

**TERM SHEET**

**VILLAGE IN PHILLIPS PROJECT - PHASE 2**

On February 28, 2006, a Public Hearing of the Community Development Committee of the Minneapolis City Council will consider this matter.

**1. PROPOSED PROJECT**

The Village In Phillips (VIP) Project is a joint collaboration of several Minneapolis non-profit community developers and an active incorporated block club proposing to comprehensively redevelop a three block area in the eastern district of the Phillips neighborhood in Ward 9 of south Minneapolis. Currently CPED staff is working on three plan documents relating to the financing and implementation of the Village In Phillips Project, Phase 2 component.

The VIP project is a four phase development that will produce between 55 and 65 affordable housing units encompassing 60% homeownership and 40% rental. An additional 15,000 square feet of new commercial space is proposed along Bloomington Avenue in a future phase.

A total of sixteen (16) units within Phases 1 and 2 will remain perpetually affordable to families earning less than 50% of the Area Median Income (AMI). In November of 2003, the City approved a Redevelopment Project encompassing the entire project and a Tax Increment Financing (TIF) District for Phase 1 which included the new construction of 28 ownership townhouse units. Phase 1 is now completed with the developer, Powderhorn Residents Group (PRG), exceeding its' initial goals by providing 32% of the units affordable to families earning less than 50% of AMI, 54% of families earning between 51 and 80% of AMI, and 86% of the units sold to families earning less than 80% of AMI.

Phase 2 includes the construction of 36 condominium units located in two buildings to be constructed on the southwest and southeast corners of Bloomington Avenue South and 24<sup>th</sup> Street East and will include the redevelopment of the following parcels of land: 2400, 2401, 2404, 2406, 2415, 2417, and 2419 Bloomington Avenue South, an area that includes approximately 34,779 square feet of land or 0.80 acres.

The three plan documents that have been prepared are related to the implementation of the VIP – Phase 2 project in the Phillips neighborhood of south Minneapolis and located within the boundary of the Village in Phillips Redevelopment Project Area. These documents include the Village in Phillips, Phase 2 Tax Increment Finance Plan (the "TIF Plan"), Modification No. 2 to the Village in Phillips Redevelopment Plan and Modification No. 1 to the Village in Phillips, Phase 1 TIF Plan (collectively, the "Plans").

The new Village in Phillips Project, Phase 2 Tax Increment District is created as a free-standing tax increment district within the Village in Phillips Redevelopment Project Area. The site is also located within the existing Model City Urban Renewal Project Area. The Model City Urban Renewal Plan is not being modified. With the approval of the Modification to the Village in Phillips Redevelopment Plan, the development site will be located within two project areas. The provisions and requirements of the Village in Phillips Redevelopment Plan supersede those of the Model City Urban Renewal Plan with respect to the Village in Phillips, Phase 2 redevelopment site.

Modification No. 2 to the Village in Phillips Redevelopment Plan authorizes the creation of a new housing tax increment finance district as a tool for carrying out portions of the redevelopment activities described therein.

Modification No. 1 to the Village in Phillips, Phase 1 TIF Plan removes a parcel (2410 – 16<sup>th</sup> Avenue South) from the Village in Phillips, Phase 1 TIF District, designated by Hennepin County as TIF District No. 133, in order that the parcel can be included in the Village in Phillips, Phase 2 TIF District.

The TIF Plan provides for the establishment of a new Housing TIF district: the Village in Phillips, Phase 2 Tax Increment Financing District (the “TIF District”). This TIF Plan authorizes public redevelopment activities and expenditures, establishes a new housing TIF district and a budget for expenditures within the boundaries of Village in Phillips and Model City Project Areas (the “Project Area”). Tax increment will be used to pay for a portion of the public redevelopment costs associated with the project.

The total sources and uses of funds are identified in the attached Project Data Worksheet and further clarified below.

## **2. Project Applicant**

Powderhorn Residents Group, Incorporated (PRG) is a Minnesota non-profit corporation organized in 1976.

## **3. Neighborhood Revitalization Program – Action Plan Assistance**

December 2002 Neighborhood Revitalization Program funds totaling \$241,000 were awarded to Phase 1 of the project under a Grant Award Agreement facilitated by a Site Assembly Agreement. Funds were made available for site assembly activities. The Midtown Phillips Neighborhood Improvement Association has awarded \$70,000 in grant funds to Phase 2 of the project to be applied to land acquisition costs.

## **4. Hennepin County Environmental Relief Fund (ERF)**

On May 24, 2004, PRG entered into Contract No. A031922 with the County of Hennepin, State of Minnesota on behalf of the Hennepin County, Department of Environmental Services to provide an ERF grant of \$30,000 to assist with soil excavation and disposal costs, testing, reporting and environmental assessment. All environmental work for Village In Phillips Phase II has been completed and the project has used only \$9,558 of these funds.

## **5. Tax Increment Financing Assistance**

Tax increment financing assistance will be provided to the Village in Phillips, Phase 2 development through the establishment of a tax increment financing (TIF) district and the issuance of a pay-as-you-go TIF note, in an amount not to exceed \$484,900 issued by the City of Minneapolis to Powderhorn Residents Group. As tax increment is collected from the TIF district in future years, the City will distribute a portion of this tax increment to the holder of this TIF note as repayment of principal and interest.

In order to provide this assistance of \$484,900 upfront, PRG will obtain a bank loan from Wells Fargo; PRG will sign a corresponding note, and will assign the pay-as-you-go TIF note to Wells Fargo as collateral for the loan. As subsequent holder of the pay-as-you-go TIF note, Wells Fargo will semi-annually receive tax increment payments from the City under the TIF note, and will apply these payments towards the repayment of the loan.

The terms of the pay-as-you-go TIF note will be as follows:

- Principal amount: Not to exceed \$484,900
- TIF eligible costs: Construction costs for low and moderate income housing.
- Interest rate: Fixed at the 3-year U.S. Treasury rate plus 3.75%, and reset every three years based on the same rate index and spread.
- Interest basis: 30 day month/360 day year
- Payment dates: July 30th and December 30th of each year, beginning July 30, 2008.
- Payment amount: 90% of the tax increment distributed by Hennepin County to the City. The remaining 10% will be retained by the City for administrative purposes.
- Maximum term: Payments will be made on the TIF note until 1) all note principal and interest has been paid in full, or 2) the maximum duration of the TIF district has been reached, whichever occurs sooner. The maximum duration of the TIF district is 26 years of tax increment collection.
- Anticipated term: Based on current projections, it is anticipated that the TIF note will be fully repaid in 2023 (15 years of increment collection).

#### **6. Local Initiatives Support Corporation (LISC)**

LISC is providing \$25,000 to the project as a grant. Funds were used to prepare a market study and other pre-development activities. No repayment is required.

#### **7. Hennepin County Transit Oriented Development (TOD) Funds**

Hennepin County TOD funds totaling \$134,000 are being provided to assist with real estate acquisition and demolition and the installation of new street lighting to provide safe access and waiting area for transit stop adjacent and included in the proposed development.

#### **8. Neighborhood Revitalization Program (NRP) – Affordable Housing Reserve Fund (AHRF) Program**

On April 15, 2005, the City Council approved an allocation of NRP – AHRF to provide up to \$305,000 as a deferred loan to the project to assist with the development of long-term (at least 10 years) affordable housing units for low-income families and individuals at or below 50% of the Metropolitan Median Income (MMI) as adjusted for family size. Funds are provided as a deferred forgivable loan at 1% interest for up to 25 years.

#### **9. Metropolitan Council Local Housing Incentives Account (LHIA) Funds**

Metropolitan Council LHIA funds totaling \$150,000 are being provided to the project as buyers' affordability gap assistance for buyers at or below 80% MMI. LHIA funds will flow through the City to the developer. Buyer affordability assistance will be contingent upon long-term owner occupancy requirements. These units will be placed in the CLCLT.

#### **10. CPED Workforce Ownership Housing Development (WOHD) Program**

WOHD funds totaling \$240,000 will be provided as value gap assistance in the form of a grant to the developer. Funds will be structured as a loan against the real estate until completion and occupancy, at which time the funds will convert to a grant to the project. Funds will be provided in the form of a second mortgage with no repayment required.

**11. CPED Non-Profit Developer Assistance (NPA) Program**

On August 1, 2005, PRG entered into a NPA Grant Agreement with the City of Minneapolis for \$24,500. Funds will be provided to the developer as a grant with no repayment required.

**12. Construction financing**

Interim construction financing is being provided by Wells Fargo bank totaling approximately \$5,000,000, not to exceed 80% of the appraised market value. Funds will be provided on a floating rate based on Wells Fargo's prime rate plus 0.75%.

**13. Twin Cities Habitat for Humanity, Inc.**

Habitat for Humanity will pay approximately \$883,200 for the purchase of up to eight (8) unit shells from PRG to be finished by Habitat, who will sell the units to buyers earning less than 50% of the area median income. The actual purchase prices may be adjusted based on the value of the work completed by Habitat for Humanity.

**14. City of Lakes Community Land Trust (CLCLT)**

The City of Lakes Community Land Trust will purchase six (6) of the PRG finished units for their fair market value and sell the units to persons or families earning up to 80% of AMI. The CLCLT will ensure the perpetual affordability of the six units at less than 80% AMI via their housing subsidy covenant and equity sharing model.

**15. Land Purchase**

Powderhorn Residents Group will purchase five (5) parcels from the City of Minneapolis, which will be assembled with the project area for Phase 2. The two (2) remaining parcels within the redevelopment project area have been assembled by PRG. PRG is offering \$153,078 (or \$6.00 per square foot) for all five (5) parcels. The City Council will consider the proposed land sale during the same Community Development Committee meeting of February 28, 2006.

**16. Profit Sharing**

All net sales proceeds in excess of a developer fee of \$549,116 or 8% of the total development cost will be split 50:50 between the City of Minneapolis and PRG.

**17. City of Minneapolis and NRP Redevelopment Agreements**

- a. The City of Minneapolis will provide the NRP assistance and delivered the necessary NRP Loan Documents to PRG.
- b. The City of Minneapolis will provide the redevelopment contract.
- c. Powderhorn Residents Group will provide all documentation required for closing prior to closing as described in the NRP document, the redevelopment document, and the master closing checklist dated February 28, 2006. The closing documents include, but are not limited to:
  - Final development site plan
  - Preliminary and final construction plans and specs
  - An after-completion appraisal
  - Evidence of proper zoning
  - Evidence that building permit has been issued
  - Letters confirming utility availability
  - Insurance policies as defined in NRP and redevelopment agreements
  - Payment and performance bonds in the amount of the construction contract with City of Minneapolis and NRP listed as co-obligees
  - Written report about the construction bidding and selection of general contractors and subs. Copy of ad, list of bidders, and award process
  - List of subcontractors

- Executed construction contract AIA form
- Assignment of construction contract
- Assignment of architect's contract
- Pre-construction meeting with Dept. of Civil Rights, Affirmative Action, and SUBP City staff
- Final development proforma sources and uses
- List of eligible TIF costs
- Copies of all financing documents, approvals, and so forth for all non-City funding stating the terms of the financing.
- Signed financing documents for the construction loan stating the terms of the financing.
- Original copies of Powderhorn Resident Group, Incorporated Board resolutions relative to this project
- Project completion within 18 months of project closing.