



## **Request for City Council Committee Action from the Department of Community Planning & Economic Development**

**Date:** June 21, 2011

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

**Subject:** Project Analysis Authorization – Hi Lake Triangle Apartments (2230 E. Lake Street)

**Request:** Direct and authorize staff to either 1) continue analysis of the Hi Lake Triangle Apartments proposal to determine if tax increment financing (TIF) assistance is appropriate and justifiable, or 2) discontinue further TIF analysis for the project. If further directed analysis concludes that TIF assistance is appropriate, then staff requests authorization to negotiate the terms and conditions of a redevelopment contract and prepare redevelopment and TIF plans for the project as needed. All such terms and conditions, plans, and other provisions would be subject to future City Council review, discussion, and approval or denial.

Previous Directives: On January 28, 2011 the City Council approved \$1,034,000 of Livable Communities Demonstration Account Funds for the Hi Lake Triangle Project

### **Department Information**

Prepared by: Dollie Crowther, Principal Coordinator, (612) 673-5263
Approved by: Thomas A. Streitz, Director, Housing Policy & Development _____
Charles T. Lutz, Deputy Director _____
Presenter in Committee: Dollie Crowther

### **Financial Impact**

- No financial impact

### **Community Impact**

- Neighborhood Notification: The East Phillips Neighborhood is scheduled to review this project in June and also include the Corcoran Neighborhood.
- City Goals: A safe place to call home, One Minneapolis, Connected Communities, enriched environment.
- Sustainability Targets: Affordable housing production; increase density along light rail transit line.
- Comprehensive Plan: The Minneapolis Plan for Sustainable Growth contains the following relevant policy: Policy 3: 3:3 Increase housing that is affordable to low and moderate income households.
- Zoning Code: The project will comply.
- Other

### **Supporting Information**

The property located at the NW corner of Lake Street and Hiawatha Avenue is currently owned by Wellington Management Inc. and will be conveyed at closing to the newly formed applicant, Hi Lake Limited Partnership. The General Partner of the newly created limited partnership will be Hi Lake Triangle LLC. The newly constructed development will be located directly adjacent to the Lake Street/Midtown LRT Station at 2230 E. Lake Street. It will consist of 68 units of affordable senior rental housing in a 6 story building that encourages city living for the elderly. The property is located in the East Phillips Neighborhood which is excited by this new development. The site is currently vacant and is 2.5 acres or 108,900 sq. feet. Wellington Management Inc. acquired the site from the Met Council in 2009 through a public auction. The site required no clean-up.

The proposed development will consist of 68 units, 19-zero (0) bedrooms and 49-One (1) bedroom units that are 650 sq. ft and 750 sq. ft. All the units will be handicapped accessible. Hi Lake Triangle will also incorporate approximately 8,100 gross square feet of retail space on the ground floor level of the building with distinctive entrances on the Lake Street elevation, which opens directly to the sidewalks and the plaza area. The commercial tenants are yet to be determined but it is anticipated that it will include 4-6 smaller retail service type tenants that will complement the commercial tenants at the adjacent Hi-Lake Shopping Center.

All of the 68 units will be affordable to individuals and families earning at or below 60% of Area Median Income (AMI). The electricity will be paid by the tenant. The developer sees a growing diversity of demand patterns for housing choices for urban locations accessible by transit which now includes empty nesters and a growing senior population over the next 20 years. Hi Lake Triangle will fill the need for this type of housing.

The project will be owned by Hi Lake Triangle Limited Partnership which will be formed when the project is syndicated. The investor has yet to be identified. The General Partner of the newly created Limited Partnership will be Hi Lake Triangle LLC. Steve Wellington will be the sole member of Hi Lake Triangle LLC. Faegre & Benson LLP will be the developer's legal counsel and Collage Urban Design Studio is the selected architectural firm. The property management will be provided by Michael Development. The general contractor has not been selected at this time.

### **Project Financing Overview**

The estimated total development cost of the project is approximately \$9,788,325. This amount includes the development of the commercial component which is approximately \$1,000,000. Developer equity in the project totals \$3,420,204 which includes deferring a portion of the developer fees, syndication proceeds and a general partner cash contribution. The developer has submitted an application to CPED staff for preliminary approval of Housing Revenue Entitlement Bonds which carries an automatic 4% low income housing tax credit. The tax credits will generate approximately \$2,675,000 of syndication proceeds which is equity to the project. The developer is requesting \$6,500,000 in a Series A and B bond. The Series A Bonds in the amount of \$3,075,225 will be secured by a first mortgage on the property and credit enhanced by Freddie Mac. The bonds will be AAA rated. The Series B bonds will be secured by the deferred equity installments to be paid in by the limited partner who is securing the tax credits. Staff will proceed with approval to the CD Committee for the preliminary application for HRB in July 2011. The annual TIF income will also support the bonds.

The developer has received approval for \$1,034,000 of LCDA Funds from the Metropolitan Council and has also been approved for Hennepin County TOD Funds in the amount of \$450,000.

The developer will not be seeking Affordable Housing Trust Funds from the City of Minneapolis, but will be securing a commercial loan for the ground floor space and will defer a large portion of their developer fee as a source of funds for the housing portion. They also will be making a general partner capital contribution of \$295,204. The total developer fee amount is \$927,500 which falls within the CPED Housing developer fee policy. This fee amount is subject to further analysis before the amount is finalized. The Project Data Worksheet is attached as a reference with additional information.

### **Proposed TIF Assistance**

The developer is requesting approximately \$800,000 in Pay As You Go TIF assistance. This TIF is intended to assist with the construction of the building. As staff further analyzes the project and the request for TIF assistance, it will include review of the sources and uses, justification for the use of tax increment, terms of the TIF and other sources, and the eligibility of tax increment expenses. At this time all development cost estimates are preliminary and subject to further review. The site is currently vacant and will not require any blight remediation, demolition or excavation. If the Project Analysis Authorization is approved by the City Council, staff will proceed into the project analysis stage to address (1) the appropriate level of tax increment financing assistance, if any (2) eligible costs that can be paid for with the various forms of assistance, (3) the qualification and establishment of a housing TIF district, (4) appropriate sources of financing and (5) possible recapture of any City financial assistance.

The site will not require removal or replacement of any units. This housing development is adjacent to the Hiawatha LRT Station and makes this a prime location for individuals and families who desire to have public transportation and the close proximity to downtown at their disposal.

### **Project Timeline**

The proposed timeline is as follows:

- Consideration of preliminary approval of housing revenue entitlement bonds in July 2011.
- Upon approval of the TIF PAA in June 2011, proceed with consideration of redevelopment contract terms, the creation of a TIF district. (3-4 month process)
- Consideration of final approval of entitlement bonds
- Project closing and construction start in early Fall 2011.
- Project completion in late summer 2012.

### **Project Analysis Fee**

Upon approval of the Project Analysis Authorization by the City Council, the developer will be assessed a nonrefundable project analysis fee of \$11,468. This fee is based on the estimated cost of staff time and other expenses associated with analysis of the project for approval or denial at the City Council. Acceptance and review of the application and the PAA fee does not signify a commitment on the part of the City to grant approval of any public assistance. If analysis of this project requires additional work or there are unforeseen complexities, the City at its discretion may charge an additional fee to the developer.

## **Preliminary Staff Analysis**

After staff review and analysis, it was concluded that (a) the application for Public Financial Assistance is essentially complete (b) the requested amount of tax increment is reasonable based upon the preliminary information submitted and (c) it can be concluded that some level of public assistance may be justified. If approved, staff will continue to analyze the project data to determine the actual amount of assistance necessary. This will require verification of the information presented to staff to determine what the appropriate level of tax increment financing may be.

If the project analysis authorization (PAA) is approved by the City Council, staff will proceed into the project analysis stage to consider the projects requirements for the formation of a Housing TIF district, which will allow the project access to the appropriate amount of TIF assistance.