

Request for City Council Action

Date: October 28, 2002

To: Council Member Lisa Goodman, Community Development Committee

Prepared by Theresa Cunningham, Project Coordinator, Phone 612-673-5237

Approved by Chuck Lutz, MCDA Interim Executive Director _____

Subject: Request for Preliminary Approval of up to \$11,500,000 of Tax Exempt Multi-family Entitlement Rental Housing Revenue Bonds for the Heritage Park – Phase II Project

Previous Directives:

- On July 26, 2002, the City Council approved renaming of various unnamed streets in the Heritage Park development and authorized the execution of various necessary agreements associated with the development.
- On July 5, 2002, the MCDA Board approved up to \$1,000,000 from the Multi-Family Rental and Cooperative Housing Program for the Heritage Park – Phase II by McCormack Baron and Associates and Legacy Management and Development.
- On March 4, 2002, the City Council and the MCDA Board approved the acceptance of a \$150,000 Hennepin County Environmental Response Grant on behalf of the Heritage Park Project and authorized the execution of the Grant Agreement & Subrecipient Agreements.
- On December 28, 2001, the City Council approved Modification No. 14 to the Grant Urban Renewal Plan and Modification No. 87 to the Common Plan.
- On June 22, 2001, the City Council and MCDA Board approved the Hollman Transition TIF Plan, Modification No. 13 to the Grant Urban Renewal Plan, and Modification No. 84 to the Common Development Tax Increment Finance Plan.
- On June 8, 2001 the City Council and MCDA Board approved the business terms of the Phase 1 Development Agreement (Rental Components) and authorized City officials to enter into a Joint Powers Agreement with the MCDA and MPHA.
- On May 18, 2001 the City Council approved a financing strategy for the North-South Boulevard in Bassett Creek Valley.
- On August 25, 2000, the City Council approved a Stage 1 Finance plan for the park, open space and infrastructure improvements to be constructed in Phase 1.
- On May 12, 2000, the City Council and MCDA Board approved a Master Development Agreement with McCormack Baron.
- On March 24, 2000, the City Council approved the Near Northside Master Plan.

- On July 30, 1999, the City Council approved the Near North Community Redevelopment Plan.
- On July 31 1998, the City Council approved a resolution affirming a special law approved by the Minnesota Legislature in 1997 relating to the establishment of a housing transition tax increment district.

Ward: 5

Neighborhood Group Notification: The Near Northside Master Plan, on which the Heritage Park development is based, was the subject of an extensive community process in 2000.

Consistency with *Building a City That Works*: The Heritage Park development is consistent with Goal 2: Ensure an array of housing choices exists to meet the needs of our current and new residents to the city.

Comprehensive Plan Compliance: Phase 2 of the Heritage Park development is consistent with the current Comprehensive Plan.

Zoning Code Compliance: Phase 2 is consistent with the current Zoning regulations.

Impact on MCDA Budget: (Check those that apply)

- No financial impact
- Action requires an appropriation increase to the MCDA Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain): Annual bond fees will be collected when the bonds are issued.

Living Wage / Business Subsidy: Phase 2 of the Heritage Park development involves only housing, which is exempted from Living Wage and Business Subsidy Act requirements.

Job Linkage: Phase 2 of the Heritage Park development involves only housing, which is exempted from Job Linkage requirements.

Affirmative Action Compliance: The development agreement for Phase 2 will require the developer to comply with all applicable MCDA and City affirmative action goals.

City Council Recommendation: The Interim Executive Director recommends that the City Council adopt the attached resolution giving preliminary approval of up to \$11,500,000 in Tax Exempt Multi-Family Entitlement Revenue Bonds for the Heritage Park – Phase II Project. Summary publication of the Resolution is recommended.

Dear Council Member Goodman;

Background Information

The Heritage Park Development is an exciting collaborative effort between the City of Minneapolis, the MCDA, the Minneapolis Public Housing Authority, and the developer McCormack Baron & Associates (MBA) and Legacy Management and Development Corporation. The collaboration seeks to transform a neighborhood that included four blighted public housing development into a stable, mixed income, mixed-density, culturally diverse, amenity-rich neighborhood. The Master Plan for the Heritage Park site includes 900 new mixed-income housing units to be built in four phases. Approximately 440 units are rental, 360 units are homeownership, and 100 units are for elderly public housing residents. A mixed-income strategy will be used which incorporates the public housing into this revitalized community. The public housing units will be mixed within buildings with other low income and market rate rental households and the units will be indistinguishable from one another.

Phase 1, containing 232 units in total, is under construction with completion anticipated for fall 2003. Lease-up for the first units is underway with move-ins starting on November 1, 2002.

Project Description

Phase II of the Heritage Park Project consists of the construction of 113 mixed-income rental units which will include townhomes, garden apartments, and duplexes. The rental units include 57 Hollman public housing replacements units, 25 tax credit units and 31 market rate units. There is a total of 18 one bedroom units, 61 two bedroom, 28 three bedroom and 6 four bedroom units. Oriented toward the street, the new housing is designed with typical city setbacks. Resident parking will be located in the rear within each block and visitor parking will occur on the streets. This design approach is similar to those found in the adjacent neighborhoods. Child play areas and community garden space will be provided within each rental block.

Phase II of the Heritage Park Development is located on existing MPHA property (a portion of which is located on property which is MCDA owns, Rawlins Circle - in the vicinity of the previous Sumner Field public housing development at Aldrich and Seventh Avenue North. Prior to the start of construction, the MCDA will convey the land to the MPHA.

Currently, the MPHA owns the remainder of the proposed project site and will continue to own the land after construction, entering into a long-term lease with Sumner Field II, L.P., which will own and manage the improvements. Construction is anticipated to begin in late spring 2003 and completed by fall 2004 with 100% lease up expected by spring 2005.

Phase III will be located at the southwest corner of Olson Memorial Highway and Lyndale Avenue North and consist of two and three story walkups and townhouses in a mix of one, two, three, four and five bedroom units. Thirty-eight of the 98 total units in this phase will be Public Housing replacement (Hollman) units. It is anticipated that Phase III's construction will start mid 2003 and placed in service late 2004. Also being considered during this City Council cycle is the developer's application for a 2003 Low Income Housing Tax Credit allocation for Phase III.

Financing

Sumner Field II, L.P. is requesting up to \$11,500,000 in tax exempt Multi-family Entitlement Rental Housing Revenue Bonds for the construction expenses of Phase II. Year 2002 Entitlement allocation remaining balance is only \$11,107,000. MCDA staff will return early 2003 for a remaining bond allocation authorization of up to \$393,000 that will come from Year 2003 Entitlement allocation. Final approval of the entire \$11,500,000 allocation will occur in early spring, 2003. With the Entitlement Bonds the partnership will receive an automatic 4% tax credit allocation for the project.

In order to maximize the potential tax credits available for the project; bonds must be issued for at least 50% of the total project costs. A portion of the bonds will be structured as permanent (40 year) debt and a portion will be structured with a shorter term with repayment from MPHA funds and tax credit equity.

Sources of Funds

INITIAL SOURCES OF FUNDS

MCDA Tax-Exempt HRB	11,500,000	
Minneapolis Public Housing Authority (MPHA)	6,542,400	Committed
MCDA Multi-Family Rental & Cooperative Funds	1,000,000	Committed
General Partner Cash	135,600	Committed
MHFA Deferred Loan	2,655,800	In-process
TOTAL	\$ 21,833,800	

PERMANENT SOURCES OF FUNDS

MCDA Tax-Exempt HRB	3,720,000	
Minneapolis Public Housing Authority (MPHA)	8,948,900	Committed
MCDA Multi-Family Rental & Cooperative Funds	1,000,000	Committed
Syndication Proceeds - LIHTC	5,373,500	
General Partner Cash	135,600	Committed
MHFA Deferred Loan	2,655,800	In-process
 TOTAL	 \$ 21,833,800	

Uses of Funds

Construction Cost	15,629,376
Architect Fees	585,000
Construction Contingency	831,000
Developer Fee	1,850,000
Legal Fees	100,000
Fees	889,424
Construction Interest	1,116,000
Soft Cost	833,000
 Total	 \$21,833,800

HRB Entitlement: The 2002 HRB City of Minneapolis entitlement balance is \$11,107,000. Subsequent to the Heritage Park – Phase II 2002 Entitlement allocation, the balance will be \$0.

Bond Counsel: Gray, Plant, Mooty, Mooty & Bennett

Underwriter: U.S. Bank Trust National Associatic

Council Member Informed: Yes, Ward 5

City Council Recommendation: The Interim Executive Director recommends that the City Council adopt the attached resolution giving preliminary approval of up to \$11,500,000 in Tax Exempt Multi-Family Entitlement Revenue Bonds for the Heritage Park – Phase II Project. Summary publication of the Resolution is recommended.

For further information, please call Theresa Cunningham at 612-673-5237.

Giving preliminary approval to the issuance of tax-exempt multifamily housing revenue bonds under Minnesota Statutes, Chapter 462C for the purpose of financing a housing program consisting of the construction of a multifamily rental housing development for the benefit of Sumner Field Phase II, L.P.

WHEREAS, the City of Minneapolis, Minnesota (the “City”) is authorized, pursuant to Minnesota Statutes, Chapter 462C, as amended (the “Act”) to develop and administer programs to finance one or more multifamily housing developments within its boundaries; and

WHEREAS, Section 462C.07 of the Act authorizes the City to issue and sell revenue bonds or obligations to finance programs for the multifamily housing developments; and

WHEREAS, representatives of Sumner Field Phase II, L.P., a Missouri limited partnership (the “Developer”), has requested that the City adopt a multifamily housing development program (the “Program”) to provide for the issuance of up to \$11,500,000 of its tax-exempt multifamily housing revenue bonds (the “Bonds”) for the purpose of loaning the proceeds thereof to the Developer to finance the construction by the Developer of a 113-unit multifamily rental housing development to be located at the intersection of Aldrich Avenue North and Seventh Avenue North in the City (the “Project”); and

WHEREAS, the Community Development Committee of the Minneapolis City Council, on behalf of the City held a public hearing on the Program and proposed issuance of the Bonds after at least 15 days published notice thereof and after submission of the Program to the Metropolitan Council for review and comment; and

WHEREAS, the Council has been advised by U.S. Bancorp Piper Jaffray Inc., representing the Developer, that on the basis of information available to them, the Project is economically feasible and the Bonds could be successfully issued and sold; and

WHEREAS, the City has been advised by the Developer that conventional commercial financing is available to pay the capital costs of the Project only on a limited basis and at such high costs of borrowing that the scope of the Project and the economic feasibility of its operations would be significantly affected; and

WHEREAS, the City shall not be liable on the Bonds, and the Bonds shall not be a debt of the City within the meaning of any state constitutional provision or statutory limitation, and will not constitute

or give rise to a charge against the general credit or taxing power of the City or a pecuniary liability of the City, nor shall the Bonds be payable out of any funds or properties other than those provided as security therefor;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MINNEAPOLIS:

That the Program is hereby approved and adopted by the City.

Be It Further Resolved that the issuance of the Bonds (in one or more series) pursuant to the Program in a principal amount not to exceed \$11,500,000 is preliminarily approved.

Be It Further Resolved that the foregoing preliminary approval of the issuance of Bonds shall be subject to final determination by the City of terms and conditions and shall not constitute an irrevocable commitment on the part of the City to issue the Bonds.

Be It Further Resolved that the staff of the Minneapolis Community Development Agency is hereby authorized, in cooperation with Gray, Plant, Mooty, Mooty & Bennett, P.A., as bond counsel, to take all steps necessary and desirable to proceed to develop the Program and financing therefor.

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