



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

Date: November 7, 2012

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

Referral to: Council Member Betsy Hodges, Chair, Ways & Means/Budget Committee

Subject: Project Analysis Authorization for Calhoun Place Project

Recommendation: Direct and authorize staff to either 1) continue analysis of the Calhoun Place Project proposal to determine if Housing Improvement Area (HIA) assistance is appropriate and justifiable, or 2) discontinue further HIA analysis for the project. If further directed analysis concludes HIA assistance is appropriate, then staff requests authorization to negotiate the terms and conditions of a financing agreement with the Calhoun Place Condominium Homeowners Association; and prepare the HIA ordinance, HIA resolution, bond resolutions, and other documents as needed. All such terms and conditions, resolutions, and other documents would be subject to City Council review, discussion, and approval or denial.

Previous Directives:

- On February 11, 2011, the City Council approved the City of Minneapolis Housing Improvement Area (HIA) Policy, which established the conditions under which HIAs may be approved by the City Council and provided a framework within which requests for the establishment of HIAs will be considered.
- On September 3, 2010, the City Council directed the Minneapolis Finance Officer to draft an HIA policy and related procedures.

Department Information

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Approved by: Jeff Streder, Director, Development Finance _____
Jeremy Hanson Willis, Director, CPED _____

Presenters in Committee: Mark Winkelhake and Matt Goldstein

Financial Impact

- No financial impact

Community Impact

- Neighborhood Notification – Neighborhood notification was not provided at this time. If PAA is granted, neighborhood notification will occur prior to the required HIA public hearing as part of the minimum notice requirements established by statute.
- City Goals – 1) A Safe Place to Call Home - Healthy homes, welcoming neighborhoods; 2) Livable Communities, Healthy Lives - High-quality, affordable housing for all ages and stages in every neighborhood
- Comprehensive Plan - Not Applicable
- Zoning Code - Not Applicable

General Description of Housing Improvement Areas

A housing improvement area (HIA) is a financing tool that is available to home rule charter and statutory cities in the State of Minnesota. In situations where condominium or townhome associations can not obtain private financing for needed repairs and improvements to the common elements of their building(s), a city can provide public financing for these improvements. This tool is not available for multi-family rental housing.

A city can lend funds to the homeowners association for eligible common area repairs and improvements using either 1) available funds on hand, or 2) bond proceeds from the city's issuance of taxable general obligation bonds by a super-majority (nine votes) approval of the City Council. Pursuant to state statutes, eligible costs may include improvements to exterior and interior common areas such as roofing, siding, windows, HVAC, etc. Repayment is accomplished by the city imposing an annual fee on all or most of the homeowners in the association. The fee is similar to a special assessment, appears on the homeowner's property tax statement, and is due in the same manner and at the same time as their property taxes. Typically, the homeowners association would determine if any of its members are exempt from the annual fee.

HIA Policy Overview

The underlying authority for a city to establish an HIA is contained in Minnesota Statutes, Sections 428A.11-428A.21, which was initially passed into law in 1996. State statute creates minimum requirements for homeowner petitions, notice, public hearings, project scope and financing disclosures, fee establishment and collection, and homeowner veto powers. A more detailed summary of HIA statutory requirements are posted here: http://www.minneapolismn.gov/www/groups/public/@council/documents/webcontent/convert_267024.pdf:

The City's Housing Improvement Area Policy is attached as Exhibit A. Section I states the purpose of the HIA Policy, and specifies that this is a financing tool of "last resort". Section II states the goals and objectives of the policy, which include stabilizing or enhancing the City's tax base and level of owner-occupied housing units, eliminating blighting influences, and correcting building code violations.

Section III lists the guidelines for use of the tool. Of particular note are #3 which states that this tool will only be provided to condominium and townhome associations, and #5 which states that the City Council is under no obligation to

approve assistance using this tool even if the applicant meets all of the City's guidelines and criteria.

Section IV lists the minimum criteria that a project must meet in order to be considered for HIA assistance. Of particular note is #1 which requires that owners of 75% or more of the housing units must file a petition requesting this type of assistance. This is significantly higher than the 50% minimum required by statute.

Section V notes that in addition to the HIA policy, there are additional administrative processes and procedures that are applicable and can be approved or changed by the City Finance Officer and the Director of Community Planning and Economic Development.

Property and Project History

The 107-unit Calhoun Place building was built in 1987 with an Exterior Insulating Foam System (EIFS) exterior. With an EIFS wall system, the exterior of the building is covered with sheets of rigid foam insulation, which is then covered with a synthetic stucco. The foam insulation sheets are sealed with caulk, which is failing, enabling moisture to penetrate the joint and cause deterioration to the façade and interior walls.

In 2004, the building was converted from apartments to condominiums and the Calhoun Place Condominium Homeowners Association (the "Association") was formed. Shortly after the conversion, the Association discovered water intrusion and confirmed that the EIFS exterior was failing. A \$400,000 legal settlement was received from the conversion developer. However, the failing exterior and corresponding water intrusion have made it difficult for owners to sell units due in part to the large scale of the renovation and the inability of individual owners to address the consequences of the failing exterior individually.

Since the \$400,000 legal settlement occurred, the Association has taken several steps toward pursuing the EIFS replacement, including the following:

- **Testing:** The Association has conducted several invasive tests throughout the building to determine the extent of the exterior surface failure and resulting water damage, and to estimate the possible presence of mold or other complicating factors.
- **Reserves:** The Association has been building its financial reserves through regular Association dues collection as verified by a staff review of audited financials from 2009 through 2011 and an unaudited accounting report for 2012.
- **Project management consultant:** A consultant with experience in HIA financing and managing renovation projects for homeowners associations was hired as a project manager to guide the Association through the project planning, financing, and construction.
- **Engineer:** An engineer, Encompass Inc., was hired to create written plans and specifications and to advise the general contractor on behalf of the Association during construction.
- **General contractor:** A bidding process was completed to identify a qualified general contractor to complete the project (Morcon Construction).

- Private financing: Private construction and permanent financing for the project was sought from at least three local banks.
- EIFS disclosure: The Association drafted a preliminary EIFS project disclosure for homeowners marketing their units to present to prospective buyers.

Project Summary

The HIA application appears to be complete and includes information on the property, the project scope of work and budget, proposed project financing, Association financial statements and audits, 20 year forecasts for the Association's financial plan and replacement reserves, financing denial letters from three banks, and signed Statements of Support for City Bond Financing from 83 of the 108 (76.9%) unit owners.

The primary purpose of this project is to stabilize and enhance the livability of the property by replacing the failing exterior of the building to address the water intrusion issue. The scope of the work includes:

- Complete replacement of the EIFS exterior and sheathing with proper drainage within the wall cavity.
- Replacement of all unit windows and balcony doors, including lowering balcony door thresholds.
- Repainting the balcony railings, support systems and related metal components

Replacing the exterior surface, windows and patio doors will also improve the energy efficiency of the building. The patios and balconies will also be made more accessible by lowering the patio door threshold to the floor level to create a more contiguous transition from the interior of the unit to the patio or balcony.

The lowest responsive general contractor in a competitive bidding process was Morcon Construction. The total project cost including the base bid, optional bid alternates, contingencies and soft costs such as consultant fees is \$2,370,626 as further described in the Project Data Worksheet attached as Exhibit B.

Project Timeline

The EIFS replacement is weather-sensitive and must occur during the warmer months. Construction is proposed to start in April and end in October of 2013.

Proposed Financing and HIA Assistance

This is the first project seeking HIA assistance and therefore the first time the HIA Policy and supplemental procedures have been applied to a project. The project financing is proposed to be split into construction and permanent financing phases. The proposed construction financing sources include 1) Association reserve funds, 2) homeowner payments upfront, and 3) a construction loan from Western Bank of up to \$2,000,000. Once the project is complete, permanent financing would be provided for a portion of the project by the City issuing 20-year taxable general obligation HIA bonds to pay off the construction loan with the bank. The total project cost (\$2,370,626) may change because the Association is waiting for updated costs from the contractor, but that the proposed Housing Improvement

District financing will remain at \$2.0 million of the project costs plus capitalized interest, debt service reserve and processing fees.

Semi-annual payment of the city bonds will be made and secured by:

1. Annual HIA fees imposed upon participating homeowners (just like special assessments for street, water or sewer improvements). These fees appear on the homeowner's property tax statements and are payable at the same time as property taxes.
2. The bonds will be structured with at least 110% annual debt service coverage.
3. The Calhoun Place Condominium Association will pledge all of its assets to cover any delinquent HIA payments.
4. The bond issue will include a one-year debt service reserve, which would be tapped if items 1-3 are insufficient.
5. If any remaining annual shortfall exists, the Finance Department, in consultation with CPED, could elect to use whatever source of CPED discretionary funds are available at that time and determined to be the most appropriate.

PAA Request and HIA Policy Preliminary Findings

Section II of the HIA Policy establishes seven goals of the HIA program. The primary public benefits of this project are stabilizing the property, enhancing its livability, and improving its energy efficiency.

Section IV of the HIA Policy establishes seven minimum criteria as prerequisites to considering providing HIA financing. The project preliminarily appears to have the ability to meet each of these criteria upon further analysis if authorized.

Project Analysis Fee

The Association will pay a \$3,000 application fee and one half of the \$30,000 processing fee if PAA is approved. If the HIA assistance is ultimately granted by the City Council, the Association will pay the other half of the processing fee at the time the City issues bonds.

Next Steps

If PAA is granted, the next steps include:

- Further analyzing the application and refining preliminary bond financing estimates
- Draft the HIA ordinance materials for homeowners including the homeowner petition, project disclosure summaries, HIA assessment methodology, and an explanation of the owners' rights,
- Draft terms of the HIA financing as the basis for a financing agreement with the Association

Exhibits

- Exhibit A: Housing Improvement Area Policy
- Exhibit B: Project Data Worksheet

Exhibit A

City of Minneapolis

Housing Improvement Area Policy

I. Purpose

This Housing Improvement Area (“HIA”) Policy (“Policy”) establishes the conditions under which HIAs may be approved by the Minneapolis City Council, and provides a framework within which requests for the establishment of HIAs will be considered.

Pursuant to Minnesota Statutes, Sections 428A.11 to 428A.21, the City of Minneapolis (“City”) is authorized to establish HIAs within its corporate limits. Within an HIA the City may lend funds to a homeowners association or similar entity (“Association”) for the purpose of funding the cost of improvements made to common elements of their property(s). The City will consider the establishment of an HIA only on a “last resort” basis, when the Association is unable to obtain other financing for the needed repairs and improvements.

The City may lend funds to the Association from either available City cash or proceeds from the City’s issuance of taxable bonds. Loan repayment is accomplished through the imposition of HIA fees on the owners of units included in the HIA. Existing housing units receiving HIA assistance are exempt from the affordable housing provisions contained in Section 2 of the Unified City of Minneapolis Housing Policy.

II. Goals and Objectives

In establishing an HIA, the City strives to achieve the following goals and objectives:

1. Stabilize or enhance the City’s property tax base.
2. Promote neighborhood stabilization and livability through the revitalization of existing housing stock.
3. Stabilize or increase the level of owner-occupied housing units within a neighborhood.
4. Eliminate blighting influences.
5. Correct housing or building code violations.
6. Promote energy conservation in order to reduce the overall impact of the built environment on human health and the natural environment.
7. Maintain or obtain FHA mortgage eligibility.

III. Guidelines

1. The City will only consider establishing an HIA when the Association has demonstrated to the City's satisfaction that the project meets one or more of the goals and objectives listed in Section II of this Policy.
2. The property to be included in the HIA must be in compliance with the City's comprehensive plan, zoning ordinances, and any applicable redevelopment plans.
3. HIA financial assistance will only be provided to condominium and townhouse associations. Such assistance will not be available to other forms of ownership housing or rental housing.
4. HIA financial assistance will only be considered for a project when the Association has demonstrated to the City's satisfaction that there are no other feasible financing options. The Association must provide the City with any requested documentation needed to substantiate this conclusion.
5. The project must meet the minimum criteria listed in Section IV of this Policy. Additional requirements are also contained in separate documentation from this Policy. The process and procedures for HIA application, review, approval, and implementation are also contained in separate documentation from this Policy. The City Council is under no obligation to approve assistance with this tool even if the applicant meets all of the criteria listed in this Policy and other existing requirements.
6. The Association must enter into a financing agreement with the City ("Financing Agreement") that spells out the rights and responsibilities of both parties.

IV. Minimum Criteria

1. The City will only consider establishing an HIA if all owners of 75 percent or more of the housing units that would be subject to fees in the proposed HIA file a petition requesting a public hearing on the matter.
2. The term of the HIA financing should be as short as practical while making the annual fees affordable to applicable members of the Association. The maximum financing term is 20 years, but in no case will it exceed the useful life of the assets or improvements being financed.
3. Only improvements and repairs to the common elements of the property(s) are eligible for HIA financing. Improvements and repairs to luxury assets, as determined by the City, are not eligible for HIA financing.
4. The minimum amount of HIA assistance the City will provide an Association is \$500,000.
5. A nonrefundable application fee of \$3,000 will be charged to any Association seeking HIA assistance. A one-time nonrefundable processing fee, in an amount not to exceed \$30,000, will be charged to any Association granted HIA assistance. An annual administrative fee, in an amount not to exceed \$7,500 per year, will be included as part of the HIA fees imposed on the owners of the housing units in the HIA. The processing and administrative fees will be determined based on the projected City staff time and other costs associated with the approval and implementation of the HIA financing.

6. The Association must provide the City with adequate financial guarantees to ensure the timely payment of all HIA fees and the performance of all other requirements of the Financing Agreement.
7. The Association must have adopted a reasonable financial plan, prepared by an independent third party that's acceptable to the City, that provides for the Association to finance maintenance and operation of the common elements and a long-range plan to conduct and finance capital improvements. For the term of the HIA financing, the Association must annually provide to the City its audited financial statements and an updated long-term maintenance and capital improvement plan for the project.

V. Process and Procedures

Requests for the establishment of HIAs will be reviewed and approved or rejected in accordance with state law, this HIA Policy, and the administrative process and procedures contained in separate documentation from this Policy. Changes to this Policy require City Council approval. Changes to the documentation describing the administrative process and procedures may be approved by the City Finance Officer and Director of Community Planning and Economic Development.

Exhibit B: Project Data Worksheet