

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

**Date:** February 5, 2008

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

**Subject:** Project Analysis Authorization - Longfellow Station Project

**Recommendation:** Authorize staff to continue analysis of the Longfellow Station project proposal; negotiate terms and conditions of a redevelopment contract with Capital Growth Real Estate, LLC, or an affiliated entity; and prepare a tax increment financing plan for this project, subject to final determination of project eligibility, required reviews, public input, notices, and hearings.

**Previous Directives:** 1) December 2005 – approved a resolution authorizing submission of applications to the Metropolitan Council for Hiawatha Corridor Land Assembly Fund proposals; 2) March 2006 - approved acceptance and appropriation of Metropolitan Council Hiawatha Light Rail Land Assembly Fund Grants of \$3,500,000 for projects along the Hiawatha Light Rail line, including the Longfellow Station Project; 3) June 2006 – authorized submission of an application for Metropolitan Council Livable Communities Demonstration Account (LCDA) funding; 4) October 2006 – authorized submission of an application for a Hennepin County ERF brownfield grant; 5) December 2006 – approved up to \$400,000 from the Affordable Housing Trust Fund; 6) February 2007 - accepted and appropriated \$934,523 Metropolitan Council Livable Communities Demonstration Account LCDA grant and \$90,000 Hennepin County ERF grant; 7) May 2007 – authorized submission of an application for Metropolitan Council Livable Communities Demonstration Account (LCDA) funding; 8) August 2007 – adopted a resolution approving the Longfellow Station Redevelopment Plan; and 9) December 2007 – approved up to an additional \$1,000,000 from the Affordable Housing Trust Fund.

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Approved by: Charles T. Lutz, CPED Deputy Director \_\_\_\_\_  
Jack Kryst, Director, Development Finance \_\_\_\_\_

Presenters in Committee: Jerry LePage, Senior Project Coordinator  
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### **Financial Impact**

- No financial impact

### **Community Impact**

- Neighborhood Notification: The Longfellow Community Council (LCC) was advised of the receipt of this Application for Public Assistance and has also been notified that this report will be considered by the City Council. The developer has worked with the LCC on crafting this development project through a number of public and task force meetings over the past two years.
- City Goals: One Minneapolis - 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.



The estimated total development cost of the project is \$47.2 million, including \$34.5 million for housing and \$12.7 million for commercial/retail. Developer equity in the project is \$1.7 million in the form of cash and a deferred developer fee. Additional equity of \$5.3 million is anticipated through tax credit syndication. The City's state, regional and county partners have committed substantial resources to the project in recognition of its consistency with shared policy goals of locating higher-density mixed-use developments within Hiawatha Light Rail Transit station areas. To date, over \$5.65 million in grant and deferred loan funding has been approved for the project, and \$2.24 million in additional funding is still pending.

The sources that have been approved are as follows:

1. \$980,000 from the Hennepin County Transit Land Assembly Fund (TLAF) for land acquisition for higher density, transit oriented development projects along the Hiawatha Light Rail line (originally financed through Federal Congestion Mitigation and Air Quality – CMAQ – funds awarded the Metropolitan Council);
2. \$1,434,523 from the Metropolitan Council's 2006 and 2007 Livable Communities Demonstration Account (LCDA) funds for extraordinary demolition costs;
3. \$480,000 from the State of Minnesota DEED Redevelopment Grant Program;
4. \$100,000 from the Hennepin County 2007 Transit Oriented Development (TOD) program;
5. \$90,000 from the Hennepin County Environmental Remediation Fund (ERF);
6. \$295,200 from the Metropolitan Council Tax Base Revitalization Account (TBRA) for environmental remediation;
7. \$265,000 from the State of Minnesota DEED Contamination Cleanup Program; and
8. \$2,000,000 from State of Minnesota MHFA Challenge funds and the Family Housing Fund.

The developer plans to apply for an additional \$1.25 million from Hennepin County through the TOD grant program (\$500,000) and the Affordable Housing Incentive Fund (AHIF) program (\$750,000). The developer will also be applying for \$425,000 from the Federal Home Loan Bank, and \$500,000 from through the Non-Motorized Transportation Pilot Program administered by Transit for Livable Communities.

Assuming the remaining applications mentioned above are approved as requested, the Longfellow project will leverage almost \$8 million in non-local funding sources. These sources represent about 17% of the combined total development cost (TDC) of \$47.2 million for the housing and retail components.

The table on the following page summarizes the proposed funding sources for housing and retail components of the project:

Proposed Sources	Type	Rental Housing	Commercial	Total	Funding Approved
Developer cash equity	Equity	206,723		206,723	
Deferred developer fee	Equity	250,000	1,255,000	1,505,000	
Housing Tax Credit syndication	Equity	5,332,232		5,332,232	

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Permanent Mortgages	Loan	17,524,149	7,457,361	24,981,510	
TIF pay-go notes	TIF	3,148,158	2,459,684	5,607,842	
City AHTF (2006)	Loan	400,000		400,000	X
City AHTF (2007)	Loan	1,000,000		1,000,000	X
Metro Council LCDA (2006)	Grant	663,511	271,012	934,523	X
Metro Council LCDA (2007)	Grant	350,000	150,000	500,000	X
DEED Redevelopment Grant	Grant	480,000		480,000	X
City Great Streets Program	Loan		300,000	300,000	
Family Housing Fund	Loan	150,000		150,000	X
MHFA	Loan	1,850,000		1,850,000	X
Hennepin County TOD (2007)	Grant	71,000	29,000	100,000	X
Hennepin County TOD (2008)	Grant	355,000	145,000	500,000	
Hennepin County AHIF	Loan	750,000		750,000	
Hennepin County ERF	Grant	63,900	26,100	90,000	X
DEED environmental funds	Grant	189,570	75,430	265,000	X
Metro Council TBRA	Grant	209,450	85,750	295,200	X
Metro Council TLAF acquisition grant	Grant	695,800	284,200	980,000	X
Federal Home Loan Bank	Loan	425,000		425,000	
Transit for Livable Communities	Grant	355,000	145,000	500,000	
TOTAL		34,469,493	12,683,537	47,153,030	

The developer has proposed a total developer fee of approximately \$3.8 million that represents 8.8% of net TDC for the entire project (both housing and retail components). The proposed developer fee falls within the CPED Housing Developer Fee Policy Guidelines. However, the amount of the fee will be subject to further review and analysis.

Since this is a mixed income project, the City will also be seeking recapture of the City's investment in terms of sharing in net cash flow of the project.

### Housing Component

The developer is proposing to finance the 197-unit rental housing component with City-issued tax-exempt housing revenue entitlement bonds estimated at \$20.7 million. Of this amount, approximately \$17.5 million will be supported by project revenues and an estimated \$3.2 million will be supported by proposed TIF assistance in the form of a pay-go TIF note. Collateral Real Estate Capital will serve as the underwriter of the proposed housing revenue bonds, which will be privately placed. The project will also utilize 4% low-income housing tax credits (automatic with housing revenue bonds) that will generate approximately \$5.3 million in syndication proceeds. The rental units will be for general occupancy, with 20% (40 units) of the units affordable at 50% MMI, 39% (76 units) affordable at 60% MMI, and 41% (81 units) at market rate.

In December 2006, the City Council approved \$400,000 in funding from the Affordable Housing Trust Fund (AHTF), and in December 2007, the Council approved an additional \$1,000,000 in AHTF funding. More detailed information is provided on the Project Data Worksheet (which is attached as **Exhibit 2**). Please note however that the sources and uses on the attached Project

Data Worksheet relate only to the housing component and do not include any commercial sources and uses. Also, the funding amounts from DEED, the Metropolitan Council, Hennepin County, etc. shown on the Data Worksheet reflect only the portion of these funding sources associated with the housing component and therefore do not always correspond to the total awards as shown on the table on page 4.

In terms of the status of the housing component, the developer at this point has committed funding for 19% of the housing TDC. As previously indicated, the developer will also be submitting a request to the City in housing revenue bond financing (HRB). If the proposed TIF financing, the proposed HRB financing, and the estimated syndication proceeds from the automatic 4% tax credits are added to the currently committed funding, the housing project would reach the 95% funding level.

### **Retail Component**

The developer's current development proposal includes approximately 40,000 square feet of retail space. The developer is proposing to finance this retail component through the combination of a commercial loan (approximately \$7.5 million), tax increment financing through a private pay-as-you-go note (\$2.5 million), grants (\$1.5 million), and equity/deferred developer fee (\$1.2 million). Potential tenants include a small-scale, full-service grocery, two restaurants, and other service-oriented retail.

The developer plans to apply for Great Streets financing to fill an anticipated \$300,000 gap in commercial financing. That application, when received, will be evaluated and brought to Council for review. The 38<sup>th</sup> Street LRT station area is designated as a support area through the Great Streets program.

### **Proposed TIF Assistance**

In order to help close the project's financing gap, the developer is currently requesting approximately \$5.6 million in pay-as-you-go TIF assistance. Of this amount, approximately \$3.2 million will be needed for the housing project, which will be in the form of a pay-go note in conjunction with the housing revenue bond financing. The retail portion of the project will need \$2.4 million in TIF assistance, which will be in the form of a pay-go note that will be part of the private commercial/retail loan financing for this component.

Further analysis following PAA approval will include the formal blight analysis process and evaluation of eligibility for a Redevelopment TIF district or districts. At this point, all development cost estimates are preliminary and subject to further CPED review and analysis. TIF proceeds will be used to cover eligible tax increment expenses.

### **Project Timeline**

The proposed project timeline is as follows:

- Consideration of Project Analysis Authorization (PAA) by the City Council in February 2008.
- Consideration of Preliminary Approval of housing revenue bonds in March/April 2008.

- Consideration of redevelopment contract business terms, the creation of a TIF district or districts, and final housing revenue bond approval by the City Council in July 2008.
- Project closing and construction start in fall 2008.
- Project completion in fall of 2010.

### **Preliminary Staff Analysis**

Based on a preliminary review to date, staff concludes that a) the revised Application for Public Financial Assistance is essentially complete; b) the project appears feasible, based on the preliminary information that the developer has submitted; and c) some level of public financial assistance appears to be justified. While the developer has completed an analysis of the maximum amount of tax increment that the proposed project could generate, staff has not yet verified the accuracy of these estimates, nor determined what level of tax increment assistance is appropriate.

As we proceed into the project analysis stage, staff will be addressing a number of issues, including 1) the appropriate level of tax increment financing assistance; 2) eligible costs that can be paid for with the various forms of City financial assistance, 3) the qualification and establishment of a redevelopment TIF district; 4) the appropriate financing vehicles that will be used to provide such assistance; and 5) the recapture of the City's investment in terms of sharing in the net cash flow of the project.

In terms of City plans and policies, the proposed development meets a number of public purposes, including: remediation of a polluted site, accommodation of growth/density along an identified transit corridor, affordable housing within a mixed-income environment, affordable housing in a non-impacted area, and facilitating improved access to public transportation. The proposed development is also consistent with the land use policy goals established by the 38<sup>th</sup> Street Station Area Plan, adopted by the City Council on October 20, 2006.

### **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 \$9,105. 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.