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

Date: December 12, 2006
To: Council Member Lisa Goodman, Community Development Committee

Subject: Proposed Loan Restructuring and Reassignment for Community Housing Development Corporation's (CHDC) Affordable Housing Project at 1400, 1412, 1416 and 1425 Portland Avenue South (Slater Square)

Recommendation:
Approve request to restructure both the Tax Increment Contribution Loan of $2,535,000 and the Operating Subsidy Loan of $2,000,000 as follows: reduce interest rate from 2.5% to 1%, extend loan term to 30 years and assign project debt to CHDC Slater, LLC.

Previous Directives:
On May 14, 1986 the MCDA Board of Commissions approved a Tax Increment Contribution Agreement loan in the amount of $3,145,839. On September 21, 2006, the Development Finance Committee approved the restructure of existing project debt and its assumption by CHDC Slater, LLC.

Prepared by: Tiffany Glasper, Sr. Project Coordinator, 673-5221

Approved by: Chuck Lutz, Deputy CEPD Director ____________

Elizabeth Ryan, Director, Housing Policy & Development ____________

Permanent Review Committee (PRC) Approval _____ Not Applicable _XX_
Note: To determine if applicable see http://insite/finance/purchasing/permanent-review-committee-overview.asp

Presenter in Committee: Tiffany Glasper, Sr. Project Coordinator

Financial Impact (Check those that apply)

XXX No financial impact (If checked, go directly to Background/Supporting Information).

___ 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.

___ Business Plan: ____ Action is within the plan. ____ Action requires a change to plan.

___ Other financial impact (Explain): Issuance of these tax-exempt revenue bonds will generate revenue bond administrative fees annually for the City

___ Request provided to department's finance contact when provided to the Committee Coordinator.

Community Impact (use any categories that apply)

Neighborhood Notification: Not applicable.

City Goals: A SAFE PLACE TO CALL HOME – 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:

4.9 Minneapolis will grow by increasing it supply of housing. 4.12 Minneapolis will reasonably accommodate the housing needs of all its citizens. Policy 35: Within the constraints imposed by state and federal regulations, the City should continue to sell tax exempt revenue bonds to provide below market rate housing development financing.

Zoning Code: Complies.

Other: None

Background/Supporting Information:

Stabilization and preservation of affordable rental housing is identified as a city priority in the City's Unified Housing Policy (http://www.ci.minneapolis.mn.us/cped/affordable_housing_resolution.asp), the HUD Consolidated Plan (http://www.ci.minneapolis.mn.us/grants/2006_Consolidated_Plan.pdf pages 35, 43, 56, 63, 65 and 67), and in CPED's Business Plan (http://www.ci.minneapolis.mn.us/cped/docs/business_plan_06.pdf pages 19, 34, 40). The stabilization/preservation process involves a coordinated effort between the Interagency Stabilization Group (ISG) funders: MHFA, FHF, HUD, CPED, and others. As projects come forward, the funders convene as a technical committee to discuss financial restructuring options. Staff's analysis of projects is guided by a number of formal policy documents, including the ISG Underwriting Standards, CPED's Housing Developer Fee Policy, and CPED's Business Process for Loan Administration.

There is a tremendous amount of technical staff work and due diligence involved in arriving at the recommendations for debt restructuring. The funders take great care in finding the best and most efficient option to achieve long-term stabilization. CPED's Development Finance Committee review adds an additional layer of scrutiny to these critical and complex financing recommendations.

Slater Square is located at 1400-1420 and 1425 Portland Avenue South in the Elliot Park neighborhood, Ward 7. The project contains 162 units of affordable rental housing in five (5) buildings.

Slater Square provides a mix of SRO, single and two-bedroom units to households with incomes at or below 80% MMI, with more than 50 units at or below 50% MMI.

The project is an expiring tax credit project currently owned by Brighton Development Corporation and limited partner, Metro Pool. Community Housing Development Corporation is the non-profit development arm of Brighton Development Corporation. The limited partner is exiting and the project is positioned to pay the $518,000 in exit taxes.

With the exit of the limited partner, Brighton Development Corporation is seeking to sell the project and have all existing debt assumed by the new owner, CHDC Slater, LLC., whose sole member is Community Housing Development Corporation. The managing general partner remains the same even with the exit of the tax credit partner.

A number of restructuring options were rigorously analyzed for Slater Square, including new tax credits. Ultimately, the funders collectively determined the most efficient and effective financing approach as described below.

The MHFA first mortgage loan on the property is being restructured/refinanced to a lower interest rate to increase the project's annual cash flow and achieve long-term stabilization. To complete this stabilization effort, the new owner is also requesting MHFA and CPED funding under the current funding cycles to rehabilitate the properties.

Total current CPED debt on the project is $4.5 million, plus accrued interest to date. There is $3,145,839 in a Tax Increment Contribution Agreement and $2 million in an Operating Subsidy Agreement. This operating subsidy loan was unique to this project. It provided for semi-annual payments to the partnership of $50,000 over a 20 year period ($2M), which were applied towards annual debt service on the first mortgage loan and other project operating costs. The final operating subsidy payment occurs in June of 2007, at which time the payments will end and the total amount ($2M) converts to long-term project debt. The two remaining 2007 operating subsidy payments will be applied towards project stabilization rehab costs and reserves. No further operating subsidy payments will occur. No other comparable operating subsidy loans, other than the Portland House project Interest Rate Reduction Payment (IRRP), are currently in CPED's multifamily loan portfolio. Since the adoption of the city's affordable housing policy in 1999, operating assistance has been clearly unallowable under city funding programs.

The Tax Increment Contribution Agreement is secured by a $2.5 million Promissory Note and a $645,839 Equity Portion Note. In February 1989, the borrower paid $645, 839 against the Equity Portion Note, leaving approximately $35,000 in outstanding, unpaid interest. The remaining $35,000 in the Equity Portion Note will be transferred to the Promissory Note for a total balance due of $2,535,000 on a single note.

The Tax Increment Contribution Agreement is currently structured as a deferred loan at 2.5% interest and the Operating Subsidy Agreement is currently structured at 2.5%. Starting in 2007, this agreement requires repayment in the form of annual payments to CPED equal to 50% of annual net (surplus) cash flow. This development is 100% affordable and there is no surplus cash flow remaining after the debt service on the new MHFA loan, hence the new loan terms will eliminate the provision for payments from cash flow going forward. MHFA and CHDC will structure the new first mortgage loan such that any excess cash flow revenues will flow in to reserves to further ensure long-term stabilization of the project. Pursuant to CPED's adopted housing developer fee policy, cash flow participation payments are structured only in mixed-income developments.

Community Housing Development Corporation is seeking restructuring of this debt by reducing the interest rate to 1%, extending the term out 30 years (deferred) and having all existing debt assumed by CHDC Slater, LLC. The interest rate reduction is not retroactive and no accrued interest will be forgiven. This request is made in light of the fact that the Low Income Housing Tax Credits are expiring and the limited partner is seeking to exit.

The total deferred debt of $4,535,000 will be at 1% simple interest with a 30 year term, consistent with the current AHTF program guidelines.

The proposed CPED loan restructuring (1) is closely coordinated with the MHFA first mortgage restructure, (2) achieves long term stabilization and preservation of affordable rental housing, (3) is consistent with current AHTF guidelines and ISG actions on other stabilization projects over the years, and (4) does not involve any forgiveness or retroactivity. It is consistent with CPED's adopted policies for loan administration and all other CPED policies and procedures.