



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

Date: January 29, 2013

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

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

Subject: A Public Hearing and Request for Approval of an Ordinance establishing the Calhoun Place Housing Improvement Area, Issuance of Taxable General Obligation Bonds, and Imposing Housing Improvement Fees on the housing units in the Calhoun Place Housing Improvement Area

Recommendations:

- Adopt the attached Calhoun Place Housing Improvement Area enabling ordinance amending Title 16 of the Minneapolis Code of Ordinances relating to *Planning and Development*, establishing a new Chapter 421.10 establishing the Calhoun Place Housing Improvement Area in order to facilitate certain improvements to property known as the "Calhoun Place Condominiums;"
- Adopt the attached resolution authorizing issuance of taxable general obligation housing improvement area bonds in compliance with Minnesota Statutes contingent upon the ordinance and fee resolution becoming effective;
- Adopt the attached resolution imposing Housing Improvement Area fees for the Calhoun Place Housing Improvement Area project;
- Authorize appropriate officers and staff to enter into a permanent financing agreement with the Calhoun Place construction lender, currently Western Bank, consistent with the terms and conditions in this report; and
- Authorize appropriate officers and staff to negotiate and execute a financing agreement and any related agreements with the Calhoun Place Condominium Homeowners Association based upon the financing terms and conditions summarized in this report.

Previous Directives:

- On January 11, 2013, pursuant to notice (12/7/2012), Council Member Hodges moved to introduce an ordinance amending Title 16 of the Minneapolis Code of Ordinances relating to *Planning & Development*, establishing a new Chapter 421 relating to Calhoun Place Housing Improvement Area for referral to the Community Development and Ways & Means/Budget Committees (establishing the area within which housing improvements are to be made and financed in part from fees imposed within the area).

- On January 8, 2013, the Community Development Committee set a public hearing for the January 29, 2013 Community Development Committee meeting to consider the adoption of the Calhoun Place Housing Improvement Area ordinance and imposing fees within the area to pay for housing improvements within the area.
- On November 16, 2012, the City Council directed and authorized staff to continue analysis of the Calhoun Place Project proposal to determine if Housing Improvement Area assistance is appropriate and justifiable.
- On February 11, 2011, the City Council approved the City of Minneapolis Housing Improvement Area 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

Prepared by: Matt Goldstein, Multifamily Housing Finance Specialist, 673-5075

Approved by: Jeff Streder, Director, Development Finance _____

Jeremy Hanson Willis, Director, CPED _____

Presenters in Committee: Matt Goldstein and Jeff Streder

Financial Impact

- No financial impact

Community Impact

- Neighborhood Notification – Public hearing notices (including the HIA fee schedule and project map) were published in Finance and Commerce on January 17, 2013 and mailed on or before January 10, 2013 to all Calhoun Place owners of record. Additional neighborhood notification is not required by the HIA Policy.
- 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

Introduction and HIA Process Overview

The purpose of this item is to consider providing public financing for renovations to the Calhoun Place condominium property using taxable, general obligation bonds. This is the first project in the City of Minneapolis seeking Housing Improvement Area (“HIA”) assistance and therefore the first time the City’s HIA Policy (included as Exhibit A) and supplemental procedures have been applied to a project. In situations where condominium or townhome associations cannot obtain private financing for needed repairs and improvements to the common elements of their building(s), Minnesota Statutes Sections 428A.11-428A.21 permits a city to provide public financing for these improvements. 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.

Now that an application seeking public assistance has been received and PAA has been granted, unit owners submitted a petition to the City requesting housing improvement area financing for common area improvements. The petition was signed by the owners of at least 89 units, which equals approximately 83% of the 107 units in Calhoun Place.

State Statute requires the City Council to conduct a public hearing prior to establishing the requested housing improvement area and imposition of housing improvement area fees. Exhibit B contains the public hearing materials that were sent to each Calhoun Place unit owner of record. The housing improvement area may be established by adopting the ordinance in Exhibit C which makes findings of fact for this specific project, defines the housing improvement area, and describes the Calhoun Place renovation project.

Taxable general obligation bonds will be issued to pay for up to \$2.0 million of the project costs plus up to \$350,000 of financing costs including capitalized interest, debt service reserve, costs of issuance of the bonds and the City processing fee.

Fees will be imposed on the housing units within the housing improvement area in accordance with the terms outlined in the fee resolution in Exhibit D.

Property and Project History

The 107-unit Calhoun Place building located at 3131 Excelsior Boulevard 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 currently failing, enabling moisture to penetrate the joint and cause deterioration to the façade and interior walls.

In 2003, 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, Dunbar Strandness, Inc., with experience in HIA financing and managing renovation projects for

homeowners associations was hired as a project coordinator 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 and subsequently denied 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.

Housing Improvements: Project Summary and Timeline

The primary purpose of this project is for the Association to stabilize and enhance the livability of the Calhoun Place property (Common Interest Community Number 1227, Lots 16, 17, 18, 19, 20, 21 and 27 Auditor's Subdivision Number 164) by replacing the failing exterior of the building to address the water intrusion issue. The Association intends to hire a general contractor to complete various improvements, including:

- 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.
- Resurfacing of balcony decks
- Repainting the balcony railings, support systems and related metal components
- Repairs to the balcony decks and posts of the balcony railings as needed

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 E. CPED and Civil Rights staff have met with Morcon to discuss SUBP goals and procedures.

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

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) is a firm price that has been agreed upon by the Association and the general contractor, but this cost may change slightly due to minor change orders, but the project costs being financed by the Housing Improvement District financing will remain at \$2.0 million.

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

1. Annual HIA fees imposed upon participating homeowners, which are 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. No Calhoun Place units are exempt from this financing as defined by State Statute. Exhibit D is the fee resolution.
2. The bonds will be structured with 110% annual debt service coverage.
3. The 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.

Exhibit F further describes the proposed terms and conditions of the proposed City financing, and Exhibit G includes the bond resolution. Lastly, staff is working with the Association to research possible utility rebates that might be available for these improvements.

Exhibits:

- A: HIA Policy
- B: Public hearing notice and materials
- C: Ordinance
- D: Fee Resolution
- E: Project Data Worksheet
- F: Basic City Financing Terms and Conditions
- G: Bond Resolution