



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

Date: March 20, 2007
To: Lisa Goodman, Chair Community Development Committee
Subject: Land Sale – Public Hearing
Heritage Park Redevelopment Project – Phases 1 and 2
MPHA – Pass Through
Contract amendment with Heritage Housing, L.L.C.

<u>MPHA –owned parcels</u>	<u>Sales Price</u>
HP 14, 15	\$1.00

Purchaser: Heritage Housing, L.L.C.

Recommendation:

1. Authorize the appropriate City officials to execute a Third Amendment to the Heritage Park Redevelopment Contract, Phases 1 and 2 with Heritage Housing, L.L.C. consistent with provisions outlined in this report.
2. Authorize the sale of Outlots I and J, (HP 14 and 15) to Heritage Housing, L. L. C. and authorize appropriate staff to execute all necessary documents;
3. Authorize the appropriate City officials to execute the Second Amendment to the Land Conveyance Agreement with Minneapolis Public Housing Authority

Previous Directives:

On May 26, 2006, the City Council approved to provide up to \$500,000 of Residential Finance Mortgage program income to Heritage Housing, LLC to be used as affordability loans for the Heritage Park Redevelopment Project; and authorized amending the 2006 Appropriation Resolution by increasing the Community Planning & Economic Development Agency Fund SRF-Residential Finance Mortgage Fund by \$500,000.

On April 29, 2005, the City Council approved a second amendment to the Heritage Park Redevelopment Contract with Heritage Housing, LLC extending the commencement and completion timeframes; amending Section 5.05 Construction Plans and Specifications, and amending Section 11.02 Phases 3 and 4 Improvements.

On May 28, 2004, the City Council approved an amendment to the Heritage Park Redevelopment Contract with Heritage Housing, LLC increasing the total number of for-sale units to be developed in Phases 1 and 2 and provide an option to develop a commercial component.

On December 29, 2003, the City Council approved the terms of an amendment to the Land Conveyance Agreement with Minneapolis Public Housing Authority for the Heritage Park For-Sale Development Project, Phases 1 and 2.

On August 22, 2003, the City Council authorized the appropriate MCDA officials to execute the Land Conveyance Agreement with Minneapolis Public Housing Authority for the Heritage Park For-Sale Development Project, Phases 1 and 2.

On August 8, 2003, the City Council approved the business terms and conditions for the Phases 1 and 2 Heritage Park Development Agreement with Heritage Housing, LLC; increased the appropriation in Fund SDA by \$668,000; and increased the revenue in Fund SDA by \$668,000. On July 29, 2003, the MCDA

Board of Commissioners authorized the sale of property to Heritage Housing, LLC; approved the business terms and conditions; and authorized the execution of a Development Agreement with Heritage Housing, LLC.

On May 2, 2003, the MCDA Board of Commissioners authorized staff to enter into negotiations with Heritage Housing, LLC based on their proposed Scope of Services, returning with a term sheet within 90 days.

Prepared by: Cherré Palenius, Senior Project Coordinator
Approved by: Charles T. Lutz, Deputy Director, CPED _____
Presenter in Committee: Cherré Palenius, Sr. Project Coordinator

Financial Impact

No financial impact

Community Impact

Neighborhood Notification: The Near Northside Master Plan, which includes Phases 1 and 2 of Heritage Park, was comprised with extensive community involvement in 2000. In March, 2003, residents from both the Harrison and Near North neighborhoods selected Heritage Housing, LLC as the recommended developer for the ownership housing to be developed in Heritage Park. On April 15, 2003, the Harrison Neighborhood Housing Committee and Board recommended Heritage Housing, LLC to develop the for sale housing in the first two phases of Heritage Park, based on responses from community meetings. On February 17, 2004, the Harrison Neighborhood Housing Committee approved Heritage Housing’s request to develop a mixed-use building at Heritage Park.

City Goals: Minneapolis residents will have a better quality of life and access to housing an 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; there will be plentiful green spaces, public gathering areas, celebrated historic architectural features and urban forests in Minneapolis.

Sustainability Targets: Affordable Housing Units: new/positive conversion and rehabilitation.

Comprehensive Plan: Sections 4.09, 4.10, and 4.15: Minneapolis will grow by increasing its supply of housing and will increase the housing that is affordable to low and moderate income households. Minneapolis will carefully identify project sites where housing redevelopment and/or housing revitalization are the appropriate responses to neighborhood conditions and market demand.

Zoning Code: Projects will comply with property zoning.

Living Wage/Business Subsidy Agreement	Yes _____	No <u>XX</u>
Job Linkage	Yes _____	No <u>XX</u>

Background Information

Heritage Housing, LLC (HLLC), acting as the Master For-Sale Developer, is responsible for the Phase 1 and 2 land development, architectural, and site coordination functions resulting in buildable lots for sale to individual builder/developers. HLLC initially proposed to develop 167 units, containing a mix of single family and multifamily residential units comprised of duplex, townhouses, senior cottages, and condominium units, including all landscaping in accordance with construction plans that are pre-approved by CPED. Of the total number of units to be developed, 15% of the units must be sold to purchasers whose annual incomes are below 60% of the area median income (AMI). HLLC has been working with Twin Cities Habitat for Humanity (Habitat), as a developer who can construct and market these units through their existing program. An additional 15% of the total number of units to be developed must be sold to purchasers whose annual incomes are below 80% AMI. HLLC is working with several non-profit developers including Powderhorn Residents Group (PRG), Northside Residents Redevelopment Council (NRRRC), and Greater Metropolitan Housing Corporation (GMHC) along with their market-rate builders to construct and market these units to qualified buyers. HLLC endeavors to reasonably locationally disburse all of the affordable units throughout the project areas. Subsequently, HLLC proposed to

increase the total number of ownership units and develop a small, approximately 2,000 square foot, commercial space.

Throughout 2004, HHLLC encountered and resolved numerous issues that initially impeded their development progress. Since this time, housing construction has progressed steadily.

Third Amendment Requests

1. HHLLC is requesting to increase the total number of ownership units to be developed from the previously approved 171 units to 180 units, consisting of 73 single family residential units and 107 multi-family units. This action increases the overall purchase price of the property by \$36,000¹ for a new total of \$720,000.

2. HHLLC is requesting extensions of the completion timeframes for the development. They have agreed to complete all of the single family units by September 1, 2008, and all of the multi-family units by December 31, 2008. The purchase price note, secured by a mortgage against the real estate, will be extended to December 31, 2008. HHLLC will provide staff with quarterly progress reports and meet with staff as needed to monitor their completion deadlines. Legal Aid has been notified and briefed on HHLLC's request and has not objected to extending the completion timeframes.

3. The term sheet approved by the City Council in July 2003, indicated, "In addition to market-rate housing, Redeveloper shall ensure that 15% of the units are sold to homeowners with incomes below 60% of the AMI and that 15% of the housing units will be sold to homeowners with incomes between 60 and 80% of the AMI and that such units are affordable to such homeowners." To meet the first income threshold (below 60%), HHLLC has been working with Habitat. Habitat's existing program assists households whose maximum annual gross income does not exceed 50% AMI. Applicants, whose annual gross income exceeds this limit, are disqualified from the Habitat program. Presently, Habitat has more qualified applicants than available housing opportunities and therefore, is not interested in increasing their current income threshold.

To provide households whose annual gross incomes fall between 50 and 60% of the AMI the ability to access affordability funds available for Heritage Park and purchase a home in this development, staff is requesting to expand the middle income limit (noted above) such that 15% of the housing units can be sold to homeowners with incomes between 50 and 80% of the AMI. Legal Aid has been notified of this change and has no objections.

Affordability Threshold Limits

Before	Now
<60% AMI	<60% AMI
60-80% AMI	50-80% AMI

4. The triangle parcel located north of 11th Avenue North and east of Van White Memorial Boulevard may not be feasible to develop, due its configuration, small size and lack of builder interest. As a result, the City and HHLLC have agreed that if redevelopment is determined not to be reasonably feasible by April 1, 2008, the developer shall return this parcel to the City, according to newly established terms in the third amendment to the contract. In lieu of court proceedings to recapture the property, the City will reduce the total number of units to be built by 16, delete this parcel from the HHLLC contract, and reduce the amount of the purchase price note by \$54,000.

5. Staff recently discovered that two outlots, I and J, located east of Emerson Avenue North, west of Van White Memorial Boulevard and north of 8th Avenue North should have been conveyed to HHLLC. The Minneapolis Public Housing Authority has agreed to convey these parcels to the City for \$1.00 so that the City can convey them to HHLLC for \$1.00. In turn, HHLLC has agreed to replat the property to eliminate

¹ 9 x \$4,000

the "outlot" designation. The City will retain a permanent easement to construct and maintain a bike trail along the southern portion of these outlots.

6. Consistent with Section 4.03 of the existing Redevelopment Contract, HHLLC has requested that the City disburse escrowed land sale proceeds to reimburse HHLLC for excess soil correction costs incurred by HHLLC in developing the property. HHLLC has provided staff with documentation of soil correction expenditures of \$2.4 million, which exceeds their original estimates, including contingency, by over \$900,000. HHLLC is requesting that the escrowed funds be disbursed earlier than initially agreed to in the contract. The reimbursed funds will first be used to pay off the first mortgage lender, then to the City to reduce the public improvement cost note until paid in full, and then to HHLLC for other project costs.

7. As a condition of the early disbursement for soil correction expenses, HHLLC will accelerate the percentage of gross lot sales to be applied against the public improvement cost note from 25% to 65% until the note is paid in full. In addition, the maturity date of the public improvement cost note will be amended to December 31, 2008.

8. Peter Musty and Robert J. Claybaugh have agreed to assume the responsibilities of the Town Architect under this agreement. Staff is further requesting that the Council authorize the Director of CPED to approve further assignments of this Town Architect role as necessary.

Exhibits
Heritage Park Redevelopment Map

Authorizing sale of land Heritage Park Disposition Parcels No HP 14 & 15.

Whereas, the City of Minneapolis, hereinafter known as the City, has received an offer to purchase and develop Disposition Parcels HP 14 & 15, in the Harrison and Near North neighborhoods, from Heritage Housing LLC, hereinafter known as the Redeveloper, the Parcels HP 14 & 15, being the following described land situated in the City of Minneapolis, County of Hennepin, State of Minnesota to wit:

LEGAL DESCRIPTION

HP 14 & 15; HPR 14 & 15; Outlots I & J

Outlot I and Outlot J, City of Minneapolis Near Northside Addition.

Whereas, the Redeveloper has offered to pay the sum of \$1, for Parcels HP 14 & 15 to the City for the land, and the Redeveloper's proposal is in accordance with the applicable Redevelopment Plan and/or Program; and

Whereas, the Redeveloper has submitted to the City a statement of financial responsibility and qualifications; and

Whereas, the City has had the re-use value reviewed by an appraisal expert, stating that the re-use value opinion is consistent with the accepted methods in aiding the City in determining a re-use value for the Parcels; and

Whereas, pursuant to due notice thereof published in *Finance and Commerce* on March 9, 2007, a public hearing on the proposed sale was duly held on March 20, 2007, at the regularly scheduled Community Development Committee meeting of the City Council, at the Minneapolis City Hall, 350 South 5th Street, Room 317, at 1:30 p.m., in the City of Minneapolis, County of Hennepin, State of Minnesota;

Now, Therefore, Be It Resolved by The City Council of The City of Minneapolis:

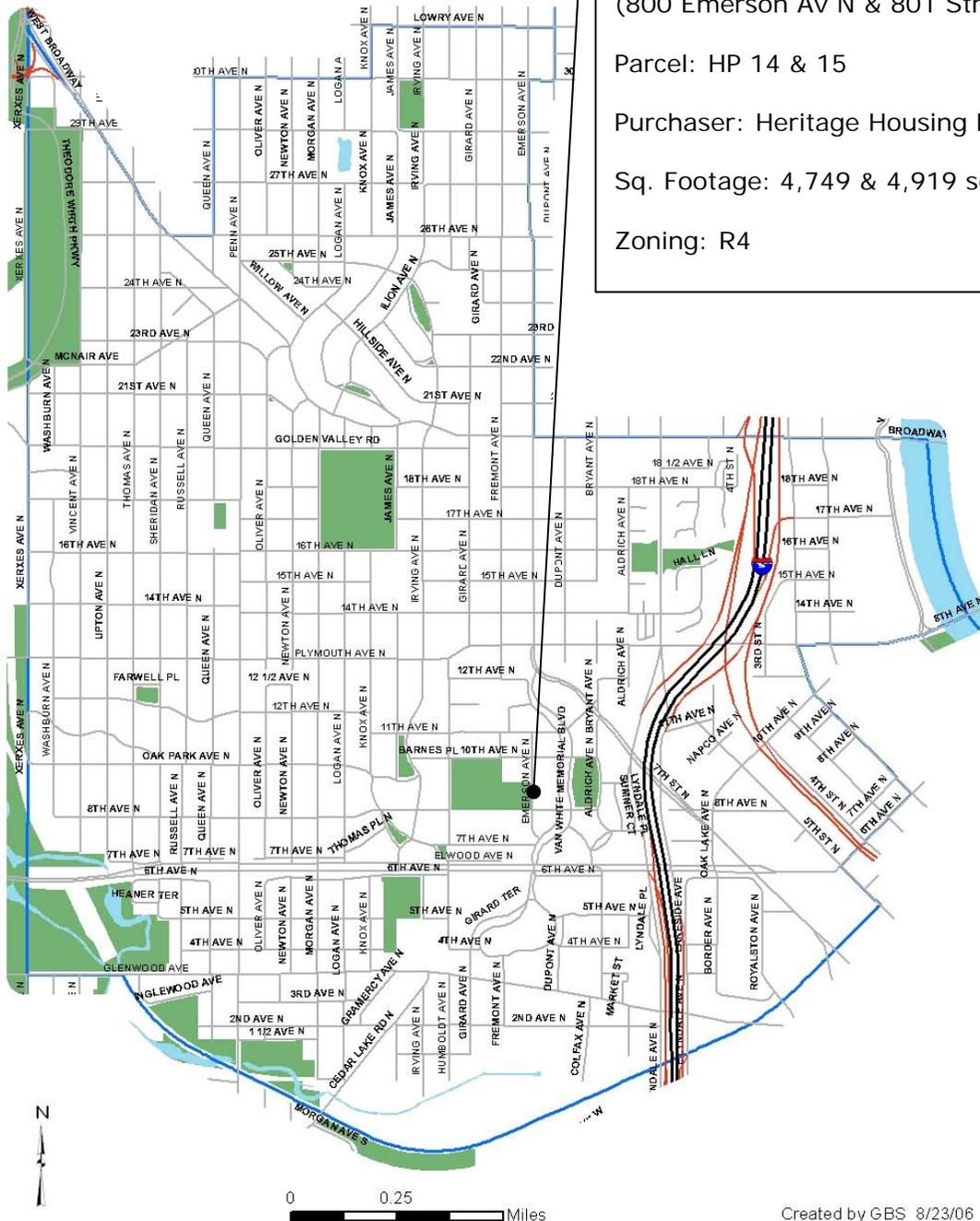
That the re-use value for uses in accordance with the Heritage Park plan, as amended, is hereby estimated to be the sum of \$1 for Parcels HP 14 & 15.

Be It Further Resolved that the acceptance of the offer and proposal is hereby determined to be in accordance with the City's approved disposition policy and it is further determined that the Redeveloper possesses the qualifications and financial resources necessary to acquire and develop the parcels in accordance with the Redevelopment Plan and/or Program.

Be It Further Resolved that the proposal be and the same is hereby accepted, subject to the execution of a contract for the sale of land. Furthermore, that the Finance Officer or other appropriate official of the City be and the same is hereby authorized to execute and deliver the contract to the Redeveloper; provided, however, that this Resolution does not constitute such a contract and no such contract shall be created until executed by the Finance Officer or other appropriate official of the City.

Be It Further Resolved that the Finance Officer or other appropriate official of the City is hereby authorized to execute and deliver a conveyance of the land to the Redeveloper in accordance with the provisions of the executed contract and upon payment to the City for the purchase price thereof; provided, however, that this Resolution does not constitute such a conveyance and no such conveyance shall be created until executed by the Finance Officer or other appropriate City official of the City.

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Address: Outlots I & J
 (800 Emerson Av N & 801 Street B)

Parcel: HP 14 & 15

Purchaser: Heritage Housing LLC

Sq. Footage: 4,749 & 4,919 sq ft

Zoning: R4

