

City of Minneapolis
Request for Committee Action

To: Community Development & Regulatory Services
Date: 3/1/2016
Referral: N/A
From: Community Planning & Economic Development
Prepared by: Shalaunda Holmes, Senior Project Coordinator
Presented by: Shalaunda Holmes, Senior Project Coordinator
File type: Action
Subcategory: Contracts & Agreements

Subject:

Plymouth Stevens House – Public Hearing for Preliminary Approval to issue up to \$17,500,000 in Tax Exempt Multifamily Housing Revenue Entitlement Bonds

Description:

Adopting the attached resolution giving preliminary approval to issue up to \$17,500,000 in Tax Exempt Multifamily Housing Revenue Entitlement Bonds

Previous Actions:

On February 11, 2011 Council approved recommendation to extend the term of the existing \$519,000 loan to Stevens House Cooperative for 30 years from the original 2002 maturity date, maturing March 11, 2032 and reducing the interest rate from 5% to 0% retroactive to the beginning of the original loan term and requiring annual payments equal to 25% of the projects annual net cash flow.

On October 31, 2014 Council approved recommendation of 2014 Affordable Housing Trust Funds in the amount of \$1,250,000 and authorized City officers to execute the necessary documents for the loan.

On November 6, 2015 Council approved recommendation of 2015 Affordable Housing Trust Funds in the amount of \$1,050,000 and authorized City officers to execute the necessary documents for the loan.

Ward/Address:

Ward 5
1500 Plymouth Ave & Ward 10 2625 Stevens Ave South

Background/Analysis:

Community Impact

Neighborhood Notification: Both neighborhoods have been notified of the renovation as well as the refinancing. Over the past 2 years the developer has met with the appropriate committees and boards for support of the project. The developer has obtained a letter of support from the Northside Redevelopment Council contingent upon terms and conditions of their Community Benefits Agreement (CBA) which the owner has accepted.

The Whittier neighborhood organization provided a letter that their Community Issues Committee moved to deny support for the Stevens House request specifically for funding of the Affordable Housing Trust Funds based on the extension of the affordability covenant.

The Plymouth Stevens House Project is consistent with the City's Comprehensive Plan. Preservation and rehabilitation of affordable multifamily housing at this location furthers the following policies of *The Minneapolis Plan for Sustainable Growth*:

Housing Policy 3.2: Support housing density in locations that are well connected by transit, and are close to commercial, cultural and natural amenities.

Housing Policy 3.4: Preserve and increase the supply of safe, stable, and affordable supportive housing opportunities for homeless youth, singles and families.

Housing Policy 3.7: Maintain the quality, safety, and unique character of the city's housing stock.

Supporting Information

The Plymouth Stevens House project will include the acquisition and substantial renovation of two scattered site properties: the Plymouth Avenue Townhomes/Apartments and the Stevens House apartment complex.

The Plymouth Avenue Townhomes (PAT) was built in 1974 in the Near North neighborhood of North Minneapolis. The scattered site development includes 11 buildings that provide 140 units of affordable housing. The unit mix is comprised of 45 one-bedroom units, 67 two-bedroom units, and 24 three-bedroom units, which all receive project-based Section 8 rental subsidy, the remaining four one-bedroom units have no rent restrictions. After closing, these four units will be subject to income restrictions of 60% of the Area Median Income (AMI). The new ownership has applied to preserve and extend the Section 8 Housing Assistance Payment (HAP) contract. The PAT scattered site properties are located at 1405, 1414, 1500, 1501, 1516, 1611, 1701, and 1815 Plymouth Avenue North, in addition to 1300 Irving Avenue North.

The second component of the project includes the Stevens House (SH) apartment complex located at 2625 Stevens Avenue South, built in 1971 in the Whittier neighborhood of South Minneapolis. Stevens House (SH) provides 67 units of affordable housing in a single, 3-story apartment building. The unit mix is comprised of 6 one-bedroom units, 47 two-bedroom units, and 5 three-bedroom units, which all receive project-based Section 8 rental subsidy. The remaining 9 efficiency units carry no rent restrictions; after the current financing closes, these units will be subject to income restrictions of 60% of AMI. The Section 8 HAP contract expires 2033 and will be preserved and extended by the new ownership.

The project provides quality affordable housing and human services to low-income individuals and families, elderly, immigrant populations, physically and mentally disabled, and the homeless. Twenty-one units will be set aside for those suffering from long-term homelessness, ten for individuals and eleven for households with children. Case management and support services will be provided by Lutheran Social Service of MN. The populations referenced will continue to be served by this development.

This will be an occupied rehab; however a temporary relocation plan is required. Premier Management is the property management agent for the Owner and as such, has the primary responsibility to implement a relocation policy that meets the Universal Relocation Act (URA). The City has received and approved the temporary relocation plan submitted for the project. A voluntary permanent relocation benefits package will be offered to tenants who may be found over income. The benefits package will be per the URA process and benefits guidelines. It is estimated that there are a total of 6 units that are over income (3 at PAT and 3 at SH). Income certifications are underway and the actual count of units over income will be documented. No tenant will be involuntarily displaced.

Project Financing

The total development cost of this proposal is \$32,423,266 (or \$156,634/unit). The project will be fully funded after final approval of the requested bond allocation. Please refer to the attached Project Data Worksheet for information on project sources and uses of funds. Other City funding in this project includes \$2.3 million dollars of Affordable Housing Trust Funds (AHTF) from 2014 and 2015 funding rounds.

The developer has committed to repay \$692,620 of existing City debt and accrued interest. All interest will be paid on existing debt accrued until closing. The assumable debts include one CPED outstanding mortgage totaling \$228,000 on PAT and will be assumed by the new ownership Plymouth Stevens House Limited Partnership. The table below summarizes the loan assumption and repayment.

Lender (Property)	Original Loan Amount	Unpaid Balance	Accrued Interest to be Paid
CPED Mortgage (Stevens House)	\$ 507,000	\$ 466,000	\$ -
CPED Mortgage (PAT)	\$ 228,000	\$ 228,000	\$ 48,030
CPED NRP (PAT)	\$ 150,000	\$ 150,000	\$ 28,590
Total Existing to be Assumed by new LP		\$ 228,000	
Total Existing to be Paid-Off at Closing		\$ 616,000	\$ 76,620
Total of Existing Debt	\$ 885,000	\$ 844,000	
TOTAL TO BE PAID OFF AT CLOSING BY SELLER		\$ 692,620	
*2015 Year End Interest Accrued			

The developer has submitted an application to CPED staff for Tax Exempt Housing Revenue Entitlement Bonds for the 2016 year. The entitlement bonds come with automatic 4% tax credits which are equity to the project and an additional source of funds of approximately \$9,757,400. The developer has anticipated a bond request for the last 2 years and will be the final financing needed to move towards a financial closing this year.

Tax Exempt Housing Revenue Bond

The developer is requesting preliminary bond approval for the issuance of up to \$17,500,000 in tax exempt multi-family housing entitlement revenue bonds. Staff anticipates this project will close by June 2016. The developer is requesting the issuance of bonds in the amount of \$17.5 million in Series A and B releases. Preliminary estimates of the Series A (NOI supported bonds) in the amount of \$11,400,000 will be secured by a HUD first mortgage on the property. The Series B in the amount of \$5,345,000 will be secured by Marv Kotek, David Dye and Richard Hutsell as individuals. The series B bonds will be repaid by tax credit equity upon completion of the project.

The current status of the HRB Entitlement allocation is shown below.

Allocation	Amount
2015 Entitlement Allocation Remaining	\$10,534,464
2016 Entitlement Allocation	\$49,381,909
Total Available Allocation	\$59,916,373
Current Projects Approved	Amount
Plymouth Stevens	\$17,500,000

Balance Available for Other Projects	\$42,416,373
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Company and Borrower

Plymouth Stevens House Limited Partnership is a single asset entity, proposes to acquire and renovate the Plymouth Avenue Townhomes and Stevens House properties. The General Partners will include Affordable Homes for All (51% ownership), a Minnesota non-profit organization, and MDR Real Estate Holdings, LLC (49% ownership).

Affordable Homes for All (AHFA) was created in 2010 and is the principal sponsor and lead of the development team. They will drive all decision making aspects, including financial, construction and management. The mission of AHFA, a Minnesota 501 c 3 non-profit organization, is to build and preserve affordable housing. AHFA was created to respond to the growing need for quality affordable housing for families, individuals, (including work-force housing), and for the elderly and handicapped. The founder and president, Joe Holmberg, was the President of CommonBond Housing for 17 years. He led efforts to create and preserve over 5,000 units of affordable housing. AHFA has six projects and 609 units in its portfolio. Their work has mainly been based in the Twin Cities Metro Area, but they have also done work in Winona, MN and Gary, IN.

MDR Real Estate Holdings, LLC is a newly formed for-profit development company, whose principals are Marv Kotek (50.01%), David Dye (24.995%), and Richard Hutsell (24.995%). Mr. Kotek is the principal and co-founder of Everwood Company and has over 40 years of experience in the construction industry as co-founder of Frerichs Construction Company. Mr. Dye is also the principal and co-founder of Everwood Company and focuses on the financial aspects of acquisition and development of real estate in the Upper Midwest. Mr. Hutsell is the President of Premier Management and has more than 20-years’ experience in multi-family housing management, including 14 years as Vice President of Property Management of CommonBond Housing and Vice President of CommonBond Investment Corporation. All three individuals bring over 80 years of experience in affordable housing in complementary subject areas: construction, property management, and financing of affordable housing.

Anticipated Project Timeline

HUD Mortgage Application Approval	March 2016
Final Bond Approval	March 2016
Project Closing	April 2016
Construction Start	June 2016
Construction Completion	December 2016

Bond Purchaser/Underwriter	Dougherty & Company LLC
Tax Credit Equity Investor	City Real Estate Advisors, Inc.
Bond Counsel	Kennedy & Graven, Chartered
Council Member	Blong Yang (Ward 5) & Lisa Bender (Ward 10)

Financial Review:

No additional appropriation required, amount included in current budget.

Future budget impact anticipated.

Project will generate semi-annual administrative fees.

Approved by the Permanent Review Committee.

Meets Small and Underutilized Business Program goals.

Attachments:

1. Project Data Worksheet
2. Map of Development Sites
3. Preliminary Bond Resolution