



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

Date: June 9, 2015

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

**Subject:** Vantage Flats Apartments (5359 Minnehaha Ave) – Authorization to Amend Existing City Financing Agreements

**Recommendation:** It is recommended that, to accommodate a HUD-insured 1st mortgage refinance, the City Council authorize (1) amendment and re-subordination of the City’s Bond Regulatory Agreement, and (2) amendment and re-subordination of the City’s Affordable Housing Trust Fund (AHTF) loan, including an extension of the maturity date.

### Previous Directives:

On August 3, 2007, City Council approved final issuance of Multifamily Housing Revenue Bonds, Series 2007 (Vantage Flats Project) in an amount not to exceed \$3,915,000 under Resolution 2007R-376.

On July 20, 2007, City Council approved the Minnehaha Avenue Apartments Redevelopment Plan and a supplemental Affordable Housing Trust Fund award in an amount up to \$402,000 under Resolution 2007R-344.

On June 29, 2007, City Council approved preliminary issuance of Multifamily Housing Revenue Bonds, Series 2007 (Vantage Flats Project) in an amount not to exceed \$3,915,000 under Resolution 2007R-302.

On December 22, 2006, City Council approved Affordable Housing Trust Fund award in an amount up to \$1,104,000.

### Department Information

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

Approved by: D. Craig Taylor, CPED Director

Charles T. Lutz, CPED Deputy Director

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Presenters in Committee: Scott Ehrenberg

Language Reviewed by Development Finance:

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### Financial Impact

- Loan Administration Fee of \$3,000 to be collected to offset staff costs in processing request.

### Community Impact

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

## Supporting Information

The Vantage Flats (aka Minnehaha Apartments) project consisted of the new construction of 37 units of affordable rental housing. Completed in 2008, the project provides a mix of one, two, and three bedroom units. The project is located at 5359 Minnehaha Ave in the Minnehaha neighborhood of Ward 12. The project provides 14 units affordable at 60% AMI and 23 units affordable at 50% AMI.

In support of the affordable units in the project, the City has a \$1,506,000 deferred-payment, subordinate AHTF loan secured by a mortgage in 2<sup>nd</sup> position on the project. The loan is currently made at 1% simple interest maturing 11/1/2048. The maturity date on this loan and its corresponding affordability requirements will be extended by 7 years to remain coterminous with the newly originated 1<sup>st</sup> mortgage.

Vantage Flats' current 1<sup>st</sup> mortgage is made available through Multifamily Housing Revenue Bonds. The original principal amount of the loan was \$2,375,000. The loan has an interest rate of 5.81% and matures on October 1, 2048. Annual debt service on the current 1<sup>st</sup> mortgage is \$153,048.

MDI Limited Partnership #64, the limited partnership that owns Vantage Flats, has secured a HUD-insured 221(d)(4) loan commitment that will facilitate refinance of the project's 1<sup>st</sup> mortgage. The newly originated HUD-insured 1<sup>st</sup> mortgage is anticipated to have a 40-year term (maturing in 2055) and will take advantage of the current low interest rate environment, locking-in an anticipated 4.125% interest rate. The lower interest rate will result in annual debt service of \$121,094 – representing an annual savings to the project of approximately \$30,000.

Accommodating Vantage Flats' 1<sup>st</sup> mortgage refinance is expected to strengthen the overall financial operating strength of the project and produce 7 years of additional affordable housing.

Vantage Flats' balance sheet reflects a remaining deferred developer fee to the general partner of approximately \$608,000 as of December 31, 2014. The project's ability to retire the deferred portion of the developer fee has been significantly compromised by the project's struggle to produce sufficient cash flows. The debt service savings as a result of this refinance are anticipated to produce modest cash flows. Based on current projections, however, the deferred portion of the developer fee would remain on the balance sheet until approximately the year 2040.

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. In accommodating this refinance, it is anticipated that the following City contracts will be required, although additional documents may be required in order to accomplish the amendment and re-subordination:

- Amendment to Master Subordination Agreement
- HUD Amendment to the Bond Regulatory Agreement
- Loan Modification Agreement (HOME Loan)
- Subordination and Modification Agreement for HOME Loan
- Amendment and Subordination of HOME Regulatory Agreement

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 2023) and the City will be required to assume rental and occupancy monitoring requirements previously performed by the Trustee. Vantage Flats 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 37 units of affordable housing. Annual tax credit compliance monitoring has occurred since 2008. There have been no compliance findings with regard to household income to date. Annual tax credit monitoring is scheduled to occur through the entire tax credit compliance period expiring in the year 2038. Vantage Flats is further subject to annual and ongoing compliance monitoring as a result of the City's AHTF loan (through 2055). These monitoring efforts are sufficient to establish ongoing occupancy requirements for the remaining years of the Bond Regulatory Agreement.

**TABLE A: Vantage Flats Apts Project Refinancing Summary**

<u>Financing Structure as of 12/31/2014</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>
\$2,263,596	5.81%	10/1/2048	Dougherty HUD-insured 1 <sup>st</sup> mortgage	\$2,375,000	4.125%	10/1/2055	Dougherty HUD-insured 1 <sup>st</sup> mortgage
\$1,506,000	1.00%	11/1/2048	City of Minneapolis – Deferred Payment HOME Loan	\$1,506,000	1.00%	10/1/2055	City of Minneapolis – Deferred Payment HOME Loan
\$600,000	0%	12/1/2048	Family Housing Fund Deferred Payment Loan	\$600,000	0%	10/1/2055	Family Housing Fund Deferred Payment Loan
\$355,000	0%	3/1/2049	Minnesota Housing Deferred Payment Loan	\$355,000	0%	10/1/2055	Minnesota Housing Deferred Payment Loan
\$199,500	0%	12/1/2049	Hennepin County TOD Loan	\$199,500	0%	10/1/2055	Hennepin County TOD Loan
\$4,569,096	Total			\$4,680,500	Total		