City of Minneapolis

Request for Committee Action

To: Community Development & Regulatory Services
Date: 4/19/2016
Referral: N/A
From: Residential Finance
Prepared by: Dollie Crowther Ext. 5263.
Presented by: Dollie Crowther
File type: Action
Subcategory: Loan

Subject:
Request for City debt modification for the PRG Portfolio 2 Project by CommonBond (CB) Communities, Inc., Scattered site locations in South Minneapolis.

Description
Authorizing CommonBond Communities, Inc. request to forgive principal and accrued interest, approve interest rate reduction and extension of maturity dates for 30 years to be co-terminus with new, approved AHTF debt.

Previous Actions:
Between the years 1983 to 2005, the City Council approved funds from the Multi-family Rental and Cooperative Housing Program and the AHTF Program for several scattered site PRG projects totaling $3,003,078.

In September 2015, The City Council approved $728,210 of Affordable Housing Trust Funds (AHTF) for the PRG Portfolio II Project.

Ward/Address:

Address	Ward	Neighborhood
2201 13th Ave South	6	Ventura Village
2730 Portland Avenue South	6	Phillips West
2733 Portland Avenue South	6	Phillips West
3439 15th Avenue South	9	Powderhorn Park
516 28th Street East	6	Phillips West

Background/Analysis:

The proposed funding activity includes the rehabilitation and preservation of the PRG Portfolio II project, a 49 unit affordable housing scattered site rental development in south Minneapolis. The units are located in the Powderhorrn Park Neighborhood (Ward 9) and the Ventura Village Neighborhood (Ward 6). CommonBond (CB) acquired control over these properties in 2007 under various ownership entities in order to preserve this portfolio as affordable housing. The owner at the time, Powderhorn Residents Group (PRG), could no longer finance operating deficits or manage the property. CB, with a request from the City of Minneapolis, took over management of the properties as well as assumed the current debt. CB has since stabilized the properties, retaining the tenant base, completing critical rehabilitation items and developed a plan to ensure affordability. The properties provide critically needed quality, affordable housing for very low income, large families. There are 3 and 4 bedroom units. There are 49 scattered site units across 4 properties. The units represent walk-ups, a 5 unit apartment and 16 townhomes across 3 buildings.

Originally, PRG represented 91 units of affordable housing. It was listed on the Interagency Stabilization Group (ISG) for many years as a project that required extensive stabilization/preservation funding. In a previous RFP round, the project could not rank for 9% tax credits with the MHFA or the City. It was not considered competitive. It was suggested by staff that the 91 units be separated into 2 projects. The State was able to fund one of the projects under its preservation guidelines and the City found the project to be competitive for 9% tax credit funding.

These properties have aging mechanical systems as well as units and grounds that are in need of substantial rehabilitation. Due to the extensive debt and the major rehab that is needed, the ISG at one point suggested the possibility of demolition of some of the units. Lack of energy efficiency and deteriorating interior and exterior finishes are also contributing to higher costs. The proposed rehabilitation includes a variety of energy saving elements as well as the improvement of unit finishes including new kitchens, baths, new roofs, windows, etc. The project will continue to serve large families.

AHTF's in the amount of $728,210 and Low Income Housing Tax Credits were approved from the State for this project. The tax credits represent approximately $6.5M in equity to the project. The project will be ready to close this summer after the debt restructuring is finalized with the City.

PRG received several loans from the City between 1983 and 2005 which resulted in a cumulative principal loan balance of $3,003,078. The interest rate ranged between 0% and 5% and with the accrued interest on these loans, the total debt is $3,791.397 as of December 31, 2014. CB has requested the City forgive approximately $2,836,467 of this debt and continue with a principal balance of $954,930. To validate the debt forgiveness, MHFA commissioned an As Is appraisal on only 2 of the properties. This was allowed because to appraise 15 properties (PRG I, II) was not financially feasible. MHFA felt the 2 appraisals would substantiate the fair market value of the deal and the appraisals would be used as a proxy for the other properties because they are all scattered site duplexes, fourplexes and represent the same type of rehabilitation issues. All the loans will be consolidated and cross collateralized between the various properties with new borrowers. Below is a chart of the current debt and the proposed debt:

Current Debt – PRG 2

Property	Lender	Principal	Interest	Total	Rate	Maturity
Multiple	City of Minneapolis	$ 3,003,078	$ 788,319	$ 3,791,397	0-5%	various
Multiple	FHF	$ 357,000	$ 496,247	$ 853,247	0-6.61%	various
Multiple	MHFA	$ 374,000	$ 17,035	$ 391,331	0-1%	various
Multiple	CommonBond	$ 42,898	$ 7,285	$ 50,183	4.21%	various
		$ 3,777,272	$1,308,886	$ 5,086,158		

Proposed Debt – PRG 2						
Property	**Lender**	**Principal**	**Interest**	**Total**	**Rate**	**Maturity**
Multiple	City of Minneapolis	$ 954,930	$ -	$ 954,930	0%	12/31/2046
Multiple	FHF	$ 357,000	$ -	$ 357,000	0%	12/31/2046
Multiple	MHFA	$ 295,000	$ -	$ 295,000	0%	12/31/2046
Multiple	CommonBond	$ -	$ -	$ -	0%	12/31/2046
Multiple	Seller Note	$ 735,000	$ -	$ 735,000	AFR	
		$ 2,341,930	$ -	$ 2,341,930		

As noted on the chart above, MHFA and the Family Housing Fund (FHF) have also agreed to forgive outstanding principal and all of their interest on their loans. A partnership among lenders is required to proceed with the completion of this project. The acquisition cost also includes a Seller Note of $735,000. This Seller Note is considered permanent financing and is required when the value per unit exceeds the restructured debt. CB cannot convey the properties to the tax credit partnership below the FMV without providing income to the partnership. Therefore, the net value will be put back into the project as a Note. With the remaining assumed debt from all the lenders, the principal balance will be approximately $2.3M. CB has also requested that the outstanding debt be cast at 0% on the loan and extend the term for 30 years, consistent with the new debt. CB is working with NEF and Enterprise to choose their tax credit syndicator.

Financial Review:

No additional appropriation required, amount included in current budget.

The report recommends forgiving principal of $2,836,467 and interest amount to be forgiven will be determined at the time the project is refinanced. The term will be extended for 30 years. The debt will be set at 0%.

Attachments:

1. Project Data Worksheet