



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

Date: July 14, 2015

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

Referral to: Council Member John Quincy, Chair, Ways and Means Committee

Subject: Land Sale Public Hearing
Sale and Redevelopment of Former Fire Station No. 14

Recommendation

1. Approve the sale of 1704 33rd Ave N to Fighting Chance, Inc. ("Fighting Chance") or an affiliate entity for \$40,000.
2. Approve the attached term sheet with Fighting Chance
3. Authorize City staff to execute a redevelopment contract with Fighting Chance or an affiliate entity consistent with the attached term sheet

Previous Directives: On June 5, 2015 the City Council awarded exclusive negotiating rights to Fighting Chance ("Developer") for a period of six months and authorized City staff to negotiate redevelopment contract terms.

Prepared by: Casey Dzieweczynski, Phone 612-673-5070

Approved by: D. Craig Taylor, Director CPED

Charles T. Lutz, Deputy Director CPED

Presenter(s) in Committee: Casey Dzieweczynski

Financial Impact

- Pending Council approval of the recommendations, net sale proceeds from the \$40,000 sale price (approximately \$38,000) will be received by the City and deposited into the Property Disposition Fund (06210-9010923-348501).
- Under current tax rates annual property taxes upon project completion are estimated to be between \$7,000 and \$9,000 across all jurisdictions (between \$1,600 and \$1,900 in City taxes) assuming a portion of the building is taxable and a portion is tax-exempt based on its nonprofit use.
- Action is within the Business Plan
- Elimination of future property management costs
- Proposed Sales Price Gain from Re-Use Value Appraisal: \$28,000

Community Impact

- Neighborhood Notification: On March 26, 2015 CPED hosted a public forum at which time Fighting Chance and the other RFP respondent presented their projects. On April 6,

the board of the Folwell Neighborhood Association reviewed Fighting Chance's proposal and recommended it be approved.

- City Goals: Living well: Minneapolis is safe and livable and has an active and connected way of life; Great Places: Natural and built spaces work together and our environment is protected
- Comprehensive Plan: On July 6, 2015, the Planning Commission found the sale of this parcel to be consistent with the Comprehensive Plan.
- Zoning Code: On June 15, 2015 the City Planning Commission reviewed a land use application to rezone the property from R1A/Single-Family District to C1/Neighborhood Commercial District and recommended it be approved. The request will be heard at the July 16th Zoning and Planning Committee meeting.
- Living Wage/Business Subsidy Agreement Yes _____ No X
- Job Linkage Yes _____ No X
- Other: On June 9, 2015, CPED staff completed a land sale review of this parcel.

Supporting Information

<u>PARCEL</u>	<u>ADDRESS</u>	<u>SALES PRICE</u>
FS 14	1704 33rd Ave N	\$40,000

Purchaser

Fighting Chance, Inc. or an affiliate entity
901 Hennepin Ave, Minneapolis, MN, 55403

Proposed Development

The development will include a complete rehabilitation of an existing fire station building. The first floor will house a nonprofit youth boxing gym and community gym. The second floor will include private office space and a private yoga studio.

The lot size is 126' x 128' = 16,112 total square feet.

Land Disposition Policy

This property is being sold for development and will be improved by rehabilitation as defined by City policy.

Offering Procedure

The City issued a Request for Proposals for the property in January 2015. The sales price of this property is greater than the re-use value (\$12,000) as established by an appraisal.

Background

In January 2015 CPED issued a Request for Proposals (RFP) for the vacant Fire Station No. 14 building. In June 2015 the City Council awarded exclusive negotiating rights to Fighting Chance to redevelop the building into a nonprofit youth boxing gym, community gym, yoga studio and office space. The mission of Fighting Chance is to "utilize boxing as a tool to help inner city youth to learn discipline and compassion, physical fitness and self-confidence. The goal is to empower each person to make positive changes in their life."

Staff has negotiated the terms of the redevelopment contract with the Developer, including the minimum improvements, purchase price and development timeline.

Sales Price

Staff is recommending a sales price of \$40,000 with the condition that Fighting Chance invests no less than \$607,000 in building improvements.

Prior to issuance of the RFP, an appraisal was conducted by CBRE in January 2015 which indicated an "as-is" fair market value of \$230,000 based on sales of comparable

office/industrial buildings. The appraisal also assumed building renovation/improvements of approximately \$200,000. However, after the developer submitted a construction budget that identified \$621,000 to \$873,000 of renovation costs staff ordered an appraisal review conducted by Day Group, LLC in order to affirm the “as-is” fair market value. The review concluded that the original appraisal underestimated the needed improvements. The appraisal review identified additional costs not considered in the CBRE appraisal (including a new roof) and indicated an “as-is” fair market value of \$130,000 for an office/industrial use. The review did not include an interior inspection of the building and it noted that “any higher and more appealing use for the facility – such as commercial, retail, studio, office or mixed commercial uses – would command higher potential ‘as improved’ values, yet there would be offsetting higher renovation/repositioning costs”.

Because of the additional costs identified by the Developer and the information in the appraisal review, staff ordered an income-based appraisal from Day Group, LLC to determine the “as-is” fair market value based on different levels of building improvements and based on a commercial/office use proposed by the Developer versus office/industrial properties used as comps in the original appraisal. The subsequent appraisal indicated a range of “as-is” market values, based on varying levels of improvements to the property. These fair market values are summarized in the table below.

Day Group, LLC – Appraisal Summary					
		Minimal Improvements	Moderate Improvements	High Improvements	Extensive Improvements
A	Net operating income	\$43,458	\$54,330	\$60,501	\$66,237
B	Cap rate	9.20%	9.00%	8.90%	8.80%
C (A/B)	Indicated “As-Improved” potential value	\$472,000	\$604,000	\$680,000	\$753,000
D	Total Improvements	\$347,000	\$477,000	\$607,000	\$737,000
E	10% developer profit/leasing costs	\$35,000	\$48,000	\$61,000	\$74,000
F (D+E)	Total improvements & developer profit	\$382,000	\$525,000	\$668,000	\$811,000
G (C-F)	Indicated “as-is” market value	\$90,000	\$79,000	\$12,000	(\$58,000)

The improvements being proposed by Fighting Chance are consistent with the “high” level of improvements defined in the appraisal. Staff is recommending a sales price of \$40,000,

which is above the “as-is” fair market value of \$12,000 based on a “high” level of improvements per the appraisal and the above table. The redevelopment contract will require that Fighting Chance make at least \$607,000 of improvements in the building, which corresponds to a “high” level of improvements. If Fighting Chance invests less than \$607,000 in the improvements, or materially defaults on other terms of the redevelopment contract prior to the completion of the project, then the City shall have the right to re-enter and take possession and title to the property.

Included in the list of site improvements to be made, Fighting Chance will remove the large, 48’ curb cut in front of the fire station and replace the sidewalk and grass boulevard. This will improve the pedestrian realm and also prohibit off-street parking in front of the building which can then serve as a space for additional outdoor activities. The off-street parking will occur on the side of the building and will include screening and landscaping to buffer the parking from the pedestrian realm. These improvements will likely cost over \$10,000 and are additional requirements being placed on the redevelopment as they would not necessarily be required by City ordinance.

Additionally, the Developer has agreed to participate in several of the City’s Civil Rights programs that are not required when a property is sold for fair market value. The Developer and general contractor will submit an affirmative action plan to the City, pay prevailing wages and make best efforts to meet the City’s female and minority workforce participation goals for construction projects.

Redevelopment Budget

The estimated sources and uses for the project are:

Uses	
Purchase price	\$40,000
Gross Construction costs	\$880,000
Insurance during construction	\$10,000
Gym equipment/FF&E	\$82,000
Total uses	\$1,012,000
Sources	
Foundation equity	\$1,012,000

Fighting Chance has secured verbal commitments from local foundations for the project equity. Staff will require evidence that the financing has been secured (e.g. bank statements, escrow, etc.) prior to closing.

Project Benefits

The proposed redevelopment offers many benefits to the City:

- Extensive renovation of a historically significant neighborhood asset, including over \$1,000,000 of investment by a local nonprofit
- Increased property taxes to the city, as referenced in the Financial Impact section
- Gym membership and youth programs will be free for anyone under 18 years old
- Community gym and yoga studio open to youth and adults
- One full time and 2-3 part time jobs, plus contracts with up to 5 yoga instructors
- Barrio Restaurant Group’s main office will occupy part of the 2nd floor with approximately 4 employees

- Improved public realm and pedestrian experience via landscaping and sidewalk improvements
- A community garden established by the Developer at a nearby property

Recommendation

Staff recommends that the City Council:

1. Approve the sales price of \$40,000.
2. Approve the attached term sheet with Fighting Chance, Inc.
3. Authorize City staff to execute a redevelopment contract with Fighting Chance, Inc. (or an affiliate) consistent with the attached term sheet

Timing & next steps

Subject to City Council approval of the above recommendations, staff expects to execute a redevelopment contract and close on the sale of the property no later than October 31, 2015. The Developer anticipates a 3 – 4 month construction period, with the project opening in an early 2016.

Term Sheet
Between the City of Minneapolis and Fighting Chance, Inc.
For 1704 33rd Avenue North

1. Property: The parcel is located at 1704 33rd Avenue North, Minneapolis MN, and was formerly Minneapolis Fire Station #14.
2. Developer: Fighting Chance, Inc., a Minnesota 501(c)3 nonprofit corporation or an affiliated entity ("Developer"). Subject to prior written approval by the CPED Director, the Developer may assign development rights for one or more elements of the Minimum Improvements to one or more assignees with demonstrated experience and adequate financial capacity to undertake the project, provided the assignee assumes and agrees to be bound by applicable Developer obligations under the Redevelopment Contract.
3. Ownership: Developer will own the Property and Minimum Improvements.
4. Minimum Improvements: The Developer and the City each desire that the fire station building be rehabilitated, the architectural integrity of the building's exterior be retained and the green space be improved on the Property. The Minimum Improvements will include:
 - a. To the extent economically feasible, rehabilitation of the existing fire engine doors facing 33rd Avenue North. If the doors need to be replaced then the new doors will be consistent with the architectural character of the building
 - b. Building improvements necessary to bring the building into working condition including, but not limited to, new and/or renovated HVAC/plumbing/mechanical systems, replacement of broken windows, new roof, and exterior brick tuck-pointing.
 - c. Removal of the curb cut located along 33rd Ave North in front of the Property, and restoration of the curb, sidewalk and grass boulevard to prevent parking in front of the building. This will provide a space for outdoor programming or other pedestrian-friendly uses
 - d. A screened parking area that incorporates landscaping and other elements that are required in Chapter 530.170 of the Minneapolis Code of Ordinances. Also, provide landscaping or alternative buffering between the eastern border of the parking area and the western border of front drive.
 - e. Additional landscaping along James Avenue North, including replacing the existing tree if it dies.
 - f. Male and female locker rooms constructed on the ground floor.
 - g. Renovation of the existing kitchen space on the ground floor to serve building patrons.
 - h. A community garden that is either located on the Property or at an alternate location within 0.25 miles of the Property. In either case the garden will be constructed and open for public use no later than 12 months following the closing date. The community garden will be managed by the Developer.
5. Minimum Improvement Cost: The total direct construction costs of the Minimum Improvements shall be no less than \$607,000.
6. Purchase Price: \$40,000. The Purchase Price is due to the City on the Closing Date. At the time of execution of the Redevelopment Contract, a good faith deposit equal to 10% of the

Purchase Price must be paid to the City to secure construction performance. The good faith deposit will be returned to the Developer upon completion of the project.

7. Uses: The fire station building will contain the following uses/tenants:
 - a. A youth boxing gym on the first floor will be operated by the Developer, and include related programming that will carry out the mission of the Developer.
 - b. A community gym on the first floor that will be operated by the Developer, and open to the public during regular business hours.
 - c. The Developer will lease space to a private company that will operate a yoga studio that is open to the public during regular business hours.
 - d. The Developer will lease some or all of the office space on the second floor to the Barrio Restaurant Group.
8. Access/Membership: The gym and yoga studio facilities will be available free of charge to anyone under eighteen (18) years of age. Adults ages eighteen (18) and over will pay a monthly membership for use of the facilities.
9. Vehicle Parking: All on-site parking will be located on the west side of the building and accessed through the adjacent alley. The Developer will work with the City's zoning staff to determine the required number of on-site parking spaces. The Developer will restripe the parking area, and no parking will be allowed directly in front of the building.
10. Bicycle Parking: Eight (8) spaces will be installed to help reduce the off-street parking requirement and reduce the likelihood of a parking variance being required.
11. Rezoning: The Developer will follow the required City procedures necessary to seek a rezoning of the Property from R1A Single-family District to C1 Neighborhood Commercial District. The rezoning must be approved by the City Council prior to the execution of the redevelopment contract.
12. Closing Date: No later than October 31, 2015. Developer shall satisfy standard conditions precedent to closing.
13. Construction Start Date: No later than one (1) month following Closing Date subject to Force Majeure. Construction will not begin until the project has received all necessary City entitlements including City Planning Commission approval.
14. Completion Date: No later than six (6) months after the Closing Date subject to Force Majeure.
15. City Civil Rights Requirements: Developer and the Developer's contractor will work with the City's Department of Civil Rights to meet the City's Prevailing Wage and Affirmative Action requirements and Female and Minority Workforce Participation goals for this project.
16. Reversion: If the Developer materially defaults in or violates its obligations with respect to the construction of the Minimum Improvements, including failure to pay the minimum amount of the direct construction costs for the Minimum Improvements as described in item 5 of this term sheet, then prior to the issuance of the Certificate of Completion, then the City shall have the right to re-enter and take possession of the Property and to terminate the estate conveyed by the Deed to the Developer.

17. Public Engagement: Prior to the Completion Date the Developer will make best efforts to host a community meeting/open house for the public to learn about the redevelopment and the programming to be offered.
18. Property and Environmental Conditions: Property is sold "as-is". The City has shared a property conditions assessment from Braun Intertec Corporation dated December, 2014, and a bulk material asbestos analysis from Legend Technical Services, Inc., dated August 2000. The property conditions assessment report notes that an underground fuel oil tank appears to be located in the northwest corner of the Property. There are no known environmental site assessment or geo-technical reports completed for the Property.

Other Requirements: The conveyance of the Property will be subject to other standard City contracting requirements, including but not limited to, construction plan and financing approvals prior to commencement of construction and transfer and encumbrance limitations until completion.

**Resolution
Of the
City of Minneapolis**

Authorizing sale of land Disposition Parcel FS 14.

Whereas, the City of Minneapolis, hereinafter known as the City, has received an offer to purchase and develop Disposition Parcel FS 14, in the Folwell neighborhood, from Fighting Chance, Inc. , hereinafter known as the Redeveloper, the Parcel FS 14, being the following described land situated in the City of Minneapolis, County of Hennepin, State of Minnesota to wit:

LEGAL DESCRIPTION

FS 14; 1704 33rd Avenue N.

Lots 12, 13 and 14, Block 3 of the Sylvan Park Addition to Minneapolis

Whereas, the Redeveloper has offered to pay the sum of \$40,000, for Parcel FS 14 to the City for the land and improvements and convert the existing improvements to a nonprofit boxing gym; and

Whereas, the Redeveloper has submitted to the City a statement of financial responsibility and qualifications; and

Whereas, the City has had the re-use value reviewed by an appraisal expert, stating that the re-use value opinion is consistent with the accepted methods in aiding the City in determining a re-use value for the Parcel; and

Whereas, pursuant to due notice thereof published in *Finance and Commerce* on June 26, 2015, a public hearing on the proposed sale was duly held on July 14, 2015, at the regularly scheduled Community Development & Regulatory Services Committee meeting of the City Council, at the Minneapolis City Hall, 350 South 5th Street, Room 317, at 1:30 p.m., in the City of Minneapolis, County of Hennepin, State of Minnesota;

Now, Therefore, Be It Resolved by The City Council of The City of Minneapolis:

That the re-use value is hereby estimated to be the sum of \$12,000 for Parcel FS 14.

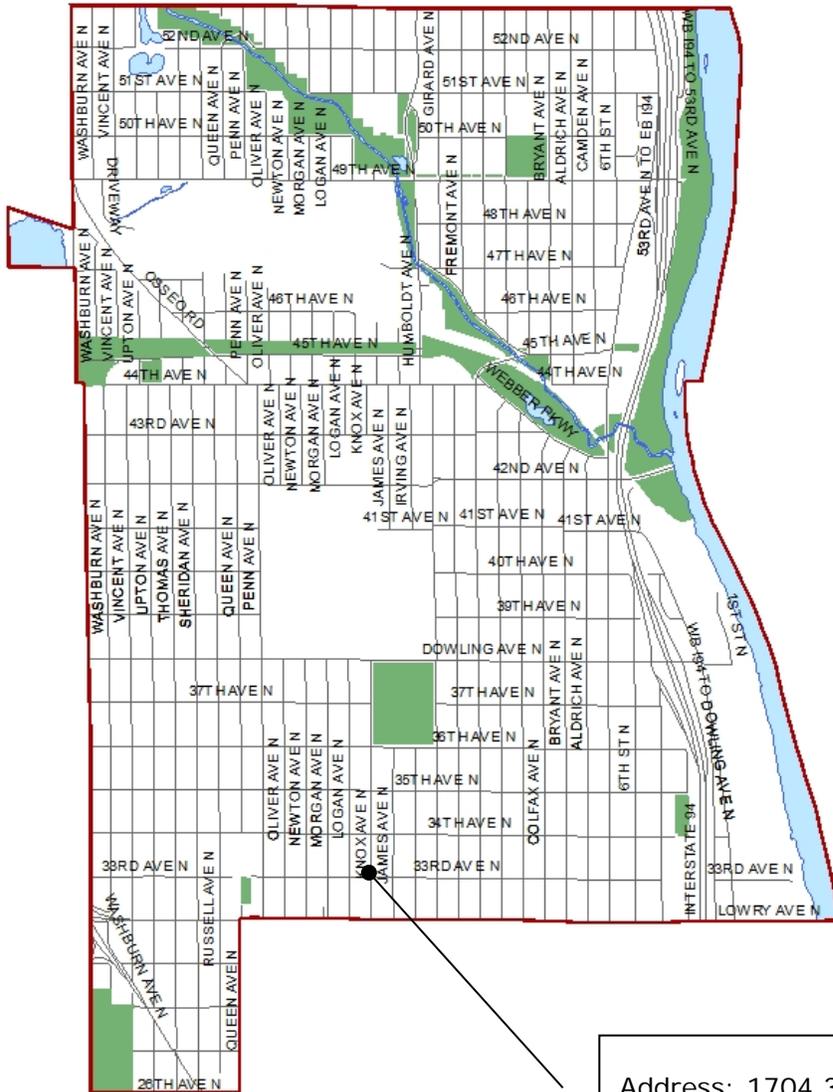
Be It Further Resolved that the acceptance of the offer and proposal is hereby determined to be in accordance with the City's approved disposition policy and it is further determined that the Redeveloper possesses the qualifications and financial resources necessary to acquire and develop the parcel as proposed.

Be it Further Resolved that the City finds that pursuant to Minnesota Statutes §469.105, the sale and conveyance of this Parcel as described herein is in the best interest of the City and furthers the City's general plan of economic development.

Be It Further Resolved that the proposal be and the same is hereby accepted, subject to the execution of a redevelopment contract consistent with the requirements of Minnesota Statutes §469.105. Furthermore, that upon publication of this Resolution, the Finance Officer or other appropriate official of the City be and the same is hereby authorized to execute and deliver the contract to the Redeveloper; provided, however, that this Resolution does not constitute such a contract and no such contract shall be created until executed by the Finance Officer or other appropriate official of the City.

Be It Further Resolved that the Finance Officer or other appropriate official of the City is hereby authorized to execute and deliver a conveyance of the land to the Redeveloper in accordance with the provisions of the executed contract and upon payment to the City for the purchase price thereof; provided, however, that this Resolution does not constitute such a conveyance and no such conveyance shall be created until executed and delivered by the Finance Officer or other appropriate City official of the City.

Ward 4



Address: 1704 33rd Ave N



Minneapolis
City of Lakes
Community Planning &
Economic Development



TOTAL ACQUISITION COSTS INCURRED BY CPED ATTRIBUTABLE TO THE FOLLOWING PROPERTY:

Date: July 14, 2015
 Subject: Land Sale – Public Hearing
 Former Fire Station No. 14
 Address: 1704 33rd Ave N
 Purchaser: Fighting Chance, Inc. or an affiliate entity

	A	B	C	D	E	F	G
Address	Purchase Price	Acquisition/ Demolition/ Other Costs	Total CPED Cost to Assemble (A+B)	Re-Use Value Opinion	Sale Price	CPED Cost Write-Off or Sale Proceeds (if > 0) (E-C)	Re-Use Value Gain (if < 0) (E-D)
1704 33rd Avenue N	\$0	\$0	\$0	\$12,000	\$40,000	\$0	\$28,000
Total	\$0	\$0	\$0	\$12,000	\$40,000	\$0	\$28,000

Write-Down
 Reason: N/A

Developer History with CPED:

This is the developer’s first proposal from the City of Minneapolis for development.

Developer Information:

- Single Individual(s)
- Married Individual(s)
- Limited Liability Partnership of the State of Minnesota
- Limited Liability Company of the State of Minnesota
- Corporation of the State of Minnesota
- Nonprofit Corporation of the State of Minnesota
- Other