



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

Date: February 28, 2012

To: Council Member Lisa Goodman, Chair
Community Development Committee with referral to

Council Member Betsy Hodges, Chair
Ways & Means / Budget Committee

Subject: (1) Public hearing regarding preliminary approval of up to \$5,500,000 in tax exempt multifamily housing entitlement revenue bonds for the Spirit on Lake project; and

(2) Project Analysis reauthorization for tax increment financing

Recommendation (bonds): Approve the attached resolution giving preliminary approval of up to \$5,500,000 in tax-exempt multifamily housing entitlement revenue bonds for the Spirit on Lake project.

Request (TIF PAA): Direct and authorize staff to either 1) Continue analysis of the Spirit on Lake project proposal to determine if tax increment financing (TIF) assistance is appropriate and justifiable (as previously approved in 2006), or 2) discontinue further TIF analysis for the project. If further directed analysis concludes TIF assistance is appropriate, then staff requests authorization to negotiate the terms and conditions of a redevelopment contract with Spirit on Lake, LP or an affiliated entity; and prepare redevelopment and TIF plans for the project as needed. All such terms and conditions, plans, and other provisions would be subject to City Council review, discussion, and approval or denial.

Previous Directives:

- On December 23, 2005, the City Council approved affordability funding of up to \$350,730 from the 2005 Affordable Ownership Housing Program.
- On November 3, 2006, the City Council approved Project Analysis Authorization (PAA) to evaluate the use of tax increment financing for this project.
- On April 27, 2007, the City Council adopted a resolution of support for Spirit on Lake as part of the City's 2007 list of priority projects for Hennepin County Transit Oriented Development (TOD) grant funding.

- On April 27, 2007, the City Council supported the developer's direct application to the Hennepin County Environmental Response Fund (ERF) investigation grant program on behalf of the Spirit on Lake redevelopment project.
- On August 3, 2007, the City Council approved Hennepin County HRA Affordable Housing Incentive Fund (AHIF) financial assistance in the amount of \$225,000.
- On October 5, 2007, the City Council authorized the execution of a Cooperative Agreement between Hennepin County and the Hennepin County Housing and Redevelopment Authority related to a \$75,000 Hennepin County TOD grant award to Spirit on Lake.
- On October 19, 2007, the City Council authorized application to the Metropolitan Council's Tax Base Revitalization Account (TBRA) and the Hennepin County Environmental Response Fund (ERF) grant programs on behalf of the Spirit on Lake project.
- On January 31, 2008, the City Council authorized application to the Minnesota Department of Employment and Economic Development (DEED) Redevelopment grant program on behalf of the Spirit on Lake project.
- On February 29, 2008, the City Council accepted two brownfield grants to the Spirit on Lake project, \$235,600 from Hennepin County ERF and \$328,800 from Metropolitan Council TBRA.
- On May 2, 2008, the City Council accepted a \$391,500 DEED Redevelopment grant for the Spirit on Lake project.
- On January 14, 2011, the City Council approved a loan up to \$1,449,000 from the AHTF and a grant up to \$30,000 from the Non-Profit Fund for Spirit on Lake.
- On June 17, 2011 the City Council authorized application to the Metropolitan Council's LCDA grant program.
- November 4, 2011 the City Council authorized application to the Metropolitan Council's Tax Base Revitalization Account (TBRA) and the Hennepin County Environmental Response Fund (ERF) grant programs on behalf of the project.
- On December 16, 2011 the City Council authorized application to the Minnesota Department of Employment and Economic Development (DEED) Redevelopment grant program on behalf of the project.
- On February 10, 2012, the City Council accepted & appropriated a \$250,000 Metropolitan Council LHIA grant for the project.
- On February 24, 2012, the City Council is anticipated to review a staff recommendation authorizing application to the Metropolitan Council for Transit Oriented Development funding.

Department Information

Prepared by: Matt Goldstein, Senior Project Coordinator, (612) 673-5075	
Approved by: Thomas A. Streitz, Director, Housing Policy & Development	_____
Charles T. Lutz, CPED Deputy Director	_____
Presenter in Committee: Matt Goldstein	

Financial Impact

- No financial impact.

Community Impact

- Neighborhood Notification (Ward 9): The Midtown Phillips Neighborhood Association, Inc. (MPNA) issued letters of support dated February 10, 2007 and September 15, 2010. The Powderhorn Park Neighborhood Association issued letters of support dated July 13, 2005 and September 15, 2010. Both neighborhood associations support the change in the development concept from homeownership to rental.
- City Goals: A Safe Place to Call Home; Livable Communities, Healthy Lives
- Sustainability Targets: Affordable housing production.
- Comprehensive Plan: *The Minneapolis Plan for Sustainable Growth* contains the following relevant policy, among others: *Policy 3:3*: Increase housing that is affordable to low and moderate income households.
- Zoning Code: On August 4, 2008, the Planning Commission approved the previous Spirit on Lake conditional use permit, variance, site plan review, and registered land survey described in the following applications: BZZ – 4104, RLS-54, Vac-1510, Vac-1547, and Vac-1548. The CUP has been filed with Hennepin County as document number 4533884.

Supporting Information

Spirit on Lake is a proposed housing project located on the northwest corner of 13th Avenue South and East Lake Street. The development plan for this .82 acre site includes redeveloping a former gas station and a current church. The plan was conceived through a cooperative community process with the Midtown Phillips and Powderhorn Park neighborhood associations. This project was originally conceived in 2005 as a 41-unit limited equity co-op with first floor commercial space occupied by the land seller, the Spirit of the Lakes United Church of Christ. The project was designed to cater to aging members of the gay, lesbian and transgender (GLBT) community.

By the end of 2008, the City had approved the development plans, sponsored several project funding applications, and awarded affordable housing funds from various sources to support the project. This included authorization to continue with TIF analysis. In 2009, the developer, PRG Inc., began collecting reservations to purchase limited equity cooperative units. The financing package for the project included a HUD 213 blanket (first) mortgage loan guarantee which imposed a high pre-sale requirement (70%) which was never achieved. This high pre-sale requirement coupled with the economic recession and a poorly performing housing market prevented the project from meeting the development timeline targets prescribed by various public funders which had to rescind funding awards.

The development concept has subsequently changed to 46 units of affordable rental units (all at 50% AMI) with the first floor commercial space of approximately 4,200 square feet being occupied, not by the church, but mostly by community-oriented users such as a possible GLBT-focused library and a coffee shop. The City's award of a loan of up to \$1,449,000 from the 2010 Affordable Housing Trust Fund and a grant from the Non-Profit Development Assistance Fund of \$30,000 was for the current development concept with affordable rental units.

Project Financing Overview

The estimated total development cost of the project is approximately \$9 million as described in the Project Data Worksheet included as Attachment A. The proposed financing structure includes tax exempt housing revenue bonds (HRBs) with the automatic 4% low income housing tax credits (LIHTC). Approximately 50% of the project financing is from private sources (HRB, Family Housing Fund, syndication proceeds and developer equity).

Proposed Bond Financing

Tax exempt housing revenue bonds are issued by the City to assist qualified housing projects on a first come, first served basis. The City has adequate remaining housing revenue bond allocation for this project as noted in Table 1 below.

TABLE 1: HOUSING REVENUE BOND ENTITLEMENT AND EXPENDITURE SUMMARY	Amount
Remaining Previous Allocation	\$ 48,812,511
Plus 2012 HRB Entitlement	\$ 45,676,000
Equals Total Available Allocation	\$ 94,488,511
<i>Current Projects</i>	
Longfellow Station	\$ (17,000,000)
Hi-Lake Triangle	\$ (6,500,000)
520 2nd St. S.	\$ (7,500,000)
Currie Park Lofts	\$ (27,000,000)
West Broadway Curve	\$ (5,800,000)
Spirit on Lake	\$ (5,500,000)
Total Available Bond Entitlement for Other Proj	\$ 25,188,511

The current bond application for this project summary is as follows:

- **Bond Counsel:** Gray Plant Mooty
- **Underwriter:** U.S. Bank Trust
- **Council Member Informed:** Yes, Ward 9
- **Neighborhood Review:** A public hearing notice dated February 1, 2012 was sent to the Midtown Phillips Neighborhood Association, Inc. (MPNA). MPNA has previously provided letters of support for this project.
- **Project Timetable/ Future Actions:** Granting preliminary approval creates a 12-month administrative hold for this project. Upon finalization of the refinancing deal, staff will return to the City Council seeking final bond approval.

Tax exempt housing revenue bonds are proposed to finance the long term debt and part of the construction costs. The A-Series is proposed to be used for the \$1,600,000 first mortgage, secured by a direct placement with U.S. Bancorp. This long term debt would be paid back over time from operating income (rents). The B-Series of up to \$3,900,000 of short term bond funds will fund the construction. Once construction is complete, the B Series would be satisfied by the tax credit equity syndication proceeds (\$2,725,000) which are generated by the automatic 4% low income housing tax credits and some of the public gap funding sources which will be drawn throughout the construction process. The community-serving nature of the proposed commercial users allows these construction costs to be included in the tax credit basis which enables the

commercial build out to be financed with syndication proceeds. This scenario is similar to the Riverside Plaza renovation which financed renovations to the Cedar Riverside Community School with LIHTC syndication proceeds.

Most of the gap funding has been committed to the project. There are pending applications seeking Hennepin County AHIF, Metropolitan Council TOD funds, and DEED redevelopment funds.

The proposed developer fee is \$975,000, which is approximately 10% of net TDC. The proposed developer fee falls within the CPED Housing Developer Fee Policy Guidelines. Of this, \$184,130 of developer fee equity is proposed to be deferred and repaid over time by available cash flow after all operational and debt service obligations are met. Staff has advised the developer to defer more of this fee to the extent permitted by the tax credit investors. Additional detailed information is provided on the Project Data Worksheet attached to this report as Attachment A.

Proposed TIF Assistance

The developer is seeking pay-as-you-go tax increment financing (TIF) assistance for this project. The TIF is structured as an income stream to help pay for a portion of bond debt service (Series A). While Preliminary Analysis Authorization was granted for this project in 2006, staff is seeking Council direction again since the development concept has changed from a limited equity co-op model to rental and since so much time has passed.

Preliminarily, the project may generate approximately \$400,000 of upfront TIF assistance. If the Council affirms the 2006 Preliminary Analysis Authorization, staff will further analyze the sources, uses, and lender underwriting as they apply to potential tax increment financing assistance. At this time, all development cost and TIF estimates are preliminary and subject to further CPED review and analysis.

Project Timeline

The proposed timeline is as follows:

- Consideration of City entitlement housing revenue bonds preliminary approval in February 2012 and final approval in May 2012.
- If the City Council approves the TIF Project Analysis Authorization, consideration of redevelopment contract business terms and the creation of a TIF district could occur in early summer, 2012.
- Project closing and construction start in summer, 2012.
- Project completion and full occupancy in summer, 2013.

Preliminary Staff Analysis for PAA

Based on the previous TIF analysis and the current preliminary review, staff concludes that a) the Application for Public Financial Assistance is essentially complete; b) the project appears feasible, based on the preliminary information that the developer has submitted; and c) some level of public financial assistance appears to be justified.

While the developer has completed an analysis of the maximum amount of tax increment that the proposed project could generate, staff has not yet verified the accuracy of these estimates nor determined what level of tax increment assistance is appropriate.

If the current Project Analysis Authorization is approved by the City Council, staff will proceed into the project analysis stage to address a number of issues, including 1) the appropriate level of tax increment financing assistance, if any; 2) eligible costs that can be paid for with the various forms of City finance assistance; 3) the qualification and establishment of a TIF district; 4) the appropriate financing vehicles that will be used to provide such assistance; and 5) the recapture of the City's financial assistance.

Project Analysis Fee for PAA

If the current Project Analysis Authorization is approved by the City Council, the developer will be assessed a nonrefundable project analysis fee of approximately \$3,500. Acceptance by the City of the application or project analysis fee does not signify a commitment on the part of the City to grant approval of any requested public assistance. An additional fee may be required if the analysis of this project increases due to unanticipated complexity or if changes occur in the development.

Attachments

Attachment A: Project Data Worksheet

Attachment B: Housing revenue bond preliminary approval summary resolution for publication

ATTACHMENT B

RESOLUTION OF THE CITY OF MINNEAPOLIS

Giving preliminary approval to the issuance of multifamily housing revenue bonds under Minnesota Statutes, Chapter 462C for the purpose of financing a housing program consisting of the acquisition and construction of a multifamily housing facility for the benefit of Spirit on Lake Limited Partnership, or an affiliate.

Whereas, the City of Minneapolis, Minnesota (the "City") is authorized, pursuant to Minnesota Statutes, Chapter 462C, as amended (the "Act") to develop and administer programs to finance one or more multifamily housing developments within its boundaries; and

Whereas, Section 462C.07 of the Act authorizes the City to issue and sell revenue bonds or obligations to finance programs for the multifamily housing developments; and

Whereas, representatives of Spirit on Lake Limited Partnership, a Minnesota limited partnership, or an affiliated entity (the "Developer"), has requested that the City adopt a multifamily housing development program (the "Program") to provide for the issuance of multifamily housing revenue bonds in the aggregate principal amount of up to \$5,500,000 (the "Bonds") for the purpose of loaning the proceeds thereof to the Developer to finance the acquisition and construction by the Developer of an approximately 46-unit multifamily housing facility for rental to low or moderate income persons and to be located at 2930 13th Avenue South and 1238 East Lake Street in the City (the "Project"); and

Whereas, the Community Development Committee of the Minneapolis City Council, on behalf of the City, held a public hearing on the Program and the proposed issuance of the Bonds after at least 15 days published notice thereof and after submission (prior to publication of the notice) of the Program to the Metropolitan Council for review and comment; and

Whereas, the City has been advised by the Developer that conventional commercial financing is available to pay the capital costs of the Project only on a limited basis and at such high costs of borrowing that the scope of the Project and the economic feasibility of its operations would be significantly affected; and

Whereas, the City shall not be liable on the Bonds, and the Bonds shall not be a debt of the City within the meaning of any state constitutional provision or statutory limitation, and will not constitute or give rise to a charge against the general credit or

taxing power of the City or a pecuniary liability of the City, nor shall the Bonds be payable out of any funds or properties other than those provided as security therefor;

Now, Therefore, Be It Resolved by The City Council of The City of Minneapolis:

That the Program is hereby approved and adopted by the City.

Be It Further Resolved that the issuance of the Bonds pursuant to the Program in a principal amount of up to \$5,500,000 is preliminarily approved.

Be It Further Resolved that the City hereby reserves \$5,500,000 of its 2012 (or carryover) housing revenue bond entitlement authority for the financing of the Project.

Be It Further Resolved that the Developer may make certain preliminary capital expenditures with respect to the Project prior to the issuance of the Bonds, and that the City hereby declares its intent to reimburse such expenditures from the proceeds of the Bonds in accordance with Section 1.150-2 of the Treasury Regulations.

Be It Further Resolved that the foregoing preliminary approval of the issuance of the Bonds shall be subject to final determination by the City of terms and conditions and shall not constitute an irrevocable commitment on the part of the City to issue the Bonds.

Be It Further Resolved that the staff of Community Planning & Economic Development is hereby authorized, in cooperation with bond counsel to take all steps necessary and desirable to proceed to develop the Program and financing therefor.