Request for Committee Action

To:	Community Development & Regulatory Services
Date:	4/19/2016
From:	Community Planning & Economic Development
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Presented by:	Dollie Crowther
File type:	Action
Subcategory:	Loan

Subject:
Request for City debt modification for the PRG Portfolio I Project by CommonBond Communities, Inc., Scattered locations in south Minneapolis

Description:
Authorizing debt assignment and consolidation, principal and interest forgiveness, approve interest rate reduction and extension of maturity dates for 30 years to be co-terminus with new, approved AHTF debt.

Previous Actions:
Between the years 1983 to 2000, the City Council approved funds from the Multi-family Rental and Cooperative Housing Program for several scattered site PRG projects totaling $2,271,712.

In September 2015, the City Council approved $525,000 of Affordable Housing Trust Funds (AHTF) for the PRG Portfolio I Project.

In October 2015, the City Council approved a partial allocation of 9% LIHTC for the project.

Ward/Neighborhood/Address:

Address	Address
Powderhorn Park Properties (Ward 9)	
3200 16th Avenue South	3431 Chicago Avenue South
3406 Chicago Avenue South	3441 Chicago Avenue South
3408 Chicago Avenue South	3451 Chicago Avenue South
3417-19 Chicago Avenue South	3633-37 Elliot Avenue South
3421-23 Chicago Avenue South	3641-49 Elliot Avenue South
3429 Chicago Avenue South	3708 Elliot Avenue South
3201-05 Bloomington Avenue South	
Seward Neighborhood Properties (Ward 6)	
910 25th Avenue South	

Not Applicable

Background/Analysis:

The proposed request for debt modification will help facilitate the rehabilitation and preservation of the PRG Portfolio I Project, a 42 unit affordable housing scattered site rental development in south Minneapolis. The units are located in both the Powderhorn Park Neighborhood (Ward 9) and the Seward Neighborhood (Ward 6). CommonBond (CB) Communities Inc. acquired control over these properties from PRG in 2007 under various ownership entities in order to preserve this portfolio as affordable housing units. The owner at the time, Powderhorn Residents Group (PRG), could no longer finance operating deficits or manage the property. CB, with a request from the City of Minneapolis, took over management of the properties as well as assumed the current debt. CB has since stabilized the properties, retaining the tenant base, completing critical rehabilitation items and developed a plan to ensure affordability. The PRG properties provide critically needed quality, affordable housing for very low income, large families. There are 42 units across 6 properties. All the units are walk-ups, representing duplexes, triplexes and fourplexes. There is one 10 unit apartment building.

Originally, PRG Portfolio represented 91 units of affordable housing. It was listed on the Interagency Stabilization Group (ISG) for many years as a project that required extensive stabilization/preservation funding. At RFP time, the project was not competitive and could not rank for funding from the City or MHFA. To better compete for funding and be competitive with other projects, the City suggested that the 91 units be separated into 2 separate projects. The State was able to fund one of the projects under its preservation guidelines and the City now found the project to be competitive for 9% tax credit funding.

These properties have aging mechanical systems as well as units and grounds that are in need of substantial rehabilitation. Due to the debt and the major rehab that is needed, it was suggested at the ISG to consider disposing of the worst of the properties. The units are lacking in energy efficiency and deteriorating interior and exterior finishes are also contributing to higher costs. The proposed rehabilitation includes a variety of energy saving elements as well as the improvement of unit finishes including new kitchens, baths, new roofs, windows, etc. The project will continue to serve large families. Five of the units are set aside for families experiencing homelessness. Referrals to the homeless units will be from Hennepin County Coordinated Entry Program. Supportive services for all the families will be through Advantage Services.

AHTF's in the amount of $525,000 and 9% Low Income Housing tax credits were approved for this project from the City of Minneapolis. The tax credits represent approximately $7.1M in equity to the project. This project is fully funded from other lenders including the MHFA, Hennepin County and the Met Council. The City, in the last tax credit RFP round only partially funded the tax credits and is hoping the State will fund the remaining balance in the 2nd round. If this does not occur, the developer will seek the remaining balance from the City this spring 2016. (See PDW attached).

PRG received several loans from the City which cumulatively totaled $2,271,712. The interest rate on these loans ranged from 0% to 5% and with the accrued interest of $989,095, the total debt is $3,260,807 as of December 31, 2014. CB has requested the City forgive approximately $1,549,344 of this debt and continue with a new principal balance of $722,368. To validate this debt forgiveness, MHFA commissioned an As Is appraisal on only 2 of the properties. This was allowed because to appraise 15 properties (PRG I, II) was not financially feasible. MHFA felt the 2 appraisals would substantiate the fair market value of the deal and the appraisals would be used as proxy for the other properties because they are all scattered site duplexes, fourplexes and represent the same type of rehabilitation issues. All the loans will be consolidated and cross collateralized between the various properties with new borrowers. Below is a chart of the current debt and the proposed debt:

Current Debt – PRG 1

Property	Lender	Principal	Interest	Total	Rate	Maturity
Multiple	City of Minneapolis, CPED	$ 2,271,712	$ 989,095	$ 3,260,807	0-5%	various
Multiple	FHF	$ 675,616	$ 63,642	$ 739,258	0-1%	various
Multiple	MHFA	$ 410,968	$ 73,384	$ 484,352	0-1%	various
Multiple	CommonBond	$ 29,967	$ 2,135	$ 32,102	4.21%	various
		$ 3,388,263	$1,128,256	$ 4,516,519		

Proposed Debt – PRG 1						
Property	**Lender**	**Principal**	**Interest**	**Total**	**Rate**	**Maturity**
Multiple	City of Minneapolis, CPED	$ 722,368	$ -	$ 722,368	0%	12/31/2046
Multiple	FHF	$ 619,551	$ -	$ 619,551	0%	12/31/2046
Multiple	MHFA	$ 240,000	$ -	$ 240,000	0%	12/31/2046
Multiple	CommonBond	$ -	$ -	$ -	0%	12/31/2046
Multiple	Seller Note	$ 812,065	$ -	$ 812,065 AFR		
		$ 2,393,984	$ -	$ 2,393,984		

As noted on the chart above, MHFA and the FHF have also agreed to forgive outstanding principal and all of their interest on their loans. A partnership among lenders is required to proceed with the completion of this project. The acquisition costs also include a Seller Note of $812,065. This Seller Note is considered permanent financing and is required when the value per unit exceeds the restructured debt. CB cannot convey the properties to the tax credit partnership below the FMV without providing income to the partnership. Therefore, the net value will be put back into the project as a Note. With the remaining assumed debt from all the lenders, the principal balance will be approximately $2.4M. CB has also requested that the outstanding debt be cast at 0% on the loan and extend the term for 30 years consistent with the new debt. CB has been in early negotiations with Enterprise and NEF regarding the syndication of the tax credits.

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Financial Review:

No additional appropriation required, or re-allocation of funds.

The report recommends forgiveness of $1,549,344 of principal and the amount of interest forgiveness will be determined at the time of project refinancing . The current term will be extended for 30 years. The interest on the remaining debt will be set at 0%.

Attachments:

1. Project Data Worksheet

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