

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

Date: May 3, 2011

To: Council Member Lisa Goodman, Chair
Community Development Committee

Subject: Project Analysis Authorization – Dunwoody Apartments

Request: Direct and authorize staff to either 1) continue analysis of the Dunwoody Apartments project proposal to determine if tax increment financing (TIF) assistance is appropriate and justifiable, or 2) discontinue further TIF analysis for the project. If further directed analysis concludes TIF assistance is appropriate, then staff requests authorization to negotiate the terms and conditions of a redevelopment contract with Gateway Commons, LLC or an affiliated entity; and prepare redevelopment and TIF plans for the project as needed. All such terms and conditions, plans, and other provisions would be subject to City Council review, discussion, and approval or denial.

Previous Directives: In 2008, the City Council authorized acceptance of environmental remediation funds to the project: \$161,600 in Met Council TBRA funds, and \$494,400 in Hennepin County ERF funds.

Department Information

Prepared by: Amy Geisler, Senior Project Coordinator, (612) 673-5266

Approved by: Thomas A. Streitz, Director, Housing Policy & Development _____

Charles T. Lutz, CPED Deputy Director _____

Presenter in Committee: Amy Geisler

Financial Impact

- No financial impact.

Community Impact

- Neighborhood Notification: The Stevens Square Neighborhood Organization was advised of the receipt of this Application for Public Assistance.
- City Goals: A Safe Place to Call Home; Livable Communities, Healthy Lives
- Sustainability Targets: Affordable housing production.
- Comprehensive Plan: *The Minneapolis Plan for Sustainable Growth* contains the following relevant policy, among others: *Policy 3:3*: Increase housing that is affordable to low and moderate income households.
- Zoning Code: The zoning is OR3. The property has received a Conditional Use Permit for a Planned Unit Development; all planning approvals are in place.

Supporting Information

Gateway Commons, LLC owns the property at 110 East 18th Street, which is the site of the original Abbott hospital building. The developer proposes to convert the building to 123 rental apartments, including approximately 7,600 square feet of commercial space, along with 40 underground and 64 surface parking spaces. The project is located in the Stevens Square neighborhood, and includes the original Dunwoody building (constructed in 1910), and 4 additions that were constructed up through the 1950s.

The proposed unit mix is 9 studios, 90 one-bedroom units, and 24 two-bedroom units. The building will also include a leasing/management office, community room for use by residents, indoor bike storage, and tenant storage lockers.

Twenty-five units will be affordable to households at or below 50% of Area Median Income, and the balance of the units will be market-rate. The owner will pay trash, water/sewer, and heat, with other utilities the responsibility of the tenants.

The owner of Dunwoody Apartments will be Gateway Commons Building Owner LLC. The managing partner will be Gateway Commons LLC, which will have a .01% interest in the project ownership. The investor member, with a 99.99% interest, will be Foss Special Historic Fund, Limited Partnership.

Faegre and Benson will provide developer counsel and architectural services will be provided by Adsit Architecture and Planning. Property management would be provided by Metes and Bounds.

The site has been the subject of extensive review by the Minneapolis Historic Preservation Commission over the past several years. The Dunwoody building is contributing to the Stevens Square Historic District and the National Register of Historic Places District. Later building additions have differing relationships to the local and national districts. The later additions were originally proposed to be torn down, and a new condominium building constructed in their place. As the real estate market has evolved over the past several years, the project has also evolved into its current proposal for substantial rehabilitation of the building into rental apartments. Historic elements to be preserved include some of the existing windows, interior finishes where possible, ceiling heights, and other detailing. The project has received Part 2 approval from the National Park Service for the Historic tax credits.

The developer is now in the process of seeking national historic designation for the building itself through the State Historic Preservation Office (SHPO). The State Review Board reviewed and recommended the project for national designation on March 22; it is now in the process of receiving final approval from the National Park Service for listing, which is expected in the next 2-3 months.

Project Financing Overview

The estimated total development cost of the project is approximately \$19,556,056. The largest project source will be the HUD 221(d)(4) mortgage, which is currently being underwritten. The project is also in the process of securing Historic Tax Credits, which will contribute approximately \$5,184,000 in equity.

The developer has also applied for \$875,000 in Affordable Housing Trust Funds through the 2010 Supplemental Round, which is currently under review by staff. Applications for Hennepin County TOD and AHIF funds are also pending. Environmental remediation funds have been committed by the Metropolitan Council and Hennepin County.

The developer has proposed a total developer fee of approximately \$991,500 that represents approximately 5.7% of net TDC. The proposed developer fee falls within the CPED Housing Developer Fee Policy Guidelines. Of the total developer fee, \$465,000 will be deferred. The developer is also providing an estimated \$539,556 loan to the project.

Additional detailed information is provided on the Project Data Worksheet attached to this report.

Proposed TIF Assistance

The developer is requesting approximately \$1,600,000 in pay-as-you-go TIF assistance. Further analysis following PAA approval will include the formal blight analysis process for TIF purposes and evaluation of eligibility for a TIF district. At this time, 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 timeline is as follows:

- Consideration of Affordable Housing Trust Fund award in May/June 2011.
- If the City Council approves the TIF Project Analysis Authorization in May, 2011, consideration of redevelopment contract business terms and the creation of a TIF district could occur in Fall 2011.
- Project closing and construction start in late 2011.
- Project completion in late 2012 or early 2013.

Preliminary Staff Analysis

Based on a preliminary review to date, staff concludes that a) the 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.

If the Project Analysis Authorization is approved by the City Council, staff will proceed into the project analysis stage to address a number of issues, including 1) the appropriate level of tax increment financing assistance, if any; 2) eligible costs that can be paid for with the various forms of City finance assistance; 3) the qualification and establishment of a TIF district; 4) the appropriate financing vehicles that will be used to provide such assistance; and 5) the recapture of the City's financial assistance.

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 \$12,796. 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.