



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

Date: August 24, 2004

To: Council Member Lisa Goodman, Community Development Cmte

Prepared by: George Kissinger, Phone 612-673-5014

Presenter in Committee: George Kissinger, Senior Project Coordinator

Approved by: Chuck Lutz, Deputy CPED Director _____

Subject: Ivy Tower Redevelopment Agreement, amendment extending Developer's time of performance.

RECOMMENDATION: That the Redevelopment Agreement with Ivy Tower Minneapolis, LLC be amended, extending time of Developer's performance and Conditions Precedent to City Acquisition from August 31, 2004 to May 31, 2005 (9 months).

Previous Directives: December 14, 2001, approval of terms and authorization of Redevelopment Agreement, approval and adoption of related Tax Increment Financing Plan and Redevelopment Plan (Resolution 2001R-516). October 1, 2002, amendment extending Developer's performance and Conditions Precedent to Acquisition under Redevelopment Agreement from February 28, 2003 to February 28, 2004 with possible further six month extension to August 31, 2004 if Redeveloper shows progress toward leasing and financing. Redeveloper to consider adding housing component in effort to enhance project feasibility.

Financial Impact (Check those that apply)

- No financial impact - or - Action is within current department budget.
(If checked, go directly to next box)
- 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): See body of report.
- Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact (Summarize below)

Ward: 7

Neighborhood Notification: The Downtown Minneapolis Neighborhood Association (DMNA) has been previously informed on the Ivy Tower Project. The DMNA will be forwarded advance drafts of amended Redevelopment Plan and Tax Increment Financing Plan, when distributed.

City Goals: The Ivy Tower Project furthers the City goals of preserving the historic environment while also enhancing downtown as a place to live, work, play and do business.

Comprehensive Plan: The historic restoration of the Ivy Tower Building will help preserve the "City's Form" by preserving a structure that helps define the City's unique identity in the region.

Zoning Code: Zoning is B4S-2 and the project will comply.

Living Wage/Job Linkage: The Developer will comply with CPED policies on prevailing wage and apprenticeship programs.

Background/Supporting Information.

As initially proposed in mid 2001, the Ivy Tower project consisted of the historic restoration of the Ivy Tower Building accompanied by development of approximately 235,000 square feet of new high-rise office space. During the initial term of the Redevelopment Agreement with Ivy Tower Minneapolis LLC (Developer), several new office projects came on line and the office market became over built with a resulting Class A office vacancy rate holding in the 20% range. There was, and there continues to be, an overabundance of office space in the downtown market. At the time of the first requested time extension in 2002, the Developer was encouraged to look at housing as a replacement for offices given the current market.

Request for Additional Time and Justification.

The first extension was for a period of 18 months and the Redeveloper has now asked for additional time (up to an additional 9 months). Importantly, during this 18 month period the Developer has changed directions and has responded to the current market: offices have been replaced by housing (including affordable housing in accordance with the City's Affordable Housing Policy), there is now a hotel component (124 rooms), and there is also supportive commercial/retail on site featuring a fitness center/ spa-salon. There is sufficient on-site underground parking to support the project (140 spaces). Connections to the skyway system remain integral to the project.

The additional time is needed to finalize the design concept, plan hotel operations and management, secure financing and begin necessary marketing.

Current Status.

The Developer has most recently been working on housing feasibility and market analysis, developing and sizing of the hotel component, overall project functionality and preliminary design concept, including costing, and also planning and structuring the project's debt and equity financing. This work has progressed to the point where the Developer has been able to work with the City on the necessary amendments and modifications to the Redevelopment Agreement, Redevelopment Plan and Tax Increment Financing Plan.

Ivy Tower Redevelopment Plan and Tax Increment Financing (TIF) Plan.

As a result of the shift from office to housing uses within the project, the Redevelopment Plan will need to be modified. Within the now specified housing land use, affordable housing will be added as an additional public objective.

The original TIF Plan called for TIF assistance through the issuance of taxable revenue notes payable solely from tax increment generated from the Ivy Tower TIF District and potential developer payments, subject to corporate and personal guarantees. The original TIF Plan calls for such notes in an amount not to exceed \$9.5 million. With the development program change from office to housing/hotel, and with the kind and structure of debt instruments now acceptable in the lending market three years later, the TIF must be restructured. As a result, it is proposed that the TIF Plan be modified to allow for the issuance of tax exempt tax increment revenue bonds and the issuance of a taxable pay as you go tax increment revenue note. The size of these financing instruments is currently being determined and they will, together, total no more than the original \$9.5 million.

Proposed Timing.

Subject to approval of this report, the Ivy Tower Redevelopment Plan (Plan) and Tax Increment Financing (TIF) Plan draft modifications would be distributed beginning August 12th. A public hearing to consider these modifications would be scheduled September 14th with notice of public hearing published September 16th. This matter would come before the Committee of the Whole of the City Planning Commission also on September 16th. The Community Development Committee would then hold the public hearing at the meeting of September 28th (Ways and Means Budget Committee October 4th) with final consideration at the City Council meeting of October 8th. If approved, the Redevelopment Agreement would be amended one more time to reflect the modified Redevelopment Plan and TIF Plan.