



## Request for City Council Committee Action from the Department of Community Planning & Economic Development

**Date:** June 3, 2013

**To:** Council Member Lisa Goodman, Chair, Community Development & Regulatory Services Committee

**Subject:** Project Analysis Authorization – Broadway Flats

### **Recommendation:**

Direct and authorize staff to either 1) continue analysis of the Broadway Flats mixed-use redevelopment proposal to determine if tax increment financing (TIF) assistance is appropriate and justifiable, or 2) discontinue further TIF Analysis of the project. If further directed analysis concludes that TIF assistance is appropriate, then staff requests authorization to negotiate the terms and conditions of a redevelopment contract and prepare a TIF Plan and any necessary Redevelopment Plan modifications for the project. All such terms and conditions, plans, and other provisions would be subject to future City Council review, discussion, and approval or denial.

### **Previous Directives:**

- February 24, 2012 – Approval of exclusive development rights for Rose Development for City-owned properties at 2413 and 2423 Penn Avenue North for a period of 24 months.
- February 24, 2012 – Authorization to submit LCDA-TOD and TBRA-TOD grant applications to Metropolitan Council.
- June 29, 2012 – Acceptance of \$1,536,100 LCDA-TOD grant and \$463,900 TBRA-TOD grant from Metropolitan Council.
- November 2, 2012 – Approval of \$750,000 Affordable Housing Trust Fund loan.
- April 26, 2013 – Approval of exclusive development rights for Rose Development for City-owned properties at 2425, 2503, 2507 and 2511 Penn Avenue North for a period of 24 months.
- October 18, 2013 – Approval of additional \$300,000 Affordable Housing Trust Fund loan.
- January 23, 2014 – Authorization to submit DEED grant application.

### **Department Information**

Prepared by: Tiffany Glasper, Senior Project Coordinator, (612)673-5221	
Approved by: Cathy Polasky, Director, Economic Policy & Development	_____
Charles T. Lutz, Interim CPED Director	_____
Presenters in Committee: Tiffany Glasper, Senior Project Coordinator	

### **Financial Impact**

- The developer will pay a project analysis fee in the amount of \$13,509 to cover the City's costs associated with the analysis of the application for TIF assistance.

### **Community Impact**

- Neighborhood Notification: The Jordan Area Community Council and the West Broadway Business and Area Coalition have issued letters of support dated June 10, 2013 and February 22, 2012, respectively.
- City Goals: Living Well: Minneapolis is safe and livable and has an active and connected way of life; One Minneapolis: Disparities are eliminated so all Minneapolis residents can participate and prosper.
- Comprehensive Plan: 3.3: Increase housing that is affordable to low and moderate income households; 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: The development will comply with any and all zoning requirements.

### **Supporting Information**

The development site is located at the northwest corner of the Penn Avenue North and West Broadway intersection in the Jordan neighborhood of north Minneapolis and is within two existing redevelopment projects – the West Broadway Redevelopment Project and the Penn Avenue North Redevelopment Project. The site consists of a total of nine individual parcels of land. The City of Minneapolis owns the parcels at 2413, 2423, 2425, 2503, 2507 and 2511 Penn Avenue North. The developer owns the parcels at 2220 West Broadway and 2419 Penn Avenue North. The developer further has a purchase agreement for the parcel at 2512 Queen Avenue North.

The developer is Lupe Development Partners (the fee developer) and Rose Development, LLC.

The development will consist of the new construction of 103 units of affordable workforce housing in three floors above 19,000 square feet of first floor commercial. The rental units will be affordable to households at or below 50% and 60% MMI. There will be up to 63 spaces of underground parking for the residential tenants and 29 shared surface parking stalls. The ground floor commercial space will include the relocated Broadway Liquor Outlet as the anchor commercial tenant and the remaining commercial space will be occupied by up to three additional tenants who have yet to be identified.

The project will include innovative storm water management features, public art, an integrated transit shelter, various green/sustainable elements, a variety of public pedestrian amenities, bike racks, underground parking and shared surface parking.

This development is a direct response to the 2011 tornado that destroyed this intersection and hundreds of homes in north Minneapolis. The Rose family lost their business in the 2011 tornado and rather than simply rebuild what was lost, they have stepped up to create a project that can act to transform this intersection and set the tone for future development in the area. This developer has been very amenable to working within the City's vision for this area and has in fact expanded the project at our request to create a bigger impact on the node.

The project will be dually owned. The commercial portion of the project will be owned by 2220 West Broadway, LLC with Rose Development, LLC as its sole member. The residential portion of the project will be owned by Broadway Flats, LLLP. Please refer to the attached graphic.

The developer has already issued a Request for Qualifications for the general contractor.

**Project Financing Overview**

The estimated total development cost of the project is approximately \$24,557,578, which includes approximately \$1.8 million for the commercial portion of the project. Developer equity in the project includes deferring a portion of the developer fees of approximately \$342,000. The developer has submitted an application to CPED staff for preliminary approval of Housing Revenue Entitlement Bonds which carries automatic 4% low income housing tax credits. The tax credits will generate approximately \$7,845,751 of syndication proceeds which is equity to the project. The developer is requesting the issuance of bonds in an amount not to exceed \$13 million in Series A and B bond releases. Preliminary estimates of the Series A Bond in the amount of \$11 million will be secured by a first mortgage on the property and credit enhanced by a HUD 221(d)(4) loan guarantee. The Series B bonds in the amount of approximately \$1.5 million will be secured by a TIF note and credit enhanced by a HUD 221(d)(4) loan guarantee. Staff will return to this Committee later this year with recommendations for the City land sale, HRB approvals and the final TIF Plan.

The developer has secured financing from the following sources to finance this development:

<b>Program</b>	<b>Amount</b>	<b>Source</b>
City Affordable Housing Trust Fund	\$1,050,000	City of Minneapolis
Met Council LCDA	\$1,536,100	Metropolitan Council
Met Council TBRA	\$463,900	Metropolitan Council
Deferred Developer Fee	\$341,627	Developer
Hennepin County AHIF	\$300,000	Hennepin County
Hennepin County TOD	<u>\$450,000</u>	Hennepin County
 Total Funds Committed	 \$4,141,627	

The developer has also applied to Metropolitan Council for an additional allocation of LCDA funding, and will also be seeking funds from Minnesota Housing and DEED. Those award announcements are forthcoming. If these funds are not realized, the developer will fill any gap with an increased deferred developer fee or an increase in the pricing for the syndication of the tax credits.

The total developer fee of \$1,657,000 falls within the CPED Housing Developer Fee Policy and is subject to further analysis before the amount is finalized. The Project Data Worksheet is attached as a reference with additional information.

**Proposed TIF Assistance**

The developer is requesting approximately \$1.5 million in Pay As You Go TIF assistance. This TIF is intended to assist with the construction of the building. As staff further analyzes the project and the request for TIF assistance, it will include review of the sources and uses of funds, justification for the use of tax increment, terms of the TIF and other sources, and

the eligibility of tax increment expenses. At this time, all development cost estimates are preliminary and subject to further review and refinement.

The site is currently vacant; the developer has already completed environmental remediation and demolition activities. If this Project Analysis Authorization (PAA) is approved by the City Council, staff will proceed into the project analysis stage to address 1) the appropriate level of tax increment financing assistance, if any, 2) eligible costs that can be paid for with the various forms of assistance, 3) the qualification and establishment of a housing TIF district, 4) appropriate sources of financing and 5) possible recapture of any City financial assistance.

This project is a key element of the City's commitment to north Minneapolis and is a vital component of the rebuilding of the Penn-Broadway node. The project embodies most, if not all, of the elements deemed desirable by the neighborhood and business association as well as being pivotal in terms of the types of development commonly seen in this area of Minneapolis. Located on a transit community corridor, the site is readily accessible to public transportation on Penn and West Broadway Avenues and has excellent access to both the near northern suburbs and the downtown core.

### **Project Timeline**

The proposed timeline is as follows:

- Upon approval of the TIF PAA in June 2014, proceed with TIF analysis, consideration of redevelopment contract terms and creation of a TIF district. (3 – 4 month process)
- Consideration of preliminary approval of HRB entitlement bonds in July 2014
- Consideration of the City Land Sale in November 2014
- Consideration of final approval of the TIF Plan in December 2014
- Project closing and construction start in February 2015
- Project completion in early spring 2016

### **Preliminary Staff Analysis**

Based on a preliminary review to date, staff concludes that a) the Application for Public Financial Assistance is essentially complete; b) the project appears feasible, based on the preliminary information that the developer has submitted; and c) some level of public financial assistance appears to be justified.

If Project Analysis Authorization is approved by the City Council, staff will proceed into the project analysis stage to address a number of issues, including 1) the appropriate level of tax increment financing assistance, if any; 2) eligible costs that can be paid for with the various forms of City finance assistance; 3) the qualification and establishment of a TIF district; 4) the appropriate financing vehicles that will be used to provide such assistance; and 5) the recapture of the City's financial assistance.

### **Project Analysis Fee**

Upon approval of the PAA by the City Council, the developer will be assessed a non-refundable project analysis fee of \$13,509. This fee is based on the estimated cost of staff time and other expenses associated with analysis of the project for approval or denial by the City Council. Acceptance and review of the application and the PAA fee does not signify a commitment on the part of the City to grant approval of any public assistance. If analysis of this project requires additional work or there are unforeseen complexities, the City at its discretion may charge an additional fee to the developer.