

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: Carrie Flack, Multifamily Finance Specialist
Presented by: Carrie Flack, Multifamily Finance Specialist, 673-5240
File Type: Action
Subcategory: Loan

Subject:

2016 Affordable Housing Trust Fund Pipeline Project Recommendation

Description:

Approving up to \$900,000 from the Affordable Housing Trust Fund (AHTF) subject to the availability of funding at project closing and authorizing the execution of the necessary documents for the loan noted below.

1. A loan up to \$900,000 from the AHTF for the Aeon Prospect Park project located at 3001 4th Street SE by Aeon, or an affiliated entity.

Previous Actions:

None

Ward/Address:

Ward 2
3001 4th Street SE

Background/Analysis:

In May 2003, the City Council combined previously separate multifamily affordable housing funding programs into the Affordable Housing Trust Fund (AHTF) to assist in the financing of the production and preservation/stabilization of affordable and mixed-income rental housing projects in Minneapolis. The AHTF Program assists with providing decent, safe and affordable housing opportunities, assists with community revitalization and blight removal; supports tax base enhancement, job creation, and increasing density along critical corridors. AHTF Program administration is guided by the Minneapolis Plan, the Unified Housing Policy and the HUD Consolidated Plan for Housing and Community Development.

For more detailed information on previous CPED's multifamily affordable housing production, please see the Multifamily Quarterly Reports posted here:

http://www.ci.minneapolis.mn.us/cped/resources/reports/cped_multifamily_quarterly_reports

and the Affordable Housing Annual Reports available here:

http://www.ci.minneapolis.mn.us/cped/resources/reports/cped_affordable_housing_annual_reports

The AHTF awards are structured as a loan with a note and mortgage. The maximum amount of AHTF that can be provided to a project is \$25,000 per affordable unit (affordable to households with incomes at or below 50% of Metropolitan Area Median Income (AMI)) or 15% of the Total Development Cost (less reserves), whichever is less. All housing developments receiving AHTF

subsidy must make at least 20% of their units affordable to people earning 50% or less of AMI. In 2015, 50% of AMI for a family of four is \$43,300.

The AHTF has three funding sources: Local funds, federal Community Development Block Grant (CDBG) funds, and federal HOME Investment Partnership Program funds. CDBG and HOME have differing policy objectives and differing restrictions on where and how those funds can be used in housing projects.

AHTF Application Evaluation Summary

The AHTF Program has established selection criteria used to review and score the proposals. There are two point thresholds that a project must meet to be evaluated for funding. First, a project must meet the “Minimum Point Threshold” of at least 20 points combined in two selection criteria: “Financial Soundness and Management” and “Economic Integration.” A project must also meet the “Total Point Threshold,” which means a project must receive a minimum of 85 points in all selection criteria. In addition, a project must have complete site control.

Attachment 1 shows the minority and poverty impacted areas and the non-impacted areas of the City of Minneapolis. A poverty-impacted (concentrated) census tract is defined as a census tract with a percent of persons greater than or equal to 45.4% in poverty as further described in the Consolidated Plan. A minority impacted area is a census tract that has a minority population of at least 50%. There are two sets of selection criteria, one for projects located in poverty impacted areas of the City, and another set for projects located in poverty non-impacted areas of the City. The selection criteria for 2015 do not address minority impacted areas.

The impacted and non-impacted scoring criteria are designed to promote economic integration:

1. Projects in impacted areas that rehabilitate housing projects receive 10 points whereas projects in non-impacted areas that involve new construction receive 10 points.
2. Projects located in non-impacted areas with a higher number of affordable units score higher and projects located in impacted areas with a lower number of affordable units score higher.

Staff evaluates the proposals including financial underwriting, determining the project’s conformance to the AHTF selection criteria, analyzing the scopes of work, coordinating with other funders, considering support services plan, and additional criteria described in the RFP. Attachment 2 has the project data worksheet with more detailed information on the recommended project that is summarized below.

On September 24, 2015, the Development Finance Committee (DFC) reviewed the AHTF funding recommendation for this project and discussed the project’s proposed financing structure and the overall capacity of the developer. DFC actions and comments are included as Attachment 3.

AHTF Funding Recommendation

At the conclusion of the 2015 AHTF funding round, there was approximately \$1,000,000 leftover in available AHTF funding. It was determined that this would be awarded in a subsequent AHTF round and/or available on a pipeline basis to be awarded by the City Council. Two projects that applied, but did not receive funding in the 2015 round were asked to submit revised applications: 1. Madison Apartments, and 2. Aeon Prospect Park. Only Aeon Prospect Park submitted a revised application and worked with staff to meet the standards and qualifications of the AHTF program as well as provide additional requested information.

Below is a summary of the project that is being recommended for funding.

1. **Aeon Prospect Park – Ward 2 – Prospect Park – Revised Score 141 down from original 143. Points lost due to reduced level of support services, points gained for ratio of 3 BR units/family housing, and points lost for ratio of long-term homeless units. The**

revised score of 141 ranked this project the second highest out of the 2015 competitive round of proposals.

3001 4th Street SE

- a) 70 units (45 @ 50% AMI or lower) of new construction
- b) Financing structure: 9% LIHTC, public deferred loans, and grants
- c) Policy alignment and public benefit summary: Mixed income family units along with long term homeless units
- d) The project did not score competitively enough for the 2015 9% LIHTC allocation. The applicant plans to reapply for the 2016 9% LIHTC allocation. The project reduced their total development project cost per unit from \$272,050 to \$249,870. The project will have 53 two and three bedroom units to serve larger families, of which 7 units will be geared towards long term homelessness; 7 two bedroom market rate units; and the remaining 10 units are one bedroom.

Timely Completion Conditions and Rescission of Awards

The AHTF policies in the RFP require timely completion of projects within the context of the established funding cycles of the other funders such as MHFA. The AHTF project awards are reserved for fifteen (15) months from the City Council approval date. The developer must submit monthly progress reports describing incremental project financing and development achievements. At the end of fifteen months, if the developer can demonstrate that at least one-third of the total development funds have been raised; and can provide evidence that the balance of the development money is likely to be raised; and can provide evidence that a closing will occur within the next twelve months, the funding reservation may be administratively extended for an additional twelve (12) month period. Projects unable to meet the timelines may have their awards rescinded. Projects receiving a supplemental AHTF award are held to the timely completion conditions from the year of the first AHTF award for that project, which means that receiving a supplemental AHTF award does not extend the 27 month timeframe in which the project should be fully financed.

AHTF Repayment and Recapture Terms

The AHTF funds are typically provided as a deferred payment loan with a 30 to 40 year term with 0% to 1% simple interest. Additionally, the City seeks to recapture a percentage of net cash flow in mixed income projects, where possible, pursuant to CPED's approved policy guidelines.

AHTF Application and Loan Origination Fees

In May 2011, the City Council approved the collection of a \$1,000 application fee for each AHTF proposal and a one percent (1%) loan origination fee for each AHTF project. The loan origination fee for the recommended projects will be collected at project closing, except for projects with HOME funding because HUD prohibits collecting an origination fee with HOME funds.

Financial Review:

No additional appropriation required, amount included in current budget.

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

Attachments:

1. Attachment 1 – Minority and Poverty Concentration and Non-Concentration Areas
2. Attachment 2 – Project Data Worksheet
3. Attachment 3 – Development Finance Committee Recommendations