



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

Date: January 20, 2004

To: Council Member Lisa Goodman, Community Development Committee

Prepared by: Jerry LePage, Phone 612-673-5240

Presenter in

Committee: Jerry LePage, Project Coordinator

Approved by: Lee Pao Xiong, Director, CPED Housing Division \_\_\_\_\_

**Subject:** Project Analysis Authorization for Revised Marshall River Run Project

**RECOMMENDATION:** The CPED Director recommends that the City Council grant a Project Analysis Authorization to allow staff to 1) evaluate the revised Marshall River Run development proposal, TIF application, and housing revenue bond application; 2) negotiate the terms and conditions of a possible redevelopment contract with a limited partnership with Sherman Associates as the general partner; and 3) prepare redevelopment and TIF plans for this project, subject to final determination of project eligibility, required reviews, public input, notices and hearings.

**Previous Directives:** On October 27, 2000, the MCDA Board granted a Project Analysis Authorization to allow staff to analyze the Marshall River Run rental housing project. On July 15, 2003, a public hearing was held regarding the preliminary approval of the proposed housing revenue bonds. The CD Committee forwarded the report without recommendation, and on July 25, 2003, the Council referred it back to Committee. On September 26, 2003, the City Council again considered the project and the proposed housing revenue bonds but voted to reject the project as proposed.

**Financial Impact** (Check those that apply)

- No financial impact - or - Action is within current department budget.  
(If checked, go directly to Background/Supporting Information)
- Action requires an appropriation increase to the Capital Budget
- Action requires an appropriation increase to the Operating Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain):
- Request provided to the Budget Office when provided to the Committee Coordinator

### **Community Impact**

**Ward:** Third

**Neighborhood Notification:** The Sheridan Neighborhood Organization (SNO) has been notified that this report on the revised Marshall River Run project will be considered by the City Council.

**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:** Minneapolis will increase its housing that is affordable to low and moderate income households (Section 4.10), and improve the availability of housing options to all of its citizens.

**Zoning Code:** The site is currently zoned I-1. Sherman Associates and Marchant Investment submitted an application for an industrial overlay district, which would allow housing development on the site. This application was approved by the Planning Commission on October 7, 2003. However, this CPC action was appealed and the application is pending consideration by the City Council.

**Living Wage/Job Linkage:** NA

**Other:**

### **Background/Supporting Information**

In October, 2000, the MCDA Board granted a Project Analysis Authorization (PAA) for the Marshall River Run project that was proposed by Sherman Associates and Marchant Investment. At that time, the proposal involved a larger site that included the Boone Trucking and the Ace Mailing properties to the north and also included the development of rental and ownership units. However, in early 2002, the developer determined that it would not be able to negotiate the purchase of these properties, and therefore the project was reduced in size to two properties (1424 and 1448 Marshall) and changed to a 119-unit, all-rental project.

During 2002, the developer attended several meetings of the Sheridan Neighborhood Organization (SNO) to present its proposal and listen to concerns raised by SNO and other organizations about the Marshall River Run plan. In response, Sherman Associates repeatedly attempted to address these concerns and made a number of modifications to its all-rental development plan (e.g. reducing the number of units from 119 units to 101 units, changing building height, increasing green space and landscaping, etc.). However, these changes did not alter the position of SNO and other area organizations in opposition to the project.

### **Revised Development Plan**

Since the City Council's decision last September, Sherman Associates and Marchant Investment have initiated some preliminary, informal discussions with SNO regarding the events of last year and offered the possibility of further changes in the proposal to

attain neighborhood support. At this point, Sherman Associates is proposing a revised plan that would include approximately 84 units, consisting of 72 rental units and 12 ownership townhomes, and has submitted some preliminary proformas and financing scenarios. Attached to this report is a letter from Sherman Associates that presents its revised development proposal and site plan and also includes a matrix that traces all of the modifications that have made to the project over the past 12-18 months. Therefore, CPED staff is requesting a new Project Analysis Authorization to allow it to proceed with a complete review and analysis of the revised Marshall River Run proposal.

### **Preliminary Financial Proposal**

At this point, the numbers provided by the developer are very preliminary, and it is difficult to make assumptions about the availability of some of the financial sources. However, it is clear that the amount of public financial assistance required will be higher than in the previous development plans because this is now a lower density project and one that still is burdened by a substantial contamination cleanup cost. Based on these preliminary estimates, it appears that recent plan changes have created an additional financial gap of approximately \$1 million. Sherman Associates plans to submit applications for this additional funding through the upcoming MHFA/FHF, Hennepin County, and Affordable Housing Trust Fund RFP/application processes.

Sherman is also still proposing to use housing revenue bond financing from the City 2003 Entitlement allocation, including the automatic 4% low-income housing tax credits (LIHTC). However, the amount of the bonding utilized will be less than under the previous 101-unit, all-rental proposal (\$11 million versus \$7.1 million) because the number of rental units has been reduced from 101 to 72.

If this project is able to proceed on the basis of this revised plan, then Sherman Associates intends to apply again for contamination cleanup funding from the State Department of Employment and Economic Development (DEED), the Metropolitan Council, and Hennepin County to help fund approximately \$500,000 in contamination cleanup costs. However, decisions on cleanup funding are usually not made by the funding agencies until July, and housing projects generally do not score as well in the competition for some of these resources since they do not involve substantial job generation. Consequently, an alternate plan for funding these cleanup costs would be to create a TIF Hazardous Substances Subdistrict, which would be in addition to the basic TIF district for this project. This would authorize, as a last resort, the use of the existing base tax capacity for approximately 15 years to assist in site cleanup. It is expected that the term of the underlying TIF district would be the maximum statutory term of 25 years.

### **Proposed Sources and Uses**

The preliminary sources and uses for the rental and ownership components are summarized on the next page.

**OWNERSHIP TOWNHOMES (12 UNITS)**

**Uses:**

New construction	\$ 1,920,000
Construction contingency	61,200
Land assembly	225,180
Site preparation	120,000
Architect/engineering	36,000
Legal	15,000
Marketing/sales costs	210,000
Builder fee	324,000
Other costs	<u>61,152</u>
Totals	\$ 2,972,512

**Sources:**

Unit Sales (approximately \$250,000/unit)	\$ 2,972,512
Total Sources	<u>\$ 2,972,512</u>

**RENTAL APARTMENTS (72 UNITS)**

**Uses:**

New construction	\$ 6,138,000
Construction contingency	318,520
Land assembly	1,150,000
Contamination cleanup	500,000
Demolition/site clearance	75,000
Architect/engineering	429,640
Legal	110,000
Developer fee	1,100,000
Finance costs	935,000
Other soft costs	<u>424,000</u>
Totals	\$11,180,160

**Sources:**

Housing revenue bonds:	
Supported by project revenues	\$5,750,000
Est. pay-go TIF note (rental units)	840,000
Est. pay-go TIF note (Townhome units)	<u>520,000</u>
Total housing revenue bond amount	\$ 7,110,000
Contribution of Townhouse sale proceeds	225,160
LIHTC syndication – investor equity	2,608,245
Contamination cleanup funds (State, County, Met Council)	300,000 *
Gap funding (MHFA, FHF, County, NRP, AHTF)	<u>936,755</u>
Total Sources	\$11,180,160

\* If contamination cleanup funds are not obtained, the tax increment generated from a TIF Hazardous Substances Subdistrict would be used as a substitute source.

### Proposed Affordability

Based on the revised preliminary plan, Sherman Associates is proposing the following affordability levels.

	<u>Rental Units</u>	<u>Ownership Units</u>
30% of median	16	0
50% of median	3	0
Moderate income (60%)	53	0
Market rate	<u>0</u>	<u>12</u>
Totals	72	12

According to the revised proposal, all of the affordable units would be rental units. Since there will be 19 units at or below 50% of MMI, the project complies with the City Affordable Housing Policy, which would require at least 17 units (i.e. 20% of 84). The developer has also obtained a reservation for 16 project-based Section 8 units.

### Projected Timetable

Assuming that this revised Marshall River Run proposal is financially feasible and receives the necessary support and funding, this is a tentative timetable for the project .

- Project Analysis Authorization considered by the City Council January 30, 2004
- Developer submits applications for City, County, and MHFA affordable housing and gap funding February 2004
- Preliminary approval of housing revenue bonds by the City Council Feb./March 2004
- Decisions on affordable housing & gap funding April/May 2004
- Developer submits applications for State, Met Council, and Hennepin County contamination cleanup funding May 2004
- Decisions on contamination cleanup funding July 2004
- City Council considers: final HRB approval, redevelopment contract business terms, and creation of redevelopment project and TIF District (and possible TIF Hazardous Substances Subdistrict) July/August 2004
- Project closing/construction start Sept/Oct. 2004

Depending on the level of analysis required for this project, an appropriate Project Analysis Fee will be assessed to the developer.