

City of Minneapolis

Request for Committee Action

To: Community Development & Regulatory Services
Date: 6/7/2016
Referral: N/A
From: Community Planning & Economic Development
Lead Staff: Tiffany Glasper, Sr. Project Coordinator – Residential Finance, (612) 673-5221
Presented by: Tiffany Glasper, Sr. Project Coordinator – Residential Finance
File Type: Resolution
Subcategory: Bond

Subject:

Approving revised structure for Tax Exempt Multi-Family Housing Entitlement Revenue Bonds for the Hawthorne EcoVillage Apartments affordable housing project

Description:

Passing resolution giving final approval for up to \$6.8 million in Tax Exempt Multi-Family Housing Entitlement Revenue Bonds

Previous Actions:

- April 26, 2013 – City Council approved exclusive development rights for 12 months with the option for a 6-month administrative extension for Project for Pride in Living on five City-owned parcels located at 617 Lowry Avenue North, 3110 and 3116 Lyndale Avenue North and 3113 and 3117 6th Street North.
 - October 18, 2013 – City Council approved an Affordable Housing Trust Fund award in an amount up to \$1,875,000 for the Hawthorne EcoVillage Apartments affordable housing project.
 - October 31, 2014 – City Council approved a 24-month extension of the exclusive development rights on five City-owned parcels located at 617 Lowry Avenue North, 3110 and 3116 Lyndale Avenue North and 3113 and 3117 6th Street North.
 - December 11, 2015 – City Council approved Preliminary Analysis Authorization for the subject Tax Increment Financing Plan (15-01475).
 - April 15, 2016 – City Council approved Tax Exempt Multi-Family Housing Entitlement Revenue Bonds in an amount not to exceed \$6.8 million (16-00459).
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Ward/Address:

Ward 5
617 Lowry Avenue North, 3110 Lyndale Avenue North, 3116 Lyndale Avenue North, 3113 6th Street North and 3117 6th Street North

Background/Analysis:

Project for Pride in Living is proposing to purchase five City owned parcels located on the southwest corner of Lyndale and Lowry in the Hawthorne neighborhood of north Minneapolis. The proposed redevelopment project consists of 75 units of affordable housing. 71 units will be in a four story building fronting Lowry and Lyndale Avenues and an additional four units will be located in two separate townhouse structures. The project will be 100 percent affordable to households at or below 50 percent of Area Median Income (AMI) with four units set aside to

serve homeless or formerly homeless households. The project will also include up to 70 spaces of underground parking, on-site property management, a community room, an exercise room, in-unit laundry facilities, dishwashers and bicycle storage. Site amenities will include an outdoor play area, public art and a variety of other public pedestrian amenities.

The total development costs for the project are estimated at \$17.6 million. Please refer to the attached Project Data Worksheet for additional details on the financing structure.

Staff was recently advised that HUD has adopted a new policy whereby the traditional bond structure approved by the City Council at its April 15, 2016 meeting (16-00459) no longer works. Typically, multifamily housing entitlement bond deals have been structured as a loan to the property owner (typically a limited partnership). The limited partnership agrees to repay the loan and provides a guarantee from its parent company. The financing is subordinate to a HUD-insured mortgage loan. HUD, however, has adopted new rules that require all bridge loan documents entered into by the HUD mortgage borrower to terminate in the event that the HUD loan is foreclosed. The new HUD rule makes the traditional structure infeasible, because the parent company guarantee would terminate along with the bridge loan documents and the lending bank requires the guarantee in order to make the bridge loan.

For a workable alternative in this transaction, bridge loan financing will be provided to the partnership's general partner, rather than directly to the property owning limited partner. The general partner will then loan the proceeds to the limited partnership. Because the bridge loan is provided to the general partner rather than the limited partnership, the bridge loan documents should not terminate at a foreclosure, giving the lending bank the guarantee that it requires to make the bridge loan.

In the bond deal for this project, the bridge loan agreement will be between the City of Minneapolis and PPL Hawthorne EcoVillage, LLC, the managing general partner of the project owner. The City will assign the bridge loan agreement to the lender, Associated Bank. In addition, the City will enter into a bond compliance agreement directly with the project owner, Hawthorne EcoVillage Limited Partnership, with respect to certain City requirements.

Financial Review:

Select financial statement.

- Future budget impact anticipated.**
- Approved by the Permanent Review Committee.**
- Meets Small and Underutilized Business Program goals.**

Attachments:

1. Resolution