Community Planning & Economic Development
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Minneapolis
City of Lakes

August 6, 2015

REPORT TO THE DEVELOPMENT FINANCE COMMITTEE

FROM: Shalaunda Holmes, Sr. Project Coordinator

SUBJECT: Proposed Pay-As-You-Go Tax Increment Financing Note of up to $1.5 million for Corcoran Triangle Project.

Action Requested of Development Finance Committee

Review the request for the issuance of a Pay-As-You-Go Tax Increment Financing Note to Corcoran Triangle in the principle amount not to exceed $1.5 million for the Corcoran Triangle affordable housing project and make a recommendation to the City Council regarding approval of the financing.

Staff Recommendation

Staff recommends approving the $1.5 million Pay-As-You-Go Tax increment Financing Note for the Corcoran Triangle affordable housing project.

Previous Development Finance Committee Actions
On February 11, 2010, this body recommended approval of a $735,000 loan from the Affordable Housing Trust Fund. On August 14, 2014, this body recommended approval of a $415,000 loan from the Affordable Housing Trust Fund.

Project Description

Applicant for City Financial Assistance: Corcoran Triangle LLC per TIF application

Developer (if different): Corridor Plaza LLC

Property Owner (if different): same

Non-public Lender(s): TCF Commercial Banking

Construction Lender: Same

Corcoran Triangle will be located at 3120 24th Ave S. The project is a 135-unit, new construction housing development poised to revitalize the intersection of 32nd and Hiawatha, just one block south from the Blue Line Lake Street Light Rail Transit (LRT) Station on a triangular vacant parcel. The developer is Corcoran Triangle LLC c/o Wellington Management Inc. The site currently owned by Corridor Plaza, LLC is a 2.6-acre parcel that includes leftover right-of-way from the development of the Hiawatha Light Rail Line. This infill project demonstrates how transit oriented development can fit into uniquely shaped parcels that are often leftover as a result of right-of-way

expansions or other infrastructure related impacts. The total square footage for the building is approximately 98,000 square feet.

The building will include individual apartment entrances at street level, common spaces and community spaces both indoors and out, an outdoor plaza area, storm water management demonstration area, tot-lot, outdoor seating, bicycle racks, a new roadway, sidewalks, bike path, native plantings and green spaces.

Corcoran Triangle is a four-story building with 100 spaces in one level of underground parking and 51 exterior surface parking spaces. The project will be owned by Corcoran Triangle, Limited Partnership (LP).

This transit oriented development will consist of affordable workforce housing made up of nine units at or below 30% area median income for those experiencing long-term homelessness and suffering from HIV/AIDS, 37 units at or below 50% area median income, and 89 units at or below 60% area median income. Clare Housing, a nationally recognized service provider, will provide support services for the long-term homeless residents.

Maximum rents for AHTF-assisted units are based on a household paying no more than 30 percent of gross income for total housing costs, including tenant-paid utilities. There are permitted exceptions to the AHTF maximum rents such as units funded through low income housing tax credits, HOME Program rent limits, projected-based Section 8 or other forms of rental subsidy.

Table 1. Summary of Rents by Affordability Level

# Units	Size	Affordability Level	Proposed Rent	Utilities Not Included in Rent	Maximum Rent Limit (LIHTC)
9	1 BR	30%	$691	$0	$812
13	1 BR	50%	$769	$0	$812
38	1 BR	60%	$929	$0	$975
20	2 BR	50%	$917	$0	$975
33	2 BR	60%	$1109	$0	$1170
4	3 BR	50%	$1061	$0	$1126
18	3 BR	60%	$1282	$0	$1351

Company/Borrower

Corridor Plaza LLC is a wholly owned subsidiary of Wellington Management Inc. (WMI) WMI was established in 1985 by owner and President, Steve Wellington and is a for profit developer that has completed many development projects throughout the Twin Cities and has particularly focused on the Hiawatha and Lake intersection in Minneapolis where a major reconstruction of the Hi-Lake Shopping center was completed. In 2001 Wellington entered the new construction, multi-family residential

market and established its residential presents in St. Paul West Midway area and most recently in Minneapolis with the construction of the Hi-Lake Triangle Apartments for seniors.

Financing Overview

The estimated total development cost of the Corcoran Triangle development is approximately $25.5 million. The project financing structure is Tax Exempt Multifamily Housing Revenue Entitlement Bonds ($15,000,000), private equity and public gap funding. Entitlement Bonds requested will carry an automatic 4% Low Income Housing Tax Credit allocation, which will generate an estimated $7,568,588 in syndication proceeds to provide additional equity to the project. Developer equity in the project includes deferring a portion ($875,000) of the developer fee.

Approximately 76% of the sources are private (including tax credit syndication proceeds, general partner equity and deferred developer fee), and 24% are public sources. All of the project funding has been committed with bond financing to be finalized at closing. Table 2 below contains a summary of the project's funding sources and uses in the Project Data Worksheet attached.

Table 2. Committed Sources – Public/Private Investment

FUNDING SOURCE NAME	PUBLIC	PRIVATE	COMMITMENT DATE
CITY AHTF (2009)	$735,000		2/16/2010
CITY AHTF (2014)	$415,000		10/31/2014
Tax Exempt Bond - NOI Supported		$10,807,000	
Series B Bond TIF Note (includes capitalized inte	$1,710,000		
Syndication Proceeds (WNC & Associates)		$7,558,688	
Deferred Loan (MHFA)	$1,850,000		11/1/2014
LCDA	$505,000		2/12/2013
Hennepin County TOD 2012	$300,000		7/5/2013
Hennepin County AHIF	$400,000		5/1/2015
Family Housing Fund		$500,000	11/1/2014
Hennepin County TOD 2014	$200,000		8/1/2014
Deferred Developer Fee		$875,000	6/2/2014
SOURCES SUBTOTAL	$6,115,000	$19,740,688	
PERCENTAGE PUBLIC VS. PRIVATE SOURCES	24%	76%	
TOTAL SOURCES	**$25,855,688**		

Proposed Tax Increment Financing Assistance

Staff analysis has determined that the project qualifies as a housing TIF district and the proposed project will eliminate blight, create jobs and will provide housing density and housing choice in a location of need.

CPED staff has further determined that a TIF Note in the amount of $1,500,000 can be supported by the TIF district, if approved. This assistance will be provided to the project through the issuance of a TIF Pay-As-You-Go tax increment note as a source to the project. This source will act as an income stream for the debt service. This note is projected to carry an annual interest rate of 3.9% and it is currently projected that the note will be paid off utilizing 17 years of tax increment collection.

All tax increment generated by this housing development will be pledged to the TIF note. The developer agrees to TIF recapture provisions. The Series B (TIF supported Bonds) are estimated to be in an amount of $1,710,000 (includes $210,000 in capitalized interest) will be secured by a TIF note not to exceed $1,500,000.

Discussion of Financial Statements

Wellington Management Inc. submitted an unaudited personal financial statement for each partners comprising the ownership entity Corridor Plaza, LLC. A financial analysis was conducted by staff. Based on this analysis, staff has determined that the personal financial statements of the development partners demonstrate strong financial resources capable of being brought to bear should the project experience financial difficulties requiring an infusion of capital.

Repayment
The AHTF loan of $1,150,000 will be a deferred, 1% simple interest with a 30 year term, consistent with the current AHTF program guidelines. Principal and accrued interest is due upon maturity, sale or conversion to use other than low-income housing.

Guarantors

The TIF Note and 1st Mortgage shall an unlimited payment guarantee until stabilization, defined as a minimum 90% occupancy generating NOI for a 90 day period that provides for a minimum 1.15x DSC based on the Mandatory Redemption of Bonds and a final fixed interest rate. Upon stabilization, the amount of the personal payment guarantee will reduce to 10% of the face value of the bonds, plus any accrued interest or fees. (Source: TCF Commercial Banking Project term sheet)

Collateral
This project will have a subordinate mortgage lien on the property via the Affordable Housing Trust Fund (AHTF) loan financing.

The TIF Note and 1st mortgage shall be secured by a direct purchase of the Tax Exempt Bonds issued by the City of Minneapolis related to the real estate, TIF, and all related collateral. (Source: TCF Commercial Banking Project Term Sheet)

Risk Assessment
The level of risk for this project is comparable to other City multifamily affordable housing projects. No city funds will be utilized until full funding is achieved and a closing is completed. This is a highly desirable product and will provide affordable housing in a non-impacted area of the city.

Loan Covenants
The borrower, per the AHTF loan documents, is required to maintain rent and income restrictions for 30 years.

Recapture Provisions
Below are recapture provision that were sent to the developer for review and agreed to by the developer:

(a) If a Sale or Refinancing of the Minimum Improvements occurs prior to the Maturity Date of the TIF Note, the Developer and the City agree, subject to the Intercreditor Agreement, to the following application of Net Proceeds on the Recapture Date:

1. Repayment of outstanding Debt on the Minimum Improvements.

2. Repayment of the Developer's Equity contribution.

3. Repayment of any amount of the Deferred Developer Fee not yet repaid through construction savings or project cash flow as of the Recapture Date.

4. Equal division of the balance between City and Developer; provided, however, in no event will the City's portion exceed $1,500,000. (The principal amount of the TIF Note at closing.)

Attachments

- Project Data Worksheet – Corcoran Triangle
- Project Graphics-Corcoran Triangle

Project Status	
Proposed:	7/1/2009
Approved:	☑
Closed:	
Complete:	

Impaction
- (●) Non-Impacted
- ( ) Impacted

Occupancy
- (●) Rental
- ( ) Ownership

Project Name:	Corcoran Triangle
Main Address:	3120 24th Ave S
Project Aliases:	32nd & Hiawatha
Additional Addresses:	
Ward: 9	Neighborhood: Corcoran

Project Activity
- ☑ New Construction
- ☐ Rehabilitation
- ☐ Stabilization
- ☐ Preservation

Year Built: 2015

Development
- (●) Apartment/Condo
- ( ) Townhome
- ( ) Coop
- ( ) Shelter
- ( ) Transitional
- ( ) Scattered Site/Other

Household
- ☑ General
- ☑ Family w/Children
- ☐ Senior
- ☐ Single
- ☑ Special Needs
- ☑ Homeless

Housing Production and Affordability

UNIT COMPOSITION

UNIT	QTY
0BR	0
1BR	60
2BR	53
3BR	22
4+BR	0
TOT	135

UNIT AFFORDABILITY

UNIT	<30%	<50%	<60%	<80%	MKT
0BR	0	0	0	0	0
1BR	9	13	38	0	0
2BR	0	20	33	0	0
3BR	0	4	18	0	0
4+BR	0	0	0	0	0
TOT	9	37	89	0	0

Shelter Units: + Conversion Units:
Section 8:

GENERAL INFORMATION

A single structure that will include workforce housing and 9 units of long term homelessness with HIV/AIDS. Project will bring increased density and vitality along Hiawatha Ave near Lake St commercial corridor reuniting the neighborhood fabric and fulfilling plans for targeted city growth and transit-oriented development.

The site is approximately 2 blocks from the Lake St LRT Station. The site is part of a remnant ROW parcel left over from the construction of the Hiawatha LRT line and was purchased from Metro Transit in 2008. The project will contain a mix of units at 30%, 50%, and 60% AMI. The project is adjacent to Clare Midtown and these units would receive services provided by Clare Housing.

The project will have 51 surface parking spaces and 100 underground spaces.

Partnership: Corcoran Triangle LP

Contact Information:

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Housing Production and Affordability

UNIT COMPOSITION

UNIT	QTY
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1BR	60
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TOT	135

UNIT AFFORDABILITY

UNIT	<30%	<50%	<60%	<80%	MKT
0BR	0	0	0	0	0
1BR	9	13	38	0	0
2BR	0	20	33	0	0
3BR	0	4	18	0	0
4+BR	0	0	0	0	0
TOT	9	37	89	0	0

Shelter Units: ____ + Conversion Units: ____

Section 8: ____

USES AND PERMANENT SOURCES

Project Uses:

Land:	$1,100,000.00
Construction:	$17,903,508.00
Construction Contingency:	$895,175.00
Construction Interest:	$926,707.00
Relocation:	$0.00
Developer Fee:	$1,935,000.00
Legal Fees:	$125,000.00
Architect Fees:	$515,851.00
Other Costs:	$1,693,786.00
Reserves:	$425,000.00
Non-Housing:	$0.00
TDC:	$25,520,027.00
TDC/Unit:	$189,037.00

Project Permanent Sources:

Source / Program	Amount	%	Term	Committed
Hennepin County *TOD (2014)*	$200,000.00		Grant	8/1/2014
FHF *FHF*	$500,000.00			11/20/2014
City of Minneapolis *HRB (TIF)*	$1,500,000.00	2.75%	18 yrs Fully Amortized	
MHFA *EDHC*	$1,850,000.00		Deferred	11/20/2014
CPED *AHTF (2014)*	$415,000.00			10/31/2014
Hennepin County *AHIF*	$400,000.00			5/1/2015
Met Council *LCDA*	$505,000.00			2/12/2013
Hennepin County *TOD (2012)*	$300,000.00		Deferred	6/1/2012
City of Minneapolis *HRB (1st Mortgage)*	$10,807,000.00	3.90%	30 yrs Fully Amortized	
CPED *AHTF (2009)(HOME)*	$735,000.00			2/16/2010
Syndication Proceeds	$7,558,688.00			
Deferred Dev Fee	$875,000.00			
TDC:	$25,645,688.00			

Financing Notes:

HRB $15M @ 3.9% / 18 yrs 1st mortgage.

Projected TIF not to exceed $1.5M

1st Mortgage $10,807,000
TIF capitalized interest $210,000

This project's financing structure is 4% tax credits w/housing revenue bonds, private syndication proceeds, and public deferred loans and grants.

The developer fee is within the maximum fee calcuation for the AHTF program.