



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

Date: May 16, 2006
To: Council Member Lisa Goodman, Community Development Committee
Subject: Heritage Park Redevelopment Project – Phases 3 & 4

Recommendation:

Authorize an additional 60 days to negotiate a term sheet with Centex Homes – Minnesota Division for Heritage Park Redevelopment Project – Phases 3 & 4.

Previous Directives:

On July 30, 1999, the City Council approved the Near North Community Redevelopment Plan. On March 24, 2000, the City Council approved the Near Northside Master Plan. On May 12, 2000, the City Council and the MCDA Board of Commissioners approved a Near Northside Master Development Agreement with McCormack Baron. On December 29, 2000, the City Council approved amending a term in the Near Northside Master Development Agreement extending the length of time that the development agreements are executed among all the parties. On December 27, 2002, the City Council approved amending the Near Northside Master Development Agreement with McCormack Baron & Associates.

On May 2, 2003, the MCDA Board of Commissioners authorized staff to enter into negotiations with Heritage Housing, LLC based on their proposed Scope of Services, returning with a term sheet within 90 days. On August 8, 2003, the City Council approved the business terms and conditions for the Development Agreement for Heritage Park Phases 1 and 2, with Heritage Housing, LLC; increased the appropriation and revenue in Fund SDA by \$668,000. On August 8, 2003, the MCDA Board of Commissioners authorized the sale of property to Heritage Housing, LLC; approved the business terms and conditions; and authorized the execution of a Development Agreement with Heritage Housing, LLC for Phases 1 and 2 of the Heritage Park Redevelopment Project.

On May 28, 2004, the City Council authorized the appropriate City officials to execute an amendment to the Phase 1 and 2 Heritage Park Redevelopment Contract with Heritage Housing, LLC increasing the total number of for-sale units to be developed and providing an option for a future commercial component. On May 28, 2004, the City Council authorized amending the 2004 General Appropriation Resolution by increasing the Community Planning & Economic Development Agency, Fund CPO – Capital Projects Other (CPO0-890-8952) appropriation by \$16,000 and increase the 2004 Revenue Budget for the Community Planning & Economic Development Agency Fund CPO – Capital Projects Other (CPO0-890-8490) by \$16,000.

On April 29, 2005, the City Council authorized a second amendment to the Heritage Park Redevelopment Contract with Heritage Housing, LLC extending the commencement and completion timeframes for Phases 1 and 2; amending Section 5.05 Construction Plans and Specifications and amending Section 11.02 Phases 3 and 4 Improvements.

On March 31, 2006, the City Council authorized 30 days to negotiate a term sheet with Centex Homes – Minnesota Division for Phases 3 & 4 of Heritage Park and accepted the withdrawal letter from Heritage Housing, LLC.

Prepared by: Cherre' Palenius, Sr. Project Coordinator **Phone:** 673-5241

Approved by: Chuck Lutz, Deputy Director CPED _____

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: Cherre' Palenius, 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 Near Northside Master Plan, which includes Phases 1 and 2 of Heritage Park, was comprised with extensive community involvement in 2000. In March 2003 residents from both the Harrison and Near North neighborhoods selected Heritage Housing, LLC as the recommended developer for the ownership housing to be developed in Heritage Park. On April 15, 2003 the Harrison neighborhood housing committee and board recommended Heritage Housing, LLC to develop the for sale housing in the first phase of Heritage Park, based on responses from community meetings. On February 17, 2004, the Harrison neighborhood housing committee approved Heritage Housing, LLC's request to develop a mixed-use building at Heritage Park.

City Goals: Foster the development and preservation of a mix of quality housing types that is available, affordable, meets current needs and promotes future growth.

Comprehensive Plan: Sections 4.09, 4.10 and 4.15: Minneapolis will grow by increasing its supply of housing and will increase the housing that is affordable to low and moderate income households. Minneapolis will carefully identify project sites where housing redevelopment and/or housing revitalization are the appropriate responses to neighborhood conditions and market demand.

Zoning Code: Projects will comply with proper zoning.

Other: N/A

Background/Supporting Information

In January, 2006 Heritage Housing, LLC (HLLC) presented a preliminary development proposal to CPED and MPHA for Phases 3 and 4, which included Centex Homes as the sole builder. HLLC subsequently withdrew from these subsequent phases, deciding to focus on completing their current development in Phases 1 and 2.

Notwithstanding HLLC's withdrawal of its proposal, Centex Homes has requested to exclusively negotiate a development agreement with the City, as the sole developer for Phases 3 & 4. Such an action is consistent with the direct sale provision of the City's Land Disposition Policy. In March, 2006 staff received authorization to negotiate for 30 days with Centex Homes.

Present Situation

During negotiations, staff was informed that the rental developer encountered pockets of contamination in Phase 3 caused by illegal dumping that occurred in the early 1900's. In addition, Centex indicated that the geotechnical/soil correction costs for Phases 3 & 4 would be significantly higher than previously anticipated. CPED engineering staff will need more time to complete their review and analysis of the existing soil conditions (contamination and geotechnical) and Centex's proposal to correct these site conditions. In addition, CPED and Centex will establish meetings to determine if the Met Council and/or Hennepin County Brownfields funds would be available on a reimbursement basis. In addition to the site conditions, an appraisal establishing the "as is" fair market value of the MPHA-owned parcels, and the CPED-owned parcel has been ordered. Staff estimates the appraisal will be completed in about four weeks. These additional due diligence procedures are a critical component for negotiations with Centex and would be needed should CPED decide to issue an RFP.

Once the site condition methods/costs and the appraisal is completed, staff will need approximately 3-4 weeks to complete our negotiations with Centex and MPHA. Therefore, staff is requesting authorization to continue negotiations with Centex Homes for Phases 3 & 4 of the Heritage Park Redevelopment Project for an additional 60 days. If an agreement is reached on business terms during this timeframe, staff will return to the City Council seeking authorization to enter into a redevelopment contract with Centex Homes.

If, after completing the appropriate due diligence steps, staff is unable to reach an agreement with Centex, CPED will proceed to issue a Request for Proposals (RFP) seeking a developer to complete all or a portion of the Heritage Park Redevelopment Project in accordance with the previously established and approved Near Northside Master Plan.