

Minneapolis Community Development Agency

## Request for City Council Action

Date: August 26, 2002

TO: The Honorable Lisa Goodman, Chair  
Community Development Committee  
Minneapolis City Council

Prepared by Randal Hemmerlin, Project Coordinator, Phone Number 673-5075

Approved by Chuck Lutz, MCDA Interim Executive Director \_\_\_\_\_

Subject: Public Hearing, Preliminary and Final Bond Approval for the issuance and sale of Multifamily Housing Revenue Bonds in the amount of \$8.2 million for Gateway Real Estate, L.L.C. Series 2002.

**Previous Directives:** On October 17<sup>th</sup>, 2001, the Operating Committee approved the MCDA staff to continue analysis of the Gateway Real Estate LLC proposal, to negotiate terms and conditions of a real estate contract with Gateway Real Estate L.L.C., and to prepare a redevelopment plan/modification and tax increment financing plan/modification. On March 22, 2002, the MCDA Board approved acceptance of a \$228,000 Hennepin County Environmental Response grant for West River Commons. On April 5, 2002, the City Council approved a resolution that authorized the MCDA to have a preliminary intent to issue \$8,000,000 in tax exempt revenue bonds to West River Commons project. On June 20, 2002, the Development Finance Committee approved the proposal. On June 24, 2002, West River Commons was approved by the MCDA Board of Commissioners to receive \$500,000 in Multi-Family Rental and Cooperative Housing funds. On July 29, 2002, a Public Hearing was held regarding a Resolution to adopt a Tax Increment Finance Plan for West River Commons. The MCDA Board approved the Tax Increment Finance Plan on August 9, 2002.

**Ward:** 9

**Neighborhood Group Notification:** The Longfellow Community Council has reviewed and approved this proposal on August 2, 2001.

**Consistency with *Building a City That Works*:** Consistent with Goal 2, Objective a., to preserve and expand the number of affordable housing units throughout the city.

**Comprehensive Plan Compliance:** Complies

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**Zoning Code Compliance:** The City Planning Department Report BZZ-178/179 recommended approval of required conditional use permits and variances for this development on September 24, 2001. The Planning Commission approved the report.

**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): **Bond fees collected annually**

**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 Resolution authorizing the issuance and sale of \$8.2 million in Multifamily Housing Revenue Bonds (Series 2002) for Gateway Real Estate L.L.C..**

**Background/Supporting Information**

West River Commons is a new mixed-use development planned for the Longfellow neighborhood flanking the Mississippi River. The area is designated as a non-impacted tract. West River Commons will welcome people into Minneapolis with its immediate presence on the north side of Lake Street. The project will lie directly west of the bridge from St. Paul, and with that thought in mind, the developer has designed a building that offers a transition to the parkway and a new neighborhood. A small park will be on the far-east end of the project.

The project involves the construction of a three and four story mixed use building with underground parking for 74 cars and an additional 35 surface spots. Existing buildings on the site will be demolished to make room for the development. In addition to the proposed \$8.2 million tax-exempt Housing Revenue bonds, the project will be receiving from MCDA, a tax increment financing note of \$800,000, a \$500,000 Multi-Family Rental and Cooperative Housing Fund Loan and a \$100,000 CEDF loan.

The mixed-use building will feature 53 rental apartment units, of which 12 units are to be designated as affordable housing units with project-based Section 8. The project will have 23 one-bedroom units, 5 one-bedroom with den units, 11 two-bedroom units and 14 two-story rental town homes. The development also includes three town homes for sale to private individuals at prices of \$ 240,000 for two of the units and \$260,000 for the remaining unit. Approximately 7,925 square feet of commercial space is designed to

be on the easterly side of the project. Proposed use of this Lake Street frontage commercial space includes a restaurant, coffee shop and one small retail shop.

The project will carry a range of rents. Twelve units will be Section 8 which means the tenant will pay 30% of their adjusted household income as tenant contribution and utilities. Fair Market Rents, as determined by HUD, will be authorized for these units depending on their unit size. Market rate units will be marketed with rents of \$1,099 to \$1,315 for the one-bedroom units and \$1,096 to \$1,258 on the two-bedroom units. The commercial space should rent for around \$18 per square foot. A market analysis dated October 2001 indicates that the proposed commercial space should be absorbed easily into the market area.

### West River Commons Sources and Uses of Funds

#### SOURCES

General Partner (Cash)	\$ 800,000
General Partner (Deferred Development Fee)	\$ 400,000
Tax Exempt City of Minneapolis Bonds	\$ 8,200,000*
LP Equity LIHTC	\$ 450,000
MCDA Multi-Family Program	\$ 500,000
Hennepin County Environmental Grant	\$ 228,000
MCDA CEDF Loan	\$ 100,000
Sale of three Town Homes	\$ 740,000
<b>TOTAL</b>	<b>\$11,418,000</b>

\*NOTE: \$800,000 TIF included in this amount.

#### USES

Acquisition	\$ 1,241,000
Construction	\$ 7,635,000
Architect Fee	\$ 295,000
Legal Costs	\$ 86,000
Condo Marketing Sales Fee (6%)	\$ 44,000
Title, Survey, Appraisal & Marketing	\$ 40,000
Environmental tests/Soil Borings	\$ 136,000
Real Estate Taxes/ SAC (no WAC)	\$ 101,000
Construction Contingency	\$ 359,000
Developer Fee	\$ 648,000
Construction Interest	\$ 330,000
Tenant Relocation / Tabernacle HPC	\$ 28,000
Fees (TIF app., Bond app., Insurer's app. Underwriter Fees, Closing Fees)	\$ 205,000
Other (Gen. & Adm., Govt., Misc.)	\$ 117,000
<b>TOTAL HOUSING</b>	<b>\$11,265,000</b>
Equipment and Furnishings	\$ 153,000
<b>TOTAL</b>	<b>\$11,418,000</b>
<b>Profit on Sale of Townhomes</b>	<b>\$ 32,745*</b>

\*Cost to build 3 town homes is included in USES

**Bond Information**

It is proposed that the bonds will be credit enhanced by a letter of credit from LaSalle Bank with Bond Rating of AA- for a period of 36 months. Permanent financing is proposed to be with Fannie Mae after the initial 36-month term.

**HRB Entitlement**

<u>2002 Entitlement Authority</u>		\$33,190,000
Many Rivers East	\$4,250,000	
Bottineau Lofts	\$3,640,000	
Stone Arch Apartments	\$3,600,000	
West River Commons	\$8,200,000	<u>\$19,690,000</u>
Amount Remaining		<u>\$13,500,000</u>

**Bond Counsel**

Briggs and Morgan, PA

**Underwriter**

LaSalle Bank

**Administrative Fees**

Issuer's fees will be ¼ % of the outstanding loan balance

**Council Member Informed**

Yes, Gary Schiff, Ward 9