



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

Date: July 10, 2007

To: Council Member Lisa Goodman, Chair, Community Development Committee
Council Member Paul Ostrow, Chair, Ways & Means/Budget Committee

Subject: Public Hearing on the Minnehaha Avenue Apartments Redevelopment Plan and Consideration of Supplemental Request for \$402,000 in AHTF loan funds

Recommendation: It is recommended that the City Council: 1) adopt the attached Resolution approving the Minnehaha Avenue Apartments Redevelopment Plan; and 2) approve an Affordable Housing Trust Fund (AHTF) Loan of up to \$402,000 for the project to MDI Partnership #64 or an affiliated Borrower established for the purpose of holding or owning real estate subject to the City loan, and authorize the execution of the necessary documents relative to the loan.

Previous Directives: 1) On December 22, 2006, the City Council approved \$1,104,000 in AHTF funds to support this project; 2) On June 29, 2007, the City Council granted preliminary approval of up to \$3,915,000 in Tax-Exempt Multi-family Rental Housing Entitlement Bonds; and 3) On June 19, 2007, the Community Development Committee postponed action on a supplemental request for \$552,000 in AHTF funds.

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Approved by: Elizabeth Ryan, Director for Housing Policy and Development _____
Presenters in Committee: Jerry LePage

Reviews

Permanent Review Committee (PRC): Approval NA Date _____
Policy Review Group (PRG): Approval NA Date _____

Financial Impact

Project will generate semi-annual administrative fees related to the housing revenue bonds.

Community Impact

Neighborhood Notification – The Nokomis East Neighborhood Association expressed its support for the proposed project in a letter dated June 7, 2006.

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.

Sustainability Targets: Affordable housing preservation.

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: Application process for rezoning underway.

Living Wage/Business Subsidy Agreement Yes _____ No X

Job Linkage Yes _____ No X

Other

Background/Supporting Information

MetroPlains Development is proposing the Minnehaha Apartments project to be located at 5341, 5345, 5359 Minnehaha Avenue, which is two blocks from the Nokomis East Light-Rail Transit Station, across the street from the Veterans Administration Hospital, and very near Minnehaha Regional Park. This area has hosted significant new market-rate condominium and apartment building investments since the opening of the Hiawatha Light Rail Transit line.

Minnehaha Apartments is a 37-unit mixed-income affordable housing project that will include green features. Twenty-three (over 62%) of the units will be 1-BR apartments, eleven (30%) will be 2-BR apartments, and the remaining three (8%) will be 3-BR apartments. Twenty-three of the units are proposed at 50% AMI, with the remaining 14 units affordable at or below 60% AMI. Importantly, the site of this 100% LIHTC project is located in a non-impacted area. The production of affordable units in non-impacted areas is consistent with City housing policy favoring the dispersion of affordable units throughout the City's neighborhoods. With its proximity to light-rail, this project also delivers general occupancy, transit-oriented workforce housing.

Minnehaha Apartments will be a four-story elevator building over below-grade parking with a total of 41 parking spaces. The layout and massing of the project have been adapted from original designs to meet neighborhood compatibility concerns in the adjacent area of single-family homes. As part of project redesign with City planning and the neighborhood, the developer has incorporated a common deck space on the fourth floor with views of Minnehaha Park and the Mississippi River Valley. The building also features an adjacent indoor community activity room. The developer has added a green buffer and green boulevard between street and sidewalk. Project green features include a rain garden, high energy-efficiency, and a 1.1:1 parking ratio to take advantage of proximity to light-rail. The developer also recently submitted a rezoning application to the City. The proposed rezoning would be consistent with the objectives of greater density and transit-oriented development identified for the area in the Nokomis East Small Area Plan.

The Minnehaha Apartments project will replace an existing single-family home, vacant lot, and multi-purpose residential/commercial structure. MetroPlains has submitted a relocation plan to the City and will comply with all applicable requirements related to the relocation of residential tenants.

Over the last 29 years, MetroPlains has successfully completed the development of about 120 developments in nine states across the Upper Midwest. Average annual project production is three to four projects per year, ranging in size from \$1 million to \$25 million in size. Projects have ranged from 5% to 100% market-rate and have served both families and seniors. MetroPlains has significant experience in new construction, rehabilitation, adaptive reuse and redevelopment projects, in the form both of rental and ownership.

Financial Summary

The Total Development Cost of the 37-unit Minnehaha Apartments project is \$7,761,587, which works out to be \$209,773 per unit or slightly less than \$170 per square foot. These TDC figures are consistent with the benchmarks of other 2005 and 2006 AHTF projects, which ranged from \$143,000-\$235,000 per unit and \$118-\$242 per square foot. Since the June 19th Community Development Committee, the developer has provided staff some updated information on his financing and his proposed developer fee. These changes are reflected on the updated Project Data Worksheet which is attached. The developer is proposing to source about 65% of project costs from private equity and financing, including the private funds generated through the use of housing entitlement bond authority and automatic 4% tax credits. The remaining 35% of project costs will be funded with sources from Family Housing Fund, MHFA, Hennepin County, and the City of Minneapolis, including the proposed supplemental AHTF request of \$402,000.

The developer applied for supplemental AHTF funding of \$552,000 because of additional gaps that have arisen since Council approval last December of the original AHTF award of \$1,104,000. The current development budget represents approximately an 8% increase over the development budget in the initial AHTF application. The application for supplemental AHTF dollars reflects two unforeseen developments: 1) an increased cost gap due to unanticipated site conditions; and 2) unanticipated inability to qualify for TIF as a funding source.

With regard to the unanticipated site conditions, the developer discovered poor soils with borings carried out in late February. The fill, topsoil, silts, and clays found at the site were found to be "too weak" to support the proposed structure. The budget associated with addressing these conditions has been substantiated by letters with cost estimates submitted by qualified engineers and contractors. In addition, water main access is not readily available to the site, but instead must be made available with additional water main excavation under Minnehaha Avenue. All of these factors have resulted in increased costs of approximately \$250,000. Other than these unforeseen costs, the developer was successful in finding an experienced contractor prepared to deliver the project at the originally estimated budget.

With regard to the tax increment financing, the developer submitted a TIF application in February of this year to support this project. Based on its internal numbers, the developer had estimated that the project would qualify for \$307,000 in tax-increment financing. However, based on a preliminary review of the application by City Finance staff, it was determined that the project would in fact qualify for about \$257,000, an amount well below the \$300,000 minimum required for staff consideration of the TIF application.

At the June 19th Community Development Committee, there were also questions about the amount of the developer fee for this project. Based on the updated information received from the developer (reflected in the attached Project Data Worksheet), the total proposed developer fee is \$907,000, which represents 13.2% of the Total Development Cost less the proposed fee ($\$7,761,587 - \$907,000 = \$6,854,587$; $\$907,000 / \$6,854,587 = 13.2\%$). The proposed developer fee is consistent with the City's Developer Fee policy.¹ Moreover, of this \$907,000 fee, the developer has committed to taking only \$510,617 of it

¹ City of Minneapolis developer fee policy, which is more restrictive than the MHFA developer fee policy, allows a maximum net developer fee of 15% on the first thirty (30) units and 8% on each additional unit.

at closing and through construction completion, deferring the remainder of \$396,383. It is estimated that it will take approximately 20 years for the deferred portion of the developer fee to be repaid on the basis of a contingent cash flow note. Moreover, the developer has agreed to share 25% of project cash flow beginning in Year 16 of project operations and continuing to the end of the AHTF loan term.

AHTF Recommendation

Staff is recommending partial funding of \$402,000 in response to the supplemental AHTF request of \$552,000, as the developer has agreed to share in a portion of these unforeseen gaps. The request is consistent with the purpose and conditions the City Council established for pipeline AHTF dollars. The developer is an eligible applicant for supplemental funding since it is a previous AHTF applicant experiencing an unexpected shortfall, and other possible funding sources to address this shortfall are not available to this project. Moreover, the proposal has met all stipulated AHTF pipeline criteria:

1. Met all AHTF guidelines and minimum point threshold;
2. CPED is fully confident that the proposal has adequately demonstrated financial soundness and feasibility;
3. Preference for non-impacted projects.

In addition, the developer has demonstrated strong interest in meeting neighborhood concerns, City policy objectives, and has exercised creativity in seeking out ways to close these unanticipated gaps.

With the supplemental \$402,000 in funds, the total AHTF funding would be \$1,506,000, which represents about 19% of the total project funding. This AHTF assistance works out to \$65,478 per AHTF-assisted unit (i.e. the 23 units at 50% of AMI) and \$43,028 per bedroom, which are consistent with the benchmarks of other 2005 and 2006 new construction projects that ranged from \$12,628 to \$75,312 per AHTF-assisted unit and \$7,016-\$50,811 per bedroom. Furthermore, the affordability period for the 23 AHTF-assisted units will be 40 years, which is longer than for most AHTF projects.

Development Finance Committee

On June 14, 2007, the Development Finance Committee reviewed the supplemental AHTF request, and its comments concurring with the staff recommendation are attached.

Redevelopment Plan

CPED staff has conducted the necessary blight analysis of the existing structures on the site and have determined that the proposed project area qualifies for inclusion in a Redevelopment Project under Minnesota Statutes 469.001 through 469.047. The creation of a Redevelopment Project is required to meet Hennepin County's condition for receiving the \$200,000 in County TOD funds that have been approved for the project.

Proposed Timetable

- City Council consideration of final HRB August 2007
- Project Pre-closing August 2007
- Construction start September 2007