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Title: Discussion of Strategic Plan (2018-2022): Affordable Housing: “Develop Southbridge Property”

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Attachments: 1. 1 - Spring Creek and Bluff View Development Map, 2. 2 - Preliminary Sources-Uses, 3. 3 - Preliminary Local Funding Points

Date	Ver.	Action By	Action	Result
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City Council Meeting Date: May 8, 2018

To: Mayor and City Council
City Administrator

From: Chris Heineman, Community Development Director
Janine Atchison, Housing Coordinator

Discussion of Strategic Plan (2018-2022): Affordable Housing: “Develop Southbridge Property”

Summary Report:

One of the six strategic priorities included in the 2017 Northfield Strategic Plan is Affordable Housing, which includes the desired outcome of growing and maintaining affordable housing. One of the strategic initiatives to accomplish this target is to develop the Southbridge Property. This target refers to the 11.18 acres of HRA owned land in the Southbridge Subdivision. The HRA has been evaluating options for development of this area for the past 18-months, and is recommending an expansion of the Spring Creek Townhome project.

The original Spring Creek Townhome project included 28 townhome units that were developed in 2013. The proposed expansion project (Spring Creek II) will add 32 affordable, workforce housing units adjacent to the existing townhomes. The project aligns perfectly with the City’s strategic initiatives to provide affordable workforce housing in Northfield and is a key outcome in the strategic plan.

Businesses have identified the lack of the affordable housing as a key factor in attracting new employees to the area. Including the 28-units in the original Spring Creek Townhome project, only 36 townhome units have been developed in Northfield since the recession in 2008. This compares to 516 townhome units that were constructed between the years of 2001 and 2007. The proposed 32-unit expansion of Spring Creek Townhomes is one strategic initiative to address the shortage of affordable housing in Northfield.

In March of 2017, non-profit developer Three Rivers Community Action Agency (TRCA) agreed to partner

with the Northfield Housing & Redevelopment Authority (HRA) on a new project to increase the number of affordable rental housing units at Spring Creek Townhomes. The proposed project will be located on a portion of the 11.18 acres, Rice County Parcel 22 owned by the HRA in the Southbridge area.

The HRA land is part of a larger development site initially platted by Arcon Development as the Southbridge Subdivision. A final plat for the Southbridge 1st Addition was approved in 2003, and development proceeded until the recession in 2008. At that time, the remaining land was split between the HRA and the neighboring property owners (Vern & Joan Koester).

In 2017, staff met with TRCA and the Koester's and considered numerous concept plans involving a potential land swap. In December of 2017 the Koester's were concerned that the HRA timelines would slow down their own project and decided to move ahead with their own development project without swapping land with the HRA. The Koester's preliminary plan is to build four 4-plex buildings, 10 twin-homes and 61 single-family homes for a total of 97 dwelling units. The Northfield Planning Commission reviewed the subdivision application at their April 19th meeting and has recommended approval of the preliminary plat.

The HRA continued to move forward with development concepts for the HRA owned 11.18 parcel only. The development of the concept most favored by the HRA will be done in two or three phases. The 1st phase of the project utilizes approximately 4.3 acres for 32 townhomes and supporting infrastructure. The HRA agreed to a donation of up to 4.5 acres of HRA owned land to TRCA for the creation of affordable workforce housing in the Southbridge area for Spring Creek II, a 32 unit townhome project.

TRCA will apply for Low Income Housing Tax Credits (LIHTC) in June 2018 as the primary source of financing for the project. LIHTC financing, administered by Minnesota Housing Finance Agency (MHFA), is very competitive. Most Minnesota Cities, outside the metropolitan area, must compete for this financing. Each application is scored based on several key factors, including local support for the project. Only a few of the highest scoring project applications are chosen for financing.

The MHFA will announce which projects will be funded later this year in October or November. Even if LIHTC financing is approved for the Spring Creek II project, however, there will be a gap in the funding needed to complete the project. Staff is projecting that this project will also need to utilize Tax Increment Financing (TIF) to assist with infrastructure costs to be viable.

The HRA also plans to donate the land required for this project with an approximate value of \$180,000. In addition, the HRA plans to provide \$20,000 from the HRA fund balance toward building permit or other fees. The HRA's donation will help to leverage the LIHTC application. The land donation and an additional \$20,000 in-kind contribution from the HRA will score an additional 2 points on the LIHTC application.

The HRA adopted a resolution on April 24, 2018, donating up to 4.5 acres of land to TRCA, contingent upon a successful Tax Credit application and other financing for the Spring Creek II project and supporting the use of pay-as-you-go Tax Increment Financing. The HRA resolution supporting the land donation will assist with strengthening the TRCA application for tax credits. The land donation will occur only if the tax credit application by TRCA is successful.

A letter of support for Tax Increment Financing from the Northfield City Council would also strengthen the LIHTC application. The application currently identifies a TIF contribution of \$375,000 which is the minimum TIF contribution needed to score enough points to compete for tax credits. A letter of support from the City Council supporting TIF financing adds 16 points to the LIHTC application score.

Together with the TIF, land and \$20,000 in-kind, along with services and rental assistance, brings the overall LIHTC application score from 85 points to a very strong 103 points.

Proposed Timeline:

A preliminary timeline for PHASE 1 (Spring Creek II) of the project is as follows:

- March to April 30th, 2018: Project design phase. Cost estimates, unit mix, concept layout, and request for site control from the HRA, Community Meeting to share ideas.
- May 2018: Concept finalized for the tax credit application. Information shared with the City Council (cost, unit mix, layout, proposed design options, projected funding gap).
 - Syndicator review of project = total tax credit projection developed
 - Market Study complete by May 11th
 - May 8th- TIF estimate needed prior to City Council meeting. Ehlers estimate on the TIF capacity of the project.
 - May 15th - Request City Council Letter of Support
- May 30th, 2018: Intent to Apply due to MHFA. Site Control and project concept needed
- June 14th, 2018: MHFA Low Income Housing Tax Credit (LIHTC) Application Deadline
- October/November, 2018: Funding award announcements
- December to June, 2019: Closing process with MHFA and investor/other funders
- August, 2019 - Construction begins

Requested Action:

The HRA and TRCA will be requesting a letter from the City Council supporting the minimum TIF financing (\$375,000) for the Spring Creek II project at the May 15 City Council meeting.

Alternative Options:

If additional time is needed, this action can be delayed until the June 5th City Council meeting.

Financial Impacts:

Total HRA funding for the Spring Creek II project is estimated at \$200,000. The City Council is being asked to support a TIF contribution of \$375,000 through a pay-as-you-go Housing Tax Increment Financing District. The total project cost is currently estimated at \$9,275,000.