

City of Minneapolis
Request for Committee Action

To: Community Development & Regulatory Services
Date: 10/13/2015
From: Community Planning & Economic Development
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Presented by: Shalaunda Holmes, Sr. Project Coordinator
File type: Action
Subcategory: Staff Direction

Subject:

Project Analysis Authorization (PAA) for The Wellington Condominium Project

Description:

Recommendation:

1. Authorize staff to continue analysis of The Wellington Condominiums Project (the “Project”) to determine if Housing Improvement Area (HIA) financing assistance is appropriate.
2. If further analysis concludes HIA assistance is appropriate, then CPED staff requests authorization to negotiate the terms and conditions of financing agreement with The Wellington Condominium Homeowners Association (the “Association”); and prepare the HIA ordinance, HIA resolution, bond resolutions, and other documents as needed. All such terms and conditions, resolutions, and other documents would be subject to further City Council review, discussion, and approval or denial.

Previous Actions:

No previous actions.

Ward/Neighborhood/Address:

Ward 7
Loring Park
1303, 1307 & 1311 Yale Place

Community Impact

- Neighborhood Notification – Neighborhood notification was not provided at this time. If PAA is granted, neighborhood notification will occur prior to the required HIA public hearing as part of the minimum notice requirements established by statute.

Background/Analysis:

The Wellington Condominiums was built as apartments in 1910 and converted to 24 condominium units in the 1980’s. It’s been apparent for years that the steel and concrete rear porch structure of the building has been significantly deteriorating, and the masonry facade of the building is in need of major repair work. The rear porch is a second means of egress for each condo unit, and is required by State fire code.

The Association hired Encompass Inc. an engineering firm that specializes in building envelope forensic work, to do an in depth evaluation of the porch structure and facade. Based on this assessment Encompass confirmed that the entire facade of the building needs to be restored and the rear porch needs to be reconstructed. Encompass also determined that the primary electrical system of the building requires replacement. Because of the extensive nature of the work, the Association does not have the necessary funds on hand to complete this work nor has it been able to obtain conventional financing for these improvements.

If this project is not undertaken, the engineers from Encompass have been clear that in the near future the rear porch will become structurally unsafe. If this is allowed to happen then all condo units will lose their second means of egress, the building would likely be condemned, and the current homeowners would lose their units.

HIA Financed Work

HIA financing would be used to:

- Reconstruct the porch structure on the back of the building including porch stairways.
- Restore the full façade of the building.
- Replace the primary electrical system of the building from the transformer to the main feed to each unit.

At the same time as the HIA financed work is underway; the Association would use replacement reserve funds that it has on hand to:

- Replace the parking lot, front sidewalks and steps.
- Repaint the masonry walls that surround the porches.
- Renovate the lower level of the building to make a reasonably positive impression on prospective unit buyers.

Project Timeline & Construction

Preliminary pricing was obtained from Morcon Construction and Hunerberg Construction in December 2014 and January 2015, respectively. The total project cost currently estimated to be approximately \$1.1M- 1.3M. Plans and specifications for bidding will be complete this year. The goal is to start construction by April 1, 2016 and to complete construction work by October 15, 2016.

Proposed Financing & HIA Assistance

This project is the third project to request HIA assistance from the City of Minneapolis. Of the two previous projects, one received HIA assistance (Calhoun Place Condominiums) and one did not. The Calhoun Place Project was completed on time and within budget. In this case the City provided HIA financing assistance through the issuance of general obligation bonds (G.O.) HIA bonds that were payable from HIA fees collected from condo unit owners over 19 years. These fees are very similar to special assessments that the City levies for public improvements (roads, sewer, water etc.)

The Wellington Condominium Project would initially be financed with a short term construction loan from Western Bank (as was the Calhoun Place Project).

Once the project is complete, the Western Bank loan would be paid off by the HIA financing provided by the City. The HIA financing would involve either of the following:

- 1) Issuance of 20-year general obligation HIA bonds.
- 2) Issuance of 20 year internal loan to the Association using available cash on hand.

Further analysis is needed to determine which approach staff would recommend.

The proposed Housing Improvement District payment of the city bonds or internal loan would be made and secured by at least the following:

1. HIA fees imposed upon participating homeowners (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.
2. The bonds or internal loan would be structured with at least 110% annual debt service coverage.
3. The Association would pledge all of its assets to cover any delinquent HIA fees.
4. The bond issue or internal loan would include a one year debt service reserve, which would be tapped if items 1-3 are insufficient.
5. Other security may be recommended by staff after further analysis.

PAA Request and HIA Preliminary Findings

Section II of the HIA Policy establishes seven goals of the HIA program. The primary public benefits of this project are to:

- Stabilize the property and enhancing its livability.
- Revitalize the housing stock.
- Stabilize the level of owner-occupied housing units within the neighborhood.
- Obtain FHA mortgage eligibility.

Section IV of the HIA Policy establishes seven minimum criteria as prerequisites to consider providing HIA financing. The project preliminarily appears to have the ability to meet each of these criteria upon further analysis if authorized.

Project Analysis Fee

The Association has paid a \$3,000 HIA application fee. If PAA is approved, then the Association will have to pay one half of a \$30,000 processing fee. If the HIA assistance is ultimately granted by the City Council, the Association will need to pay the other half of the processing fee at the time the City issues the bonds or internal loan. The Association may decide to include the processing fee in the bond issue or internal loan if desired.

Next Steps

If PAA is granted, the next steps include:

- Further analysis of the HIA application and a determination of the appropriate financing approach (bonds vs. internal loan).
- Draft the HIA ordinance materials for homeowners including the homeowner petition, project disclosure, summaries, HIA assessment methodology, and an explanation of the owners' rights.

- Draft terms of the HIA financing as the basis for a financing agreement between the City and the Association.

Financial Review:

No financial impact.

Attachments:

1. HIA Policy (approved February 11, 2011)
2. Project location Map