



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

Date: October 24, 2006

To: Council Member Lisa Goodman, Community Development Committee

**Subject:** Project Analysis Authorization: Van Cleve Court housing project (917 13<sup>th</sup> Avenue Southeast)

**Recommendation:** Authorize staff to continue analysis of the Van Cleve Court proposal; negotiate terms and conditions of a redevelopment contract with Project for Pride In Living, Inc. or an affiliated entity; and prepare a redevelopment plan and tax increment financing plan for this project, subject to final determination of project eligibility, required reviews, public input, notices, and hearings.

**Previous Directives:** 1) On October 7, 2005, the City Council approved \$488,828 in Low Income Housing Tax Credits for Van Cleve Phase I; 2) On November 4, 2005, the Council approved \$412,000 in AHTF loan funds for Van Cleve Phase I and \$30,000 in Non-Profit Development Assistance funds; 3) On June 30, 2006, the Council authorized the submission of an application to the Metropolitan Council for Livable Communities (LCDA) funds; 4) On August 18, 2006, the Council accepted a Metropolitan Council TBRA grant (\$121,000) and a Hennepin County ERF grant (\$243,000) for contamination investigation and cleanup; and 5) On September 22, 2006, the Council approved \$68,680 in Low Income Housing Tax Credits for Van Cleve Phase II.

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Approved by: Elizabeth Ryan, Director Housing Policy & Development \_\_\_\_\_

Jack Kryst, Director, Development Finance \_\_\_\_\_

Presenters in Committee: Jerry LePage

## Financial Impact

- No financial impact

## Community Impact

- Neighborhood Notification:
- City Goals: In five years all Minneapolis residents will have a better quality of life and access to housing and services; residents will live in a healthy environment and benefit

from healthy lifestyles; the city's infrastructure will be well-maintained and people will feel safe in the city.

- Comprehensive Plan: 4.10 Minneapolis will increase its housing that is affordable to low and moderate income households. 4.9.1 Minneapolis will grow by increasing its supply of housing. 4.15 Minneapolis will carefully identify project sites where housing redevelopment and/or housing revitalization are the appropriate responses to neighborhood conditions and market demand.
- Zoning Code: The site is currently zoned I1 and will require a re-zoning or the creation of a residential overlay district to allow the proposed development.

### **Supporting Information**

The Van Cleve Court project site is located at 917 13<sup>th</sup> Avenue Southeast and is adjacent to Van Cleve Park and a few blocks from Dinkytown in the Como neighborhood. This is a 4-acre blighted industrial site that contains a grain elevator, grain storage towers, and an office building. Most of the site was owned by the Bunge Corporation, who vacated it two years ago. Project for Pride In Living (PPL) and Cabrini House are proposing the Van Cleve Court project as co-general partners. PPL will function as the developer partner, and Cabrini will be responsible for planning and serving as the provider of the supportive services. PPL and Cabrini have worked closely with the Southeast Como Improvement Association (SECIA) over the past few years in developing this project.

### **Development Proposal**

PPL is proposing a 3-phased, income-integrated project with total of 236 housing units, consisting of rental and condo apartments and townhouses (85 rental and 151 ownership). The proposed redevelopment will involve the adaptive reuse for housing of the landmark "headhouse" (a rectilinear vertical structure used for grain distribution) and the construction of four new residential buildings. The project will have 85 rental units affordable at or below 50% of Metropolitan Median Income (MMI) and 5 Habitat for Humanity townhomes, which exceeds the 20% requirement under the City Affordable Housing Policy.

The site currently has an I1 industrial zoning and will require a re-zoning, probably in the form of a residential overlay district. PPL has submitted its land use application to the Planning Division for the necessary regulatory approvals. A site plan and elevations of the project are attached as **Exhibit 1**.

The first phase of this project is Van Cleve Court Apartments East, which will consist of 35 rental units (identified as "Building B" on Exhibit 1 site plan) and will be undertaken by the Van Cleve Court Apartments East LLC, composed of PPL and Cabrini House as co-general partners. PPL and Cabrini House have signed a Memorandum of Understanding to undertake this project and to form the Van Cleve Court Apartments East LLC as co-general partners. PPL will function as the developer partner, and Cabrini will be responsible for planning and serving as the provider of the supportive services.

Eight of the 35 units in Phase I will serve as permanent supportive housing for the long-term homeless and will be affordable at 30% of MMI. Cabrini House has applied for rental assistance for these eight (8) units through HUD's "Shelter Plus Care" (SPC) program, and its application was ranked first in the competition for these funds. The remaining 27 units (18 two-BR and 9 three-BR) will be affordable at 50% of median (See **Exhibit 2**, Project Data Worksheet). The developer anticipates a construction start in early 2007.

Van Cleve Court Apartments West (Phase II) will consist of another rental building that will include 50 units ("Building A" on Exhibit 1 site plan) and will be similar to the first building in terms of bedroom breakdown and affordability. However, any affordable units at 30% of MMI will be dependent on securing rental assistance, which will likely be through HUD's

Shelter Plus Care program. PPL anticipates that development of Phase II in the summer of 2007.

Van Cleve Phase III includes the development of 151 ownership units. Of this total, approximately 139 units will be market rate units that will be developed in the preserved "headhouse" structure (Building F on Exhibit 1) by a partnership consisting of PPL and a group headed by Jeffrey Laux, who is developer of the Ivy Tower in downtown Minneapolis. There will also be 12 new townhomes, 7 of which will be developed by PPL ("Building D" on Exhibit 1) and 5 by Habitat for Humanity ("Building C" on Exhibit 1). At this point, the developer does not have specific price points for the Phase III market rate ownership units, since this will be based on future market conditions, but is generally assuming that the average sales price will be around \$225,000. PPL anticipates that development of Phase III may also occur in summer 2007, depending on funding and marketing.

The PPL-Cabrini partnership purchased the property for the Van Cleve project from the Bunge Corporation in May 2006. Environmental remediation of the site will be required, utilizing grants funds that have already been secured from the Metropolitan Council and Hennepin County. PPL has also submitted an application for \$1,433,273 in Livable Communities funds (LCDA) from the Metropolitan Council for infrastructure costs, with a decision on these LCDA funds expected by the end of the year.

### **Proposed Financing and TIF Proposal**

The total development cost (TDC) of the project is estimated at \$53.5 million. At this point, all development cost estimates are preliminary and subject to further CPED review and analysis. Additional project information, including proposed sources and uses, is included on the attached Project Data Worksheets (**Exhibit 2:** Phase I - rental, and **Exhibit 3:** Phase II - rental).

The developer is requesting approximately \$3.7 million in tax increment assistance to fund TIF-eligible costs, including site assembly, demolition, and rehabilitation. As a financing mechanism for this TIF assistance, the PPL and Cabrini Partnership is proposing to use a combination of its interim construction financing sources to bridge the TIF-eligible development costs. When the entire project is constructed and fully assessed, the City would then issue tax-exempt TIF revenue bonds to take out PPL's construction loans.

At this point, the proposed project timeline is as follows:

- Consideration of Project Analysis Authorization (PAA) by the City Council in October 2006
- Consideration of redevelopment contract business terms and the creation of the redevelopment project and TIF District by the City Council in January or February 2007
- Construction start on Phase I of Van Cleve in early 2007.

### **Results of Preliminary Staff Analysis**

Based on the preliminary review to date, staff concludes that a) the Application for Public Financial Assistance is complete; b) the project appears feasible, based on the preliminary information that the developer has submitted; and c) some level of public financial assistance may be justified. Further analysis following PAA approval will include the formal blight analysis and evaluation of eligibility as a Redevelopment TIF district. While the developer has completed a preliminary analysis of the potential tax increment that the proposed project would generate, CPED's estimated tax increment amount will be

contingent on the assessor's determination of value, which will be obtained after the City Council approval of the PAA.

As we proceed with the project analysis stage, staff will be addressing a number of the business term issues: 1) the appropriate level of public assistance; 2) the creation of Redevelopment TIF District; 3) possible City issuance of tax-exempt TIF revenue bonds as a financing mechanism to take out PPL's interim financing of TIF-eligible development costs; and 4) the negotiation of profit participation by the City on the market rate ownership units.

In terms of City plans and policies, the proposed development meets a number of public purposes, including: accommodation of growth/density along an identified corridor, facilitation of improved access to public transportation, and the City's goal of creating affordable housing.

The developer has submitted a land use application to the CPED Planning Division. The project will require a re-zoning or the creation of a residential overlay district to allow the proposed development.

### **Project Analysis Fee**

If the Project Analysis Authorization is approved by the City Council, the developer will be assessed a nonrefundable project analysis fee of \$12,000. This fee amount is based on the estimated cost of staff time and other expenses up to the point in time when the request for public financial assistance is either approved or denied by the City Council. Acceptance by the City of the application or project analysis fee does not signify a commitment on the part of the City to grant approval of any requested public assistance. An additional fee may be required if the analysis of this project increases due unanticipated complexity or if changes occur in the development.