



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

Date: August 5, 2014

To: Council Member Lisa Goodman, Community Development and Regulatory Services Committee

Subject: Project Analysis Authorization – 800 West Broadway Redevelopment (800 West Broadway Ave & 2019 Aldrich Ave N)

Recommendation: Direct and authorize staff to continue analysis of the 800 West Broadway Redevelopment proposal to determine if tax increment financing (TIF) assistance is appropriate and justifiable. If further directed analysis concludes TIF assistance is appropriate, then staff requests authorization to negotiate the terms and conditions of a redevelopment contract and prepare redevelopment and TIF plans for the project as needed. All such terms and conditions, plans, and other provisions would be subject to future City Council review, discussion, and approval or denial.

Previous Directives: On April 25, 2014 the City Council approved an application for a \$205,000 Metropolitan Council Tax-Base Revitalization Account Grant.

Department Information

Prepared by: Erik Hansen, Principal Project Coordinator, 612-673-5022

Approved by: Catherine A. Polasky, Economic Development Director _____
Charles T. Lutz, Interim Director of CPED _____

Presenters in Committee: Erik Hansen

Financial Impact

- The \$13,022 PAA fee, to be paid by the Developer following Project Analysis Authorization by the Council, will pay for staff time and other expenses associated with analysis of the project up to the point of establishment of a TIF district.

Community Impact

- Neighborhood Notification – This project will be reviewed by the Hawthorne Neighborhood Council. Staff held a general community wide meeting on April 29, 2014 and will hold another community wide meeting in September.
- City Goals –
 - One Minneapolis: Disparities are eliminated so all Minneapolis residents can participate and prosper.
 - A hub of economic activity and innovation: Businesses – big and small – start, move, stay and grow here.
- Comprehensive Plan – This project supports many policies in Chapter 4, Economic Development.
- Zoning Code – This project will comply with all requirements of the applicable zoning district.

Supporting Information

This proposed project is located at the northwest corner of West Broadway and Aldrich Avenues in North Minneapolis. The project site includes two properties, 800 West Broadway and 2019 Aldrich Ave. N. The 800 West Broadway Ave parcel contains a 47,000 square-foot two-story vacant tax-forfeit commercial building that Sherman Associates (the “Developer”) proposes to rehabilitate into a multi-use commercial office and retail building. The 2019 Aldrich Ave parcel is a bank-owned property with an existing vacant duplex that the Developer will demolish for parking.

The project concept results from a request for proposals that the State of Minnesota issued to relocate the current North Minneapolis Workforce Center from Plymouth Avenue to West Broadway. The State of Minnesota selected the Developer’s proposal for 800 West Broadway and will occupy about 12,000 square feet of the building’s first floor.

The 800 West Broadway parcel, as tax-forfeit property, is currently under the control of Hennepin County. The City of Minneapolis would need to purchase the property from Hennepin County for redevelopment purposes and then sell it to the Developer. Hennepin County has agreed to sell the property for \$1 if the Developer pays \$50,000 in holding and transactional costs. Staff plans to bring a Request for Council Action for authority to purchase and sell this parcel to the Developer. The Developer currently has a purchase agreement to buy the 2019 Aldrich Ave. N. parcel from the owner, Sunrise Bank.

City staff has worked with the Developer, the State of Minnesota and multiple job-skill and educational training providers to tenant the project as an education and job training center serving North Minneapolis. The project tenants will provide programming and target residents of the Near North community to address job-readiness and educational attainment disparities. The Near North community lags far behind the City as a whole in high school equivalency achievement for adults over 25. Three out of five residents over 25, or twice the citywide average, in Near North have a high school diploma or less.

	Total	%	
Near North Community (25 years and older)	16,405	100%	Mpls Average
Less than high school	4,409	26.90%	12.30%
High school diploma or GED	5,194	31.70%	19.70%
Some college or associate’s degree	4,090	24.90%	24.70%
Bachelor’s degree	1,869	11.40%	27.60%
Graduate or professional degree	843	5.10%	15.70%

Participants in the center include the State of Minnesota Workforce Center, Minneapolis Public Schools, Northpoint Health and Wellness Center, Minneapolis Community and Technical College, and Minnesota State University, Mankato. These tenants will occupy about 41,000 square feet of the building with the remaining 6,000 square feet reserved for yet-to-be determined retail tenants.

The project site has multiple barriers to the redevelopment, supporting the “but for” test for the use of TIF. The redevelopment costs of the building will exceed the value of the finished building based on construction costs and market conditions, creating a financial gap. The City’s commissioned appraisal identifies the need for significant public subsidy for a development to take place.

The property has been vacant since 2006 and tax-forfeit since 2010. Over this time the building condition has deteriorated to a point to require full replacement of the building's systems, roof, and many exterior elements (such as windows, doors, etc.). The building has documented environmental contamination including lead based paint, asbestos-containing materials and soil contamination.

The building is functionally obsolete so redevelopment opportunities are scarce. The building floor plates are large and rectangular (about 25,000 square feet per floor) which are challenging to tenant given market conditions and standard retail and office space requirements. Site assembly is required to provide adequate parking to serve tenant needs.

Finally, the United States Department of Health and Human Services (HHS) has a Notice of Federal Interest lien on the property which is a substantial barrier to redevelopment. HHS has indicated that the educational and job training uses proposed for the site would satisfy the conditions of the lien.

Project Financing Overview

The estimated total development cost of the project is approximately \$6,200,000. Equity in the project comes from the two sources totaling approximately \$2,650,000 (42% of total development costs). These equity sources include approximately \$650,000 from the Developer and \$2,000,000 from New Markets Tax Credits. The Developer has a letter of intent from Sunrise Banks to provide both the New Markets Tax Credit equity and debt financing. The project received a \$205,850 Metropolitan Council Tax Base Revitalization Account (TBRA) grant in the Spring 2014 funding round.

Proposed Sources and Uses for 800 West Broadway Redevelopment

Uses	Total	% of TDC
Land Costs (800 W B'way & 2019 Aldrich)	91,501	1.47%
Architectural & Engineering Costs	210,000	3.38%
Construction Costs	2,962,500	47.73%
Enviro Consultant & Remediation Costs	216,305	3.48%
Tenant Improvements	1,020,000	16.43%
Financing Costs	856,510	13.80%
Other Costs	850,000	13.69%
Total Uses	6,206,816	100.00%

Sources	Total	% of TDC
Developer Equity	655,011	10.55%
New Market Tax Credit Equity	2,000,000	32.22%
Proposed City TIF (not to exceed 10 yr)	500,000	8.06%
Met Council TBRA	205,805	3.32%
Loan	2,846,000	45.85%
Total Uses	6,206,816	100.00%

Requested TIF Assistance

The Developer is requesting approximately \$500,000 in pay-as-you-go TIF assistance. This assistance is intended to pay for TIF-eligible costs such as demolition, public improvements, geotechnical soil corrections, and/or parking. As staff further analyzes the project and the

request for TIF assistance, it will include review of the sources and uses of funds, justification for the use of tax increment, terms of the TIF assistance and other sources, and the eligibility of tax increment expenses. At this time, all development cost estimates are preliminary and subject to further review and refinement.

If Project Analysis Authorization (PAA) is approved by the City Council, staff will proceed with the project analysis to address (1) the appropriate level of tax increment financing assistance, if any, (2) eligible costs that can be paid for with the various forms of assistance, (3) the qualification and establishment of a redevelopment TIF district, (4) appropriate sources of financing, and (5) any possible recapture of any City financial assistance.

Project Timeline

The Developer's goal is to complete the sale of the property and begin the redevelopment by the end of 2014. Under this timeline the project should be completed by September 2015.

Preliminary Staff Analysis

After preliminary staff review and analysis, it has been determined that (a) the application for Public Financial Assistance is essentially complete, (b) the requested amount of tax increment is achievable based upon the preliminary information submitted, and (c) some level of public financial assistance may be justified. If Project Analysis Authorization is approved, staff will continue to analyze the project data to determine the actual amount of TIF assistance that may be recommended.

Project Analysis Fee

If Project Analysis Authorization is approved by the City Council, the Developer will be assessed a nonrefundable project analysis fee of \$13,022. This PAA fee is based on the estimated cost of staff time and other expenses associated with analysis of the project for approval or denial by the City Council. Acceptance and review of the TIF application and the PAA fee does not signify a commitment on the part of the City to grant approval of any public assistance. If analysis of this project requires additional work or there are unforeseen complexities, the City at its discretion may charge the Developer an additional fee for this work.