

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

Date: February 19, 2008

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

Subject: Nokomis Senior Assisted Living Project - Public Hearing and Request for Preliminary Approval of up to \$13,000,000 in Tax Exempt Multi-family Housing Revenue Bonds

Recommendation: Adopt the attached Resolution giving Preliminary Approval of up to \$13,000,000 in Tax-Exempt Multi-family Housing Revenue Bonds for the Nokomis Senior Assisted Living project.

Previous Directives: 1) On December 7, 2007, the City Council approved up to \$614,000 from the Affordable Housing Trust Fund (AHTF) for the Nokomis Senior Assisted Living Project; and 2) On December 7, 2007, the City Council approved a Project Analysis Authorization (PAA) to continue analysis for possible TIF assistance and negotiate terms and conditions of a redevelopment contract with the developer.

Prepared by: Jerry LePage, Senior Project Coordinator (612) 673-5240
Approved by: Charles T. Lutz, CPED Deputy Director _____
Presenter in Committee: Jerry LePage

Financial Impact

- The project will generate semi-annual administrative fees.

Community Impact

- Neighborhood Notification – The Standish Ericsson Neighborhood Association (SENA) has supported Covenire’s proposal and has also 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 from R4 to OR2 was approved the City Council on November 2, 2007.
- Living Wage/Business Subsidy Agreement Yes _____ No X _____
- Job Linkage Yes _____ No X _____
- Other

Supporting Information

Covenire Care LLC is proposing the development of the Nokomis Senior Assisted Living housing project that will be located at 3717 23rd 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.

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. 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.

Development Proposal

The Nokomis Senior Assisted Living project 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 the proposed 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 applications 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 38th Street and 23rd 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 38th Street. These areas will feature store front windows, awnings, specialty lighting, and a separate entrance on 38th Street. Covenire has

worked closely with the Standish Ericsson Neighborhood Association (SENA) in developing this project. A site plan and elevations of the project are attached as **Exhibit 1**.

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.

Housing Revenue Bond Information

The total development cost (TDC) of the project is estimated at \$14.8 million. To date, Covenire Care has been approved for \$614,000 in deferred loan funds from the Affordable Housing Trust Fund (AHTF) and has also submitted a request for approximately \$1.3 million in TIF assistance. Pursuant to Council approval of Project Analysis Authorization (PAA) in November, staff is currently analyzing the TIF request and will be returning to the Council this summer with the proposed TIF Plan and redevelopment contract terms. As reported in November, Covenire has already made a commitment to repay its \$614,000 AHTF loan and allow recapture of any TIF assistance it receives (at 1% interest) from project cash flow and at sale or refinancing.

Covenire has now submitted an application for housing revenue bond (HRB) financing and is requesting the issuance of \$13,000,000 in tax-exempt housing revenue bonds from the City's 2008 entitlement allocation. Of this amount, an estimated \$1.3 million will be TIF-supported through the issuance of a pay-go TIF note and the remainder will be supported by project revenues. The bonds will be credit-enhanced under the HUD/FHA 232 insurance program for housing with services and will have a 40-year amortization schedule. Additional information on the project is included on the attached Project Data Worksheet (**Exhibit 2**).

The use of tax-exempt housing revenue bonds (HRB) also automatically includes the availability of 4% low income housing tax credits, which in this case were expected to generate about \$950,000 in syndication proceeds. From the outset, CPED staff has encouraged Covenire Care to consider utilizing the automatic 4% tax credits, even though tax credit syndication on an assisted living project has never been done before in Minnesota and has only worked in two states. In its PAA report to the Council in November, staff indicated that Covenire was making a concerted effort to market these tax credits. Unfortunately, Covenire has not been able to locate an interested investor. The major reason is that syndicators seem to look for a higher percentage of LIHTC units in a project (ideally 100% of the units) in order for it to be a viable investment. In Covenire's proposal, only 32% of the units are tax credit units. Even though Covenire was willing to increase the tax credit units to 50%, apparently nothing less than a 75% level would be appealing to investors.

Since tax credit syndication is not feasible, Covenire has made a commitment to make up this difference in sources by increasing its equity investment, which now will be approximately \$1.6 million.

The current status of the 2008 HRB Entitlement allocation is shown below. Nokomis Assisted Living is the first project to be presented for preliminary approval from the 2008 Entitlement.

2008 HRB Entitlement	\$39,742,000
Nokomis Senior Assisted Living	\$13,000,000

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

February 19, 2008

Page 4 of 5

2008 Entitlement Remaining	\$26,742,000
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Bond Purchaser/Underwriter	Piper Jaffray
Bond Counsel	Gray Plant Mooty
Council Member Informed	Yes, Ward 9

Project Timetable

The proposed project timeline is as follows:

- Consideration of Preliminary Approval of housing revenue bonds in February 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 June/July 2008.
- Closing and construction start in fall 2008.

Proposed Resolution
of the
City of Minneapolis

Giving preliminary approval to the issuance of tax-exempt assisted living facility revenue bonds under Minnesota Statutes, Chapter 462C for the purpose of financing a housing program consisting of the acquisition and construction of an assisted living facility for elderly persons for the benefit of Covenire Care Nokomis, LLC, or an affiliate.

WHEREAS, the City of Minneapolis, Minnesota (the "City") is authorized, pursuant to Minnesota Statutes, Chapter 462C, as amended (the "Act") to develop and administer programs to finance one or more multifamily housing developments within its boundaries; and

WHEREAS, Section 462C.07 of the Act authorizes the City to issue and sell revenue bonds or obligations to finance programs for the multifamily housing developments; and

WHEREAS, representatives of Covenire Care Nokomis, LLC, or an affiliated entity (the "Developer"), has requested that the City adopt a multifamily housing development program (the "Program") to provide for the issuance of tax-exempt assisted living facility revenue bonds in the aggregate principal amount of up to \$13,000,000 (the "Bonds") for the purpose of loaning the proceeds thereof to the Developer to finance the acquisition and construction by the Developer of an approximately 77-unit assisted living facility to be located at 3717 23rd Avenue South in the City (the "Project"); and

WHEREAS, the Community Development Committee of the Minneapolis City Council, on behalf of the City, held a public hearing on the Program and the proposed issuance of the Bonds after at least 15 days published notice thereof and after submission (prior to publication of the notice) of the Program to the Metropolitan Council for review and comment; and

WHEREAS, the City has been advised by the Developer that conventional commercial financing is available to pay the capital costs of the Project only on a limited basis and at such high costs of borrowing that the scope of the Project and the economic feasibility of its operations would be significantly affected; and

WHEREAS, the City shall not be liable on the Bonds, and the Bonds shall not be a debt of the City within the meaning of any state constitutional provision or statutory limitation, and will not constitute or give rise to a charge against the general credit or taxing power of the City or a pecuniary liability of the City, nor shall the Bonds be payable out of any funds or properties other than those provided as security therefor;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MINNEAPOLIS:

That the Program is hereby approved and adopted by the City.

Be It Further Resolved that the issuance of the Bonds pursuant to the Program in a principal amount of up to \$13,000,000 is preliminarily approved.

Be It Further Resolved that the foregoing preliminary approval of the issuance of the Bonds shall be subject to final determination by the City of terms and conditions and shall not constitute an irrevocable commitment on the part of the City to issue the Bonds.

Be It Further Resolved that the staff of Community Planning & Economic Development is hereby authorized, in cooperation with bond counsel to take all steps necessary and desirable to proceed to develop the Program and financing therefor.