement. On August 11, 2000 the MCDA Board directed staff to work with Mr. Finley to determine whether agreement could be reached on a feasible plan and terms to implement his proposed rehab and reuse of the theatre. On September 29, 2000 the MCDA Board approved \$141,000 in CEDF funding for the environmental remediation of the Hollywood Theatre. On August 9, 2002 the City accepted a \$160,000 Metropolitan Council environmental remediation grant concurrent with the MCDA Board redirecting \$141,000 in CEDF funds previously approved for environmental remediation and increasing that amount to \$249,000 to fund stabilization of the theatre. On July 26, 2003 the MCDA Board granted Exclusive Development Rights to the Hollywood Theatre property to the Awsumb Development team to December 31, 2003, granted preliminary concept approval to the uses and funding concepts under consideration, and directed staff to work with the Awsumb team to develop a feasible option(s) for the historic rehab and reuse of the Hollywood Theatre and the 2800 Johnson Street site.

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): Please refer to the description of tax abatement in the Discussion of Funding Sources section.
- Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact (Summarize below)

Ward: 1

Neighborhood Notification: Staff has worked closely with the Audubon Neighborhood Association and the Hollywood Theatre Task throughout the RFP process, and proposal review and analysis process. The Audubon Neighborhood Association is supportive of the development concept as described in this report.

City Goals - 2003:

- Create an environment that maximizes economic development opportunities within Minneapolis by focusing on the City's physical and human assets
- Foster the development and preservation of a mix of quality housing types that is available, affordable, meets current needs, and promotes future growth
- Preserve and enhance our natural and historic environment and promote a clean, sustainable Minneapolis

Comprehensive Plan:
Chapter 1 – Community Building

1.7 Minneapolis will recognize and celebrate its history.

Implementation Steps

Incorporate heritage preservation at the earliest stage of planning for new development and neighborhood revitalization

Encourage new developments to retain historic structures, incorporating them into new development rather than demolishing them.

Chapter 4 – Marketplaces: Neighborhoods

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

4.2 Minneapolis will coordinate land use and transportation planning on designated Community Corridors streets through attention to the mix and intensity of land uses, the pedestrian character and residential livability of the streets, and the type of transit service provided on these streets.

4.6 Minneapolis will support a limited number of Auto-Oriented Shopping Centers, while promoting their compatibility with the surrounding area and their accessibility to bus, bicycle and foot traffic.

4.9 Minneapolis will grow by increasing its supply of housing.

Chapter 9 – City Form

9.4 Minneapolis will promote preservation as a tool for economic development and community revitalization.

Zoning Code: Will comply.

Living Wage/Job Linkage: Not applicable at this time.

Background/Supporting Information

Introduction

CPED staff has been working with the Awsumb team on the development of the project structure, physical attributes, potential reuses and funding concepts for the Hollywood Theatre project since summer of 2003. Progress has been made in the following areas:

- Identification of potential funding sources for the theatre
- Decisions on sizing and character of the companion site development
- Integration of zoning, planning and historic comments and issues
- Verification of theatre rehabilitation estimates
- Identification of potential reuse options in line with available funding resources

An Application for Public Assistance was submitted by Awsumb and Associates in late April. With this report staff is seeking direction to continue working on the project, approval of fees for project analysis and property holding costs, preliminary approval of the utilization of tax abatement for the project, authorization to prepare a redevelopment plan and extension of exclusive development rights for 60 days.

Updated Description of Proposal

Hollywood Theatre

Currently the Awsumb proposal contemplates a modest multi-purpose entertainment reuse of the theatre to seat up to 500. Discussions are ongoing with potential operators. The historic theater would be rehabbed and adapted to allow a multi-use entertainment reuse which will likely include movies. Adaptations to the theatre will include an expanded temporary stage, flexible seating, a catering kitchen and service bar.

The current multi-use concept is modified from the original proposal in order to achieve cost reductions that bring the project to a more realistic level in line with available funding sources.

2800 Johnson Street

A ten unit market rate townhouse project is proposed. The development on this site will be supportive of the theatre development in generating revenue through the use of tax abatement that will be invested by the City in the theatre project. Land sale proceeds from the combined theatre and 2800 Johnson Street site are also proposed as a source of funding for the theatre renovation.

Previous proposals for the Hollywood which relied on 2800 Johnson as a surface parking lot were not economically viable due to unfilled funding gaps on the theatre. The RFP clearly suggested that due to the anticipated funding needs of the theatre, concepts that utilized the companion site in part to generate revenue would be considered. In response to the need for gap funding for the theatre, Awsumb and Associates is proposing to build townhouses to generate revenue through the use of tax abatement to address the extraordinary theatre costs.

Structural Relationship of Project Components

The overarching goal of the project is the preservation of the Hollywood Theatre as an historic, entertainment and community resource. In CPED's view, the Hollywood Theatre and 2800 Johnson are essentially one project particularly in terms of goal attainment and financing structure. It is important to understand the relationship of the two project parcels. The 2800 Johnson site was purchased to be supportive of the theatre development and would not be receiving public assistance. In the current development scenario the purpose of the 2800 Johnson component is to generate funding to help pay the extraordinary renovation costs of the theatre. Without a contribution from this site redevelopment of the theatre will not occur.

Estimated Project Costs – Theatre Renovation

The developer currently estimates the total project cost of the historic theatre renovation and adaptation for a 500 seat multi use entertainment facility to be approximately \$1,560,000. Regarding the renovation, design build bids were obtained in December 2002. These bids have been revised and adjusted to fit the current concept with the goal of reaching a project cost that is closer to available funds. CPED engineering staff has reviewed the budget modifications as they have been submitted. The costs attributed to the level of improvements proposed seem reasonable and staff does not think that significant items are missing.

The final budget will have to be revised to include financing costs, admin fees and other soft costs. It is also anticipated that the final budget may have to be increased by 5% for inflation covering the period of time since most of the bids were obtained.

Preliminary Sources of Funds – Theatre Renovation

Traditional Public Sources

CPED CEDF grant	\$ 500,000
CPED CEDF tax abatement loan	250,000
CPED 2% Loan	75,000
NRP – Audubon and other neighborhoods	<u>200,000</u>
Sub total	\$1,025,000

Non Traditional Sources

Potential additional environmental funding	\$ 71,000
Fundraising projects	25,000
Volunteer contributions	<u>37,500</u>
Sub total	\$ 133,500

Developer Contribution

Mortgage on theatre – 2% loan match	\$ 75,000
Developer equity	<u>139,000</u>
Sub total	\$ 214,000

Unfunded Gap **\$ 187,500**

TOTAL \$1,560,000

Discussion of Funding Sources

The sources outlined above are estimates which will be verified, processed and approvals and commitments sought over the next several months.

Traditional Sources The Community Economic Development Fund (CEDF) grant is proposed to be for rehab items that are clearly necessary for historic preservation. This is a source that has been under consideration for the theatre for some time. The CEDF loan would be repaid by tax abatement from the townhouses and the theatre. Tax abatement is proposed as a funding source for this project for historic preservation purposes as allowed by City policy. Pursuant to the policy, City and County taxes on the theatre and housing component would be collected over 15 years to repay the CEDF loan. The theatre is located in the 29th and Johnson commercial node would be eligible for a \$75,000 2% loan. Discussions will be held with the potential NRP funding neighborhoods.

Non Traditional Sources These items will have to be verified and workplans created to realize the funding goals. The additional environmental funding refers to the unspent balance of an environmental grant received for the theatre. The fundraising projects are in discussion between the developer and the community. A possibility that has been

suggested is the sale of theatre seats. The volunteer contributions are items, examples may include demolition and painting, that could be carried out by community members or participants in the Sentence to Serve program under the supervision of the contractors. Staff recommends that the developer provide an equity commitment as a backup in case these sources do not fully materialize.

As outlined above a substantial level of public assistance is being discussed for this project. Staff does not anticipate that any additional public sources will be available to address potential future funding gaps due to cost increases in the project. There has been extensive discussion of and the developer acknowledges responsibility to address the current and potential future increase in project funding needs with developer equity.

Unfunded Gap

Several potential sources are in discussion to address this gap. The options include seeking 10% historic tax credits and a second 2% loan.

Project Costs – 2800 Johnson Site

A detailed development proforma for the townhouse component will be prepared pending design development of the component. The project is anticipated to be similar to the recent Holland Townhouse project which has been used as the basis for cost estimates up to this point. The developer has met with Zoning and Planning seeking direction on site plan and design and anticipates receiving responses soon that will guide the design development.

Development Team

The development team assembled by Awsumb and Associates, to accomplish the historic renovation and operation of the theatre and develop the housing is as follows:

Gordon Awsumb and Associates	Developer, construction manager
To Be Determined	Operator, multi use entertainment facility
Steven Haasl, Shea Architects	Architect - theatre and housing component

Workplan and Timeline

A draft predevelopment workplan has been prepared to guide the project development and public approvals process. This guide will be finalized when the operator and end use are determined and the non traditional funding sources more fully described and guaranteed. Staff anticipates the final workplan will indicate a construction start in late 2004 or spring 2005.

Project Analysis Fee and Holding Cost Fees

A recurring funding gap has been and continues to be a challenge for this project. Significant analysis has already been carried out on the proposal. Given these factors, staff recommends that a nominal project administration fee of \$2,000 be approved for the project.

In late 2002 as part of the roof replacement and related stabilization of the theatre, heaters were installed in the theatre to help preserve the stabilization improvements. Staff is recommending that heater rental costs, utilities and administration related to the

stabilization be paid by the developer as a holding cost associated with the exclusive rights. The estimated cost of maintaining these items to the end of 2004 is \$15,000. These costs will be accounted for and any unspent balance will be returned to the developer at closing.

Summary

It is CPED's opinion that the current proposal coupled with the range of funding sources, tools, concepts and project structure outlined in this report hold promise to preserve the Hollywood Theatre as an historic, entertainment and community resource. Staff is therefore seeking preliminary approval of the basic elements of the proposed project structure, e.g. the relationship of the two sites, and the proposed funding sources to use as direction in the continued analysis and negotiation of this project.

Given preliminary approval of tax abatement by the City Council and submittal of necessary materials by the developer staff will begin application and discussion with Hennepin County on the use of tax abatement for this project. Staff will be returning to the City Council for the necessary formal project approvals including development terms, final approval of the tax abatement plan, authorization to enter into a redevelopment contract, land sale public hearing and redevelopment plan approval.

