

Community Planning & Economic Development

Crown Roller Mill, 105 Fifth Ave. S.
Suite 200
Minneapolis, MN 55401



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REPORT TO THE DEVELOPMENT FINANCE COMMITTEE

FROM: Dollie Crowther, Principal Project Coordinator

SUBJECT: Tax Increment Finance Plan and Modification to the Franklin-Portland Gateway Redevelopment Plan for the Franklin-Portland Gateway Project, Phase III – The Wellstone located at 1931 Portland and 612, 616, 620, 621 East Franklin Avenue South

Action Requested of Development Finance Committee

Review the request for Modification No. 1 to the Franklin-Portland Redevelopment Plan and The Wellstone Tax Increment Finance Plan and provide comments to staff prior to consideration by the Community Development Committee.

Staff Recommendation

Staff recommends approval of the proposed Wellstone TIF Plan structure and Modification to the Franklin-Portland Redevelopment Plan.

Previous Development Finance Committee Actions

On January 13, 2005, the Development Finance Committee recommended approval of a loan of \$900,000 from the AHTF for Franklin-Portland Gateway Phase III – The Wellstone. On September 2, 2005 Project Analysis Authorization was approved for The Wellstone. On October 20, 2005 the Development Finance Committee recommended approval of a deferred loan from the AHTF of \$275,000 for the project.

Project Description

Franklin-Portland Gateway Phase III – The Wellstone, located at 1931 Portland Avenue South and 612, 616, 620, 621 East Franklin Avenue South (Ward 6) is a collaborative effort by and between the Central Community Housing Trust (CCHT) and Hope Community to develop the northeast corner of Franklin and Portland Avenues. In order to make the Gateway collaborative a reality will require a phased financing and development schedule.

The Wellstone located in the Phillips neighborhood will provide a creative, commercial and residential development in the Phillips neighborhood. Ideas for the phased project were taken from residents and workers in the neighborhood and enhanced by engaging

professionals in architecture, urban planning and real estate development. The technical expertise of CCHT and Hope represents a unique collaborative arrangement.

The Wellstone will feature forty nine (49) units of mixed-income rental housing, ranging from studios to 3 bedroom townhome style family units. Of the 49 units, four will be long term homeless units, twelve will be market rate and the remaining units will be at 50% and 60% of area median income. All residential parking is provided via a below grade parking garage, thus preserving much of the site for shared green space, playground and landscaping. Additionally, approximately 4,400 square feet of restaurant space is planned for The Wellstone and 2,671 sq. feet will house Hope Community property management offices.

Company/Borrower

Hope Community and Central Community Housing Trust (CCHT) will form a limited partnership to own and operate the project. Currently, it is planned that Hope and CCHT will be co-general partners, however, Hope will be the managing partner for The Wellstone. They will also be the Asset Manager.

Both CCHT and Hope Community, Inc. are Minnesota Non-Profit Corporations. CCHT has been in operation for eighteen years and Hope Community, Inc. has operated for twenty-eight years in the community.

Hope Community, Inc's mission is to build a neighborhood model through community organization, education, leadership and housing development. They have a sixteen member Board of Directors. Currently Hope is the owner/developer manager of 120 units of housing and has solicited extensive financial assistance from CPED.

CCHT's Board of Directors is comprised of twenty-one members, with up to three (3) additional Special Neighborhood Director positions. At least 25% of the positions are made up of residents from CCHT properties and at least 60% from residents of CCHT's service areas. CCHT has been instrumental in providing housing options for families in need of affordable housing. They are a CHDO and have a long history with CPED in securing funds to develop affordable rental, ownership and mixed income housing.

Financing Overview

The total project development costs for The Wellstone is \$13.1 million. The project sources and uses are outlined on the attached Project Data Worksheet.

The City of Minneapolis has committed \$1,175,000 for the project and \$30,000 of Non Profit Development Assistance Funds. Funds have also been committed from Hennepin County, the Empowerment Zone, and the Metropolitan Council. The Minnesota Housing

Finance Agency has approved an allocation of 9% Low Income Housing Tax Credits which is expected to generate approximately \$6.3 M in equity investment. The MHFA has also committed funds to the project. An MMA First Mortgage application has been approved and the developers have received final application approval. The project is expected to close in the Fall 2007.

The proposed project qualifies as a Housing Tax Increment Financing District under State Statutes, which means a type of tax increment financing district which consists of a project, or a portion of the project intended for occupancy in part by persons or families of low and moderate income.

The TIF Plan will allow the use of tax increment revenue to pay for public redevelopment activity, which includes new construction, administration and other eligible costs.

According to projections from City Finance staff, The Wellstone Project will generate annual tax increment revenue of approximately \$76,200. The developer has requested that the City issue a "pay-as-you-go" TIF note in an amount not to exceed \$705,800. The note will be issued by the City and have a stated interest rate. The TIF note will assist with a portion of the MMA First Mortgage on the project along with project income. The term of the TIF district will be the maximum statutory term of 26 years.

With "pay-as-you-go" tax increment financing the developer finances eligible public redevelopment costs under contract in exchange for a note that pledges repayment of their costs, with interest out of the tax increment generated by the project. This approach reduces the financing risk for the City because the developer is reimbursed only if sufficient tax increment revenue is generated by the new development.

Discussion of Financial Statements

City Finance Analyst staff previously reviewed the 2005 audited financial statements submitted by CCHT and Hope Community, Inc.

Guarantors

Not applicable.

Collateral

Not applicable.

Risk Assessment

The level of risk is comparable to other City Multifamily mixed use projects. In addition to CPED underwriting, HUD underwriters also analyze the projected financial assumptions

and the project must meet their standards. The tax increment assistance will be in the form of a “pay-as-you-go-“ note which is a contractual obligation to pay the debt service and interest on a note with the available tax increment. Should additional tax increment become available, the note will be repaid sooner. Alternately, if there is insufficient tax increment to meet the debt service on the note, and the TIF district expires with outstanding debt balances, the note terminates and no further payments are required.

Loan Covenants

The TIF is not a loan to the project.

Recapture Provisions

Not applicable.

Attachments

- Project Data Worksheet for Multifamily projects
- Comparison to other TIF projects