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

Date: April 19, 2011

To: Council Member Lisa Goodman, Chair
Community Development Committee

Subject: Project Analysis Authorization – 520 Second Street S.E.

Request: Direct and authorize staff to either 1) continue analysis of the 520 Second Street S.E. project proposal to determine if tax increment financing (TIF) assistance is appropriate and justifiable, or 2) discontinue further TIF analysis for the project. If further directed analysis concludes TIF assistance is appropriate, then staff requests authorization to negotiate the terms and conditions of a redevelopment contract with Second Street Holdings, LLC or an affiliated entity; and prepare redevelopment and TIF plans for the project as needed. All such terms and conditions, plans, and other provisions would be subject to City Council review, discussion, and approval or denial.

Previous Directives: None.

Department Information

Prepared by: Donna Wiemann, Principal Project Coordinator, (612) 673-5257
Approved by: Thomas A. Streitz, Director, Housing Policy & Development _____
Charles T. Lutz, Deputy Director _____
Presenter in Committee: Donna Wiemann

Financial Impact

- No financial impact.

Community Impact

- Neighborhood Notification: The Marcy Holmes Neighborhood Association was advised of the receipt of this Application for Public Assistance.
- City Goals: A safe place to call home, One Minneapolis, Connected communities, Enriched environment.
- Sustainability Targets: Affordable housing production.
- Comprehensive Plan: *The Minneapolis Plan for Sustainable Growth* contains the following relevant policy: *Policy 3:3:* Increase housing that is affordable to low and moderate income households.
- Zoning Code: The zoning is C3-A with a density variance approved and the project is compliant with proper zoning.

Supporting Information

Second Street Holdings, LLC owns the property at 520 Second Street S.E. and proposes to develop a housing project consisting of 91 rental apartments along with 96 underground parking spaces. The project is located in the Marcy-Holmes neighborhood and includes six stories above grade with two levels of underground parking.

The unit mix proposed is 74 one bedroom units that are 560 square feet and 17 studio apartments ranging from 441 to 528 square feet. The building will have a secured entry, on-site office and management space, roof top deck, community room, on-site laundry facilities on each floor, bike racks in each parking stall, and storage lockers for tenant use.

Thirty seven units will be affordable to households at or below 50% of Area Median Income and the balance of the units will be affordable to households at or below 60% of the Area Median Income. The owner will pay all utilities.

The project will be owned by 520 2nd Street Apartments, LP. The General Partner of the Limited Partnership will be 520 2nd Street Apartments LLC. Members of the General Partnership will be Lucy Brown Minn and John K. Wall. The Limited Partner will be the tax credit investor yet to be identified.

Winthrop and Weinsteine will provide developer counsel and architectural services will be provided by BKV Group. Property management would be provided by American Management Service Central, LLC (Pinnacle).

The site is currently occupied by a vacant one-story building and a surface parking lot. The existing building is approved for demolition and will be removed to make way for the proposed development. This vacant building is not structurally sound and was found to be economically unfeasible for renovation.

Project Financing Overview

The estimated total development cost of the project is approximately $14,904,847. Developer equity in the project totals $3,286,026 consisting of deferring 100% of the developer fees, providing the land cost as equity, and contributing additional cash. The developer intends to apply to the City for Housing Revenue Bonds in the first half of 2011 which would generate approximately $4,188,821 in tax credit equity. Bonds would be structured as an A-B series with Series A bonds in the original principal amount of $4,125,000 supported by the project's net operating income and Series B Bonds in the original principal amount of $1,405,000 supported by the annual TIF income.

The developer proposes to apply for the following funding sources: $950,000 from the 2011 Affordable Housing Trust Fund, $300,000 from Hennepin County's Affordable Housing Initiative Fund, $500,000 from Hennepin County's Transit Oriented Development program, and $150,000 from Minnesota Housing Finance Agency.

The developer has proposed a total developer fee of approximately $1,317,814 that represents approximately 9% of net TDC. The proposed developer fee falls within the CPED Housing Developer Fee Policy Guidelines. The amount of the overall fee will be subject to further review and analysis.

Additional detailed information is provided on the Project Data Worksheet attached to this report.

Proposed TIF Assistance

The developer is requesting approximately $1,405,000 in pay-as-you-go TIF assistance. Further analysis following PAA approval will include the formal blight analysis process for TIF purposes and evaluation of eligibility for a Housing TIF district. At this time, all development cost estimates are preliminary and subject to further CPED review and analysis. TIF proceeds will be used to cover eligible tax increment expenses, including the extraordinary development costs described below which total between $1,394,000 and $1,494,000.

The site is currently occupied by a one-story brick building and surface parking lot in the "(Left) East Bank Milling" subdistrict of the St. Anthony Falls Heritage District. Extreme and costly design limitations are in effect for this project as further described below. The estimated extraordinary project costs identified below do not capture the entire impact on the project. General conditions, design, construction project management, and contingency are impacted by the additional materials and labor costs and add an estimated $254,000 of extraordinary expense.

The existing building is approved for demolition but with significant limitations on how the demolition will impact the subdistrict's contributing structures to the east (Shepard Manufacturing Building built in 1884 located at 129 6th Avenue S.E.) and west (Union Railway Storage Building built in 1883 located at 110 5th Avenue S.E.) The following describes the significant project costs associated with a) demolition; b) excavation; and c) new footings/foundation work.

a) Demolition Protection - Estimated Extraordinary Cost is $75,000 - $100,000

The existing structure is attached to 129 6th Avenue S.E. by a 138 foot long "party wall" and common private sewer system. Separation must be by hand digging at this common wall including careful removal of the limestone footings. The private sewer separation will also be accomplished by hand digging and the developer anticipates repeated breakage of the clay and brick sewer pipe.

b) Excavation Protection - Estimated Extraordinary Cost is $50,000 to $75,000

The excavation of the demolished site will be to approximately 245,000 cubic feet of dirt to permit a depth of sixteen feet in 15,250 square feet of area. The adjoining party wall footings along the 138 feet to the east or the 65 feet to the west can not be undermined. Lateral and subjacent support and underpinning engineering will be required to hold adjoining buildings in place. Removals will be with smaller sized equipment rather than large backhoes and site graders making the work more time intensive and costly.

c) New Footing/Foundation Work - Estimated Extraordinary Cost is $100,000 to $150,000

Engineering assessments indicates the need to auger the footings rather than risk pounding or vibrating tight retention walls against historic properties for over 513 lineal feet. The Heritage Preservation Commission approvals specifically prohibit the use of the common retention and pilings techniques. All footings on this site will need to be augered which is a more costly method compared to spread footings and/or precast "pour and plank" techniques. Estimates include additional engineering and specialty foundation estimates.

The St. Anthony Falls sub district design guidelines call for nine specific requirements that significantly impact any new construction in district. For this proposed affordable

housing project, these requirements can be categorized into three specific costs centers associated with a) exterior façade; b) fenestration; and c) mechanical systems. Details are as follows:

a) Exterior Façade – Estimated Extraordinary Cost is $315,000

Single unit masonry construction is too costly for rental housing and prohibitive in affordable housing construction. Acceptable alternative materials are typically a wood, vinyl, metal, or concrete siding system. This project has a specific requirement for 8,000 square feet of single unit brick on the lower two levels and 7,000 square feet of brick elevations. The cost difference between siding material and the steel, labor and brick materials for the historic requirement of masonry is over $21.00 per square foot.

b) Fenestration – Estimated Extraordinary Cost is $300,000

Standard sized vinyl windows made in high volume cost between $175 - $200 each. These windows are 1.5:1 ratio in size. The HPC staff approved a 3:1 ratio window on this design with metal frame and divided lights. The 82 garage windows needed will cost about $500 each. The main façade has 3 x 9 windows that will cost $1,000 each and the project has 245 of them. The hoisting, setting and attaching of these larger windows is more complicated and requires more labor and hoisting equipment.

c) Mechanical Systems – Estimated Extraordinary Cost is $300,000

This project may not use the standard construction technique of a direct-vent through wall HVAC system that pushes a grill and vent through the exterior of the wall and runs ductwork through the apartment. There is a specific requirement to either construct a common heat/cooling system or construct alcove areas to turn and obstruct the venting from exterior view. The developers have had an unsatisfactory experience with constructing alcove areas to turn and obstruct the venting from exterior view as the equipment does not vent as designed. The developers propose the alternative which is to use a central hot/chilled water system known as a “two-pipe” central HVAC system. This costs $3,400 per unit more than a typical direct-vent system.

Project Timeline

The proposed timeline is as follows:

- Consideration of Preliminary Approval of housing revenue bonds in the second or third quarter, 2011.
- Consideration of 2011 Affordable Housing Trust Fund award in late 2011.
- If the City Council approves the TIF Project Analysis Authorization in April, 2011, consideration of redevelopment contract business terms, the creation of a TIF district, and final housing revenue bonds by the City Council in late 2011.
- Project closing and construction start in early 2012.
- Project completion in late 2012 or early 2013.

Preliminary Staff Analysis

Based on a preliminary review to date, staff concludes that a) the Application for Public Financial is essentially complete; b) the project appears feasible, based on the preliminary information that the developer has submitted; and c) some level of public financial assistance appears to be justified. While the developer has completed an analysis of the maximum amount of tax increment that the proposed project could generate, staff has not yet verified the accuracy of these estimates nor determined what level of tax increment assistance is appropriate.

If the Project Analysis Authorization is approved by the City Council, staff will proceed into the project analysis stage address a number of issues, including 1) the appropriate level of tax increment financing assistance, if any; 2) eligible costs that can be paid for with the various forms of City finance assistance; 3) the qualification and establishment of a housing TIF district; 4) the appropriate financing vehicles that will be used to provide such assistance; and 5) the recapture of the City's financial assistance.

Project Analysis Fee

If the Project Analysis Authorization is approved by the City Council, the developer will be assessed a nonrefundable project analysis fee of $13,090. This fee amount is based on the estimated cost of staff time and other expenses up to the point in time when the request for public financial assistance is either approved or denied by the City Council. Acceptance by the City of the application or project analysis fee does not signify a commitment on the part of the City to grant approval of any requested public assistance. An additional fee may be required if the analysis of this project increases due to unanticipated complexity or if changes occur in the development.