

C Community Development Committee
Meeting date: June 18, 2012

ADVISORY INFORMATION	
Date:	May 25, 2012
Subject:	City of Plymouth Request for Project Change to the LCDA Grant <i>9805 Highway 55 Apartments</i>
District(s), Member(s):	District 1 – Roxanne Smith
Policy/Legal Reference:	Minnesota Statutes 473.253
Staff Prepared/Presented:	Deb Jensen, Livable Communities Grant Administrator, 651.602.1554; Paul Burns, Manager, Livable Communities, 651.602.1106
Division/Department:	Community Development / Livable Communities

Proposed Action

That the Metropolitan Council approve a change in the Livable Communities Demonstration Account (LCDA) grant number SG011-140 to the City of Plymouth for \$750,000 for the *9805 Highway 55 Apartments*, reducing the percentage of affordable units from 40% to 10%.

Background

On December 14, 2011, the Council awarded the City of Plymouth a Livable Communities Demonstration Account (LCDA) grant in the amount of \$750,000 to assist the *9805 Highway 55 Apartments* project with land acquisition, demolition, soil correction, stormwater management, grading, and utilities. The innovation, demonstration and catalytic values identified for this project by the Livable Communities Advisory Committee(LCAC), and as noted in on the attached Project Summary, were that it adds high density housing near jobs and is adjacent to a large wetland, that the project plans to use a gray water irrigation system with an underground tank, low flow fixtures, a low VOC interior, a partial green roof over the parking structure, reduced parking requirements, and will have a solar-ready roof system.

The Council’s Livable Communities Act Grant Amendment Process guidelines indicate that when a change in a LCDA funded project is requested, staff will review the change to determine whether it significantly changes the demonstration value of the grant funded activities or the Project and that only the factors applicable to the Project as originally proposed and scored will be evaluated. For LCDA projects, a proposed change will be considered significant if the change:

1. proposes to replace the Project as originally proposed with a completely different Project;
2. proposes to substantially change the mix and type of land uses originally proposed in a way inconsistent with program objectives or that substantially change the nature of the Project originally proposed;
3. will reduce the overall Project density and/or land use intensity below the density guidelines for developments in the Project location, or 20% below the density and/or land use intensity originally proposed (whichever is higher), or
4. proposes to reduce the total percentage of affordable housing units from the Project as originally proposed.

The grant application and ensuing grant agreement also indicated the development would include 157 units of housing, 64 of which, or 40% of the units, would be affordable to households at or below 60% of Area Median Income.

On May 8, 2012 the grantee notified staff that the developer had determined that supporting the 64 affordable units would require an additional subsidy of approximately \$2.5 million. There does not appear to be a source for that level of funding, outside of the competitive 9% Low Income Housing Tax Credit (LIHTC) program. Quest, the developer, has been unsuccessful in obtaining

the required LIHTC, and the City believes the tight market for those credits will not allow them to obtain them in 2013. Additionally on June 21, 2012, the grantee notified staff that mortgage insurance rates on the Housing and Urban Development loan had risen sufficiently and that this plus the inability to access 9% Low Income Housing Tax Credits has resulted in the developer's need to reduce the number of affordable units. The grantee now seeks the Council's approval to reduce the percentage of affordable units from the original 40% of total units to 10% of total units, now 16 units, rather than 64, out of the total 157 units.

With both the LCDA award and the City's Tax Increment Financing (TIF) financing, the developer is indicating they can build one-quarter of the originally-planned affordable units. Without the LCDA award, but retaining TIF, the developer could likely still proceed but with all market-rate units. The grantee has indicated that the loss of both the LCDA grant and TIF would likely mean the project will not move forward. This would result in the loss of the highest-density housing project ever approved in Plymouth.

Rationale

Approval of this project change is being recommended because staff believes the Project, with the reduced number of affordable units, would still have earned sufficient points in the Step 1 scoring process to have moved forward to the Step 2 scoring process completed by the Livable Communities Advisory Committee (LCAC). The LCAC evaluates and recommends funding projects based on their demonstration, innovation, and catalytic elements as well as the project's readiness. The City of Plymouth has stated those elements continue to be part of the Project and that the project will be completed on schedule as indicated in the grant agreement. Staff believes a reduced number of affordable units would not have negatively impacted the scoring completed by the LCAC such that the project would have fallen below the fundable scoring range.

Funding

The proposed action would leave the grant award amount of \$750,000 unchanged.

Known Support / Opposition

There is no known opposition to this action.

Project Summary

Award amount: \$750,000
Grantee: City of Plymouth
Project Name: 9805 Highway 55 Apartments
Project Location: Highways 169 & 55
Council District: 1 – Roxanne Smith

Grant Type: LCDA Development
 SG011-xxx

Project Description:

This project will construct a 157-unit apartment building in Plymouth near the intersection of Highways 169 and 55. The project will include 93 market rate units and 64 workforce housing units for households earning at or below 60% of area median income. A primary feature of this project is connectivity with community. LCDA funds will be used for land acquisition; demolition; soil correction; stormwater management; site grading; and utilities.

Comments on Demonstration, Innovation, and Catalytic Elements of this Project:

This project adds high density housing near great jobs and adjacent to a large wetland. The project plans to use a gray water irrigation system with an underground tank, low flow fixtures, a low VOC interior, a partial green roof over the parking structure, reduced parking requirements, and will have a solar-ready roof system.

Funding:

Amount Requested	Amount Recommended	Use of Funds
\$275,000	\$275,000	Land acquisition
5,000	5,000	Demolition
170,720	170,720	Soil correction
125,000	125,000	Stormwater management
136,895	136,895	Site grading
37,385	37,385	Site utilities
\$750,000	\$750,000	

Previous LCA Grants Received For This Or Related Project:

None. Development Timeline:

Task	Start Date	End Date
Land acquisition		By 12/31/14
Demolition		By 12/31/14
Soil correction		By 12/31/14
Stormwater management		By 12/31/14
Site grading		By 12/31/14
Site utilities		By 12/31/14
Construction of 64 affordable units and 93 market-rate rental units	By 12/31/14	

June 20, 2012

Ms. Deb Streets Jensen
Grants Administrator
Metropolitan Council Livable Communities
390 N. Robert Street
Saint Paul, MN 55105

Re: LCDA Grant No. SG011-140 (9805 Highway 55 Apartments)

Dear Ms. Streets Jensen:

As stated in our previous memo to you on this subject, the City of Plymouth and Quest Development are very grateful for the support of the Metropolitan Council for the 9805 Highway 55 Apartments., a mixed-income rental development. Very recently, additional information, that has an impact on financing, has come to light that requires a further modification of our requested amendment to the recently approved grant agreement. This impact will necessitate a further reduction to the number of affordable rental housing units.

Our original request for amendment to the approved grant was to reduce the number of affordable rental units from 40% of the units at 60% of AMI, to 20% of the units at 60% of AMI. This request was made, because the developer, Quest Development, was not selected to receive the 9% LIHTC. Again, given the changes in the MHFA-LIHTC scoring which prioritizes preservation of existing subsidized housing and / or developments with homeless units, it is our opinion that another 9% application would also be unsuccessful.

Recently, HUD raised the mortgage insurance premium for the 221 (d) (4) program (effective September 2012) from 45 basis points to 65 basis points. That increase of the interest rate, on a loan of approximately \$24,650,000 (including the TIF mortgage portion), results in a minimum reduction of at least \$670,000 in mortgage proceeds. This amount of reduction in mortgage effectively creates an additional funding gap for this project, with no identifiable source to fill it.

This leaves us with only one option with which we could provide some level of affordable housing: reduce the affordable component to 10% of the units at 60% of AMI. In this case, if we are able to retain all of the TIF, currently pledged by the City of Plymouth, as well as the LCDA grant, a desirable economic outcome could be achieved.

As pointed out in our previous memo, with the ever changing financial markets, we are concerned about the risk of rates increasing and labor and materials costs increasing if this development is delayed, both of which would be detrimental to the success of the project. Up to this point, Quest Development has spent considerable time and money pursuing funding sources to fill the gap for the higher level of affordable housing. Because of this and the fact that no additional funding sources have been identified, we are at a point where an adjustment to the affordability component of the project is necessary to maintain the schedule originally presented to the Metropolitan Council.

Please note that other key features of this development, as highlighted in our original application for LCDA funds, have NOT changed:

- *The highest-ever density approved in the City of Plymouth*
- *Significant improvements to the storm water management system*
- *Strong connections to jobs and transit*
- *Completion of the project according to the schedule included in the Grant Agreement.*