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

Date: May 18, 2004

To: Council Member Lisa Goodman, Community Development Committee

Prepared by: Jerry LePage, Phone 612-673-5240
Presenter in
Committee: Jerry LePage, Project Coordinator

Approved by: Lee Pao Xiong, Director, CPED Housing Division _______________

Subject: Proposed Revision to the Terms of the Multi-Family and HODAG Loans for the Morrison Village Apartments (a.k.a. Jack Frost Flats)

RECOMMENDATION: Approval to revise the repayment terms for $2,813,515 in CPED/MCDA loan funds relative to the Morrison Village project and the repayment terms for the $850,000 HODAG loan, contingent upon HUD approval, as described within the body of this report.

Previous Directives: On December 12, 2003, the City Council approved up to $180,543 of Affordable Housing Trust Fund monies to the Community Housing Development Corporation for the Morrison Village project.

Financial Impact (Check those that apply)

___ No financial impact - or - Action is within current department budget. (If checked, go directly to Background/Supporting Information)
___ Action requires an appropriation increase to the Capital Budget
___ Action requires an appropriation increase to the Operating Budget
___ Action provides increased revenue for appropriation increase
___ Action requires use of contingency or reserves
_X_ Other financial impact (Explain): Revision of Loan Terms.
___ Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact

Ward: Sixth.
Neighborhood Notification: The Whittier Alliance has been notified about the proposed stabilization of the Morrison Village project.
City Goals: Foster the development and preservation of a mix of quality housing types that is available, affordable, meets current needs, and promotes future growth.
Comprehensive Plan: Sections 4.9 and 4.10: Minneapolis will grow by increasing its supply of housing, and Minneapolis will increase its housing that is affordable to low and moderate income households.

Zoning Code: Project complies.
Living Wage/Job Linkage: NA

Background/Supporting Information

The Morrison Village Apartments proposal includes the stabilization and the restructuring and re-syndication of the five buildings that comprise this property (2630 1st Avenue South, 2636 1st Avenue South, 2636 Pillsbury Avenue, 2801 Pillsbury Avenue, and 2708 Grand Avenue). This project was developed in 1988 by the Whittier Alliance, acting as the general partner of the Jack Frost Flats Limited Partnership.

Three years ago, CHDC became involved in this project, and a decision was made to spend a half a million dollars on repairs and deferred maintenance. CHDC has indicated that the property benefited greatly from the rehab that was done in 2000 and 2001. However, there is still significant deferred maintenance that needs to be addressed. The total development cost for this five building, 57-unit project is now estimated at $6.9 million, including approximately $1.9 million in rehabilitation costs. More information on the project is shown on the attached Project Data Worksheet (**Exhibit 1**).

The tax credit compliance period for this project ended on December 31, 2003, and the Jack Frost Flats Limited Partnership (JFFLP) has signed a purchase agreement to sell the property to the CHDC Morrison Limited Partnership. CHDC plans to purchase this property and begin rehabilitation of the five buildings this summer.

On December 15, 2003, the City Council approved a new City loan of $180,543 for Morrison Village from the Affordable Housing Trust Fund. At that time, staff indicated that this project would involve some restructuring of the existing MHFA first mortgage and the four existing, deferred City loans, and that staff would return when we received a detailed proposal from the new partnership. A letter from JL Pope Associates (CHDC's consultant) is attached as **Exhibit 2** and describes the restructuring proposal.

Proposed Financial Restructuring

CHDC has negotiated the restructuring of its first mortgage loan with MHFA. MHFA indicated that it preferred to have the new partnership (CHDC Morrison Limited Partnership) assume the existing first mortgage debt on the property rather go through a refinancing. Therefore MHFA has agreed to allow the term of the mortgage to be extended to a point that is acceptable for re-syndication. CHDC also plans to raise new equity for the project by syndicating $308,237 in tax credits, which were awarded through MHFA for Round 1 of 2004.

In addition to the MHFA first mortgage (which will be the only amortizing debt in the project), there are four existing City loans in the following amounts and terms.
Existing City Loans:

1. Deferred City loan for $850,000, which is a HODAG (Housing Development Action Grant) loan originated in 1988 with a 30-year term at 0%.
2. Deferred City loan for $180,515 (originated in 1994 with a 30-year term at 1%).
3. Deferred City loan for $1,400,000 (originated in 1988 with a 30-year term at 4.5% interest for the first 15 years and dropping to 0% in 2004 for the next 15 years).
4. Deferred City loan for $375,000 (originated in 2000 with a 30-year term at 1%).

The entire outstanding debt on the project is summarized below. The accrued interest amounts are based on a projected closing in July.

Lender	Principal Balance	Accrued Interest	Payoff Balance
MHFA 1st mortgage	$ 543,252	0	$ 543,252
MCDA loan	1,400,000	897,386	2,297,386
MCDA loan	375,000	12,546	387,546
MCDA loan	180,515	17,148	197,663
HUD - HODAG	850,000	-	850,000
MHFA	86,100	-	86,100
MHFA ARIF	100,000	-	100,000
TOTALS	$3,534,867	$927,080	$4,461,947

CHDC proposes this restructuring plan and the reissuance of the City debt as follows:

Lender	Principal	Interest	Type	Term
MHFA 1st mortgage	$ 543,252	6.5%	Fully amortizing	2032
Syndication Proceeds	2,311,238			
City (new loan funds)	180,543	1%	Deferred	30 yrs from closing
City (reissued debt) *****	2,813,515	0%	Deferred	30 yrs from closing
City of Mpls - HODAG	850,000	0%	Deferred	20 yrs from closing
MHFA	186,100	0%	Deferred	Due in 2031
TOTAL	$6,884,648			

***** This is the principal sum of three existing City loans of $1,400,000, $375,000, and $180,515, and unpaid accrued interest of $858,000.

CHDC is proposing to pay off some of the accrued interest on the three City loans at closing (approximately $69,000 of the total $927,080), leaving an accrued interest balance of $858,000. The reason that the amount of the accrued interest is unusually high is because the interest rate on the bulk of the City loan funds was at 4.5% during the first 15 years, with a reduction to 0% starting in 2004. This was a necessary condition when the project was originally syndicated, but is much higher than the 1% interest rate that is typical for City multifamily financing. The $858,000 in accrued interest would be added to the existing City loans for a total reissued City debt amount of $2,813,515. Staff is proposing that the interest rate on the reissued City debt of $2,813,515 should be 0%, instead of 1%, for the following reasons:

- The high interest rate that was previously charged (4.5%) during the first 15 years.
- The interest rate on these loan funds has already dropped to 0% under terms of the current loan agreement.
- To maintain long-term affordability of these units.

However, the interest rate on the new City loan funds of $180,543, which were approved by the City Council last November, would be 1%.The sources and uses, based on the proposed restructuring, are summarized on attached Data Worksheet.

Proposed Revisions to HODAG Loan

The Morrison Village project also has a HUD loan of $850,000 that was made under the Housing Development Action Grant (HODAG) program, which is a program that has since been closed out. CPED staff and CHDC have had discussions with the local HUD office about a change in the terms that would extend this loan for 20 years and provide for repayment starting in 2009 based on 20% of the cash flow. It appears that an extension on such terms would be acceptable to HUD provided that the affordability commitment be maintained, although formal HUD approval is still pending.

Currently, all 57 units in this project have rents that are affordable at or below 50% of median. Since Morrison Village has no long-term rental assistance in place (e.g. project-based Section 8), CHDC cannot not commit to maintaining this level of affordability for all of the units for the entire 30-year compliance period. However, CHDC is proposing two levels of affordability for this 30-year period, which are consistent with the HUD affordability requirements for the HODAG loan.

- At least 17 units will have rents that are affordable at 50% of MMI and will be rented to households with incomes at or below 50% of MMI. This exceeds the minimum required under the City Affordable Housing Policy (20% x 57=12 units).
- The remaining 40 units will have rents that are affordable at 50% of MMI but could be rented to households with incomes at or below 60% of MMI.

In addition, CHDC will also commit to limit increases in rents to no more than 1% over annual operating expense increases during the 30-year compliance period.

Development Finance Committee

On May 13, 2004, the Development Finance Committee will review the proposed restructuring and reissuance of the existing City debt, and the proposed extension of the HODAG loan subject to HUD approval, and will be forwarding its comments.