



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

Date: July 11, 2006

To: Council Member Lisa Goodman, Community Development Committee

Subject: Project Analysis Authorization: Sherman Associates Bennett Lumber site housing project (2828 Dupont Avenue)

Recommendation: Authorize staff to continue analysis of the Bennett Lumber site housing proposal; negotiate terms and conditions of a redevelopment contract with Sherman Associates or an affiliated entity as the general partner; and prepare a redevelopment plan and tax increment financing plan for this project, subject to final determination of project eligibility, required reviews, public input, notices and hearings.

Previous Directives: None

Prepared by: Jerry LePage, Sr. Project Coordinator **Phone:** 673-5240

Approved by:

Elizabeth Ryan, Director of Housing Policy & Development _____

Jack Kryst, Director Development Finance _____

Permanent Review Committee (PRC) Approval Not Applicable

Note: To determine if applicable see <http://insite/finance/purchasing/permanent-review-committee-overview.asp>

Presenter in Committee: Jerry LePage, Sr. Project Coordinator

Financial Impact (Check those that apply)

- No financial impact (If checked, go directly to Background/Supporting Information).
- 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.
- Other financial impact (Explain):
- Request provided to department's finance contact when provided to the Committee Coordinator.

Community Impact (use any categories that apply)

Neighborhood Notification: The Lowry Hill East Neighborhood Association has been notified of that this report will be presented to City Council.

City Goals: Increase the city's population and tax base by developing and supporting housing choices citywide through preservation of existing housing and new construction.

Comprehensive Plan: Section 4.9: Minneapolis will grow by increasing its supply of housing. Section 4.10: Minneapolis will increase its housing that is affordable to low and moderate income households. Section 4.11: Minneapolis will improve the availability of housing options for its residents.

Zoning Code: To permit the proposed development, the developer plans to request a zoning change by either adding a housing overlay to the existing I1 and I2 zoning (Light & Medium Industrial) or to rezone to a R5 or R6 residential classification.

Other: N/A

Background/Supporting Information:

When initially proposed in 1998, the Urban Village project included the partial redevelopment of three blocks, Aldrich to Bryant, Bryant to Colfax and Colfax to Dupont, between the Midtown Greenway and 28th Street, converting the land use from commercial/industrial uses to higher-density housing. When the City Council approved the Tax Increment Finance District and Plan in 2000, the project was split into two phases. Phase I included the Aldrich to Bryant area (developer: Country Home Builders) and Bryant to Colfax area (developer: Lander/Sherman) blocks, leaving the Colfax to Dupont area for Phase II.

Earlier this year, Sherman Associates secured site control through purchase agreement of what was called Phase II area (which now includes the two blocks between Colfax to Emerson) and has submitted a request for public financial assistance to develop the proposed rental and ownership housing in this area.

Development Proposal

Sherman Associates proposes to develop a 190-unit housing project, consisting of 152 market rate ownership units and 38 affordable rental units, adjacent to the 29th Street Greenway Corridor. The proposal also calls for the conversion into ownership housing of the 1906 Twin City Separator Building (as known as the Denneson building), which is adjacent to the Midtown Greenway and is currently vacant. The project will have a total of 265 parking spaces (235 underground and 30 surface spaces). The Phase II site includes the Bennett Lumber property (2820 & 2828 Dupont and 2828 & 2836 Colfax) and the "boat house" property (2821 & 2825 Dupont). The total site will be 149,410 sq. ft. or 3.43 acres.

The 190 housing units that will be developed in this two-block area will be located in six buildings: five new structures and the rehabilitated historic Denneson building. The east block (between Colfax and Dupont) will have 89 ownership units, including 9 units in the Denneson building. The west block (between Dupont and Emerson) will have 63 ownership units and 38 rental units. The average sales price of the market rate ownership units is approximately \$320,000. Development will occur over a three year period, with construction on the first building (on the east block) projected to start in spring 2007, and completion of the sixth and final building (on the west block) projected in spring 2010. Sherman has selected Elness-Swenson-Graham (ESG) as the project architect, and the site plan and elevations are attached as **Exhibit 1**.

Proposed Financing and TIF Proposal

The total development cost (TDC) of the project is estimated at \$61.7 million, consisting of \$8.8 million for the rental component and \$52.9 million for the ownership component. At this point, all development cost estimates are preliminary and subject to further CPED review and analysis. The

project will have 38 rental units affordable at 50% of Metropolitan Median Income (MMI), which meets the 20% requirement under the City Affordable Housing Policy. Additional project information, including proposed sources and uses, is included on the attached Project Data Worksheets (**Exhibit 2** – rental housing, and **Exhibit 3** – ownership housing).

The developer is requesting an estimated \$7.4 million in tax increment assistance (i.e. gross TI amount) to fund tax increment eligible costs, including site assembly, rental affordability, and historic rehabilitation. The proposed financing mechanism for this TIF assistance for the ownership and rental housing is the City's issuance of taxable TIF revenue bonds, with a tax-exempt take-out when the project is constructed and fully assessed. Of the \$7.4 million in gross TI, approximately \$1.4 million would be needed for bond issuance costs and capitalized interest, leaving \$6 million in net TI available to fund eligible costs. These numbers are preliminary estimates and are subject to further analysis and negotiation.

Sherman's financial proposal for the rental housing component also includes a request for tax exempt housing revenue bonds (approximately \$1.1 million), plus the use of automatic 4% tax credits. The developer is also considering the submission of applications for affordable housing gap funding to MHFA, Hennepin County (AHIF), and the City (AHTF), and possibly applications to the Metropolitan Council and Hennepin County for funding for contamination cleanup and other project costs.

At this point, the proposed project timeline is as follows:

- Consideration of Project Analysis Authorization (PAA) by the City Council in July 2006
- Consideration of preliminary housing revenue bond (HRB) approval by the City Council in October 2006
- Consideration of redevelopment contract business terms, the creation of the redevelopment project and TIF District, and final HRB approval by the City Council in the fall of 2006
- Construction start on first building on the east block in spring 2007

Results of Preliminary Staff Analysis

Based on the preliminary review to date, staff concludes that a) the Application for Public Financial Assistance is complete; b) the project appears feasible, based on the preliminary information that the developer has submitted; and c) some level of public financial assistance may be justified. Further analysis following PAA approval will include the formal blight analysis and evaluation of eligibility for either a Redevelopment TIF district or a Housing TIF district.

Preliminary analysis of the project budget suggests that tax increment should be considered to fund the gap created by the creation of the affordable housing units, the historic rehabilitation of the Denneson building, and high site assembly costs (including acquisition and relocation). While the developer has completed a preliminary analysis of the potential tax increment that the proposed project would generate, CPED's estimated tax increment amount will be contingent on the assessor's determination of value, obtained after the City Council approval of the PAA.

Sherman Associates is proposing a developer fee of \$5,250,000 for the ownership component of the project, which is approximately 11% of the ownership TDC and therefore within the maximum allowed under CPED's Developer Fee Policy. The proposed developer fee for the rental housing (\$1,050,000) is also within the maximum allowed for a rental project under City policy. However, these proformas, including the proposed developer fees, will be subject to further review and analysis, and the final fee amounts must be consistent with the Developer Fee Policy.

As we proceed with the project analysis stage, staff will be addressing a number of the business term issues: 1) the appropriate level of public assistance; 2) the City's issuance of TIF revenue bonds as a financing mechanism for the ownership and rental housing; 3) analysis of appraisals of the Bennett Lumber property and the "boat house" property that will be provided by Sherman to determine if the proposed prices are reasonable and at market; and 4) the negotiation of profit participation by the City on the market rate ownership units.

In terms of City plans and policies, the proposed development meets a number of public purposes, including: accommodation of growth/density along an identified corridor, facilitation of improved access to public transportation, and the City's goal of creating affordable housing. The proposal has a density of about 56 DU/acre, which is consistent with the Urban-Oriented, high-density housing designation for this site (40-120 DU/acre) in the Midtown Greenway Land Use and Development Plan, which is almost complete. The Bennett Lumber site is also likely to be included within the boundaries of the Uptown area for the purposes of the Uptown Small Area Plan process, which is in its early stages. Sherman's development proposal also includes public access points and pathways that will connect it to the Greenway. Sherman has indicated that it has presented its development plan to the Midtown Greenway Coalition and to the Lowry Hills East Neighborhood Association (LHENA).

The developer plans to submit a land use application to CPED Planning Division, which would include a request to change the existing zoning (I1 and I2) by either adding an housing overlay district or rezoning to a residential classification (R5 or R6). The developer is also working with CPED/HPC staff regarding the demolition of three Bennett warehouse buildings that are contributing buildings in the Chicago-Milwaukee-St. Paul Grade Separation Historic District. However, the Denneson Building, which is the oldest of the buildings that are part of the Bennett property, will be preserved and converted to housing. The proposed demolition of the contributing warehouse buildings will be considered by the HPC sometime in July or August.

Project Analysis Fee

If the Project Analysis Authorization is approved by the City Council, the developer will be assessed a nonrefundable project analysis fee of \$11,000. This fee amount is based on the estimated cost of staff time and other expenses up to the point in time when the request for public financial assistance is either approved or denied by the City Council. Acceptance by the City of the application or project analysis fee does not signify a commitment on the part of the City to grant approval of any requested public assistance.