



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

Date: April 19, 2005

To: Council Member Lisa Goodman, Community Development Cmte

Prepared by: Dollie Crowther, Senior Housing Project Coordinator, Phone 612-673-5263

Presenter in Committee: Dollie Crowther
Elizabeth J. Ryan, Director, Housing _____

Subject: **Limited Equity Cooperative Program Funding
Recommendation for Nicollet Island Cooperative – Mid River Residences, Inc.**

RECOMMENDATION:

Approve up to \$250,000 of Limited Equity Cooperative Program funds for Mid-River Residence, Inc. by Nicollet Island Cooperative, approve the restructure of existing \$1,939,340 CPED loans to Mid-River Residence, Inc. as described herein, approve \$30,000 of Non Profit Housing Development Assistance Funds for the North Country Cooperative Foundation and authorize the execution of the appropriate documents.

Previous Directives: In December, 2003, the City Council established the Limited Equity Cooperative Program and dedicated \$1,000,000 to be used for production.

In July, 1988, the City Council approved \$956,000 from the Development Account for Nicollet Island Historic Homes. On June 28, 1993, the Council approved \$371,500 of Multi-Family Program HOME funds.

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):
- Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact (Summarize below)

Ward: Third Ward.

Neighborhood Notification: On March 20, 2004, the Nicollet Island East Bank Neighborhood Association approved the development project plan proposed by Mid-River Residences Cooperative.

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: 4.9 and 4.10: Minneapolis will grow by increasing its supply of housing and will increase the housing that is affordable to low and moderate income households.

Zoning Code: The zoning for the Nicollet Island Cooperative is R5. The zoning for the proposed Riverview Homes Senior Cooperative Project will comply with the proper zoning code.

Living Wage/Job Linkage: NA

Dear Council Member Goodman:

Background/Supporting Information

In December, 2003, the City Council established the Limited Equity Cooperative Program with \$1,000,000 dedicated to the program and directed staff to issue a Request for Proposals (RFP). The program was one of several new initiatives to increase affordable ownership housing. The funding source is \$800,000 of 2004 levy money and \$200,000 of Multi-Family bond fees. The primary objective of this program is to provide gap financing to develop affordable limited equity ownership cooperative units. Attachment A to this report is an overview of the program, the eligible uses of funds, and the program's selection criteria.

A housing cooperative forms when people come together to own and control the buildings in which they live. They form a cooperative corporation to which they pay a monthly amount to cover operating expenses. The cooperative owns the land, the buildings, and any common areas. Members buy shares in the cooperative and have an exclusive right to occupy a particular dwelling unit. In limited equity cooperatives,

members pay monthly carrying charges to the cooperative – a pro-rata share of actual operating costs, blanket debt principal and interest, property taxes, insurance, and reserves.

A limited equity cooperative is a type of ownership that puts restrictions on the unit's sale price. A limited equity cooperative is designed to maintain long-term housing affordability by limiting the amount of equity a member can take when they sell their share thereby keeping the share price affordable for the new member.

Staff issued the RFP in the summer of 2004 and received a total of three proposals. One proposal was subsequently withdrawn by the applicant. Another proposal for the River View Senior Cooperative was approved by the City Council on February 25, 2005 for \$750,000. The final proposal is a request of \$250,000 for the Mid River Residence by Nicollet Island Cooperative – Mid River Residences, Inc.

Mid-River Residence, Inc. has been a leasehold cooperative for 16 years. The membership has actively participated in the budget process and management of the property. This project is an expiring tax credit project (credits expired in December, 2003). The limited partner will sell (transfer) their interest in the project to Northcountry Cooperative Foundation. Northcountry will then restructure the debt and sell (transfer) the project to the limited equity cooperative. The reason for this is the tax consequences of restructuring the debt.

Each resident will own a percentage share in the corporation and have the ability to lease from the coop corporation. Each resident's share payment will be \$5,000. Northcountry will assist with this payment. A formula will be calculated to address the resident's share based upon the unit's square footage. When the resident leaves, he/she will sell their interest in the corporation. The sale price is limited by the formula, based on the years of residency. Five (5) units must remain affordable at or less than 50% of MMI and fourteen (14) units at or less than 80% of MMI. HOME affordability stays in place until 2007, CPED rent and income restrictions will remain in place until 2052.

Mid-River Residence Inc., with assistance from Northcountry Cooperative Foundation, anticipate purchasing the property from Twin City Housing Development Corporation (TCHDC), the managing general partner, and Boston Capital, the limited partner, for \$1.00 plus the assumption of the outstanding debt. This outstanding debt represents two prior loans with CPED originated in 1988 and 1993. The total of these two loans (including accrued interest) is \$1,939,340. Mid-River is requesting restructuring of these loans to Year 2052 and a reduction of the interest rate from 4% to 0% effective on the date of closing.

One of the loans was provided as a grant. This was for \$371,500 (HOME funds) and, per the loan agreement, upon the sale of the project, the grant becomes a loan and is due and payable. The remaining loan was from the Development Account and was originally \$956,000. With interest, the unpaid balance of this loan is \$1,567,840. Mid-River Residences has agreed to make annual payments on this loan until it is paid in full. A detailed project overview is provided in the Project Data Worksheet, Attached.

The project proposal was underwritten and evaluated for its conformance with the Limited Equity Cooperative Program's selection criteria. If the proposed loan financing is approved by the Council, the minimum loan terms will be a deferred payment loan with an interest rate of 1%. The loan term for Nicollet Island Cooperative will be 47 years, to 2052, to correspond with the term of the existing City debt that will be extended.

Finally, Northcountry Cooperative Foundation has been assisting Mid-River Residences in their efforts to become a limited equity cooperative. They have incurred administrative costs in providing training to the residents, who will be operating and maintaining the project in the future. The \$30,000 of Non Profit Development Assistance Fund request will assist with costs incurred by the Cooperative Foundation.

Limited Equity Cooperative Program**“LIMITED EQUITY COOPERATIVE PROGRAM”**

Primary Objective: Gap financing for limited equity (ownership) cooperative development. Funds are available for projects such as the following:

Leasehold cooperatives converting to limited equity cooperative as a result of expiring tax credits. Funds would be used for rehabilitation or preservation. The project would remain affordable at similar levels.

Affordable and mixed income family housing.

Affordable and mixed income senior housing.

The limited equity cooperative structure provides a mechanism for long term (30 + years) affordability. Buyers are able to accumulate limited equity over time.

Eligible Costs: Eligible projects will include preservation and production projects containing 10+ units and conforming to the City's affordable housing policy. Twenty percent of the units must be affordable at or less than 50% MMI. Maximum per-unit gap funding of \$35,000 for each affordable unit (at or less than 50% of MMI). The funds will generally be structured as long-term, low-interest deferred loans, as either blanket loans to the cooperative or individual share loans.

Criteria: Priority for projects meeting the following criteria:

- Financial feasibility and readiness 0-10 points
- Leverage/matching funds: 0-10 points
 - 5 private dollars for every 1 AHTF dollar 10
 - 5 private dollars and other public dollars
for every 1 AHTF dollar 8
 - 3 private dollars for every 1 AHTF dollar 6
 - 3 private dollars and other public dollars
for every 1 AHFT dollar 4
 - 3 other public dollars for every 1 AHFT 2
- Preservation of expiring tax credit units
- Large family housing:
 - The project provides family housing whereby
25% of more of the units have three (3) or more bedrooms
 - At least 25% three bedrooms 4
 - At least 50% three bedrooms 8
 - At least 75% three bedrooms 10
- Senior Housing 0-10 points
- Level of affordability 0-10 points
 - (Maximum points for units at 30% or less MMI)
- Demonstrated organizational capacity 0-10 points
- Quality of management plan and cooperative training plan 0-10 points
- Neighborhood support 0-10 points
- Quality of design 0-10 points
- Proximity to transit and jobs 0-10 points