



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

Date: August 23, 2005

To: Council Member Lisa Goodman, Community Development Cmte
Council Member Barbara Johnson, Ways and Means/Budget Cmte

Prepared by: Donna Wiemann, Principal Project Coordinator, 612-673-5257

**Presenter in
Committee:** Donna Wiemann

Approved by: Elizabeth Ryan, Director of Housing Policy & Development _____

Subject: St. Anthony Mills Apartments – Public Hearing on TIF Assistance,
Final Approval of Housing Revenue Bonds, and Approval of an
Affordable Housing Trust Fund loan up to \$200,480

RECOMMENDATION: 1) Approve the attached City Council Resolution adopting the St. Anthony Mills Apartments (SAMA) Tax Increment Finance (TIF) Plan, Modification No. 20 to Industry Square Redevelopment Plan, and Modification No. 105 to the Common Plans; 2) approve the proposed redevelopment contract business terms as described in this report; 3) approve the attached City Council Resolution granting final approval of up to \$9,100,000 in Housing Revenue Bonds; 4) approve a \$200,480 loan from the Affordable Housing Trust Fund; 5) authorize the appropriate City officials to execute a redevelopment contract and loan documents with BD St. Anthony Mills LP, with the Brighton Development Corporation or an affiliated entity as its general partner, based on the terms contained in this report and all other necessary documents related to the above recommended actions; and 6) approve the 2006 budget for the St. Anthony Mills Apartments Tax Increment District in the amount of \$49,725 and refer this item to the 2006 budget process.

Previous Directives: Approval of Concept Plan for the development of Parcel D on February 2, 2000. Approval of up to \$1,000,000 Affordable Housing Trust Fund loan (\$500,000 on May 16, 2003 and \$500,000 on May 28, 2004). Approval of Public Analysis Authorization (PAA) for Parcel D East on April 30, 2004. Approval of up to \$400,000 NRP Affordable Housing Reserve Fund loan on April 15, 2005. Granting preliminary approval of up to \$9,100,000 in housing revenue bonds in May, 2005. Approval of execution of Section 106 MOA with HUD, State Historic Preservation Office, and BD St. Anthony Mills LP for compliance with federal HOME fund rules.

Financial Impact (Check those that apply)

- No financial impact - or - Action is within current department budget.
(If checked, go directly to next box)
- 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): Up to \$200,480 AHTF Loan
- Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact (Summarize below)

Ward: Second

Neighborhood Notification: The Downtown Minneapolis Residents Association (DMNA) has been notified of the proposed project and supports its development.

City Goals: The proposed project fosters the development of a mix of quality housing types that is available, affordable, meets current needs, and promotes future growth.

Comprehensive Plan: Section 4.9: Minneapolis will grow by increasing its supply of housing. Section 4.10: Minneapolis will increase its housing that is affordable to low and moderate income households. 4:12: Minneapolis will reasonably accommodate the housing needs of all of its citizens.

Zoning Code: The site is zoned C3A, the proper zoning for the proposed development.

Living Wage/Job Linkage: Not Applicable.

Background/Supporting Information and Project Description

Since 2000, the City/MCDA has been working with Brighton Development Corporation, the designated developer for the housing portions of Parcel D East, to implement a mixed use, affordable housing project. The proposed project is St. Anthony Mills Apartments (SAMA) to be located between Second St and Washington Avenue on the west side of Chicago Avenue. The address is 720 Washington Avenue South. The City-owned site is approximately 26,000 sq feet in size. The property is located in the historic Minneapolis riverfront area. It is located across Second Street from the St. Anthony Falls Historic District, which is listed on the National Register of Historic Places, and from the Washburn A Mill Complex, which is a National Historic Landmark.

St. Anthony Mills Apartments is a new construction of a five-story building which will consist of 93 rental units and approximately 5,000 square feet of commercial space. The project developer is BD St. Anthony Mills LP whose general partner will be Brighton Development Corporation or an affiliated entity. The project is within easy walking distance of two LRT stations and access to bus service is along Washington Avenue.

Eighty five (85) of the 93 units will be affordable to households at or below 60% of median income. Pending Section 8 Project Based voucher availability, 17 of the units will be targeted to households whose incomes are at or below 30% of the median. Since 48 units (52% of the total) are at or below 50% of median income, the project complies with the City's Affordable Housing Policy which would require 19 affordable units (20% of the total). The eight market rate units will be under long-term lease to the Guthrie Theater for their artists in residence. The term of the lease will be five years and the agreement will allow for a five year renewal.

The bedroom composition and unit size will be

# OF UNITS	UNIT TYPE	UNIT SIZE
15	Efficiencies	500 sq. ft
62	One Bedroom	800 sq. ft.
16	Two Bedroom	1,000 sq. ft.

The rents will include all utilities, except electricity, and are as follows:

UNIT MIX	RENTS
Efficiencies	\$649
One Bedrooms	\$688 - \$1,167
Two Bedrooms	\$992

The ground floor commercial will be divided into two nodes. There will be approximately 2,500 square feet of commercial on the corner of Washington Avenue and Chicago and approximately 2,500 square feet of commercial on the corner of Second Street and Chicago.

St. Anthony Mills Apartments will provide a convenient location for the residents and it is hoped that its location will reduce or eliminate the need for an automobile. The project is within walking distance of bus and light rail transportation. The project seeks to reduce resident dependency on automobiles thereby freeing up financial resources for other living expenses.

The project is designed to conceal the publicly-owned parking facility, the Mill Quarter Municipal Ramp, which is located in the middle of the block. The project will line the ramp on Washington Avenue on the south, Chicago Avenue on the east, and Second Street on the north. The construction of the 324 space ramp is nearly complete and parking for the SAMA residents will be provided in the ramp. There will be a long-term lease (e.g. at a minimum 45 years) between the City of Minneapolis and the SAMA developer/owner for use of 76 parking spaces. The ramp will be physically connected

to the SAMA project and will be available on a 24/7 basis by the SAMA residents. SAMA residents will be charged \$55.00 per parking space per month. Staff expects to ask the Council in September, 2005, to consider the parking ramp lease terms and approve entering into the lease agreement.

Financial Summary

The estimated total development cost of the SAMA project is \$15,777,203. The development costs sources and uses information is detailed in the attached Project Data Worksheet.

The City sources of funds approved for the SAMA project to date are as follows:

1. Up to \$9,100,000 housing revenue bonds (preliminary approval).
2. Up \$1,000,000 Affordable Housing Trust Fund federal HOME funds
3. Up \$400,000 NRP Affordable Housing Reserve Funds
4. Up \$500,000 DMNA NRP funds.

All of the development funds have been committed to the project with the exception of the following:

1. Final approval of the \$9,100,000 housing revenue bonds.
2. A "pay-go" TIF note of \$1,234,100.
3. A request for up to \$200,480 Affordable Housing Trust Fund loan.

Tax Increment Financing

In early 2005, the developer submitted an Application for Public Financial Assistance for the use of tax increment financing. Staff analyzed the eligibility for TIF and the project meets the requirements for a Housing TIF District. Tax increment generated by the TIF District will be one source of public funds used to pay a portion of the public redevelopment costs associated with the project. The project will increase the City's property tax base by taking a surface parking lot in downtown Minneapolis and converting into housing. The project will eliminate the blighting influence of a visible surface parking lot on Washington Avenue and conceal a new public owned parking ramp.

The City would issue a pay-as-you-go TIF note to the developer in an amount not to exceed \$1,234,100 that will be used, in addition to rental revenue, to amortize the proposed housing revenue bonds. The proposed term of the TIF district will be 26 years. With pay-as-you-go tax increment financing, the developer finances eligible public redevelopment costs in exchange for a note that pledges repayment of these costs, with interest, out of the tax increment revenue generated by the project. With this approach, the developer is only fully reimbursed if sufficient tax increment revenue is actually generated by the new development.

Three plan documents – Modification No. 20 to the Industry Square Redevelopment Plan, Modification No. 105 to the Common Project, and the St. Anthony Mills Apartments Tax Increment Finance Plan have been prepared by the City to authorize redevelopment activity necessary to assist SAMA. Modification No. 20 to the Industry Square Redevelopment Plan authorizes the creation of a new TIF district as a tool for carrying out the redevelopment activities. Because the Industry Square Redevelopment Project Area is within the boundary of the Common Project, Modification No. 105 to the Common Plan has also been prepared to reflect the authorization to pursue these redevelopment activities within a project that has been incorporated within the Common Project Area. The new TIF district, however, is not being incorporated into the Common Project and will not be subject to the existing Common Project obligations and commitments and is being created as a free-standing tax increment district. The TIF Plan provides for the establishment of a new TIF district: the St. Anthony Mills Apartments (SAMA) TIF District. The TIF Plan authorizes public redevelopment activities and expenditures and establishes a new housing TIF district and budget for expenditures within the boundaries of the project area. Tax increment will be used to pay for a portion of the public redevelopment and administrative costs associated with the TIF District. The TIF plan documents have been revised to take into account and reflect recent State legislative changes.

Housing Revenue Bond Information

The developer submitted an application in April, 2005 for housing revenue bonds. On May 27, 2005, the Council conducted a public hearing and provided preliminary approval for the issuance of up to \$9.1 million in housing revenue bonds. It is now being presented for final approval. Pursuant to State statutes, the proposed housing program for SAMA has been submitted to the Metropolitan Council and it has determined that the program is consistent with regional plans.

The \$6,200,000 series bonds will be secured by the HUD/FHA 221 d(4) insured mortgage program and the anticipated rating is Aaa. The \$2,900,000 subordinate 2005 series bonds will be a private placement and secured by the assignment of the syndication equity derived from the Low Income Housing Tax Credits and additional security pledged by the developer.

The bonds will be from the 2004 HRB entitlement and the status of the 2004 entitlement is as follows:

Total 2004 Authority	\$36,410,000
Minus 2004 Authority Approved/Issued to Date	\$12,737,500
Minus Single Family Authority	\$ 5,600,000
Total. Authority Remaining	\$18,072,500
Minus SAMA Bond Amount	\$ 9,100,000
Total 2004 Authority Remaining	\$ 8,972,500

Bond Counsel

Kennedy & Graven

Underwriter

Wells Fargo

Council Member Informed

Yes. Ward 2

Additional Request for 2005 AHTF Program Funds

In response to the 2005 AHTF Request for Proposals, the developer submitted a request for an additional \$200,480 from the Affordable Housing Trust Fund. This is due to increased costs as a result of recent changes to the project requested by the City's Building Inspection Department. These changes resulted in over \$300,000 additional construction costs. Brighton worked with their team members (including Glaser Financial and Wells Fargo) to absorb the maximum amount of these new costs into the project's budget by minimizing other costs and maximizing the deferred developer fee. Despite the efforts of the developer's financial experts, there remains a development funding gap of \$200,480 resulting in Brighton's application for a \$200,480 AHTF loan.

Although staff will not submit the 2005 AHTF funding recommendations to the Council for decision until October, 2005, staff requests approval of the \$200,480 for the SAMA project at this time. HUD is providing the first mortgage insurance to the project and will not process the final application until all of the development funds are committed. The developer and the project funders are eager to close on the project and have it start by October, 2005; if a decision about SAMA's \$200,480 AHTF request can not be made until October, HUD will not start their final approval work until then and the project will be delayed at least 30 days. A delay in the project closing and starting will continue to add to the development budget.

Staff has reviewed and scored the SAMA AHTF application for its conformance with the AHTF program selection criteria and it received a total of 119 points. Although the score can not be compared to the other AHTF applications scores at this time since this work is not complete, historically any proposal score over 105 points is in the top 15% of the competition. If approved by Council, the term of the loan would be consistent with the term of the \$1,000,000 AHTF loan previously approved for this project – deferred payment loan with a 30 year term and 1% interest rate. If the \$200,480 AHTF loan is approved, the AHTF per affordable unit subsidy is \$28,580.

Land Sale

In February, 2000, the City Council approved Brighton's concept plan for Parcel D and granted them exclusive development rights. The SAMA project represents the most easterly site of Parcel D. In 2000, the SAMA site was valued at \$262,120. During the four years in which Brighton worked to put the project together (e.g. designing a project as a liner, raising development funds, designing the project to meet the standards of the

historical area, and so forth) \$262,120 was used as site land sale price in all of the development proformas presented to the various funders for development funding consideration.

In mid-2004, City staff commissioned an updated appraisal for Parcel D. Based upon the updated appraisal, the CPED in house appraiser determined the current reuse value of the SAMA parcel to be \$430,000. Staff proposes to sell the SAMA parcel for \$430,000 but proposes that the \$167,880 difference between \$430,000 and \$262,120 be provided to the project as a deferred loan. This approach is being proposed because an increase in the City's sale price of the property would create an additional funding gap that would most likely not be filled by the other public funders (MHFA, Hennepin County, Met Council, and so forth) who based their funding decisions on a stated land price of \$262,120.

In September, 2005, staff will ask the Council to conduct a public hearing on the sale of the SAMA property for the purchase price of \$430,000 representing the fair reuse value of the property. Staff expects to request that \$262,120 be paid in cash or certified funds and the balance, \$167,880, to be financed by the City through a purchase mortgage. The proposed mortgage terms are currently being negotiated with the developer.

Proposed Redevelopment Contract Terms

The proposed redevelopment contract business terms for the St. Anthony Mills Apartments project are summarized below:

1. The developer will construct 93 units of rental housing at 720 Washington Avenue South. Of the 93 units, 17 will be affordable to households with incomes at or below 30% of median conditioned upon approval of Section 8 Project Based assistance for 17 units. 31 units will be affordable to households with incomes at 50% of median and 37 units at 60% of median. The remaining 8 units will be market rate. The project will also include approximately 5,000 square feet of first floor commercial space.
2. Housing revenue bonds in an amount not to exceed \$9,100,000 will be allocated from the City's 2004 bond entitlement authority to provide first mortgage financing which will also allow the utilization of 4% low income housing tax credits resulting in of syndication equity to the project.
3. The City has committed up to \$1,000,000 from the AHTF. This will be a deferred loan at 1% interest for 30 years.
4. The City has committed up to \$400,000 from the NRP AHRF. This will be a deferred loan at 1% interest for 30 years.
5. The City will be involved in the review and consideration of approval for all development draws for this project regardless of the source of funds being used.

Projected Timetable

Council consideration of land sale,
Parking ramp lease, issuance of TIF note,
and other necessary approvals
Land Sale, Project Closing & Start
Construction Completion

September, 2005

October, 2005

February, 2007