



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

**Date:** May 1, 2012

**To:** Council Member Lisa Goodman, Chair, Community Development Committee  
Council Member Betsy Hodges, Chair, Ways & Means/Budget Committee

**Subject:** Approval of 520 Second Street Southeast Tax Increment Financing Plan, issuance of a Pay-As-You-Go TIF Note, approval of the proposed redevelopment contract business terms, and authorization to execute redevelopment and loan agreements with Second Street Holdings, LLC.

**Recommendation:** 1) Adopt the attached City Council Resolution approving the 520 Second Street Southeast Tax Increment Finance Plan; 2) Amend the 2012 General Appropriation Resolution by establishing the Community Planning & Economic Development agency Fund 01CSS– 520 Second Street Southeast (01CSS – 8900900) and approving an initial appropriation of \$5,000 in the fund; 3) Adopt the attached City Council Resolution authorizing the issuance of Limited Revenue Pay-As-You-Go Tax Increment Financing Notes to Second Street Holdings, LLC or its affiliates, in total principal amounts not to exceed \$790,000; 4) Approve the proposed redevelopment contract business terms as described in this report; 5) Authorize the appropriate City officials to execute the redevelopment and loan agreements with Second Street Holdings, LLC, Lucy Brown Minn and John K. Wall, or their affiliates, based on the terms contained in this report, and all other necessary documents related to the above recommended actions.

**Previous Directives:** On April 29, 2011 the City Council authorized staff to proceed with the Tax Increment Financing (TIF) Project Analysis Authorization for this project. In October, 2011, the City Council conducted a Public Hearing and adopted a resolution giving preliminary approval of up to \$7,500,000 of Tax-Exempt Multifamily Housing Revenue Bonds for this project.

Prepared by:	Cherie Shoquist, Principal Project Coordinator (612) 673-5078	
Approved by:	Thomas A. Streit, Director of Housing Development	_____
	Charles T. Lutz, CPED Deputy Director	_____
Funding Source and Appropriation Language Reviewed by:	Development Finance,	
	Jeffery Streder, Director Development Finance	_____
Presenters in Committee:	Cherie Shoquist, Principal Project Coordinator	

### Financial Impact

- Action requires an appropriation increase to the \_\_\_ Capital Budget or X Operating Budget
  - Dept Name: Community Planning and Economic Development (CPED)
  - Fund Name: 01CSS – 520 Second Street Southeast
  - Amount: \$5,000



The site is currently occupied by a vacant one-story building and a surface parking lot. The existing building is approved for demolition and will be removed to make way for the proposed development. The vacant building is not structurally sound and was found to be economically unfeasible for renovation.

The developer has received zoning and site plan review from the City. The proposed site plan and project elevations are attached to this report.

The developer has applied for Tax Increment Financing from the City which would be the final gap source needed before the project can begin. An Affordable Housing Trust Fund (AHTF) award of \$925,000 was made by the City Council on January 27, 2012.

The developer expects to market most of the apartments to low wage workers, the same target populations as the Stone Arch Apartments (owned by the developer and located two blocks away) which has consistent 98% occupancy and a waiting list.

### **Proposed Public Benefits**

- Increase the number of housing units and choices within the city.
- Increase housing density.
- Provide affordable housing units.
- Eliminate blighting influences.
- Support strong and diverse neighborhoods where people choose to live.
- Promote transit-oriented and sustainable development.
- Increase the property tax base.

### **Company/Borrower**

The developer, Second Street Holdings, LLC has recently successfully completed similar developments in Minneapolis. The project will be owned by 520 Second Street Apartments Limited Partnership. The General Partner of the Limited Partnership will be Second Street Holdings, LLC, a Minnesota limited liability company. The Limited Partner will be the tax credit investor yet to be identified. The principals of Second Street Holdings, LLC are joint venture partners on a number of successful development projects in the Southeast Minneapolis area, including the Stone Arch Apartments and the Flour Sack Flats. Separately, the partners have real property and real estate investment activities under related single purpose entities for which they provide development services, property management, and asset management. Other notable projects in Minneapolis include Eat Street Flats and Market, Franklin Lofts, and Madison Apartments.

Architected services will be provided by BKV Group. Project management will be provided by American Management Service Central LLC (Pinnacle). This company has been in business for over thirty years with a current portfolio of over 168,000 third party fee management units in 34 states. Half of the portfolio consists of Section 42 units.

The general contractor selected through a competitive bidding process is Robert Dew of Black Dew. Black Dew has building experience in the City of Minneapolis and is prepared to meet Department of Civil Rights goals.

### Financing Overview

The estimated development cost is \$14,997,497. On April 29, 2011 the City Council authorized staff to proceed with the Tax Increment Financing (TIF) Project Analysis Authorization for this project. In October, 2011, the City Council conducted a Public Hearing and adopted a resolution giving preliminary approval of up to \$7,500,000 of Tax-Exempt Multifamily Housing Revenue Bonds for this project. It is anticipated this project will support \$790,000 in TIF assistance which is requested by the developer.

Other sources of funding to construct the project will include developer land equity, tax credit syndication proceeds, deferred developer fees, a loan from the City's Affordable Housing Trust Fund, and potential grant funds from Hennepin County.

Sources	Amount
Land Equity	\$700,000
Housing Revenue Bonds A First Mortgage	\$6,821,000
Housing Revenue Bonds B Tax Increment Financing	\$790,000
Low Income Housing Tax Credits Syndication Proceeds	\$4,708,385
Deferred Developer Fee	\$203,112
Affordable Housing Trust Fund	\$925,000
Hennepin County AHIF and TOD	\$850,000
<b>Total</b>	<b>\$14,997,497</b>

Uses	Amount
Acquisition	\$700,000
Construction Costs	\$9,858,579
Construction Contingency	\$450,000
Construction Interest	\$202,933
Architects Fee	\$378,000
Legal Fees	\$125,000
Development Fee	\$1,347,814
Reserves	\$424,000
Other Costs	\$1,511,171
<b>Total</b>	<b>\$14,997,497</b>

### Discussion of Financial Statements

Financial statements were submitted and reviewed by finance staff. Based upon this review, staff has determined that the personal financial statements demonstrates strong financial resources capable of being brought to bear should the project experience financial difficulties requiring and infusion of capital.

### Repayment

It is anticipated that the City of Minneapolis will issue to the developer a pay-as-you go TIF note in the amount not to exceed \$790,000. The City will semi-annually distribute net tax increment to the developer under the terms of the TIF note which will be used, along with operating revenue generated by the housing project itself, to pay the semi-annual debt service on one or more series of housing revenue bonds that the City will issue to help construct the project.

### **Guarantors**

Not applicable.

### **Collateral**

There will be a subordinate mortgage lien on the real estate.

### **Risk Assessment**

Significant underwriting of the project has already been completed by Oak Grove Commercial Mortgage and HUD for the HUD insured loan and by the partner that is purchasing the Low Income Housing Tax Credits. The level of investment and risk in this project is comparable to other TIF loans. It is anticipated that the project will generate positive cash flow overtime as shown in the attached pro forma. The vacancy rate is 7% and the income and expense trending are 2% and 3.5% respectively. Operating expense efficiency can be achieved by consolidating some property management expenses with the developers nearby Stone Arch Apartments. Annual replacement reserve deposits will be made.

### **Recapture Provisions**

All units will be affordable to households at or below 60% of Area Median Income. As City Finance staff determines the appropriate amount of Tax Increment Financing, it will be determined whether recapture is a possibility and negotiate the terms accordingly.

It is anticipated that the project will generate positive cash flow over the thirty year affordability compliance period. However, given the amount of equity the developer is putting into the project, it will likely take many years for cash flow to repay this equity. On the chance that the project is more successful than currently anticipated, staff is recommending that a recapture provision be added to the redevelopment contract that would be triggered in the event of sale or refinancing of the property. For the purpose of this provision, the usual and customary repurchase of the tax credit investor interest required by the tax credit investor shall not be deemed a property sale. Staff recommends that the developer be allowed a reasonable rate of return on his invested equity, after which point the developer and City would split the net sales proceeds, up to the amount of the initial balance of the TIF note (\$790,000). The final details of this arrangement will need to be negotiated with the developer, HUD, and the limited partner.

### **Proposed Redevelopment Contract Terms**

1. The developer will develop 520 Second Street Southeast project consisting of the following:
  - (a) A rental apartment component with 91 rental apartments including 74 one bedroom units and 17 studio apartments. Thirty-seven units will be affordable to households at or below 50% of Area Median Income and the remainder will be affordable to households at or below 60% of Area Median Income.
  - (b) There will be 93 underground parking spaces.
2. The City will provide TIF assistance in the form of one pay-as-you-go note in an amount not to exceed \$790,000.
3. The City will provide a total of \$925,000 in deferred loan funding from the City's Affordable Housing Trust Fund program.

4. The Developer will be awarded up to \$850,000 in AHIF and TOD funds from Hennepin County and the City will enter into a Sub-recipient Grant Agreement with the developer for these funds.
5. The Developer has pledged contribution of the land to the project, which has been appraised at \$1.5 million dollars. This equity contribution is recognized by the tax credit investors and by the City.
6. The Developer and the City will enter into a Redevelopment Contract that includes a recapture provision, as described above.

### **Project Timeline**

Summer 2012	Project closing
Summer 2012	Start of demolition and environmental remediation
Summer 2012	Start of construction
Summer 2013	Project completion

### **Exhibits**

1. Project Data Worksheet
2. TIF Plan and Related Plan Modifications
3. Site Plan and Building Renderings
4. Resolution Approving TIF Plan and Related Modifications
5. Resolution Authorizing Issuance of Pay-As-You-Go TIF Notes
6. Development Finance Committee Recommendation