

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

Date: June 10, 2008  
To: Lisa Goodman, Chair, Community Development Committee

**Subject:** Approval to Restructure Existing City Debt on the Echo Flats Apartment Buildings located at 2612 & 2616 Third Avenue South, 319 W. 25<sup>th</sup> Street, and 2800 Pleasant Avenue South on a HOME Acquisition Loan of \$300,000 and its Accrued Interest.

**Recommendation:** Authorize staff to negotiate 1.) the restructure of existing City debt on the Echo Flats Apartment Buildings on a HOME Acquisition Loan of \$300,000 and its accrued interest and 2.) the adjustment of affordability rent and income levels of future residents of the development.

**Previous Directives:**

- On December 1, 2006, the City Council approved an Affordable Housing Trust Fund Loan of \$345,400 to Community Housing Development Corporation (CHDC) for the Echo Flats project to conduct lead abatement in the apartment buildings referenced in this report.
- On January 28, 2005, the City Council approved an Affordable Housing Trust Fund Loan of \$362,359 to CHDC for the Echo Flats project and an additional \$30,000 in Non-Profit Housing Development Assistance Funds as a grant.
- In April 1992, the MCDA Board of Commissioners approved a recommendation to fund neighborhood multi-family rental projects which included funding to the referenced project for \$300,000.
- In November 1991, the MCDA Board of Commissioners approved an appropriation increase and approval of funding for a multi-family project at 2800 Pleasant Avenue South totaling \$124,607.

Prepared by:	Theresa Cunningham, Senior Project Coordinator X5237	_____
Approved by:	Thomas Streit, CPED Director, Housing Policy & Development	_____
Presenters in Committee:	Theresa Cunningham	

**Reviews**

Permanent Review Committee (PRC): Approval \_\_\_ Date N/A  
Policy Review Group (PRG): Approval \_\_\_ Date N/A

**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, One Minneapolis, connected communities, enriched environment, premier destination. 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** – Affordable housing units, economically vibrant neighborhood commercial districts create attractive urban neighborhoods for infill development, support efficient growth, and reduce the need for car travel to obtain necessary goods and services.

**Comprehensive Plan** – This action is consistent with the Comprehensive Plan.

**Zoning Code** – R3 – Multiple-family District.

**Living Wage/Business Subsidy Agreement  
Job Linkage**

Yes\_\_\_ No X  
Yes\_\_\_ No X

**Supporting Information**

E Flats Limited Partnership (Echo Flats) is a low income housing tax credit project which consists of four scattered site apartment buildings located at 2612 & 2616 Third Avenue South, 319 W. 25<sup>th</sup> Street, and 2800 Pleasant Avenue South in South Minneapolis’ Whittier neighborhood (Ward 6). The development provides housing for 20 families and was placed in service in 1992 by Community Housing Development Corporation (CHDC) in cooperation with Brighton Development Corporation and at the request of the Whittier Alliance. Its primary goal was to increase the supply of affordable three and four-bedroom apartments in Minneapolis.

Over the last 17 years, the development has been assisted with numerous sources of both public and private dollars, including the Family Housing Fund, Twin City Federal Bank (TCF), the City’s CDBG, NRP and HOME funds and the MHFA. Cumulative injections provided to date total in excess of \$1.5 million plus any accruing interest.

**Debt Restructure**

The current outstanding debt on the apartment buildings consists of the following:

Sources of Funds	Amount	Interest Rate	Maturity Date
TCF	\$ 176,000	2% over Prime	2/1/2014
Family Housing Fund	\$ 200,000	1%	12/30/2021
Family Housing Fund	\$ 57,000	1%	12/29/2022
MCDA/CDBG	\$ 124,607	1%	12/30/2021
MCDA/NRP	\$ 642,980	1%	12/29/2022
MCDA/HOME Acquisition	\$ 300,000	6.95% simple	12/29/2022
<b>TOTAL</b>	<b>\$ 1,500,587</b>		

CHDC is requesting to restructure the MCDA/HOME Acquisition Loan of \$300,000 and its simple interest estimated in excess of \$324,912.50 through the end of July, 2008, when it is estimated the closing will occur. They are requesting that the interest rate be reduced to 1% which is consistent with the City's current underwriting standards. As proposed, the loan is to be structured as a deferred loan for the remainder of the original loans' term, maturing 2022. The 1% interest rate change will begin at the time the project closes and is not retroactive to the date of the original loan.

### Change in Affordability Levels

Most residents of Echo Flats are long term tenants with the longest tenure at 10+ years. During the Affordable Housing Trust Fund (AHTF) loan underwriting process, the partnership committed to the following breakdown of affordability levels and maximum rents in the development:

# Units	Size	Original Afford. Level	New Proposed Afford. Level	Proposed Rent	Utilities – Not Included	Max. Rent Limit
4	2 BR	60%	50%	\$615 - \$725	\$133	\$748 - \$858
12	3 BR	50%	50%	\$740 - \$935	\$50	\$790 - \$985
4	4 BR	50%	60%	\$775 - \$1,280	\$63	\$838 - \$1,343

CHDC is now proposing a change to the originally proposed affordability levels of the project. The table above reflects the proposed new levels which staff believes are justifiable in order to allow the project to cashflow and to meet its financial needs. Allowing the developer to make this minor change is acceptable because the four 4-bedroom units are rented to households with Section 8 vouchers. All 4 households currently earn incomes less than 30% of the area median income. The families have between 5 and 8 family members. The Section 8 vouchers, coupled with the current 60% rent restriction; enable the property to maximize rent for these units.

To keep the rent restriction at 50% would require the development to decrease the rents on units that are currently benefiting from a tenant-based subsidy. The decrease in rents would cause an \$8,688 loss in annual income. For a 20-unit, scattered-site property, such a loss in income would significantly impact the operating budget. With such large families living in all of the units in Echo, the property needs to maximize its opportunity for diverse income streams. Echo Flats current household income mix is as follows: 15 units under 50% of area median income (AMI), 1 unit under 60% of AMI, and 2 units over 80% of AMI.

Additional details are provided in the attached Project Data Worksheet which further describes the development. Adjustments to the affordability and rent limits will be adjusted when and if this request is approved.

### **Partnership Change**

The project ended its tax credit compliance period December, 2007. The development team is proposing that the limited partnership be restructured with the limited partner, National Equity Fund, exiting the partnership and the E Flats Limited Partnership staying in place as the owner of the Echo Flats apartment buildings. With the restructuring of this limited partnership, CHDC will become the sole general partner with the National Equity Fund assigning its limited partner interests to CHDC. The current three general partners' interests will be assigned as follows:

- Whittier Alliance to Community Housing Development Corporation
- Community Housing Development Corporation to CHDC Echo LLC
- Brighton Development Corporation to CHDC Echo LLC

The result of the assignments described above maintains the ownership entity as E Flats Limited Partnership, with the following members:

- General Partner – CHDC Echo LLC
- Limited Partner – Community Housing Development Corporation

### **Comments**

CPED concurs with the developer's request that it is appropriate to refinance the existing debt to more favorable terms which will help to stabilize the project and allow it to continue to be used as safe, decent and affordable housing through 2022.

Due to the level of deferred loans totaling well over \$1.5 million on this project, the excessively accruing interest of the HOME Acquisition loan and the pending maturity in 2021 and 2022 of the majority of their existing soft debt, CPED feels it is appropriate to restructure their most expensive debt at this time.

In addition, CPED also concurs with CHDC's request to adjust the unit affordability levels as outlined above and recommends Council's approval of the request.