



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

Date: December 10, 2013
To: Council Member Lisa Goodman, Community Development Committee
Subject: Aeon's Elliot Park Portfolio: Debt Modification Request

Recommendation: Approve the following actions related to existing City loans in Aeon's Elliot Park Portfolio: forgive accrued interest, extend the maturity dates, reduce interest rates going forward, remove Elliot Court mortgage reduction reserve repayment requirement for this transaction, and consent to the assignment of all loans to the new project entity, as described within the report.

Previous Directives: The City Council and Minneapolis Community Development Agency (MCDA) have previously approved numerous funding awards to the properties within the portfolio.

Department Information

Prepared by: Amy Geisler, Senior Project Coordinator, CPED – Residential Finance

Approved by: Charles T. Lutz, Deputy Director, CPED _____
Thomas A. Streitz, Director, Housing Policy & Development _____

Presenters in Committee: Amy Geisler, Residential Finance (673-5266)

Financial Impact

- Action is within the Business Plan
- Financial Impact:
 - Delays repayment of \$12,355,804 in principal on all loans within the portfolio.
 - Interest forgiveness in the estimated amount of \$3,499,437 is proposed.
 - There is a \$14,500 CPED administration fee associated with this request.

Community Impact

- Neighborhood Notification: NA
- City Goals: A Safe Place to Call Home; Livable Communities, Healthy Lives
- Comprehensive Plan: 3.3.2: Utilize city housing resources and partnerships to preserve the affordability of existing affordable housing. 3.3.4: Support policies and programs that create long-term and perpetually affordable housing units.

Background

Aeon's Elliot Park Portfolio includes 487 units in 9 properties located in the Elliot Park neighborhood. The properties include a mix of new construction and rehabilitation, and were developed by Aeon since the late 1980s. The buildings are owned by a number of different entities that were created at the time each project was developed. Table 1 below includes the names, addresses, unit information, and affordability for each building:

Table 1: Project Information

Project name	Units	Address	Efficiencies	1BR	2BR	Affordability
Balmoral	58	1005 Portland Ave S	45	13		50% AMI
Elliot Court	57	1132 S 8th St	44	13		50% AMI
Paige Hall	69	727 5th Ave S	51		18	30%,50% AMI
Elliot Park IV (Roselle, Elms, Adams)						30%, 60% AMI
Roselle	67	910 Portland Ave S	51	16		
Elms	81	1401 Portland Ave S	43	38		
Adams	75	500 S 10th St	74	1		
Barrington	26	911 Park Ave S	13	13		30%, 50%, 80% AMI
Heritage	16	624 S 9th St	16			50% AMI
Buri Manor	38	1515-23 Chicago Ave S	38			50% AMI

TOTAL 487

Several of the projects were developed as replacement units for housing that was demolished during the construction of the Minneapolis Convention Center. Over the past couple of years, Aeon has been working on a plan for refinancing of these properties, in order to pursue needed rehabilitation work and to preserve their affordability into the future. One obstacle to the refinancing is the existing public debt on the properties, which is held by the City, State, and Family Housing Fund. In some cases, principal combined with accrued interest exceed the value of the property such that the properties cannot be refinanced as-is.

The current City loan principal balance and estimated accrued interest for each property are listed below in Table 2:

Table 2: Existing City Loans

Project name	Units	Current principal	Estimated interest	Interest rate
Balmoral	58	1,426,822	330,474	1%
Elliot Court	57	1,188,656	943,008	3%
Paige Hall	69	2,753,150	597,961	1%
Elliot Park IV	223	6,065,132	1,457,504	1%
Barrington	26	400,000	98,497	1%
Heritage	16	339,444	64,120	3%
Buri Manor	38	182,600	7,873	1%

TOTAL 487 12,355,804 3,499,437

Aeon's Request to the City

In order to position the properties for a future refinancing and rehabilitation project, Aeon has requested the following actions from the City:

1. Extend all City loan terms through 12/31/2054.
2. Forgive all accrued interest on outstanding debt through the date of modification.
3. Reset all interest rates to 0% going forward.
4. Permit Aeon or its affiliate to retain the mortgage reduction reserve associated with the City's Elliot Court mortgage (approximate amount of \$525,000).
5. Conform existing loan documents to current City AHTF practices.
6. Consolidate all loans into one new loan, and consent to the transfer of the portfolio properties to and assumption of the consolidated loan by Elliot Park Limited Partnership (or related entity).
7. Allow rent and income restrictions to float across all properties (where possible per original City funding source) rather than restricted by property as is the case now.

Aeon is not seeking principal forgiveness or any additional City funding as part of this debt modification. Under this proposal, all existing City loans would be combined into one loan document which would be secured by all properties in the portfolio, rather than each property being secured by each individual loan.

MN Housing and the Family Housing Fund (FHF) have existing debt on Balmoral, Barrington, Buri Manor, and Paige Hall. FHF has agreed to forgive the principal balance of their loans on Buri Manor and Paige Hall (total \$940,471), with the accrued interest to be paid by Aeon (approximately \$67,700). MN Housing is currently evaluating whether they are able to issue new debt in lieu of a debt modification for their existing loans; in that case, no action is needed by the State until the time of a project refinance.

Staff Recommendation

Staff is recommending approval of Aeon's request to the City, contingent upon execution of satisfactory loan modification and assumption documents. Staff believes the modification will help position the portfolio for a future refinance and preservation of the existing affordable units.

There is a mortgage reduction reserve in place on Elliot Court, which states that upon sale, transfer, assignment, or conveyance of the project the reserve balance will be used to pay down the City's loan principal. Staff is recommending that this requirement not be triggered by this debt modification, and instead the reserve be utilized by the portfolio upon its refinance. At that time, staff would negotiate the type of reserve and terms for its use in consultation with the other public funders. Should the refinance not occur within 2 years of the Council approval, staff is recommending that the reserve be paid to the City per the original Elliot Court loan agreement.