



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

Date: June 8, 2004

To: Council Member Lisa Goodman, Community Development Cmte.

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

Presented by: Kevin Dockry, Project Coordinator III

Approved by: Lee Pao Xiong, Director, Housing _____

Subject: **Preliminary Approval of up to \$21,000,000 in tax-exempt multifamily housing revenue entitlement bonds for the Midtown Exchange Rental Housing Project.**

RECOMMENDATION: Adopt the attached Resolution granting Preliminary Approval of up to \$21,000,000 in tax-exempt multifamily housing revenue entitlement bonds for the Midtown Exchange Rental Housing Project.

Previous Directives:

On December 3, 1997, the MCDA Board of Commissioners ("Board") authorized a \$2,000,000 Leveraged Investment Account loan and a \$200,000 NRP Loan to STA Associates, Inc.; on July 17, 1998, the Board approved \$500,000 in MILES funding for retrofit items; on October 24, 1997, and April 24 and October 30, 1998, the Board authorized grant applications to and receipt of \$4,600,000 from Metropolitan Council Tax Base Revitalization Account; in Fall 1998 the Board authorized Federal Empowerment Zone designation to include the project area and receipt of \$3,000,000 from HUD for the Zone; on March 25, 1999, the Board approved Empowerment Zone funding for retrofit items, pollution abatement and a childcare facility; on April 9, 1999, the Board appropriated \$650,000 in FUND CBG and waived 3% City admin fee; in June 1999 the 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; on July 19, 1999, the Board directed staff to proceed with ramp construction financing and development plans and require STA to meet certain conditions before ramp construction could begin; on March 12, 2001, the 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; on August 10, 2001, the Board confirmed the settlement terms in lieu of foreclosure for a lender to lender workout with Marquette Bank regarding the Great Lake Center project; on June 10, 2002, the 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; on August 26, 2002, the Board approved the sale of 2815 10th Ave S to Project for Pride in Living for \$5,000; on September 13, 2002, the City Council adopted resolutions approving the Lake Street Center Redevelopment and Tax Increment Finance Plans; on September 13, 2002, the Board approved the sale of the northern portion of the Lake Street Center property to Allina Health System for \$5.2 million; on October 28, 2002 the Board approved the purchase of equipment from MDI for use at the Lake Street Center buildings; on December 30, 2002, the Board authorized the preparation of a Request for Redevelopment Proposals for the Lake Street Center; on April 8, 2003, the Board authorized the Deputy Executive Director to send out the Request for Proposals (RFP) for the Lake Street Center Project; on July 29, 2003, the Board approved a process for rating and recommending a developer for the Lake Street Center Project; on October 24, 2003, the Board ranked two development teams for the project; on November 10, 2003, the 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; on December 29, 2003, the City Council authorized the transfer of most MCDA programs and assets (excluding real estate) to the City; on January 16, 2004, the City Council granted Ryan Companies 6 months exclusive development rights for the former Sears site; on February 13, 2004, the 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; and on May 14, 2004, the City Council approved the term sheet for Ryan Companies' Midtown Exchange project, authorized preparation of redevelopment agreement and related documents consistent with the term sheet, approved the project employment goals set forth in the term sheet, authorized redevelopment and tax increment financing plan modification to be prepared concurrently with project analysis, authorized sub-grant of existing TBRA funds to Ryan Companies for environmental testing and remediation at Midtown Exchange, and waived the City Procurement Policy to allow United Properties to continue management of the former Sears properties until transfer of property to the Developer.

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): The development of this property will reduce the City's property inventory, increase its tax base, increase job opportunities for City residents, retain and enhance a historically significant building, enable emerging businesses to grow, improve public transit, and create

new and site-sensitive connections to the Midtown Greenway. Also, application fees will be collected to offset administrative expenses.

___ 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 were notified of this report in advance of its presentation. Courtesy notice was also provided to Phillips West, East Phillips, Ventura Village, Central Neighborhood Improvement Association, and Powderhorn Park. Additionally, 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: As outlined in Attachment 2, substantial land use review and approval processes are underway. As is customary, the Term Sheet includes contingencies for the parties related to such final review and approvals. In adopting this Report and Term Sheet, the City does not commit to such approvals. Ryan does, however, reserve the right not to proceed if such approvals are not received or not received on a timely basis.

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. The property was originally developed in three major phases with the first buildings completed in 1928 and 1929, and subsequent additions in 1964 and 1979. The 1979 building and adjacent parking lot were sold by MCDA to Allina in 2002. Allina constructed a new 1150-car hospital ramp at the northwest corner of this parking lot.

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 identified Sherman Associates, Inc. as its rental housing developer.

On floors 2 through 8 of the 1928 Building, Sherman Associates plans to build 223 rental housing units. The estimated rental housing development cost is \$43,745,000. The current program includes six zero-bedroom studios, 129 one-bedroom units (ranging in size from 560 S.F. to 1,100 S.F.) and 88 two-bedroom units (ranging in size from 1,050 S.F. to 1,700 S.F.). Sixty-two units, or approximately 28 percent, will be affordable at 50% Area Median Income (AMI). An additional 116 units, or approximately 52 percent, will be affordable at 60% AMI. Rents will range from \$650/month to \$1,075/month.

Construction is tentatively scheduled to start September 1, 2004, with an expected completion date around March 31, 2006.

At this time, Sherman Associates is requesting Preliminary Approval for up to \$21 million in tax-exempt multifamily housing revenue entitlement bonds (approximately \$14.1 million Series A and \$6.9 million Series B). The Series A Bonds will be secured

by an FHA insured mortgage; the Series B bonds will be secured by deferred tax credit equity. This HRB transaction will require an entitlement allocation from year 2003 and year 2004 bonds to assist the project.

PROPOSED SOURCES	
Tax Exempt Series A Bonds	\$ 14,100,000 ²
Tax Exempt Series B Bonds	\$ 6,900,000 ²
Tax Credit Equity	\$ 17,365,000 ²
Deferred Tax Credit Equity	\$ (6,900,000) ²
CPED AHTF	\$ 3,750,000 ²
NRP	\$ 500,000 ²
MHFA	\$ 3,000,000 ²
Metropolitan Council	\$ 1,500,000 ²
Family Housing Fund	\$ 450,000 ²
Federal Home Loan Bank	\$ 330,000 ²
Hennepin County	\$ 750,000 ²
Private Foundations	\$ 2,000,000 ²
TOTAL	\$ 43,745,000

¹ Committed

² Pending

PROPOSED USES	
Construction	\$ 34,971,850
Construction Contingency	\$ 650,000
Architect & Engineering Fees	\$ 898,500
Other Fees	\$ 450,000
Construction Interest/Bond Fees	\$ 1,874,650
Reserves	\$ 700,000
Developer Fees	\$ 3,300,000
Negative Arbitrage	\$ 900,000
TOTAL	\$ 43,745,000

Bond Information

The Series A Bonds are FHA insured and rated AAA. There is no separate guarantor of the Series A Bonds. The Series B Bonds are non-rated and secured by deferred tax credit equity.

HRB Entitlement

The 2003 HRB City of Minneapolis entitlement is \$33,867,000. East Phillips Commons closed using \$153,000. Preliminary approvals for St. Anne's (\$6,000,000), River Run (\$8,000,000), and Many Rivers II (\$2,900,000) leave a balance of \$16,814,000. After the Midtown Exchange Rental Project (\$21,000,000), the balance for 2003 will be \$0. The remaining Midtown Exchange allocation will be secured from year 2004 HRB entitlement (which is \$36,410,000). Midtown Exchange will require \$4,186,000, leaving a remaining balance for 2004 of \$32,224,000.

Bond Counsel
Best & Flanagan

Underwriter
Piper Jaffray

Administrative Fees
Issuer's fees will be $\frac{1}{4}\%$ annually of the outstanding loan balance.

Council Member Informed
Yes, Ward 8.

RECOMMENDATION: Adopt the attached Resolution granting Preliminary Approval of up to \$21,000,000 in tax-exempt multifamily housing revenue entitlement bonds for the Midtown Exchange Rental Housing Project.

RESOLUTION

Giving preliminary approval to the issuance of tax-exempt multifamily housing revenue bonds in one or more series under Minnesota Statutes, Chapter 462C for the purpose of financing a housing program consisting of the acquisition and construction of a multifamily rental housing development for the benefit of Midtown Exchange 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 Midtown Exchange Limited Partnership, a Minnesota limited partnership, or its affiliates or assigns (the "Developer") has requested that the City adopt a multifamily housing development program (the "Program") to provide for the issuance of up to \$21,000,000 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 and construction by the Developer of a 223-unit multifamily rental housing development to be located at 2929 Chicago Avenue South 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, 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 Piper Jaffray & Co., 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 \$21,000,000 is preliminarily approved.

Be It Further Resolved that the City hereby reserves \$21,000,000 of its 2003 and/or its 2004 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.

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 adoption of this Resolution.

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 Planning and Economic Development Department is hereby authorized, in cooperation with bond counsel to take all steps necessary and desirable to proceed to develop the Program and financing therefore.