

City of Minneapolis Request for Committee Action

To: Community Development & Regulatory Services
Date: 7/26/2016
Referral: Ways & Means
From: Community Planning & Economic Development
Lead Staff: Charles Curtis, Senior Economic Development Specialist (612-673-5069)
Presented by: Charles T. Lutz
File Type: Resolution
Subcategory: Loan

Subject:

City loan and grant to Hennepin Theatre Trust for the acquisition and renovation of the Solera Building.

Description:

Authorizing a \$2.8 million loan and a \$250,000 grant to Hennepin Theatre Trust for the acquisition and renovation of the Solera Building.

Previous Actions:

In 2005, Hennepin Theatre Trust closed on a Common Bond Fund financing of the Orpheum, State and Pantages Theatres in the principal amount of \$21,055,000.

Ward/Address:

Ward 7
900 and 906 Hennepin Avenue

Background

Hennepin Theatre Trust (the Trust) is a 501(c)(3) non-profit organization. Its mission is to create positive change through the arts by bringing together people, businesses and organizations in the West Downtown Cultural District (WeDo) to create and enjoy cultural experiences. The Trust has evolved from being an organization focused solely on the theaters to one that is leading the activation of the WeDo and the public realm placemaking that this entails.

The Trust has been renting office and small scale theatrical space over the past several years in City Center. The acquisition and renovation of the Solera Building would create a permanent home for the Trust from which to pursue its philanthropic pursuits of building community, education and promotion of the arts in downtown Minneapolis.

The purchase and renovation of the Solera Building by the Trust will add to the reimagining of Hennepin Avenue, and will help prevent the possible use of the facility for less compatible uses. The building will

provide space for the Trust to enhance its fundraising capacity, and to better serve its theatre guests in new ways to honor existing patronage and grow new audiences.

The building will also allow the Trust to continue to expand upon the activities of the New Century Theatre, working with local theater organizations and artists to bring their work to Hennepin Avenue as well as providing space for its arts education activities. A new central facility will provide opportunities to fulfill a broader range of programming and to reach a wider range of artists. Accordingly, the acquisition and renovation of the building would further the City's goals of encouraging a vibrant theater district and attracting additional events and people to Hennepin Avenue.

Since 2005, the Trust has complied with all of the terms of its current Lease with the City for the three theaters. In addition, the Trust has fulfilled and exceeded various City required performance standards. These required performance standards include the attraction of hundreds of thousands of patrons annually, presenting and producing a large number of high quality shows and offering an array of arts education experiences for young people and the community.

The Solera Building

The Solera Building is a 31,000 square foot vacant three-story building located at 900 and 906 Hennepin Avenue next to the Orpheum Theatre. The Trust intends to convert the main floor to serve Trust donors and subscribers, and to alleviate pressure on the Orpheum Theatre lobby and lounge. The second floor will provide office space for Trust staff, while the third floor will be flexible space for theatrical and arts education uses. The rooftop space will serve as an outdoor lounge and classroom. The basement will house storage, additional staff and restroom facilities.

In preparation for the potential purchase of the Solera building, the Trust has investigated the condition of the building and the site. A title update has been completed, an as-built survey has been performed and reviewed, Shea Design was engaged for a physical inspection of the building, and a Phase I environmental report was prepared. Beyond a small leak in the roof of the building, the Trust has indicated that no significant building deficiencies have been identified. The City and HTT jointly commissioned Nicollet Partners to conduct an appraisal of the Solera property. This appraisal indicated that the current value of the property is \$2,500,000. The current assessed value of the property for taxes payable in 2017 is \$2,783,300.

By owning and operating the Solera Building, the Trust has represented that it will be able to enhance the experience for theater donors and supporters. This would include valet parking, complimentary drink specials and the opportunity to host guests at exclusive and private parties. The Trust will engage a capital campaign consultant to conduct a feasibility study to detail new fundraising opportunities for the Trust that will be created by this project. The current capital campaign goal is to raise \$5,000,000 over the next 10 years, with the bulk of the fundraising occurring in the first five years. This campaign will focus on arts-focused individuals, corporations seeking high quality client engagement opportunities, and foundation grants. A major component of the capital campaign will be potential naming rights for the donor lounge on the first floor.

The Trust will seek property tax exemption for all parts of the facility that directly serve the non-profit organization, which at the moment is anticipated to be the entire building.

Financing Structure

The purchase price of the Solera Building is \$2.3 million, renovation costs are conservatively estimated to be \$1.0 million for a total project cost of \$3.3 million. The Trust will pay for \$250,000 of these costs with its own cash, and is requesting a \$2.8 million loan and \$250,000 grant from the City. The project's sources and uses are summarized as follows:

<u>Sources of Funds</u>	
City Loans	\$2,800,000
City Grant	250,000
Cash From Trust	<u>250,000</u>
Total Sources	\$3,300,000

<u>Uses of Funds</u>	
Acquisition	\$2,300,000
Planning Costs	200,000
Renovation Costs	<u>800,000</u>
Total Uses	\$3,300,000

Note: The closing costs of acquiring the property will be paid by the Trust.

City Loan

The \$2.8 million City loan will be disbursed in two draws to the Trust. The first draw will be for \$2.0 million, and will be used to pay for a portion of the cost to acquire the Solera Building. Additionally, \$500,000 will be provided by the Trust (\$250,000) and a City grant (\$250,000, described below) to pay for the remaining acquisition cost (\$300,000) and planning costs (\$200,000). The closing on the property is currently projected to be in early-to-mid August.

The second draw will be for \$800,000, and will be used to pay for the renovation costs of the building. This draw will occur prior to commencement of the renovation work which is expected by the end of the year. The Trust will be responsible for the payment of any renovation costs in excess of the second draw.

The terms of the City loan will be as follows:

- Total amount of loan - \$2,800,000
- Payment frequency – monthly (first day of the month)
- Annual interest rate - 3.25% (interest will be based on 30 day month/360 day year)
- Interest only period – 24 months (2 years) from the closing date on the property
- Amortization period – 240 months (20 years), with level monthly payments
- Loan maturity – The loan will be fully payable 96 months (8 years) from the closing date on the property.
- Loan acceleration – If a refinancing of the outstanding bonds on the theaters occurs, then the Finance Officer may accelerate the maturity date on the loan to the closing date of the theater refinancing.
- Loan extension – The City Finance Officer will extend the loan maturity date in three year intervals, if, at maturity the Trust provides evidence that it has, in good faith, applied for and has

been denied a new first mortgage loan on the property at a reasonable interest rate, as determined in the discretion of the City Finance Officer, by three lenders that are headquartered or have local branches in the Twin Cities Metropolitan Area that are in the business of providing commercial loans to businesses, such as the Trust. The Trust will ensure that the City's lien on the Project will not be impaired as a result of the extension. If a loan extension is granted, then, at that time the Finance Officer may 1) adjust the loan interest rate upward to a rate deemed reasonable, but in no case greater than 200 basis points above the 10 year treasury rate, or 2) refinance the loan using the Common Bond Fund to achieve a more favorable interest rate.

- The loan will be fully or partially pre-payable at any time
- The loan will be secured by a first mortgage on the property

The City loan will be temporarily funded from the Development Account Fund (Fund 01SDA). Permanent funding will be provided from Common Project tax increment funds (specifically Fund 01CPR – IDS Data Service Center). However, to lend money from Common Project funds the block containing the Solera Building must be located within the Common Project. The formal process to accomplish this task has begun, and will include a public hearing at the CD&RS Committee meeting on September 13, review by the W&M Committee on September 19, and City Council action on September 28.

City Grant

In 2014 Finance & Property Services (FPS) staff renegotiated the City's financial assistance that was provided to the property owners on Block E (one block north of the Solera Building). This was undertaken in order to allow the property to undergo major renovation on the block and to rebrand the building as Mayo Clinic Square. As part of that renegotiation, the City received a \$250,000 cash payment from Camelot, LLC., which owns the underground parking garage and the building containing the retail, office, clinic, and basketball facilities.

At that time several Council Members expressed their desire to have these funds earmarked for the Trust to pay for costs related to the theaters or the Cultural District, but none of these funds are currently committed for any specific purpose. The Trust is requesting that the City Council approve a grant of this \$250,000 to help the Trust acquire the Solera Building.

City's Living Wage Ordinance

Neither the grant, nor the loan constitute, a "City Business Subsidy" under the City's Living Wage Ordinance because the grant and the loan do not have "the intent or end result of creating or retaining Jobs" for the Trust. The Trust is moving its existing operations from one location to another, and, as a result, no job impact is anticipated.

The State Business Subsidy Act does not apply because the Trust is a nonprofit that does not have at least 100 full time equivalent positions.

Financial Review:

Additional appropriation required.

Amend the 2016 General Appropriation Resolution to increase the CPED appropriation in Development Account Fund 01SDA-8900320 by \$2,800,000 from available fund balance.

Amend the 2016 General Appropriation Resolution to increase the CPED appropriation in Capital Projects Other Fund 01CPO–8900320 by \$250,000 from available fund balance.

Future budget impact anticipated.

The \$2.8 million City loan will be temporarily funded from the Development Account Fund (Fund 01SDA). Once the block containing the Solera Building is included in the Common Project (scheduled for late September), then permanent funding of the loan will be made from Common Project tax increment funds in Fund 01CPR – IDS Data Service Center.

The \$250,000 City grant would be made from funds that were deposited into Fund 01CPO (Capital Projects Other) in 2014 when the Block E/Mayo Clinic Square project was refinanced. These are flexible funds and can be used for acquisition purposes.

Monthly loan repayments will be deposited into Fund 01CPR, and therefore it is anticipated that \$2.8 million (plus interest) will be returned to this fund. However, this may occur over a long period of time. In the short term, there will be \$2.8 million less in the Common Project funds that will be available for other development projects.

The Solera Building is currently paying approximately \$111,500 in annual property taxes to all taxing jurisdictions. Once the Trust owns the building it will file for property tax exemption beginning for taxes payable in 2018.