

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

Date: January 4, 2011

To: Council Member Lisa Goodman, Chair, Community Development Committee

Subject: 2010 Affordable Housing Trust Fund and Non Profit Development Assistance Fund Project Recommendations

Recommendation: Approve a total up to \$4,772,851 from the 2010 Affordable Housing Trust Fund (AHTF) and a total up to \$68,000 from the Non Profit Development Assistance Fund (Non Profit Fund) for the following projects and developers;and authorize the execution of the necessary documents for the AHTF loans and the Non Profit Fund grants:

1. A loan up to \$1,900,000 from the AHTF and a grant up to \$30,000 from the Non Profit Fund for **Emanuel Housing** to be located at 833 Third Avenue South by RS Eden or an affiliated entity;
2. A loan up to \$80,200 from the AHTF and a grant up to \$8,000 from the Non Profit Fund for **PPL Foreclosure Redirection II** project to be located at 3601 Fremont Avenue North;
3. A loan up to \$70,000 from the AHTF for **St. Anne's Senior Housing** located at 2323 – 26th Avenue North by CommonBond or an affiliated entity;
4. A loan up to \$1,449,000 from the AHTF and a grant up to \$30,000 from the Non Profit Fund for **Spirit on Lake** to be located at 1238 East Lake Street by PRG, Inc. and Plymouth Church Neighborhood Foundation or an affiliated entity;
5. A loan up to \$873,651 from the AHTF for **Stradford Flats** located at 16-22 East 15th Street by Sherman Associates or an affiliated entity contingent upon the applicant seeking the balance of the Low Income Housing Tax Credits from Minnesota Housing, however, if the City provides the balance of the tax credits, the 2010 AHTF award is terminated and the developer must seek the deferred funds from a source other than the City; and
6. A loan up to \$400,000 from the AHTF for **Touchstone Supportive Housing** to be located at 2304 Snelling Avenue by Project for Pride in Living or an affiliated entity.

Previous Directives

1. Emanuel Housing –

- On August 20, 2010, the City Council authorized City officials to sign an Acknowledgement of Receptivity to an LCA Funding Award form if Emanuel Housing is recommended for Livable Communities Local Housing Incentive Account Grant award.
 - On November 5, 2010, the City Council acted to preliminarily reserve Year 2011 Federal Low Income Housing Tax Credits to the project in the amount of \$857,000.
2. St. Anne's Senior Housing –
- On December 15, 2003, the City Council approved \$468,000 from the AHTF for the project.
 - On December 29, 2003, the City Council granted preliminary approval of Housing Revenue Bond financing and Project Analysis Authorization.
 - On January 30, 2004, the City Council approved \$350,000 from the NRP Affordable Housing Reserve Fund.
 - On November 19, 2004, the City Council approved \$100,000 from the Commercial Economic Development Fund.
 - On January 29, 2006, the City Council granted final approval of Housing Revenue Bond financing.
3. Spirit on Lake –
- On December 23, 2005, the City Council approved affordability funding of up to \$350,730 from the 2005 Affordable Ownership Housing Program.
 - On November 3, 2006, the City Council approved Project Analysis Authorization (PAA) to evaluate the use of tax increment financing for this project.
 - On April 27, 2007, the City Council adopted a resolution of support for Spirit on Lake as part of the City's 2007 list of priority projects for Hennepin County Transit Oriented Development (TOD) grant funding.
 - On August 3, 2007, the City Council approved the expenditure of Hennepin County HRA Affordable Housing Incentive Fund (AHIF) for this project in the amount of \$225,000.
 - On October 5, 2007, the City Council authorized the execution of a Cooperative Agreement between Hennepin County and the Hennepin County Housing and Redevelopment Authority related to a \$75,000 Hennepin County TOD grant award to the project.
 - On October 19, 2007, the City Council authorized application to the Metropolitan Council's Tax Base Revitalization Account (TBRA) and the Hennepin County Environmental Response Fund (ERF) grant programs on behalf of the project.
 - On January 31, 2008, the City Council authorized application to the Minnesota Department of Employment and Economic Development (DEED) Redevelopment grant program on behalf of the project.
 - On February 29, 2008, the City Council accepted two brownfield grants to the project; \$235,600 from Hennepin County ERF and \$328,800 from Metropolitan Council TBRA.
 - On May 2, 2008, the City Council accepted a \$391,500 DEED Redevelopment grant for the project.
- 5.. Stradford Flats –

- On November 5, 2010, the City Council acted to preliminarily reserve Year 2011 Federal Low Income Housing Tax Credits to the project in the amount of \$300,000.

6.Touchstone –

- On April 24, 2009, the City Council authorized the submission of applications to DEED and Hennepin County for environmental remediation funds for the Touchstone site.
- On August 14, 2009, the City Council accepted remediation awards from DEED (\$140,500) and Hennepin County (\$270,000).
- On October 2, 2009, the City Council approved the sale of a portion of 2404 Snelling Avenue to Project and Pride in Living for the project.
- On February 26, 2010 the City Council approved a \$1,000,000 2010 AHTF loan and a \$30,000 Non Profit Fund grant to the project.
- On April 2, 2010, the City Council approved an extension of the land sale authorization to June 2, 2010.
- On July 23, 2010, the City Council approved submission of a DEED Redevelopment Grant application.
- On September 3, 2010, the City Council authorized acceptance of \$400,000 in AHIF funds from Hennepin County.
- On October 22, 2010, the City Council authorized acceptance of \$290,472 in DEED Redevelopment funds for the project.
- There are also numerous earlier City Council actions related to the acquisition of the larger Bystrom Brothers redevelopment site by Seward Redesign and the City.

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

Approved by: Thomas A. Streitz, Director, Housing Policy & Development _____
 Charles T. Lutz, Deputy Director CPED _____

Presenters in Committee: Donna Wiemann

Financial Impact

- X No financial impact

Community Impact

- Neighborhood Notification – All projects being recommended for funding have been reviewed by the official neighborhood organization of the area in which the project is located.
- City Goals – In five years all Minneapolis residents will have a better quality of life and access to housing and services.
- Sustainability Targets – The proposed projects meet the affordable housing targets.
- Comprehensive Plan – 4.9: Minneapolis will grow by increasing its supply of housing; 4.11: Minneapolis will improve the availability of housing options for its residents.

- Zoning Code – All projects being recommended either comply or will comply with the zoning code.

Supporting Information

Affordable Housing Trust Fund (AHTF)

The City Council established the Affordable Housing Trust Fund (AHTF) in May 2003 to provide gap funding for the development and stabilization/preservation of affordable rental housing. The City's Affordable Housing Policy requires that all housing developments receiving City subsidies make at least 20% of their units affordable to people earning 50% or less of the Metropolitan Area Median Income (AMI). In 2010 50% of AMI for a family of four is \$42,000.

Since the inception of the AHTF approximately 4,200 housing units have been or are being developed or stabilized/preserved with this funding source (not including projects funded through the Emergency Shelter Grant Program). Some of the projects developed with AHTF monies are Central Avenue Lofts, Ripley Gardens, The Jourdain, The Wellstone, LSS Park Avenue Apartments, Van Cleve East, Van Cleve West, Veteran's Community Housing, St. Anthony Mills Apartments, Midtown Exchange, Kingsley Commons, Minnehaha Apartments, Alliance Addition, and Audubon Crossing.

The AHTF has established selection criteria used to score and competitively rank the proposals. There are two sets of selection criteria – one for projects located in impacted areas of the City (Attachment A-2) and another set for projects located in non-impacted areas of the City (Attachment A-3). The definition of impacted (concentrated) census tracts is based on the percentage of poverty concentration in the census tract. A census tract with a percent of persons greater than or equal to 33.5% in poverty is designated an impacted area. Attachment A-1 shows the impacted areas and the non-impacted areas of the City of Minneapolis.

The selection criteria of both sets are basically the same with these differences: 1) Projects in impacted areas that rehabilitate housing projects receive 5 points whereas projects in non impacted areas that involve new construction receive 5 points. 2) Projects located in non impacted areas that obtain development funds from the Minneapolis Public Housing Agency receive up to 12 points. 3) Projects located in non impacted areas with a higher number of affordable units score higher and projects located in impacted areas with a lower number of affordable units score higher.

The sources comprising the AHTF (not including federal Emergency Shelter Grant) are federal HOME funds, federal Community Development Block Grant funds, and local funds. The HOME and CDBG funds typically comprise over 80% of the AHTF.

The maximum amount of AHTF that can be provided to a project is \$35,000 per affordable unit (affordable to households with incomes at or below 50% of AMI) not to exceed 15% of the Total Development Cost. The Total Development Cost includes all costs associated with the housing development portion of a project except for beginning operating reserves, operating deficit reserves, or other reserves of this type.

2010 AHTF Request for Proposals

In early May 2010 CPED staff issued a Request for Proposals (RFP) for the 2010 AHTF and the applications were due in late June. Sixteen (16) eligible proposals were received with a total funding request of over \$17 million. Most of the proposed projects seek funds from both the City and Minnesota Housing Finance Agency (MHFA). MHFA funding decisions, including allocations of Federal Low Income Housing Tax Credits, were finalized in late October, 2010.

Staff undertook the evaluation of the 16 proposals including financial underwriting, determining each project's conformance to the AHTF selection criteria, conducting property inspections, analyzing the scopes of work, coordination with other lenders, consideration of support services plan, among other things. Each proposal was scored and ranked as to its conformance with the AHTF selection criteria.

2010 AHTF and Non Profit Admin Recommendations

Six (6) proposals are currently being recommended for 2010 AHTF loans and two non profit developers are being recommended for Non Profit Fund assistance. In addition, Riverside Plaza was awarded up to \$1,900,000 of 2010 AHTF monies on November 5, 2010 by the City Council.

The following is a summary of each recommended project:

1. Emanuel Housing – RS Eden will develop 822 Third Street South into 101 permanent supportive housing units for single adults who have been or are experiencing long-term homelessness. Many of the residents will be disabled (chemically dependent and/or mental illness). An existing building will be renovated and an addition will be constructed on the west side. There will be a 24 hour front desk, office space for service providers, and approximately 15,000 square feet of commercial. Staff recommends that the RS Eden consider either having a pet at the project to help aid in the physical and mental health and well being of residents or permitting the tenants on the first floor to have pet.
2. PPL Foreclosure Redirection II – Project for Pride in Living proposes to acquire and rehabilitate a fourplex located at 3601 Fremont Avenue North. NSP II funds have previously been awarded to the project. The building is in stable condition but requires updates and replacement of electrical wiring, the boiler, water heaters, the roof and flooring.
3. Saint Anne's Senior Housing – CommonBond Communities proposes to convert 1,800 sq feet on the first floor of 2323 – 26th Avenue North originally planned to be used as commercial space into two studio apartments bringing the total number of units at the project for seniors to 61.
4. Spirit on Lake – PRG Inc. proposes to develop a 46 unit rental project to be located on the northwest corner of 13th Avenue South and East Lake Street. The project has shifted from an ownership to a rental mode due to changes in the residential market and economy. The plan for the site was conceived through a cooperative community process.

5. Stradford Flats – Sherman Associates, Inc. proposes to rehabilitate an existing 62 unit general occupancy rental apartment building located at 16-22 East 15th Street. The population is mostly single adults working in the downtown area. The building is in stable condition; however, substantial renovations are needed to address code and accessibility compliance and to improve the building's energy efficiency. The 2010 AHTF award is contingent upon the applicant seeking the balance of the Low Income Housing Tax Credits from Minnesota Housing, however, if the City provides the balance of the tax credits, the 2010 AHTF award is terminated and the developer must seek the deferred funds from a source other than the City; and
6. Touchstone Supportive Housing – Project for Pride in Living proposes to develop a 40 unit supportive housing project in partnership with Seward Redesign and Touchstone Mental Health. The project will serve individuals with severe and persistent mental health issues, including four units for persons experiencing long term homelessness. The building will include service provision areas, office space for Touchstone staff, and a wellness center.

The attachments to this report are the following:

- Attachment B shows the AHTF and Non Profit Fund recommendations.
- Attachment C shows the scoring and ranking of each AHTF application as to its conformance with the AHTF selection criteria.
- Attachment D provides a comparison of the proposals on certain key measures (e.g. number of units at or below 50% of AMI, number of units at or below 30% of AMI, other City funding to date, Affordable Housing Trust Fund as a percentage of Total Development Cost, Affordable Housing Trust Fund per affordable unit, amount of developer fee per unit and as a percentage of Total Development Cost.
- Attachments E1 to E6 are the Project Data Worksheets providing details about each of the projects being recommended for funding.

If the funding recommendations are approved, the total expenditure for these projects will be up to \$4,772,851 from the AHTF and up to \$68,000 from the Non Profit Fund. In addition, on November 5, 2010, the City Council approved up to \$1,900,000 from the 2010 AHTF for Riverside Plaza bringing the total amount from the 2010 AHTF to \$6,672,851.

The approved 2010 AHTF projects will result in the development of 193 housing rental units and the stabilization/preservation of 1,365 housing rental units. 924 units will be affordable to households at or below 50% of AMI and 40 units will be affordable to households at or below 30% of AMI.

AHTF Repayment and Recapture Terms

The AHTF funds are typically provided as a deferred payment loan with a 30 to 40 year term and a no interest to 1% simple interest. Loans with no interest will be allowed only when absolutely required by the results of the tax credit debt analysis in projects with low income housing tax credits.

Additionally, the City seeks recapture of a percentage of net cash flow in mixed income projects, where possible, pursuant to CPED's approved policy guidelines.

Applications Not Being Recommended for 2010 AHTF Funding

Nine (9) proposals are not being recommended for funding. There are several reasons for this but the primary one is that the proposals did not qualify for the federal (CDBG and HOME) funds and there was not a sufficient amount of local funds to assign to the project. In one case, a project was eligible for HOME funds, but there was not sufficient HOME funds remaining after higher scoring projects were recommended for funding. The outcome is that both 2010 local funds and 2010 HOME funds which would have worked for some of the projects have been committed to other projects previously approved by the Council or, in the case of Spirit on Lake, is being considered by the Council at this time.

Three sources make up AHTF – local, federal CDBG and federal HOME. Both CDBG and HOME have restrictions relative to eligible costs especially as it pertains to new construction. The local funds have the most flexibility and fewer restrictions relative to their use. The local funds are used for AHTF projects in which the federal funds do not work. Both CDBG and HOME prohibit new construction to some degree and the details are:

- CDBG funds may not be used for new construction unless it is done by a non profit entity that is a Community Based Development Organization (CBDO). CBDOs are a type of nonprofit corporation that must have a certain structure to its board of directors, e.g. 51% of Board membership must be low and moderate income residents. Community development must be a primary purpose of the organization.
- CDBG monies may be used in new construction projects for certain costs (specifically for acquisition, relocation, demolition, and public site improvements) if the project is being undertaken by a non profit organization.
- HOME prohibits new construction in impacted areas.

The projects not being recommended are:

1) The 520 2nd Street S.E. project by Second Street Holdings, LLC. This project is a new construction proposal in a non impacted area. It is not eligible for CDBG funds. It is eligible for either local funds or federal HOME funds; however, these sources are not available at this time.

2) The following six projects are new construction projects located in impacted areas. They are not eligible for either CDBG or HOME and local funds are not available at this time.

- Broadway Green project located at 1936-2022 West Broadway by Legacy Management and Development.
- The Franklin Portland Gateway IV to be located at the northwest corner of Franklin and Portland by Aeon and Hope Community.
- The Hawthorne EcoVillage Apartments project to be located at 817 North Lowry by Project for Pride In Living.
- The Humboldt on the Park project to be located at 1400-1418 8th Avenue North by Humboldt on the Park Limited Partnership.
- The Trinity First Terrance project located at 12xx Franklin Avenue East (northwest quadrant of intersection of East Franklin Avenue and 13th Avenue South) by Lutheran Social Services.
- 2600 – 2606 17th Avenue South by Alliance Housing, Inc.

3. The Nicollet Island Coop located at 107 W. Island Avenue by Mid River Residences is not being recommended because of its low score as to its conformance with the AHTF selection criteria.

4. The Currie Park project to be located at 515 – 15th Avenue South by Fine Associates. the project did not meet total point threshold in the AHTF. A project located in an impacted area must have a minimum of 80 points for funding consideration; Currie Park had a score of 74 points. Additionally, this is a new construction project located in an impacted area; it is not eligible for either CDBG or HOME and local funds are not available at this time.