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

Date: October 28, 2008

To: Council Member Lisa Goodman, Community Development Committee Referral to: Council Member Paul Ostrow, Ways and Means/Budget Committee

Subject: Approval of Hollywood Theatre Redevelopment Plan and CDBG Great

Streets Funding to Acquire and Assemble Adjacent Property.

Recommendation: Adopt the Resolution approving the Hollywood Theatre Redevelopment Plan; authorize \$255,000 from the appropriated 2008 Community Development Block Grant for the Great Streets program to acquire 2819 Johnson Street NE

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 On December 20, 1996, the MCDA Board rescinded Hollywood Theatre Preservation, Inc.'s Exclusive Development Rights.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 rehabilitate and begin operation of the theater 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 Community Economic Development Fund (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 theater.

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Approved by: Charles T. Lutz, Deputy Director, CPED							
Cathy Polasky, Director, Economic Policy and Development							
Presenters in Committee: Sharrin Miller-Bassi, Senior Project Coordinator							

Financial Impact

Χ	No fina	ncial	impac	t, funds	allocated to	Great Streets	program.
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X Action is within the Business Plan

Community Impact

Neighborhood Notification: In late 2007 the Audubon Neighborhood designated a focus group, the Hollywood Task Force II to discuss options for the theater. The Interim Use Concept described in this report was discussed with that group and presented to the Audubon Neighborhood. The Audubon Neighborhood has been informed of the proposed acquisition of 2819 Johnson and the proposed Hollywood Redevelopment Plan which identifies the property for possible acquisition.

City Goals: A safe place to call home, One Minneapolis, Connected communities, Enriched environment.

Sustainability Targets: NA

Comprehensive Plan: Policy 1.9: Through a mix and intensity of land uses and transit service, the City will support development along Community Corridors that enhances residential livability and pedestrian access. Policy 1.11: Preserve and enhance a system of Neighborhood Commercial Nodes that includes a mix of housing, neighborhood-serving retail, and community uses. Policy 8.1: Preserve, maintain, and designate districts, landmarks, and historic resources which serve as reminders of the city's architecture, history, and culture.

Zoning Code: Anticipated uses will comply with the property's C1 zoning.

Supporting Information

CPED is seeking approval of the Hollywood Redevelopment Plan which provides the statutory authority to acquire 2819 Johnson Street NE, the adjacent property to the north of the Hollywood Theatre, and \$255,000 in CDBG Great Streets funding for its acquisition and site preparation. The primary goal of the acquisition of 2819 Johnson is to facilitate redevelopment of the adjacent theater. This vacant single family house will be demolished, and the resulting 5,292 sq. foot parcel will be used for loading, servicing the theater and limited parking. It may also facilitate future expansion of the theater for commercial development. By providing better access and service to the theater building, this acquisition increases the likelihood of successfully marketing and developing the theater. A site overview, aerial photo of the subject properties and photos of the Hollywood Theatre and 2819 Johnson are included with this report as Exhibit A. 2819 Johnson is currently owned by YSD, LLC, (YSD) an affiliate of Hillcrest Development. The asking price had been too high to be taken into consideration in the past. YSD was able to purchase the property for the more reasonable price of \$205,000 in March of 2008. Earlier Hillcrest had investigated developing the theater.

Expected costs to purchase and clear the site are:

Purchase price \$205,000 Acquisition related costs 11,372

Holding cost reimbursement 22.06 per day

Estimated site preparation cost <u>25, 500</u>

Total \$250,102 + holding costs

Note: The agreement specifies purchase of the property for the amount of \$224,602 less \$22.06 for each day that the closing date precedes February 27, 2009.

The CPED appraiser has reviewed an independent appraisal and established the fair market value of the property at \$190,000 on July 2, 2008. Given the importance of the parcel to

current concepts under consideration for reuse of the theater it is staff's opinion that the reimbursement of acquisition and holding costs incurred by YSD and payment slightly in excess of fair reuse value is justified.

The Hollywood Theatre Redevelopment Plan is needed to provide the authority to acquire 2819 Johnson. The area to be created also includes the theater and 2800 Johnson. The City objectives to carry out this plan are aligned with the goals of the Audubon Park Small Area Plan. Public purposes corresponding to these objectives will be addressed.

In addition to approval of the Hollywood Redevelopment Plan, CPED is seeking approval of \$255,000 in Great Streets CDBG funds needed for acquisition and site preparation of 2819 Johnson Street NE. The proposed funding source is CDBG funds allocated to the Great Streets program for neighborhood commercial district revitalization. The use of CDBG funds for the acquisition was reviewed by City's Corridor Finance Review Team on July 1, 2008. The committee recommended CDBG funds for several reasons. The value of the City owned property is increased, the goal of blight removal is addressed, and the goal of historic preservation is furthered.

CPED has owned the theater building since 1993 and has offered the property for redevelopment for entertainment use through three Requests for Proposals. These efforts have not yielded results. Over the last two years a new direction has been developed to market the property and focus on a broader array of redevelopment options than had previously been contemplated.

Several key steps have been taken to improve the marketability of the theater building. The neighborhood goals for reactivating the building have been broadened from "entertainment-only" to a wider range of commercial uses. A concept for a flexible approach to reactivate the building was discussed by the HPC on October 14, 2008. The HPC provided guidance and endorsed the presented concept of sensitive and reversible modifications to the interior spaces, including the subdivision of the auditorium space. The protection and preservation, but not necessarily restoration, of some key defining features was also endorsed. The HPC also supported the acquisition of 2819 to aid in the rehabilitation of the theater. The guidelines reduce developer risk by clarifying design and use considerations.

CPED will make very minor alterations to the building to "stage" it for marketing purposes, to allow people to better envision what the space could be. These improvements may include removal of most of the seats, providing lighting for the façade and the interior, replacement of the deteriorated side doors, and cosmetic improvements to the façade and marquee.

Purchase of 2819 Johnson would support CPED's efforts to take the crucial next steps related to the Hollywood that are now supported by the neighborhood and the HPC. CPED is planning to market the Hollywood along with 2819 and 2800 Johnson for development after the staging work is complete in early 2009. CPED will enlist Hillcrest Development's continued pro-bono assistance in marketing the property to potential developers and end users.

Risk assessment: There is the risk that the City may not be able to attract a viable redeveloper of the theater even with the value added by the addition of this parcel and CPED thus would have invested additional resources in this project. The capacity of a Hollywood Theatre project

to repay these or other funds invested to acquire and hold the properties will likely be limited. Even with the change to a more readily marketable use, any development proposal received will likely have a funding gap.

Attachments:

Exhibit A: Site graphics and photos

Hollywood Redevelopment Plan and Resolutions

Resolution

of the

City of Minneapolis

Adopting the Hollywood Theatre Redevelopment Plan

RESOLVED BY THE CITY COUNCIL OF THE CITY OF MINNEAPOLIS:

Section 1. Recitals

- 1.1 Pursuant to Laws of Minnesota 2003, Chapter 127, Article 12, Sections 31-34, and Minneapolis Code of Ordinances, Chapter 415, the City of Minneapolis (the "City"), acting by and through its department of Community Planning and Economic Development ("CPED"), has been granted the authority to propose and implement city development districts, housing and redevelopment projects and tax increment financing districts, all pursuant to Minnesota Statutes, Sections 469.001 through 469.134, and 469.174 through 469.179, as amended, and other laws enumerated therein (collectively, the "Project Laws").
- 1.2 CPED has prepared facts and this Council has investigated the facts with respect to a proposed Hollywood Theatre Redevelopment Plan (the "Plan"). The Plan creates a new redevelopment project area (the "Project Area") to facilitate redevelopment of the Hollywood Theatre building at 2815 Johnson Street Northeast and related properties, all pursuant to and in accordance with the Project Laws.
- 1.3 The City has performed all actions required by law to be performed prior to the adoption of the Plan, including, but not limited to, a review of the proposed Plan by the affected neighborhood groups and the City Planning Commission, and the holding of a public hearing after published and mailed notice as required by law.
- 1.4 The Council hereby determines that it is necessary and in the best interests of the City at this time to approve the Plan.

Section 2. Findings for the Adoption of the Plan

2.1 The Council hereby finds, determines and declares that the objectives and actions authorized by the Plan are all pursuant to and in accordance with the Project Laws.

- 2.2 The Council hereby finds, determines and declares that the Plan will afford maximum opportunity, consistent with the sound needs of the City as a whole, for the redevelopment of the Project Area by private enterprise. The proposed redevelopment removes blight and blighting influences, stabilizes an historic resource, and increases the supply of housing.
- 2.3 The Council hereby finds, determines and declares that the Hollywood Theatre Redevelopment Project (the "Redevelopment Project") qualifies as a Redevelopment Project as defined in the Minnesota Housing and Redevelopment Authorities Act (Minnesota Statutes, Section 469.002, Subdivisions 14 and 16). The Project Area qualifies as a "blighted area" as defined in the Minnesota Housing and Redevelopment Authorities Act (Minnesota Statutes, Section 469.002, Subdivision 11).
- 2.4 The Council hereby finds, determines and declares that the Project Area includes vacant and underutilized buildings that are detrimental to the community by reasons of dilapidation, obsolescence, overcrowding, faulty arrangement, lack of ventilation and structural damage. The vacant and substandard buildings undermine the value of adjacent property, are an uneconomic use of the land, and are considered a blighting condition.
- 2.5 The Council further finds, determines and declares that the Plan conforms to the general plan for the development or redevelopment of the City as a whole. Written comments of the Planning Commission with respect to the Plan were issued, are incorporated herein by reference, and are on file in the office of the City Clerk.
- 2.6 The Council hereby finds, determines and declares that the land in the Project Area would not be made available for redevelopment without the financial aid to be sought.
- 2.7 The Council further finds, determines and declares that it is necessary and in the best interests of the City at this time to approve the Plan.

Section 3. Approval of the Plan; Creation of Project Area

3.1 Based upon the findings set forth in Section 2 hereof, the Hollywood Theatre Redevelopment Plan presented to the Council on this date is hereby approved and shall be placed on file in the office of the City Clerk.

Section 4. Implementation of the Plan

4.1 The officers and staff of the City, and the City's consultants and counsel, are authorized and directed to proceed with the implementation of the Plan, and for this purpose to negotiate,

draft, prepare and present to this Council for its consideration, as appropriate, all further modifications, resolutions, documents and contracts necessary for this purpose.