

Request for City Council Committee Action from the Department of Community Planning and Economic Development - CPED

Date: August 18, 2009

To: Council Member Lisa Goodman, Chair, Community Development Committee

Subject: PPL Northside Recap Project – Project for Pride in Living

Recommendation: Approve forgiveness of existing project debt totaling \$4,268,477 and authorize staff to execute the necessary documents

Previous Directives: On December 7, 2007, the City Council approved an Affordable Housing Trust Fund award in the amount of \$545,000 for the PPL Northside Recap affordable housing project. On November 7, 2008, the City Council approved \$150,516 in Low Income Tax Credits for the PPL Northside Recap Project.

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Approved by: Thomas Streitz, Director, Housing Policy & Development _____
Presenters in Committee: Tiffany Glasper, Senior Project Coordinator, CPED

Financial Impact

- No financial impact
- Action requires an appropriation increase to the Capital Budget _____ or Operating Budget _____
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Action is within the Business Plan
- Action requires a change to the Business Plan
- Other financial impact
- Request provided to the Finance Department when provided to the Committee Coordinator

Community Impact

Neighborhood Notification – The official neighborhood organization of the area in which the project is located is an active partner in the project.

City Goals – In five years all Minneapolis residents will have a better quality of life and access to housing and services.

Sustainability Targets – The proposed projects meet the affordable housing targets.

Comprehensive Plan – 4.9: Minneapolis will grow by increasing its supply of housing;
4.11: Minneapolis will improve the availability of housing options for its residents.

Zoning Code – All projects being recommended either comply or will comply with the zoning code.

Supporting Information

PPL's Near North Community Redevelopment Project is located at 13 scattered sites in north Minneapolis in the Near North and Willard-Hay neighborhoods, Ward 5. The project consists of 68 total units of affordable housing with many of the units having support services. This is a combination of existing projects that are being brought together under a single umbrella project in order to facilitate more effective property management and project financing. The existing projects are 610 Logan Limited Partnership, 1123 Logan Joint Venture, Oliver Logan Limited Partnership, Oliver Apartments Limited Partnership, Morgan Arms Apartments Limited Partnership and 1027 Morgan Apartments. Northside Residents' Redevelopment Council is a partner in all of these projects, but will not be a partner in the recapitalized venture.

The project provides quality affordable housing and services to households with incomes at or below 50% MMI.

Project for Pride in Living has been approved for \$25,000 in NRP funding, \$575,000 from MN Housing, \$545,000 in Affordable Housing Trust Funds (2008), \$881,750 in TCAP funds and has received a \$150,516 allocation of 2009 Low Income Housing Tax Credits (LIHTC). Please refer to the attached project data worksheet.

In order for this project to proceed, a tax credit investor needs to be engaged. To attract a tax credit investor, the estimated market value of the project must have a viable loan-to-value (LTV) ratio. In other words, the value must exceed the outstanding debt against the properties. At this time, the outstanding debt against the properties is \$4,268,477 (principle and interest) and the market value is \$2,345,000. The current LTV ratio is 1.8:1, meaning for every \$1 dollar of value there is \$1.80 of debt. From the perspective of an investor, this negative ratio value represents a significant risk factor. The existing debt coupled with the new debt which will be added to the project exacerbates this problem.

Many of the original loans were underwritten at high interest rates (one at 5% and two loans at 10%, which was standard at the time). These interest rates are a primary reason for the unusually high debt amount. Elimination of this debt is the only way to make the project attractive to a tax credit investor. Once completed, the increased property values, as a result of building updates and rehabilitation, will add to the tax base of the city and encourage further investment in the neighborhood. Without the elimination of debt, the project will not be able to attract an investor which will result in a loss of more than half of the equity financing for the project.

Please see the attached table for a list of outstanding loans. All loans were made using CDBG, HOME and UDAG funds. No city taxpayer dollars were used in the original financing.

National Equity Fund (NEF) has expressed an interest in the tax credit syndication and is presently underwriting the project. The City has approved 2009 tax credits and the project ranks high enough to get the remaining 2010 credits this July. Also, because of the infusion of tax credits, the project is eligible for American Recovery and Reinvestment Program (ARRP) funds to assist with gap financing.

The attached Debt to Value Comparison table shows clearly, on a property by property basis, the degree to which the high interest rates have affected this project. Additionally, the table also shows how the values have been affected by the recent economic downturn.

While it is not typical for the City to forgive debt, it is not outside of policy. The City typically alleviates debt issues through a restructuring of debt that either extends the term and/or reduces the interest rate. However, the economic situation combined with the housing crisis have put affordable housing projects in a very precarious position and lenders will need to work with developers to creatively find ways to sustain and maintain affordable housing. This is especially hard in areas of the City like North Minneapolis, areas hardest hit by the current economic downturn.

It should be noted that the City initially provided this assistance in the form of loans to maximize the equity contribution of the tax credit investor. By providing a loan, rather than a grant, the tax credit investor receives no tax liability from the funds, as would occur if the assistance was a grant. Because there is no tax liability, the investor provides more equity funding to the project. If the funds came in as a grant, the equity investor would reduce their equity to offset the tax liability that would incur. If it were not for this tax liability, it is very likely these CDBG/HOME loans would have been set up as CDBG/HOME grants with repayment reduction proportionate to the years that affordable housing is provided, until such a time the grant restrictions would expire and no repayment would be required.

PPL and NEF are working on safeguards to help insure the success of this project in the future. The project is also seeking rental and operating subsidies.

The project proposes significant rehab at all 13 buildings in all 68 units. Rehabilitation activities include mold and asbestos remediation, updated mechanicals, roof and window repair and replacement, common area upgrades, HVAC upgrades and kitchen and bath upgrades as necessary.

On July 30, 2009 the CPED Development Finance Committee discussed this project and voted unanimously to support the staff recommendation and forgive the \$4,268,477 in existing project debt.