



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

Date: September 11, 2012

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

Subject: Hi-Lake Triangle Apartments: Public Hearing on Proposed TIF Plan and Related Plan Modifications; Approval of Redevelopment Contract Terms

Recommendation: 1) Adopt the attached City Council Resolution approving the Hi-Lake Triangle Apartments Tax Increment Financing (TIF) Plan, Modification No. 23 to the Model City Urban Renewal Plan and Modification No. 122 to the Common Plan; 2) Approve the redevelopment contract business terms described in this report; and 3) Authorize the appropriate City officials to execute the redevelopment and other funding agreements with Hi Lake Limited Partnership, based on the terms contained in this report, and all other necessary documents related to the above recommended actions.

Previous Directives:

- On January 28, 2011 the City Council approved \$1,034,000 of Livable Communities Demonstration Account Funds (LCDA) for the Hi-Lake Triangle Apartments.
- On July 1, 2011 the City Council approved a recommendation for staff to proceed with Project Analysis Authorization for Tax Increment Financing.
- On July 22, 2011 the City Council approved a recommendation granting preliminary approval of tax-exempt multifamily housing revenue bonds in a principal amount up to \$6,500,000.

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Approved by:	Charles T. Lutz, CPED Deputy Director _____ Thomas A. Streit, Director of Housing Development _____ Jeff Streder, Director of Development Finance _____
Presenter in Committee:	Dollie Crowther, Principal Project Coordinator

Financial Impact

- Action requires no appropriation changes.

Community Impact

- Neighborhood Notification: The East Phillips Neighborhood reviewed the development of this project on June 9, 2011. On July 27, 2012, the East Phillips Improvement Coalition, the Corcoran Neighborhood Association and the Longfellow Community Council were notified of the opportunity to review and comment on the proposed TIF Plan and the related plan modifications.
- City Goals: A Safe Place to Call Home; Livable Communities, Healthy Lives; Eco-Focused; Many People, One Minneapolis; Jobs and Economic Vitality.

- Sustainability Targets: Affordable housing production, increased density of development along light rail transit line.
- Comprehensive Plan: On August 16, 2012, the City Planning Commission Committee of the Whole found that the TIF Plan and related plan modifications are consistent with *The Minneapolis Plan for Sustainable Growth*. The City Planning Commission is expected to make its finding on August 27, 2012.
- Zoning Code: The project will comply.
- Living Wage/Business Subsidy Agreement: Not Applicable
- Job Linkage: Not Applicable

Supporting Information

The property located at the northwest corner of Lake Street and Hiawatha Avenue is currently owned by Wellington Management Inc. and will be conveyed at closing to the newly formed applicant, Hi Lake Limited Partnership. The General Partner of the newly created limited partnership will be Hi Lake Triangle LLC. The newly constructed development will be located directly adjacent to the Lake Street/Midtown LRT Station at 2230 E. Lake Street. It will consist of 64 units of affordable senior rental housing in a 6 story building that encourages city living for the elderly. The property is located in the East Phillips Neighborhood. The site is currently vacant and includes approximately 37,000 square feet of total area, of which approximately 13,000 square feet is affected by a transit easement for potential future rail transit adjacent to the existing Lake Street LRT station. Wellington Management Inc. acquired the site from the Metropolitan Council in 2009 through a public auction. The site required no environmental clean-up.

The proposed development will consist of 64 units, 53-one (1) bedrooms and 11-two (2) bedroom units that are roughly 650 square feet and 950 square feet, respectively. All the units will be handicapped accessible. Hi-Lake Triangle Apartments will also incorporate approximately 5,125 gross square feet of retail space on the ground floor level of the building with distinctive entrances on the Lake Street elevation, which opens directly to the sidewalks and the plaza area. The commercial tenants are yet to be determined but it is anticipated that the project will include 2-4 smaller retail service type tenants that will complement the commercial tenants at the adjacent Hi-Lake Shopping Center.

All of the 64 units will be affordable to individuals and families earning at or below 60% of Area Median Income. The electricity will be paid by the tenant. The developer sees a growing diversity of demand patterns for housing choices for urban locations accessible by transit which now includes empty nesters and a growing senior population over the next 20 years. Hi-Lake Triangle Apartments will fill the need for this type of housing.

The project will be owned by Hi Lake Triangle Limited Partnership who will be formed when the project is syndicated. Stratford Capital Group is the selected equity investor. The General Partner of the newly created Limited Partnership will be Hi Lake Triangle LLC. Steve Wellington will be the sole member of Hi Lake Triangle LLC. Faegre & Benson LLP will be the developer's legal counsel and Collage Urban Design Studio is the selected architectural firm. The property management will be provided by Michael Development. Frana Companies is the selected General Contractor.

TIF Plan and Related Plan Modifications

The Hi-Lake Triangle Apartments TIF Plan establishes a new housing TIF District within the existing Hiawatha and Lake Redevelopment Project. The TIF District will consist of a portion of

one tax parcel (Property Identification Number 36-029-24-34-0156) located at 2230 East Lake Street. The parcel is in the process of being divided. The TIF Plan contains the legal description of the portion of the parcel to be included in the TIF District.

Modification No. 23 to the Model City Urban Renewal Plan and Modification No. 122 to the Common Development and Redevelopment Plan and Common TIF Plan (the "Common Plan") change the Model City and Common Project boundaries to remove the property that will be included in the TIF District from those projects. The property will remain within the Hiawatha and Lake Redevelopment Project.

Public Benefits

- Eliminate blighting influences by redeveloping an underutilized vacant property that is adjacent to the Lake Street LRT station.
- Increase the number of housing units and choices within the city.
- Increase the property tax base.
- Add new housing options with direct Light Rail Transit access for seniors.

Project Financing Overview

The estimated total development cost of the project is approximately \$10,575,765. This amount includes the development of the commercial component which is approximately \$950,000. Syndication proceeds amount to \$3,013,000, and developer equity includes a general partner cash contribution of \$345,786 and \$477,500 in deferred developer fees. The proposed development has received preliminary approval of Housing Revenue Entitlement Bonds which carries an automatic 4% low income housing tax credit. The developer is requesting \$6,500,000 in Series A and B bonds. The Series A Bonds in the approximate amount of \$5,255,000 will be secured by a first mortgage on the property and credit enhanced by Freddie Mac. The first mortgage will be repaid by three sources: revenue from the rental apartments (\$3,532,900), revenue from the commercial space (\$950,000), and tax increment revenue (\$772,100). The bonds will be AAA rated. The Series B bonds will be secured by the deferred equity installments to be paid in by the limited partner who is securing the tax credits.

The developer has received approval for \$1,034,000 of LCDA Funds from the Metropolitan Council and has also been approved for Hennepin County TOD Funds in the amount of \$450,000.

The developer will not be seeking Affordable Housing Trust Fund support from the City of Minneapolis, will be securing a commercial loan of \$950,000 for the ground floor space and will defer almost half of their developer fee as a source of funds for the housing portion. The total developer fee amount is \$995,000 which falls within the CPED Housing developer fee policy. The Project Data Worksheet is attached as a reference with additional information.

Proposed TIF Assistance

The Hi-Lake Triangle Apartments TIF Plan establishes a new housing TIF District within the existing Hiawatha and Lake Redevelopment Project. An initial note amount of \$772,100 is proposed for this TIF District.

Risk Assessment

This is a medium-sized, new construction redevelopment project with a fairly common financing structure for an affordable housing project in Minneapolis. Significant underwriting of the project has already been completed due to the project's amortizing mortgage and Low Income Housing Tax Credits. Wellington has experience with housing developments of this size (or larger), and has extensive experience with commercial/retail development.

Proposed Redevelopment Contract Terms

1. The developer will develop the Hi-Lake Triangle Apartments project consisting of the following:
 - (a) A rental apartment component with 53 one-bedroom units, and 11 two-bedroom units. All 64 units will be affordable to households earning 60% of Area Median Income (AMI).
 - (b) A commercial component with approximately 5,125 square feet available for rent by retail uses.
2. The City will provide TIF assistance in the form of one pay-as-you-go note in an amount not to exceed \$772,100, which contemplates 26 years of increment collection. The developer intends to assign the TIF note to the holder of the first mortgage loan.
3. In addition to LIHTC equity, the developer will provide equity to the project in the approximate amount of \$345,786.

Future City Council Review

Upon completion of the construction bidding process, staff intends to present a recommendation seeking final approval of the housing revenue bonds.

Project Timeline

Winter 2012/2013	Project closing
Winter 2012/2013	Start of construction
Winter 2013/2014	Project completion

Exhibits

1. Project Data Worksheet
2. Hi-Lake Triangle Apartments TIF Plan, Modification No. 23 to the Model City Urban Renewal Plan, and Modification No. 122 to the Common Plan
3. Resolution approving the TIF Plan and related plan modifications
4. Site plan and building elevations (included within the TIF Plan)