



Request for City Council Committee Action from the Department of Community Planning and Economic Development - CPED

Date: February 24, 2009

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

Subject: Project Analysis Authorization – Lyndale Green

Recommendation: Authorize staff to continue analysis of the Lyndale Green project proposal; negotiate terms and conditions of a redevelopment contract with Brighton Development Corporation, or an affiliated entity; and prepare a tax increment financing plan for this project, subject to final determination of project eligibility, required reviews, public input, notices, and hearings.

Previous Directives: On April 18, 2008 the City Council authorized the submission of a 2008 Hennepin County Transit Oriented Development (TOD) grant application for the Lyndale Green project (also known as Salem Redevelopment); on June 6, 2008 the City Council authorized submission for Livable Communities Demonstration Account (LCDA) funding by the Metropolitan Council; on September 26, 2008 the City Council authorized staff to execute a Cooperative Agreement with Hennepin County related to a TOD grant awarded to the project; on December 12, 2008 the City Council awarded \$975,000 in Affordable Housing Trust Funds (AHTF) to the project; on February 6, 2009 the City Council authorized acceptance of a \$850,000 LCDA grant to the project.

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Approved by: Charles T. Lutz, CPED Deputy Director _____

Thomas A. Streit, Director, Housing Policy and Development _____

Mark Winkelhake, Acting Director, Development Finance _____

Presenters in Committee: Amy Geisler, Senior Project Coordinator

Financial Impact

No financial impact

Community Impact

- Neighborhood Notification: The Whittier Alliance was advised of the receipt of this Application for Public Assistance. The developer has worked with Whittier Alliance on crafting this development project through a number of public meetings in 2008, which will continue as the developer seeks approval of their development plans.
- City Goals: A safe place to call home, One Minneapolis, Connected communities, Enriched environment.
- Sustainability Targets: Affordable housing production.
- Comprehensive Plan: *The Minneapolis Plan for Sustainable Growth* contains the following relevant policies: *Policy 1.10*: Support development along Commercial Corridors that enhances the street's character, fosters pedestrian movement, expands the range of goods

and services available, and improves the ability to accommodate automobile traffic; *Policy 3.1*: Grow by increasing the supply of housing; *Policy 3.2*: Support housing density in locations that are well connected by transit, and are close to commercial, cultural and natural amenities; *Policy 3.3*: Increase housing that is affordable to low and moderate income households; *Policy 8.10*: Promote the benefits of preservation as an economic development tool and a method to achieve greater environmental sustainability and city vitality.

- Zoning Code: A rezoning will be required for this project, as currently proposed
- Living Wage/Business Subsidy Agreement Yes _____ No X
- Job Linkage Yes _____ No X
- Other: N/A

Supporting Information

Brighton Development Corp. is proposing to purchase a portion of the Salem English Lutheran Church site in order to develop a mixed-use project consisting of 65 rental apartments and approximately 9,000 square feet of neighborhood commercial space, along with 105 parking spaces (57 to be underground). Brighton proposes to demolish a 1960s-era addition to the original church and surface parking lot, and construct the new building in their place. The original church will be retained and renovated.

At least 20% of the housing units will be affordable to households at 50% of Metro Median Income (MMI). The commercial space users have not yet been identified, but are expected to include neighborhood-scale retail, and possibly office users. The project will require a rezoning to move forward as proposed. Brighton Development is also pursuing LEED certification for the new building, and will incorporate a number of innovate stormwater management techniques on the site, as well as a geothermal heating system for the new building. The proposed site plan and project elevations are attached to this report.

Brighton Development Corp. has a purchase agreement with Salem English Lutheran Church to acquire a portion of the site for the new development. Brighton Development has completed numerous similar mixed-use projects in the City of Minneapolis. Faegre & Benson will provide developer counsel, and architectural services will be provided by LHB Architects.

Project Financing Overview

The estimated total development cost of the project is approximately \$16.2 million, with \$13.3 million for the housing component and \$2.9 million for the commercial component. There is a separate budget for the renovation of the church itself (\$3.4 million), which is not included in this analysis. It should also be noted that the developer is not seeking TIF or any other City funds for the renovation of the church.

Developer equity in the project consists of \$807,218 in deferred developer fees. The developer intends to apply to the City for Housing Revenue Bonds, which would generate \$3.8 million in bond proceeds and tax credit equity of \$4.4 million.

The sources that have been approved to date are as follows:

1. \$150,000 from the Hennepin County 2007 Transit Oriented Development (TOD) program;
2. \$35,000 from the Hennepin County Environmental Remediation Fund (ERF);

3. \$850,000 from the Metropolitan Council Livable Communities Demonstration Account (LCDA) program;
4. \$975,000 from the City of Minneapolis in Affordable Housing Trust Funds (AHTF)

The developer plans to apply for an additional \$800,000 from Hennepin County through the Affordable Housing Incentive Fund (AHIF), and \$875,000 in brownfield cleanup funds from the Met Council, DEED, and Hennepin County.

Assuming the remaining applications mentioned above are approved as requested, the Lyndale Green project will leverage about \$14 million in non-local funding sources. These sources represent about 89% of the combined total development cost (TDC) of \$15.8 million for the housing and commercial components.

The table on the following page summarizes the proposed funding sources for housing and commercial components of the project:

Proposed Sources	Type	Rental Housing	Commercial	Total	Funding Approved
Deferred developer fee	Equity	505,886		505,886	X
Housing Tax Credit syndication	Equity	4,400,000		4,400,000	
Bond proceeds	Equity	3,825,000		3,825,000	
Permanent Mortgages	Loan		2,311,322	2,311,322	
TIF pay-go notes	TIF	815,770	200,228	1,015,998	
City AHTF (2008)	Loan	975,000		975,000	X
Metro Council LCDA (2008)	Grant	850,000		850,000	X
DEED, Hennepin County, and TBRA cleanup funds	Grant	660,250	210,000	870,250	
City Great Streets Program	Loan		150,000	150,000	
Hennepin County TOD (2008)	Grant	150,000		150,000	X
Hennepin County AHIF	Loan	800,000		800,000	
Hennepin County ERF	Grant	35,000		35,000	X
TOTAL		13,016,906	2,871,550	15,888,456	

The developer has proposed a total developer fee of approximately \$1.8 million that represents 11% of net TDC for the housing and commercial components of the project. The proposed developer fee for the housing component (\$1.3 million) falls within the CPED Housing Developer Fee Policy Guidelines. However, the amount of the overall fee will be subject to further review and analysis.

Since this is a mixed-use project, staff will also explore recapture of the City's investment in terms of sharing in net cash flow of the project.

Housing Component

The developer is proposing to finance the 65-unit rental housing component with City-issued tax-exempt housing revenue entitlement bonds. A bond application is expected to be submitted to the City in 2009. The rental units will be for general occupancy, with 20% (13 units) of the units affordable at 50% MMI, and 80% (52 units) affordable at 60% MMI.

More detailed information is provided on the Project Data Worksheet, which is attached to this report. Please note however that the sources and uses on the attached Project Data Worksheet relate only to the housing component and do not include any commercial sources and uses. Also, the funding amounts from DEED, the Metropolitan Council, Hennepin County, etc. shown on the Data Worksheet reflect only the portion of these funding sources associated with the housing component and therefore do not always correspond to the total awards as shown on the table on page 4.

In terms of the status of the housing component, the developer at this point has committed funding for 19% of the housing TDC. As previously indicated, the developer will also be submitting a request to the City in housing revenue bond financing (HRB). If the proposed TIF financing, the proposed HRB financing, the estimated syndication proceeds from the automatic 4% tax credits, and anticipated City and County grant funds are added to the currently committed funding, the housing project would reach the 100% funding level.

Commercial Component

The developer's current development proposal includes approximately 9,000 square feet of commercial space. The developer is proposing to finance this commercial component through the combination of a commercial loan (approximately \$2.3 million), tax increment financing through a private pay-as-you-go note (\$200,000), and grants (\$360,000). Potential tenants include a restaurant, other service-oriented retail, and/or office uses.

The developer plans to apply for Great Streets financing to fill an anticipated \$150,000 gap in commercial financing. That application, when received, will be evaluated and brought to the City Council for consideration.

Proposed TIF Assistance

In order to help close the project's financing gap, the developer is currently requesting approximately \$1 million in pay-as-you-go TIF assistance. Of this amount, approximately \$815,000 will be needed for the housing project, which will be in the form of a pay-go note in conjunction with the housing revenue bond financing. The retail portion of the project will need \$200,000 in TIF assistance, which will be in the form of a pay-go note that will be part of the private commercial/retail loan financing for this component.

Further analysis following PAA approval will include the formal blight analysis process for TIF purposes, and evaluation of eligibility for a Housing TIF district or districts. At this point, all development cost estimates are preliminary and subject to further CPED review and analysis. TIF proceeds will be used to cover eligible tax increment expenses.

Project Timeline

The proposed project timeline is as follows:

- Consideration of Project Analysis Authorization (PAA) by the City Council in Feb 2009
- Consideration of Preliminary Approval of housing revenue bonds in Spring 2009.

- Consideration of redevelopment contract business terms, the creation of a TIF district or districts, and final housing revenue bond approval by the City Council in spring/summer 2009.
- Project closing and construction start in late 2009.
- Project completion in late 2010/early 2011.

Preliminary Staff Analysis

Based on a preliminary review to date, staff concludes that a) the revised Application for Public Financial Assistance is essentially complete; b) the project appears feasible, based on the preliminary information that the developer has submitted; and c) some level of public financial assistance appears to be justified. While the developer has completed an analysis of the maximum amount of tax increment that the proposed project could generate, staff has not yet verified the accuracy of these estimates, nor determined what level of tax increment assistance is appropriate.

As we proceed into the project analysis stage, staff will be addressing a number of issues, including 1) the appropriate level of tax increment financing assistance; 2) eligible costs that can be paid for with the various forms of City financial assistance, 3) the qualification and establishment of a housing TIF district; 4) the appropriate financing vehicles that will be used to provide such assistance; and 5) the recapture of the City's investment in terms of sharing in the net cash flow of the project.

In terms of City plans and policies, the proposed development meets a number of public purposes, including: remediation of a polluted site, accommodation of growth/density along an identified commercial corridor, and affordable housing within a mixed-income environment. The proposed development will also be reviewed in coordination with the Lyn-Lake Small Area Planning process, which is currently underway.

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 \$8,589. 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 to unanticipated complexity or if changes occur in the development.