



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

Date: February 3, 2004

To: Council Member Lisa Goodman, Community Development Committee

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

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Approved by: Chuck Lutz, Deputy CPED Director \_\_\_\_\_

**Subject: Midtown Exchange (formerly Sears) housing mix and plan; next steps**

**RECOMMENDATION: Concurrence with Ryan's proposal for housing as one of the land uses at the Midtown Exchange project and up to \$13 million in appropriate housing funding, subject to final agreement on a housing mix and financing plan.**

**Previous Directives:**

On December 3, 1997, the MCDA Board ("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; 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 10<sup>th</sup> 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 Districts. 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 of Commissioners 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; and on January 6, 2004, the City Council granted Ryan Companies 6 months exclusive development rights for the former Sears site.

**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.

Request provided to the Budget Office when provided to the Committee Coordinator

**Community Impact**

**Ward:** 8

**Neighborhood Notification:** The Chicago Lake Project Review Committee, with representatives from Powderhorn Park Neighborhood Association, Phillips West, East,

and Midtown, the Central Neighborhood Improvement Association, Urban Ventures, the Chicago Lake Business Association, and the Greater Lake Street Council, was notified of this report in advance of its presentation. A copy of this report was sent to each of these organizations, as well as the Phillips Partnership and Midtown Community Works.

### **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.

**Zoning Code:** N/A

**Living Wage/Job Linkage:** The City's job living wage/business subsidy policies will be incorporated in the redevelopment contract to be negotiated. The developer will be asked to extend job opportunities to the unemployed or underemployed from the neighborhoods.

### **Summary of Ryan Companies Housing Proposal**

On January 6, 2004, the City Council granted Ryan Companies 6 months' exclusive development rights for the Midtown Exchange (former Sears site). Ryan's proposal is for 285 rental housing units within the 1928 building, including 100 senior units and 185

artist loft units. It should be noted that this proposal contemplates a housing gap of approximately \$13 million based on the proposed housing mix. Staff has listed below numerous housing funding programs that could cover this gap. Funding approvals, however, are subject to a variety of competitive funding processes and eligibility/selection criteria, and to numerous underwriting and due diligence factors.

As staff continues to work with Ryan and its housing developer, the mix of units may be refined or changed to support market demand and to ensure that the project can meet the requirements of various funding programs.

### **Housing Mix**

Given market demand, the 1928 Building will include some combination of artist loft rental units, senior rental units, and may include workforce rental units and ownership housing. Ryan’s proposal contemplated that all rental units would be affordable at less than 60% Metropolitan Median Income (MMI). Final rent levels will need to be supported by a market study. Special consideration will also be given to other models including market rate units. Construction costs and sale price points will also be evaluated for ownership housing within the building.

### **Financing**

Low market rents in the area limit the debt capacity of the rental housing project. As a result, financing gaps of up to \$13 million (depending on unit mix and type) are anticipated.

Primary financing is expected to come from some combination of Housing Revenue Bonds with automatic 4% low-income housing tax credits, and from 9% low-income housing tax credits. In 2004, the city Housing Revenue Bond entitlement is approximately \$36 million. The city’s suballocation of 9% low-income housing tax credits is slightly more than \$1 million.

Gap/soft financing is anticipated through application and qualification to conventional affordable housing programs, including:

PROPOSED SOURCE	FUNDER	EST. APPLICATION DATE
Affordable Housing Trust Fund/CDBG/HOME	Minneapolis	18-Feb-04
NRP AHRF	Minneapolis	30-Sep-04
Empowerment Zone	Minneapolis	8-Aug-04
Affordable Housing Incentive Fund	Hennepin County	31-Jul-04
MHFA Challenge	MHFA	TBD
Transit Oriented Development Funds	Hennepin County	TBD
Family Housing Fund (FHF)	FHF/MHFA	5-Feb-04
Met Council Local Housing Incentive Acct.	Met Council/MHFA	5-Feb-04
Livable Communities Demonstration Acct.	Met Council	30-Jun-04
MHFA Trust Fund	MHFA	TBD

Federal Home Loan Bank Funds	FHLB	1-Apr-04
Fannie Mae Foundation	Fannie Mae	TBD
Private Grants & Deferred Loans	Foundations	Various
Redevelopment Program Grant	State of MN DEED	TBD
NRP Phillips Neighborhood	Minneapolis	TBD

Staff and the developer have consulted with several outside housing experts, including the Minnesota Housing Finance Agency (MHFA) and the Family Housing Fund (FHF), to determine the most appropriate financing sources. Exploration will continue on an as needed basis to ensure the best financing plan possible. Special consideration will be given to models that minimize the impact on outside affordable housing initiatives.

### **Next Steps**

Over the next several months, staff will continue to work with the developer to refine the plans outlined herein. Important next steps include:

- Application for soft funding/deferred loans. Several housing funders currently have open Request for Proposals that the developer will be applying for (for example, the Minneapolis Affordable Housing Trust Fund is soliciting proposals for round 1 funding until February 18, 2004).
- Continued analysis of tax credit funding (including legal opinion, if necessary).
- Analysis of the tax-exempt bond structure (including legal opinion, if necessary).
- Identification of credit enhancement for bonds.
- Identification and commitment letter from equity investor.
- Identification of Workforce and Senior housing service provider and sources for service funding, as necessary.
- Investigation and modeling of ownership housing opportunities within the 1928 Building.

### **Recommendation**

The Director recommends concurrence with Ryan's proposal for housing for one of the land uses at the Midtown Exchange project and up to \$13 million in appropriate housing funding, subject to final agreement on a housing mix and financing plan.