



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

Date: June 19, 2012

To: Council Member Lisa Goodman, Chair
Community Development Committee

Subject: Final approval of up to \$5,500,000 in tax exempt multifamily housing entitlement revenue bonds for the Spirit on Lake project

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

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 Apr
- il 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 authorizing application to the Metropolitan Council for Transit Oriented Development funding.
- On March 8, 2012, the City Council gave preliminary approval to the issuance of bonds for this project and authorized continued analysis of the project to determine if tax increment financing is appropriate and justifiable.
- On March 8, 2012, the City Council accepted and appropriated a grant of 235,600 from Hennepin County's Environmental Response Fund for this project.
- On May 25, 2012, the City Council approved the Spirit on Lake Redevelopment Plan and TIF Plan, issuance of Pay-As-You-Go TIF Note, and approval of Redevelopment Contract terms.
- On June 15, 2012, the City Council is scheduled to discuss a proposed resolution acknowledging the 2012 Hennepin County AHIF awards including \$400,000 for Spirit on Lake.

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 (PPNA) 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. The 45-day review for the Redevelopment Plan and TIF Plan which completed prior to the May 15, 2012 public hearing included MPNA and PPNA.
- 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: The City Planning Commission approved the Spirit on Lake development plans on March 26, 2012. The Commission will review the proposed Redevelopment and TIF plans on May 7, 2012 and found that the TIF was consistent with the *Minneapolis Plan for Sustainable Growth*.

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 calls for redeveloping a .82 acre site that until recently included a former auto repair shop which in recent years housed a 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. While the developer, PRG Inc., reached the 65% presale threshold in 2008, the financing package for the project included a HUD 213 blanket (first) mortgage loan guarantee which raised the already high pre-sale requirement to 70% which was never achieved. This high pre-sale requirement coupled with the economic recession and a poorly performing housing market resulted in a loss of unit reservations and 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 a mixed use project with 46 affordable units and approximately 4,200 square feet of commercial space on the first floor. The development plans were approved by the City Planning Commission in March 2012. All of the units will be affordable: 41 of the units will be affordable at 50% of Area Median Income (AMI) and Minneapolis Public Housing Authority has awarded five (5) project based Section 8 vouchers for the homeless units that will be affordable at 30% AMI. The first floor commercial space of approximately 4,200 square feet will be occupied not by the church as originally contemplated, but mostly by community-oriented users such as a possible GLBT-focused library and a coffee shop.

Spirit on Lake is being co-developed by PRG Inc. and Everwood Development, LLC. The project owner will be Spirit on Lake Limited Partnership. PRG Inc. will be the managing general partner. The other general partner will be Spirit on Lake GP, LLC, which will either be wholly owned by Everwood Development, LLC or jointly owned by PRG, Inc. and Everwood Development, LLC. The investor member and syndicator, with a 99.99% interest, will be City Real Estate Advisors, Inc.

Project Financing Overview

The total development cost of the project is \$9 million. Non-City funding sources total approximately \$7.6 million, or 84 percent of the total funding sources. Table 1 further describes the project funding sources listed in Project Data Worksheet which is included as Attachment A.

All of the necessary project financing has been committed except final approval of the tax exempt entitlement housing revenue bonds. Most recently, on May 25, 2012, the City Council approved the final TIF Plan which was structured as a pay-as-you go note. This revenue is included as an income stream in the cash flow which is used for debt service on the first mortgage, which is the A-series of the bonds.

Table 1. Spirit on Lake Project Sources

SOURCE	TYPE	PUBLIC	PRIVATE	% of TOTAL	COMMITTED
HRBs A-Series (NOI/1st Mortgage)	Loan		\$1,481,401	16.3%	Pending
HRBs B-Series (Includes LIHTC Syndication)	Equity		\$2,993,200	32.9%	Pending
HRBs C-Series (TIF)	Loan	\$ 522,800		5.8%	5/25/2012
CPED AHTF	Loan	\$1,449,000		15.9%	1/4/2011
CPED Nonprofit Admin	Grant	\$ 30,000		0.3%	1/4/2011
MHFA-EHDC	Loan	\$ 838,583		9.2%	11/18/2011
Family Housing Fund	Loan		\$ 150,000	1.7%	10/17/2011
Hennepin County AHIF	Loan	\$ 400,000		4.4%	5/2/2012
Hennepin County ERF	Grant	\$ 235,600		2.6%	1/14/2012
Hennepin County ERF	Grant	\$ 37,150		0.4%	1/1/2008
Hennepin County TOD	Grant	\$ 47,102		0.5%	1/18/2008
Met Council LHIA	Loan or Grant	\$ 250,000		2.8%	12/14/2011
Met Council TOD-TBRA	Loan or Grant	\$ 318,632		3.5%	12/14/2011
Deferred Developer Fee	Equity		\$ 332,207	3.7%	At Closing
	SUBTOTAL	\$4,128,867	\$4,956,808	100%	
TOTAL DEVELOPMENT COST		\$9,085,675			

Table 2. Spirit on Lake Project Uses

Acquisition, demolition & special assessments	\$ 568,268
Construction Cost Total	\$ 5,876,213
<i>Residential</i>	\$ 5,268,240
<i>Commercial</i>	\$ 300,000
<i>Const. Contingency</i>	\$ 307,973
Environmental abatement	\$ 564,699
Soft Cost Total	\$ 2,076,495
<i>Developer's fee</i>	\$ 956,280
<i>Other consultant fees</i>	\$ 592,784
<i>Financing costs</i>	\$ 318,565
<i>Reserves</i>	\$ 208,866
TOTAL	\$ 9,085,675

Table 2 supplements the uses table in Attachment A by providing more detail on the breakdown of the construction and soft costs. Construction bids were received on May 18, 2012. The bids were greater than the established budget, and CPED is monitoring the value engineering process to ensure compliance with AHTF program rules.

Proposed Bond Financing

Tax exempt entitlement 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 on the following page. Table 1 does not include the contemplated allocation of tax exempt housing revenue bonds for the Pillsbury Lofts housing project that is scheduled to be discussed by the Community Development Committee on June 5, 2012 because this report was written prior to the full City Council discussion of this agenda item.

Table 3. Housing Revenue Bond Entitlement & Expenditure Summary

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

ALLOCATION & PROJECT SUMMARY	AMOUNT
Remaining Previous Allocation	\$ 49,182,911
Plus 2012 HRB Entitlement	\$ 45,676,000
Equals Total Available Allocation	\$ 94,858,911
<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	\$(26,000,000)
West Broadway Curve	\$ (5,800,000)
Spirit on Lake	\$ (5,500,000)
Pillsbury Lofts	\$(26,558,911)
Total Available Bond Entitlement	\$0.00

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 \$1,481,401 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) and will be based upon a 30 year amortization term. The B-Series (\$2,993,200) of short term bond funds will fund part of the construction. Once construction is complete, the B Series would be satisfied by the tax credit equity syndication proceeds 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.

The proposed developer fee is \$956,280, which is 10.5% of TDC (less reserves and some soft costs). The proposed developer fee falls within the CPED Housing Developer Fee Policy Guidelines. Of this, \$332,207 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.

The summary of the current bond application for this project 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**
 - Summer 2012 Project closing
 - Summer 2012 Start of environmental remediation
 - Summer 2012 Start of construction
 - Fall 2013 Project completion
- **Future Actions:** None, this is the final City approval that is required before closing.

Attachment B contains the housing revenue bond final approval resolution for publication.

Attachments

Attachment A: Project Data Worksheet

Attachment B: Housing revenue bond final approval resolution for publication

Resolution
Of the
City of Minneapolis

Relating to the City of Minneapolis, Minnesota Multifamily Housing Revenue Bonds (Spirit on Lake Project) Series 2012A and 2012B; authorizing the issuance thereof pursuant to Minnesota Statutes, Chapter 462C.

Be It Resolved by the City Council of the City of Minneapolis, Minnesota (the "City"), as follows:

Section 1. Definitions.

1.01. In this Resolution the following terms have the following respective meanings unless the context hereof or use herein clearly requires otherwise:

"Act" means Minnesota Statutes, Chapter 462C, as amended;

"Agreement" means the Loan Agreement to be entered into among the City and the Borrower relating to the Bond;

"Assignment" means the Assignment of Mortgage from the City to the Holder relating to the Bonds;

"Bonds" means the Multifamily Housing Revenue Bonds (Spirit on Lake Project) Series 2012A and 2012B, to be issued by the City pursuant to this resolution in the principal amount of up to \$5,500,000;

"Bond Documents" means the Agreement, the Regulatory Agreement, the Pledge Agreement, the Assignment and the Bonds;

"Borrower" means Spirit on Lake Limited Partnership, a Minnesota limited partnership, its successors and assigns;

"Holder" means U.S. Bank National Association, as holder of the Bonds, and its successors and assigns;

"Pledge Agreement" means the Pledge Agreement to be entered into among the City and the Holder relating to the Agreement and the Bonds;

"Project" means the multifamily housing development to be financed with the proceeds of the Bonds, as further defined in the Agreement;

"Regulatory Agreement" means the Regulatory Agreement to be entered into among the City, the Holder and the Borrower relating to the Project;

"Resolution" means this resolution of the City.

Section 2. Findings.

2.01. It is hereby found and declared that:

(a) based upon representations made to the City by representatives of the Borrower as to the nature of the Project as described in the Agreement, the Project constitutes a project authorized by the Act;

(b) the purpose of the Project is and the effect thereof is to promote the provision of decent, sanitary and safe housing accommodations for low and moderate income persons;

(c) the financing of the Project, the issuance and sale of the Bonds, the execution and delivery of the Bond Documents and the performance of all covenants and agreements of the City contained in the Bond Documents and of all other acts and things required under the charter of the City and the Constitution and laws of the State of Minnesota to make the Bond Documents valid and binding obligations of the City in accordance with their terms are authorized by the Act;

(d) it is desirable that the Bonds be issued by the City upon the terms set forth herein and that the City pledge its interest in the Agreement and grant a security interest therein to the Holder as security for the payment of the principal of, premium, if any, and interest on the Bonds;

(e) the loan payments contained in the Agreement are fixed and are required to be revised from time to time as necessary, so as to produce income and revenue sufficient to provide for prompt payment of the principal of, premium, if any, and interest on the Bonds when due, and the Agreement also provides that the Borrower is required to pay all expenses of the operation and maintenance of the Project, including, but not limited to, adequate insurance thereon and all taxes and special assessments levied upon or with respect to the Project and payable during the term of the Agreement;

(f) under the provisions of the Act, the Bonds are not to be payable from nor charged upon any funds of the City other than the revenue pledged to the payment thereof; the City is not subject to any liability thereon; no Holder of the Bonds shall ever have the right to compel any exercise of the taxing power of the City to pay the Bonds or the interest thereon nor to enforce payment thereof against any property of the City; the Bonds, premium, if any, and interest thereon shall not constitute an indebtedness of the City within the meaning of any constitutional, charter or statutory limitation and shall not constitute or give rise to a pecuniary liability of the City or a charge against its general credit or taxing powers and shall not constitute a charge, lien or encumbrance, legal or equitable, upon any property of the City other than its interest in the Project;

(g) the execution and delivery of the Bond Documents shall not conflict with or constitute, on the part of the City, a breach of or a default under any existing agreement, indenture, mortgage, lease or other instrument to which the City is subject or is a party or by which it is bound; provided that this finding is made solely for the purpose of estopping the City from denying the validity of the Bond Documents by reason of the existence of any facts contrary to this finding;

(h) no litigation is pending or, to the best knowledge of the members of this City Council, threatened against the City questioning the organization of the City or the right of any officer of the City to hold his or her office or in any manner questioning the right and power of the City to execute and deliver the Bonds or otherwise questioning the validity of the Bonds or the execution, delivery or validity of the Bond Documents or questioning the pledge of revenues to payment of the Bonds or the right of the City to loan the proceeds of the Bonds to the Borrower;

(i) all acts and things required under the Constitution and the laws of the State of Minnesota to make the Bond Documents the valid and binding obligations of the City in accordance with their terms shall have been done upon adoption of this Resolution and

execution of the Documents; provided that this finding is made solely for the purpose of estopping the City from denying the validity of the Bond Documents by reason of the existence of any facts contrary to this finding; and

(j) the City is duly organized and existing under the Constitution and the laws of the State of Minnesota and is authorized to issue the Bonds in accordance with the Act.

Section 3. Authorization and Sale.

3.01 Authorization. The City is authorized by the Act to issue revenue bonds and loan the proceeds thereof to finance the acquisition, construction and installation of facilities constituting a "multifamily housing development" as defined in the Act, and to make all contracts, execute all instruments and do all things necessary or convenient in the exercise of such authority.

3.02. Approval of Documents. Pursuant to the foregoing, there have been prepared copies of the following documents, all of which are now or shall be placed on file in the office of the Minneapolis Community Planning and Economic Development Department:

- (a) the Agreement;
- (b) the Pledge Agreement;
- (c) the Bonds;
- (d) the Regulatory Agreement; and
- (e) the Assignment.

The forms of the documents listed above are approved, with such variations, insertions and additions as are deemed appropriate by the parties and approved by the City.

Section 4. Authorizations.

4.01. Upon the completion of the Bond Documents approved in Section 3.02 hereof and the execution thereof by the other parties thereto, the Finance Officer (or Assistant Finance Officer) shall execute the same on behalf of the City, and the foregoing person and other officers of the City shall execute such other certifications, documents or instruments as bond counsel shall require, subject to the approval of the City, and all certifications, recitals and representations therein shall constitute the certificates, recitals and representations of the City. Execution of any instrument or document by one or more appropriate officers of the City shall constitute and shall be deemed the conclusive evidence of the approval and authorization by the City and the City Council of the instrument or document so executed.

Section 5. The Bonds.

5.01. Form and Authorized Amount. The Bonds shall be issued substantially in the form described above with such appropriate variations, omissions and insertions as are permitted or required by this Resolution. The terms of the Bonds are set forth therein, and such terms, including, but not limited to, provisions as to interest rate, dates and amount of payment of principal and interest and prepayment privileges, are incorporated by reference herein. The initial interest rate on the Bonds (until the Tender Date as defined in the Bonds) shall not exceed an annual rate of 7.00%.

5.02. Execution. The Bonds shall be executed on behalf of the City by the persons described in Section 4.01 hereof. In case any officer whose signature shall appear on the

Bonds shall cease to be such officer before the delivery thereof, such signature shall, nevertheless, be valid and sufficient for all purposes.

5.03. Delivery and Use of Proceeds. Prior to delivery of the Bonds, the documents referred to in Section 3.02 hereof shall be completed and executed in form and substance as approved by the City. The City shall thereupon deliver to the holder the Bonds together with a certified copy of this Resolution and such closing certificates as are required by bond counsel.

Section 6. Limitations of the City's Obligations.

6.01. Notwithstanding anything contained in the Bond Documents, the Bonds, premium, if any, and interest thereon shall not constitute an indebtedness of the City within the meaning of any constitutional, charter or statutory limitation and shall not constitute or give rise to a pecuniary liability of the City or a charge against its general credit or taxing powers and shall not constitute a charge, lien, or encumbrance, legal or equitable, upon any property of the City other than its interest in the Project, and no Holder of the Bonds shall ever have the right to compel any exercise of the taxing power of the City to pay the Bonds or the interest thereon or to enforce payment thereof against any property of the City other than its interest in the Project. The agreement of the City to perform the covenants and other provisions contained in this Resolution or the Bond Documents shall be subject at all times to the availability of revenues furnished by the Borrower sufficient to pay all costs of such performance or the enforcement thereof, and neither the City nor any of its officers, employees or agents shall be subject to any personal or pecuniary liability thereon.

Section 7. City Representative.

7.01. The Finance Officer or Assistant Finance Officer of the City is hereby designated and authorized to act on behalf of the City for purposes of the Bond Documents.

Section 8. Governmental Program.

8.01 The Bonds are hereby designated as "Program Bonds" and are determined to be within the "Housing Program" and the "Program," all as defined in Resolution 88R-021 of the City adopted January 29, 1988, and as amended by Resolution 97R-402 of the City adopted December 12, 1997.