

C Community Development Committee
For the Metropolitan Council meeting of October 31, 2012

Item: 2012-320

ADVISORY INFORMATION

Date Prepared: October 16, 2012

Subject:

Request to Extend Livable Communities Demonstration Account Grant Award for *Longfellow Station*

Proposed Action:

That the Metropolitan Council: (1) approve a 12 month extension to the 2007 Livable Communities Demonstration Account grant number SG007-115 for the *Longfellow Station* project in the City of Minneapolis; and (2) authorize its Community Development Director to execute an amendment on behalf of the Council.

Summary of Committee Discussion / Questions:

Paul Burns explained the history of the project and the problems it has encountered, but he reported that the project is now moving forward. Construction has begun. The current grant term expires the end of 2013. Given the short amount of time left in the 2012 construction season, however, it would be preferable and more effective timing to complete the grant-funded stormwater work next year.

City of Minneapolis representative Wes Butler said the project will really help to break down a concrete curtain that exists along Hiawatha and opens up the Longfellow neighborhood to the Hiawatha line. He gave assurances that it would be completed by the end of 2013.

The motion passed unanimously with no questions from Committee members.

C Community Development Committee

Meeting date: **October 15, 2012**

ADVISORY INFORMATION

Date:	October 10, 2012
Subject:	Request to Extend Livable Communities Demonstration Account Grant Award for <i>Longfellow Station</i>
District(s), Member(s):	District 8 – Adam Duinick
Policy/Legal Reference:	Minnesota Statutes Section 473.25 LCA Grant Amendment Policies and Procedures
Staff Prepared/Presented:	Guy Peterson, Director, Community Development Division 651-602-1418 Deb Streets Jensen, Livable Communities Grant Administrator 651-602-1154; Paul Burns, Manager, Livable Communities 651-602-1106
Division/Department:	Community Development / Livable Communities

Proposed Action

That the Metropolitan Council: (1) approve a 12 month extension to the 2007 Livable Communities Demonstration Account grant number SG007-115 for the *Longfellow Station* project in the City of Minneapolis; and (2) authorize its Community Development Director to execute an amendment on behalf of the Council.

Background

This is a high-visibility, mixed-use, mixed-income project that will provide 180 rental housing units (80% of which will be affordable at 60% Metro Median Income) and 10,000 square feet of commercial space located near the 38th Street Station on the Hiawatha LRT Line. Although not funded as a TOD project by the Council, the completion of this project will further the Council's efforts to promote Transit Oriented Development in this region as well as help provide affordable housing opportunities.

The *Longfellow Station* project has been awarded three Livable Communities Act (LCA) awards since 2006. The first two grants, for demolition and pollution cleanup, are complete. The third, a \$500,000 Livable Communities Demonstration Account award for stormwater management, was delayed due to changes in project ownership and unusual financing difficulties. Some components of the proposed innovative stormwater work could be completed before the grant expires on December 31, 2012. However, if work on the stormwater management system is commenced before building and site construction activities are completed that work likely would be exposed to damage from other project construction activities. From a construction standpoint, it makes sense to install the stormwater management system after the main building construction is completed. The developer has provided a construction schedule showing that the stormwater management work will be completed by June 30, 2013. However, this schedule does not include time for unanticipated delays, and this project has been marked by unanticipated delays.

LCA grant terms are three years in length with the possibility of another two years' extension provided adequate project progress is made. The stormwater grant will utilize its full five-year term as of December 31, 2012. The City has requested a waiver from the five-year limit to allow the work of the project to continue.

The Council has also invested \$980,000 million in Hiawatha Land Assembly Funds in support of the project.

Rationale

Assembling financing can be difficult and very time-consuming, and many projects face those challenges. However, this is an unusual case because many of the project delays were largely out of the control of the current developer. The approval process for mortgage assistance from the United States Department of Housing and Urban Development (HUD) broke down after nearly two years; a summary of that process is

attached with the City's request for the extension. It is staff's understanding that HUD typically would have provided a commitment for mortgage insurance after engaging in such in-depth negotiations over such a long period of time, but it did not do so in this case. *Longfellow Station* has now closed on its final construction financing, and construction has begun. All parties are confident that the project will proceed in accordance with the current schedule.

The City initially requested a six month extension waiver. Council staff suggested that since this project has seen several delays already and if any other unanticipated delays occurred, it would be prudent to ask for more time to allow for such events. The project is fully funded and is under construction.

Funding

Funding has been allocated to the grant since 2007.

Known Support / Opposition

There is no known opposition. The City of Minneapolis has strongly indicated its support of the project.



Minneapolis
City of Lakes

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Economic Development**

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September 18, 2012

Paul Burns
Livable Communities Program
Metropolitan Council
390 Robert Street North
St. Paul, MN 55101

RE: SG007-115 Longfellow Station LCDA Grant for Stormwater
Management

Dear Paul,

We are very happy to report that on August 30-31, 2012, Sherman Associates, our development partner, closed on the \$28.5 million Longfellow Station project. As you well know, this day was long in coming, and reflects the significant commitment to redevelopment of this site on the part of the City, developer and other state and regional government funders, including the Metropolitan Council.

Although the City's subrecipient developer, Sherman Associates, commenced the project in December 2010, with the pouring of the foundation for the plaza, commencement of construction of the housing project and related stormwater improvements was substantially delayed by protracted and ultimately unsuccessful negotiations with HUD to provide mortgage insurance for the Longfellow Station project. Around April 1, 2012, after over a year of review of the project, HUD informed Sherman that they would not provide a commitment for mortgage insurance, based on their "environmental" concerns (see EXHIBIT A – Summary of Sherman's Interactions with HUD Regarding Longfellow Station).

Sherman immediately put requests out for permanent and construction financing and received interest from two parties. After negotiating with each, Sherman selected and signed term sheets with a financing team consisting of US Bank as the construction lender and Cornerstone Real Estate Advisors, a subsidiary of Mass Mutual Life Insurance, as the permanent lender. It should be noted that both



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lenders were made aware of HUD's "environmental" concerns, reviewed Sherman's due diligence documentation on these matters, and are completely satisfied with the site's suitability for multi-family housing. Financing is now in place. Construction is now underway at Longfellow Station and is anticipated to last for 14 months, through November 2013.

We and Sherman are well aware that the LCDA grant, which will pay for installation of a comprehensive stormwater management system, will expire on December 31, 2012. However, at this time, **we would like to request a final 12-month extension of the grant term, to December 31, 2013.** We acknowledge the Metropolitan Council's policy to afford grants a maximum term of 5 years, and seek a one-time waiver to this policy, given the protracted unsuccessful negotiations with HUD, and concerns regarding construction staging.

We are confident that the grant-eligible costs will be incurred by December 31, 2013. From a construction standpoint, installation of the stormwater management system should occur approximately mid-way through construction, after the footing and foundation work has been completed at the end of 2012. Otherwise, the concurrent building and site construction activities pose a great risk of damage to the prematurely-installed stormwater management improvements. The stormwater improvements are situated along an alleyway that will be in the path of the heavy equipment moving throughout the construction site. This equipment includes concrete trucks, and semi trailers delivering precast planks and columns for building construction. The storm tanks will be located under the alleyway, which means that Sherman would also need to prematurely install the full alleyway road bed over the stormwater improvements. The wear and tear of running heavy equipment over the new alleyway roadbed should also be taken into account. The rain water tanks will be installed right next to the building. Heavy-duty precast cranes, rough terrain cranes, and forklifts will need to get around the building to set the precast and wood walls and floors. If the rain beam is prematurely constructed next to the building, it will be in the way during building construction, and there is the very real possibility that it will be damaged and require reconstruction. It just makes sense from a construction standpoint to wait to install the stormwater management system until the main building construction is in place.

We appreciate the Metropolitan Council's longstanding and patient commitment to the Longfellow Station project, and do not take this request for a waiver of the policy setting maximum grant terms lightly. We are excited to have this catalytic project under construction, and hope the Council's support for the project can extend to approval of the City request to extend the term of the Longfellow Station LCDA grant SG007-115 to December 31, 2013.

Sincerely,



Tom Streitz
Director, Housing Policy and Development

Cc: W. Butler; D. Jensen; P. Keenan; J. LePage; P. Mazzacano

EXHIBIT A – Summary of Sherman’s Interactions with HUD Regarding Longfellow Station

With its 40 year amortization period and historically low interest rates, the HUD 221 (d) (4) program was the best option for the Longfellow Station project in terms of permanent and construction financing. Sherman Associates (Sherman) purchased the property in June 2011 but had worked with HUD for several months on the project to alleviate concerns HUD had with the project when submitted by a previous developer. Those concerns included:

1. Underwriting of achievable rents and commercial income.
2. Environmental concerns related to soil, power poles near the site, and noise generated by train traffic.

In its design, Sherman removed the commercial component from the housing component by replatting the lot and giving each a separate legal description, thereby removing the commercial income risk for lenders and investors. The previous developer had contemplated a market rate project but was using rents more likely to be achieved in Uptown Minneapolis in his underwriting. To deal with this concern, Sherman developed a financial structure that reduced the rents by utilizing 4% Low Income Housing Tax Credits, and quickly received a commitment from AEGON to purchase the credits for \$.91. Sherman also performed a market study and discounted the market rate rates in the project by 10% of the achievable rent stated in the market study. The combination of these changes alleviated the underwriting concerns HUD had with the project.

To address HUD’s environmental concerns, Sherman applied for and received a No Further Action Determination for soil contamination from the MPCA. HUD, however, was still concerned with a power pole adjacent to the project site and the presence of train tracks directly to the east of the site. In its handbook, HUD has a policy that any project that stands within the “fall distance” of a power pole requires an environmental waiver. The “fall distance” is defined as the radius of the power pole if lying horizontally on the ground. The Longfellow Station project clearly is within that distance. Sherman Associates submitted a waiver request to HUD, bolstered with the opinion of an independent structural engineer that:

1. It is extremely unlikely that the power pole will fall even in extreme weather conditions or if struck by a vehicle.
2. If the pole did fall it would most likely fall in the opposite direction of the building due to the loading of the power lines that connected to the pole.

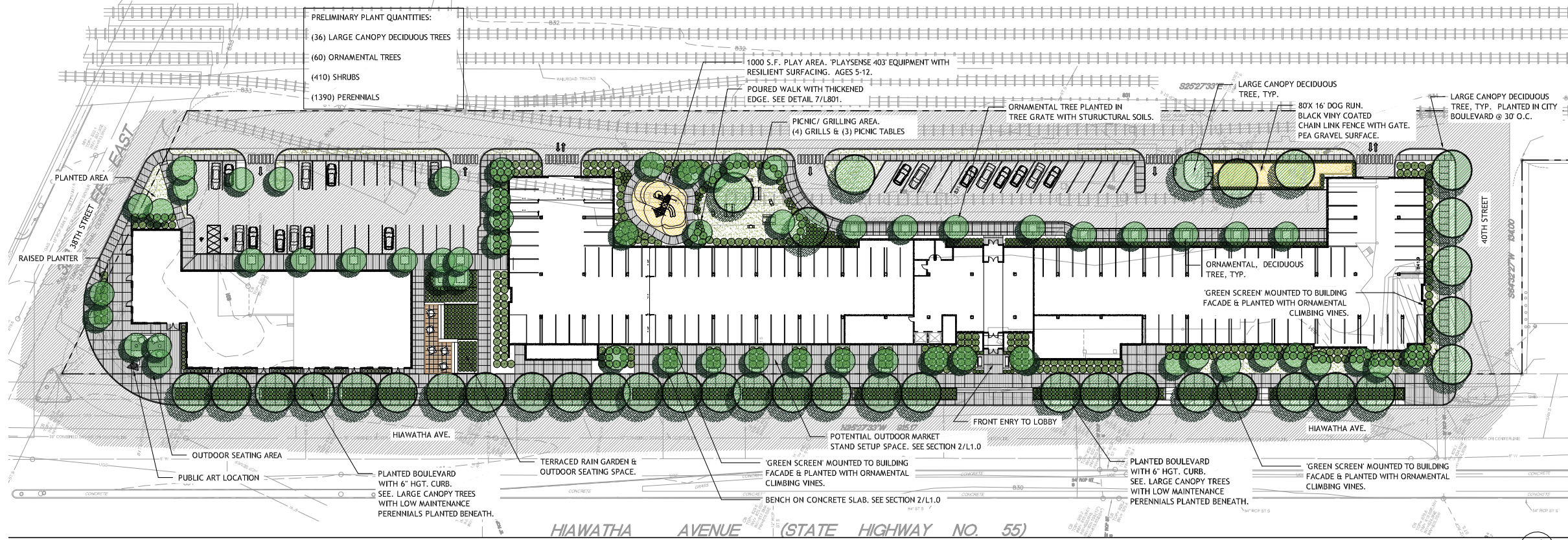
In regards to the train tracks directly to the east of the project site, HUD was concerned with the amount of noise generated by moving trains. HUD has a calculation worksheet that takes into account the number of trains that pass by the site each day, and determined that the noise generated by the moving trains exceeded their acceptable standard. Sherman disagreed with the method of determining the level of sound generated by the trains, since the train tracks end a few blocks to the south of the site. In reality, the tracks adjacent to the site are used primarily as a switching operation and a parking lot for trains not in use by the commercial users north of the site. HUD’s calculation assumed these trains were passing the by the site at higher speeds. HUD allows for and suggested that Sherman perform a sound study to measure the exact noise levels generated by the trains and also by traffic along Hiawatha Avenue. At significant expense, Sherman contracted with a nationally-experienced sound expert and measured the sound with microphones for 6 consecutive weeks at 3 different locations on the site. The results of the study clearly demonstrated that the exterior sound levels at the

site were within HUD's acceptable range. With the report done, Sherman's application to HUD was completed and delivered in January 2012.

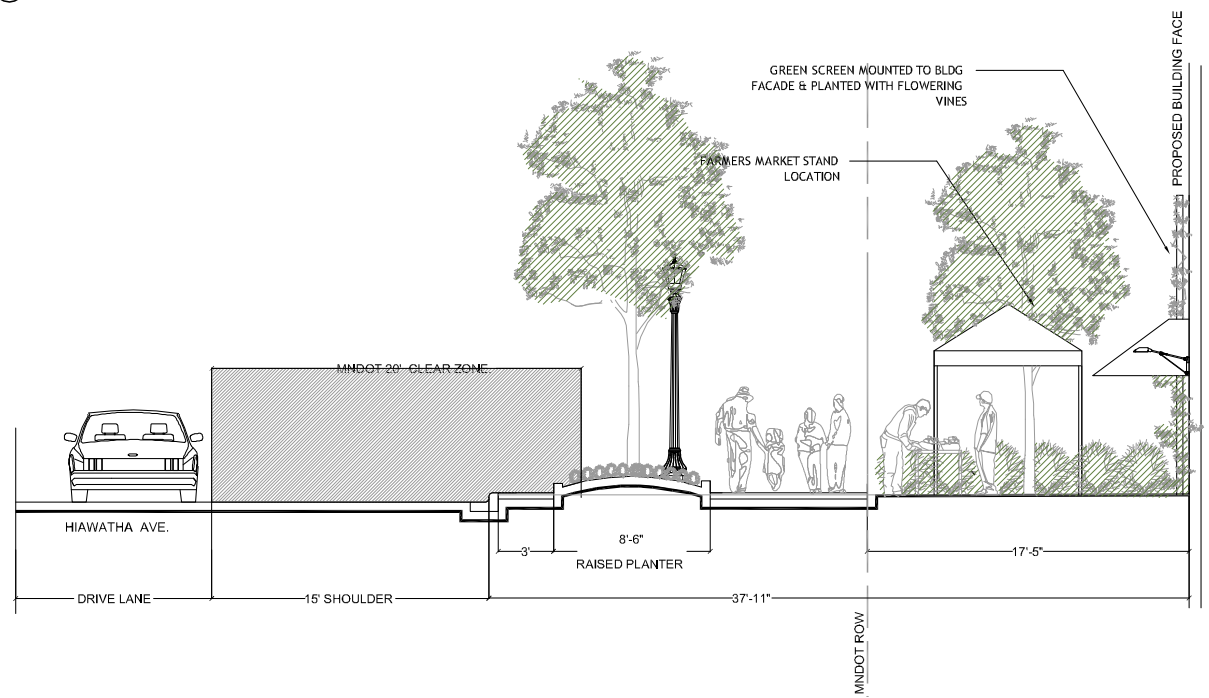
Around April 1, 2012 - and after over a year of review of the project - Sherman was notified that HUD decided it would not provide a commitment for mortgage insurance based on the environmental concerns described above. HUD had decided not to consider the sound study or independent engineer's opinion regarding the power poles.

Sherman immediately put requests out for permanent and construction financing and received interest from two parties. After negotiating with each, Sherman selected and signed terms sheets with a financing team consisting of US Bank as the construction lender and Cornerstone Real Estate Advisors, a subsidiary of Mass Mutual Life Insurance, as the permanent lender. It should be noted that both lenders were made aware of HUD's environmental concerns, reviewed Sherman's due diligence on the matters, and are completely satisfied with the site as suitable for housing.

CHICAGO, MILWAUKEE & ST. PAUL RAILROAD



1 OVERALL SITE PLAN
 1" = 30'-0"



2 WEST SIDE SECTION
 1" = 10'-0"



3 CONCEPT FOR PLANTERS ALONG HIAWATHA AVE.
 1/4" = 1'-0"



5 PLAYSENSE 403, PLAY STRUCTURE
 1/4" = 1'-0"



4 GREEN SCREEN MOUNTED TO BUILDING FACADE
 1/4" = 1'-0"



- 2) Footings along southern end of West face of building have been poured exposed rebar capped



ITEM OBSERVATIONS

- 4) Materials & equipment onsite for footing work.



- 5) Property line along MN Commercial Railroad tracks marked.



- 6) Contaminated soils discovered below center portion of building separated & isolated by poly sheeting.



ITEM TO VERIFY

n/a

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