



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

Date: December 6, 2004

To: Council Member Lisa Goodman, Community Development Cmte.
Council Member Barbara Johnson, Ways & Means/Budget Cmte.

Prepared by: Kevin Dockry, Project Coordinator III, Phone 612-673-5075
Presented by: Kevin Dockry, Project Coordinator III

Approved by: Elizabeth J. Ryan, Director, Housing Policy and Development _____
Chuck Lutz, Deputy Director _____

Subject: **Approve Rental Apartments Bridge Financing term sheet and For Sale Housing Bridge Financing term sheet for the Midtown Exchange housing components; Appropriation increase Fund EDP0 for Midtown Exchange Bridge Financing**

RECOMMENDATION: 1) Approve the Midtown Exchange Rental Apartments Bridge Financing term sheet and the Midtown Exchange For Sale Housing Bridge Financing term sheet; 2) Amend the 2004 General Appropriation Resolution by increasing the Community Planning & Economic Development agency Fund EDP0 – Defaulted Property Administration (EDP0 890 8952) by \$8,258,700; 3) Authorize the Finance Office to adjust appropriations and transfers as necessary and appropriate to capitalize Fund EDP from CPED development funds; and 4) Authorize the appropriate City staff to execute the loan agreements and related documents.

Previous Directives:

- October 24 1997—Board authorized grant applications to and receipt of \$4,600,000 from Metropolitan Council Tax Base Revitalization Account.
- December 3 1997—MCDA Board of Commissioners (“Board”) authorized a \$2,000,000 Leveraged Investment Account loan and a \$200,000 NRP Loan to STA Associates, Inc.
- April 24 1998—Board authorized grant applications to and receipt of \$4,600,000 from Metropolitan Council Tax Base Revitalization Account.
- July 17 1998—Board approved \$500,000 in MILES funding for retrofit items.
- Fall of 1998—Board authorized Federal Empowerment Zone designation to include the project area and receipt of \$3,000,000 from HUD for the Zone.
- October 30 1998—Board authorized grant applications to and receipt of \$4,600,000 from Metropolitan Council Tax Base Revitalization Account.
- March 25 1999—Board approved Empowerment Zone funding for retrofit items, pollution abatement and a childcare facility.
- April 9 1999—The Board appropriated \$650,000 in FUND CBG and waived 3% City admin fee.
- June 1999--\$433,300 grant from the Minnesota Department of Employment and Economic Development (DEED) was awarded to the project for the parking ramp.

- June 1999—Board authorized application to HUD for an \$8,500,000 Economic Development Initiative grant and loan for parking ramp construction contingent on application for a \$6,500,000 Section 108 loan.
- July 19 1999—Board directed staff to proceed with ramp construction financing and development plans and require STA to meet certain conditions before ramp construction could begin.
- March 12 2001—City Council confirmed a settlement in lieu of foreclosure between MCDA and STA Associates, Inc., and STA Development Corporation regarding the Great Lake Center, and authorized the necessary steps to implement the settlement, including the direction to refer the appropriation requests to City Council to secure the funds needed for the settlement.
- August 10 2001—Board confirmed the settlement terms in lieu of foreclosure for a lender to lender workout with Marquette Bank regarding the Great Lake Center project.
- June 10 2002—City Council approved a resolution to set up funds to receive and spend rental income from the project on property management and professional services for the project.
- August 26 2002—Board approved sale of 2815 10th Ave S to Project for Pride in Living for \$5,000.
- September 13 2002—City Council adopted resolutions approving the Lake Street Center Redevelopment and Tax Increment Finance Plans.
- September 13 2002—Board approved the sale of the northern portion of the Lake Street Center property to Allina Health System for \$5.2 million.
- October 28 2002— Board approved the purchase of equipment from MDI for use at the Lake Street Center buildings.
- December 30 2002—Board authorized the preparation of a Request for Redevelopment Proposals for the Lake Street Center.
- April 8 2003—Board authorized the Deputy Executive Director to send out the Request for Proposals (RFP) for the Lake Street Center Project.
- July 29 2003—Board approved a process for rating and recommending a developer for the Lake Street Center Project.
- October 24 2003—Board ranked two development teams for the project.
- November 10 2003—Board authorized the appropriate MCDA officials to execute and deliver all necessary documentation required to repay the remaining Marquette and NRP loans for Lake Street Center prior to December 31, 2003.
- December 29 2003—City Council authorized the transfer of most MCDA programs and assets (excluding real estate) to the City.
- January 6 2004—City Council granted Ryan Companies 6 months exclusive development rights for the former Sears site.
- February 3 2004—City Council concurred with housing as a land use at Midtown Exchange and up to \$13 million in appropriate funding, subject to final agreement on a housing mix and financing plan.
- May 14 2004—City Council:
 1. Approved the term sheet for Ryan Companies' Midtown Exchange project;
 2. Authorized preparation of a redevelopment agreement and related documents consistent with such terms;
 3. Approved the project employment and contracting goals set forth in the term sheet;
 4. Authorized the tax increment financing plan modification to be prepared concurrently with project analysis;
 5. Authorized sub-grant of existing TBRA funds to Ryan Companies for environmental testing and remediation at Midtown Exchange; and
 6. Waived City Procurement Policy to allow United Properties to continue management of the former Sears properties until transfer of property to the Developer.

- June 18 2004—City Council
 1. Authorized appropriate City and MCDA officials to execute a Redevelopment Contract and related documents with Ryan Companies US, Inc. and Assigned Developers based upon the Amended and Restated Term Sheet approved by the City Council on May 14, 2004. Approved resolution adopting Modification No. 1 to the Lake Street Center Redevelopment Plan and Modification No. 1 to the Lake Street Center Tax Increment Financing Plan;
 2. Authorized appropriate City officials to execute loan, grant, sub-recipient and related documents for the financing: a) Approved resolutions authorizing the issuance of 3 pay-as-you-go tax increment financing notes for the office/commercial, rental housing, and parking ramp components of the project and tax increment revenue bonds or notes for the 1928 building rental or ownership housing components of the project; Authorized the City Finance Officer to make the necessary revenue and appropriation increases to the 2004 General Appropriation Resolution to facilitate the issuance and expenditure of tax increment revenue bonds or notes; b) Approved the terms of the parking ramp and/or environmental loan(s); Amended the 2004 General Appropriation Resolution by increasing the Community Planning & Economic Development Agency Fund CLC-CPED Leveraged Opportunity Fund (CLC0-890-8933) appropriation by \$1,100,000; c) Accepted the anticipated Met Council (TBRA) and Hennepin County (ERF) environmental grants and authorized the Hennepin County (ERF) and DEED loans; f) Amended the 2004 General Appropriation Resolution by increasing the Community Planning & Economic Development Agency Fund SMN-CPED State Grants & Loans (SMN0-890-8933) appropriation by \$2,100,000 and Increased the 2004 Revenue Budget for the Community Planning & Economic Development Agency in Fund SMN-CPED State Grants & Loans (SMN0-890-8490) by \$2,100,000; d) Accepted the anticipated HUD 108 loan and EDI grant; Amended the 2004 General Appropriation Resolution by increasing the Community Planning & Economic Development Agency Fund FGO-CPED Federal Grants & Other (FGO0-890-8933) appropriation by \$8,500,000 the amounts awarded and increased the 2004 Revenue Budget for the Community Planning & Economic Development Agency in Fund FGO-CPED Federal Grants & Other (FGO0-890-8490) by \$8,500,000; e) Authorized execution of a sub-recipient agreement with Ryan for the \$433,334 parking ramp grant from DEED; and f) Amended the 2004 General Appropriation Resolution by increasing the Community Planning & Economic Development Agency Fund EDP-CPED Defaulted Properties (EDP0-890-8490) appropriation by \$2,200,000 to affect the transfer of land sale proceeds to Fund CLC (CPED Leveraged Opportunity Fund), and increased the 2004 Revenue Budget for the Community Planning & Economic Development Agency in Fund CLC-CPED Leveraged Opportunity Fund (CLC0-890-8490) by \$2,200,000;
 3. Approved the termination of the Ionex Corporation lease;
 4. Authorized the parking ramp lease and sublease outlined in the report;
 5. Authorized assignment and assumption of the MCDA interest in Redevelopment Contract and related agreements by the City; and
 6. Preliminary approval to issue up to \$21 million in tax-exempt multifamily housing revenue bonds for the rental-housing component.
- September 3, 2004 – City Council
 1. Authorized Amendment No. 1 to the Midtown Exchange Redevelopment Contract with Ryan Companies US, Inc.;
 2. Authorized the issuance of up \$3.5 million in general obligation (G.O.) or revenue TIF bonds to support the housing component;
 3. Authorized the City Finance Officer to make the necessary revenue and appropriation increases to the 2004 General Appropriation resolution to facilitate (i) the issuance and expenditure of G.O. or revenue TIF bonds, and (ii) an increase in the Leveraged Opportunity Fund loan of up to an additional \$300,000 for environmental remediation;

4. Increased the interest rate on the parking ramp TIF note;
 5. Approved revisions to the parking lease terms;
 6. Authorized conveyance of certain parcels to the Hennepin County Regional Railroad Authority (HCRRA) and execution of a Grant and Declaration of Easements Agreement; and
 7. Authorized extension of the closing deadline from September 1, 2004 to September 30, 2004.
- November 19, 2004 – City Council
 1. Final approval to issue up to \$24 million in tax-exempt multifamily housing revenue bonds for the rental-housing component.

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
- Other financial impact (Explain): Obligates the City to provide interim financing to a maximum amount of \$8,258,700 under the terms described in the attached term sheets.
- Request provided to the Budget Office when provided to the Committee Coordinator.

Community Impact: The redevelopment of one of the largest buildings in Minneapolis, the former Sears site, will have a significant impact for the betterment of south central Minneapolis. Its opening will create a large office market where none currently exists. The project will bring the first hotel to Lake Street and create new job opportunities for area residents. Approximately 360 housing units in the project will create a 24-hour presence which will improve the street vitality and safety. The Global Marketplace will provide new opportunities for emerging businesses to expand, drawing shoppers to the neighborhood from the larger metropolitan area. Lastly, connections to the Midtown Greenway will further serve to create a desirable point for residents to migrate for shopping and recreation.

Ward: 8

Neighborhood Notification: Midtown Phillips and the Chicago Lake Project Review Committee have been notified of this project. A website www.midtowncommunityworks.org has been developed specifically to inform the public about the project's status.

City Goals:

- Build communities where all people feel safe and trust the City's public safety professionals and systems.
- Maintain the physical infrastructure to ensure a healthy, vital and safe City.
- Deliver consistently high quality City services at a good value to our taxpayers.
- Create an environment that maximizes economic development opportunities within Minneapolis by focusing on the City's physical and human assets.
- Preserve and enhance our natural and historic environment and promote a clean, sustainable Minneapolis.
- Promote public, community and private partnerships to address disparities and to support strong, healthy families and communities.
- 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

2.9. Minneapolis will strengthen long-term confidence in the economy by building innovative public to private sector partnerships.

2.6. Minneapolis will focus resources and efforts on connecting residents to living wage jobs.

4.1. Minneapolis will encourage reinvestment along major urban corridors as a way of promoting growth in all neighborhoods.

4.4. Minneapolis will continue to provide a wide range of goods and services for city residents, to promote employment opportunities, to encourage the use and adaptive reuse of existing commercial buildings, and to maintain and improve compatibility with surrounding areas.

4.9 Minneapolis will grow by increasing its supply of housing.

4.12 Minneapolis will reasonably accommodate the housing needs of all of its citizens.

Land Use: The Midtown Exchange Project Land Use Applications were considered and approved by the City Planning Commission.

Living Wage/Job Linkage: The City's job linkage and living wage/business subsidy policies, if applicable, will be incorporated in the redevelopment contract.

Project Description

The Midtown Exchange (formerly Sears) property contains approximately 1.2 million square feet of existing buildings on 10.88 acres of land. In April 2003, the City Council authorized staff to issue a Request for Proposals (RFP) for the Sears site. By the deadline of June 10, 2003, the RFP resulted in proposals from four development teams. Based on the RFP process, on January 6, 2004, the City Council granted Ryan Companies US, Inc. 6 months exclusive development rights for the site. Subsequently, Ryan and the City/MCDA executed a Redevelopment Contract and Ryan identified Sherman Associates, Inc. as its 1928 Building housing developer.

The 1928 Building housing program will include 219 rental apartments and 89 for sale condominiums. The estimated rental housing development cost is \$48.9 million; the estimated for sale housing development cost is \$26.2 million.

Interior construction is tentatively scheduled to start February 1, 2005, with an expected completion date around March 31, 2006.

Project Financing Summary

Funds for the Midtown Exchange housing projects are being assembled from a variety of sources, including: the City of Minneapolis AHTF, NRP and EZ, MHFA, Metropolitan Council, Hennepin County, and the Family Housing Fund, along with tax-exempt housing revenue bonds and the sale of 4% low income housing tax credits and historic tax credits to a limited partner. Tax increment will also be used to support debt service on the bonds. See attached Project Data Worksheet for a complete schedule of Midtown Exchange housing project "Sources and Uses."

Current Issue

Assembling the funds from multiple sources for the Midtown Exchange housing projects would typically take the developer over two years. Given the timeline mandated by Ryan Companies (Midtown Exchange Master Developer) and its major commercial tenant (Allina), the Midtown Exchange housing components need to close and begin construction as soon as possible.

In anticipation of these timing issues, the Midtown Exchange Term Sheet (approved May 14, 2004) included the following:

“Housing Gap. Due to the accelerated project schedule, the housing components in the 1928 Building may require an interim standby line of credit of up to \$11,550,000 to cover potential timing and/or funding gaps at closing of approximately \$13,400,000. Sherman and Sherman/Lander are expected to close by September 1, 2004. The initial amount will be reduced by any awards from the City’s AHTF, EZ, or NRP programs, as described in item (c) above, and from any other soft lenders such as MHFA, FHF, FHLB and Hennepin County that are committed prior to closing. Further, Sherman and Sherman/Lander would be allowed to draw on the line of credit only as the last funds disbursed for each component, i.e., after all other funds that are committed to these components at closing and/or awarded to these components after closing have been expended. CPED staff must negotiate the terms of this financing with Sherman, Sherman/Lander and their lenders and will return to the City Council prior to closing for specific authorization.”

To date, \$3,291,300 has been awarded and contracted for the projects (\$1,800,000 CPED AHTF, \$600,000 Family Housing Fund, \$591,300 MHFA CRV and \$300,000 Hennepin County TOD). As a result, the maximum credit limit has been reduced from \$11,550,000 to \$8,258,700. This maximum credit limit will be further reduced to \$6,250,000 when three additional funding awards (MHFA, Hennepin County and Metropolitan Council) are contracted (see below).

Separate ownership of the rental and for sale components necessitates two separate bridge financing debt instruments. As a result, the rental credit limit cannot be reduced by any for sale funding sources and vice versa.

The proposed bridge financing instruments enable the projects to close in a timely manner, while providing the developer the opportunity to seek additional funding this year and next. The developer would be allowed to draw on the bridge financing funds to pay for eligible project costs only when all other available sources of funding have been fully exhausted.

The initial Rental Apartments Bridge Financing credit limit is \$8,150,000. MHFA and Hennepin County recently awarded funding for the project (\$1,400,000 and \$500,000 respectively). As a result, the Rental Apartments Bridge Financing credit limit will be reduced to \$6,250,000 as soon as these awards are contracted.

The initial For Sale Housing Bridge Financing credit limit is \$108,700. The Metropolitan Council recently awarded \$178,700 to the project. As soon as the contract for this award is executed, the For Sale Housing Bridge Financing credit limit will be reduced to \$0.

The developer has applied for affordable housing/gap funding sufficient to cover both credit limits, but because of the timing of the selection cycles and magnitude of the requests, they anticipate that it may take another year to fully fund the project. To date the projects have been favorably received by the other funders, however all funding programs are competitive and subject to resource availability, creating some risk of a shortfall.

If the outstanding balance of the Rental Apartments Bridge Financing is greater than \$0 on June 30, 2006, the balance will be converted to a non-amortizing loan with deferred interest at an annual rate of 1%. In addition to the standard balloon payment due at the end of the loan term, staff is negotiating an appropriate level of participation in surplus cash flow, if any, from the rental project.

If the outstanding balance of the For Sale Bridge Financing is greater than \$0 on June 30, 2006, 100% of the profit from the sale of units will be distributed to the City until the Bridge Financing balance equals \$0.

It is recommended that the City Council 1) Approve the Midtown Exchange Rental Apartments Bridge Financing term sheet and the Midtown Exchange For Sale Housing Bridge Financing term sheet; 2) Amend the 2004 General Appropriation Resolution by increasing the Community Planning & Economic Development agency Fund EDP0 – Defaulted Property Administration (EDP0 890 8952) by \$8,258,700; 3) Authorize the Finance Office to adjust appropriations and transfers as necessary and appropriate to capitalize Fund EDP from CPED development funds; and 4) Authorize the appropriate City staff to execute the loan agreements and related documents.

Attachments

Attachment A – Midtown Exchange Rental Apartments Project Term Sheet

Attachment B – Midtown Exchange For Sale Project Term Sheet

Attachment C – Midtown Exchange Rental Apartments Project Data Sheet

Attachment D – Midtown Exchange For Sale Project Data Sheet