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

Date: August 8, 2006

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

Subject: Amendment of Real Property Sale and Redevelopment Contract, Stimson Partners LLC (700 Hennepin Avenue, the Stimson Building).

Recommendation: That the Real Property Sale and Redevelopment Contract between the City of Minneapolis and Stimson Partners LLC be amended to provide a replacement anchor tenant, KNK Hospitality LLC, (a company managed by David Koch) and to extend the closing date be to no later than October 15, 2006, along with other associated terms to effect the sale and redevelopment of the property located at 700 Hennepin Avenue, the Stimson Building.

Previous Directives: September 3, 2004, approval of sale of the Stimson Building, 700 Hennepin Avenue, to Stimson RenoVentures, LLC. January 27, 2006, authorized land sale of specific Registered Land Survey Tracts B, D, I, M and T to Stimson Partners LLC.

Prepared and Submitted by: George Kissinger, for the City of Minneapolis.

Approved by: Chuck Lutz, Deputy CPED Director _____.

Presenter in Committee: Tom Daniel

Permanent Review Committee (PRC) Approval _____ Not Applicable _X_.

Stimson Partners LLC, amendment of Real Property Sale and Redevelopment Contract.

Financial Impact.

___ No financial impact.

___ Action requires an appropriation increase to the ____ Capital Budget or ____ Operating Budget.

___ Action provides increased revenue for appropriation increase.

___ Action requires use of contingency or reserves.

___ Business Plan: ____ Action is within the plan. ____ Action requires a change to plan.

_X_ Other financial impact: Sale proceeds, along with current bond reserve, unused project funds and sign lease income may be combined with excess Common Bond Fund cash reserve to retire existing bond debt (see “Stimson Bond Financing”, end of report).

___ Request provided to department’s finance contact when provided to the Committee Coordinator.

Community Impact.

Neighborhood Notification: The Downtown Minneapolis Neighborhood Association (DMNA) was notified, and considered the terms, of this pending sale on late 2004. There was no comment or response at that time.

City Goals: The sale and redevelopment of the Stimson Building will further the City’s Five Year Goal of making Minneapolis “A Premier Destination for visitors, investment and vitality” through the strategic direction of “leveraging our entertainment edge”.

Comprehensive Plan: 700 Hennepin is located within the Hennepin and Seventh Development District as approved and established June 5, 2000. This sale and redevelopment are consistent with both the Development District and the Minneapolis Downtown 2010 Plan.

Zoning Code: B4S-2. Future use will comply with this zoning. A conditional use permit may be required.

Other: The Land Registration was completed and originally registered on May 17, 2006, inclusive of Registered Land Survey # 1771 (which includes all tracts to be conveyed to Stimson Partners LLC in this transaction).

Background.

The Stimson Building was purchased and stabilized by the City/MCDA as part of the restoration of the adjoining Pantages Theatre with the intent of eventually selling the Stimson Building (but retaining ownership of the Pantages Theatre) for private redevelopment; with the intent that such redevelopment would be compatible with the Downtown Entertainment District centered along Hennepin Avenue and with the concept of the Pantages Theatre as a live theatre/entertainment venue.

Stimson Partners LLC was selected as buyer and redeveloper of the Stimson Building after an RFP process. The Stimson Building is currently under contract for sale to Stimson Partners LLC but complications resulting from a complaint filed against the City as part of the land registration process caused a substantial delay in the sale. That lawsuit has been settled, the property registered and title cleared of the plaintiff’s liens. During this same period of time the intended anchor tenant experienced financial difficulties and the buyer has had to find a suitable replacement anchor tenant.

Current Status.

The buyer has been successful in finding a replacement anchor tenant and has entered into a letter of intent. The use within the Stimson Building will continue to be primarily a restaurant. The restaurant will be operated by a local restaurateur, David Koch, who has been successful operating Bellanotte (Block E) and Bella (Blaine) over recent years. The development program/build-out calls for the first floor and mezzanine levels as the primary restaurant area with connected lively bar and casually hip lounge on the second floor and roof-top levels. The basement will contain supportive restaurant space for the restaurant, office space and storage area.

Financing will continue be provided through the original lender, M&I Bank. The buyer and staff anticipate a closing no later than October 15, 2006. With an approximate six month construction period, completion and grand opening of the restaurant are expected in the Spring, 2007.

Therefore, it is recommended that the Real Property Sale and Redevelopment Contract between the City and Stimson Partners LLC be amended to provide for KNK Hospitality LLC/David Koch as the new anchor tenant with closing to occur no later than October 15, 2006. Construction will be completed and restaurant open will in the Spring, 2007. Other minor terms will also be amended for consistency.

Stimson Bond Financing.

The Stimson Building acquisition and basic restoration were financed in 2001 with a $6.0 million taxable short-term bond issue through the Common Bond Fund (CBF). The total remaining principal, $5,655,000, comes due December 1, 2006.

While not part of the requested action in this report, it is important to note that the timing and use of the Stimson Building sale proceeds, along with other available funds, will provide the opportunity to retire the existing debt on the Stimson Building without having to issue new long term debt.

Outstanding debt:	$5,655,000
Less:	
Sale proceeds	-2,800,000
Bond reserve	- 900,000
Project acct. bal.	- 423,000
Sign rent (2 yrs)	- 180,000
Add'l cash required	$1,352,000*

*The additional cash required, approximately $1,352,000, is available in the CBF contingency reserve. The Business Finance staff recommended in a February 14, 2006 report to the City Council that the use of a portion ($1.6 million) of the reserve amount be used in this manner as the preferred option over issuing new long term debt for the Stimson Building. That debt may require annual on-going payments to cover possible shortfalls between debt service and the available dedicated revenue stream.

Paying off the Stimson bonds and not incurring new long term debt also provides for the possibility of an early exercise of Stimson Partner's option to purchase the roof-top outdoor advertising lease from the City. This option amount is currently estimated to be approximately $765,000 payable in a one time lump sum payment to the City.