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# Community Development Committee

Meeting date: September 21, 2009

**ADVISORY INFORMATION** 

Date: September 16, 2009

**Subject:** City of Minneapolis Request to Amend the End Project

and Extend the Grant Agreement Expiration Dates For

Longfellow Station (SG006-162, SG007-041, and

SG007-115)

District(s), Member(s): District 8, Minneapolis, Lynette Wittsack

Policy/Legal Reference: 473.253 Livable Communities Demonstration Account

Staff Prepared/Presented: Guy Peterson, Director, Community Development Division

651-602-1418

Beth Reetz, Housing and Livable Communities Director

651-602-1060

Paul Burns, Manager, Livable Communities Program 651-

602-1106

**Division/Department:** Housing and Livable Communities/Community

Development

# **Proposed Action**

That the Community Development Committee approve the Review Panel recommendations and approve the request by the City of Minneapolis to extend the terms of the Livable Communities grants for the Longfellow Station project and recommend that the Metropolitan Council:

- (1) Authorize its Community Development Director to execute amendments to Grant numbers SG006-162, SG007-041 and SG007-115 that:
  - (a) Permit the Grantee to use the grant funds for the modified project as presented to the Review Panel; and
  - (b) Extend the expiration dates of Grant Numbers SG006-162 (from December 31, 2009, to December 31, 2011), SG007-041 (from September 30, 2009, to September 30, 2010), and SG007-115 (from December 31, 2009, to December 31, 2011).
- (2) This action is conditioned upon the following:
  - (a) All three grants will terminate as of December 31 2009 if a copy of an executed developer's agreement is not delivered to Metropolitan Council staff before December 31 2009:
  - (b) The Grant-Funded Activities of the TBRA grant SG007-041 must commence before March 31, 2010 and no grant funds will be disbursed until that cleanup work commences;
  - (c) Work on the project activities funded by LCDA grant SG006-162 must commence no later than June 30, 2010;
  - (d) No grant funds will be disbursed for LCDA Grant Numbers SG006-162 or SG007-115 until construction on the mixed use building has begun;
  - (e) The City must submit a schedule to the Metropolitan Council that shows all construction will be completed by December 31, 2011; and
  - (f) The City must submit evidence of full project funding by March 31, 2010.

## **Background**

The Council has awarded Minneapolis (the "Grantee") three LCA grants for its Longfellow Station project (the "Project"):

- A 2006 LCDA grant of \$934,523 (SG006-162) to demolish the grain elevators and other buildings;
- A 2007 TBRA grant of \$295,200 (SG007-041) to help abate asbestos and leadbased paint and clean up contamination in the soil; and
- A 2007 LCDA grant of \$500,000 (SG007-115) to implement an innovative, comprehensive, and integrated storm water management system.

The Council received a request from the City of Minneapolis dated April 23, 2009 requesting changes to the scope and the terms of the three Metropolitan Council Livable Communities grants for the Longfellow Station project. Council and City staff have had several exchanges of information since that time. The proposed changes represent a reduction in the overall scope of the mixed-use project, particularly in the number of affordable rental housing units and in the amounts of commercial space, jobs and net tax capacity.

On October 15, 2007 the Community Development Committee approved a request to amend the SG006-162 LCDA and SG007-041 TBRA grant agreements for the Longfellow Station Project to accept changes to the Project which consisted of a reduction in the total number of residential housing units, an increase in the number of affordable housing units and utilization of low-rise buildings rather than the mid- and high-rise structures originally proposed.

Changes in the funding availability and requirements of other parts of the Project's funding package have since resulted in the Grantee's request for additional changes to the Project, which affects all three grants. The Grantee is now requesting approval to reduce the number of affordable rental housing units, the amount of commercial space, jobs and net tax capacity, and to extend the TBRA grant to September 30, 2010 and both LCDA grants to December 31, 2011.

#### Rationale

Requests for significant changes to a Livable Communities Act project grant agreement require review and recommendation of a Community Development Committee Review Panel. Chair Haas-Steffen convened a Review Panel to consider the Grantee's request to change the scope of the Longfellow Station Project for all three grant agreements on September 2, 2009. A copy of the Council staff memo to the Review Panel, explaining the proposed changes and evaluating the proposed changes to the previously-approved scope of the project, is attached. The staff concluded that the current project scope would have scored similarly to the original project and would still have likely been awarded funding during the original grant award process for each of the three grants.

In addition to the change in scope of the project, the Grantee is also requesting extensions to all three grant agreements. Grants awarded before February of 2009 may be extended administratively only once and for a period not to exceed one year. Requests for additional extensions of grants awarded before February of 2009 are decided by the full Council at the recommendation of the Community Development Committee.

On June 18, 2008, the Council amended its procedures for second extensions to require the applicant to (1) submit evidence of unavoidable delay, and (2) provide reasonable

assurances that the project for which grant funds were awarded will be completed in a timely manner. The following is a listing of the Grantee's response to those two issues, with indicators of reasonable assurance. The Grantee's responses are in italics.

- 1. Evidence of unavoidable delay:
  - The City and the Developer, Mr. Dale Joel have indicated that a primary anticipated source of funding for the original project, federal housing tax credits, has become an unrealistic source of funding. They are anticipating federal Department of Housing and Urban Development (HUD) loan as an alternative to the tax credit funding. The City will be providing additional detail at the Community Development Committee meeting.
- 2. Reasonable assurances the project will be completed in a timely manner:
  - A. Assurance of site control, secured financing and a development agreement to complete the Project described in the grant agreement including the grant-funded activities.
    - a. The developer acquired the site about three years ago.
    - b. The City has already executed a Loan Agreement with the developer for the City's Affordable Housing Trust (AHTF) funds. Once the City Council approves all final authorizations for the project at its September 11th meeting, the City will be entering into a Redevelopment Contract with the developer, and also sub-recipient agreements with the developer for the grants from DEED, Hennepin County, and the Metropolitan Council, assuming that the necessary grant extensions are approved.
  - B. A 12-month schedule for the completion of the grant-funded activities and the Project described in the grant agreement:
    - a. A Project Timetable prepared by the developer is attached.
  - C. Assurance that significant progress and/or public and/or private investment, expenditures, or obligations have been made or committed to accomplish the completion of the grant-funded activities and Project identified in the grant agreement, including the grant-funded activities.
    - a. Establishment of a TIF district: On September 11, 2009, the City Council will be considering the approval of the TIF Plan, a TIF Pay-Go Note of \$3.2 million, and additional TOD loan to the developer for \$300,000.
    - b. Primary loan financing: Housing revenue bonds were originally going to be utilized for this project. However, the developer is now seeking a HUD 221 (d)(4) loan for the primary financing and has submitted his application to HUD.
    - c. Construction: The developer hopes to close on his HUD loan by end of the year and will start demolition and environmental remediation shortly thereafter. Construction will be complete by December 2011.

# **Funding**

No change is recommended in grant amounts.

# **Known Support / Opposition**

Council staff is not aware of any opposition to the proposed changes.



# Internal Memorandum

**DATE:** August 26, 2009

**TO:** Community Development Committee Review Panel

**FROM:** Guy Peterson, Director, Community Development Division 651-602-1418

Beth Reetz, Housing and Livable Communities Director 651-602-1060 Paul Burns, Manager, Livable Communities Program 651-602-1106

**SUBJECT:** City of Minneapolis Request to Amend the End Project for Grants for Longfellow Station

(SG006-162, SG007-041 and SG007-115)

# **Summary**

The Council received a letter from the City of Minneapolis dated April 23, 2009 requesting changes to the scope of Longfellow Station Project affecting three Metropolitan Council Livable Communities grants. A 90-day administrative extension to September 30, 2009 was granted for the TBRA grant that expired June 30, 2009 to allow the City time to solidify details of the changing overall project scope. Council and City staffs have had several exchanges of information since that time, and are presenting the request to the Review Panel. A brief summary of the three affected grants follows:

- A 2006 LCDA grant of \$934,523 (SG006-162) to demolish the grain elevators and other buildings on the project site;
- A 2007 TBRA grant of \$295,200 (SG007-041) to help abate asbestos and lead-based paint and cleanup contamination in the soil at the project site; and
- A 2007 LCDA grant of \$500,000 (SG007-115) to implement an innovative, comprehensive, and integrated storm water management system for the project site.

The proposed changes in the mixed use project represent a reduction in the overall scope. The total number of housing units and jobs show no significant change, but the reduction in the number of affordable housing units and change in net tax capacity are significant as defined in the *Procedures for Amending Livable Communities Act Grant Awards in Response to Requests for Changes to the End Development/Redevelopment Project.* 

#### Background

The Longfellow Station Project received two LCDA grants and one TBRA grant. The original project descriptions for each grant are listed below:

Year	LCA Fund Account	Project Name	Amount Awarded
2006*	Livable Communities	Longfellow Station	\$934,523
	Demonstration Account (LCDA)		
2007	Livable Communities	Longfellow Station	\$500,000
	Demonstration Account (LCDA)	-	

#### **PROJECT DESCRIPTION** (for 2007 Grant and 2006 Grant amended):

The Longfellow Station project is a high-density multi-use transit oriented development located in immediate proximity to the 38th Street transit station of the Hiawatha LRT line. When completed the project will include 185-215 new housing units, 35,000 to 50,000 sq. ft. of commercial space, and approximately 430 structured, below-grade, and surface parking spaces. The project will include an innovative, comprehensive, integrated storm water management system. The rental housing will include 185-215 units (approximately 119 affordable). The commercial space may include a grocery store as well as other neighborhood commercial uses at ground level immediately adjacent to the housing structures. Commercial space users and housing residents will be able to park in the structured and below grade parking spaces. The estimated total development costs for the project are approximately \$50 million. The project developers have site control, have in place a complete development team, and are working with the neighborhood and city staff on land use and zoning approvals.

Year	LCA Fund Account	Project Name	Amount Awarded
2007*	Tax Base Revitalization Account	Longfellow Station	\$295,200
	(TBRA)		

#### PROJECT DESCRIPTION:

The applicant submitted a request for lead-based paint and asbestos abatement as well as matching funding for soil remediation of a 3.6-acre site formerly used as a commercial feed mill, animal food supplement production and distribution center. Contamination identified includes arsenic and slag; and coal fragments with traces of PAHs in shallow soils and DRO, GRO in deep soils.

Expected benefits include the development of 200 housing units (100 ownership housing units including 10-15 affordable, and 100 affordable rental units). (The job estimate was reduced due to a lack of commitment from an end-user).

- \* On October 15, 2007 the Community Development Committee approved a request to change the end Project and amend the first LCDA grant and the TBRA grant agreements, resulting in:
  - a reduction in net tax capacity partially due to a change from ownership and rental housing to rental only and a reduction in the amount of commercial square footage,
  - a reduction in the total number of housing units,
  - an increase in the total number of affordable housing units, and
  - a change from mid- and high-rise structures to low-rise buildings

Changes in funding availability and requirements of other parts of the project's funding package have resulted in this second request from the City for additional changes to the Project.

#### The **CURRENT PROJECT DESCRIPTION** is:

The Longfellow Station project is a high-density multi-use transit oriented development located in immediate proximity to the 38th Street transit station of the Hiawatha LRT line. When completed the project will include 196 new rental housing units, approximately 10,000 sq. ft. of commercial space, and approximately 241 parking spaces (183 covered and 58 surface). The project will include an innovative, comprehensive, integrated storm water management system. The 196-unit rental housing component will provide 108 market rate units and 88 affordable units. Of the 88 affordable units, 40 will be affordable at 50% Metropolitan Median Income (MMI), 28 units at 60% MMI, and 20 units at 80% MMI. The commercial component may include a grocery store as well as other neighborhood commercial uses at ground level immediately adjacent to the housing structures. Commercial space users and housing residents will be able to park in the covered and surface parking spaces.

The estimated total development costs for the project are approximately \$38 Million. The project developers have site control, have in place a complete development team, and are currently working with city staff on an amendment to the City land use approvals, based on the recent revisions to the development plan.

# Description of the scoring process and salient characteristics of the Longfellow Station project

The chart below describes changes to the Project relevant to the Livable Communities Act Grant Amendment Procedures that are used to determine if the changes are significant and therefore require a Review Panel to be convened.

Original Grant-Funded Development in 2006 and 2007 as Amended *	Revised Overall Project Proposal	Change
Total housing units (LCDA and TBRA) 200	196	2% Reduction
Affordable Housing Units at 50-80% MMI (LCDA and TBRA) 120	88	26.6% Reduction
Net Tax Capacity (TBRA) \$625,397	\$252,913	59.5% Reduction
Jobs (TBRA) 83 FTEs	50 FTEs	39.8% Reduction

The chart below shows other evaluation factors not used in determining Significant Change

Original Overall Project Development Proposals in 2006 and 2007, as amended *	Revised Overall Project Proposal	Change
35,000-50,000 square feet of commercial, retail	10,000 square feet of commercial,	25,000-40,000 square
and restaurant space	retail and restaurant space	foot reduction in space
		(71-80% reduction)
\$50,788,415 total project cost	\$38,245,612 total project cost	\$12, 542,803 decrease
		in total project cost
		(25% reduction)

## The chart below describes other changes not used in the evaluation of the proposals

Original Overall Project Development Proposals in 2006 and 2007, as amended *	Revised Overall Project Proposal	Change
\$9,819,154 Total City investment in the project	\$5,630,965 Total City investment	5% reduction in the
which represents 19.3% of total project costs	in the project which represents	City share of total
	14.7% of total project costs	project costs
\$1,729,723 total LCA investment in the project	\$1,729,723 total LCA investment	1.1% increase in the
which represents 3.4% of total project costs **	in the project which represents	LCA share of total
	4.5% of total project costs **	project costs

- \* Some activities were reported somewhat differently in the different grant applications. Where that is the case a minimum, maximum or range is used.
- \*\* An additional grant for \$980,000 was awarded by the Council as part of the Hiawatha Land Assembly Fund (HLAF) and Congestion Mitigation and Air Quality (CMAQ) program governed by Metro Transit.

# **Summary Points**:

- The City has indicated that a major reason for the reduction in the overall project scope has been changes in the credit markets. The City was forced to shift from housing tax credit and housing revenue bonds to a HUD mortgage for a major part of their financing package. The City has informed us they expect a letter of commitment from HUD soon.
- The total project costs have been reduced, resulting in the City's proportional share of the project dropping a relatively modest 4.6%. A portion of the reduction in the City's contribution stems from a decrease in the amount of TIF funding that can be generated from the smaller project.
- The green roof feature remains in the project.
- LCA grant funds were never proposed to cover the cost of parking. The total number of parking spaces has dropped along with the reduction in size of the project. However, underground and ground-level covered parking still remain as part of the parking mix.

#### Amendment Procedures

The Council's process for amending LCA grants to change end development/redevelopment projects involves three steps, as follows:

#### Step One – Determine whether the requested amendment is a Significant Change.

LCA grant administration procedures are excerpted below, with the pertinent factors identified, along with the aspect of the proposed change that applies to the criterion described.

A proposed amendment is <i>significant</i> if it does any of the following:	Staff Assessment
Proposes to replace the end project as originally proposed with a completely different end project (LCDA and TBRA factor)	No. The current proposal does not replace the originally proposed project with a "completely different end project." The project remains a high density mixed use development on a primary transit corridor.
Will result in a reduction of 20 percent or more of the total net tax capacity expected to be generated by the redevelopment as originally proposed (TBRA factor)	<b>Yes.</b> The current project proposal reflects a 59.5% reduction from the original TBRA application in generated net tax capacity.
Proposes to substantially change the mix and type of land uses originally proposed in a way inconsistent with program objectives, or substantially changes the nature of the project originally proposed (LCDA factor)	<b>No.</b> The current project proposal does not substantially change the mix and type of land uses or substantially change the nature of the project.

A proposed amendment is <i>significant</i> if it does any of the following:	Staff Assessment
Will reduce the overall project density below the density guidelines for developments in the project location, or 20 percent below the density originally proposed (whichever is higher) (LCDA factor)	<b>No.</b> The density remains higher than the density guidelines for the project based on its location in an LRT corridor. The density in the current proposal and accepted project revision is over 60 units per acre, compared to the density guideline of 40+ units per acre for rail corridors in developed urban neighborhoods.
Proposes to reduce by 15% or more, or by 50 jobs, (whichever is higher) the total number of new or retained jobs (TBRA factor)	No. The current proposal estimates 50 new or retained full time equivalent jobs will be located at the project. The reduction of 33 jobs does not significantly change the expected number of jobs resulting from the development.
Proposes to reduce by 10 percent or more, or by 50 units, (whichever is higher) the total number of housing units (LCDA and TBRA factor)	<b>No.</b> The total number of housing units remains similar to the earlier project descriptions.
Proposes to reduce the total number of affordable housing units by 20 percent or more from the project as originally proposed (LCDA and TBRA factor)	<b>Yes.</b> The number of affordable units at 50 to 80% MMI decreased from 120 units to 88 units, a 26.6% reduction.

Based on the evaluation above, the requested amendment is a significant change.

# Step Two – Evaluate the proposed amendment

The CDC may authorize an amendment to the project description included in the grant agreement provided that the end project, as revised, will produce the intended results described in the Livable Communities Act and meets additional account-specific conditions, as listed below.

Requirement	Staff Assessment
For LCDA Grants: Interrelate development or redevelopment and transit; interrelate affordable housing and employment growth areas; intensify land use that leads to more compact development or redevelopment; involve development or redevelopment that mixes incomes of residents in housing, including introducing or reintroducing higher value housing in lower income area to achieve a mix of housing opportunities; or encourage public infrastructure investments which connect urban neighborhoods and suburban communities, attract private sector redevelopment investment in commercial and residential properties adjacent to the public improvement, and provide project area residents with expanded opportunities for private sector employment;	Complies. For the LCDA grants, the proposed amendment to the project would not have a significant impact on these factors. The proposed amendment would reduce planned intensity, but still would intensify land use significantly more than currently exists. Densities would remain well above the density guideline for rail corridors in developed urban neighborhoods.
For TBRA Grant: Provide the highest return in public benefits for the public costs incurred, encourage development that will lead to the preservation or growth of living-wage jobs or the production of affordable housing, and enhance the tax base of the recipient municipality.	Complies. The current proposal would still meet this requirement.

Requirement	Staff Assessment
For LCDA Grants:  If the end development/redevelopment, as amended, would still include the demonstration and innovation elements that contributed to the Livable Communities Advisory Committee's selection of the project for funding.	<ul> <li>Complies. The original recommendation from the Livable Communities Advisory Committee (LCAC) for the 2006 LCDA grant indicated that the project:         <ul> <li>"Demonstrates a high-density new neighborhood connected to transit and fitting into an existing neighborhood, with innovative green technology elements.</li> </ul> </li> <li>The large grain elevators on the site represent an extraordinary barrier to development – the funding will provide a catalyst to allow the development to proceed."</li> </ul>
	In the 2006 LCAC evaluation, the project scored first of ten projects funded. It scored 39.8 points in a range of 30.8 to 39.8 among funded projects
	The original recommendation from the Livable Communities Advisory Committee (LCAC) for the 2007 LCDA grant indicated that the project:  • "Demonstrates good development strategies to deal with a difficult and challenging site along a transit corridor.  • The funded element is a fully integrated storm water system that is a storm water management model."
	A staff technical reviewer reviewed the proposed changes in the project's storm water design and found that the same type of pretreatment and a comparable type of storm water infiltration technology are proposed to be utilized.
	In the 2007 LCAC evaluation, the project scored first of nine projects funded. It scored 39 points in a range of 30 to 39 among funded projects.
For TBRA grant:  If the revised end project is acceptable to the Council's polluted site cleanup funding partners that have also granted funds to the project.	Conditionally complies. A determination of the acceptability of the project changes by the Minnesota Department of Employment and Economic Development (DEED) Contamination Cleanup Program is dependent on the demonstration of sufficient funding to construct the project. In the event the project cannot secure adequate financing, DEED is unlikely to extend the contamination cleanup grant for \$265,000 awarded in 2007. The grant will expire on September 30, 2009. The Hennepin County Environmental Response Fund (ERF) has extended the term of an active contamination cleanup grant for \$90,000 to June 1, 2010 for the Longfellow Station redevelopment project. (Further documentation will be provided at the meeting.)

Requirement	Staff Assessment
For the LCDA grants:  If the revised end development/redevelopment project would score similarly (i.e., would score at least 20 points [the threshold level] in the Step One evaluation) to the original end project in the staff technical evaluation.	Complies. For the 2006 LCDA grant, the project as originally proposed received a Step One evaluation score of 38 points, significantly higher than the 20 point threshold. The Step One evaluation of the revised project resulted in a score of 37.5 points.  The Step One evaluation for of the 2007 LCDA grant, received a score of 40 points; the rescoring of the project as revised resulted in a score of 39.5 points.  The revised proposal would not likely have scored significantly lower, if at all, in other evaluation categories. Therefore, the revised proposal would score similarly to the original proposal, and would score above the 20 point threshold.
For the TBRA Grant:  If the revised end development/redevelopment would score similarly to the original end project in the staff technical evaluation.	Complies. For the TBRA grant, the project would score similarly to the original end project (i.e., rank within the list of projects recommended for funding) in the jobs/housing and tax base increase categories. The project as originally described received a total score of 105 points. As revised in the fall of 2007, the project would have received 97 points. As revised according to the current proposal, the project would have scored 80 points. Rescoring the project using the revised project description would still place the project among the projects recommended for funding during the Spring 2007 funding cycle.

## **Step Three – Convene the CDC Review Panel**

As required by the amendment procedures, a Community Development Committee (CDC) Review Panel has been appointed to consider the request to revise the City of Minneapolis Longfellow Station project. The panel will take into account the information provided by the representatives of the City of Minneapolis and the staff assessment included in this memorandum to prepare a recommendation for action by the CDC during its September 21 meeting.



August 10, 2009

Metropolitan Council Livable Communities 390 North Robert Street Saint Paul MN 55101

Re: Update on Changes for Longfellow Station

To Whom It May Concern:

Our planned closing for the fourth quarter of 2008 was significantly affected by the changes in the credit markets.

The investor pool of Fannie Mac, banks and private investors stopped purchasing the 4% tax credits and housing revenue bonds. That left us with a gap of 4.5 million and without debt financing. Additionally retail tenants stopped signing leases.

We changed directions and prepared our application for a HUD 221 d-4 mortgage. That application has been made and we are actively engaged with the local HUD office, We were able maintain 45% of the project affordable, 20% @ 50%, 15% @ 60% and 10% @ 80%. We also reduced the retail portion of the project from 40M square feet to 10M square feet to reflect the current market conditions of tenant demand.

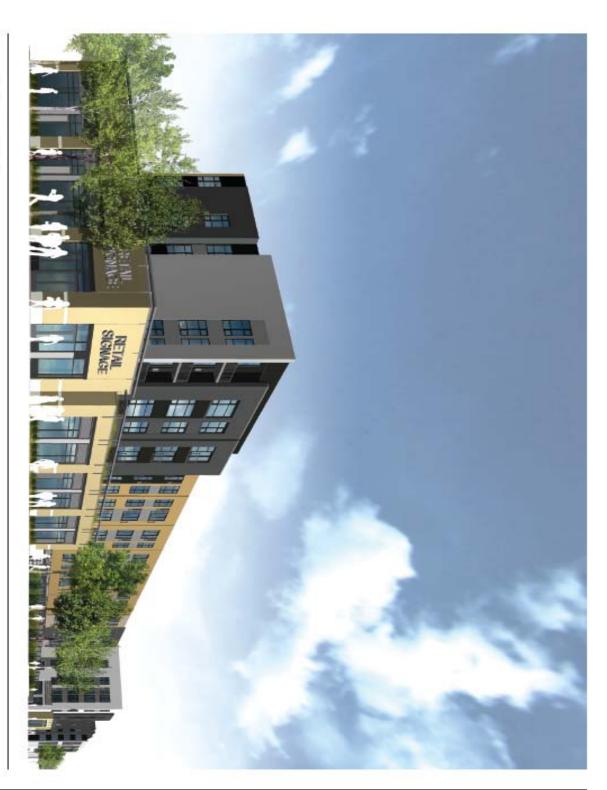
The design of the project looks much the same and continues to model TOD principles. The design accommodates future retail infill on this site from a long term planning perspective and will work together with the planned future vision for this corridor.

The union jobs created by this project being constructed and the jobs created by additional retail come at a good time for our local economy. It also will be a timely green demonstration project for this and additional transportation corridors in the Twin Cities.

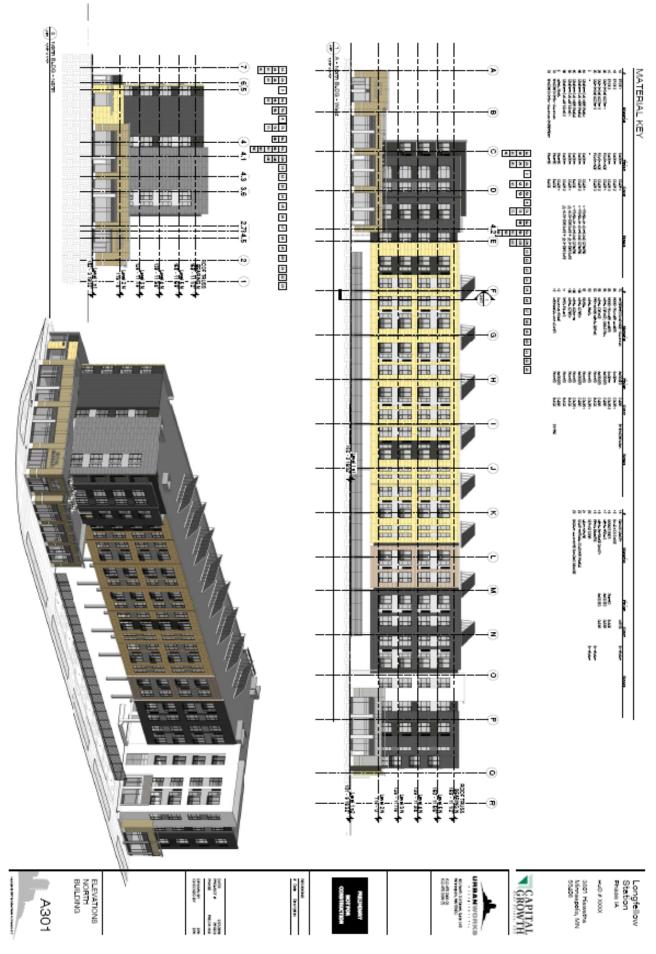
Yours truly,

Dule Joel

101 East Fifth Steet, Suite 1901 St. Paul, MN 55101 phone: (651) 222-3366 fee: (651) 222-3777







# Longfellow Station



IMAGE NOT TO SCALE

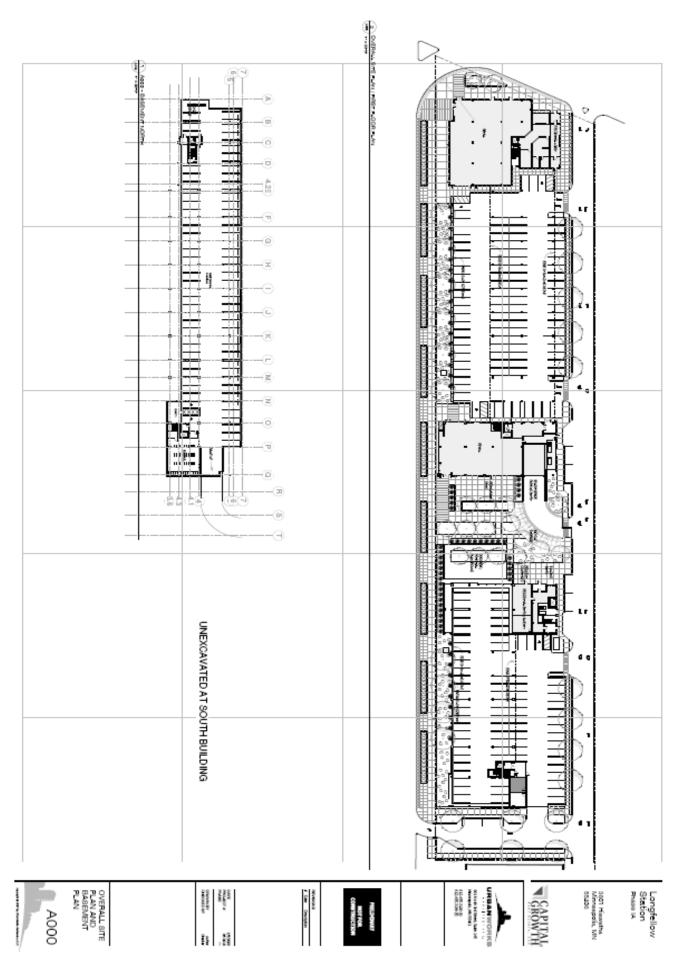
= COVERED PARKING

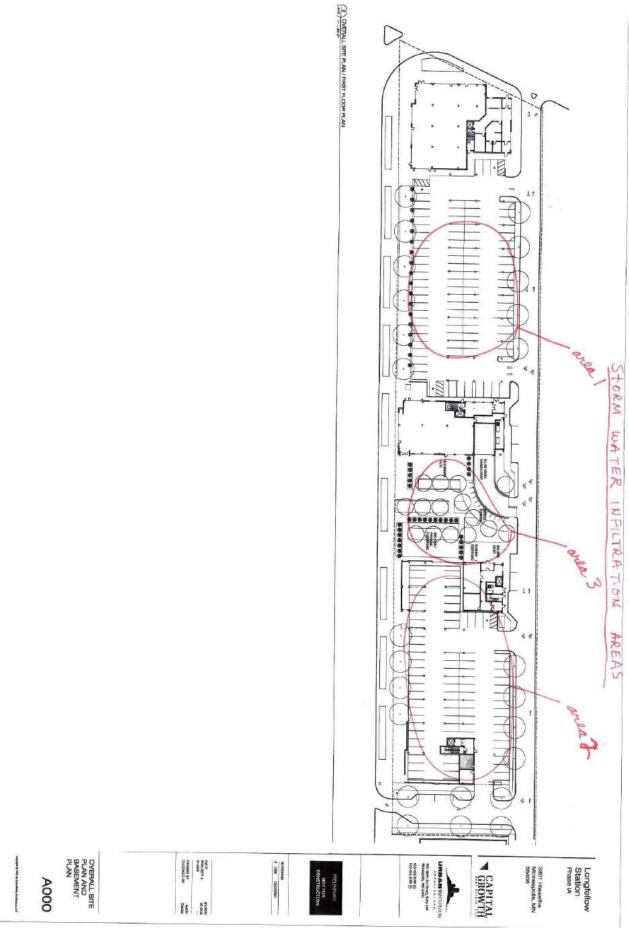
COVERED SURFACE STALLS = 95
UNCOVERED SURFACE STALLS = 81
TOTAL STALLS ON GRADE = 176

Site Plan









# Previous Site Plan



