

City of Minneapolis
Request for Committee Action

To: Community Development & Regulatory Services
Date: 1/19/2016
Referral: N/A
From: Community Planning & Economic Development
Prepared by: Scott Ehrenberg
Presented by: Scott Ehrenberg
File type: Action
Subcategory:

Subject:

Shared Living Residence (3633 Chicago Ave) – Accommodation of Hennepin County Medical Center (HCMC) Property Acquisition.

Description:

Authorizing the accommodation of HCMC's acquisition of a 10-unit assisted living facility located at 3633 Chicago Ave. HCMC would reprogram the use of the facility as a fully-licensed psychiatric outpatient transitional health care facility. The City would receive full repayment of its NRP and HOME loans. HOME loan proceeds would be recaptured by HUD and returned to the City's HOME line of credit for affordable housing reinvestment.

Previous Actions:

On July 16, 1999, City Council authorized MCDA Board of Commissioners recommendation to approve the acquisition and debt assumption of 3633 Chicago from Powderhorn Community Council (PCC) to Becklund Home Health Care, Inc. under MCDA Document No. 99-178M.

On April 12, 1996, City Council authorized MCDA Board of Commissioners recommendation to approve the land sale of 3633 Chicago to Powderhorn Community Council, provide additional \$32,150 HOME Program loan amount from the Multi-Family Rental and Cooperative Housing Development Program, and \$200,000 Hennepin County NRP loan under MCDA Document No. 96-82M and Council Resolution No. 96-1456M.

On November 22, 1995, City Council authorized MCDA Board of Commissioners recommendation to provide \$112,000 HOME Program loan amount from the Multi-Family Rental and Cooperative Housing Development Program to Powderhorn Community Council in support of the proposed new construction of Shared Living Residence to be located at 3633 Chicago Ave under MCDA Document No. 95-344M.

Ward/Address:



Ward 9
3633 Chicago Ave

Background/Analysis:

Shared Living Residence (aka Brown Krause) is a 10-unit assisted-living facility located at 3633 Chicago Ave in the Powderhorn Park neighborhood of Ward 9. Each unit consists of a single bedroom/bathroom with communal dining and living facilities. The property was newly constructed in 1997 and originally developed by Powderhorn Community Council (PCC) as senior housing.

In 1999, MCDA and the City Council approved the acquisition and assumption of existing debt on the property from PCC to Becklund Home Health Care, Inc. for use as an assisted-living facility serving disabled individuals. In 2001, Becklund was acquired by Intrepid USA, a home healthcare services corporation based in Dallas, TX.

In support of the original development, the City has two loans secured by mortgages on the property: 1.) \$200,000 Hennepin County NRP loan and 2.) \$144,150 HOME program loan. Both loans are deferred-payment loans made at 1% simple interest and maturing 8/27/2026.

As a result of the HOME program loan there is a HOME Regulatory Agreement in place establishing rent and income restrictions on the facility throughout the entire 20-year affordability period required by HOME program federal rules. The 20-year affordability period on the HOME Regulatory Agreement expires 8/5/2019.

HCMC and Intrepid USA entered into a purchase agreement in August, 2015. HCMC plans to use the facility as a fully-licensed psychiatric outpatient transitional health care facility subject to Department of Human Services (DHS) state licensing requirements. HCMC's planned acquisition and proposed use is supported by the neighborhood (see Attachment 1: Neighborhood Support Letter). It has been determined however that HCMC's planned use as a transitional health care facility is not in conformance with federal HOME program requirements administered by HUD and contained in the HOME Regulatory Agreement.

The sale of the property has been on hold since August while the City and HCMC consulted with HUD on possible resolutions that might accommodate HCMC's acquisition and use of the facility. It has been determined that the City may accommodate HCMC's acquisition and planned use of the facility but the HOME program rent and income restrictions would not apply to the use of the facility by HCMC. Accordingly, the original \$144,150 HOME loan would be subject to recapture by HUD as the transaction is occurring prior to the expiration of the affordability period required of the HOME Program. HUD has represented to the City that the recapture would be returned to the City's HOME program line of credit to be committed to a future HOME project.

In accommodating the sale of 3633 Chicago to HCMC, the City will receive full repayment of all outstanding principal and interest on its two loans. The payment of principal and interest to the City will be in excess of \$400,000. Of that amount, \$144,150 will be subject to HUD recapture and returned to the City's HOME program line of credit.

Accommodation of the project would result in the loss of affordable housing in the project for the remainder of the affordability period. However, the property has been completely vacant since November and Intrepid USA has indicated that it may not be possible to return the project to full occupancy. The City's remedies under the loan documents (including foreclosure) are likely to take a long period of time to resolve, which would consume a large portion of the remaining 3.5 years of affordability. Furthermore, such remedies would likely result in the City recovering less than the full amount of its loans.

CPED staff strongly believes that accommodating the sale to HCMC represents the best outcome both financially and in terms of retaining affordable housing. Accommodating the sale will result in the City's loans being paid in full. Furthermore, the \$144,150 HOME loan will be returned to the City's HOME line of credit and will be available for future affordable housing projects.

Financial Review:

No additional appropriation required, amount included in current budget.

Future budget impact anticipated.

City to receive payment in excess of \$400,000 in full satisfaction of two City loans.

\$144,150 HOME loan will be subject to HUD recapture to be repaid to City HOME line of credit.

\$200,000 NRP Loan will be deposited to the City's NRP account FUND 01CNR.

3633 Chicago anticipated to be removed from property tax roll due to ownership change.

Approved by the Permanent Review Committee.

Meets Small and Underutilized Business Program goals.

Attachments:

1. Neighborhood Support Letter