

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

Date: July 15, 2008

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

Subject: Standard Plymouth LLC (a/k/a/ Standard Plumbing & Heating) project at 2nd Street N. and Plymouth Avenue N.

Recommendation:

1. Approve the request by Standard Plymouth LLC (a/k/a/ Standard Plumbing & Heating) for MILES funding assistance with respect to the industrial redevelopment project planned for the northeast corner of 2nd Street N. and Plymouth Avenue N.
2. Approve the request by Standard Plymouth LLC (a/k/a/ Standard Plumbing & Heating) for an extension of the current closing deadline from July 31, 2008 to September 30, 2008 for the three City-owned parcels located at the northeast corner of 2nd Street N. and Plymouth Avenue N.

Previous Directives: CPED acquired 1300 2nd Street N. on May 16, 1994, 1316 2nd Street N. on October 9, 2001, and 109 14th Ave. N. on March 23, 2004. CPED issued a Request for Proposals for the redevelopment of these parcels on May 1, 2005. On April 14, 2006 the City Council approved the sale of 1300 2nd Street N., 1316 2nd Street N., and 109 14th Ave. N. to Landmark Minnesota LLC, an affiliate of Master Civil & Construction Engineering, Inc. d/b/a Master Development Group [hereinafter "Master"] for the fair reuse value of \$365,365 (or \$5 per sq. ft.) and authorized staff to execute a redevelopment contract and land sale documents consistent with the term sheet accompanying the land sale report. On October 6, 2006, the City Council authorized City staff to execute a redevelopment contract consistent with a revised term sheet. On November 7, 2006, the City Council authorized an extension of the closing date to April 1, 2007. On April 13, 2007, the City Council approved an extension of the closing date to July 1, 2007, or until December 28, 2007 if additional environmental remediation was determined to be necessary at the site. On February 29, 2008, the City Council approved the sale of the property in question to Standard Plymouth LLC for the fair reuse value of \$365,365 (or \$5 per sq. ft.) and authorized staff to execute a redevelopment contract and land sale documents consistent with the term sheet accompanying the land sale report.

Prepared by: Jim Forsyth, Senior Project Coordinator
Kevin Carroll, Senior Project Coordinator

Approved by: Charles T. Lutz, Deputy CPED Director _____
Cathy A. Polasky, Director, Economic Policy and Development _____

Presenters in Committee: Kevin Carroll, 612-673-5181
Jim Forsyth, 612-673-5179

Financial Impact:

Action is within the Business Plan

Other financial impact: eliminate ongoing City project/property management costs

Community Impact:

Neighborhood Notification: The Standard Heating and Air Conditioning project has been reviewed and approved by the North Washington Industrial Park [NWIP] Jobs Park Committee and the Northside Residents Redevelopment Council [NRRC].

City Goals: A safe place to call home, One Minneapolis, Enriched Environment, Premier Destination.

Sustainability Targets: It is anticipated that the project in question will contribute (in ways that will be determined with more specificity during the development of the construction documents) to one or more of the following targets identified in or by the City’s Sustainability Initiative: Combined Sewer Overflow, Permeable Surfaces, Water Quality, and Brownfield Sites.

Comprehensive Plan: The project identified herein is consistent with the following policy identified in *The Minneapolis Plan*:

Policy 2.2 Minneapolis will support the existing economic base by providing adequate land and infrastructure to make City sites attractive to businesses willing to invest in high job density and low impact, light industrial activity.

Zoning Code: The three-parcel site is zoned I-2. The Standard Heating & Air Conditioning site plan and preliminary plat were reviewed and approved by the Planning Commission on June 16, 2008.

Living Wage/Business Subsidy Agreement: Yes___ No_

Job Linkage: Yes_ No___ (if applicable)

Other: N/A.

Supporting Information

The Property: The City is the owner of three contiguous vacant parcels of property located at the northeast corner of the intersection of Plymouth Avenue N. and 2nd Street N. One of these three parcels (1300 N. 2nd Street) has been in the City’s inventory for over 14 years; the other two were acquired at later dates. After the three parcels were assembled, the City used approximately \$372,000 in environmental remediation grants from the Minnesota Department of Employment and

Economic Development and the Metropolitan Council, plus approximately \$50,000 in required local matching funds from MILES, to create and implement a Response Action Plan to preliminarily address site contamination. The initial cleanup was undertaken with the understanding that further or additional remediation might be required at a later time in response to a developer's specific redevelopment plan for the site.

The Initial Standard Heating Project: On February 29, 2008, the City Council approved the sale of the three parcels in question to Standard Plymouth LLC, d/b/a Standard Heating & Air Conditioning (hereinafter "Standard Heating"). At that time, Standard Heating envisioned the construction of a 24,379 square foot building (part two-story and part one-story) consisting of office space, a showroom, a warehouse, a parts department and a fabricating shop. At that size, the combined acreage of the three City-owned parcels was sufficient to accommodate the planned building and all of the required parking.

The Revised Standard Heating Project: However, following the February 29, 2008 City Council meeting Standard Heating and its consultants continued to examine the company's future space needs. They ultimately determined that it would be prudent to expand the size of the planned building to 31,755 square feet, to make certain that the building had enough room to accommodate the company's projected growth over a longer period of time. While this expansion of the building was desirable and beneficial in most respects, the increased footprint of the building reduced the number of parking spaces to a point that was below the minimum level acceptable to the company to accommodate employee and customer parking as well as their fleet.

Attention then shifted to options for dealing with the parking shortage. The most practical alternative involved acquiring an arguably underutilized building (currently owned and occupied by a business known as Midwest Steel) located adjacent to the northeast corner of Standard Heating's redevelopment site (the southeast corner of the intersection of 2nd Street N. and 14th Avenue N.). Standard Heating determined that the demolition of the Midwest Steel building would provide sufficient space to replace the parking spaces lost through the expansion of the footprint of the planned building. During meetings with the North Washington Industrial Park Jobs Park Committee and the Northside Residents Redevelopment Council, both groups indicated that they would support the acquisition and demolition of the Midwest Steel building, in part because of the poor condition of the structure and the associated visual aesthetics. Although Standard Heating's original budget for the project did not involve any costs related to the Midwest Steel building, Standard Heating proceeded to negotiate a purchase price with the owner and currently has the property under contract. The final acquisition of the Midwest Steel building is contingent upon the completion of Standard Heating's pending purchase of the three adjacent City-owned parcels.

Unanticipated Costs – Environmental Remediation and Demolition: Costs related to the Midwest Steel property go beyond its acquisition. Additional costs will be incurred to (a) demolish the building, (b) address asbestos and/or lead-based paint contamination in the building, and (c) remediate any subsurface contamination. The Midwest Steel remediation costs will be in addition to the remaining remediation costs on the City-owned property. As noted above, the prior City-initiated remediation addressed much of the existing site contamination, but completing the remediation

was always believed to be contingent upon the size, nature and location of whatever redevelopment project was ultimately approved for the site.

In an effort to address the costs referred to in the preceding paragraph, Standard Heating prepared grant applications that the City submitted to DEED, the Met Council and Hennepin County in the spring 2008 brownfield grant round (May 1, 2008 application deadline). Standard Heating sought a combined total of \$474,904 (some of which was for demolition rather than for remediation, per se) from the three grantors in question. The grant applications to DEED and the Met Council were denied. Hennepin County staff members have recommended that Standard Heating receive an Environmental Response Fund (ERF) grant in the amount of \$88,702. Final approval by the Hennepin County Board is anticipated shortly. However, the denial of the other two grant applications will result in remediation/demolition shortfall of up to \$386,202.

Unanticipated Costs – Roadway Access: Standard Heating has also indicated to City staff that its original financial analysis of the planned redevelopment project did not include any costs related to the improvement of 14th Avenue N., which is located along the northern boundary of its site plan. Standard Heating's site plan shows two accesses onto what is currently an unimproved (dirt) portion of the right-of-way for 14th Avenue N. Standard Heating and its consultants apparently believed that the City would, upon request, improve 14th Avenue N. (including the construction of a cul-de-sac at its eastern terminus) as a City project and assess a portion of the that cost to the benefiting property owners pursuant to the City's assessment policy. The initial Public Works estimate regarding the cost of such a project was \$360,000 (assuming that the project was done in 2008). However, after further discussions with Public Works staff and others it became clearer that a City-initiated and [primarily] City-funded road project of the type envisioned would have a very low priority when compared to the City's other roadway improvement needs, and that as a result the desired improvement of 14th Avenue N. would not be made for a very long time (if ever). Accordingly, City staff and Standard Heating are now exploring various other options for providing Standard Heating with the type of roadway access that its project needs. Such options include:

- a. pursuing the vacation of the portion of 14th Avenue N. that lies east of 2nd Street N., so that Standard Heating could construct a private driveway for itself on the southern half of the vacated right-of-way;
- b. pursuing the vacation of the portion of 14th Avenue N. that lies east of 2nd Street N., so that a jointly-maintained driveway could be constructed (within the vacated right-of-way) that would serve the Standard Heating project site and the other two private properties that adjoin the vacated right-of-way;
- c. keeping the existing right-of-way in place pending the potential future completion of the roadway improvements referred to above (i.e., construction of a cul-de-sac, etc.), and allowing Standard Heating to address its immediate needs by paving part of the currently unimproved portion of the right-of-way, to create a connection between Standard's two northern access points and the portion of 14th Avenue N. that is now partially improved (with bituminous patches and partial curbing).

All of the options outlined above will necessitate expenditures that were not envisioned when Standard Heating's offer to purchase was submitted to the City.

MILES Request: In an effort to address an anticipated gap in the funding for its project (due to the unanticipated or unplanned expenses identified above), Standard Heating submitted a request to the City for financial assistance in the amount of \$250,000 through the MILES fund. At that time, Standard Heating proposed that \$205,000 of the requested assistance be applied to the cost (\$375,000) of acquiring the Midwest Steel building, and that the balance of \$45,000 be applied to the anticipated cost of demolishing that building.

MILES Recommendation(s): After staff discussions and analysis of Standard Heating's MILES request, it was concluded that while the amount of the developer's request was justifiable under the circumstances, a greater effort should be made to allocate the funds to uses that are more consistent with past MILES funding decisions and current Council priorities. The MILES Committee approved the original request for \$250,000 in assistance, but at that time the proposed uses were those referred to in the preceding paragraph. On July 9, 2008 the members of the MILES Committee will be asked to approve the staff recommendation that the previously-approved \$250,000 in assistance be dedicated to one or more of the following uses (at the developer's discretion):

- a. Any remaining MPCA-required environmental remediation on or for the three City-owned parcels referred to above.
- b. Any necessary environmental investigation(s) related to the Midwest Steel site.
- c. Any MPCA-required environmental remediation on or for the Midwest Steel site (including contamination in the existing building and any subsurface contamination).
- d. The demolition of the Midwest Steel building (including the disposal of the demolition debris).
- e. Any expenses incurred by Standard Heating for improvements made within the public right-of-way for 14th Avenue N. in order to provide Standard Heating with paved access to the two northern driveway entrances shown on its approved site plan, but only if a decision is made to not vacate 14th Avenue N and Standard Heating incurs road construction costs within the public right-of-way beyond those that would be proportionately assessed to them for the related improvements.

It is staff's intention to administer the \$250,000 in MILES assistance (if approved by the City Council) by using a "request for reimbursement" procedure similar to that used for brownfield and redevelopment grants. That is, funds would be disbursed only for the categories of expenses outlined above, and only after City MILES program staff had received, reviewed and approved copies of the invoices for the work in question.

Request for Extension of Time: The term sheet that was approved by the City Council at its meeting on February 29, 2008 indicated that the closing on the sale of the three City-owned parcels to Standard Heating would be completed by July 31, 2008. Considerable progress has been made toward that objective, including the review and approval of the site plan and the preliminary plat by the two affected neighborhood groups and the Planning Commission. All parties are still working

toward resolving the few remaining Redevelopment Contract issues by July 31, and it is conceivable that a closing could still occur by that date, but the developer has requested that the closing deadline be extended by 60 days in case an unanticipated amount of time is required to properly address the final issues. The request for a 60 day extension is supported by City staff, in part because Standard Heating has been working diligently with the City in good faith on all pending issues, and has repeatedly emphasized its desire to commence construction at the earliest possible date.

STAFF RECOMMENDATION:

1. Approve the request by Standard Plymouth LLC (a/k/a/ Standard Plumbing & Heating) for \$250,000 in MILES funding assistance with respect to the industrial redevelopment project planned for the northeast corner of 2nd Street N. and Plymouth Avenue N., to be applied to any one or more of the uses specified herein at Standard Heating's discretion, in the form of reimbursement for expenses actually incurred.
2. Approve the request by Standard Plymouth LLC (a/k/a/ Standard Plumbing & Heating) for an extension of the current closing deadline from July 31, 2008 to September 30, 2008 for the three City-owned parcels located at the northeast corner of 2nd Street N. and Plymouth Avenue N.