

**City of Minneapolis**  
**Request for Committee Action**

**To:** Community Development & Regulatory Services  
**Date:** 4/19/2016  
**Referral:** Ways & Means  
**From:** Community Planning & Economic Development  
**Prepared by:** Shalaunda Holmes, Senior Project Coordinator  
**Presented by:** Shalaunda Holmes, Senior Project Coordinator  
**File type:** Resolution

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**Subject:**

Plymouth Stevens House – Final Bond Approval to issue up to \$17,500,000 in Tax Exempt Multifamily Housing Revenue Entitlement Bonds and approve loan term extensions of new and existing debts.

**Description:**

Adopting the attached resolution giving Final approval to issue up to \$17,500,000 in Tax Exempt Multifamily Housing Revenue Entitlement Bonds and extending loan terms of assumed debt in the amount of \$228,000 and AHTF award of \$2.3 million to run congruent with HUD 1<sup>st</sup> Mortgage.

**Previous Actions:**

On February 11, 2011 Council approved recommendation to extend the term of the existing \$519,000 loan to Stevens House Cooperative for 30 years from the original 2002 maturity date, maturing March 11, 2032 and reducing the interest rate from 5% to 0% retroactive to the beginning of the original loan term and requiring annual payments equal to 25% of the projects annual net cash flow.

On October 31, 2014 Council approved recommendation of 2014 Affordable Housing Trust Funds in the amount of \$1,250,000 and authorized City officers to execute the necessary documents for the loan.

On November 6, 2015 Council approved recommendation of 2015 Affordable Housing Trust Funds in the amount of \$1,050,000 and authorized City officers to execute the necessary documents for the loan.

On March 18, 2016 Council approved a preliminary resolution for 2016 Tax-Exempt Multi-Family Housing Revenue Bonds up to \$17,500,000 and approved existing loan assumption to new ownership.

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**Ward/Address:**

Ward 5  
1500 Plymouth Ave & Ward 10 2625 Stevens Ave South

**Background/Analysis:**

**Community Impact**

Neighborhood Notification: Both neighborhoods have been notified of the renovation as well as the refinancing. Over the past 2 years the developer has met with the appropriate committees and boards for support of the project. The developer has obtained a letter of support from the

Northside Redevelopment Council contingent upon terms and conditions of their Community Benefits Agreement (CBA) which the owner has accepted.

The Whittier neighborhood organization provided a letter that their Community Issues Committee moved to deny support for the Stevens House request specifically for funding of the 2014 Affordable Housing Trust Funds based on the extension of the affordability covenant.

The Plymouth Stevens House Project is consistent with the City's Comprehensive Plan. Preservation and rehabilitation of affordable multifamily housing at this location furthers the following policies of *The Minneapolis Plan for Sustainable Growth*:

Housing Policy 3.2: Support housing density in locations that are well connected by transit, and are close to commercial, cultural and natural amenities.

Housing Policy 3.4: Preserve and increase the supply of safe, stable, and affordable supportive housing opportunities for homeless youth, singles and families.

Housing Policy 3.7: Maintain the quality, safety, and unique character of the city's housing stock.

### **Supporting Information**

The Plymouth Stevens House project will include the acquisition and substantial renovation of two scattered site properties: the Plymouth Avenue Townhomes/Apartments and the Stevens House apartment complex.

The Plymouth Avenue Townhomes (PAT) was built in 1974 in the Near North neighborhood of North Minneapolis. The scattered site development includes 11 buildings that provide 140 units of affordable housing. The unit mix is comprised of 45 one-bedroom units, 67 two-bedroom units, and 24 three-bedroom units, which all receive project-based Section 8 rental subsidy, the remaining four one-bedroom units have no rent restrictions. After closing, these four units will be subject to income restrictions of 60% of the Area Median Income (AMI).. The PAT scattered site properties are located at 1405, 1414, 1500, 1501, 1516, 1611, 1701, and 1815 Plymouth Avenue North, in addition to 1300 Irving Avenue North.

The second component of the project includes the Stevens House (SH) apartment complex located at 2625 Stevens Avenue South, built in 1971 in the Whittier neighborhood of South Minneapolis. Stevens House (SH) provides 67 units of affordable housing in a single, 3-story apartment building. The unit mix is comprised of 6 one-bedroom units, 47 two-bedroom units, and 5 three-bedroom units, which all receive project-based Section 8 rental subsidy. The remaining 9 efficiency units carry no rent restrictions; after the current financing closes, these units will be subject to income restrictions of 60% of AMI. The new ownership has applied to preserve and extend the Section 8 Housing Assistance Payment (HAP) contracts in all of the properties and anticipates final approval prior to closing

The project provides quality affordable housing and human services to low-income individuals and families, elderly, immigrant populations, physically and mentally disabled, and the homeless. Eleven (11) units will be set aside for those suffering from long-term homelessness eleven for households with children. Case management and support services will be provided by Lutheran Social Service of MN. The populations referenced will continue to be served by this development.

This will be an occupied rehab; however a temporary relocation plan is required. Premier Management is the property management agent for the Owner and as such, has the primary responsibility to implement a relocation policy that meets the Universal Relocation Act (URA). The City has received and approved the temporary relocation plan submitted for the project. A

voluntary permanent relocation benefits package will be offered to tenants who may be found over income. The benefits package will be per the URA process and benefits guidelines. It is estimated that there are a total of 6 units that are over income (3 at PAT and 3 at SH). Income certifications are underway and the actual count of units over income will be documented. No tenant will be involuntarily displaced.

**Project Financing**

The total development cost of this proposal is \$32,423,266 (or \$156,634/unit). The project will be fully funded after final approval of the requested bond allocation. Please refer to the attached Project Data Worksheet for information on project sources and uses of funds. Other City funding in this project includes \$2.3 million dollars of Affordable Housing Trust Funds (AHTF) from 2014 and 2015 funding rounds.

The developer has committed to repay \$692,620 of existing City debt and accrued interest. All interest will be paid on existing debt accrued until closing. The assumable debts include one CPED outstanding mortgage totaling \$228,000 on PAT and will be assumed by the new ownership Plymouth Stevens House Limited Partnership. The table below summarizes the loan assumption and repayment.

**Loan Term Extension**

The developer has applied for a HUD 221 (d)(4) mortgage as part of the refinancing of the project. The term for this mortgage will be for 40 years plus the construction period of 6 months. There will be an assumption of one existing CPED loan in the amount of \$228,000 as listed in Table 1. This assumed existing debt along with the Affordable Housing Trust Fund loan (AHTF) will run congruent to the HUD mortgage; therefore a change in the loan term has been recommended to the Development Finance Committee (DFC) and they have approved the loan term extension for the AHTF loan and the existing loan to be congruent with the 1<sup>st</sup> mortgage loan terms. The proposed terms are listed in Table 1 and the DFC memo is attached.

Table 1: Plymouth Stevens House Redevelopment Loan Extension Summary

<u>Existing Financing Structure as of 12/31/2015</u>				<u>Anticipated Financing Structure</u>			
<u>Amount</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Lender/Loan</u>	<u>Amount</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Lender/Loan</u>
\$ 228,000	1.00%	12/1/2024	CPED Mortgage	\$ 228,000	1.00%	2056	CPED Mortgage
\$ 2,300,000	1.00%	12/1/2046	CPED Mortgage	\$ 2,300,000	1.00%	2056	CPED Mortgage
\$ 10,400,000	TBD	TBD	HUD 221 (d) (4)	\$ 10,400,000	4.25%	2056	HUD 221 (d) (4)

**Tax Exempt Housing Revenue Bond**

The developer is requesting final bond approval for the issuance of up to \$17,500,000 in tax exempt multi-family housing entitlement revenue bonds. Staff anticipates this project will close in June 2016. The developer is requesting the issuance of short term bonds in the amount of \$17.5 million in Series A and B releases. Preliminary estimates of the Series A (NOI supported bonds) in the amount of \$10,400,000 will be secured by a HUD first mortgage on the property. The Series B in the amount of \$5,345,000 will be secured by Marv Kotek, David Dye and Richard Hutsell as individuals. The series B bonds will be repaid by tax credit equity upon completion of the project. The entitlement bonds come with automatic 4% tax credits which are equity to the project and an additional source of funds of approximately \$9,757,400.

The developer has anticipated a bond financing for the last 2 years and will be the final financing needed to move towards a financial closing in June 2016.

The current status of the HRB Entitlement allocation is shown in Table 2 below.

**Table 2. HRB Entitlement Bond Summary**

<b>Allocation</b>	<b>Amount</b>
2015 Entitlement Allocation Remaining	\$10,832,408
2016 Entitlement Allocation	\$49,381,909
<b>Total Available Allocation</b>	<b>\$60,214,317</b>
<b>Current Projects Approved</b>	<b>Amount</b>
Hawthorne EcoVillage	\$6,800,000
Plymouth Stevens	\$17,500,000
<b>Balance Available for Other Projects</b>	<b>\$35,914,317</b>

### **Company and Borrower**

Plymouth Stevens House Limited Partnership is a single asset entity, proposes to acquire and renovate the Plymouth Avenue Townhomes and Stevens House properties. The General Partners will include Affordable Homes for All (51% ownership), a Minnesota non-profit organization, and MDR Real Estate Holdings, LLC (49% ownership).

Affordable Homes for All (AHFA) was created in 2010 and is the principal sponsor and lead of the development team. They will drive all decision making aspects, including financial, construction and management. The mission of AHFA, a Minnesota 501 c 3 non-profit organization, is to build and preserve affordable housing. AHFA was created to respond to the growing need for quality affordable housing for families, individuals, (including work-force housing), and for the elderly and handicapped. The founder and president, Joe Holmberg, was the President of CommonBond Housing for 17 years. He led efforts to create and preserve over 5,000 units of affordable housing. AHFA has six projects and 609 units in its portfolio. Their work has mainly been based in the Twin Cities Metro Area, but they have also done work in Winona, MN and Gary, IN.

MDR Real Estate Holdings, LLC is a newly formed for-profit development company, whose principals are Marv Kotek (50.01%), David Dye (24.995%), and Richard Hutsell (24.995%). Mr. Kotek is the principal and co-founder of Everwood Company and has over 40 years of experience in the construction industry as co-founder of Frerichs Construction Company. Mr. Dye is also the principal and co-founder of Everwood Company and focuses on the financial aspects of acquisition and development of real estate in the Upper Midwest. Mr. Hutsell is the President of Premier Management and has more than 20-years' experience in multi-family housing management, including 14 years as Vice President of Property Management of CommonBond Housing and Vice President of CommonBond Investment Corporation. All three individuals bring over 80 years of experience in affordable housing in complementary subject areas: construction, property management, and financing of affordable housing.

### **Anticipated Project Timeline**

Final Bond Approval	April 2016
Project Closing	June 2016
Construction Start	June 2016
Construction Completion	December 2016

Bond Purchaser/Underwriter	Dougherty & Company LLC
Tax Credit Equity Investor	City Real Estate Advisors, Inc.
Bond Counsel	Kennedy & Graven, Chartered
Council Member	Blong Yang (Ward 5) & Lisa Bender (Ward 10)

### **Financial Review:**

**No additional appropriation required, amount included in current budget.**

**Future budget impact anticipated.**

Project will generate semi-annual administrative fees.

**Approved by the Permanent Review Committee.**

**Meets Small and Underutilized Business Program goals.**

### **Attachments:**

1. Project Data Worksheet
2. Final Bond Resolution
3. Development Finance Committee Action 3.29.2016