



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

**Date:** May 1, 2007  
**To:** Council Member Lisa Goodman, Community Development Committee  
**Referral to:** Council Member Paul Ostrow, Ways & Means/Budget Committee  
**Subject:** Van Cleve Housing Project (917 13<sup>th</sup> Avenue SE): Proposed Redevelopment Plan & TIF Plans, Issuance of Pay-Go TIF Notes, and proposed redevelopment contract business terms with Project for Pride in Living

**Recommendation:** 1) approve the attached City Council Resolution adopting the Van Cleve Redevelopment Plan, the Van Cleve Redevelopment Tax Increment Finance Plan, the Van Cleve Apartments West Tax Increment Finance Plan, and the Van Cleve Apartments East Tax Increment Finance Plan; 2) approve the attached City Council Resolution authorizing the issuance of a Limited Revenue Pay-As-You-Go Tax Increment Financing Note to Van Cleve Apartments West LLC for Van Cleve Apartments West in a principal amount not to exceed \$595,000; 3) approve the attached City Council Resolution authorizing the issuance of a Limited Revenue Pay-As-You-Go Tax Increment Financing Note to Van Cleve Apartments East LLC for Van Cleve Apartments East in a principal amount not to exceed \$415,000; 4) approve the proposed redevelopment contract business terms as described in this report and in the attached Termsheet; and 5) authorize the appropriate City officials to execute redevelopment contract documents with Project for Pride In Living or its affiliates, based on the terms contained in this report and all other necessary documents related to the above recommended actions.

**Previous Directives:** 1) On October 7, 2005, the City Council approved \$488,828 in Low Income Housing Tax Credits for Van Cleve Apartments East; 2) On November 4, 2005, the Council approved \$412,000 in AHTF loan funds for Van Cleve Apartments East and \$30,000 in Non-Profit Development Assistance funds; 3) On August 18, 2006, the Council accepted a Metropolitan Council TBRA grant (\$121,000) and a Hennepin County ERF grant (\$243,000) for contamination investigation and cleanup; 4) On September 22, 2006, the Council approved \$68,680 in Low Income Housing Tax Credits for Van Cleve Apartments West; 5) On November 3, 2006, the Council approved a Project Analysis Authorization; 6) On December 22, 2006, the Council approved \$670,000 in AHTF loan funds for Van Cleve Apartments West and \$30,000 in Non-Profit Development Assistance funds; and 7) On February 9, 2007, the Council approved the acceptance of a Livable Communities Development Account (LCDA) grant of \$1,334,523 from the Metropolitan Council.

Prepared by: Jerry LePage, Senior Project Coordinator	
Approved by: Elizabeth Ryan, Director Housing Policy & Development	_____
Jack Kryst, Director, Development Finance	_____
Presenters in Committee: Jerry LePage	

### **Financial Impact**

- No financial impact

### **Community Impact**

- Neighborhood Notification: PPL and Cabrini have worked closely with the Southeast Como Improvement Association (SECIA) over the past few years in developing the plan for Van Cleve, and SECIA supports the Van Cleve development proposal.
- City Goals: In five years all Minneapolis residents will have a better quality of life and access to housing and services; residents will live in a healthy environment and benefit from healthy lifestyles; the city's infrastructure will be well-maintained and people will feel safe in the city.
- Comprehensive Plan: 4.10 Minneapolis will increase its housing that is affordable to low and moderate income households. 4.9.1 Minneapolis will grow by increasing its supply of housing. 4.15 Minneapolis will carefully identify project sites where housing redevelopment and/or housing revitalization are the appropriate responses to neighborhood conditions and market demand.
- Zoning Code: The site is currently zoned I1. On January 26, 2007, the City Council approved the creation of an Industrial Living Overlay District to allow the proposed development.

### **Supporting Information**

On November 3, 2006, the City Council granted a Project Analysis Authorization to allow staff to analyze Project for Pride In Living's (PPL) request for tax increment assistance for its Van Cleve development proposal. The Van Cleve site is located at 917 13<sup>th</sup> Avenue Southeast and is adjacent to Van Cleve Park and a few blocks from Dinkytown in the Como neighborhood. This is a 4-acre blighted industrial site that contains a grain elevator, grain storage towers, a single family home, and two office buildings. Most of the site was owned by the Bunge Corporation, who vacated it two years ago. PPL has worked closely with the Southeast Como Improvement Association (SECIA) over the past few years in developing this project.

PPL is proposing a 3-phase, income-integrated project with a total of 236 housing units, consisting of rental and condo apartments and townhouses (85 rental and 151 ownership). PPL's development plan includes the construction of four new residential buildings and the proposed adaptive reuse for housing of the landmark "headhouse" (a rectilinear vertical structure used for grain distribution), dependent upon financial feasibility. The project will have 85 rental units affordable at or below 50% of Metropolitan Median Income (MMI) and 5 Habitat for Humanity townhomes, which exceeds the 20% requirement under the City Affordable Housing Policy. In January, the City approved PPL's land use application for the necessary regulatory approvals, including a re-zoning in the form of an Industrial Living Overlay District. A site plan, elevations, and an aerial photo of the project are attached as **Exhibit 1**.

The Project for Pride In Living-Cabrini partnership purchased the property for the Van Cleve project from the Bunge Corporation in May 2006. The site will require environmental remediation, and PPL will be utilizing grants funds that have already been secured from the Metropolitan Council and Hennepin County for investigation and cleanup.

PPL will be the Master Developer of the Van Cleve development project, with certain development components being assigned to affiliated entities with the consent of the City.

The project consists of **five development components**:

1. **Van Cleve Apartments East:** PPL and Cabrini House have signed a Memorandum of Understanding to undertake this 35-unit development (the first phase of its rental program) as co-general partners. PPL will function as the developer partner, and Cabrini will be responsible for planning and serving as the provider of the supportive services. PPL and Cabrini House have received a commitment from HUD for rental assistance through HUD's "Shelter Plus Care" (SPC) program for eight (8) units for the long-term homeless.
2. **Van Cleve Apartments West:** PPL and Cabrini House will also undertake this 50-unit development as co-general partners with the same roles and responsibilities as in the first phase. PPL and Cabrini House have applied for rental assistance through Hennepin County's Group Residential Housing (GRH) program for twelve (12) units for the long-term homeless.
3. **Habitat for Humanity housing:** PPL will be assigning another portion of the project to Habitat for Humanity, which will develop 5 new residential townhome ownership units that will be affordable at 50% of MMI.
4. **PPL ownership housing:** PPL also plans to develop 7 ownership townhomes, with the goal of making 4 of these units affordable at 80% of MMI, depending upon securing available ownership affordability resources.
5. **Market Rate Housing:** PPL is working with Van Cleve Partners LLC, which consists of a group headed by Jeffrey Laux, the developer of the Ivy Tower in downtown Minneapolis. The plan is to develop approximately 139 market rate units in the preserved "headhouse" structure and the 1935 West Storage Bin Annex (Building F on Exhibit 1). At this point, definite price points for the market rate ownership units have not been determined, since this will be based on future market conditions. However, the developer is generally assuming that the average sales price will be around \$240,000.

## **Financing Overview**

On November 3, 2006, the City Council approved Project Analysis Authorization (PAA). This action authorized staff to analyze the feasibility of the project to determine whether there were financing gaps for which public financial assistance was justified, and also to conduct a formal blight analysis and an evaluation of eligibility of the project area as a TIF district. The total development cost (TDC) for all phases and all components of the project is estimated at \$60 million. CPED and City Finance staff have analyzed the project proformas and determined that up to approximately \$3.9 million in total tax increment assistance is justified to fund TIF-eligible costs, including land acquisition, housing construction, parking construction, capitalized interest, and costs related to the issuance of TIF revenue bonds. Additional project information, including proposed sources and uses for each of the components, is included on the attached Project Data Worksheets (**Exhibit 2**).

As part of its financial analysis, CPED and City Finance staff evaluated different approaches to the creation of a TIF district or districts, given the project's complexity in terms of different development components and phasing. Since the Van Cleve project will consist of two phases of rental housing and three different ownership components with different financing structures, the approach that staff is recommending is the creation of three separate TIF districts: two Housing TIF districts for Van Cleve Apartments East and Van Cleve Apartments West, and a Redevelopment TIF district for the ownership component.

For the two housing TIF districts, TIF assistance will be provided primarily in the form of two pay-go TIF notes: \$415,000 for Van Cleve Apartments East TIF District and \$595,000 for Van Cleve Apartments West TIF District. However, in addition, a portion of the net proceeds from a tax-exempt TIF revenue bond issue (up to 15% per TIF pooling restrictions) will be needed to completely fill the financing gaps for the rental housing components. The TIF assistance will pay for rental housing construction costs, consistent with the requirements of Minn. Stat. Sec. 469.1761.

The TIF assistance for the Van Cleve ownership component in the Redevelopment TIF District will be provided in the form of the City's issuance of tax-exempt TIF revenue bonds in a principal amount sufficient to provide net proceeds of up to \$2,971,000. These bond proceeds will be used to take out PPL's interim financing sources when the entire project is constructed and fully assessed and 90% of the units have been sold. PPL will be utilizing its interim construction financing sources to bridge the TIF-eligible development costs related to the ownership component and overall site development costs until the project satisfies the conditions for the issuance of the tax-exempt TIF bonds.

### **Proposed Redevelopment Contract Business Terms**

The proposed business termsheet is attached as **Exhibit 3**, and the terms are summarized as follows:

1. PPL, as the Master Developer, or its assigned developer, will develop the Van Cleve project, which will consist of the following:
  - a. The Apartments West Development Component (**Building A** on **Exhibit 1**): one new construction 50-unit rental apartment building with 12 one-bedroom units, 25 two-bedroom units, and 13 three-bedroom units, including one level of underground parking with approximately 44 parking spaces. Of these 50 units, 12 will be affordable at 30% of MMI and 38 will be affordable at 50% of MMI;
  - b. The Apartments East Development Component (**Building B**): one new construction 35-unit rental apartment building with 8 one-bedroom units, 18 two-bedroom units and 9 three-bedroom units, including one level of underground parking with approximately 38 parking spaces. Of these 35 units, 8 will be affordable at 30% of MMI and 27 will be affordable at 50% of MMI;
  - c. The Ownership Housing Development Component: (a) 5 new construction residential townhome ownership units (**Building C** - Habitat Units); (b) 7 new construction residential townhome ownership units (**Building D** - PPL Units); and (c) 139 new construction or rehabilitated residential ownership units (**Building F** - the Market Rate Units).

2. The City will provide TIF assistance in the form of a pay-go note in an amount not to exceed \$415,000 for Van Cleve Apartments East and a pay-go note in an amount not to exceed \$595,000 for Van Cleve Apartments West.
3. The City will issue tax-exempt TIF revenue bonds in a principal amount sufficient to provide net bond proceeds of up to \$2,971,000 to take out PPL's interim financing for the Ownership Housing Component when this component is constructed and fully assessed and 90% of the units have been sold. The actual principal amount of the tax-exempt bonds will be contingent upon a number of factors including:
  - a. Projections of the tax increment for the Redevelopment TIF District through the final year of the District based on the actual estimated market value as determined by the City Assessor's Office and assuming 0% annual increase in valuation due to inflation;
  - b. Annual debt service coverage of at least 125%;
  - c. Market conditions at the time of issuance (i.e. interest rates, marketable term, reserve requirements, and costs of bond issuance);
  - d. Amount of net bonds proceeds needed to balance the final pre-construction development budget for the Ownership Housing Development Component and any budget deficit in the East Apartments or West Apartments Development Components that can be filled through pooling of 15% of the Homeownership Bonds proceeds; and
  - e. Any "Excess Ownership Profit" adjustment. As the Master Developer, PPL will be solely responsible to obtain all information necessary to determine the Excess Ownership Profit calculation, as well as the final pre-construction development budget for the Ownership Housing Components.
4. The City will participate in 50% of any Excess Ownership Profit (above 11% of TDC minus developer profit) from the sale of the Van Cleve ownership units. The City will reduce the size of the Homeownership Bonds issue such that net bond proceeds (after deducting capitalized interest, debt service reserve requirements, underwriters discount and costs of issuance) are reduced by an amount equal to fifty percent (50%) of the Excess Ownership Profit.
5. Van Cleve has been awarded \$121,500 in TBRA funds from the Metropolitan Council for environmental remediation, and the City has entered into a Sub-recipient Grant Agreement with the developer for these funds.
6. Van Cleve has been awarded \$1,334,523 in LCDA funds from the Metropolitan Council for site development and infrastructure, and the City will be entering into a Sub-recipient Grant Agreement with the developer for these LCDA funds with appropriate security provisions.

### **Proposed Project Timeline**

May 11, 2007	Council consideration of redevelopment contract business terms and the creation of a redevelopment project and three TIF Districts
July 2007	Start construction of Apartments East Development Component
October 2007	Start construction of 5 Habitat for Humanity ownership townhomes

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October 2008	Completion of 5 Habitat for Humanity ownership townhomes
December 2008	Start construction of Apartments West Development Component and remainder of Ownership Housing Development Component
December 2008	Completion of Apartments East Development Component
December 2009	Completion of Apartments West Development Component
July 2010	Completion of Ownership Housing Development Component