



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

Date: October 23, 2012

To: Council Member Lisa Goodman, Chair, Community Development Committee

Subject: 2012 Affordable Housing Trust Fund Project Recommendations

Recommendation: Approve a total up to \$6,640,227 from the Affordable Housing Trust Fund (AHTF); authorize the execution of the necessary documents for the AHTF loans noted below.

1. A loan up to \$750,000 from the AHTF for the Broadway Flats project to be located at 2220 West Broadway Avenue by Rose Development, LLC or an affiliated entity.
2. A loan up to \$430,000 from the AHTF for Cameron project to be located at 756 North 4th Street by Creamette Building, LLC or an affiliated entity.
3. A loan up to \$1,125,000 from the AHTF for the Commons @ Penn Avenue project to be located at 2201 Golden Valley Road by Building Blocks Nonprofit, Inc. or an affiliated entity.
4. A loan up to \$2,093,427 from the AHTF for the Ebenezer Towers Apartments project to be located at 2523 Portland Avenue by ES Towers Limited Partnership or an affiliated entity.
5. A loan up to \$525,000 from the AHTF for the Greenway Heights Family Housing project to be located at 2845 Bloomington Avenue by Greenway Partners, LLC or an affiliated entity.
6. A loan up to \$76,800 from the AHTF for the Linden Place project to be located at 3201 Bloomington Avenue by CommonBond Communities or an affiliated entity.
7. A loan up to \$432,523 from the AHTF for Lonoke project to be located at 1926 3rd Avenue South Portico Collaborative (formerly Plymouth Church Neighborhood Foundation) or an affiliated entity.
8. A loan up to \$1,165,000 from the AHTF for the PPL DECC Recapitalization project to be located at 3308 4th Avenue, 1203-05 E. 21st St., and 1819-25 Elliot Avenue by Project for Pride in Living (PPL) or an affiliated entity.

Previous Directives

Broadway Flats - On February 24, 2012, the City Council awarded exclusive development rights for 24 months to Lupe Development Partners, LLC for the City owned parcels at 2413 and 2423 Penn Avenue North for the Broadway Flats redevelopment project.

The Cameron – On April 27, 2012, the City Council adopted Resolution 2012R-212 authorizing application to the Hennepin County Environmental Response Fund; On November 4, 2011, the City Council granted the petition of Creamette Building, LLC, (BZZ-5279) to rezone a portion of the properties at 739 3rd Street North and 747 3rd Street North from B4N to the B4S-1 Downtown Service District to permit a multiple-family dwelling with 44 units; On November 4, 2011, the City Council adopted Resolution 2011R-559 authorizing an application to the Hennepin County Environmental Response Fund; On August 19, 2011, the City Council adopted Resolution 2011R-413 accepting a metropolitan Council Tax Base Revitalization Account grant; On August 5, 2011, the City Council adopted Resolution 2011R-391 authorizing application to the Metropolitan Council Tax Base Revitalization Account; On April 29, 2011, the City Council approved a resolution authorizing the submission of a brownfield investigation grant application to Hennepin County on behalf of this project in connection with the “regular” semi-annual brownfield grant round.

Commons @ Penn Avenue - On June 29, 2012, the City Council awarded Exclusive Development Rights for 12 months to Building Blocks Non Profit, LLC for the City owned parcels at 2201 Golden Valley Road and 1823 Penn Avenue North for the Commons @ Penn Avenue redevelopment project.

Ebenezer Towers Apartments – No previous directives.

Greenway Heights Family Housing – On February 10, 2012, the Minneapolis City Council approved a loan up to \$525,000 from the AHTF and a \$30,000 grant from the Non-Profit Development Assistance Fund (NPDAF) for the Greenway Heights Family Housing project to be located at 2845 Bloomington Avenue by PRG Inc. and Phoenix Development Inc. or an affiliated entity of either.

Linden Place – No previous directives.

The Lonoke – On October 5, 2012, the City Council approved a partial award of \$7,203 in 9% low income housing tax credits for the Lonoke project of the \$144,853 total request.

PPL DECC Recapitalization – No previous directives.

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Approved by: Thomas A. Streitz, Director, Housing Policy & Development _____
Charles T. Lutz, Deputy Director CPED _____

Presenters in Committee: Matt Goldstein

Financial Impact

- X No financial impact: These funds have been appropriated.

Community Impact

- Neighborhood Notification – All projects being recommended for funding have been reviewed by the official neighborhood organization of the area in which the project is located.
- City Goals – In five years all Minneapolis residents will have a better quality of life and access to housing and services.
- Sustainability Targets – The proposed projects meet the affordable housing targets.
- Comprehensive Plan – 4.9: Minneapolis will grow by increasing its supply of housing; 4.11: Minneapolis will improve the availability of housing options for its residents.
- Zoning Code – All projects being recommended either comply or will comply with the zoning code.

Affordable Housing Trust Fund Program Overview

The City Council established the Affordable Housing Trust Fund (AHTF) in May 2003 to assist in the financing of the production and preservation/stabilization of affordable and mixed-income rental housing projects in Minneapolis guided in part by the City's Affordable Housing Policy and the HUD Consolidated Plan for Housing and Community Development. While the funding is structured as a loan with a note and mortgage, this funding is generally considered to be "soft" and typically functions similar to a grant.

The City's AHTF requires that all housing developments receiving City subsidies make at least 20% of their units affordable to people earning 50% or less of the Metropolitan Area Median Income (AMI). In 2012, 50% of AMI for a family of four was \$41,950. Since the inception of the AHTF approximately 6,100 housing units at or below 50% AMI have been or are being developed or stabilized/preserved with this funding source (including this year's recommendations and not including projects funded through the Emergency Solutions Grant Program). Some of the projects developed with AHTF funds are Central Avenue Lofts, Ripley Gardens, The Jourdain, The Wellstone, LSS Park Avenue Apartments, Van Cleve East, Van Cleve West, Veteran's Community Housing, St. Anthony Mills Apartments, Midtown Exchange, Kingsley Commons, Minnehaha Apartments, Alliance Addition, Audubon Crossing, Hiawatha Commons, Gateway Lofts, Creekside Commons, Clare Midtown, Bii Di Gain Dash Anwebi Elder Housing.

The available amount in the 2012 AHTF is approximately \$8 million. The maximum amount of AHTF that can be provided to a project is \$25,000 per affordable unit (affordable to households with incomes at or below 50% of AMI) not to exceed 15% of the Total Development Cost. The Total Development Cost (TDC) includes all costs associated with the housing development portion of a project except for reserves such as beginning operating reserves or operating deficit reserves. The AHTF has three funding sources: Federal Community Development Block Grant (CDBG) funds, the federal HOME Investment Partnerships Program, and local funds. CDBG prohibits new

housing construction with limited exceptions. HOME prohibits new construction in minority impacted areas as defined in the Consolidated Plan.

2012 AHTF Request for Proposals and Application Evaluation

In May, 2012 CPED staff issued a Request for Proposals (RFP) for the 2012 AHTF and the applications were due on July 2, 2012. The complete RFP materials are posted here: http://www.minneapolismn.gov/cped/rfp/cped_ahtf_rfp_home. RFP excerpts are included as Attachment A. In May, 2011, the City Council approved the collection of a \$1,000 application fee for each AHTF proposal and a one percent (1%) loan origination fee for each AHTF project with the exception of the AHTF HOME-funded projects because HOME prohibits this fee. The loan origination fee for the recommended 2012 AHTF projects (with the exception of the HOME-financed projects) will be collected at project closing.

The AHTF Program has established selection criteria used to score and competitively rank the proposals. A project must meet the "Minimum Point Threshold," which means the project must receive at least 20 points combined in two selection criteria: "Financial Soundness and Management" and "Economic Integration." A project must also meet the "Total Point Threshold," which means a project must receive a minimum of 85 points in all selection criteria. No changes were made to the underwriting criteria or scoring rubric from the 2011 RFP.

Attachment A-1 shows the minority impacted areas and the non-impacted areas of the City of Minneapolis. There are two sets of selection criteria, one for projects located in impacted areas of the City (Attachment A-2) and another set for projects located in non-impacted areas of the City (Attachment A-3). An impacted (concentrated) census tract is defined as a census tract with a percent of persons greater than or equal to 50% in poverty. This threshold was increased from 33.3% to be consistent with the approved Consolidated Plan.

The impacted and non-impacted scoring criteria are nearly the same with these differences:

- 1) Projects in impacted areas that rehabilitate housing projects receive 10 points whereas projects in non-impacted areas that involve new construction receive 10 points.
- 2) Projects located in non-impacted areas with a higher number of affordable units score higher and projects located in impacted areas with a lower number of affordable units score higher.

Thirteen (13) eligible proposals were received with a total funding request of over \$11.5 million. Approximately \$8 million was available. Most of the proposed projects sought funds from both the City and Minnesota Housing Finance Agency (MHFA). MHFA funding decisions, including allocations of Federal Low Income Housing Tax Credits (LIHTC), are expected to be made on October 25, 2012.

Staff evaluated the 13 proposals including financial underwriting, determining each project's conformance to the AHTF selection criteria, conducting property inspections, analyzing the scopes of work, coordination with other lenders, consideration of support services plan, and additional criteria described in the RFP. Each proposal was scored and ranked. To the extent that an eligible funding source is available, the AHTF funding is generally recommended for the highest scoring projects going down until the funding is gone. As a result of the underwriting evaluation and a preliminary assignment of the available funding, five projects are not being recommended for funding in this round.

AHTF Funding Recommendations

On October 4, 2012 and October 18, 2012, the Development Finance Committee (DFC) reviewed the AHTF funding recommendations and discussed each project's proposed financing structure the overall capacity of each developer. DFC comments are included as Attachment F. Eight proposals are being recommended for 2012 AHTF loans as further described below. Please see the Project Data Worksheets in Attachment E for more detailed project information:

1. Broadway Flats - Steve Minn (Lupe Development) and Dean Rose (owner of Broadway Liquor Outlet) doing business as Rose Development LLC are proposing to redevelop the northwest corner of the Penn-Broadway node into a four-story, mixed use, new construction building containing 75 units of affordable housing, 16,000 square feet of commercial/retail space on the first floor, underground and shared surface parking. It is proposed that the new Broadway Liquor Outlet will occupy approximately half of the ground floor commercial space, with the remainder of the space being occupied by resident amenities, a leasing office and to be determined retail tenant.
2. The Cameron – Schafer Richardson, doing business as Cremette Building, LLC, is proposing a 44 unit positive conversion of a historic warehouse as an affordable workforce housing project in the North Loop neighborhood adjacent to three successful condominium developments that were previously completed by Schafer Richardson. The complete renovation of this historic property calls for a new roof, new windows, new interior spaces, and exterior tuckpointing. The proposed property amenities include a fitness center, a bike storage room, extra storage for residents, an outdoor patio and grilling area, common laundry facilities, and surface parking. Since the State Historic Preservation Office and the National Park Service have approved the Part I historical analysis, the property is in the process of being placed on the National Register of Historic Places. This project has a pending funding application with MHFA.
3. Commons @ Penn Avenue - The George Group doing business as Building Blocks Nonprofit, Inc., is proposing to redevelop three parcels it owns along with two City-owned parcels at the southwest corner of Penn Avenue and Golden Valley Road in the Willard-Hay neighborhood into a four-story, mixed use, affordable, new construction project with 45 units of affordable rental units and approximately 4,500 square feet of community programming services on the first level. This project has a pending funding application with MHFA.

4. Ebenezer Towers Apartments – Ebenezer Society, doing business as ES Towers Limited Partnership, is proposing to renovate the Ebenezer Towers Apartments, a 23-story senior high rise building with 192 units (91 Section 8 project-based certificates) located in the East Phillips neighborhood. The scope of work includes energy efficiency improvements such as window repair and roof replacement, common area improvements including a new laundry facility and carpet replacement, site enhancements including new curbs, gutters, retaining walls and drainage, and exterior repair of handrail joints, exterior walls and balconies.
5. Greenway Heights Family Housing – PRG, Inc. and Phoenix Development Co., doing business together as Greenway Partners, LLC, are proposing to develop a four-story, building with large units suitable for families with underground parking located at the intersection of the Midtown Greenway and Bloomington Avenue in the East Phillips neighborhood. All 42 units will be available to households at 50% AML in 2, 3, and 4 bedroom configurations, and all will be handicap adaptive units with 3 units being handicap accessible. This project is proposed to have a photovoltaic array and is planning to use solar tax credits. This is the second AHTF request which follows the 2011 AHTF award. To attract additional funds, this project was given only half of the amount requested in 2011 with the understanding that this project may return to compete for additional funds. This project has a pending funding application with MHFA.
6. Linden Place – CommonBond Communities is proposing to renovate Linden Place which is comprised of two duplexes and one four-plex in the Powderhorn Park neighborhood. The Linden Place renovation preserves eight units of affordable housing providing 4 two-bedroom units affordable to low income households at 60% of Area Median Income and one four-plex on 16th Avenue South providing four three-bedroom units affordable to low income households at 50% of Area Median Income. The scope of work includes lead abatement, energy efficiency improvements including window and appliance replacement, exterior stucco repair and painting, mechanical work including water heater replacement and boiler repairs, and basement shoring, patching and repair.
7. The Lonoke – Portico Interfaith Housing Collaborative, formerly Plymouth Church Neighborhood Foundation, is proposing to renovate the historic, 19 unit Lonoke apartment building at 1926 3rd Ave S which currently provides general occupancy market rate rental housing in the Stephens Square-Loring Heights neighborhood. Following the renovation, 10 of the units will convert from general occupancy to permanent supportive housing units, with services provided by Spectrum Mental Health, to 10 individuals who have formerly been part of the intensive service housing program for previously chronically homeless adults at nearby Lydia Apartments, now identified as being able and willing to live more independently without intensive services. The recommended award is 15% of the total development cost, which is the maximum permitted and less than the amount requested.

8. PPL DECC Recapitalization - Project for Pride in Living (PPL) is proposing to refinance, renovate and stabilize ten existing apartment buildings. Located in the Central, Whittier, and Ventura Village neighborhoods, the units consist of duplexes, four-plexes, two-story buildings and three-story walk-ups. The projects together preserve existing affordable housing and provide 11 long term homelessness units and 40 general occupancy units. The rehabilitation will consist of energy efficiency improvements such as new windows and doors, roof and porch replacement, electrical upgrades, exterior and interior repair and painting, kitchen and bathroom improvements. If this project matures and is fully funded, staff may need to consider restructuring existing City debt.

If the funding recommendations are approved, the total expenditure for these projects will be up to \$6,597,750 from the AHTF. The leftover available funding from this round will be included in the 2013 AHTF RFP. The approved 2012 AHTF projects will create or preserve 464 units: 202 new construction units and 262 stabilization/preservation units. There will be 400 units affordable to households at or below 50% of AMI.

The average AHTF subsidy per affordable (50% AMI or less) unit for both new construction and rehabilitation/stabilization projects is \$16,494 (\$21,119 for new construction and \$14,164 for rehabilitation/stabilization). The total development cost for all recommended projects combined is over \$71 million. The AHTF is leveraged at a ratio 1:10.83 which means that every \$1 of AHTF funds, \$10.83 of other, mostly non-City, resources are invested to grow Minneapolis.

Rescission of Awards

The RFP requires timely completion of projects within the context of the established funding cycles of the other funders such as MHFA. The AHTF project awards are reserved for fifteen (15) months from the City Council approval date. The developer must submit monthly progress reports describing incremental project financing and development achievements. At the end of fifteen months, if the developer can demonstrate that at least one-third of the total development funds have been raised; and can provide evidence that the balance of the development money is likely to be raised; and can provide evidence that a closing will occur within the next twelve months, the funding reservation may be administratively extended for an additional twelve (12) month period. Projects unable to meet the timelines may have their awards rescinded.

AHTF Repayment and Recapture Terms

The AHTF funds are typically provided as a deferred payment loan with a 30 to 40 year term with no interest to low simple interest. Any deviations from the established interest rate will be due to the tax credit Applicable Federal Rate (AFR) as determined by each project. Additionally, the City seeks recapture of a percentage of net cash flow in mixed income projects, where possible, pursuant to CPED's approved policy guidelines.

Applications Not Being Recommended for 2012 AHTF Funding

The following proposals are not being recommended for funding:

1. Hawthorne EcoVillage
2. Emerson North Family Housing
3. Jordan Apartments
4. Rental Reclaim V
5. Seward Square Apartments

Attachments

- Attachment A: AHTF RFP excerpts
 - A-1: Concentration Map
 - A-2: Selection (Scoring) Criteria for Impacted Areas
 - A-3: Selection (Scoring) Criteria for Non-Impacted Areas
- Attachment B: AHTF recommendations
- Attachment C: Scoring and ranking of each AHTF application as to its conformance with the AHTF underwriting criteria
- Attachment D: A comparison of the proposals on certain key measures such as number of units at or below 50% of AMI, number of units at or below 30% of AMI, other City funding to date, AHTF as a percentage of Total Development Cost, AHTF per affordable unit, amount of developer fee per unit and as a percentage of Total Development Cost
- Attachment E: Project Data Worksheets providing details about each of the projects being recommended for funding
- Attachment F: Development Finance Committee actions