

HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA

REPORT TO THE COMMISSIONERS

DATE: December 9, 2015

REGARDING: RESOLUTION APPROVING AND AUTHORIZING ACCEPTANCE OF CONVEYANCE OF PALACE THEATRE FROM CITY OF SAINT PAUL (CITY); EXECUTION OF A REIMBURSEMENT AND LOAN AGREEMENT WITH THE CITY; ACCEPTANCE OF ASSIGNMENT OF EXISTING CONTRACTS FROM THE CITY; EXECUTION OF STATE G.O. BOND GRANT AGREEMENT AND RELATED DOCUMENTS AND AGREEMENTS; EXECUTION OF A DEVELOPMENT AGREEMENT AND USE AGREEMENT WITH PALACE THEATRE OPERATIONS, LLC; ACCEPTANCE OF ENCROACHMENT EASEMENT; EXECUTION OF ACCESS EASEMENT; APPROVAL OF ADDITIONAL ACTIONS TO COMPLETE THE PALACE THEATRE PROJECT; AND BUDGET AMENDMENT; DISTRICT 17, WARD 2.

Requested Board Action

Approval of the attached resolution authorizing: a) acceptance of the conveyance of the Palace Theatre from the City; b) execution of a reimbursement and loan agreement with the City; c) assignment of existing contracts from the City; d) execution of the State G. O. Bond Grant Agreement; e) execution of a Development Agreement and Use Agreement with the Operator; f) acceptance of an Encroachment Agreement; g) execution of an Access Easement; and h) approval of related actions and budget amendment.

Background

Built in 1916, the Palace Theatre was originally a vaudeville theater where Charlie Chaplin, the Marx Brothers, and George Burns all performed. It was later used as a movie theater known as the RKO Orpheum. It was last used as a temporary home for *A Prairie Home Companion* while the nearby Fitzgerald Theater underwent remodeling. The Palace Theatre has been dark since 1984. Vacant buildings steadily deteriorate, and in recent years the pace of the deterioration in the Palace has increased significantly, causing substantial damage.

On December 17, 2014, the City Council, in order to save this historic asset and return it to use as a public amenity, adopted RES PH 14-343 (“Resolution”) approving a budget for the 8-80 Vitality Fund to provide \$8,000,000 (subsequently reduced to \$7,960,000 by Administrative

Order Number AO 15-76) for the Palace Theatre Renovations (the “Project”). In addition, the City was awarded a \$5,000,000 grant from the State of Minnesota to pay for Project costs.

Subsequent to the passage of the Resolution, City staff has been engaged in many actions to move forward with the Project, and quickly address the deteriorating and substandard conditions of the Palace building. These actions included: discussions with the State of Minnesota regarding the State Bond Grant and Agreement; discussions and negotiations with the proposed operator; closing on acquisition of the property; exchanging access and encroachment easements; execution of contracts relating to the planning, design, abatement, and renovation of the project; beginning construction to remediate and stabilize the building; and identifying additional funds of up to \$1,700,000 to complete the Project.

The intensive design process and building analysis that followed Project approval, as well as the discovery of previously-unknown areas of deteriorated structural integrity after work began on environmental abatement and investigative demolition, led to a more precise and comprehensive budget that made it clear the project needed additional funding. On December 16, 2015, the City Council will consider RES PH 15-360 to provide \$1,400,000 of additional 8-80 Vitality Funds, including \$150,000 of 8-80 bond interest earnings, and approve up to \$300,000 in sprinkler assessments. See Financing Structure section for additional details.

Discussions with the State revealed that the Palace Theatre would have to be owned by the HRA if the City wants to put its 8-80 Vitality funds into the Project as a loan, thus necessitating the City’s transfer of the property to the HRA, along with all existing contracts related to the Project. The State, during a special session in 2015, transferred the \$5 million grant from the City to the HRA.

Summary of Development and Use Agreements with Operator

The HRA has been negotiating with Palace Theatre Operations, LLC (“Operator”), a partnership between JAM Productions and First Avenue, on development and use agreements. Under the development agreement, the HRA will acquire and renovate the Palace Theatre, and provide up to \$14,660,000 to complete: acquisition; demolition; environmental abatement; structural

reinforcement; installation of a new roof; masonry repairs; all new mechanical, electrical, plumbing; and necessary interior finishes to create a municipal auditorium. See Attachment E for detailed project budget. The Operator will provide an appropriate sound system, theatrical light system, and point-of-sale system, as well as initial supplies, inventory, personal property, and working capital.

The HRA and Operator will enter into a Use/Operating Agreement for a duration based on the State's limit not to exceed ½ of the building's useful life. The Operating Agreement will have specific minimum benchmark performance standards for number of concerts held and tickets sold, and the Operator's performance will be reviewed annually. Failure to meet these performance standards will enable the HRA to terminate the Use/Operating agreement.

The Operator shall have exclusive authority over and responsibility for the operations of the Palace Theatre, and will be responsible for all costs associated with the ongoing operation, including utilities, operating permits/licenses, and ordinary repairs and maintenance. The Operator will collect, deposit into a separate account and pass through to the HRA, a public facility fee that will be used to repay the HRA's debt to the City.

The HRA will receive defined access and scheduling rights for public uses at no costs, other than the Operator's reasonable and necessary out-of-pocket expenses, provided that these uses have no substantial negative impacts on the Operator's ongoing operations. An example of public use is a concert performance by Saint Paul high school bands.

See Attachment F for additional details on the Development and Use Agreements.

Budget Action

See Budget Amendment, Attachment A to the Resolution.

Future Action by City Council

The City Council will be asked to approve related actions at its December 16, 2015 meeting.

Financing Structure

The \$14,660,000 cost of the Project will be funded from three distinct sources:

- \$5,000,000 grant from the State – The grant requires that the property be owned by the HRA and operated for its intended purpose as a live-music venue.
- \$9,360,000 loan from the City's 8-80 Vitality Fund – The non-recourse loan will be repaid from ticket revenue at 3% interest over the 40-year State grant period. The State grant mandates that any revenue the HRA receives from the operation of the Palace Theater may be used only to repay debt incurred to build the Project.
- \$300,000 from the Sprinkler Assessment Fund – This money will offset the cost of the Project's sprinkler system, to be repaid from Palace Theatre operations via assessments over a 20-year period beginning in the third year of operation. There will be an Interfund Loan from the HRA Loan Enterprise Fund to the Development Capital Fund to cover the Sprinkler Assessment costs. The City will repay the Development Capital Fund; the Development Capital Fund will reimburse the HRA's Loan Enterprise Fund when the assessments are ratified, which is anticipated to occur in September, 2018.

PED Credit Committee Review

The project loan is scheduled for risk rating at the December 7, 2015 Credit Committee.

Compliance

As owner of the project, the City has been running construction compliance through HREEO. The compliance requirements that apply to the project include Vendor Outreach, Affirmative Action, City Labor Standards, and the Two-Bid Policy. The project is using all union labor for the construction and there is an executed Project Labor Agreement in place.

Green/Sustainable Development

The project will comply with the Sustainable Building Policy for Municipal and HRA-owned Buildings in the City of Saint Paul. As a requirement of the State Bonding, the Project will follow the State's B3 Program guidelines.

Reusing an existing building is the greenest form of development. As noted in the City of Saint Paul Comprehensive Plan: “Retaining historic buildings saves precious natural resources and energy, avoids filling landfills with used materials, and makes use of historic materials that may be of higher quality than what is available today.”

Environmental Impact Disclosure

N/A

Historic Preservation

The Project does not need to be reviewed by the HPC or HPC staff. A 106 review is not required.

The New Palace Theater/St. Francis Hotel building was determined eligible for listing on the National Register of Historic Places under the Areas of Significance of Entertainment/Recreation and Commerce and this official determination was made by the State Historic Preservation Office (SHPO) in 1999 and again verified in 2007. The SHPO also concurred with the Heritage Preservation Commission (HPC) in 1999 that the structure was eligible for local listing as a Saint Paul Heritage Preservation Site, however, the City Council did not designate the building upon the recommendation by the HPC at that time.

The Palace Theater portion fell into disrepair and was vacant for many years, threatening this historic resource. The City acquired this key threatened resource for redevelopment as recommended in the Comprehensive Plan under HP4.5. There are also several historic preservation strategies in the Comprehensive Plan to support funding for the redevelopment, including: 1) protecting undesignated historic resources (HP4.3); 2) realizing the full economic potential of key historic resources (HP5.3); 3) giving equal consideration to historic preservation factors when City action, involvement, or funding is requested or required (HP1.10); 4) prioritizing the retention of historic resources that are determined eligible for historic designation over demolition when evaluating planning and development projects that require or request City action, involvement or funding (HP1.12); and 5) designating City-owned historic resources prior to any sale (HP1.13).

Public Purpose/Comprehensive Plan Conformance

The Palace Theatre project meets several public purpose objectives including: continuing to invest in a diversity of cultural offerings; broadening the range of venues to appeal to residents, employees, young people and visitors; and strengthening the amenities that make Saint Paul an attractive and creative place to live, work, and play. The project conforms with the following strategies and plans:

Downtown Development Strategy (2005)

3.1 Support the diversity of cultural offerings downtown by continuing to invest in and strengthen downtown's cultural "nodes," such as Lowertown, the emerging West Seventh entertainment district, and the area around Rice Park.

3.2 Broaden the range of arts/culture/entertainment venues downtown to appeal to residents, employees and young people, as well as citizens of the region.

5.24 Strengthen and publicize the amenities that make downtown Saint Paul a creative downtown environment, such as active streets, attractive and well-maintained parks and other public spaces, vibrant cultural attractions, food and entertainment venues, good connections to the river and other special amenities.

Saint Paul Comprehensive Plan (2010)

LU1.35 In downtown, promote and add entertainment activities, cultural activities and visitor accommodations.

Recommendation:

The Executive Director recommends the adoption of the attached resolution that: a) accepts the conveyance of the Palace Theatre from the City; b) executes a reimbursement and loan agreement with the City; c) accepts the assignment of existing contracts from the City; d) executes the State Grant Agreement; e) executes the Development Agreement and Use Agreement with the Operator; f) accepts the Encroachment Easement; g) executes the Access Easement; and h) approves the budget amendment and authorizes related actions.

Sponsored by:

Commissioner Dave Thune

Staff:

Ross Currier 651-266-6611

Attachments

- **Attachment A – Budget Amendment**
- **Attachment B – Photographs**
- **Attachment C – Map**
- **Attachment D – District 17 Profile**
- **Attachment E – Development Budget**
- **Attachment F – Development and Use Agreements Details**