



Community Development Committee

Business Item

Item: 2008 - 93

Meeting date: May 5, 2008

ADVISORY INFORMATION	
Date:	April 25, 2008
Subject:	City of St. Paul Request to Amend the Redevelopment End Project for Minnesota Building #SG006-085
District(s), Member(s):	District 13, Richard Aguilar
Policy/Legal Reference:	MN Statutes Sec. 473.25 Livable Communities Act
Staff Prepared/Presented:	Guy Peterson, Director, Community Development Paul Burns, Manager, Livable Communities Program
Division/Department:	Community Development/Livable Communities

Proposed Action/Motion

That the Community Development Committee direct staff to amend the project description shown as Attachment A of Tax Base Revitalization Account Grant SG006-085 to incorporate City of St. Paul-requested changes to the project.

Background

The Council received a letter from the City of St. Paul dated March 18, 2008, requesting approval to change the outcomes of the Tax Base Revitalization Account [TBRA] grant for the Minnesota Building project, a \$379,800 grant to be used for asbestos and lead-based paint abatement. The proposed changes were the result of the downturn in the condominium market—ownership housing units originally intended as part of the housing provided within the Minnesota Building Project are not feasible in the current market. The City is also requesting a one-year administrative extension to the grant agreement.

On Sept 26, 2007, the Metropolitan Council directed staff to implement proposed grant administration procedures to address requests for revisions to the end projects (not LCA-funded elements) originally proposed as the development or redevelopment outcome in proposals assisted by Livable Communities grant awards. The procedures establish a three-step process to be used by the Community Development Committee (CDC) to determine whether to approve such requests.

Rationale

As prescribed by the procedures, CDC Chair Natalie Steffen appointed a Review Panel consisting of Chair Steffen, Council Member Georgie Hilker and Council Member Sherry Broecker to meet on Monday April 21, to consider the city's request.

Paul Burns, Manager of the Livable Communities program summarized the request, and the staff review of the request. Diane Nordquist, a Project Manager with the Department of Planning and Economic Development for the City of St. Paul, presented the city's request to the panel after which Mr. Jaimie Thelen, from the Sand Companies, Inc., the developer, responded to questions from panel members. As part of their presentation, Ms. Nordquist and Mr. Thelen explained that they had commissioned a third party market study to determine the best use for the building, which resulted in the request to shift from ownership to rental housing units. Panel members were particularly interested in ensuring that they understood completely the impact and feasibility of converting the housing units from ownership condominiums to rental units: more units of smaller size, a larger number of affordable units and the addition of homeless units. The proposed changes also include an increase in the amount of office space and a decrease in the amount of net tax capacity. Chair Steffen concluded the discussion with thanks to the project representatives for their presentation.

In his introduction to the request, Mr. Burns went over the information included in the staff memo (ATTACHMENT 1). He also presented the information required by the three-step procedures for considering requests for changes to end projects as follows:

STEP ONE – DETERMINE WHETHER THE REQUESTED AMENDMENT IS A SIGNIFICANT CHANGE.

For the Tax Base Revitalization Account, the changes are significant because:

- 1) The shift from ownership condominiums to rental units will result in a reduction of 20 percent or more (in this case 48.9%) of the total net tax capacity expected to be generated by the redevelopment as originally proposed.

The determination that the proposed changes are significant moves the consideration of the grant to Step Two.

STEP TWO – EVALUATE THE PROPOSED AMENDMENT

The amendment procedures require staff to prepare a memorandum assessing the proposed amendment's eligibility and compliance with additional account-specific criteria and reporting the results of the rescoring as amended.

The procedures state that the CDC may authorize an amendment to the project description included in the grant agreement provided that the end project, as revised, will produce the intended results described in the Livable Communities Act (in italics) and meets additional account-specific conditions. An assessment was made of the grant for which the amendment was requested.

A review of the proposed revision to the end development/redevelopment project indicates that the revised project:

- 1) will still meet the requirements of the Livable Communities Act because it will provide the highest return in public benefits for public costs incurred, encourage development that will lead to the preservation or growth of living-wage jobs or the production of affordable housing, and enhance the tax base of the recipient municipality, and
- 2) will meet TBRA eligibility criteria, and
- 3) has no additional funding partners for the environmental cleanup, so concurrence on the project change with other funding partners is not applicable, and
- 4) The project as originally described received 65 points. As revised with the decrease in the expected tax revenues, the project would receive 61 points. Rescoring the project using the revised project description would still place the project among the projects recommended for funding in the spring 2006 funding cycle where a project with 50 points was the lowest funded project.

STEP THREE – CONVENE THE CDC REVIEW PANEL

As required by the amendment procedures, a Community Development Committee (CDC) Review Panel considered the request by the City of St. Paul to revise the Minnesota Building project, and the information supplied by Mr. Burns, Ms. Nordquist and Mr. Thelen. Following a thorough discussion, Council Member Hilker moved, seconded by Council Member Broecker, that the Community Development Committee be advised that the Review's recommendation was that staff be directed to amend the project description shown as Attachment A of Tax Base Revitalization Account Grant SG006-085 (Minnesota Building) to reflect a change

from ownership housing, offices and ground level retail space, to a project consisting of rental housing, offices and ground level retail space. The motion passed unanimously.

Funding

The grant amount of \$379,800 would not change.

Known Support / Opposition

The City and the developer support the proposal. No known opposition.

ATTACHMENT 1



Internal Memorandum

DATE: April 10, 2008

TO: Community Development Committee Review Panel

FROM: Guy Peterson, Community Development 651-602-1418
Paul Burns, Manager, Livable Communities Program 651-602-1106

SUBJECT: City of St. Paul Request to Amend the Redevelopment End Project for Minnesota Building (SG006-085)

Summary

The Council received a letter from the City of St. Paul dated March 18, 2008 indicating a change in the end use of the Minnesota Building since the project was awarded TBRA funding. The proposed change is from a mixed-use project including ownership housing and ground level retail to a project consisting of rental housing and ground level retail space. No additional funds are requested.

Background

On September 26, 2007 the Metropolitan Council directed staff to implement proposed grant administration procedures to address requests for revisions to end projects originally proposed as the development or redevelopment outcome in proposals assisted by the Livable Communities grant awards. The procedures establish a three-step process to be used by the Community Development Committee to determine whether to approve such requests. This memo applies those procedures to the St. Paul request.

Funding History

Year	LCA Fund Account	Project Name	Amount Awarded
2006	Tax Base Revitalization Account (TBRA)	Minnesota Building	\$379,800

Project Summary:

The Minnesota Building is located at 46 - 4th Street East. TBRA funds (\$379,800) are to be used for asbestos and lead-based paint abatement. The renovation of the historic art deco building will include 75 ownership condominiums, and retail/ restaurant/commercial space. Twelve of the condominiums will be affordable to household earning 80% of area median income. Annual property taxes are expected to increase by \$187,830.

According to a letter from the developer, Sand Companies Inc., sent to the City of St. Paul dated March 17, 2008 concerns regarding the weakening condominium market prompted the developer to initiate a third-party market study to find the highest and best use for the building.

The revised redevelopment proposal would add more housing units, affordable units, retail space and private investment and maintain the same number of jobs than the previous redevelopment proposal listed in the grant agreement. However, the revised proposal would result in a smaller expected increase in net tax capacity.

Original Redevelopment Proposal	Revised Redevelopment Proposal	Change
75 ownership housing units	137 units of market rate rental housing	62 more housing units
7,400 sq. ft. commercial space	10,400 sq. ft. retail space	3,000 additional sq. ft. commercial space
12 affordable housing units	77 affordable housing units	65 more affordable units
43 new full-time equivalent jobs	43 new full-time equivalent jobs	No change.
\$249,175 increase in annual net tax capacity by 2008	\$127,363 increase in annual net tax capacity by 2011.	-\$121,812 in estimated annual net tax capacity upon project completion
\$16.8M Private Investment	\$25.5M Private Investment	\$8.7M Private Investment

In compliance with grant administration procedures that require requests to amend LCA grant agreements be submitted in writing, the City of St. Paul sent a letter dated March 18, 2008 (Attachment A) requesting approval of modifications to the end project described in the LCA grant awarded on June 28, 2006. A follow up email dated April 3, 2008 included updated information regarding the net tax capacity and the housing units.

Application of Amendment Procedures

The Council’s process for amending LCA grants to change end development/redevelopment projects (Attachment B) involves three steps, as follows:

Step One – Determine whether the requested amendment is a significant change.

For the Tax Base Revitalization Account, the changes are significant because:

- 2) The shift from ownership condominiums to rental units will result in a reduction of 20 percent or more (in this case 48.9%) of the total net tax capacity expected to be generated by the redevelopment as originally proposed.

The determination that the proposed changes are significant moves the consideration of the grant to Step Two.

Step Two – Evaluate the proposed amendment

The amendment procedures require staff to prepare a memorandum assessing the proposed amendment’s eligibility and compliance with additional account-specific criteria and reporting the results of the rescoring as amended.

The procedures state that the CDC may authorize an amendment to the project description included in the grant agreement provided that the end project, as revised, will produce the intended results described in the Livable Communities Act (in italics) and meets additional account-specific conditions. An assessment was made of the grant for which the amendment was requested.

A review of the proposed revision to the end development/redevelopment project indicates that the revised project:

- 5) will still meet the requirements of the Livable Communities Act because it will provide the highest return in public benefits for public costs incurred, encourage development that will lead to the preservation or growth of living-wage jobs or the production of affordable housing, and enhance the tax base of the recipient municipality, and
- 6) will meet TBRA eligibility criteria, and

- 7) has no additional funding partners for the environmental cleanup, so concurrence on the project change with other funding partners is not applicable, and
- 8) The project as originally described received 65 points. As revised with the decrease in the expected tax revenues, the project would receive 61 points. Rescoring the project using the revised project description would still place the project among the projects recommended for funding in the spring 2006 funding cycle where a project with 50 points was the lowest funded project.

Step Three – Convene the CDC Review Panel

As required by the amendment procedures, a Community Development Committee (CDC) Review Panel has been appointed to consider the request to revise the Minnesota Building project. The panel will take into account the information provided by the representatives of the City of St. Paul and the staff assessment included in this memorandum to prepare a recommendation for action by the CDC during its April 21 meeting.

The committee's action will occur within 45 days of receipt of the City of St. Paul letter requesting the amendments.



CITY OF SAINT PAUL
Christopher B. Coleman, Mayor

*25 West Fourth Street
Saint Paul, MN 55102*

*Telephone: 651-266-6565
Facsimile: 651-228-3261*

March 18, 2008

Ms. Deborah Street Jensen
Senior Project Administrator
Metropolitan Council Livable Communities
390 Robert Street North
Saint Paul, MN 55101-1805

RE: Minnesota Building TBRA #SG-006085

Dear Ms. Jensen:

This letter is to provide an update on the current status of the Minnesota Building project and provide more detail to the Met Council regarding the change in the end use of the building.

At the time the Minnesota Building was awarded the \$379,800 TBRA grant in 2006 for asbestos and lead-based paint abatement, the project's end use was a mixed-use and mixed-income ownership residential housing conversion of a historic building. The project is now a mixed-use, affordable rental residential housing conversion of a historic building. Please see the attached letter from the project developers Sand Companies, Inc. with more information regarding the end use of the project.

Regarding the affordable housing units, of the 137 housing units, 14 units will be affordable to households earning 50% and less AMI, and 14 units will be affordable to households earning 30% and less AMI. The remaining units will be affordable to households earning 60% and less AMI.

In addition to the above changes to the project, the City also would like to respectfully request a one year extension to the grant agreement. Per the attached letter, you will see that the majority of the clean-up has been completed; however there remains some asbestos to be removed in the roof. The developers would like to wait until the entire construction on the building gets underway in order to remove this last amount of asbestos. It is anticipated that project construction will start early this summer.

Ms. Deborah Street Jensen
March 18, 2008
Page 2

I hope this provides all the information you need to review. Please feel free to contact me if you have any questions regarding this matter. I can be reached at 651-266-6640.

Sincerely,



Diane Nordquist
Project Manager

Attachment

Cc: Guy Peterson, Metropolitan Council
Cecile Bedor, Director of the Department of Planning and Economic Development
~~Marcus Martin, Metropolitan Council~~
Jamie Thelen, Sand Companies, Inc.

March 17, 2008

Sent Via E-Mail Transmission

Ms. Diane Nordquist
City of Saint Paul
Department of Planning and Economic Development
1400 City Hall Annex, 25 West Fourth Street
Saint Paul, Minnesota 55102



366 South Tenth Avenue
PO Box 727
Waite Park, MN 56387-0727
Office: (320) 202-3100
Fax: (320) 202-3139
E-mail: SCI@SandCompanies.com
Website: www.SandCompanies.com

RE: Minnesota Building – Saint Paul.
Livable Communities Grant #SG-006-085.

Dear Diane,

At the time of submission for the above referenced grant application, we identified a potential end use for the building being 75 ownership condominiums and 10,400 square feet of office/retail space. At the same time we were also considering an alternative residential use for the building which was rental housing. For the application, we included the most likely use at the time which was condos.

With all the changes in the condo market in the last 18 months and after commissioning a third party market study to find the highest and best use for the building, we have since modified the end use of the building to 137 rental housing units. The approximate 10,400 square feet of office/retail is still part of the development. Below is an update on the end use of the building:

- Complete historic preservation of the all 13 floors
- 7,400 SF Retail Space ~ First Floor
- 3,000 SF Office Space ~ Second Floor
- 137 Rental Units ~ Second through Thirteen Floor
- Total Projected Investment: \$25.5 Million
- Projected Increase in Annual RE Taxes: \$89,000
- New Jobs from Retail: 16 Full Time & 20 Part Time
- New Jobs from Office: 10 Full Time & 3 Part Time
- New Jobs from Rental Housing: 4 Full Time & 3 Part Time

As of the date of this letter, we have completed nearly all the environmental remediation relating to the Minnesota Building. The remaining work includes final inspections and reports from Braun Intertec, lead based paint removal/encasement and the removal of hazards flashing on the roof. This work can be most economically completed with the full construction which is scheduled to begin in the summer of 2008. Based on this, we respectfully request an extension on the Grant Termination Date from June 30, 2008 to June 30, 2009.

If you have any question, please feel free to contact me at (320) 202-3100. Thanks.

Sincerely,
Sand Companies, Inc.

A handwritten signature in black ink, appearing to read "Jamie J. Thelen", written over a horizontal line.

Jamie J. Thelen
President

Construction ♦ Property Management ♦ Development

Equal Opportunity Employer

PROPOSED REVISIONS TO THE GRANT ADMINISTRATION PROCEDURES

Process for Amending Livable Communities Grant Awards in Response to Requests for Changes to the End Development/Redevelopment Project

Grantees will be informed that **all requests to amend the end development project or redevelopment project as described in an LCA grant agreement must be made in writing.** Information provided must include:

- the proposed amendment(s)
- an explanation as to why the proposed change is necessary

Decisions regarding disposition of requests to amend end projects will be made through a three-step process summarized as follows and further defined below:

1. Determine whether the requested amendment to the end project is a significant change.
2. If the change is deemed to be significant, Livable Communities staff will A) review the request and prepare a report stating whether the project, as amended, meets specific conditions that would suggest that the Community Development Committee should approve the amendment and B) invite the grantee to present the proposed amendment to the Community Development Committee Review Panel.
3. Convene a three-member CDC Review Panel to consider the grantee's request and recommend action to the full Community Development Committee.

STEP ONE — DETERMINE WHETHER THE REQUESTED AMENDMENT IS A SIGNIFICANT CHANGE

Decisions as to whether or not proposed changes to end projects are **significant** will be based on consideration of the account-specific legislative outcomes and on the factors considered when the application for funding was scored. For example, some end project proposals do not include jobs...others do not include housing units.

Only the factors applicable to the end project as originally proposed will be evaluated.

For the **Tax Base Revitalization Account**, a proposed change will be considered **significant** if the change:

- proposes to replace the end project as originally proposed with a completely different end project, or
- will result in a reduction of 20 percent or more of the total net tax capacity expected to be generated by the redevelopment as originally proposed, or
- proposes to reduce by 15 percent or more, or by 50 jobs, (whichever is higher) the total number of new or retained jobs, or
- proposes to reduce by 10 percent or more, or by 50 units, (whichever is higher) the total number of housing units, or
- proposes to reduce the total number of affordable housing units by 20 percent or more from the project as originally proposed.

For the **Livable Communities Demonstration Account**, a proposed change will be considered **significant** if the change:

- proposes to replace the end project as originally proposed with a completely different end project, or
- proposes to substantially change the mix and type of land uses originally proposed in a way inconsistent with program objectives, or substantially change the nature of the project originally proposed, or
- will reduce the overall project density below the density guidelines for developments in the project location, or 20 percent below the density originally proposed (whichever is higher), or

- proposes to reduce by 10 percent or more, or by 50 units, (whichever is higher) the total number of housing units, or
- proposes to reduce the total number of affordable housing units by 20 percent or more from the project as originally proposed.

For the **Local Housing Incentives Account**, a proposed change will be considered **significant** if the change:

- proposes to replace the end project as originally proposed with a completely different end project, or
- proposes to reduce by 20 percent or more the total number of affordable housing units, or
- no longer meets Minnesota Housing funding requirements resulting in the withdrawal of Minnesota Housing funds from the project.

STEP TWO — EVALUATE THE PROPOSED AMENDMENT

If the purpose for which the funds were awarded remains the same, but the requested amendment proposes **significant changes to the end development or redevelopment project** as described in the grant as awarded by the Council’s governing body (e.g. changing an LCDA or TBRA end project in its entirety from residential development to retail uses or— for LHIA grants—changing the end project from rental apartments to owner-occupied single-family homes), the Community Development Committee may authorize an amendment to the project description included in the grant agreement provided that the end project, as revised, will produce the intended results described in the Livable Communities Act (in italics) and meets additional account-specific conditions as follows:

Tax Base Revitalization Account—

- *provide the highest return in public benefits for the public costs incurred, encourage development that will lead to the preservation or growth of living-wage jobs or the production of affordable housing, and enhance the tax base of the recipient municipality, and,*
- meets the account eligibility criteria, and
- if the revised end project is acceptable to the Council’s polluted site cleanup funding partners that have also granted funds to the project, and
- if the revised end development or development project would score similarly to the original end project (i.e., rank within the list of projects recommended for funding) in the jobs/housing and tax base increase categories;

Livable Communities Demonstration Account—

- *interrelate development or redevelopment and transit; interrelate affordable housing and employment growth areas; intensify land use that leads to more compact development or redevelopment; involve development or redevelopment that mixes incomes of residents in housing, including introducing or reintroducing higher value housing in lower income area to achieve a mix of housing opportunities; or encourage public infrastructure investments which connect urban neighborhoods and suburban communities, attract private sector redevelopment investment in commercial and residential properties adjacent to the public improvement, and provide project area residents with expanded opportunities for private sector employment, and*
- meets the account eligibility criteria, and
- if an examination of the record of review for the grant award indicates that the end development/redevelopment project, as amended, would still include the demonstration and innovation elements that contributed to the Livable Communities Advisory Committee’s selection of the project for funding, and, in addition,
- (for projects awarded funds in 2006 or later) if the revised end development/redevelopment project would score similarly (i.e. would score at least 20 points [the threshold level] in the Step One evaluation) to the original end project in the staff technical evaluation.

Local Housing Incentives Account—

- *create incentives for developing communities to include a full range of housing opportunities; create incentives to preserve and rehabilitate affordable housing in the fully developed area,*
- meets the account eligibility criteria, and
- if the revised end development/redevelopment project is acceptable to the Council's Metropolitan Housing Implementation Group funding partners that have also granted funds to the project.

STEP THREE — CONVENE THE CDC REVIEW PANEL

Community Development Committee decisions regarding compliance with the above conditions will be made in the following manner:

- A Review Panel subcommittee of the Community Development Committee consisting of three committee members appointed by the committee chair will convene to consider requests for significant changes to end projects.
- Representatives of the grant award recipients will be asked to present to the Review Panel their requests for a change to the original end project and will be available to answer panel members' questions.
- Staff will provide the Review Panel with a memorandum assessing the proposed amendments' eligibility and compliance with additional account-specific criteria and reporting the results of the rescoring of end projects as amended.
- The Review Panel will consider the information provided and make recommendations to the Community Development Committee for a final decision regarding disposition of the requests for amendments.
- The Community Development Committee will endeavor to inform grantees of the committee's decision regarding requested amendments in writing within 45 days of receipt of the grantees written requests, subject to the committee's meeting schedule.

Implementation of the Livable Communities Act Program will continue to focus on partnering with communities to achieve local plans and objectives consistent with the Council's *2030 Regional Development Framework*. LCA staff will continue to hold grantees accountable for funded projects, monitoring progress and contacting communities to help resolve issues for funded projects on which progress is delayed.