

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

Date: June 16, 2009

To: Council Member Lisa Goodman, Chair, Community Development Committee

Subject: Lovell Square Project – Legacy Management and Development, Northside Residents' Redevelopment Council (NRRC)

Recommendation: Approve the 2005 Affordable Housing Trust Fund award of \$418,407 to be used for the relocation of eligible tenants of the Lovell Square Project; authorize the appropriate City staff to enter into the necessary agreements with Wilson Development Services, LLC; and authorize appropriate City staff to execute the necessary documents to execute foreclosure on the project.

Previous Directives: On November 7, 2005, the City Council approved an Affordable Housing Trust Fund award in the amount of \$418,407 for the Lovell Square affordable housing project.

Prepared by: Tiffany Glasper, Senior Project Coordinator, 673-5221

Approved by: Thomas Streitz, Director, Housing Policy & Development _____
Charles T. Lutz, Deputy Director _____

Presenters in Committee: Tiffany Glasper, Senior Project Coordinator, CPED

Financial Impact

- No financial impact
- Action requires an appropriation increase to the Capital Budget _____ or Operating Budget _____
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Action is within the Business Plan
- Action requires a change to the Business Plan
- Other financial impact
- Request provided to the Finance Department when provided to the Committee Coordinator

Community Impact

Neighborhood Notification – The official neighborhood organization of the area in which the project is located is an active partner in the project.

City Goals – In five years all Minneapolis residents will have a better quality of life and access to housing and services.

Sustainability Targets – The proposed projects meet the affordable housing targets.

Comprehensive Plan – 4.9: Minneapolis will grow by increasing its supply of housing; 4.11: Minneapolis will improve the availability of housing options for its residents.

Zoning Code – All projects being recommended either comply or will comply with the zoning code.

Supporting Information

The Lovell Square affordable housing project is located in the Near North neighborhood and contains 25 units scattered among nine separate sites. The project consists of a single 6-unit building at 1115 Humboldt Avenue North, a single four-unit building at 1205 Humboldt Avenue North, a single triplex at 1205 Irving Avenue North and six two-unit buildings located at 1419 and 1425 11th Avenue North, 1012 and 1042 Irving Avenue North, 1111 and 1216 James Avenue North.

The project is currently owned by the Lovell Square Limited Partnership which includes Legacy Management and Development and Northside Residents' Redevelopment Council (NRRC) as the co-general partners and National Equity Fund as the limited partner.

In 2005, NRRC submitted an application for funding for the rehab and stabilization of all 25 units in the Lovell Square project. The request was for a total of \$768,407 -- \$350,000 from MHFA and \$418,407 from CPED. CPED staff recommended approval of the request contingent upon the Interagency Stabilization Group's review and approval of a long-term stabilization plan. MHFA did not approve NRRC's funding request for this project due to NRRC's failure to submit compliance reports as required and also due to NRRC's failure to make the required debt service payments on the pre-existing project funding.

The project has also been reported to the Internal Revenue Service for non-compliance with LIHTC regulations. The citations include failure to provide annual certifications for 2006, uncorrected physical noncompliance dating back to August 2005 on 3 of the buildings and noncompliance for failure to maintain annual tenant certifications in 2003.

Since 2005, multiple issues have arisen which prevented this project from moving forward as hoped.

- During our initial due diligence inspection in 2005, CPED was advised by the then property manager that NRRC was not providing the tools and finances needed to perform routine maintenance at the units. These included, but were not limited to clean furnace filters, ladders, light bulbs, etc. This is evidence of severe cash flow problems within the project.
- Throughout 2006 CPED, MHFA and NRRC attempted to resolve the outstanding compliance and debt issues. The compliance and debt issues remain unresolved. This is evidence of poor management and recordkeeping.

- Throughout 2006 CPED attempted to obtain the required closing items from NRRC in accordance with the approved funding award. NRRC did not submit sufficient cash flow projections, scope of work documents, etc. In fact, the initial scope of work submitted with the 2005 funding application was not completed by a professional architect or contractor, but by a NRRC staff person.
- In 2007, CPED requested that the project co-general partner Legacy Management and Development step in and take over the day to day property management responsibilities.
- Throughout 2006 and 2007 the project units continued to deteriorate due to lack of routine maintenance and unresolved deferred maintenance issues. More and more units were vacated and most of the remaining tenants are not paying rent.
- In September 2008, CPED staff and staff from Council Member Don Samuels' office visited several of the units. At the 6-unit building at 1115 Humboldt Avenue North, the mold in the building had worsened to the point that the smell was evident as far away as the sidewalk in front of the building. Copper had also been stripped from the building and basement windows were broken and/or missing. This property has since been condemned by the fire department for safety violations.

The building at 1042 Irving Avenue North was cited by the City Inspections staff for a failing front porch.

The property at 1012 Irving Avenue North had been broken into and the large front window was broken out.

To date there are more than \$24,000 due in past due property taxes and more than \$44,000 in property taxes due in 2009.

To date there are more than \$7,000 in unpaid special assessments.

All buildings show evidence of mold and/or asbestos and/or lead based paint.

When Legacy took over the day to day property management in 2007 it was discovered that the project was in more dire straits than originally thought. In addition to the physical project being severely deteriorated, the project finances were also in disarray. Legacy has been working closely with all the funding partners to try and figure a way to bring the project back into full operation. At the suggestion of the funding partners, Legacy requested a new project scope of work from ESG Architects and an initial environmental analysis from PEER. Once these documents were in hand and had been reviewed by staff, it became clear that the project costs had more than doubled since the initial funding application in 2005. Current cost estimates for a complete rehab and stabilization of the project are in excess of \$1.7 million.

Total original project indebtedness is \$1,803,093 -- \$1,100,000 in CPED debt, \$309,341 in Family Housing Fund debt and \$393,752 in MHFA debt. Current indebtedness is \$1,100,000 in CPED debt, \$299,341 in Family Housing Fund debt and \$321,742 in MN Housing Debt. Considering the existing debt on the project and the poor management performance on behalf of NRRC, our funding partners are hesitant to invest an additional \$1.7 million absent a long-term management and stabilization plan. Staff

from all involved entities has analyzed a variety of scenarios to determine the best approach in dealing with the Lovell Square project.

Originally, MN Housing, as the first mortgage lender had agreed to foreclose on the project. However, further analysis and discussion led to the decision that the City be the foreclosing entity which will allow the City to use its allocation of federal NSP funds to rehab the units through its non profit partners where feasible. Both MN Housing and the Family Housing Fund have agreed to forgive their existing debt. Therefore, the City of Minneapolis will foreclose on the project to facilitate possible rehabilitation of some of the units or replacement of the units with other units in the area.

MN Housing and the Family Housing Fund expect to complete their processes by June 15, 2009. The City intends to begin the foreclosure process once the City Council has approved that plan (June 22, 2009).

Once the foreclosure process is underway, the City will work with Legacy to relocate the tenants. Considering the condition of the properties, staff believes the units do not represent safe, decent, sanitary housing and the tenants should be relocated to units that do represent this commitment on behalf of the City.

The City expects the foreclosure process to conclude sometime in October 2009. Once the City is in control of the properties, staff will conduct a third redevelopment analysis to determine which units can be salvaged. Salvageable units will be sold to interested parties and rehabbed via the NSP Program. Recently, a non-profit developer indicated that they may be able to rehab all 25 units using NSP funds and they are working on completing their due diligence.

If it is determined that some of the units are not salvageable, they will be demolished. Demolished units will be replaced via the City purchasing other qualifying units in the area and supporting their rehab through the NSP Program. The vacant lots that result from the demolition of Lovell Square units will be transferred to CPED's Single Family Housing inventory and sold for redevelopment via the Vacant Lot List.

The City's goal is to ensure that the Lovell Square tenants are relocated to units that can provide safe and sanitary housing conditions and that as many units as possible are rehabbed and placed back into service. It is staff's intention to use a portion of the 2005 AHTF award to accomplish tenant relocation.

Regardless of the ultimate outcome for the buildings in this project, the needs of tenants must be addressed. All eligible tenants must be provided with relocation benefits in accordance with federal statutes and US Department of Housing and Urban Development regulations and in keeping with the City's commitment to provide quality affordable housing units.