



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

**Date:** June 8, 2004

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

**Prepared by:** Bernadette Lynch, Project Coordinator, Phone 612-673-5236

**Presenter in Committee:** Bernadette Lynch, Project Coordinator

**Approved by:** Lee Pao Xiong, Director, Housing \_\_\_\_\_

**Subject:** **Authorization to negotiate a short-term CDBG loan for the third phase of Heritage Park rental**

**RECOMMENDATION:**

Approve up to \$247,000 in CDBG dollars as a contingent source of short-term financing for the Heritage Park phase III rental project.

**Previous Directives:** In January 2003, the MCDA awarded Heritage Park Phase III \$359,528 in Low Income Housing Tax Credits. In April 2003, the MCDA awarded \$750,000 in AHTF dollars. In December 2003, the MCDA awarded \$289,400 in AHTF dollars. In January 2004, the City of Minneapolis approved \$189,400 in NRP reserve trust fund dollars. To date the, the City of Minneapolis has awarded Heritage Park Phase III \$359,528 in Low Income Housing Tax Credits and \$1,039,400 in deferred financing (AHTF and NRP). On May 28, 2004, the City Council is expected to approve acceptance of a \$200,000 Met Council LHIA grant for the project.

**Financial Impact** (Check those that apply)

- X** No financial impact - or - Action is within current department budget.  
(If checked, go directly to Background/Supporting Information)
- Action requires an appropriation increase to the Capital Budget
- Action requires an appropriation increase to the Operating Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain):
- Request provided to the Budget Office when provided to the Committee Coordinator

**Community Impact**

**Ward:** 5

**Neighborhood Notification:** Both the Harrison Neighborhood and the Northside Residents Redevelopment Council sent letters of support for this

project.

**City Goals:** Consistent with Goal 4.10, Minneapolis will increase its housing that is affordable to low and moderate income households; Implementation Step, Partner with other municipalities, the Metropolitan Council and state government to develop a regional strategy for increasing the supply of affordable housing, supported by a more predictable long-term revenue stream.

**Comprehensive Plan:** Consistent with principle 4.9, Minneapolis will grow by increasing its supply of housing; principle 4.10, Minneapolis will increase its housing that is affordable to low and moderate income households; principle 4.17, Minneapolis will promote housing development that supports a variety of housing types at designated Major Housing Sites throughout the city.

**Zoning Code:** Will Comply.

**Living Wage/Job Linkage:** Not applicable.

## Background/Supporting Information

### Project Description

Phase III is the final phase of rental housing development at Heritage Park. The development area is located south of Olson Memorial Highway and will include the construction of 95 rental units, while also incorporating an existing public housing high rise (as an existing occupied building, these units are not included in unit count).

The mix of rental housing units in Phase III includes 38 Hollman public housing replacement units, which will be set aside for returning public housing residents and other priority families as outlined in the Consent Decree. In addition, 17 units will be set aside as conventional tax credit units (9 units will be affordable to households earning 50% median income and 8 will be affordable to households earning 60% of median income). The other 40 units will be unrestricted with respect to income, but will be affordable to households between 60% and 80% of MMI.

### Project Financing Summary

Funds for Heritage Park rental Phase III have been assembled from a variety of sources: MPHA, MHFA, MCDA, the Family Housing Fund, the Met Council, along with equity contributions from the developer, McCormack Baron Salazar, and the sale of 9% low income housing tax credits to a limited partner. Tax increment will be used to pay for infrastructure improvements. See attached Project Data Worksheet for complete schedule of Heritage Park Phase III "Sources and Uses."

### Current Issue

Assembling the funds from eight sources for the third phase of the Heritage Park project has taken the McCormack Baron over two years. The developer and funders expected that the project was fully funded when MHFA awarded an additional \$100,000 in tax credits in April 2004.

However, interest rates increased steadily this spring and McCormack Baron was not able to lock the interest rate on their first mortgage until after all the funds were secured. On May 13, McCormack Baron locked an interest rate of 6.25%, .40% higher than the

projected rate of 5.85%. The increase in the interest rate has reduced the amount of debt that the project can support by \$247,000.

It is anticipated that this short-term loan of up to \$247,000 at 1% will be repaid with additional tax credit equity in the next 12 months. Heritage Park phase III is eligible for the additional tax credits required to repay the short-term loan, but because of the timing of the CPED and MHFA selection cycles, no more credits can be awarded to the project until October 2004. Staff feels confident that Heritage Park phase III will be awarded the required credits based on the selection criteria spelled out in MHFA's and CPED's QAPs and RFPs and the fact that Heritage Park has scored and ranked so well in previous tax credit rounds.

Given the timeline mandated in the Hollman Consent Decree, the third phase of Heritage Park's rental component needs to close and begin construction early this summer. This short-term loan will allow the project to close and begin construction by July 1, while providing the developer the opportunity to seek additional tax credit equity for the project.