



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

Date: October 8, 2013

To: Council Member Lisa Goodman, Community Development Committee

Referral to:

**Subject:** **Heritage Park (Phase II)** (1101 7th St N) – City Authorization to Amend, Extend and Re-subordinate Existing City Financing Documents.

**Recommendation:** It is recommended that the City Council authorize amendment and re-subordination of Housing Revenue Bond (HRB) and Affordable Housing Trust Fund (AHTF) loan documents and extend the AHTF loan maturity date in accommodation of HUD-insured 1<sup>st</sup> mortgage refinance.

**Previous Directives:**

**June 6, 2003, the Council authorized up to \$11,500,000 Series 2003 City of Minneapolis, Minnesota Multifamily Housing Revenue Bonds for Heritage Park (Phase II) project under Resolution 2003R-240.**

**On February 28, 2003, MCDA Board of Commissioners authorized additional funding of up to \$565,800 from the Multi-Family Rental and Cooperative Housing Program for the Heritage Park (Phase II) project under Document 03-030M.**

**On July 12, 2002, the MCDA Board of Commissioners authorizes up to \$1,000,000 from the Multi-Family Rental and Cooperative Housing Program for the Heritage Park (Phase II) project under Document 02-144M.**

**Department Information**

Prepared by: Scott Ehrenberg, Loan Portfolio Specialist, 612-673-5067

Approved by: Thomas A. Streitz, Director of Housing Development \_\_\_\_\_

Charles T. Lutz, CPED Deputy Director \_\_\_\_\_

Presenters in Committee: Scott Ehrenberg

Language Reviewed by Development Finance: \_\_\_\_\_

## **Financial Impact**

Increased financial capacity for project to generate future Net Available Cash Flow – CPED loan provisions stipulate payment of 6.56% Net Available Cash Flow annually.

Fees will be collected to offset staff costs in processing request.

## **Community Impact**

- Neighborhood Notification
- City Goals
- Comprehensive Plan
- Zoning Code
- Other

## **Supporting Information**

Heritage Park (Phase II) was a newly constructed affordable rental housing project completed in 2004. Comprised of several buildings in proximity to 1101 7<sup>th</sup> St N in the Near North neighborhood, the project contains 113 rental units. 25 of these units are affordable at or below 60% AMI. An additional 57 units are subject to MPHA contract and generally considered affordable at or below 30% AMI.

The City authorized issuance of up to \$11,500,000 Series 2003 City of Minneapolis, Minnesota Multifamily Housing Revenue Bonds and one deferred payment subordinate loan to Heritage Park (Phase II). The deferred payment subordinate loan was made with an original principal balance of \$1,368,300 at 0% interest maturing 12/31/2045.

Sumner Field Phase II, L.P. is pursuing a HUD-insured refinance of its existing 1<sup>st</sup> mortgage on the property to take advantage of the low-interest rate environment, reduce debt service payments, and strengthen the long-term financial operating capacity of Heritage Park (Phase II). This refinance will result in the repayment in full of the outstanding Multifamily Housing Revenue Bonds issued by the City.

Accommodating this refinance is anticipated to reduce the interest rate on the 1<sup>st</sup> mortgage from 5.76% to an anticipated 4.50%. As a result of the lower interest rate, annual debt service costs will be reduced by approximately \$37,000. The additional cash flow will be utilized towards paying down accrued liabilities associated with remaining deferred developer fee as well as unpaid property and asset management fees that have accrued due to lack of sufficient cash flows to date.

CPED loan provisions on the AHTF loan stipulate payment of 6.56% of Net Available Cash Flow annually. Accommodating this refinance will increase opportunities to begin receiving these payments in future years.

In accordance with HUD requirements for the new financing, Sumner Field Phase II, L.P. is asking the City to amend the HRB Regulatory Agreement that will encumber the property after the Bonds are repaid to subordinate to the HUD loan provisions, and re-subordinate the City's existing AHTF loan consistent with new HUD guidelines and extend the AHTF loan maturity date by approximately 8 years from 12/31/2045 to an anticipated maturity date of 12/31/2053 to remain coterminous with the new 1<sup>st</sup> mortgage and preserve affordability of the project's 82 affordable units for the additional period of the loan.

CPED Staff recommends authorization to execute all necessary amendments and subordination agreements in accordance with HUD mortgage refinancing requirements.

**TABLE A: Heritage Park (Phase II) Project Refinancing Summary**

<u>Heritage Park (Phase II) as of 12/31/2012</u>				<u>Heritage Park (Phase II) Proposed Refinance</u>			
<u>Amount</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Lender / Loan</u>	<u>Amount</u>	<u>Rate (Est.)</u>	<u>Maturity Date (Est.)</u>	<u>Lender / Loan</u>
\$3,657,208*	5.76%	2/1/2045	City HRB - 221(d)(4) HUD Insured	\$3,837,100	4.50%	12/1/2053	HUD 223(a)(7) 1st Mortgage
\$9,565,750	0.00%	6/30/2060	MPHA	\$9,565,750	0.00%	6/30/2060	MPHA
\$1,140,000	0.00%	7/29/2045	MHFA	\$1,140,000	0.00%	12/31/2053	MHFA
\$1,368,300	0.00%	12/31/2045	CPED	\$1,368,300	0.00%	12/31/2053	CPED
\$450,000	0.00%	7/29/2060	Hennepin County	\$450,000	0.00%	7/29/2060	Hennepin County
\$16,181,258	Total			\$16,361,150	Total		

\*The original \$11.5 HRB was issued in amounts of \$3,905,000 (Series A) and \$7,595,000 (Series B). \$3,657,208 is the remaining balance of Series A HRB as of 12/31/2012. Series B HRB were repaid previously.