



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

**Date:** July 28, 2015

**To:** Councilmember Lisa Goodman, Chair, Community Development and Regulatory Services Committee

**Subject:** Development Obligations for the 200 Central Avenue SE Project and Revised Development Obligations for the St. Anthony Parking Ramp Property.

**Recommendation:** 1) Authorize staff to enter into an agreement with Alatus LLC regarding development of 200 Central Ave SE according to the terms as described herein, and 2) authorize the CPED Director to release St. Anthony Ramp LLC from their development obligations under the 2008 Purchase Agreement for the St. Anthony Ramp (and the letter of credit securing such development obligations) upon completion of the actions described herein.

### **Previous Directives:**

- On December 21, 2007, the City Council authorized amending the development terms and conditions with St. Anthony Ramp LLC and extending the deadline for executing the purchase agreement.
- On July 20, 2007, the City Council authorized the sale of the St. Anthony Ramp to St. Anthony Ramp LLC and approved sale and development terms.
- On April 14, 2006, the City Council authorized staff to issue a Request for Proposals for the sale of nine municipal parking ramps and approved the sale criteria.

Prepared by: Emily Stern, Senior Project Coordinator, CPED, 673-5191

Approved by: D. Craig Taylor, Executive Director, CPED \_\_\_\_\_

Presenter in Committee: Emily Stern, Senior Project Coordinator

### **Financial Impact**

Pursuant to the 2008 Purchase Agreement between St. Anthony Ramp LLC (the "Ramp Owner") and the City for the purchase of the St. Anthony Parking Ramp, the Ramp Owner has previously provided the City with a \$540,500 Letter of Credit (the "Existing LOC") securing certain development obligations that it has under the Purchase Agreement. The City has not drawn on this Existing LOC, although it could since the Ramp Owner has not currently met the Development Obligations it has under the Purchase Agreement.

If staff's recommendations in this report are approved, then 1) the Ramp Owner would be required to complete \$540,000 of ramp improvements to the interior and exterior of the ramp, subject to the terms and conditions listed in this report, and 2) the City would enter into an agreement with Alatus LLC to develop a project on property adjacent to the ramp with a total development cost of at least \$10 million, subject to the terms and condition listed in this report. This includes providing the City with a \$350,000 letter of credit (the "Alatus LOC") securing construction of the new development, which must be underway by November 30, 2016.

After 1) all of the ramp improvements are completed, 2) the City and Alatus have entered into an agreement for development on the adjacent property, and 3) the Alatus LOC has been provided to the City, then the City would release the Existing LOC. This ensures that the City is in a better financial position, and that there are incentives to both the Ramp Owner and Alatus to complete the ramp improvements and development they contractually agree to.

The ramp improvements will help maintain or slightly increase the estimated market value (EMV) of the ramp. Development on the property adjacent to the ramp will help enhance the tax base of the City. Although the minimum size of the project is \$10 million, Alatus is currently planning on constructing a large residential project with a total development cost of approximately \$100 million. This would greatly enhance the EMV of this property.

### **Community Impact**

Neighborhood Notification: The Marcy Holmes Neighborhood Association and the Nicollet Island - East Bank Neighborhood Association reviewed preliminary development plans for an earlier iteration of the 200 Central Ave SE Project and provided letters of support (see attached).

City Goals: Living Well; A Hub of Economic Activity and Innovation; Great Places.

Sustainability Targets: Alatus is obligated to obtain LEED Certification from the U.S. Green Building Council for the 200 Central Ave SE Project.

Comprehensive Plan: These development/improvement proposals are consistent with the Comprehensive Plan. The updated Marcy-Holmes Neighborhood Master Plan that was approved by the City Council in 2014 changes the future land use of the 200 Central Ave SE site from commercial to mixed use and indicates that high density residential development is appropriate at this location.

Zoning Code: Residential housing and retail are permitted uses under current C2 zoning for the 200 Central Ave SE site. The Project will require a higher-density zoning variance from the current C2 zoning of the development site.

Living Wage/Business Subsidy Agreement      Yes\_\_\_\_\_      No\_\_X\_\_

Job Linkage      Yes\_\_\_\_\_      No\_\_X\_\_

## **Supporting Information**

The St. Anthony Parking Ramp (the “Ramp”) is located at 201 2<sup>nd</sup> Ave SE. In 2008 the City sold the Ramp to St. Anthony Ramp LLC (the “Ramp Owner”), which is comprised of three owners of the St. Anthony Main complex. In the purchase agreement (“Purchase Agreement”) with the City, the Ramp Owner was required to develop 70-100 housing units and street-level retail space on or adjacent to the ramp property having a total development cost of at least \$10 million, and the development was to obtain LEED Certification from the US Green Building Council (collectively the “Development Obligations”). The Development Obligations were to be completed and satisfied by February 28, 2013, which was five years from the closing date of the Ramp sale. The Ramp Owner provided the City with a Letter of Credit (the “Existing LOC”) in the amount of \$540,500 as security for performance of the Development Obligations.

After St. Anthony Ramp LLC purchased the ramp from the City in 2008, difficult economic and market conditions during the Great Recession and technical challenges with development feasibility contributed to delays in project implementation. Challenging economic and real estate market conditions post-2008 made it difficult for the ramp owners to enlist developer interest and investor partners, and inhibited their ability to raise sufficient equity capital in order to meet lender financing criteria. The project also experienced technical feasibility challenges. Detailed design and engineering analysis determined that building within the existing property lines was infeasible as the housing units lining the parking ramp would have a footprint too shallow to be functional. It was determined the project would only be technically feasible from a design and development standpoint if the public right-of-way was partially vacated.

The owners missed the completion deadline. However, due to these challenges and ongoing good faith efforts to design and finance a project that would meet the obligations, the City has not to date drawn on the Existing LOC.

In 2014, Alatus LLC (“Alatus”) began to pursue a development proposal for a high-rise residential project on the two parcels just west of the Ramp, where the Washburn-McGreavy Funeral Home (200 Central Ave SE) and the St. Anthony Athletic Club (113 – 2<sup>nd</sup> St. SE) are currently located (collectively the “Project Site”). Alatus presented preliminary plans for their proposed project at a joint Heritage Preservation Committee and City Planning Commission Committee of the Whole meeting in the summer of 2014. On July 1, 2015, Alatus closed on the purchase of the Project Site. As part of that transaction, the Ramp Owner released an easement it had on the St. Anthony Athletic Club property in exchange for Alatus petitioning the City to accept alternative development compliance in lieu of the original Development Obligations and secure performance with a letter of credit.

Following are terms that have been negotiated between City staff, Alatus and St. Anthony Ramp LLC as substitute development obligations in lieu of the original development obligations committed to by St. Anthony Ramp LLC for the St. Anthony Ramp in the 2008 purchase agreement between the City and St. Anthony Ramp LLC.

### **Recommended Development Obligations for the 200 Central Ave SE Project**

Based on discussions and negotiations with representatives from Alatus and the Ramp Owner, staff recommends substitute development obligations for 200 Central Ave SE under the following terms (the “Development Obligations”):

- Alatus or an Alatus affiliated single-asset entity will develop the 200 Central Ave SE Project, which will include a residential building with approximately 35 stories, 200 condominium units and ground floor retail/restaurant on the Development Site. Total development cost will be approximately \$100 million. Alatus is currently planning on providing all parking for the Project on the Project Site (both below and above grade), but this will not be a requirement.
- If Alatus is unable to get planning and zoning approvals for the aforementioned large-scale development, Alatus agrees to instead construct a development project on the Project Site having a total development cost of at least \$10 million.
- Alatus will obtain LEED certification from the US Green Building Council for the Project.
- Alatus will ensure compliance by its General Contractor with the City's Apprenticeship Program and Prevailing Wage requirements.
- Alatus will provide a Letter of Credit to the City in the amount of \$350,000 (the "Alatus LOC") to secure timely completion of these substitute Development Obligations concurrent with Alatus entering into a formal contract with the City (after City Council approval of Alatus' Development Obligations).

The development project shall proceed according to the following interim and final completion deadlines:

- If City development approvals and entitlements are not obtained by June 30, 2016, then the City will fully draw on the Alatus LOC.
- If construction of the Project has not begun by November 30, 2016, then the City will fully draw on the Alatus LOC.
- If the terms of the substitute Development Obligations are satisfied by November 30, 2018, the replacement Letter of Credit will be released minus a \$70,000 Extension Fee that the City will draw upon for delayed performance of the original development obligations.
- This Extension Fee will be waived and the entire replacement Letter of Credit released upon completion of the Substitute Development Obligations if these obligations are timely met *and* the 200 Central Ave Project Site contains a public art component with a total cost of at least \$150,000. Overhead can account for no more than 10% of the total cost of this component.
- Alatus agrees to coordinate with and solicit input from the City's Public Art Coordinator and the neighborhood on any public art component. A Public Art Proposal will need to be presented to and approved by the CPED Director prior to construction of this component.
- If the Development Obligations have not been satisfied by November 30, 2018, including LEED certification, then the City will fully draw on the Alatus LOC.

## **Recommended Revised Development Obligations for the St. Anthony Ramp Property**

Staff recommends accepting the following alternative performance by the Ramp Owner for the St. Anthony Parking Ramp Property (201 – 2<sup>nd</sup> Ave SE) in lieu of drawing on the Existing \$540,500 Letter of Credit. The alternative performance arrangement is conditioned on the City entering into a contract with Alatus or an Alatus affiliated single asset entity for development obligations on the 200 Central Avenue SE property consistent with the terms described above.

- The Ramp Owner will complete extensive capital improvements and beautification of the parking ramp property at a total cost of at least \$540,000 (the “Ramp Improvements”). The total cost of the Ramp Improvements may include architectural and consultant fees of no more than \$54,000 and may not include overhead costs of the Ramp Owner.
  - The Ramp Improvements must include at least \$270,000 of capital improvements and beautification to the exterior of the ramp, which may include new façade materials and aesthetic treatments, landscaping, planting, reworked entrances and signage; *and*
  - The Ramp Improvements must also include at least \$270,000 of capital improvements and beautification to the interior of the ramp, which may include elevator lobby improvements, elevator cabs and equipment, lighting, security cameras, and painting of the ramp and tunnel.
- The Ramp Improvements must be set out in a Capital Improvements & Beautification Plan Proposal presented to the CPED Director for approval prior to construction. The CPED Director shall have the right to approve or reject the Capital Improvements & Beautification Plan Proposal, provided that the CPED Director shall not unreasonably delay or withhold such approval. Upon approval by the CPED Director, the Capital Improvements & Beautification Plan Proposal shall become the Capital Improvements & Beautification Plan.
- St. Anthony Ramp LLC will cause any contractor with a contract in excess of \$50,000 working on the Capital Improvements & Beautification Plan to comply with the City’s Apprenticeship Program and Prevailing Wage requirements.

St. Anthony Ramp LLC agrees to make the foregoing capital and beautification improvements to the ramp property according to the following schedule:

- St. Anthony Ramp LLC will provide the City with the Capital Improvements & Beautification Plan Proposal by no later than November 1, 2015 for timely review and approval by the CPED Director and accomplish an approved Capital Improvements & Beautification Plan by no later than December 31, 2015.
- St. Anthony Ramp LLC will commence improvements according to the approved Capital Improvements & Beautification Plan no later than 60 days after approval of the Plan by the CPED Director.

- Except for events outside the reasonable control of St. Anthony Ramp LLC, such improvements shall be completed within 18 months after approval of the Plan by the CPED Director.

The City will release the Existing \$540,500 Letter of Credit and terminate all improvement and development obligations of St. Anthony Ramp LLC under the original Purchase and Sale Agreement upon:

1. Timely completion and implementation of the above-described Capital Improvements & Beautification Plan; *and*
2. Alatus entering into a contract with the City as described above with respect to the 200 Central Avenue SE property and providing a Letter of Credit to the City for \$350,000 to secure Alatus' development obligations.

