



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

**Date:** September 27, 2011

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

**Subject:** 520 Second Street S.E. – Public Hearing and Request for Preliminary  
Approval of up to \$7,500,000 of Tax-Exempt Multifamily Housing Revenue Bonds for  
520 Second Street S.E.

**Recommendation:** Approve the attached Resolution giving Preliminary Approval of up  
to \$7,500,000 of Tax-Exempt Multifamily Housing Revenue Bonds for 520 Second  
Street S.E.

**Previous Directives:** On April 30, 2011, the City Council directed and authorized staff  
to continue analysis of the proposed 520 Second Street S.E. project to determine if tax  
increment financing assistance is appropriate and justifiable.

### Department Information

Prepared by: Donna Wiemann, Principal Project Coordinator (612) 673-5257	
Approved by: Thomas A. Streitz, Director of Housing Policy and Development	_____
Charles T. Lutz, Deputy Director	_____
Presenter in Committee: Donna Wiemann	

### Financial Impact

- Project will generate semi-annual administrative fees.

### Community Impact

- Neighborhood Notification: On February 15, 2011, the Marcy-Holmes Neighborhood Association voted to support the project.
- City Goals: This project addresses the following goals – a safe place to call home.
- Sustainable Targets: Affordable housing production.
- Comprehensive Plan: The Minneapolis Plan for Sustainable Growth contains the following relevant policy: Policy 3:3: Increase housing that is affordable to low and moderate income households.

- Zoning Code: The zoning is C3-A with a density variance approved and the project is compliant with proper zoning.

### **Supporting Information**

Second Street Holdings, LLC owns the property at 520 Second Street S.E. and proposes to develop a housing project consisting of 91 rental apartments along with 96 underground parking spaces. The project is located in the Marcy-Holmes neighborhood and the site is two blocks from the Mississippi River and the Stone Arch Bridge. The tenants will have easy access to recreation, transit, shopping, and employment options. This “workforce housing” project will help meet the high demands of the downtown and near downtown activity centers. The land has been acquired by the developer and the zoning for the proposed development has been approved.

The development will be six stories above grade with two levels of underground parking. The unit mix is 74 one-bedroom units with 560 square feet and 17 studio apartments ranging from 441 to 528 square feet. The building will have a secured entry, on-site office and management space, roof top deck, community room, on-site laundry facilities on each floor, bike racks in each parking stall, and storage lockers for tenant use.

Thirty-seven units will be affordable to households at or below 50% of Area Median Income and the balance of the units will be affordable to households at or below 60% of Area Median Income. The owner will pay all utilities.

The project will be owned by 520 Second Street Apartments Limited Partnership. The General Partner of the Limited Partnership will be Second Street Holdings, LLC, a Minnesota limited liability company. The Limited Partner will be the tax credit investor yet to be identified. Architectural services will be provided by BKV Group. Project management will be provided by American Management Service Central LLC. The general contractor has not yet been selected.

The site is currently occupied by a vacant one-story building and a surface parking lot. The existing building is approved for demolition; it is not structurally sound and was found to be economically unfeasible for renovation.

### **Project Financing Overview**

The estimated project development cost is \$14,904,487. Staff requested and received Project Analysis Authorization to proceed with the Tax Increment Financing (TIF) analysis on April 29, 2011. It is anticipated that this project will support \$790,000 in TIF assistance requested by the developer.

Developer equity in the project totals \$2,716,652 consisting of deferring up to 100% of the developer fee and providing the land cost as equity.

The developer has applied to the City of Minneapolis for up to \$7,500,000 of Tax-Exempt Multifamily Revenue Bonds. The bonds provide an automatic 4% low income housing tax credit which is estimated to provide \$3,763,195 of syndication proceeds which is equity to the project. It is proposed that \$6.2 million of the bonds will be permanent debt of which \$5,410,000 will be supported by the project’s net operating income and \$790,000 will be supported by the annual TIF payments. It is proposed that the remaining \$1.3 million of the bonds will be used during construction and be repaid from the syndication proceeds.

Other proposed project funding sources include: a deferred loan from Minnesota Housing, an Affordable Housing Incentive Fund loan from Hennepin County, and Transit-Oriented Development funds from Hennepin County. The developer has submitted an application for \$925,000 from the 2011 Affordable Housing Trust Fund and CPED staff review of the application is underway. The City Council will consider project funding recommendations for the 2011 Affordable Housing Trust Fund in January, 2012.

**Housing Revenue Bond Information**

The developer is requesting preliminary bond approval for the issuance of up to \$7,500,000 in tax-exempt multifamily housing revenue bonds from the City's 2010 allocation. Staff anticipates this project will close in the summer of 2012.

The current status of the 2010/2011 HRB entitlement allocation is as follows:

<b>Activity Description</b>	<b>Bonds Allocated</b>	<b>Bond Balance</b>
2010 HRB Entitlement		120,608,911
Less Riverside Plaza	(69,950,000)	50,658,911
Plus 2011 HRB Entitlement	45,326,000	95,984,911
Less Longfellow Station	(17,000,000)	78,984,911
Less Hi Lake Triangle	(6,500,000)	72,484,911
Less City Place Lofts	(5,500,000)	66,984,911
Less Buzza Historic Lofts	(28,000,000)	38,984,911
Less 520 Second Street S.E.	(7,500,000)	31,484,911

Bond Purchaser/ Underwriter: Piper Jaffray

Bond Counsel: Kennedy and Graven

Council Member Informed: Diane Hofstede, Ward 3

**Resolution**  
**of the**  
**City of Minneapolis**

Giving preliminary approval to the issuance of tax-exempt multifamily housing revenue bonds under Minnesota Statutes, Chapter 462C, for the purpose of financing a housing program consisting of the acquisition, construction, and equipping of a multifamily rental housing development for the benefit of 520 Second Street Apartments Limited Partnership, a Minnesota limited partnership

WHEREAS, the City of Minneapolis, Minnesota (the "City"), is authorized, pursuant to Minnesota Statutes, Chapter 462C, as amended (the "Act"), to develop and administer programs to finance one or more multifamily housing developments within its boundaries; and

WHEREAS, Section 462C.07 of the Act authorizes the City to issue and sell revenue bonds or obligations to finance programs for the multifamily housing developments; and

WHEREAS, representatives of Second Street Holdings, LLC, a Minnesota limited liability company (the "Developer"), have requested that the City adopt a multifamily housing development program (the "Program") to provide for the issuance of tax-exempt multifamily housing revenue bonds in an aggregate principal amount of approximately \$7,500,000 (the "Bonds") for the purpose of loaning the proceeds thereof to 520 Second Street Apartments Limited Partnership, a Minnesota limited partnership (the "Borrower") to finance the acquisition, construction, and equipping of a 91-unit multifamily rental apartment development and facilities functionally related and subordinate thereto, located at 520 Second Street SE in the City to be owned by the Borrower, the general partner of which is the Developer; and

WHEREAS, the Community Development Committee of the Minneapolis City Council, on behalf of the City, held a public hearing on the Program and the proposed issuance of the Bonds on a date at least fifteen (15) days following the publication in a newspaper of general circulation in the City of a notice of such public hearing; and

WHEREAS, the Program was submitted to the Metropolitan Council for its review and comment in accordance with the requirements of the Act; and

WHEREAS, the City has been advised by the Developer on behalf of the Borrower that conventional commercial financing is available to pay the capital costs of the Project only on a limited basis and at such high costs of borrowing that the scope of the Project and the economic feasibility of its operations would be significantly affected; and

WHEREAS, the City shall not be liable on the Bonds, and the Bonds shall not constitute a debt of the City within the meaning of any state constitutional provision or statutory limitation, the Bonds shall not constitute or give rise to a charge against the general credit or taxing powers of the City, the Bonds shall not constitute or give rise to a pecuniary liability of the City, and the Bonds shall be payable solely out of any funds and properties expressly pledged as security therefor;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MINNEAPOLIS:

That the Program is hereby approved and adopted by the City.

That the issuance of the Bonds pursuant to the Program in an aggregate principal amount of approximately \$7,500,000 is hereby preliminarily approved.

That the foregoing preliminary approval of the issuance of the Bonds shall be subject to final determination by the City of terms and conditions and shall not constitute an irrevocable commitment on the part of the City to issue the Bonds.

That the staff of the City is hereby authorized, in cooperation with bond counsel, to take all steps necessary and desirable to proceed to develop the Program and the financing therefor.