



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

Date: February 28, 2006

To: Council Member Lisa Goodman, Community Development Committee

Subject: Public Hearing and Preliminary Approval for Tax Exempt Multi-family Housing Entitlement Revenue Bonds; Project Analysis Authorization; and approval for a 2005 Affordable Housing Trust Fund (AHTF) loan for the Washington Court Apartments Development Project.

RECOMMENDATION: Adopt the attached resolution giving preliminary approval of up to \$4,500,000 of Tax Exempt Multi-family Housing Entitlement Revenue Bonds for Washington Court Apartments; and authorize staff to continue analysis of the Washington Court Apartments proposal located at 2101 Washington Street N.E.; negotiate terms and conditions of a redevelopment contract with MWF Properties, LLC or an affiliated entity as the general partner; prepare a redevelopment plan and tax increment financing plan for Washington Court Apartments; and approve up to \$380,000 of 2005 Affordable Housing Trust Fund (AHTF) for Washington Court Apartments; and authorize the execution of the necessary documents relative to the AHTF loan. Summary publication of the Resolution is recommended.

Previous Directives: On August 22, 2003, the City Council accepted and appropriated a Hennepin County Environmental Response Fund grant of \$30,000 for 2101 Washington Street NE and authorized staff to execute grant and subrecipient agreements.

Prepared by: Cherre' Palenius, Sr. Project Coordinator

Approved by: Chuck Lutz, Deputy Director CPED _____

Elizabeth Ryan, Director, Housing Policy & Development _____

Presenter in Committee: Cherre' Palenius, Sr. Project Coordinator

Financial Impact (Check those that apply)

No financial impact (If checked, go directly to Background/Supporting Information).

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.

Business Plan: Action is within the plan. Action requires a change to plan.

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

___ Request provided to department's finance contact when provided to the Committee Coordinator.

Community Impact

Neighborhood Notification: In June, 2005 the Board of Directors of the Holland Neighborhood Improvement Association met with the developer and have submitted a letter of support for this project.

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: Sections 4.09, 4.10, 4.11 and 4.16: Minneapolis will grow by increasing its supply of housing; will increase the housing that is affordable to low and moderate income households; will improve the availability of housing options for its residents; and will work closely with Neighborhood Revitalization Program (NRP) planning and implementation to ensure that plans are consistent with the city's Housing Policy.

Policy 35: Within the constraints imposed by state and federal regulations the city should continue to sell tax-exempt revenue bonds to provide below market rate housing development financing.

Zoning Code: Applicant has submitted a re-zoning application with the Minneapolis Planning Department for their review and approval.

Other: Not applicable.

Historical Background/Supporting Information

In 1991, St. John's Evangelical Lutheran Church purchased this 1.68-acre vacant lot for a future school. In October 2000, they abandoned their plans to build and decided to sell the parcel. The adjacent property owner, Neeck Construction was interested in acquiring the property to expand his current business and requested the owner re-zone the site. The Holland neighborhood group opposed the rezoning and the commercial reuse and initiated discussions with the Church to acquire the site for green space. Unfortunately, the Minneapolis Park Board determined the parcel was too small for a park. Undaunted, the neighborhood group continued to work with the Church seeking a more compatible reuse for this site.

An environmental phase I and phase II have been completed. The Phase II report, completed by DPRRA determined the site has a multitude of problems, yet was unable to determine the full extent of the pollution. The geotechnical soils are peat indicating the site was originally a swamp that was later filled with a manufacturing waste material and other undesirable materials. On behalf of the Church and the neighborhood group, CPED applied and received grant funds from Hennepin County's Environmental Response Fund (ERF) to complete additional environmental testing. These environmental reports were shared with the Church, the neighborhood group, and more recently with MWF Properties, LLC. In October, the developer received conditional approval for their Remediation Action Plan (RAP). In November 2005, MWF Properties purchased the site. In early 2006, the developer was awarded environmental remediation funds from Met Council, DEED and Hennepin County of up to \$568,700 the Developer is also committing approximately \$80,000 cash equity to be used for environmental remediation for this site.

Development Entity

MWF Properties, LLC is working on behalf of Washington Court Limited Partnership preparing the financial applications, the zoning application, establishing the Remediation Action Plan (RAP), creating the site plan, construction specification, etc. At closing, MWF Properties, LLC will transfer title of the property to Washington Court Limited Partnership with Washington Court LLC as the general partner. The proposed property and project will be the sole asset of the Washington Court Apartments Limited Partnership agreement.

MWF Properties, LLC was organized in 1999 providing pre-development services to many of Weis Builders' customers. Jay and Erik Weis are the majority principals of the company. Initially, MWF Properties focused on commercial development, completing several developments in Texas, Colorado and Minnesota. As commercial development cooled, MWF Properties switched their focus to the expanding residential real estate market, starting with their "Main Street Village" project, located in Richfield, MN. This development is a combination of commercial office condominiums and 156-units of market rate senior rental housing. To date, MWF Properties has completed four additional multifamily rental projects comprised of 276 units in Minnesota and Iowa. In July, 2005 they started construction on an affordable project with 52 units located in New Brighton. MWF Properties will engage the services of Weis Builders as the general contractor and Weis Management as the property and asset manager for this development.

Project Description

MWF Properties, LLC is proposing to construct a 38-unit rental complex on vacant land located at 2101 Washington Street Northeast in the first ward, in the Holland Neighborhood. The attached site plan was designed in accordance with the neighborhood's desire to keep as much green space towards the front of the site as possible providing neighborhood and community spaces accessible from the street. The "L" shaped design was created to provide privacy and security while maximizing green space for the residents, allowing sufficient space for a children's play area, and garden plots in the southeastern corner of the site. The proposed apartment complex is a three-story, handicapped accessible, elevator building with underground parking. The development will include one-, two- and three-bedroom apartments to meet the demands for workforce family housing and will accommodate households of one to six persons. The proposed facility will also include a community room, fitness center, computer room and leasing office. The developer has incorporated the use of "smart growth" principles, such as convenient entrances, ample on-site surface and secure underground parking while creating very little impact on the surrounding areas. The site is located within blocks of schools, libraries, day care centers, grocery and retail stores, drug stores, banks and public services along Lowry and Central Avenues. In addition, Washington Street NE is on a Metro Transit bus line with stops approximately one-hundred feet of the site.

The demand for quality and affordable three bedroom rental housing units in Minneapolis, particularly "workforce housing" has been fueled by the City's significant population and household growth over the past decade. The expansive local economy has also seen significant growth, creating the need for more affordable "workforce housing". The convenient location of this project, its proximity to nearby employers in Downtown Minneapolis and the University of Minneapolis campus area along with the availability of nearby public transportation creates a linkage to a large number of job opportunities, recreation, education, and the arts for the workforce tenants.

The site will require a zoning change from R2B to R3 to accommodate this development. The developer has submitted their re-zoning application and conversed with both planning and zoning staff receiving their preliminary support for this zoning change.

Financial Summary

Washington Court Apartments Project is an \$8.2 million project. The sources and used are outlined on the attached Project Data Worksheet. The Developer is requesting up to \$4.5 million of tax-exempt housing revenue entitlement bonds (HRB) from the City's 2005 Entitlement pool, which will also include an allocation of 4% low-income housing tax credits. The developer has requested the City conduct a TIF analysis for a "pay-as-you-go" TIF note of approximately \$330,000 that will be used for infrastructure, environmental investigation and remediation and other eligible project costs as additional project revenue to amortize the HRB. The developer has a preliminary financing commitment from MMA Financial to

purchase the tax credits and provide the interim/permanent financing for the project of approximately \$3,429,000 over a 40-year term. Weis Builders will cover the 5% construction contingency requirement with cash to be deposited with Title at closing. The developer is proposing to contribute \$80,000 in cash for remediation costs and will defer approximately 41% of their developer fee.

Housing Revenue Bond Information

MWF Properties LLC has submitted an application to CPED for tax-exempt housing revenue entitlement bonds, which automatically includes 4% low income housing tax credits (LIHTC). Syndication of these tax credits is expected to generate an additional equity investment of approximately \$2 million in the project. The developer has requested preliminary approval for up to \$4,500,000 in housing revenue bonds for use as construction and first mortgage financing. Pursuant to state statutes the proposed housing program for Washington Court Apartments has been submitted to the Metropolitan Council (Met Council) for their review and confirmation that the program is consistent with regional plans.

Bond Purchaser/Underwriter	Bond Counsel	Council Member Informed
MMA Financial, LLC	Kennedy & Graven, Chartered	Yes, Ward 1

Status of 2005 HRB Entitlement

Single Family		\$36,709,000
St. Anne's		(21,000,000)
Washington Court		(6,250,000)
Whittier Townhomes	(pending)	(4,500,000)
		<u>(1,420,000)</u>

2005 Entitlement Remaining

\$3,539,000

Projected Timetable

The following is a tentative timetable for Washington Court Apartments Project

1. PAA considered by the City Council in March 2006.
2. City Council considers redevelopment contract business terms and the creation of the redevelopment project and TIF District and in the summer of 2006.
3. City Council considers final approval for HRB in the summer of 2006.
3. Project closing, then soil remediation/construction starts in the summer/fall of 2006.
4. Project Completion in the summer/fall of 2007.

Results of Preliminary Staff Analysis

Based on the preliminary review to date, staff concludes that a) the Application for Public Financial Assistance is complete, b) the project appears feasible, and c) some level of public financial assistance may be justified. The proposed development is consistent with City goals and the goals and criteria established by the Holland Neighborhood Improvement Association. The proposed development meets a number of public purposes, including: remediation of a polluted site; creation of affordable workforce housing. The proposed project's financial feasibility and level of public participation appear reasonable.

Project Analysis Fee

If the Project Analysis Authorization is approved by the City Council, the developer will be assessed a nonrefundable project analysis fee of \$8,930 (based on the estimated cost of staff time and other expenses up to the point in time when the request for public financial assistance is either approved or denied by the City Council). Acceptance by the City of the application or project analysis fee does not signify a commitment on the part of the City to grant approval of any requested public assistance.