

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

Date: November 27, 2007

To: Council Member Lisa Goodman, Chair, Community Development Committee

**Subject:** Project Analysis Authorization: Nokomis Senior Assisted Living Project (3717 23<sup>rd</sup> Avenue South)

**Recommendation:** Authorize staff to continue analysis of the Nokomis Senior Assisted Living proposal; negotiate terms and conditions of a redevelopment contract with Covenire Care, LLC, or an affiliated entity; and prepare a redevelopment plan and tax increment financing plan for this project, subject to final determination of project eligibility, required reviews, public input, notices, and hearings.

**Previous Directives:** None.

Prepared by: Jerry LePage, Senior Project Coordinator, 673-5240  
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**

No financial impact

**Community Impact**

Neighborhood Notification – The Standish Ericsson Neighborhood Association (SENA) supports the Covenire’s proposal and has been notified that this report is being considered by the City Council.

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 Units – new/positive conversion.

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. 4.11 Minneapolis will improve the availability of housing options for its residents.

Zoning Code: On October 1, 2007, the City Planning Commission approved Covenire’s land use application, and the re-zoning was approved the City Council on November 2, 2007.

Living Wage/Business Subsidy Agreement	Yes _____	No <u>X</u> _____
Job Linkage	Yes _____	No <u>X</u> _____
Other		

## **Supporting Information**

The City has received a Request for Public Assistance from Covenire Care LLC for the development of the Nokomis Senior Assisted Living housing project, which will be located at 3717 23<sup>rd</sup> Avenue South. The site, which is adjacent to the 231-bed Providence Place Skilled Nursing Facility, is currently a parking lot that is owned by Providence Place and used by its guests and residents. The project is designed to complement the Providence Place facility and will include a total of 77 units. The two buildings together will create a senior housing campus.

Covenire Care, LLC is a joint venture consisting of the principals of Shelter Corporation and Tealwood Care Centers. Shelter Corporation, which was founded in 1993, is a Minneapolis-based corporation that finances, develops, owns, and manages multifamily and senior rental communities throughout the United States. Shelter Corporation is owned and operated by Lynn Carlson Schell, Jay Jensen, and Garret Carlson. Over the past fifteen years, Shelter Corporation's principals have developed over \$400 million and acquired over \$250 million in residential real estate projects. Shelter currently manages over 7,459 rental apartment units, including 1,450 tax credits units recently purchased in Florida and 920 units owned by the Washington County HRA that Shelter assumed responsibility for on January 1, 2007.

Tealwood Care Centers Inc. was formed in 1989 by principals Howard Groff, Steve Harl, and Gail Sheridan, and manages 8 health care campuses (nursing homes and assisted living), 11 nursing homes, and 9 assisted living facilities. Tealwood is a for-profit company dedicated to following a holistic approach in serving the needs of nursing home residents by providing a range of services including nursing care, social service, recreational activities, and dietary counseling. It also arranges for additional services through contracts, including physical therapy, physician services, dental care, and vision care, and audiological, spiritual, and psychological services.

Covenire Care manages several properties in the Twin Cities area, including "Providence Place" which has 231 skilled nursing home units and is located across the street from the proposed Nokomis Assisted Living project, and "The Colony at Eden Prairie" which includes 128 Independent/Assisted Living apartments and 14 memory support apartments.

## **Development Proposal**

Covenire Care LLC is proposing the development of the Nokomis Senior Assisted Living Community project. This project is designed to complement the Providence Place facility and will include a total of 77 units: 63 assisted living units, 7 memory support units, and 7 care suites for seniors. Of the 77 units, a minimum of 25 units (32%) will be for seniors with incomes below 50% of MMI, which exceeds the 20% requirement under the City's Affordable Housing Policy.

Covenire Care's vision for this location is to create a senior housing campus consisting of the existing Providence Place nursing facility and an assisted living development adjacent to this facility. These two complementary buildings will offer seniors a "continuum of care" that will include a traditional nursing home, transitional care, memory support units, and other specialties care units. In its Application for Public Assistance, Covenire outlines the evolution of senior care over the last 20 years, the specialized nature of this business, and the challenging financial parameters involved in the development and management of senior

facilities. A major challenge is the risk and unpredictability inherent in reliance upon insurance and government reimbursement programs for a significant portion of operating revenues. In this emerging environment, Covenire indicates that it is following a new business model designed to meet the changing needs of the senior population, and thereby protecting its investment in current facilities and ensuring long term return on its investment. A critical part of this strategy is the development of assisted living facilities.

The proposed Nokomis Senior Assisted Living project calls for the construction of a 4-story building with a brick exterior as the predominant material, and will include one level of underground heated parking (approximately 50 spaces) and 41 surface spaces. The new parking spaces will accommodate both the needs of the new development as well as the existing Providence Place facility. Studio and one bedroom floor plans will be available in addition to the 14 memory support units and the private care suites. Each senior resident will live independently in their apartments and receive various levels of services depending on their need. Community amenities will include: a dining room (with three meals served daily), a parlor, a café, an activity room, a screen porch, an outdoor patio/courtyard, secure entries, and professionally designed and maintained landscaping and walking paths.

Covenire's development plan also includes a beauty salon, which would be open to the public as well as the residents. The salon will be on the corner of the development at 38<sup>th</sup> Street and 23<sup>rd</sup> Avenue. Covenire has positioned the beauty salon and the community rooms along this portion of the building in order to encourage activity and to create a pedestrian-friendly environment along 38<sup>th</sup> Street. These areas will feature store front windows, awnings, specialty lighting, and a separate entrance on 38<sup>th</sup> Street. Covenire has worked closely with the Standish Ericsson Neighborhood Association (SENA) in developing this project. Additional information on the project is on the Project Data Worksheet attached as **Exhibit 1**. A site plan and elevations of the project are also attached as **Exhibit 2**.

Covenire has signed a purchase agreement to acquire the property, which had a R4 zoning. The developer requested a re-zoning to OR2 to support the project. On October 1, 2007, the Planning Commission approved Covenire's land use application, and City Council took final action on the re-zoning on November 2, 2007.

In terms of job creation, the developer estimates that the project will create approximately 40 new full time jobs that will complement the existing 200 jobs at the Providence Place facility.

### **Proposed Financing and TIF Proposal**

The total development cost (TDC) of the project is estimated at \$14.4 million. To date, the developer has submitted applications for TIF assistance, deferred loan funding from the City's Affordable Housing Trust Fund (AHTF), and housing revenue bonds (HRB) financing. Staff is currently reviewing Covenire's application for housing revenue bonds, which will be credit-enhanced under the HUD/FHA 232 insurance program for housing with services. Staff will be bringing a report to the City Council for consideration of preliminary approval of the housing revenue bond financing in January.

In its TIF application, Covenire is requesting the creation of a 25-year Housing Tax Increment District and approximately \$1.24 million in tax increment assistance in the form of a pay-go TIF note. The TIF-eligible costs would include the construction of affordable

housing, the construction of underground parking, and the cost of upgrading the exterior finish to complement the existing neighborhood. In terms of the financing mechanism for TIF, the developer plans to use the TI income stream to support a larger first mortgage through the issuance of additional housing revenue bonds. In early 2008, staff will be returning to the City Council with the proposed TIF plan and TIF assistance and the proposed redevelopment contract terms.

In its application, Covenire also makes the point that this assisted living project is different from independent senior apartment buildings or typical affordable housing projects where the developer's return on equity (ROE) generally comes through up-front fees and proceeds upon sale. In this case, Covenire will be making an equity contribution of approximately \$680,903 and also does not intend to take a developer fee. Covenire indicates that it will realize much of its return in the form of management fees collected over time from project cash flow (ranging from 5% to 6% of cash flow). If Covenire did take a developer fee, it would require sourcing either through an increase in City AHTF funds, or through an increase in the developer's equity contribution, which would amount to Covenire paying itself a fee.

In addition, Covenire's proposal is unusual in terms of its proposed repayment plan of City assistance. Covenire is proposing to make payments from its cash flow to repay the proposed \$614,000 AHTF loan and any TIF assistance it receives, plus 1% interest. The proposed repayment plan calls for Covenire to receive a 15% preferred return on its equity of \$1,627,384 (\$680,903 general partner cash and \$946,481 in tax credit equity), with payments to be made to the City any year the return exceeds 15%. The payments to the City would be based on the final proportion of the City's investment, which is currently estimated at \$1,858,093 (53%), to the developer's equity investment, which is currently \$1,627,385 (47%). Any unpaid balance would be paid to the City upon sale. The details of the proposed repayment plan, including the appropriate level of preferred return to the developer, will be part of the negotiations of the business terms and will be brought back to the City Council in early 2008 for consideration along with the redevelopment plan, TIF plan, and other deal points.

The balance of the project funding will be generated through the syndication of the 4% tax credits (which are automatic with the housing revenue bonds). The 4% tax credits are expected to generate an estimated \$946,481 in syndication proceeds. From the outset, CPED staff has encouraged Covenire Care to consider utilizing the automatic 4% tax credits, even though a syndicated tax credit deal on an assisted living project has never been done before in Minnesota. In general, assisted living projects are viewed as more risky due to the fact that service funding represents a significant portion of operating revenues, making syndication a challenge. However, Covenire is hoping that syndication will work in this instance and that this project could possibly pioneer a new financing model for assisted living projects.

### **Project Timetable**

At this point, the proposed project timeline is as follows:

- Consideration of Project Analysis Authorization (PAA) by the City Council in November 2007.

- Consideration of Affordable Housing Trust Fund (AHTF) funding request in November 2007.
- Consideration of Preliminary Approval of housing revenue bonds in January 2008.
- Consideration of redevelopment contract business terms, the creation of the Redevelopment Project and Housing TIF District, and final housing revenue bond approval by the City Council in March 2008.
- Construction start in Spring 2008.

### **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, based on the preliminary information that the developer has submitted; and c) some level of public financial assistance may be justified. While the developer has completed a preliminary analysis of the potential tax increment that the proposed project would generate, CPED's estimated tax increment amount will be contingent on the assessor's determination of value, which will be obtained after the City Council approval of the PAA.

As we proceed with the project analysis stage, staff will be addressing a number of the business term issues: 1) the appropriate level of public assistance; 2) the creation of a Housing TIF District; and 3) the specific terms of the repayment of the City's investment. In terms of City plans and policies, the proposed development meets a number of public purposes, including: accommodation of growth/density along an identified corridor, facilitation of improved access to public transportation, senior housing, and the City's goal of creating affordable housing.

### **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 \$7,000. This fee amount is 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. An additional fee may be required if the analysis of this project increases due to unanticipated complexity or if changes occur in the development.