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

Date: April 20, 2004

To: Council Member Lisa Goodman, Community Development Committee

Prepared by: Jerry LePage, Phone 612-673-5240
Presenter in
Committee: Jerry LePage, Project Coordinator

Approved by: Lee Pao Xiong, Director, CPED Housing Division _______________

Subject: Marshall River Run – Public Hearing on Preliminary Approval of Tax Exempt Multifamily Housing Development Bonds

RECOMMENDATION: Approve the attached City Council Resolution granting preliminary approval of up to $8,000,000 in tax-exempt Multifamily Housing Development Bonds.

Previous Directives: On July 15, 2003, a public hearing was held regarding the preliminary approval of the proposed housing revenue bonds for the original River Run proposal. The CD Committee forwarded the report without recommendation, and on July 25, 2003, the Council referred it back to Committee. On October 10, 2003, the City Council again considered the project and the proposed housing revenue bonds but voted to reject the project as proposed. On January 30, 2004, the City Council granted a Project Analysis Authorization to allow staff to analyze the revised Marshall River Run project with rental and ownership housing.

Financial Impact (Check those that apply)

_X_ 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
_X_ Other financial impact (Explain): Annual bond fees will be collected when the bonds are issued.
___ Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact

Ward: Third

Neighborhood Notification: The Sheridan Neighborhood Organization (SNO) has received required notifications regarding the proposed housing revenue bonds for the Marshall River Run project.
City Goals: 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: Minneapolis will increase its housing that is affordable to low and moderate income households (Section 4.10), and improve the availability of housing options to all of its citizens.
Zoning Code: The site is currently zoned I-1. Sherman Associates has submitted a new planning application that will involve a re-zoning to add an Industrial Overlay Living District (IOLD) based on the new development plan. On May 3, 2004, the City Planning Commission will consider the developer's application, including the IOLD, a Planned Unit Development/CUP, a setback variance, site plan review, and a preliminary plat.
Living Wage/Job Linkage: NA
Other:

Background/Supporting Information

On January 30, 2004, the City Council granted a Project Analysis Authorization to allow staff to analyze the new Marshall River Run development proposal with rental and ownership housing. The previous all-rental proposal, which originally included 119 units and was later reduced to 101 units, was opposed by the Sheridan Neighborhood Organization (SNO) and by other area organizations, and was ultimately rejected by the City Council in October 2003.

Since the City Council's decision in September 2003, Sherman Associates and Marchant Investment have initiated discussions with SNO regarding the events of last year and has now developed a new plan to address neighborhood concerns about the density of the project and the lack of ownership units. Under the current plan, the Marshall River Run project will include a total of 85 units, consisting of 74 rental units and 11 ownership townhomes.

The site consists of two properties: 1424 Marshall, which is owned by the developer, and 1448 Marshall, which is privately-owned with a signed purchase agreement. Attached as exhibits to this report are: a site plan, project elevations, and a CPED Project Data Sheet.

Financial Summary

As staff reported in January, the new development plan will require higher level of public financial assistance because it is now a lower density project and one that still is burdened by a substantial contamination cleanup cost (approximately $300,000). The changes in the development plan have created an additional financial gap of about $1.2

million. Sherman Associates has submitted applications for gap funding through the MHFA/Family Housing Fund and City Affordable Housing Trust Fund (AHTF) RFP application processes. Although final funding decisions by MHFA and FHF will not be made until later this month, the prospects for funding from these sources appear to be good.

The developer is still proposing to use housing revenue bond financing from the City 2003 Entitlement allocation. However, the amount of the bonding utilized will be less than under the previous 101-unit, all-rental proposal ($11 million versus $8 million) because the number of rental units has been reduced from 101 to 74.

Sherman Associates also intends to submit applications for contamination cleanup funding from the State Department of Employment and Economic Development (DEED), the Metropolitan Council, and Hennepin County to help fund approximately $300,000 in contamination cleanup costs. The CD Committee voted to authorize the submission of these applications at its April 6th meeting. These applications are due on May 1, 2004, and funding decisions will be made by the funding agencies sometime in July. Since housing projects are not substantial job generators, Marshall River Run will probably not score well in the competition for DEED and Met Council funds, although County funding looks more promising. Consequently, as staff indicated in January, an alternate plan for funding these cleanup costs would be to create a TIF Hazardous Substances Subdistrict as a last resort. Under this approach, the City would create a redevelopment TIF District for Marshall River Run in the usual manner that would run for the maximum statutory term of 25 years, but would also create this Subdistrict that would authorize the use of the existing base tax capacity for up to 25 years to assist in site cleanup.

Staff is currently working on the TIF Plan for River Run and expects to bring a report to the City Council in June. Due to timing considerations, the proposed TIF Plan that will be presented in June will include the Hazardous Substances Subdistrict in order to accommodate a summer construction start. However, if the River Run does receive sufficient State, Met Council, and County cleanup funding when funding decisions are made in July, the Subdistrict would not be needed and would be de-certified.

Housing Revenue Bond Information

Sherman Associates has submitted an application for tax-exempt housing revenue bonds from the City's 2003 Entitlement as its first mortgage financing. These bonds will be in a total aggregate amount not to exceed $8,000,000, and will also include automatic 4% low-income housing tax credits (LIHTC). Sherman Associates is currently considering two options for the credit enhancement of these bonds:

- A direct purchase of the bonds by Sun America. Sun America is a nationwide insurance and financial services company based in California that was acquired by AIG, a huge triple rated insurance company. Sun America offers a program that provides rated bonds (AAA) through a guarantee process, and also a non-rated program backed by the bond investor that will satisfy issuer requirements.

- HUD-FHA Credit Enhancement Program. This program carries a "AAA" rating because the U.S. Government guarantees the bonds. Sherman Associates has used this HUD-FHA Credit Enhancement Program on a number of projects.

Pursuant to State statutes, the proposed rental housing program has been submitted to the Metropolitan Council, which has determined that the proposal is consistent with regional plans.

As previously mentioned, Sherman Associates has applied for tax increment financing to assist in funding the project redevelopment costs, which may also include a TIF Hazardous Substances Subdistrict for pollution cleanup. The TIF assistance will be in the form of a pay-go note that the developer plans to use as an additional revenue source for payments on the proposed housing revenue bonds. The eleven ownership townhomes, which will be developed at total development cost of approximately $3.1 million, will be privately financed and are not part of this housing revenue bond application.

The proposed **sources and uses** for the **rental building** are summarized as follows.

USES		**Totals**
Construction		$ 7,045,000
Construction contingency		257,700
Land acquisition		900,000
Contamination cleanup		300,000
Relocation/demolition/site clearance		105,000
Architect/engineering		390,000
Legal		180,000
Developer fee		1,100,000
Finance costs		1,066,756
Other costs		339,000
Totals Uses		$11,683,456

SOURCES		**Totals**	**Status**
Housing revenue bonds:			
Supported by project revenues	$6,535,200		
Estimated pay-go TIF note	1,464,800		Proposed
Total housing revenue bonds		$ 8,000,000	Proposed
LIHTC syndication – investor equity		2,169,456	Pending
Contamination cleanup funding/TIF Hazardous Substances Subdistrict		300,000	Proposed
Gap funding (MHFA, FHF, and AHTF)		1,214,000	Pending
Total Sources		$11,683,456	

The unit composition and rent levels for the rental building are shown below.

Unit Type	# of Units	Sq. Ft.	Gross Rents	% of MMI
One bedroom	3	608	$600	50%
One bedroom	6	608	700	60%
Two bedroom	20	858	925	60%
Two bedroom	8	960	925	60%
Two bedroom	20	860	935	60%
Three bedroom	16	1,165	Section 8	30%
Three bedroom	1	1,202	1,050	60%
Total Units	74			

Resident amenities will include: a community room, a building security system; laundry facilities on each floor; individualized control of heating and air conditioning; pre-wiring for internet and satellite access; balconies for each unit; community rooms; exercise facilities; a library, bike parking and storage; and a gazebo west of the rear entrance. The circulation plan for the project will allow public access to the site and toward the river from the neighborhood and will also accommodate future connections to public trails and bikeways along the riverfront. The rental building will have 84 underground parking spaces, and the townhomes will have 2-car tuck-under garages. There will also be 34 surface spaces for resident and guest parking.

The Marshall River Run project will have a total of 85 housing units. The 74-unit rental apartment building will have 9 one-bedroom units, 48 two-bedroom units, and 17 three-bedroom units, with the rents and affordability levels shown above. The 11 ownership townhomes will sell for approximately $250,000 and will be market rate, although Sherman Associates plans to seek affordability funding for some of these units. Since there will be 19 units at or below 50% of MMI, this project complies with the City Affordable Housing Policy, which would require at least 17 affordable units (i.e. 20% of 85).

Status of 2003 HRB Entitlement

2003 MCDA Entitlement Authority	$33,867,000
East Phillips	153,000
St. Anne's	6,000,000
Many Rivers West	2,900,500
Marshall River Run	8,000,000
Amount Remaining	$16,813,500

Purchaser	**Bond Counsel**	**Council Member Informed**
Sun America	Best & Flanagan	Yes, Ward 3.

Financial Leverage

The financial leverage ratios for the Marshall River Run project (including both the rental and ownership components) are shown below. In this analysis, "private investment" also includes the amount of housing revenue bonds that are supported by project revenues and the amount of syndication proceeds from the housing tax credits. "City funds" include TIF and AHTF funds. This analysis also assumes that the project will receive contamination cleanup funding from DEED, the Met Council, and Hennepin County.

- Private investment to total public funds: 3.9 : 1
- Private investment to City funds: 5.4 : 1
- Private & other public funds to City funds: 5.8 : 1

Neighborhood Review

Over the past four months, Sherman Associates has had a number of meetings with the Sheridan Neighborhood Organization (SNO) to present its new development plan and solicit neighborhood input. At this point, SNO has expressed qualified support for the new plan, but still has concerns that it is discussing with the developer. It is our understanding that Sherman Associates has also presented its plans to the Above the Falls Citizen Advisory Committee, which has indicated support for the new proposal.

Zoning/Regulatory Approvals

On May 3, 2004, the City Planning Commission will consider the developer's planning application based on the new development plan, including the approval of an Industrial Overlay Living District, a Planned Unit Development/CUP, a setback variance, site plan review, and a preliminary plat.

Project Timetable/Future Actions

Assuming preliminary approval of the proposed housing revenue bonds, this is a tentative timetable for Marshall River Run.

- Preliminary approval of housing revenue bonds by the City Council — April 30, 2004
- Decisions on affordable housing gap funding — May 2004
- Developer submits applications for State, Met Council, and Hennepin County contamination cleanup funding — May 1, 2004
- City Council considers creation of TIF District and TIF Hazardous Substances Subdistrict — June 2004
- Decisions on contamination cleanup funding — July 2004
- City Council considers: final HRB approval and redevelopment contract business terms — July 2004
- Project closing/construction start — August/Sept. 2004

Giving preliminary approval to the issuance of tax-exempt multifamily housing revenue bonds in one or more series under Minnesota Statutes, Chapter 462C for the purpose of financing a housing program consisting of the acquisition and construction of a multifamily rental housing development for the benefit of Marshall River Run Limited Partnership.

WHEREAS, the City of Minneapolis, Minnesota (the "City") is authorized, pursuant to Minnesota Statutes, Chapter 462C, as amended (the "Act") to develop and administer programs to finance one or more multifamily housing developments within its boundaries; and

WHEREAS, Section 462C.07 of the Act authorizes the City to issue and sell revenue bonds or obligations to finance programs for the multifamily housing developments; and

WHEREAS, representatives of Marshall River Run Limited Partnership, a Minnesota limited partnership (the "Developer") has requested that the City adopt a multifamily housing development program (the "Program") to provide for the issuance of up to $8,000,000 of its tax-exempt multifamily housing revenue bonds, in one or more series (the "Bonds") for the purpose of loaning the proceeds thereof to the Developer to finance the acquisition and construction by the Developer of a 74-unit multifamily rental housing development to be located on the west side of Marshall Street, N.E. on the 1400 block in the City (the "Project"); and

WHEREAS, the Developer has paid and expects to pay certain expenditures (the "Reimbursement Expenditures") in connection with the Project prior to the issuance of indebtedness for the purpose of financing costs associated with the Project on a long-term basis and certain of the proceeds of the Bonds will be used to reimburse the Reimbursement Expenditures;

WHEREAS, the Community Development Committee of the Minneapolis City Council, on behalf of the City held a public hearing on the Program and proposed issuance of the Bonds after at least 15 days published notice hereof and after submission of the Program to the Metropolitan Council for review and comment; and

WHEREAS, the Council has been advised by Piper Jaffray & Co., representing the Developer, that on the basis of information available to them, the Project is economically feasible and the Bonds could be successfully issued and sold; and

WHEREAS, the City has been advised by the Developer that conventional commercial financing is available to pay the capital costs of the Project only on a limited basis and at such high costs of borrowing that the scope of the Project and the economic feasibility of its operations would be significantly affected; and

WHEREAS, the City shall not be liable on the Bonds, and the Bonds shall not be a debt of the City within the meaning of any state constitutional provision or statutory limitation, and will not constitute or give rise to a charge against the general credit or taxing power of the City or a pecuniary liability of the city, nor shall the Bonds be payable out of any funds or properties other than those provided as security therefore;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MINNEAPOLIS:

That the Program is hereby approved and adopted by the City.

Be It Further Resolved that the issuance of the Bonds pursuant to the Program in a principal amount not to exceed $8,000,000 is preliminarily approved.

Be It Further Resolved that the City hereby reserves $8,000,000 of its 2003 housing revenue bond entitlement authority for the financing of the Project.

Be It Further Resolved that the City hereby makes this declaration for purposes of establishing compliance with the requirements of Section 1.150-2 of the Treasury Regulations.

Be It Further Resolved that the City hereby declares its official intent to use proceeds of indebtedness to reimburse the Developer for Reimbursement Expenditures, including those expenditures made sixty days prior to adoption of this Resolution.

Be It Further Resolved that the foregoing preliminary approval of the issuance of Bonds shall be subject to final determination by the City of terms and conditions and shall not constitute an irrevocable commitment on the part of the City to issue the Bonds.

Be It Further Resolved that the staff of the Minneapolis Community Planning and Economic Development Department is hereby authorized, in cooperation with bond counsel to take all steps necessary and desirable to proceed to develop the Program and financing therefore.