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

Date: June 5, 2012

To: Council Member Lisa Goodman, Community Development Committee

Subject: Pillsbury Lofts (301 Main Street) Request for Preliminary Approval of up to $75 million of Tax Exempt Multi-family Housing Entitlement Revenue Bonds for the Pillsbury Lofts Housing project

Recommendation: Adopt the attached Resolution giving Preliminary Approval of up to $75 million in Tax Exempt Multi-family Housing Entitlement Revenue Bonds for the Pillsbury Lofts Housing Project

Department Information

Prepared by: Dollie Crowther, Principal Coordinator, (612) 673-5263
Approved by: Thomas A. Streitz, Director, Housing Policy & Development ________
Charles T. Lutz, Deputy Director ________
Presenter in Committee: Dollie Crowther

Previous Directives: On August 5, 2011 the City council authorized the submission of a Metropolitan Council TBRA Investigation Grant application on behalf of the project; on September 23, 2011 the City council accepted a Metropolitan Council TBRA Investigation Grant awarded to the project; On November 4, 2011 the City Council approved the ranking and submission of an application to the Minnesota Statewide Historical and Cultural Grants Program (Legacy Grants) for a Pillsbury A-Mill Tunnel System Condition Study (application eventually denied); on December 16, 2011 the City Council authorized the submission of an application to DEED's Redevelopment Grant program; on March 8, 2012 the City Council approved/accepted environmental cleanup grants from DEED and Hennepin County that was awarded to the project; on April 27, 2012 the City Council approved the Historic Parking variance for this project.

Financial Impact
- The project will generate semi-annual administrative fees.

Community Impact
- Neighborhood Notification: The Marcy Holmes Neighborhood Association Land Use Committee voted to support the plan for the development of the Pillsbury site with Dominium.
- City Goals: A safe place to call home, One Minneapolis, Connected Communities, enriched environment; Eco-focused, Healthy Lives.
- Sustainability Targets: Affordable housing production
- Comprehensive Plan: The Minneapolis Plan for Sustainable Growth contains the following relevant policy: Policy 3:3:3 Increase housing that is affordable to low and moderate income households; 4.11 Minneapolis will improve the availability of housing options for its residents.

- Zoning Code: The project will comply.
- Other

Supporting Information

The Pillsbury development is the adaptive reuse of the historic, landmark Pillsbury "A" Mill complex. The site is located across the Mississippi River from downtown Minneapolis and overlooks the Stone Arch Bridge and St. Anthony Falls in the Marcy Holmes neighborhood. The A Mill consists of a series of historic structures originally constructed over time from 1881 to 1916 and was once the largest flour mill in the world. The site consists of the A Mill complex, Cleaning House, Warehouse No. 1, 2 and the Red Tile Building. The A Mill building has been vacant for 10 years. The A Mill and Warehouse No. 2 will be the newly rehabilitated artist lofts. The applicant, Minneapolis Leased Housing Associates IV, Limited Partnership plans to purchase the site and redevelop it into an artist live work affordable housing community. They are a newly formed Minnesota limited partnership and a related party to Dominium. Dominium was founded in 1972 and is one of the largest and fastest growing development, acquisition and management companies in the Midwest. They were founded for the purpose of constructing and managing dependable and trustworthy housing in a variety of markets. Dominium's primary focus is the development, acquisition, ownership and management of subsidized, market rate and senior housing properties. Their portfolio consists of over 15,000 units owned and managed and over 5,000 fee managed units.

The site was originally an abandoned flour mill and is 4.10 acres or 178,596 sq. feet. They have a purchase agreement with BNC to purchase the property, which should occur this summer.

The proposed development will consist of 255 studio, one bedroom, two bedroom and three bedroom units. The units will be located in the "A" Mill complex and Warehouse No. 2. 100% of the units will be income and rent restricted at 60% of AMI as determined by HUD. The intent is to provide affordable housing and common work space to tenants who have similar interests of advancing their careers as artists. There will be off street and underground parking for the tenants. This project will further invigorate the nearby restaurants and retail businesses and foster small business growth and self employment. The common spaces will be designed and programmed (approximately 30,000 sq. feet) for a gallery, performance/theater studio, dance studio, clay studio, paint studio, mixed media studios. A club/community room, art coordinator office, fitness center, roof top deck amenity, flex studio, work shop, photography studio and artist storage lockers is also included. In addition to these amenities, 5,000 sq. feet of the basement of A Mill will be left as a "white box" to be used as an interpretive center and/or museum for the site and water center infrastructure. There is no commercial component to this development.

Project Financing Overview

The estimated total development cost of the project is $112,775,614. This amount includes Historic State and Federal Tax credits, a program resource that will sunset in year 2015. Together these credits will provide more than $36 million of additional equity to the project. This project is the perfect example of a way to take full advantage of a resource that exists for a short time and can fund this kind of historic preservation project. Developer equity in the project totals $15,672,244 which includes deferring all of the developer fee, construction management fee, and a general partner cash contribution of $1,000,000.The application to CPED for preliminary approval of Housing Revenue Entitlement Bonds carries an automatic 4% low income housing tax credit. The tax credits will generate approximately

$35,067,050 of syndication proceeds which is an additional source of equity to the project. The bonds will be in 2 Series, A and B. The Series A Bonds in the approximate amount of $22,340,000 will be secured by a first mortgage on the property. The bonds will be repaid over an 18 year term, with the first 3 years being interest only during the construction period then amortizing using a 30 year amortization schedule. The developer is seeking a private placement with US Bank for the bonds. The Series B bonds will be approximately $52,660,000 and constitutes the bridge construction loan. They will have a 5 year term.

The developer has formally withdrawn their application for Tax Increment Finance (TIF) Assistance for the project. This amount of $2,980,000 would assist the public realm improvements to the development. The project is still financially feasible however, Dominium cannot commit to including all of the public realm items, but hopes to eliminate as few of the items as possible and still maintain the integrity of the project. It is hoped that substitute resources will replace many of the TIF gaps that exist.

The request for City of Minneapolis entitlement bonds has been immense over the last two years. The City has exhausted all of its bond allocation for Year 2011 and 2012 for preliminary approval except for approximately $27,058,911. Staff has approached the City of St. Paul and the Minnesota Housing Finance Agency (MHFA) for the remaining allocation to total what is needed for Pillsbury Lofts. In the past we have given and received bonding authority from St. Paul. This will be a first for the MHFA to participate with the City on the sharing of bonds. St. Paul has approximately $30 million available and staff hopes to receive the remaining bonds from MHFA. In the event MHFA does agree to the City request, we may have to repay these bonds from our 2013 allocation. This request is presently under discussion with the State. This is not the case with the City of St. Paul. (See HRB status chart below).

The developer is requesting Environmental Grant Funds for the project in the amount of $1,470,036. This includes applications in process and approvals already received. The TBRA Grant documents are completed and appropriately signed by all parties.

The developer will **not** be seeking Affordable Housing Trust Funds (AHTF) from the City of Minneapolis, and will defer their entire developer fee of $13,709,863 as a source of funds for the project. They also will be making a general partner capital contribution of $1,000,000. The Project Data Worksheet is attached as a reference with additional information on the affordability and bedroom composition.

The current status of the 2010/2011/2012 HRB Entitlement allocation is as follows:

ADD HRB Status Information

2010/2011 Allocation Remaining HRB 2012 Entitlement **Total**	$49,182,911 $45,676,000 **$94,858,911**
Hi-Lake Triangle Project	($ 6,500,000)
520 2nd Street Project	($ 7,500,000)
Longfellow Station Project	($17,000,000)
West Broadway Curve Project	($ 5,800,000)
Spirit On the Lake	($ 5,500,000)
Currie Park Lofts	($26,000,000)
Balance Available for Other Projects	**$27,058,911**

Bond Purchaser	TBD
Underwriter	Doherty, Rumble and Butler
Bond Counsel	Leonard Street and Deinard
Council Member Informed	Yes, Ward 3

Attachments

- Resolution
- Project Data Worksheet

Resolution
Of the
City of Minneapolis

Giving preliminary approval to the issuance of tax-exempt multifamily housing revenue bonds under Minnesota Statutes, Chapter 462C, for the purpose of financing a housing program consisting of the acquisition and rehabilitation of a multifamily rental housing development for the benefit of Minneapolis Leased Housing Associates IV, Limited Partnership

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 multifamily housing developments; and

WHEREAS, representatives of Minneapolis Leased Housing Associates IV, Limited Partnership, a Minnesota limited partnership (the "Owner"), have requested that the City adopt a multifamily housing development program (the "Program") to provide for the issuance of tax-exempt multifamily housing revenue bonds in an aggregate principal amount of approximately $75,000,000 (the "Revenue Bonds") for the purpose of loaning the proceeds thereof to the Owner to finance the acquisition and rehabilitation of an approximately 255-unit multifamily rental apartment development and facilities functionally related and subordinate thereto, located at 413 Main Street S.E. in the City to be owned by the Owner; 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 Revenue Bonds on a date at least fifteen (15) days following the publication in a newspaper of general circulation in the City of a notice of such public hearing; and

WHEREAS, the Program was submitted to the Metropolitan Council for its review and comment in accordance with the requirements of the Act; and

WHEREAS, the City has been advised by the Owner 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 Revenue Bonds shall not constitute debt of the City within the meaning of any state constitutional or statutory limitation, the Revenue Bonds shall not constitute general or moral obligations of the City or give rise to a charge against the general credit or taxing powers of the City, the Revenue Bonds shall not constitute or give rise to a pecuniary liability of the City, and the Revenue Bonds shall be payable solely out of any funds and properties expressly pledged 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.

That the issuance of the Revenue Bonds pursuant to the Program in an aggregate principal amount of approximately $75,000,000 is hereby preliminarily approved.

That the foregoing preliminary approval of the issuance of the Revenue Bonds shall be subject to final determination by the City of the terms and conditions of the Revenue Bonds and shall not constitute an irrevocable commitment on the part of the City to issue the Revenue Bonds.

That the staff of the City is hereby authorized, in cooperation with bond counsel, to take all steps necessary and desirable to proceed to develop the Program and financing therefor.