



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

Date: May 3, 2005

To: Council Member Lisa Goodman, Community Development Committee

Prepared by: Jerry LePage, Phone 612-673-5240

Presenter in

Committee: Jerry LePage, Senior Project Coordinator

Approved by: Elizabeth Ryan, Director of Housing Policy & Development _____

Subject: Veterans and Community Housing project (5475 Minnehaha Avenue)

RECOMMENDATION: Modify the terms of \$660,000 in AHTF CDBG funding to permit an unsecured loan in order to meet the closing requirements of the Veterans and Community Housing Project as negotiated with the U.S. Department of Veterans Affairs, and authorize execution of the appropriate documents.

Previous Directives: On May 16, 2003, the MCDA Board approved a loan of up to \$660,000 from the Affordable Housing Trust Fund (AHTF) to the Community Housing Development Corporation for the Veterans and Community Housing project. On February 11, 2005, the Council authorized the execution of a Joint Powers Agreement between the City of Minneapolis and Hennepin County for this project.

Financial Impact (Check those that apply)

- 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
- Other financial impact (Explain):
- Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact

Ward: Not applicable. Project is outside of the Minneapolis city limits.

Neighborhood Notification: The project is located outside of Minneapolis but is adjacent to the Minnehaha neighborhood, which is represented by the Nokomis East Neighborhood Association (NENA). NENA has reviewed this project on a number of occasions and has also received notification that this report will be presented to the City Council.

City Goals: Complies with Goal 2, Strategy A, to preserve and expand the number of affordable housing units throughout the City.
Comprehensive Plan: Project complies.
Zoning Code: Project complies.
Living Wage/Job Linkage: Not applicable.
Affirmative Action Compliance: Project will comply.
Other:

Background/Supporting Information

The Veterans and Community Housing Project involves the development of permanent housing for low income veterans and other members of the community on a development site at 5475 Minnehaha Avenue owned by the U.S. Department of Veterans Affairs. The property is primarily vacant land that is adjacent to the Minneapolis VA Medical Center and in an unincorporated section of Hennepin County just outside of Minneapolis.

The project is being developed by the Community Housing Development Corporation (CHDC) and will consist of approximately 140 efficiency units: 18 units in four existing two-story residential buildings that will be rehabilitated and 122 units in two new buildings that will be constructed. The proposal is designed to provide housing for homeless, near homeless, and low-income single men and women, with approximately half of the units reserved for veterans. Of the 140 units, 50 will be targeted to individuals with incomes at or below 30% of MMI and 85 units at 50% of MMI.

This project is a very unique and challenging venture that has involved several levels of government, veteran advocacy interests, and the non-profit sector, and has been in the development stage for several years. The partnership that has been formed includes the following:

- U.S. Department of Veterans Affairs
- State of Minnesota
- Hennepin County HRA
- Ramsey County HRA
- City of Minneapolis
- Family Housing Fund
- Minnesota Assistance Council for Veterans (MACV)
- Community Housing Development Corporation

In 2002, the Minnesota State Legislature allocated \$16 million in General Obligation bonds for projects serving homeless individuals with a focus on veterans in Hennepin County and St. Cloud. Of this total, \$10.3 million was allocated to the Twin Cities site, which provided the initial funding authorization for this project. Subsequently, additional funding has been approved by MHFA, Hennepin County, Ramsey County, and the Family Housing Fund. In May 2003, the City of Minneapolis approved a \$660,000 AHTF

CDBG loan for the project. A Project Data Worksheet that include the sources and uses and other data about the project is attached as **Exhibit 1**.

Over the past two years, the Community Housing Development Corporation, who is acting as the project developer, has worked with other project partners on complex negotiations with the U.S. Department of Veterans Affairs regarding an Enhanced Use Lease for the land. Under the approach that has evolved, the VA will continue to own the land but will provide a leasehold interest to the land and ownership of the buildings on the land to Hennepin County. In turn, Hennepin County will sub-lease the land to CHDC to permit development. However, a major issue that has complicated the negotiations regarding the Enhanced Use Lease is the VA's reluctance to permit mortgages on the leasehold interest. Although the VA is not necessarily prohibiting mortgages, it is clear that the VA would have to approve any proposed mortgages, which would likely be a time-consuming process that would extend what has already been a very protracted negotiation.

In the interest of moving the project forward, other lenders (MHFA, Hennepin County, Ramsey County, and the Family Housing Fund) have agreed to provide their funding as unsecured loans. Consequently, CHDC is now requesting that the City of Minneapolis modify the terms of its \$660,000 AHTF CDBG loan to delete the requirement that this loan be secured by a mortgage (see attached CHDC letter, **Exhibit 2**). In all other respects, the City loan for this project would conform to the typical repayment terms for City multifamily financing (i.e. a 30-year deferred payment, non-forgivable loan at 1% interest).

This exception to the City's secured loan requirement is being considered because of the unique nature of this project (i.e. the issuance of State-authorized G.O. bonds, multiple governmental roles and funding sources, and the federal Enhanced Use Lease restrictions), and the granting of this exception should not be seen as establishing a precedent for future projects. In addition, the City will still require a Regulatory Agreement as a condition of the loan that will assure the long-term affordability of the affordable units proposed in this project, plus a Promissory Note (full recourse to CHDC) requiring full repayment of the loan.

The Development Finance Committee will also be reviewing this request to delete the secured loan requirement for this project, and will be forwarding its comments to the City Council.

Assuming approval of this change by the City Council, CHDC is hoping to close on the project by the end of May and to start construction this summer.