



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

Date: August 19, 2014

To: Council Member Lisa Goodman, Community Development Committee

Referral to:

Subject: **Marshall River Run (1448 Marshall St NE) – Authorization to Amend Existing City Financing Agreements**

Recommendation: It is recommended that the City Council authorize amendment and re-subordination of its Affordable Housing Trust Fund (AHTF) loan, extending maturity date, amending interest rate, and securing a 25% share of annual GP cash distributions to accommodate a HUD-insured 1st mortgage refinance and consent to assignment of the previously issued TIF Note to the new 1st mortgage lender – Oak Grove Commercial Mortgage, LLC.

Previous Directives:

On September 24, 2004, City Council approved final issuance of Multifamily Housing Revenue Notes (Marshall River Run Project) Series 2004 Multifamily Housing Development Bonds in an amount not to exceed \$7,600,000 under Resolution 2004R-428.

On July 23, 2004, City Council approved the Marshall River Run Tax Increment Financing Plan and Modification No. 3 to the Grain Belt Brewery Redevelopment Plan under Resolution 2004R-308.

On May 28, 2004, City Council approved \$850,000 in loan funds from the Affordable Housing Trust Fund.

Department Information

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

Approved by: Cathy Polasky, Director of Economic Development _____
Charles T. Lutz, CPED Deputy Director _____

Presenters in Committee: Scott Ehrenberg

Language Reviewed by Development Finance: _____

Financial Impact *(delete all lines not applicable to your request)*

- Loan Administration Fee of \$3,500 to be collected to offset staff costs in processing request.
- City will receive 25% share of any cash distributions made annually to the GP to be applied against accrued interest balance of City's deferred-payment, subordinate loan.

Community Impact

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

Supporting Information

Marshall River Run was the new construction of 74 units of affordable rental housing. Completed in 2005, the project provides a mix of one, two, and three bedroom units. The project is located at 1448 Marshall St NE in the Sheridan neighborhood. The project provides 55 units affordable at 60% AMI, 3 units affordable at 50% AMI, and an additional 16 units affordable at 30% AMI serving Section 8 households.

In support of the affordable units in the project, the City has an \$850,000 deferred-payment, subordinate AHTF loan secured by a mortgage in 2nd position on the project. The loan is currently made at 1% simple interest maturing 12/22/2034. The maturity date on this loan and its corresponding affordability requirements will be extended by 15 years to remain coterminous with the newly originated 1st mortgage. The interest rate on the City's loan will be recast at current applicable federal rate (AFR) of 3.06% and the City will receive a 25% share of annual Incentive Management Fee and Cash Distribution made to the general partner to pay down the accrued interest balance on the City's loan.

Marshall River Run's current 1st mortgage is made available through Multifamily Housing Revenue Bonds at an interest rate of 5.39% maturing on December 1, 2036. Annual debt service on the current 1st mortgage is \$509,304. Marshall River Run Limited Partnership has secured a HUD-insured FHA 223(F) loan commitment that will facilitate refinance of the project's 1st mortgage. The newly originated HUD-insured 1st mortgage is anticipated to have a 35-year term (maturing in 2049) and will take advantage of the current low interest rate environment, locking-in an anticipated 3.47% interest rate. The lower interest rate will result in annual debt service of \$324,494 – representing an annual savings to the project of approximately \$180,000.

Marshall River Run's balance sheet reflects accrued liabilities to the general partner of approximately \$350,000 as of December 31, 2013 – principally in the form of GP cash advances made by the general partner in ongoing support of the project. An additional GP advance of approximately \$140,000 is anticipated to be required to close on the proposed refinancing. Debt service savings as a result of this refinance will be utilized towards eliminating these accrued liabilities over the next several years. Cash distributions are anticipated to be available beginning in 2020 based on current projections at which point the City might reasonably anticipate to begin receiving its 25% share of annual GP cash distributions.

As a condition to providing the 1st mortgage insurance, HUD requires that the previous financing and regulatory agreements be subordinated to the lien, covenants and enforcement of the new financing. It is also anticipated that the 1st mortgage lender, Oak Grove, will require the City's consent to the assignment of the TIF Note. There will be no changes to the existing terms of the TIF Pay-as-you-go note. In accommodating this refinance, it is anticipated that the following amendments to existing City contracts will be required:

- Master Subordination Agreement
- HUD Amendment to the Bond Regulatory Agreement
- Loan Modification Agreement HOME Loan
- Subordination Agreement HOME Loan
- Amendment and Subordination HOME Regulatory Agreement
- Consent to Assignment of the TIF Note
- Amendment and Subordination of Declaration of Restrictive Covenants

This refinance will result in the early retirement of the Multifamily Housing Revenue Bonds though rental and occupancy restrictions will remain in place for the remaining term of the Bond Regulatory Agreement (through 2020) and the City will be required to assume rental and occupancy monitoring requirements previously performed by the Trustee. Marshall River Run is subject to active annual compliance monitoring as a result of the allocation of Low Income Housing Tax Credits. Tax credit monitoring is governed by a Declaration of Land Use Restrictive Covenants for Housing Tax Credits recorded against this property governing all 74 units of affordable housing. Annual tax credit compliance monitoring has occurred since 2007. There have been no compliance findings with regard to household income to date. Annual tax credit monitoring is scheduled to occur thru the entire tax credit compliance period expiring in the year 2035. Marshall River Run is further subject annual and ongoing compliance monitoring as a result of the City's HOME loan (through 2025). These monitoring efforts are sufficient to establish ongoing occupancy requirements for the remaining years of the Bond Regulatory Agreement.

TABLE A: Marshall River Run Project Refinancing Summary

<u>Financing Structure as of 12/31/2013</u>				<u>Financing Structure Post-Refi</u>			
<u>Amount</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Lender / Loan</u>	<u>Amount</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Lender / Loan</u>
\$6,595,198	5.39%	12/1/2036	US Bank	\$6,570,500	3.47%	9/1/2049	Oak Grove
\$850,000	1.00%	12/22/2034	City of Minneapolis – Deferred Payment HOME Loan	\$850,000	3.06%	9/1/2049	City of Minneapolis – Deferred Payment HOME Loan
\$350,000	1.00%	12/22/2034	Hennepin County HRA Deferred Payment Loan	\$350,000	1.00%	9/1/2049	Hennepin County HRA Deferred Payment Loan
\$200,000	0.00%	12/22/2034	FHF	\$200,000	0.00%	9/1/2049	FHF
\$7,995,198	Total			\$7,970,500	Total		

*Marshall River Run's 1st mortgage is supported by Net Operating Income (NOI) from the project and TIF proceeds in accordance with the pay-as-you-go TIF Note. It is anticipated that the new 1st mortgage lender, Oak Grove, will require the City's Consent to the assignment of the TIF Note to Oak Grove as a condition to issuing its 1st mortgage loan to the project.