

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

Date: January 4, 2011

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

Subject: Stevens House Cooperative Project, 2625-2633 Stevens Avenue South

Recommendation:

Extend the term of the existing \$519,000 loan (#AA900030) for 30 years from the original 2002 maturity date, maturing March 11, 2032, reduce the interest rate from 5% to 0% retroactive to the beginning of the original loan term and require annual payments equal to 25% of the project's annual net cash flow.

Previous Directives:

None.

Prepared by: Tiffany Glasper, Sr. Project Coordinator, 673-5221	
Approved by: Thomas Streitz, Director, Housing Policy & Development	_____
Charles T. Lutz, CPED Deputy Director	_____
Presenters in Committee: Tiffany Glasper, Senior Project Coordinator	

Reviews

Permanent Review Committee (PRC): Approval ___ Date _____
Policy Review Group (PRG): Approval ___ Date _____

Financial Impact

- No financial impact
- Action requires an appropriation increase to the Capital Budget _____ or Operating Budget _____
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Action is within the Business Plan
- Action requires a change to the Business Plan
- Other financial impact
- Request provided to the Finance Department when provided to the Committee Coordinator

Community Impact

Neighborhood Notification: Not Applicable

City Goals: A SAFE PLACE TO CALL HOME – In five years all Minneapolis residents will have a better quality of life and access to housing and services; residents will live in a healthy environment and benefit from healthy lifestyles; the city's infrastructure will be well-maintained and people will feel safe in the city.

Sustainability Targets:
Comprehensive Plan:
Zoning Code:

Affordable Housing
Will Comply
Will Comply

Living Wage/Business Subsidy Agreement:
Job Linkage:
Other:

Yes _____ No XXX
Yes _____ No XXX

Supporting Information

In 1987, the MCDA provided a deferred loan for rehabilitation purposes to Stevens House Cooperative in the amount of \$49,500. The loan amount was subsequently increased in November 1987 (\$101,950), May 1989 (\$76,550) and April 1990 (\$291,000) for a total principal loan amount of \$519,000. The loan was originated at 5% simple interest over 15 years, maturing in March 2002. The cumulative interest as of December 31, 2010 will be \$560,829 bringing the total outstanding loan balance to \$1,079,829.

None of the amendments increasing the loan amount addressed the maturity date or the interest rate.

In late 2005, CPED staff notified Stevens House Cooperative's management company that the loan was in default and that it was necessary to either provide payment on the loan or work out a satisfactory amendment to extend the term. At that time CPED staff intended to recommend to council that the loan be extended and the interest rate would be reduced to 1% moving forward to bring the loan terms in line with the City's current loan standards.

At that time, Stevens House Cooperative was seeking to refinance their existing HUD mortgage against the project, some of the proceeds would repay a portion of the City debt and some would fund the required rehab. Upon HUD's review of Stevens House Cooperative's request and HUD's inspection, HUD required that additional substantial rehab work be included. This requirement forced Stevens House Cooperative to reapply, a process that can take 9-12 months from application to approval.

Staff's position was to wait until the HUD refinance was complete so that funds could be used to retire a portion of the debt in conjunction with the HUD loan terms. The remaining debt would be restructured.

Before the HUD refinancing could commence, City of Minneapolis Inspections red-tagged the Stevens House boiler and it became clear that the HUD refinance could not be completed with the expediency required to meet the inspections deadline and the onset of the cold winter months.

Instead of proceeding with a HUD refinancing, Stevens House secured funding through MN Housing's PARIF Program to cover the costs of the boiler along with other fixed asset items such as new carpeting, cabinets and appliances.

Stevens House is no longer considering a refinance of the first mortgage with HUD.

Staff is recommending that the term of the City loan be extended 30 years from the original maturity date of March 11, 2002 to March 11, 2032, that the interest rate be reduced to 0% retroactive to the beginning of the original loan term (March 1987), that the project submit annual payments, beginning December 31, 2011 equal to 25% of the project's annual net cash flow and that any refinancing of the first mortgage require repayment of the City debt.

Regarding the proposed payments from net cash flow, in 2009, the cash flow from operating activities was \$48,035 and the annual payment would have been approximately \$12,009. If these figures stay relatively stable, the total payments received by the maturity date in 2032 will be approximately \$264,000, which will leave a balloon balance of \$255,000 to be paid at that time. Please refer to the attached exhibit for details on the end result of this proposed restructure.

Staff considered a variety of options in arriving at this recommendation. The goal was to work out the loan such that the principal balance decreases by as much as possible during the extended term.