

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

Date: May 6, 2008

To: Council Member Lisa Goodman, Chair, Community Development Committee

Council Member Paul Ostrow, Chair, Ways and Means Committee

Subject: Humboldt Greenway Lot Acquisition

Recommendation: Approve the following actions in regards to the Humboldt Greenway Redevelopment Project:

1. Authorize staff to negotiate and execute the Sixth Amendment to Redevelopment Contract between City of Minneapolis and Humboldt Greenway Development LLC and to expend up to \$240,000 of funds from SHP to reacquire 98 parcels in the Humboldt Greenway; and
2. Authorize staff to negotiate and execute Third Amendment to Land Conveyance Agreement between the City and Hennepin County.

Previous Directives:

- The Humboldt Greenway Redevelopment Plan was adopted on December 18, 1998 by the MCDA Board of Commissioners which authorized acquisition of property in the Humboldt Greenway Redevelopment Project.
- CountryHome Builders, Inc./Humboldt Greenway Development, LLC was selected as developer for this site by the MCDA Board of Commissioners on February 19, 1999.
- Humboldt Greenway Tax Increment Financing Plan was approved by the MCDA Board of Commissioners on February 4, 2000.
- Land acquisition from Hennepin County was approved by the MCDA Executive Director on June 26, 2000, and January 29, 2001.
- The Board of Commissioners approved the sale of land in Phase I of the project area on July 15, 2000 and in Phase II on July 2, 2004 to CountryHome Builders, Inc./Humboldt Greenway Development, LLC.
- The Land Conveyance Agreement by and between the Minneapolis Community Development Agency and Hennepin County was executed on February 1, 2001, amended March 21, 2003 and October 28, 2004.
- The Redevelopment Contract By and Between the Minneapolis Community Development Agency and Humboldt Greenway Development, LLC was executed on February 13, 2001, amended June 4, 2001, August 3, 2001, November 9, 2004, December 30, 2004 and March 23, 2006.

Prepared by: Matt Goldstein, Senior Project Coordinator, 612-673-5075

Approved by: Thomas Streitz, Director of Housing Policy & Development _____

Presenters in Committee: Matt Goldstein

Reviews

Permanent Review Committee (PRC): Approval ___ Date _____

Policy Review Group (PRG): Approval ___ Date _____

Financial Impact

___ No financial impact

___ Action requires an appropriation increase to the Capital Budget ___ or
Operating Budget ___

___ Action provides increased revenue for appropriation increase

___ Action requires use of contingency or reserves

___ Action is within the Business Plan

___ Action requires a change to the Business Plan

X Other financial impact: Reappropriation of \$240,000 of SHP funds to acquire up to 98 parcels in the Humboldt Greenway Redevelopment Project.

___ Request provided to the Finance Department when provided to the Committee Coordinator

Community Impact

Neighborhood Notification (Ward 4)- The Lind-Bohanon and Shingle Creek Neighborhood Associations have been notified in writing of staff’s preliminary discussions with the Humboldt Greenway developer and the public City Council Committee meetings.

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

Affordability Targets – Because the original PUD was approved before the adoption of the City’s Unified Housing Policy in 2004, affordable housing targets did not apply.

Comprehensive Plan – 4.9: Minneapolis will grow by increasing its supply of housing; 4.11: Minneapolis will improve the availability of housing options for its residents.

Zoning Code – In compliance with Humboldt Greenway PUD and applicable zoning regulations.

Supporting Information – Project History

Following an extensive planning and community engagement process in the 1990s, Hennepin County through its Community Works program completed the \$28 million Humboldt Avenue Greenway / Shingle Creek Regional Pond and Wetland project included a significant greenway amenity, enhancements to Shingle Creek, and several new residential redevelopment sites as described in the Humboldt Greenway Redevelopment Plan and Tax Increment Financing Plan, both in 1999.

In February 1999, the MCDA Board of Commissioners approved the selection of CountryHome Builders/Humboldt Greenway Development, LLC, as developer for the project area. The strengths of this proposal included the architecture and configuration of the three different proposed housing types, the cohesive integration of these housing types into a thoughtful land use plan, the ability of this development plan to assist with the goal of building the residential market in this area, and the inclusion of site amenities that clearly linked this neighborhood to the adjacent schools and amenities. Subsequently, the Humboldt Greenway PUD included approval of the proposed architecture and the land was platted specifically around the planned footprint of those specific units.

A Land Conveyance Agreement was executed with Hennepin County on February 1, 2001 for the purchase of 955,935 sq. ft. of land for approximately \$2,052,250 (\$2.15 per square foot). This agreement has subsequently been amended twice in part to defer the repayment of this land cost and pass on the costs of some completed public improvements. The Developer was to pay these costs in installments as the developer sold units to homeowners.

The first phase located along the 4700, 4800, 5100 and 5200 blocks of the realigned Humboldt Ave. N. is comprised of 94 units (58 single family and 36 townhomes) at a total development and privately financed construction cost of approximately \$23 million. This phase is built-out. At least ten single family homes in the first phase sold for over \$300,000, and at least four townhomes sold for over \$255,000.

The second and final phase is located on the 4900 and 5000 blocks of Humboldt and Girard Avenues North, as well as parcels along 50th Avenue North from Dupont to Humboldt. The 108-unit second phase is comprised of three different housing unit types: 65 detached, two story single family homes, 24 town homes and 19 row homes. The row homes are not currently being marketed. The current base sales prices of single family units in Phase II range from \$239,900 to \$284,900 and base pricing for Phase II townhomes ranges from \$229,900 to \$249,000.

Supporting Information – Summary of Current Situation

In total about 120 (59%) of the 202 units in the Humboldt Greenway project have been built, and about seven of those built homes are still owned by the developer. Due to the poor residential sales market, sales activity has dropped significantly. There are 98 undeveloped parcels (8.49 acres platted for 83 units, all in Phase II). Nearly all of the undeveloped properties were Hennepin County properties conveyed on a deferred basis through the City to the Developer. The developer has failed to pay roughly \$274,000 of property taxes and assessments since 2005 for 47 lots and since 2006 for 51 lots. CPED staff became aware of this situation in mid-2007 and has been trying to negotiate an acceptable resolution of the situation.

The outstanding taxes have created a risk of tax forfeiture by Hennepin County in spring 2009 and risk of foreclosure by the developer's lender. If these lots were forfeited, the property will likely remain vacant for an extended period of time, and the City would have little to no control over future development by others.

To forestall this outcome, staff is recommending that the City's agreements with the developer and the County be renegotiated to reacquire the lots as summarized herein. In the proposed workout scenario, the developer, subject to demonstrated capacity and lender collateral requirements, could retain the finished homes and several lots to satisfy the collateral requirements of the lender. The lender would release the balance of the lots to the City from the existing mortgage. The City would reacquire the lot for the cost of the outstanding taxes, special assessments, and closing costs and assume responsibility for interim property management costs.

In so doing, the City would be in a position to control and shape future development outcomes consistent with the original vision for this area, protect the approximate \$6 million in City investment, and eliminate the risk of forfeiture and foreclosure proceedings. To stop the tax clock on January 1, 2009, the City must close on the property early in June to permit the County to process the closing by June 30, 2008.

Based on expected net land sale proceeds from the sale of the lots that the City would take back, City staff expect that the City will be able to recover its take-back and holding costs assuming either a three- or five- year holding period. The CPED appraiser has estimated that the current land values range from \$4.80 to \$5.25 per square foot.

Per the detailed table below, the City's costs to recover are expected to range from about \$427,000 (or \$1.16 per square foot) for a three-year holding scenario to \$525,000 for a five-year scenario (or \$1.42 per square foot).

	Three Year Hold	3 Yr. Per Sq. Ft.	Five Year Hold	5 Yr. Per Sq. Ft.
Total Delinq. Tax	\$ 273,741	\$ 0.74	\$ 273,741	\$ 0.74
- Dev. Deposits w/ City	\$ (69,238)	\$ (0.19)	\$ (69,238)	\$ (0.19)
+Closing costs	\$ 29,400	\$ 0.08	\$ 29,400	\$ 0.08
= '08 Net Land Acq. Cost	\$ 233,902	\$ 0.63	\$ 233,902	\$ 0.63
+Holding costs	\$ 193,639	\$ 0.52	\$ 291,421	\$ 0.79
=Total	\$ 427,541	\$ 1.16	\$ 525,323	\$ 1.42

Currently, Hennepin County is owed approximately \$947,000 for the land and approximately \$134,000 for public improvements, which are currently paid on a deferred, incremental basis as the developer sells lots with no interest. Hennepin County only gets paid if payments are made by the Developer. The City is proposing to first repay the City's out-of-pocket costs related to re-acquiring and holding the lots. Any remaining proceeds from the sale of the property would go to Hennepin County to repay the County for its foregone deferred purchase price and un-reimbursed public improvement costs up to a negotiated maximum level, with surpluses above this level to be divided equally between the City and the County. Hennepin County staff has been

briefed on the reacquisition strategy outlined above and is prepared to undertake negotiations consistent with this staff proposal.

Based on the foregoing analysis, staff requests authorization to negotiate and execute the Sixth Amendment to Redevelopment Contract between the City of Minneapolis and Humboldt Greenway Development LLC and to re-appropriate and expend \$240,000 of funds from SHP to reacquire 98 parcels in the Humboldt Greenway; and to negotiate and execute a Third Amendment to Land Conveyance Agreement with Hennepin County according to the terms outlined above.