

Minneapolis Community Development Agency

Request for City Council Action

Date: June 10, 2002

To: Council Member Lisa Goodman, Community Development Committee
Council Member Barbara Johnson, Ways and Means/Budget Committee
Refer to: MCDA Board of Commissioners

Prepared by Jim White, Senior Project Coordinator, Phone 612-673-5170

Approved by Chuck Lutz, MCDA Interim Executive Director _____

Subject: Chicago & Lake Project Appropriation Increase and Status Report

Previous Directives: December 3, 1997, authorized a \$2,000,000 Leveraged Investment Account loan and a \$200,000 NRP Loan to STA Associates, Inc.; July 17, 1998, approved \$500,000 in MILES funding for retrofit items; October 24, 1997, and April 24 and October 30, 1998, authorized grant applications to and receipt of \$4,600,000 from Metropolitan Council Tax Base Revitalization Account; Fall 1998 authorized Federal Empowerment Zone designation for the project area and receipt of \$3,000,000 from HUD; March 25, 1999, approved Empowerment Zone funding for retrofit items, pollution abatement and a childcare facility; April 9, 1999, appropriated \$650,000 in FUND CBG and waived 3% City admin fee; June 1999 authorized application to HUD for an \$8,500,000 Economic Development Initiative grant and loan for parking ramp construction contingent on application for a \$6,500,000 Section 108 loan; July 19, 1999, directed staff to proceed with ramp construction financing and development plans and require STA to meet certain conditions before ramp construction could begin. On March 12, 2001, the City Council confirmed a settlement in lieu of foreclosure between MCDA and STA Associates, Inc., and STA Development Corporation regarding the Great Lake Center, and authorized the necessary steps to implement the settlement, including the direction to refer the appropriation requests to City Council to secure the funds needed for the settlement. On August 10, 2001, the Board of Commissioners confirmed the settlement terms in lieu of foreclosure for a lender to lender workout with Marquette Bank regarding the Great Lake Center project.

Ward: 8

Crown Roller Mill,
105 Fifth Ave. S., Suite 200
Minneapolis, MN 55401-2534
Telephone: (612) 673-5095
TTY: (612) 673-5154
Fax: (612) 673-5100
www.mcda.org

Neighborhood Group Notification: The Chicago Lake Review Committee, comprised of representatives from the affected neighborhoods and businesses, received a copy of this report.

Consistency with *Building a City That Works*: The requested actions and recommendations are consistent with goals to remove blight and strengthen neighborhood commercial corridors and nodes.

Comprehensive Plan Compliance: The requested actions aren't at the point of specificity where Comprehensive Plan Compliance is an issue.

Zoning Code Compliance: Nothing in this report deals with zoning issues.

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):

Living Wage / Business Subsidy: N/A

Job Linkage: N/A

Affirmative Action Compliance: All vendors will comply with City /MCDA policies

Recommendation: That the City Council amend the 2002 MCDA Appropriation Resolution to establish appropriation in Fund EDP (Defaulted Property Management) of \$957,000, and to establish a revenue budget for Fund EDP (3715 - Rental Income) of \$957,000. Forward to the MCDA Board of Commissioners.

That the MCDA Board of Commissioners authorize a waiver of the MCDA procurement policy to obtain professional services of the Kraus-Anderson Construction Company.

The MCDA took title to the former Sears property at Chicago and Lake Street at the end of December 2001. The property includes the following components: the 1928 Tower complex, the 1964 Annex, the 1979 MDI building, a vacant single family lot, and three large surface parking lots. The following report provides a summary of the current status of the development, and requests appropriation authority to use the rental income from the project for ongoing property expenses, contracting for professional services, and purchasing a house at 2901 11th Avenue South for inclusion in the project.

Status of United Properties Development Rights

MCDA's workout agreement with Marquette Bank keeps the bank's investment in the property. Marquette Bank holds a no-interest mortgage on the property for approximately \$7 million. MCDA must get Marquette Bank's approval for any sales, leases, or improvements and other activities involving the property. The agreement calls for a six-month option for its development subsidiary, United Properties, to propose a development project for the MCDA to consider.

United Properties presented a development scenario to MCDA, which included demolishing the 1928 Tower building¹, and reusing the 1979 building as a ramp for Abbott Northwestern Hospital (ANH)². After discussing the pros and cons of United's proposal, MCDA and United Properties agreed that United would waive its development rights and withdraw from pursuing their plan.³

The entire former Sears property is currently managed, under contract with MCDA, by United Properties' property management division. The projected rental income for 2002 is \$957,000. Expenses and revenues will be nearly equal, given the extent of deferred maintenance on the property. The MCDA is current on all taxes and utilities. Beginning on January 2, 2003, the parcels not leased to private businesses will be tax exempt. Those parcels that have leases will still pay ad valorem property taxes.

Special Tax Increment Legislation

During the 1997-98 Legislative Session, the City and MCDA sought and received special tax increment legislation to allow for the construction of public parking ramps and a longer than usual district duration to allow phasing of the project's completion over several years, because of its sheer size.

The MCDA expects to appear before the City Council this year seeking approval to begin implementing this legislation for Chicago Lake. The first development piece will be the proposed Abbott Northwestern Hospital ramp at 28th and Chicago. It is a necessary element for Abbott's new heart hospital expansion.

The City's overall goals for the project are: 1) eliminating blighting influences, 2) providing needed redevelopment including commercial, industrial, and retail services within the community, 3) securing additional parking for Abbott Northwestern Hospital's expansion needs, 4) providing a project which would employ people from the surrounding neighborhoods, and 5) development of a housing component within the project.

Development Process

¹ The 1928 Tower building is eligible for inclusion on the National Register of Historic Buildings, and MCDA has signed a HUD 106 Agreement which requires adherence to Interior Department guidelines for building restoration.

² ANH commissioned an independent feasibility study of reusing the MDI building for a ramp and concluded it was twice as costly as a newly constructed ramp.

³ See attached letters from United Properties.

An overriding goal of the MCDA is to get out from under the existing debt on the property as soon as possible. At this time there are a number of interested development entities and tenants who would like to be a part of the project. Two courses of action are available. The first involves the MCDA preparing and issuing an RFP to a broad list of developers, as well as advertising in newspapers and professional publications geared to the development industry. A period of 60 days to receive responses would be a reasonable length of time considering the complexity of the project.

Respondents who were unqualified would be weeded out through a selection process that examined qualifications, a solid track record, the financial capacity to undertake the effort, and the willingness to adhere to the City's vision and goals. The responses received would be rated and forwarded to the Council along with staff and community recommendations. The entire process could last well into the fall.

A second option would be to self-develop portions of the project immediately. The front 4-story section of the Tower building and the 1964 Annex over the Midtown Greenway are nearly self-contained units that can be up and functioning independent of the main 12 story Tower building. The 1964 Annex already has an occupancy permit, is fully sprinklered, and has new fire doors and insulation.

The self-develop direction has several potentially attractive benefits. It would capture the current construction season while retaining tenants who could be occupants as soon as the first half of 2003. Nearly as important, it could help the City in seeking additional grant funds for the project because there would be tangible progress to report. The RFP process would still be available for the center portion of the Tower building, either immediately, or at a later date.

There is no scenario that is totally risk free for the City. A worst case scenario in the first approach would be for the City to select a non-performing or poorly performing developer who would further delay and encumber the project. A worst case scenario in the second approach might leave the City with a 12 story Tower structure that no one wanted to develop because the City had decreased its value through a piecemeal approach that lacked overall continuity and integration.

In order to fully work through the risk, cost, and benefit analysis of these two different approaches in the shortest time period, staff is recommending that the MCDA immediately retain the services of professionals in the areas of development finance, marketing and construction. There are a number of good local and national individuals and firms that can be enlisted in the effort. These consultants can then advise the Agency in its recommendations on the best development strategy for the project.

The Agency's professional services procurement policy will be followed in the selection of these experts. In one case, however, a waiver of this policy is requested. The

Kraus-Anderson firm has extensive and up-to-date knowledge of the facility because of its recent involvement at the former Sears complex.⁴ For this reason, staff is recommending a waiver of Board professional services procurement policy to directly retain this firm for its history and information regarding the rehabilitation efforts of the previous developer.

Abbott Northwestern Hospital

The MCDA's agreement with Marquette Bank contemplates the sale of the northwest portion of the project to Abbott Northwestern Hospital for its employee parking needs. At this time, Abbott is focused on its heart hospital expansion and required parking ramp. At some time in the near future, the remainder of the north portion of the former Sears property will be important as potential expansion space for the hospital.

The Agency believes that the remainder of the property north of the Greenway and not a part of the ramp project, can be left functioning as it is with its existing tenants until more is known about Abbott Northwestern Hospital's future expansion possibilities.

2901 11th Avenue South

The purchase by MCDA of a single-family house at 2901 11th Avenue South presents an opportunity to create a large unified parcel that is well suited for a future housing development adjacent to the Midtown Greenway. This property is in good condition, for sale at \$110,000, and vacant. It sits next to an 88-car parking lot that is part of the former Sears complex. We propose moving this house to an MCDA owned lot at 2815 10th Avenue South, acquired as part of the former Sears property. The Agency has received an offer by Project for Pride in Living (PPL) to do this.

In the interim the resulting vacant lot at 2901 11th Avenue South would be used as part of the adjacent parking lot. This operation will cease when Abbott Northwestern Hospital opens its proposed new ramp at 28th and Chicago. At that time the parcel could be marketed for a housing development, returning it to the residential character this block once had. The Midtown Phillips neighborhood organization has recommended this acquisition. The purchase of this house is part of the appropriation actions recommended in this report. A separate MCDA Board report discusses this proposal in more detail.

6 10 02 sears update
JW:ta

This report was prepared by Jim White. For more information, call 612-673-5170.

⁴ See attached letter, Kraus-Anderson Company

