



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

**Date:** May 16, 2006

**To:** Council Member Lisa Goodman, Community Development

**Subject:** Project Analysis Authorization - Greenway Apartments Project (2845 Bloomington Avenue South)

**Recommendation:** Authorize staff to continue analysis of the Greenway Apartments Project proposal; negotiate terms and conditions of a redevelopment contract with Lupe Development Partners or an affiliated entity as the general partner; and prepare a redevelopment plan and tax increment financing plan for the Greenway Apartments Redevelopment Project, subject to final determination of project eligibility, required reviews, public input, notices and hearings.

**Previous Directives:** None

**Prepared by:** Jerry LePage, Sr. Project Coordinator **Phone:** 673-5240

**Approved by:**

Elizabeth Ryan, Director of Housing Policy & Development \_\_\_\_\_

Jack Kryst, Director Development Finance \_\_\_\_\_

**Permanent Review Committee (PRC)** Approval  Not Applicable

**Note:** To determine if applicable see <http://insite/finance/purchasing/permanent-review-committee-overview.asp>

**Presenter in Committee:** Jerry LePage, 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):
- Request provided to department's finance contact when provided to the Committee Coordinator.

## Community Impact (use any categories that apply)

Neighborhood Notification: The East Phillips Improvement Coalition (EPIC) has been notified of that this report will be presented to City Council.

City Goals: Increase the city's population and tax base by developing and supporting housing choices citywide through preservation of existing housing and new construction.

Comprehensive Plan: Section 4.9: Minneapolis will grow by increasing its supply of housing. Section 4.10: Minneapolis will increase its housing that is affordable to low and moderate income households. Section 4.11: Minneapolis will improve the availability of housing options for its residents.

Zoning Code: To permit the proposed development, the developer plans to request a zoning change from R2B to R6.

Other: N/A

## Background/Supporting Information:

Lupe Development Partners, LLC proposes to redevelop a site on north side of the Midtown Greenway between Bloomington and 16<sup>th</sup> Avenues South (2845 Bloomington Avenue South). The proposed site, which is approximately 26,500 square feet (or 0.61 acres), contains four blighted, boarded, and vacant structures and is currently zoned R2B (Two Family District). Lupe Development has signed a purchase agreement to acquire this property from its current owner.

To date, the City Council has not committed any City resources to this project. However, Lupe Development has submitted an Application for Public Financial Assistance (i.e. TIF) and will be submitting an application for approximately \$5.5 million in housing revenue bonds, which include automatic 4% low income housing tax credits (LIHTC). The developer has also submitted a land use application for necessary regulatory approvals to the CPED Planning Division.

## Project Description

Lupe Development proposes to construct 69 units of affordable workforce rental housing within a five-story elevator building adjacent to the 29<sup>th</sup> Street Greenway Corridor. The developer has selected BKV Group-Minneapolis as the project architect, and the site plan and elevations for the proposed project are attached as **Exhibit 1**.

Lupe Development indicates that the target population will be small households (1 to 3 persons) who are employed in entry-level manufacturing, service sector, and health care fields. The project will have units ranging from 476 square feet to 941 square feet, with monthly rents ranging from \$673 to \$1,039, and 69 parking spaces, primarily underground. Of the 69 units, 23 will be studios, 29 1-bedrooms, and 17 2-bedrooms. The project will have 32 units affordable at 50% of Metropolitan Median Income (MMI) and 37 units at 60% of MMI. Additional project information is included on the attached Project Data Worksheet (**Exhibit 2**).

The estimated total development cost (TDC) of the project is \$10.8 million. All development cost estimates are preliminary and subject to further CPED review and analysis. The developer has proposed a developer fee of approximately 12% of TDC (\$1,170,000), part of which he intends to defer to stabilize the project. Based on CPED's Housing Developer Fee Policy Guidelines, the proposed developer fee is slightly in excess of the maximum allowed (maximum of \$1,060,000 based the current TDC). However, the developer's proforma, including the developer fee, will be subject to further review and analysis, and the fee amount must ultimately conform to the Developer Fee Policy.

The primary sources of the permanent funding for the project will be through the issuance of tax exempt housing revenue bonds (approximately \$5.5 million or 51% of TDC) and syndication of the automatic 4% tax credits (approximately \$4.1 million or 38% of TDC). Of the \$5.5 million in housing revenue bond debt, approximately \$4.76 million would be supported by project revenues and approximately \$690,000 would be supported by a pay-go TIF note. When the developer

submits his HRB application, CPED Housing Division staff will evaluate this application and will bring a report to the City Council with its recommendation regarding preliminary HRB approval.

The developer has also applied for additional funding from Hennepin County's Affordable Housing Incentive Fund (AHIF) program (\$500,000) and from the County's Transit Oriented Development (TOD) fund (\$500,000). These Hennepin County applications are still pending. If the project does not receive this County funding, the developer has indicated that it is possible that applications will be submitted for the City's Affordable Housing Trust Fund (AHTF) and the Metropolitan Council's Livable Communities program for the necessary gap funding. According to its proforma, Lupe Development also intends to provide approximately \$190,000 as a source to the project in the form of a deferred developer fee.

As part of the project's financing plan, Lupe Development is requesting an estimated \$690,000 in pay-as-you-go tax increment financing to fund eligible tax increment expenses. The developer intends to use the pay-go TIF note as an additional income stream to support the debt service on the housing revenue bonds. Further analysis following PAA approval will include the formal blight analysis and evaluation of eligibility for either a Redevelopment TIF district or a Housing TIF district.

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

- Consideration of a Project Analysis Authorization (PAA) by the City Council in May 2006.
- Consideration of preliminary housing revenue bond approval by the City Council in July 2006.
- Consideration of redevelopment contract business terms, the creation of the redevelopment project and TIF District, and final HRB approval by the City Council in the fall of 2006.
- Project closing and construction start by the end of 2006.
- Project Completion by the end 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 also meets a number of public purposes, including: accommodation of growth/density along an identified corridor, facilitation of improved access to public transportation, and the City's goal of creating affordable housing. However, there is some concern about the fact that this is an all-affordable project (32 units affordable at 50% of MMI and 37 units at 60%) in an already impacted area. The developer's position is that, given the area, the project rents are very close to the market rate.

As represented in its Financial Assistance application, Lupe Development Partners was formed in 1989 and has an established history of property management, property renovation, redevelopment, and new construction, including its recent development of the Stone Arch Apartments in the Central Riverfront. Lupe Development indicates that it develops or renovates approximately 100 housing units (either rental or ownership) and approximately 20,000 square feet of retail space on an annual basis. Architectural services for this project will be provided by BKV Group-Minneapolis. The developer has selected Dew Corporation as the general contractor.

In terms of project density, Lupe Development's proposal is about 113 DU/acre, which is inconsistent with the Urban-Oriented and Medium Density Housing designation for this site in the proposed Midtown Greenway Land Use and Development Plan (about 50 DU/acre). The Midtown Greenway Plan envisions a density in this area equivalent to an R5 classification. Given the development intensity proposed, staff anticipates a rezoning application from R2B to R6.

Lupe Development has indicated that it has presented its development plans to a number of neighborhood groups, including the Midtown Phillips Neighborhood Association and the Greenway Coalition, and is scheduled to make a presentation on May 11<sup>th</sup> to the East Phillips Improvement

Coalition (EPIC), which is the neighborhood where the project is located. At this point, there have been some concerns raised in the neighborhood about the proposed density and the lack of any ownership units.

The developer has submitted a land use application to CPED Planning Division, including a rezoning request from R2B to R6, site plan review, conditional use permit for 69 units, and a variance for the front yard setback along 16<sup>th</sup> Avenue. At this point, this application is still incomplete. The developer is also working with CPED and Public Works regarding vacation of part of the existing alley.

#### 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 \$10,000. 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.