

Minneapolis Community Development Agency

## Request for City Council Action

Date: April 22, 2002

To: Council Member Lisa Goodman, Community Development Committee

Refer to: No referrals

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

Approved by: Chuck Lutz, MCDA Interim Executive Director \_\_\_\_\_

**Subject: Public Hearing and Preliminary Approval of up to \$3,640,000 in Tax Exempt Multi-family Housing Revenue Bonds for the Bottineau Lofts Project**

**Previous Directives:** On October 27, 2000, the MCDA Board approved a Project Analysis Authorization for the Bottineau housing projects proposed by Sherman Associates. On August 24, 2001, the City Council granted preliminary approval of the Bottineau Commons East housing revenue bonds, and the Board and the Council adopted the Bottineau Redevelopment Plan and the Bottineau Tax Increment Financing Plan. On September 28, 2001, the City Council granted final approval of the Bottineau Commons East housing revenue bonds, and the Board approved the redevelopment contract terms for the Bottineau Commons East project. On April 8, 2002, the Community Development Committee forwarded a recommendation to the City Council authorizing submission of a contamination cleanup application up to \$75,000 to the Metropolitan Council for Bottineau Lofts to assist in lead paint/asbestos abatement.

**Ward:** Third

**Neighborhood Group Notification:** The Bottineau Neighborhood Organization supports the Bottineau Lofts project, and has also been informed in writing of the proposed use of housing revenue bond financing.

**Consistency with *Building a City That Works*:** Goal 2: Provide a diversity of housing choices within each community by providing financial assistance to help maintain and rehab existing housing; and Goal 4: Preserve and enhance the historic structures, urban institutions, environments and amenities that define Minneapolis.

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**Comprehensive Plan Compliance:** 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 mortgage and housing improvement financing.

**Zoning Code Compliance:** It complies.

**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: Annual bond fees will be collected when the bonds are issued.

**Living Wage / Business Subsidy:** NA

**Job Linkage:** NA

**Affirmative Action Compliance:** Will comply.

**RECOMMENDATION:** The Interim Executive Director recommends that the City Council adopt the attached resolution granting preliminary approval of up to \$3,650,000 in tax exempt Multifamily Housing Revenue Bonds for the Bottineau Lofts Housing project. Summary publication of the Resolution is also recommended.

### **Background/Supporting Information**

In October, 2000, the MCDA Board authorized staff to proceed with the financial analysis and the redevelopment contract negotiations for a new housing development in the Bottineau neighborhood proposed by Sherman Associates. The Bottineau Housing Project will have a total of 184 housing units and will consist of three components: 1) the Bottineau Commons East rental project; 2) the Bottineau Commons West ownership townhomes project; and 3) the Bottineau Lofts rental project. In August, 2001, the Board and the Council adopted the Bottineau Redevelopment Plan and the Bottineau Tax Increment Financing Plan in support of these projects. A map that shows the three components of the Bottineau Housing Project is attached as Exhibit A.

The Bottineau Commons East component is the first phase of the Bottineau Housing Project. This 119-unit rental project is being developed on the Jubilee Foods site at 18<sup>th</sup> and University and will occupy about two-thirds of that site. In September 2001, the City Council granted final approval of the Bottineau Commons East housing revenue bonds, and the Board approved the redevelopment contract business terms. Sherman Associates started construction of the Bottineau Commons East apartment building in January 2002.

The second phase of the Bottineau Housing Project will consist of: 1) the rehab of the

old East Side Neighborhood Services (ESNS) building at 1929 2<sup>nd</sup> Street North and the construction of 4 rental townhomes on the adjoining parking lot (Bottineau Lofts); and 2) the construction of 28 ownership townhomes (Bottineau Commons West) on the remaining one-third of the Jubilee Block and the adjacent block to the west. Since the Bottineau Housing Project was approved prior to the extension of the Affordable Housing Policy to ownership projects, the developer is not required to provide any affordable townhomes. However, the developer recently received \$472,500 in MHFA funding that will allow 16 of the 28 ownership units to be affordable at 80% of median.

### **Bottineau Lofts Housing Revenue Bond Information**

Sherman Associates will be the general partner in the Bottineau Lofts Limited Partnership (BLLP), which is the entity that will be developing the Bottineau Lofts project. Sherman Associates specializes in the design, construction, and financing of housing and commercial properties in Minnesota and the adjoining four-state area. This firm has developed and rehabilitated over 3,500 multifamily units and single family homes and over 1.5 million square feet of commercial property, including new retail developments and industrial renovation projects. Sherman Associates has been involved in diverse residential developments, ranging from many upper-end single family homes and townhouses to over 1,350 low and moderate income, quality tax credit units.

The National Park Service has made a determination that the East Side Neighborhood Service building (which was built in 1919) meets the criteria for designation on the National Register of Historic Places based on its architecture and its social history, and the project is therefore eligible for historic tax credits. Sherman Associates proposes to restore the exterior of the existing Eastside Neighborhood Services building to match its original historic façade, to gut the interior (except for historically significant elements) and to convert the building into 33 rental units (see attached ESNS building elevation, Exhibit B). Rehab plans call for a new hot water heat system and air conditioning, the preservation of the high ceilings, hardwood baseboard and trim, and hard wood floors in the old gym area. The Bottineau Lofts proposal also includes the construction of 4 rental townhomes in the area of the current parking lot (see attached Townhomes elevation, Exhibit C). These new townhomes will be complimentary but not identical to the appearance of the historic building, pursuant to National Park Service rules.

The Bottineau Lofts Limited Partnership has submitted an application to the City for tax-exempt housing revenue bonds for the Bottineau Lofts project, which automatically triggers eligibility for 4% low income housing tax credits (LIHTC). The developer is requesting \$3,640,000 in housing revenue bonds that it will use as its first mortgage financing. Of this amount, \$3,140,000 will be a AAA rated bond (Series A) at an estimated interest rate of 6.5% that will be collateralized by a HUD/FHA insured 40-year mortgage. The remaining \$500,000 in bonds (Series B) will be in the form of a loan to BLLP against syndication proceeds that will either be enhanced by a letter of credit or be placed with a bank. The developer has also applied to the Minnesota Housing

Finance Agency for approximately \$1.9 million for the Bottineau Lofts project under the Minnesota Affordable Rental Investment Fund (MARIF) program. MARIF is a “pipeline” program and the developer expects MHFA approval shortly.

The unit composition and rent levels for the 37 housing units in the Bottineau Lofts project are shown below. There will also be 48 surface parking spaces for the housing units in the ESNS building and 8 spaces for the townhomes in tuck-under garages.

<u>Unit Type</u>	<u>% of Median</u>	<u># Units</u>	<u>Square Feet</u>	<u>Gross Rents</u>
Efficiencies	60%	2	515	\$716
One Bedroom	60%	5	700	\$845
One Bedroom	Market	2	750-844	\$856
Two Bedroom	30%	11	800	\$413
Two Bedroom	60%	4	850	\$1,017
Two Bedroom	Market	2	986	\$1,037
Three Bedroom	60%	7	1,000-1,165	\$1,195
Three Bedroom	Market	4	1,908	\$1,899

The Bottineau Lofts project is in a non-impacted area and 11 of its 37 units will be affordable at 30% of median (due to the infusion of MARIF funds), which exceeds the requirements of the City Affordable Housing policy. The project will also have 18 units that will be affordable at 60% of median. The remaining 8 units will be market rate.

Pursuant to State statute, the Bottineau Lofts project has been submitted to the Metropolitan Council for its review, and it has determined that the proposed use of housing revenue bonds for this project is consistent with regional plans.

### **Sources and Uses**

#### Sources:

HRB proceeds (Series A)	\$ 3,140,000
HRB proceeds (Series B)	500,000
LIHTC syndication	1,169,010
Historic tax credit syndication	853,444
State MARIF funds	1,925,000
Met Council Grant	75,000
Other equity	290,236

Totals

\$ 7,952,690

#### Uses:

Land assembly cost	\$ 1,245,000
Construction cost	4,184,000
Construction contingency	256,760
Architect/engineering	321,000
Legal	81,500
Finance costs & fees	935,000
Developer fee	650,000
Other soft costs	279,430

\$ 7,952,690

The developer has also requested approximately \$800,000 in TIF assistance for the Bottineau Lofts project that will be in the form of pay-as-you-go TIF note. Staff is currently negotiating the appropriate amount and the terms of this assistance. The tax-exempt housing revenue bonds will be the up-front funding source for the tax increment with the future TI income stream helping to secure repayment of these bonds.

### **HRB Entitlement**

<u>2002 Entitlement Authority:</u>		\$33,190,000
Many Rivers East	\$4,250,000	
Bottineau Lofts	\$3,640,000	
		<u>7,890,000</u>
Amount Remaining		\$25,300,000

<b><u>Underwriter</u></b>	<b><u>Bond Counsel</u></b>	<b><u>Council Member Informed</u></b>
U. S. Bancorp Piper Jaffray	Best & Flanagan	Yes, Ward 3.

**Project Timetable:** Assuming preliminary approval of the proposed housing revenue bonds by the full Council on May 3<sup>rd</sup>, staff will complete negotiations with the developer of the business terms for the Bottineau Lofts project (ESNS building) and the Bottineau Commons West project (ownership townhomes). Staff anticipates that it will return to the Community Development Committee and MCDA Operating Committee in May or early June for final approval of the housing revenue bonds, approval of the contract business terms, and authorization to issue a pay-as-you-go TIF note. Sherman Associates plans to close on the financing for both projects during June and to start construction in July.

**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 acquisition, rehabilitation and construction of a multifamily rental housing development for the benefit of Bottineau Lofts Limited Partnership.**

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 Bottineau Lofts Limited Partnership, a Minnesota 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 \$3,640,000 of its tax-exempt multifamily housing revenue bonds, in one or more series (the "Bonds") for the purpose of loaning the proceeds thereof to the Developer to finance the acquisition, rehabilitation and construction by the Developer of a 37-unit multifamily rental housing development to be located at 1929 2<sup>nd</sup> Street NE in the City (the "Project"); and

WHEREAS, the Developer has paid and expects to pay certain expenditures (the "Reimbursement Expenditures") in connection with the Project prior to the issuance of indebtedness for the purpose of financing costs associated with the Project on a long-term basis and certain of the proceeds of the Bonds will be used to reimburse the Reimbursement Expenditures;

WHEREAS, on August 24, 2001, pursuant to Resolution 2001R-372, the Council considered and approved the tax increment finance plan with respect to the Project which included the Developer's plan for financing costs associated with the Project on a long-term basis;

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 hereof 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 pursuant to the Program in a principal amount not to exceed \$3,640,000 is preliminarily approved.

Be It Further Resolved that the City hereby reserves \$3,640,000 of its 2002 housing revenue bond entitlement authority for the financing of the Project.

Be It Further Resolved that the City hereby makes this declaration for purposes of establishing compliance with the requirements of Section 1.150-2 of the Treasury Regulations. The City acknowledges and ratifies the actions of the City Council and the Community Development Committee with respect to the preliminary approval of long-term financing for the Project.

Be It Further Resolved that the City hereby declares its official intent to use proceeds of indebtedness to reimburse the Developer for Reimbursement Expenditures, including those expenditures made sixty days prior to and following the approval of the tax increment finance plan by the City Council and the Community Development Committee.

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 bond counsel to take all steps necessary and desirable to proceed to develop the Program and financing therefor.

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