



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

Date: April 6, 2004
To: Lisa Goodman, Chair, Community Development Committee

Prepared by: Ann Calvert, Senior Project Coordinator, 673-5023
Dollie Crowther, Senior Housing Project Coordinator, 673-5263
Presenter in Committee: Ann Calvert, Senior Project Coordinator

Approved by: Chuck Lutz, CPED Deputy Director _____

Subject: Parcel E "Liner" Development Land Sale Public Hearing

RECOMMENDATION: Adopt the attached resolution and authorize the appropriate City officials to execute a redevelopment contract with David Bernard Builders and Developers (a division of the Rottlund Company, Inc.) for the Parcel E Liner, in accordance with the terms herein, and take related implementation actions, including execution of a deed and easements.

Previous Directives:

On November 22, 2002, the City Council authorized execution of a purchase agreement between the City and Hennepin County Regional Rail Authority to acquire the property generally known as Parcel E as part of the implementation of the Guthrie Theater project. On May 16, 2003, the City Council authorized the MCDA on behalf of the City to solicit development proposals for the Parcel E "Liner" development. On December 15, 2003, the City Council granted exclusive development rights to David Bernard for a period of six months.

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

Ward: 2

Neighborhood Notification: Representatives of the Downtown Minneapolis Neighborhood Association (DMNA) and Industry Square Project Committee (ISPC) participated in the Parcel E Liner Review Committee, and the organizations held a joint meeting to hear a presentation on the proposal. The ISPC has voted to support the proposal, and the DMNA representative to the Review Committee, on behalf of the DMNA Board, has approved the project.

City Goals: The proposed development fosters the development and preservation of a mix of quality housing types and promotes future growth and creates an environment that maximizes economic development opportunities within Minneapolis by focusing on the City's physical and human assets.

Comprehensive Plan: The proposed development achieves many policies in the Comprehensive Plan, including 3.4 (developing residential uses in accordance with *Downtown 2010*), 4.9, 9.5, 9.22 (increasing housing supply of appropriate form and density), and 9.12 (design solutions for automobile parking facilities).

Zoning Code: The basic proposed uses comply (subject to approval of a CUP for the residential and granting of a variance to allow the commercial parking requirement to be met in the adjacent public ramp).

Living Wage/Job Linkage: Not applicable.

Background

As part of the implementation of the Guthrie Theater project, the City acquired a piece of property identified as "Parcel E." Most of Parcel E will be used for two new street segments and the Guthrie District Parking Facility. An L-shaped parcel has been reserved for "liner" development that will add activity to the area and screen two sides of the parking facility (see map).

Following a Request for Proposals process, in December of 2003 the City Council granted exclusive rights to David Bernard Builders and Developers, a division of the Rottlund Company, ("David Bernard") for a period of six months to negotiate with the City the terms of a land sale redevelopment agreement for the Liner parcel. This report recommends the execution of a land sale redevelopment agreement in accordance with the business terms that have resulted from those negotiations.

The Development Proposal

David Bernard is a division of the Rottlund Company, Inc., a large Twin Cities-based housing developer based with extensive development experience and financial capacity. In Minneapolis, David Bernard completed the Renaissance on the River project at West River Parkway and Fourth Avenue North and is now building the Metropolitan Lofts in the Mill Quarter at Second Street and Portland Avenue South. Finance Department staff has reviewed the financial information submitted by David Bernard and found that the developer is financially sound and has the capacity to undertake and complete the proposed development. David Bernard has assembled a team that includes other experienced parties, including some that will provide input to assure that the Liner development is coordinated with the adjacent parking and Guthrie.

David Bernard proposes a mixed-use development with a total development cost of about \$23,500,000. The development is proposed to include:

- About 31,000 square feet of commercial/"flex" space on the ground level.
- On floors 2 – 5, about 125,000 square feet with 68 - 95 units of for-sale housing. Depending upon the market at the time construction starts, the residential development may include 68 larger units (i.e., with floor space of 1,600 to 2,200 square feet and prices from about \$350,000 to \$500,000) or 95 smaller units (i.e., about 1,200 square feet at a price of \$250,000 to \$300,000), or a combination thereof. The top floor units may have mezzanines and roof decks.
- One level of below-grade parking (about 85 - 102 spaces) to support the residential uses that will be accessed via the public parking facility (through an easement described in the term sheet). It is assumed that the public parking facility will have sufficient capacity to support the commercial uses.
- Service will be provided by a private service drive to be built parallel to Washington.
- The parcel may include a strip of land along the Chicago Avenue side that cannot be improved with a building, but that may be used by the developer for outdoor dining, entry areas, and other uses that will animate Chicago Avenue.

Copies of the applicable plans are attached, as well as an initial rendering of the proposed Chicago Avenue façade. These illustrations were shared by the developer at the joint community meeting and are used with the developer's permission. The architecture of the development is planned to be contemporary in response to the design of the Guthrie complex. The construction will be masonry and wood frame. It is estimated that the project will generate about \$490,000 per year in real estate taxes. The commercial space is also expected to provide space for either new or retained jobs, but since no tenants have been identified yet, it is premature to estimate the number or types of jobs.

Construction of the project most likely will not begin until after construction of the adjacent public parking facility is largely completed, i.e., about fall of 2005. It will be completed within 18 months.

The Proposed Business Terms

The attached Term Sheet outlines the entire proposed terms of the redevelopment agreement.

The proposed price for the property is \$1,371,000. This includes the appraised value of \$1,360,000 for the developable portion of the parcel, plus another \$11,000 for a ten-foot-wide strip adjacent to the new segment of Chicago Avenue. David Bernard will only be allowed to use this strip for stairs, stoops, landscaped areas, outdoor seating and similar uses. Both the CPED Appraiser and City Assessor have agreed that this price represents the Fair Market Value of the parcel. The land proceeds will go to the Public Works Department, as parking revenue bonds were used to acquire the property.

Because the site will be sold for fair market value, the project will not trigger any requirements related to affordable housing, Job Linkage/Living Wage, Affirmative Action and Small and Underutilized Businesses.

In return for a fair market land price, the developer expects a clean, cleared, buildable site, and the term sheet includes provisions for both environmental and geotechnical remediation.

The land sale will be subject to an easement benefiting the City that will meet certain City needs relative to the adjacent 1,000 space parking facility. These include a 10-foot wide area along the southwest side of the parking in which no above-grade structure can be built (to maintain adequate ventilation and fire separation) and a 15-foot-wide access easement for snow removal. This easement will be compatible with the location of the proposed service drive and will not negatively impact the development. As noted previously, the sale also will be subject to an easement benefiting the developer that will allow residents of the development to use the adjacent parking facility ramps to access the parking spaces under the private development. In exchange for this easement, the developer will pay an annual fee to the parking facility.

The City will complete certain public improvements that were previously committed or contemplated as part of the Guthrie and/or adjacent "Parcel D" projects and thus will not need funding from this project. The City and David Bernard will equally share the cost to bury an overhead electrical line adjacent to the Liner parcel and the new Chicago right-of-way.

In order to facilitate construction and marketing, David Bernard will be granted a right-of-entry to accommodate a marketing trailer and will be allowed to use the sidewalk area between new Chicago and the development parcel until the sidewalk is built. In exchange for this access, the developer will install the public sidewalk along the Parcel E side of new Chicago.

Execution of Redevelopment Agreement

CPED staff and the Parcel E Liner Review Committee feel that David Bernard has the demonstrated capacity and experience to complete the proposed project and that the proposal does an excellent job of achieving the goals of *Downtown 2010* and the *Update to the Historic Mills District Plan*. The proposal will provide public benefits in the form of land proceeds, new housing units, additional real estate taxes and jobs and commercial space that will complement adjacent uses.

Therefore, it is recommended that the City Council adopt the attached resolution and the appropriate City officials be authorized to execute a redevelopment agreement with David Bernard in accordance with the terms described herein and to take such other implementation steps as are appropriate.

WHEREAS, the City owns property on the block bounded by Washington Avenue South, Second Street South, vacated Chicago Avenue South and vacated Ninth Avenue South, including said vacated streets; and

WHEREAS, the City plans to build a public parking facility on a portion of the above-described property; and

WHEREAS, an L-shaped parcel around the parking parcel (the Liner Parcel) has been reserved for private development on two sides of the parking facility; and

WHEREAS, the City Engineer has determined that the Liner Parcel is not needed for City purposes; and

WHEREAS, the Rottlund Company, Inc. has offered to enter into a Redevelopment Agreement with the City, agreeing to pay the City \$1,371,000 for the Liner Parcel; and

WHEREAS, the City Assessor has determined this transaction price to be reasonable and has reported this to the City Council; and

WHEREAS, the Planning Commission reviewed the sale on November 3, 2003, for conformance with the Comprehensive Plan and a public hearing, notice of which was published in a newspaper of general circulation in Hennepin County at least ten days in advance of the hearing, was held at a Community Development Committee meeting on April 6, 2004, all in accordance with the Minneapolis Code of Ordinances, Section 14.120;

NOW, THEREFORE, BE IT RESOLVED that the proper City officers be authorized to execute a Redevelopment Agreement and related documents and to take other necessary actions for sale of the land preliminarily legally described as:

That part of the following described parcel that is above 790 feet above sea level:

Lot 2, Block One, Mill Quarter Addition:

According to the recorded plat thereof and situated in Hennepin County,
Minnesota.

And more fully described in Petn. No _____ on file in the Office of the City Clerk.

**PARCEL E LINER DEVELOPMENT
TERM SHEET NOTE: Assumes one phase
3/18/04**

Seller: City of Minneapolis (“City”)

Buyer: The Rottlund Company, Inc., building under the name David Bernard Builders and Developers (“David Bernard”)

Site: Lot 2, Block One, Mill Quarter Addition

Mined space rights: The City will retain title to the portion of the site below 790 feet above sea level. Any mined space development under the site will be conditioned upon the mined space development having no structural impact on the David Bernard development (e.g., structural support, noise, vibration, etc.).

Date of conveyance: No later than April 15, 2006, and no earlier than October 15, 2005, unless arrangements have been made to coordinate construction of the Liner development with construction of the parking facility to allow an accelerated construction start.

Construction start and completion: Construction must start no later than 30 days after closing and be completed no later than 18 months after closing.

Minimum Improvements: Mixed-use development with five stories above-grade, including approximately 125,000 sq. ft. of residential space (about 68 - 95 units) and 31,000 square feet of commercial/flex space, plus about 85 - 102 below-grade parking spaces for residents

Land price: \$1,371,000

Good faith deposit: David Bernard will make a Good Faith Deposit to the City at signing of the redevelopment contract equal to ten percent (10%) of the land price. This deposit will be returned to David Bernard upon issuance of the Certificate of Completion.

Site environmental condition: The City will reimburse David Bernard for any environmental remediation covered by City/Hennepin County Regional Rail Authority Environmental Remediation Escrow Agreement or will assign said agreement to David Bernard.

Site geo-technical condition: The City will escrow \$200,000 to cover extraordinary costs associated with remediating any geotechnical conditions caused by previous uses on the site (e.g., removal of remaining building foundations or debris to correct to 98% of modified Proctor density).

Public improvements to be completed by the City/CPED: The City will construct (or cause to have constructed): a) a new segment of Chicago Avenue from Washington to Second Street South (including sidewalk on the upriver side, pedestrian lighting, street trees and any modifications needed at the intersection of Chicago and Washington); b) a new segment of Ninth Avenue from Washington to Second Street South (including sidewalks, pedestrian lighting, street trees and any modifications needed at the intersection of Ninth and Washington); c) a sanitary sewer line under Chicago Avenue extending about 60 feet from Washington Avenue (which shall be funded by CPED as part of the overall Chicago Avenue construction). All public improvements except the sidewalk and streetscape along Chicago Avenue will be completed no later than the completion of the Liner development. The completion of the upriver sidewalk and streetscaping along both sides of Chicago will be coordinated with completion of the adjacent developments.

Burial of overhead electrical line: The City will contract (directly or through the parking ramp construction) to have the existing overhead electrical power line along Second Street South buried in an underground location from at least the northern corner of Lot 1 to the far side of Chicago Avenue, to be completed no later than the date of conveyance. David Bernard will reimburse the City at the time of closing for half of the cost incurred by the City, with a maximum reimbursement of \$17,000. The other half of the cost will be funded by CPED as part of the overall Chicago Avenue construction.

Easements to benefit the City: Upon conveyance, the site will contain the following easement(s) in favor of the parking facility on Lot 1, Block One: a) a ten-foot wide area along the southwest side of Lot 1, Block One, in which no above-grade structures may be built; and b) an easement allowing the owner of Lot 1 to access the private service drive on Lot 2 with snow removal equipment and trucks. A restrictive covenant will be placed upon the northwesterly ten feet of the development parcel that will limit the improvements allowed within that area to “transitional improvements” that do not include a building structure, but may include improvements such as stoops/stairs/ramps, outdoor patios, and sidewalk seating areas.

Easements to benefit David Bernard: The City, as owner of Lot 1, Block One, will grant to David Bernard an easement to use the parking facility on Lot 1 to access the below-grade parking under the Parcel E Liner development. David Bernard will: a) pay the costs of constructing the connection between the public and private parking areas (including the cost of removing the “knock-out” panels), b) pay for costs related to administration by the parking operation of the access (e.g., replacements and revisions of computer access cards), and c) make an annual access payment to the owner of the parking facility. Assuming that access is provided on only one of the below-grade levels and the access opening will be no wider than 18 feet, the annual fee under (c) will be \$5,600 per year in 2006 dollars and will be adjusted annually by the CPI. (Note: This fee assumes the City and its design/builder will design the parking facility so that no more than two parking spaces will be eliminated to provide the access opening.) The annual fee will begin to be paid when the Liner residential units are first occupied.

Construction access: David Bernard will be granted a construction right-of-entry to use the southeasterly part of the Chicago Avenue right-of-way from the curb line to the northwesterly property line of Lot 2 at no cost. This right-of-entry will begin at closing and continue for a period of 12 months. In exchange for this construction access and the marketing access noted below, David Bernard will install the sidewalk in this area at the end of the right-of-entry. The City will delay related improvements in this area (e.g., trees and lights) until after the end of the right-of-entry term. David Bernard also will be allowed to use the adjacent Chicago right-of-way for construction access and staging at no cost until the street and sidewalk are opened for public use, as long as such use can be coordinated with and not delay the construction of Chicago. Any other construction activities that block a public street or walk after opening to the public will be charged the normal permit fees.

Marketing right-of-entry: Upon 30-day notice to the City that marketing is about to commence (but no earlier than October 15, 2005, unless the construction start is being accelerated), the City will give David Bernard a right-of-entry to use a portion of Lot 2 and the adjacent Chicago right-of-way for a marketing trailer. Said area will be about 3,000 square feet located at the corner of Chicago and Second Street and may not interfere with the City's ability to construct Chicago.

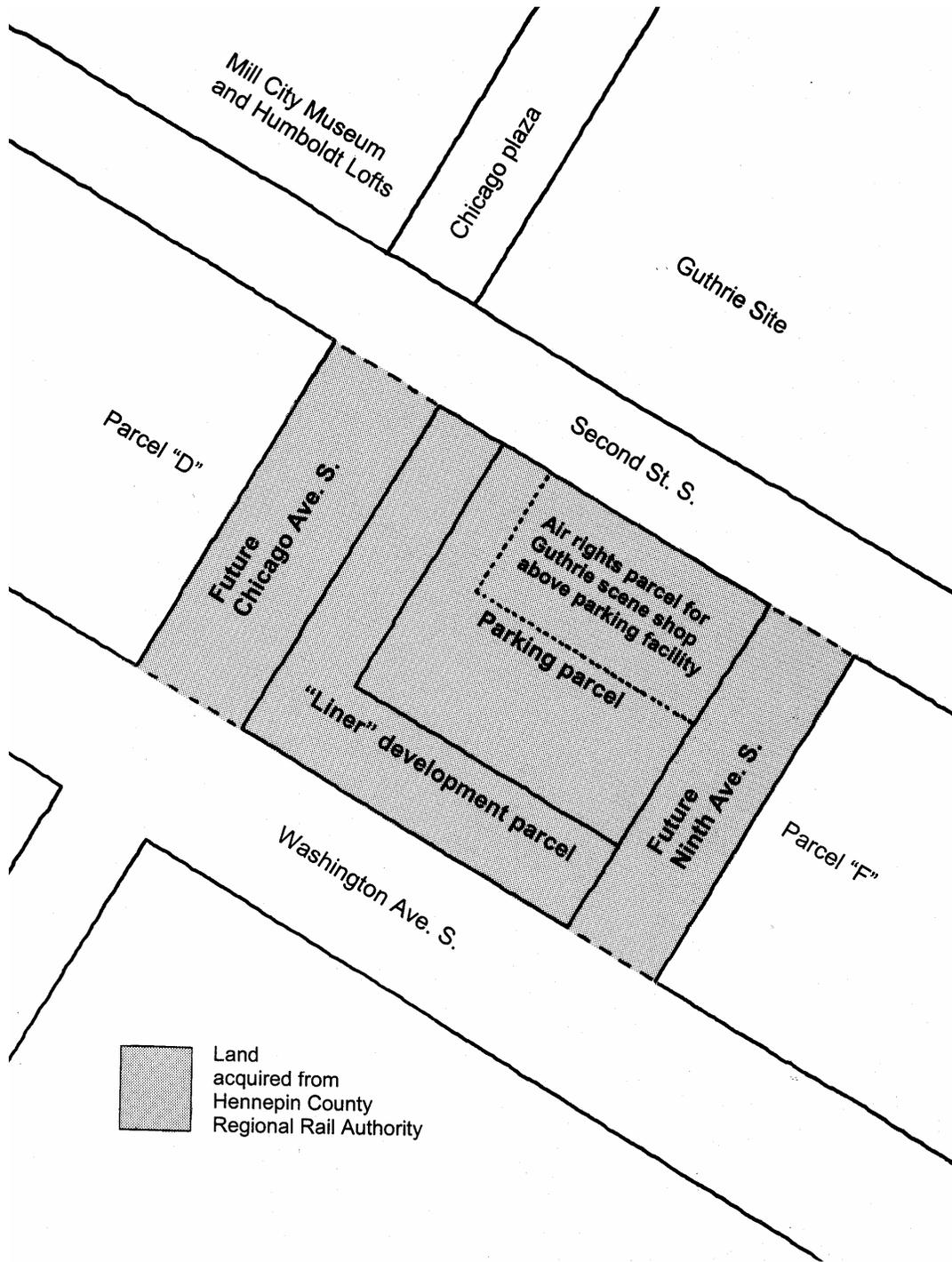
Conditions precedent to closing: David Bernard will have submitted and the City will have approved: a) evidence of financing sufficient to complete the Minimum Improvements, and b) construction plans. David Bernard will have secured all approvals and permits needed to start construction.

Other requirements: Given the fair market value nature of the land sale, David Bernard will not be required to comply with the City's affordable housing, Affirmative Action, Business Subsidy/Job Linkage or Small and Underutilized Business requirements. David Bernard must comply with the City's Prevailing Wage Policy and apprenticeship requirements.

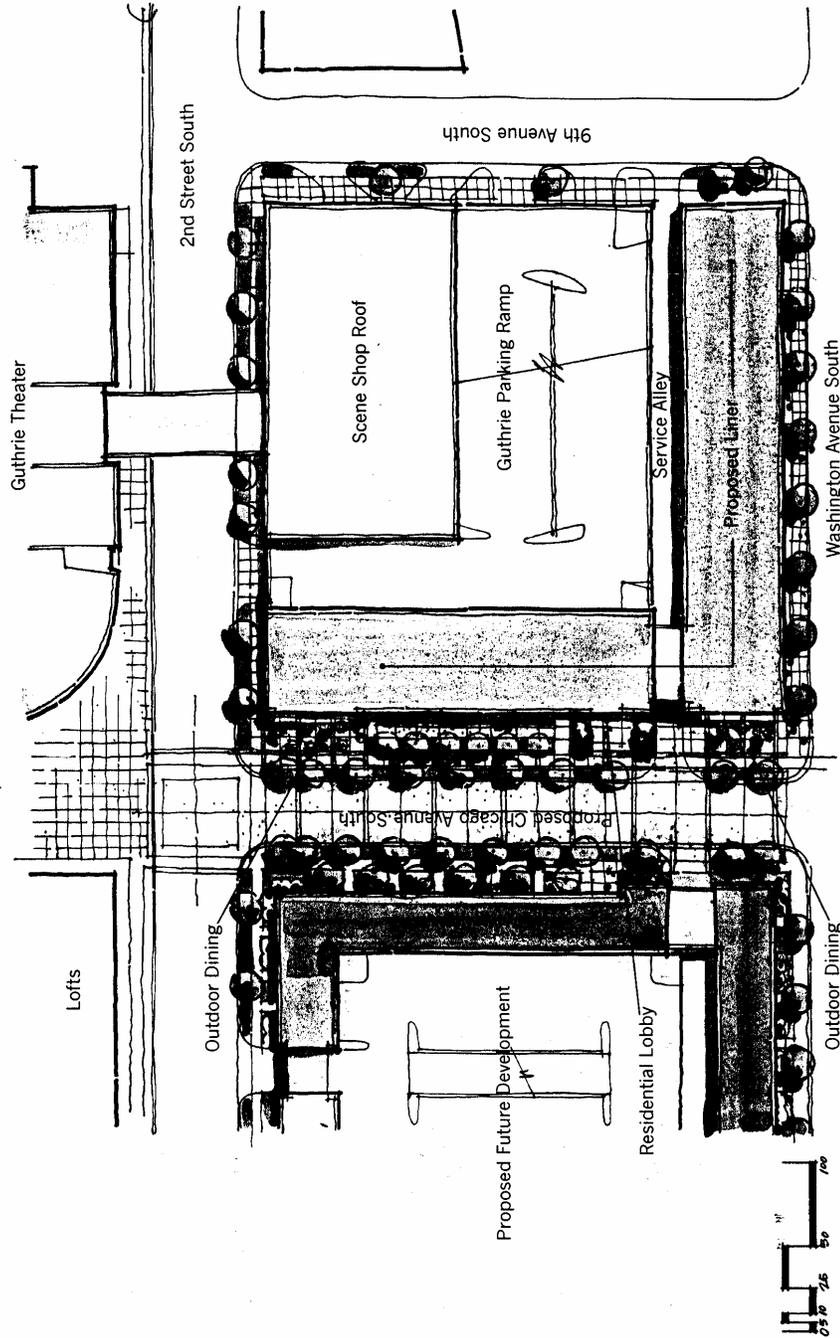
Construction coordination: David Bernard and the City may work with the Guthrie Theater Foundation and its contractor to explore possible ways to coordinate the construction of the Liner development with the construction of the parking facility on Lot 1, including the possibility of accelerating the start of the Liner construction.

Standard redevelopment contract terms: The redevelopment contract will include standard terms relative to Certificate of Completion, insurance, financing, and payment and performance bonds.

PARCEL E OVERALL BLOCK PLAN



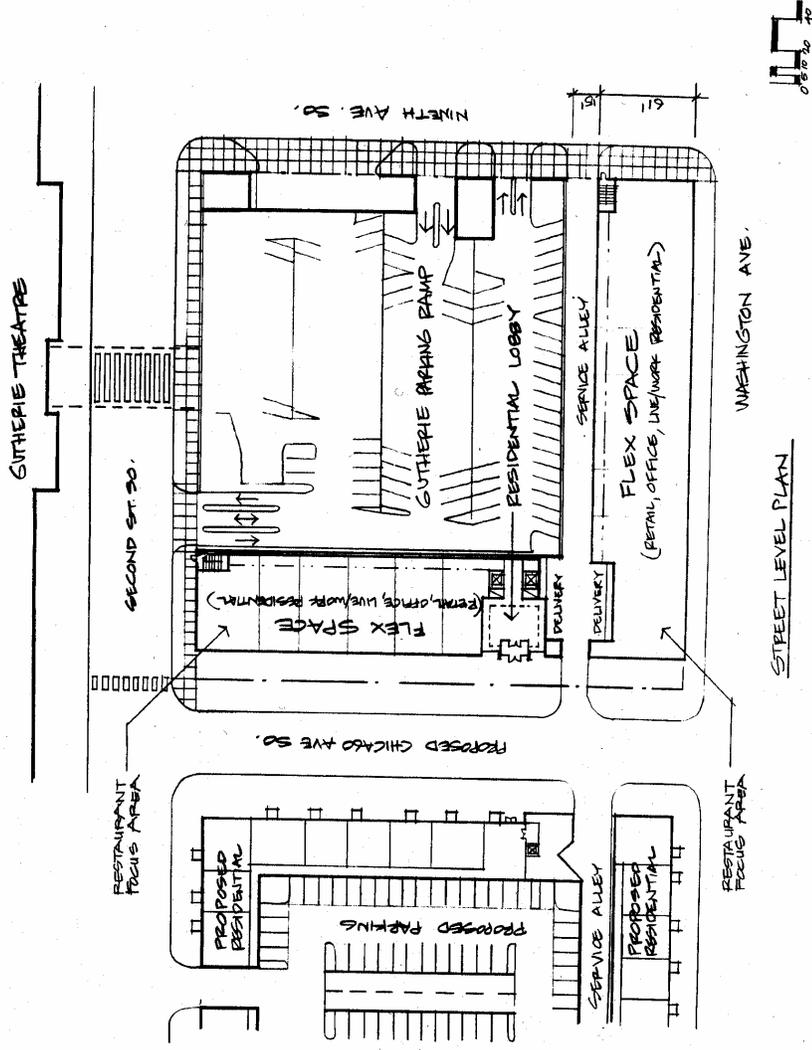
PROPOSED PARCEL E LINER DEVELOPMENT SITE PLAN



Parcel E Liner

8.26.03

PROPOSED PARCEL E LINER DEVELOPMENT GROUND FLOOR PLAN



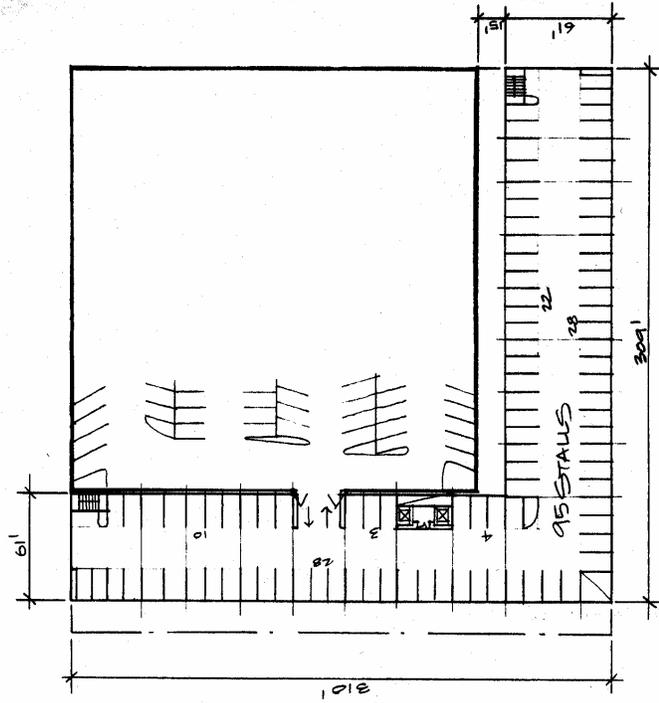
Parcel E Liner

8.28.03

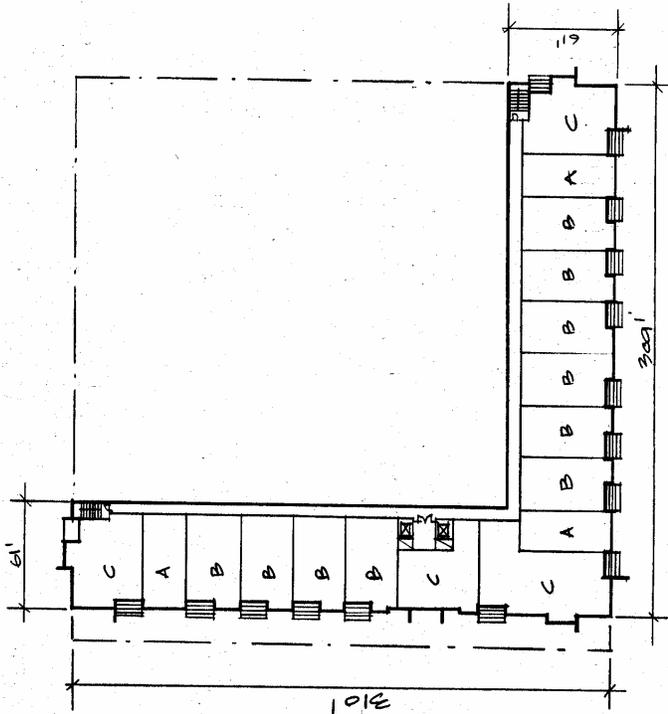




PROPOSED PARCEL E LINER DEVELOPMENT BELOW-GRADE AND TYPICAL ABOVE-GRADE FLOOR PLANS



BASEMENT LEVEL PLAN



TYPICAL UPPER FLOOR PLAN

Parcel E Liner

8.28.03

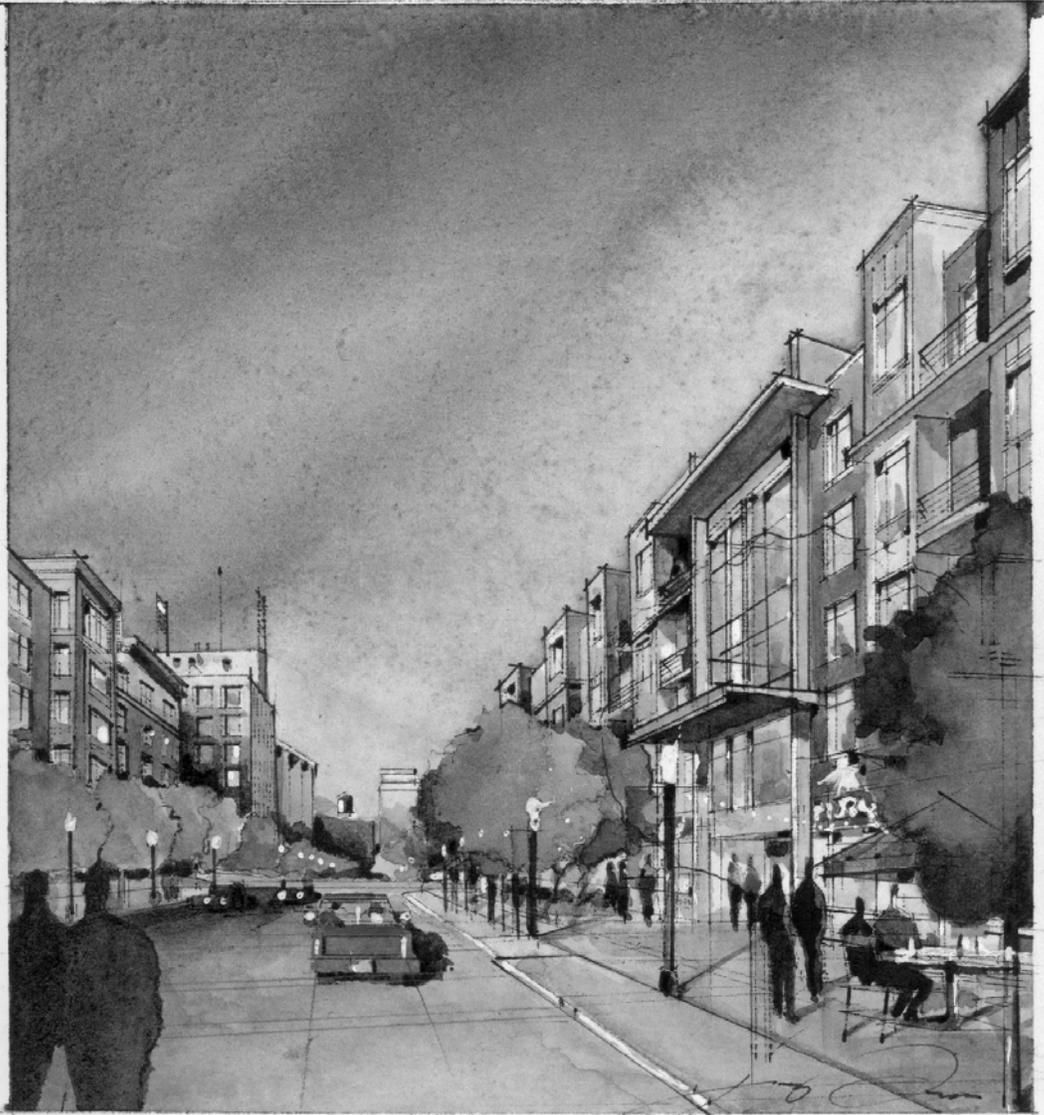
MCDA

DB DAVID BERNARD
BUILDERS & DEVELOPERS

B S G
Structural Engineers Architects

**PROPOSED PARCEL E LINER DEVELOPMENT
CHICAGO AVENUE RENDERING**

**PARCEL E
CITY OF MINNEAPOLIS**



August 29, 2003

E|S|G
Elness Swenson Graham Architects

DB DAVID BERNARD
BUILDERS & DEVELOPERS

MCDA
Minneapolis Community Development Agency