



Legislation Text

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City Council Meeting Date: April 16, 2019

To: Mayor and City Council
City Administrator

From: Janine Atchison, Housing Coordinator

Consider Resolution and Letter of Support of Tax Increment Financing for Affordable Housing Spring Creek II Project in Southbridge Area.

Action Requested:

The Northfield City Council to consider adoption of the attached Resolution in support of Tax Increment Financing (TIF) for the Spring Creek II Affordable Housing project.

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 and is recommending an expansion of the Spring Creek Townhomes.

The original Spring Creek Townhome project included 28 townhome units developed in 2012-13. In March 2017, non-profit developer Three Rivers Community Action (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 22.07.3.03.003 owned by the HRA in the Southbridge area. The proposed expansion project, Spring Creek II, will add 32 affordable 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 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 Koesters and considered numerous concept plans involving a potential

land swap. In December of 2017, the Koesters were concerned that the HRA timelines would slow down their project and decided to move ahead with their development project without swapping land with the HRA. The Koesters 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 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, valued at approximately \$225,000-\$245,000, to TRCA for the creation of Spring Creek II, a 32-unit, affordable workforce housing plan in the Southbridge area.

TRCA will apply for Low Income Housing Tax Credits (LIHTC) by June 3, 2019, as the primary source of financing for the project. LIHTC financing, administered by Minnesota Housing Finance Agency (MHFA), is very competitive. Minnesota Cities, especially those outside the metropolitan area, must compete for a relatively small pool of funding. Each LIHTC 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. Although TRCA's 2018 application was unsuccessful in securing the needed LIHTC funding, they are prepared to submit a more substantial application by June 3, 2019.

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, 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 adopted a resolution on March 21, 2019, donating up to 4.5 acres of land to TRCA, contingent upon a successful LIHTC 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.

Ehlers has provided a tax increment financing preliminary project tax capacity estimate showing annual net increment of \$31,872 available for 26 years. Ehlers staff has provided a full pro-forma development cash flow review in order to determine whether the TIF and other incentives offered through the HRA are necessary and that "but for" the assistance the project would not be viable. Ehlers has concluded this is the case and justified for purposes of the LIHTC application at this time. A full future TIF approval process that includes a future public hearing, notices and Council approval will be necessary if the project is funded through MHFA and proceeds ahead as planned.

A resolution of support for Tax Increment Financing (TIF) from the Northfield City Council is also needed to complete the LIHTC application. The application currently identifies a total tax increment of \$828,672 over the term of the TIF district. Using MHFA's underwriting criteria, the applicant anticipates capitalizing this TIF cash flow to secure a \$383,000 loan to fund the project's gap. The City's proposed commitment is to provide the available TIF cash flow only up to the amount necessary to service the application's gap loan. The Ehlers TIF estimate anticipates there is adequate capacity to support the request. The present value of the cumulative net increment is estimated at \$403,874.

The City Council adopted Resolution 2018-061 and provided a Letter of Support on June 5, 2018 in support of tax increment financing for the 2018 LIHTC application.

The new property tax estimate received from Ehler's, via the assessor's office, is \$53,199 annually. Ehler's has provided a full pro-forma development cash flow review in order to determine whether the TIF and other incentives offered through the HRA are necessary and that "but for" the assistance the project would not be viable. Ehler's has concluded this is the case and justified for purposes of the grant application at this time. A full future TIF approval process that includes a future public hearing, notices and Council approval will be necessary if the project is funded through MHFA and proceeds ahead as planned.

A resolution from the City Council supporting TIF financing, along with a Letter of Support must be included with the LIHTC application in order to garner the additional points needed to secure LIHTC funding. Staff recommends approval of the Resolution.

Alternative Options:

The City Council could choose not to adopt a resolution of support for TIF Financing. The LIHTC application would score significantly fewer points and would likely not receive tax credits. Without this source of funding, the Spring Creek II project would not be viable.

Financial Impacts:

Total HRA funding for the Spring Creek II project is estimated at \$245,000, including the value of the land.

The City Council is being asked to support an annual TIF contribution of \$31,872 up to 26 years in order to support \$383,000 TIF supported mortgage amount through a pay-as-you-go Housing Tax Increment Financing District.

Tentative Timelines:

A preliminary timeline for the Spring Creek II project is as follows:

March 2019: Project design phase. Cost estimates, unit mix, concept layout, and request for site control from the HRA, Community Meeting to share concept plan.

April 16, 2019: Request City Council Resolution and Letter of Support for TI Financing

May 2019: Concept finalized for the tax credit application. Information shared with the City Council (cost, unit mix, layout, proposed design options, projected funding gap).

- 1) Syndicator review of project
- 2) Market Study completed
- 3) Ehlers estimate on the TIF capacity of the project completed
- 4) Letter of Intent to MHFA due on May 30

June 14, 2019: MHFA Low Income Housing Tax Credit (LIHTC) Application Deadline

October/November, 2019: Funding award announcements

December, 2019 - June, 2020: Closing process with MHFA and investor/other funders including HRA contributions to project and TIF related analysis, hearings, and Council approvals.

August, 2020 - Anticipated construction start