

Minneapolis Community Development Agency

## Request for City Council Action

Date: January 21, 2003

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

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Approved by Chuck Lutz, Interim MCDA Executive Director \_\_\_\_\_

**Subject: Status Report and Consideration of McCaffery Interests' Proposal for Purchase and Redevelopment of the Stimson Building, 7<sup>th</sup> and Hennepin**

**Previous Directives:** 3/24/99 Comprehensive Mann Theater property action including authorization to issue RFP for sale of property to private buyer/redeveloper. 5/12/99 action rescinding RFP section of 3/24/99 action and granting exclusive development rights of property to Historic Theatre Group, Inc. (HTG). 3/24/00 authorized sale of Stimson Building to HTG. 8/13/01 action authorizing public bid for general construction contract, approval of bond financing and rescinding authorization of sale of Stimson Building to HTG.

**Ward:** 5.

**Neighborhood Group Notification:** The McCaffery Interests' proposal was conveyed to the Downtown Minneapolis Neighborhood Association (DMNA). The DMNA board decided not to support the Stimson redevelopment plan as presented by McCaffery Interests. See DMNA letter of 12/19/02, Enclosure (1).

**Consistency with *Building a City That Works*:** The McCaffery Interests' proposal is consistent with Goal 4, Objective A, furthering that downtown Minneapolis remains the retail, employment and entertainment center of the region, as well as home to a mix of residents who choose downtown as their neighborhood. Also consistent with Goal 4, Objective C, Strategy 2, ensuring the completion of the redevelopment of historic properties already owned by the MCDA.

**Comprehensive Plan Compliance:** The McCaffery Interests' proposal complies with the Minneapolis Downtown 2010 Plan Entertainment Policy #3 in that it creates street

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level excitement and activity with restaurant use on street level. This property lies within the formally designated Entertainment District of the Plan.

**Zoning Code Compliance:** Zoning is B4S-2. Proposed first level restaurant usage would comply. Second level housing usage would comply but requires satisfaction of parking requirement through nearby long term contracting.

**Impact on MCDA Budget:** (Check those that apply)

- No financial impact
- Action requires an appropriation increase to the MCDA Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain): If proposal eventually accepted, \$2.5 million in sales proceeds would be received, cash at closing.

**Living Wage / Business Subsidy:** Not applicable as the Stimson property purchase price is equal to or above market price. MCDA Review Appraiser estimates property value at \$1,125,000. Proposal purchase price is \$2,500,000.

**Job Linkage:** If proposal approved, Proposer will be asked to participate in voluntary Job Linkage Agreement through redevelopment contract.

**Affirmative Action Compliance:** Project would comply with all current and existing affirmative action requirements.

**RECOMMENDATION:** That the City Council review the McCaffery Interests' proposal to purchase and redevelop the Stimson Building and provide further direction to staff.

### **Background**

The Stimson Building, at 700 Hennepin Avenue, is physically connected to the Historic Pantages Theatre with significant sharing of structural elements, building service space, utility distribution and building ingress and egress. The restoration of the theatre was undertaken together with necessary minimum physical improvements to the Stimson Building.

In March 1999, the Historic Theatre Group (HTG) was granted exclusive development rights for the Stimson Building. HTG was unable to secure tenants and financing. In August of 2001, the City Council rescinded the sale of the Stimson to HTG, and authorized alternative financing (taxable revenue bonds) to allow the Stimson/Pantages project to go forward. MCDA issued an RFP in the Fall of 2001 in an effort to find a buyer and redeveloper for the Stimson Building. No proposals were received at the conclusion of that bid period (March, 2002). A second RFP was subsequently issued in August of 2002. This time there was one bid/proposal received (November 1, 2002), that of McCaffery Interests.

### **Revenue Bond Financing**

At the time of going forward to finance the Pantages/Stimson project, there were two revenue bond issues through the MCDA Common Bond Fund: (1) tax-exempt issue to refinance existing theatre bonds, to finance certain delayed maintenance and capital improvements to the State and Orpheum and to finance the restoration of the Pantages itself; (2) a separate taxable issue (\$6 million) for the Stimson portion of the work in anticipation of eventual sale of the building to a private party.

The taxable Stimson bond issue budget included approximately \$2.5 million in hard construction costs plus soft costs such as the cost of issuance, capitalized interest, debt service reserve, asbestos abatement, environmental and engineering survey work, architectural fees, relocation and acquisition costs. The \$4.3 million asking price and \$2.5 million minimum called for in the RFP recognized the estimated value, market and difficulty in completely recovering all costs associated with such an acquisition.

### **McCaffery Proposal Outline**

The proposal calls for two major types of usage within the Stimson Building: a restaurant on the first floor (with kitchen, storage and support space in the basement) and loft rental housing on the second floor (approximately 11 units depending on final design). The proposal offers the minimum bid of \$2.5 million, no terms, cash at closing, in accordance with the RFP. The required \$20,000 good faith deposit was provided with submission of the proposal.

### **Current Status**

The proposer is currently working to identify a restaurant tenant and to obtain lease and financing commitments sufficient to bring forward for MCDA Board approval of purchase of the property under the terms of the RFP. The Stimson Building property is not and will not be sold for speculative purposes. The restaurant must be of significant quality and be a destination amenity for this location and proximity to the Pantages.

Although prospective tenancy is unknown at this time, a preliminary generic economic analysis of the project, based on the proposal, indicates the potential for project feasibility. See Enclosure (2), memorandum from George Kissinger to Chuck Lutz of 12/5/02.

As the RFP was issued under the MCDA Land Disposition Policy, it would be appropriate at this time for further direction in proceeding with the McCaffery Interests' proposal to purchase and redevelop the Stimson Building. Under this policy, there would be a noticed public hearing at the time an actual request for approval would be brought forward. As always, the MCDA Board reserves the right to reject any and all proposals.

Encls. (2)