

Minneapolis Community Development Agency

Request for City Council Action

Date: June 24th, 2002

To: Council Member Lisa Goodman, Community Development Committee

Prepared by Dollie Crowther, Phone 612-673-5263
Cherre' Palenius, Phone 612-673-5241

Approved by Chuck Lutz, MCDA Interim Executive Director _____

Subject: A Public Hearing and Request for Preliminary Approval of up to \$10,605,000 of Tax Exempt Multi-family Housing Revenue Bonds and \$475,000 of 501(c)(3) Bonds for 17th Avenue Housing Limited Liability Company.

Previous Directives: In 1991 the City Council approved Housing Revenue Bonds issued through the Minneapolis Common Bond Fund.

Ward: Second

Neighborhood Group Notification: Marcy Holmes Neighborhood Association reviewed this proposal on January 16, 2001. Prospect Park and East River Road Improvement Association, Inc. reviewed this proposal on February 19, 2002.

Consistency with *Building a City That Works*: Provide a diversity of housing choices within each community by providing financial assistance to help maintain and construct new rental housing opportunities.

Comprehensive Plan Compliance: Project will comply.

Zoning Code Compliance: Complies.

Impact on MCDA Budget: (Check those that apply)

No financial impact

Action requires an appropriation increase to the MCDA Budget

Action provides increased revenue for appropriation increase

Action requires use of contingency or reserves

Other financial impact (Explain): Annual bond fees will be collected when the bonds are issued.

Crown Roller Mill,
105 Fifth Ave. S., Suite 200
Minneapolis, MN 55401-2534
Telephone: (612) 673-5095
TTY: (612) 673-5154
Fax: (612) 673-5100
www.mcda.org

Living Wage / Business Subsidy: Not applicable.

Job Linkage: Not applicable.

Affirmative Action Compliance: Will comply.

RECOMMENDATION:

City Council Recommendation: The Interim Executive Director recommends that the City Council adopt the attached resolution giving preliminary approval of up to \$10,605,000 in 501(c)(3) tax-exempt Multi-family Entitlement Housing Revenue Bonds and \$475,000 in taxable bonds for the Keeler Apartments project.

Summary publication of the resolution is recommended.

Dear Council Member Goodman:

Background/Supporting Information

The Wedum Foundation is a 501(c)(3) family foundation, based in Minneapolis, whose primary focus is the support of youth through the advancement of higher education by generating new sources of scholarship funds and providing scholarships to worthy students. The Foundation has been assisted in achieving this mission through the development and ownership of multi-family housing, both senior and student housing. The proposed development is a student housing project whose developer is 17th Avenue Housing, LLC , a newly formed limited liability company organized in the State of Minnesota and is a wholly owned subsidiary of the Wedum Foundation.

Project Description:

The proposed project is the new construction of a five story building, located on the corner of 17th Avenue Southeast one block from the University of Minnesota campus. This vacant site is currently owned by the University of Episcopal Center, who will retain ownership of the land and enter into a 60 year land lease with 17th Avenue Housing, LLC. The proposed building will be a mixed-use facility with the ground floor dedicated to university-related community functions, which will also include amenities such as an exercise and business room for the apartments. The upper floors will consist of 40 four-bedroom apartments, comprising of approximately 1,260 square feet, with anticipated rents of \$2,500 - \$2,700 and 4 one-bedroom apartments, comprising of approximately 450 square feet, with an anticipated rent of \$700. Parking will be provided primarily below grade on one level with additional guest parking on grade.

Bond Information:

17th Avenue Housing LLC is requesting up to \$10,605,000 in tax-exempt housing development bonds for acquisition and an estimated \$475,000 in taxable bonds and construction expenses with this development. The bonds will be secured by a guarantee provided by the Wedum Foundation (borrower) in the form of a letter of credit or cash deposit of \$1,000,000. It is also proposed that the Bonds will be privately placed and will carry a 35-year term.

Sources of Funds

Revenue Bonds	\$10,605,000
Taxable Bonds	<u>475,000</u>
Total Sources	\$11,080,000

Uses

Land Acquisition	\$ 1,000,000
Construction	6,821,483
Contingency	358,603
Fees (Architect, Title, Appraisal, etc.)	697,525
Developer Fee	278,551
Reserves (Debt Service, Replacement, Operating)	<u>1,923,838</u>
	\$11,080,000

HRB Entitlement

The Bond issue is a 501(c)(3); therefore no Entitlement authority is needed.

Bond Counsel Kennedy & Graven

Underwriter Miller Johnson Steichen Kinnard

Council Member Informed - Ward 2,

Recommendation: It is recommended that the city Council adopt the attached resolution granting preliminary approval of up to \$10,605,000 in 501(c)(3) tax exempt Multifamily Housing Development Bonds and \$475,000 in taxable bonds for the Keeler Apartments project. Summary publication of the Resolution is recommended.

This report was prepared by Dollie Crowther and Cherre' Palenius. For further information, please call 612-673-5263 or 612-673-5241.

Resolution relating to a multifamily housing development; authorizing The issuance of revenue bonds to finance the costs thereof under Minnesota Statutes, Chapter 462c, as amended; granting preliminary approval thereto and establishing compliance with certain reimbursement regulations under the Internal Revenue Code of 1986, as amended; and granting approval for certain other actions with respect thereto

Resolved by the City Council of the City of Minneapolis:

Section 1. Recitals.

1.01. The City of Minneapolis, Minnesota (the “City”), is a municipal corporation duly organized and existing under home-rule charter and the Constitution and laws of the State of Minnesota.

1.02. Pursuant to Minnesota Statutes, Chapter 462C, as amended (the “Act”), the City is authorized to carry out the public purposes described in the Act by issuing revenue bonds to finance multifamily housing developments located within the City. As a condition to the issuance of such revenue bonds, the City must adopt a housing program providing the information required by Section 462C.03, subdivision 1a, of the Act.

1.03 Pursuant to Section 147(f) of the Internal Revenue Code of 1986, as amended (the “Code”), as a condition to the issuance of tax exempt revenue bonds pursuant to the Act to finance a multifamily housing development, the City must conduct a public hearing with respect to the issuance of such bonds and the financing of such multifamily housing development. The public hearing must be preceded by publication of a notice in a newspaper of general circulation in the City at least fifteen (15) days prior to the public hearing.

1.04. Wedum Foundation, a Minnesota nonprofit corporation (“Wedum”), has proposed that the City issue its revenue bonds pursuant to the Act in the approximate aggregate principal amount not to exceed \$11,000,000, in one or more series at one time or from time to time (the “Bonds”), the proceeds of which will be loaned by the City to 17th Avenue Housing LLC, a Minnesota limited liability company of which Wedum is the sole member, or to a related entity (the “Borrower”) to be applied by the Borrower to the acquisition and construction of a 44-unit multifamily housing development known as Keeler Apartments (the “Project”) to be located at the northeast corner of the

intersection of 17th Avenue S.E. and 4th Street S.E. in the City (the "Project"). The units of the Project will be rented primarily to students attending the University of Minnesota. The Borrower will apply the proceeds of the loan to the acquisition costs of the Project, the costs of the construction of the Project, funding one or more reserves, and the payment of certain costs related to the issuance of the Bonds.

1.05 A housing program has been prepared with respect to the Project and the Borrower (the "Housing Program"). A public hearing was held with respect to the Project and the Housing Program on June 24, 2002 after publication of notice on June 8, 2002 in *Finance and Commerce*, the official newspaper and a newspaper of general circulation in the City, with respect to: (i) the required public hearing under Section 147(f) of the Code; (ii) the Housing Program; and (iii) the preliminary approval of the issuance of the Bonds. The City submitted the Housing Program to the Metropolitan Council for review and comment.

Section 2. Preliminary Findings. Based on representations made by the Borrower to the City to date, the City Council of the City hereby makes the following preliminary findings, determinations, and declarations:

(a) The Project consists of a multifamily housing development designed and intended to be used for rental occupancy, primarily by students attending the University of Minnesota.

(b) The proceeds of the Bonds will be loaned to the Borrower and the proceeds of the loan will be applied to the acquisition of the Project, the construction of the Project, the funding of one or more reserves, and the payment of costs related to the issuance of the Bonds. The City will enter into a Loan Agreement with the Borrower requiring loan repayments from the Borrower in amounts sufficient to repay the loan when due and requiring the Borrower to pay all costs of maintaining and insuring the Project, including taxes thereon.

(c) In preliminarily authorizing the issuance of the Bonds and the financing of the acquisition and construction of the Project and the related costs, the City's purpose is and the effect thereof will be to promote the public welfare of the City and its residents by providing multifamily housing developments for students and otherwise furthering the purposes and policies of the Act.

(d) The Bonds will be limited obligations of the City payable solely from the revenues pledged to the payment thereof, and will not be a general or moral obligation of the City or be secured by the taxing power of the City.

Section 3. Housing Program. The Housing Program, in the form on file with the City and as submitted to the Metropolitan Council, is hereby confirmed and approved.

Section 4. Preliminary Approval. Preliminary approval is hereby given to the issuance of the Bonds in the approximate aggregate principal amount not to exceed \$11,000,000 to finance all or a portion of the costs of the Project pursuant to the Housing Program of the City, subject to final approval following the preparation of bond documents, and subject to a final determination that the financing of the Project and the issuance of the Bonds are in the best interests of the City.

Section 5. Reimbursement of Costs under the Code.

5.1. The United States Department of the Treasury has promulgated Treasury Regulations, Section 1.150-2 (the "Regulation") governing the use of the proceeds of tax-exempt bonds, all or a portion of which are to be used to reimburse the City or a borrower from the City for project expenditures paid prior to the date of issuance of such bonds. The Regulation requires that the City adopt a statement of official intent to reimburse an original expenditure not later than sixty (60) days after payment of the original expenditure. The Regulation also generally requires that the bonds be issued and the reimbursement allocation made from the proceeds of the bonds occur within eighteen (18) months after the later of: (i) the date the expenditure is paid; or (ii) the date the project is placed in service or abandoned, but in no event more than three (3) years after the date the expenditure is paid. The Regulation generally permits reimbursement of capital expenditures and costs of issuance of the bonds.

5.2. The City expects that a portion of the costs of the Project will be expended prior to the date of issuance of the Bonds. The City reasonably expects to reimburse the Borrower for such expenditures from the proceeds of the Bonds after the date of issuance of the Bonds. All reimbursed expenditures shall be capital expenditures, a cost of issuance of the Bonds, or other expenditures eligible for reimbursement under Section 1.150-2(d)(3) of the Regulations and also qualifying expenditures under the Act.

Based on representations by the Borrower, other than (i) expenditures to be paid or reimbursed from sources other than the Bonds, (ii) expenditures permitted to be reimbursed under prior regulations pursuant to the transitional provision contained in Section 1.150-2(j)(2)(i)(B) of the Regulations, (iii) expenditures constituting preliminary expenditures within the meaning of Section 1.150-2(f)(2) of the Regulations, or (iv) expenditures in a "de minimus" amount (as defined in Section 1.150-2(f)(1) of the Regulations), no expenditures with respect to the Project to be reimbursed from the proceeds of the Bonds have been made by the Borrower more than sixty (60) days before the date of adoption of this resolution.

5.3. Based on representations by the Borrower, as of the date hereof, there are no funds of the Borrower reserved, allocated on a long term-basis or otherwise set aside (or reasonably expected to be reserved, allocated on a long-term basis or otherwise set aside) to provide permanent financing for the expenditures related to the Project to be financed from proceeds of the Bonds, other than pursuant to the issuance of the Bonds. This resolution, therefore, is determined to be consistent with the

budgetary and financial circumstances of the Borrower as they exist or are reasonably foreseeable on the date hereof.

Section 6. Costs. The Borrower will pay the administrative fees of the City and pay, or, upon demand, reimburse the City for payment of, any and all costs incurred by the City in connection with the Project and the issuance of the Bonds, whether or not the Bonds are issued.

Section 7. Commitment Conditional. The adoption of this resolution does not constitute a guarantee or a firm commitment that the City will issue the Bonds as requested by the Borrower. If, based on comments received at the public hearing to be held pursuant to this resolution, or other information made available to or obtained by the City during its review of the Project, it appears that the Project or the issuance of Bonds to finance the costs thereof is not in the public interest or inconsistent with the purposes of the Act, the City reserves the right not to give final approval to the issuance of the Bonds. The City also retains the right, in its sole discretion, to withdraw from participation and accordingly not issue the Bonds should the Council, at any time prior to the issuance thereof, determine that it is in the best interests of the City not to issue the Bonds or should the parties to the transaction be unable to reach agreement as to the terms and conditions of any of the documents for the transaction.

Section 8. Effective Date. This Resolution shall be in full force and effect from and after its approval and publication.

WE470-1 (JU)
214238v.1