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

Date: October 26, 2004

To: Council Member Lisa Goodman, Community Development Committee

Prepared by: Jerry LePage, Phone 612-673-5240
Presenter in Committee: Jerry LePage, Project Coordinator

Approved by: Chuck Lutz, Deputy CPED Director ________________

Subject: Grain Belt Housing Project – Amendment to Phase I Business Terms

RECOMMENDATION: Approval of amendment to redevelopment contract business terms for Phase I of the Grain Belt Housing Project

Previous Directives: On August 11, 2000, the MCDA Board and City Council approved an amendment to the Grain Belt Development Objectives, a modification to the Grain Belt Redevelopment Plan, and an authorization to issue a housing RFP. On February 2, 2001, the MCDA Board selected the Sheridan Development Company (SDC) as the developer of the Grain Belt Housing Project over three other development proposals, and awarded it six-month development rights. In July 2001, the Board approved a one-year extension of the development rights, and approved additional extensions in July 2002 and in February 2003. On June 4, 2003, the Board approved the finance plan and redevelopment contract terms for Phase I of Grain Belt. On September 26, 2003, the City Council adopted the Grain Belt TIF Plan and related Plan modifications.

Financial Impact (Check those that apply)

_X_ No financial impact - or - Action is within current department budget.
(If checked, go directly to Background/Supporting Information)
___ Action requires an appropriation increase to the Capital Budget
___ Action requires an appropriation increase to the Operating Budget
___ Action provides increased revenue for appropriation increase
___ Action requires use of contingency or reserves
___ Other financial impact (Explain):
___ Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact

Ward: Third.

Neighborhood Notification: The Sheridan Neighborhood Organization (SNO) has been notified that this report will be considered by the City Council.

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: Minneapolis will increase its housing that is affordable to low and moderate income households (Section 4.10), and improve the availability of housing options to all of its citizens.
Zoning Code: The Phase I site will require a change in zoning to permit the proposed development.
Living Wage/Job Linkage: NA
Other:

Background/Supporting Information

In February, 2001, the City granted development rights for the Grain Belt Housing Project to the Sheridan Development Corporation (SDC), composed of RMF Entities and the Sienna Corporation. In December 2001, Ross Fefercorn of RMF Entities replaced Sienna with three new partners: Peter Pflaum (Plum Investment Company) and Barry Berg and John Wanninger (Berg & Wanninger). In June 2003, the City approved the business terms for the redevelopment contract with SDC and the finance plan for Phase I of its proposal, which will include 177 ownership apartments and approximately 7,000 square feet of new retail/office space. Attached to this report is the updated **Phase I site plan and elevations**.

From the outset, this has been a challenging project that has been impacted adversely by property tax reform, unforeseen historic preservation issues (i.e. discovery of the Orth Brewery foundations in the Phase I area), and area-wide parking concerns, including the parking needs of the adjacent Grain Belt Office Building (1215 Marshall Street NE) owned by the City. In fact, the primary reason for the recent difficulty in finalizing terms and executing a redevelopment contract has been the challenge of developing adequate parking for this City-owned historic office building in a cost-effective manner.

The business terms that were approved in June 2003 provide SDC a one-year option (from the date of the signing of the redevelopment contract) to develop the office building, before the City will consider entertaining proposals from other interested parties. Since there is a possibility that SDC will not develop the Grain Belt Office Building and the City may sell it to another entity for development, CPED wants to be certain that adequate parking (approximately 35 structured spaces) is incorporated into the SDC development to maintain the value of this City asset and its viability for future reuse. At this point, the main obstacle to getting Phase I under construction is this issue and figuring out a way for the SDC project to bear the additional cost of $450,000 (approximately $15,000 per structured/covered space) for these non-residential parking spaces.

Proposed Amendment to Approved Business Terms

After months of exploring different options, SDC and CPED staff believe that a workable plan has been developed that will provide the necessary parking at a cost that the housing project can bear. This plan is predicated on the developer realizing some savings on the cost side in terms of improvements to 13th Avenue NE and the construction of the pedestrian promenade, and also projecting more aggressive sales pricing on the revenue side, in order to bring the development budget into balance. The developer also bears the risk if its project costs exceed or its project revenues fall short of these projections. Attached is a **Project Data Worksheet** with the current Phase I sources and uses.

This plan also requires only minimal changes in the business terms already approved by the City. The Phase I finance plan approved last year was based upon SDC arranging all of the financing to construct both the public and private improvements in Phase I, and using land proceeds paid to the City as a take-out source to reimburse it for certain eligible public improvement costs, i.e. streets, public utilities, etc. Since that time, CPED has obtained an appraisal for the land, as specified in the business term sheet, and arrived at a fair reuse value of $15/square foot (approximately $2 million). The recycling of proceeds from the sale of Phase I land is still a good financing mechanism that will conserve the tax increment capacity generated by Phase I so that it will be available to fund the heavier public investment needed in Phase II (the riverfront parcel) and any possible later phases. The proposed amendment to the business terms does not change this mechanism but would simply add the construction of structured/covered parking spaces to support the City-owned Grain Belt Office Building as an eligible public improvement cost paid from Phase I land proceeds. If SDC does not purchase the Grain Belt Office Building, the City will own the approximately 35 structured/covered parking spaces. In total, the public improvement costs that would be reimbursable with land proceeds will be approximately $2 million.

At this time, staff is also recommending some clarification of the recapture terms (i.e. profit sharing formula) that were not explicit in the business terms approved last year, and the establishment of specific expiration dates for SDC's development rights for Phase I and Phase II, based on reasonable standards of performance.

The **proposed amendment** to the business terms approved by the City Council in June 2003 includes the following points:

- The cost of constructing adequate parking for the Grain Belt Office Building and other components of the project (estimated to be $500,000 for 35 structured/covered spaces) would be considered an eligible public improvement cost and reimbursable to the developer from Phase I land proceeds. This would be done in a manner consistent with the "Guidelines for the Use of Public Financial Assistance for Private Structured Parking Facilities" adopted by the City in February 2000.
- The developer's allowable profit will be capped at 11% (consistent with the CPED Housing Developer Fee policy) and profit up to this level is not subject to sharing.

This policy defines developer fee/profit as "all developer fee, profit, administration, overhead, development consultant fees, and all deferred fees." However, any surplus profit between 11% and 13% would be shared by the developer and the City on a 75-25 basis, and any profit above 13% on a 50-50 basis. This formula seems appropriate and reasonable based on the level of public assistance ($2 million) and the developer's willingness to accept increased risk by setting his average per square foot sales price at $233/sq. ft. in order to balance the development budget. This average sales price is $8 per square foot higher than the price factor indicated in a recent City-commissioned market research report by the Larson Allen firm.

- SDC's development rights for Phase I, as well as any rights for the other phases of the development, will expire on March 31, 2005, unless a redevelopment contract based on the approved business terms for Phase I is executed by that date.
- If SDC executes a redevelopment contract and proceeds with the development of Phase I, it will maintain its development rights for Phase II, which can then be exercised upon reaching certain Phase I construction and sales thresholds as described in the business term sheet approved by the City Council in June 2003. However, these Phase II development rights will expire on earlier of the following dates: a) January 1, 2007, if a redevelopment contract for Phase II is not executed by that date; or b) June 30, 2007, if SDC does not commence construction of Phase II housing and public improvements by that date.

All other previously approved business terms remain in effect.

Timetable

Assuming approval of this amendment to the business terms, SDC intends to execute a Phase I redevelopment contract as soon as possible. When the redevelopment contract is signed, we will proceed with the acquisition of the two privately-owned properties on the Phase I site, using the LCDA grant funds approved by the Metro Council for this project. In the short term, SDC would like to enter into a lease for the Grain Belt Office Building to use it on an interim basis as a marketing office and will assume the operating costs for this building currently borne by the City (approximately $70,000 per year). At the same time, SDC will also be preparing a detailed proposal to the City for the permanent redevelopment/renovation of the office building that it hopes to submit in early 2005. The developer also anticipates closing and starting construction on Phase I in the summer of 2005.