

AGENDA

MINNETONKA ECONOMIC DEVELOPMENT AUTHORITY

MONDAY, AUGUST 22, 2011

6:20 P.M.

COUNCIL CHAMBERS

1. CALL TO ORDER
2. ROLL CALL: Ellingson-Allendorf-Greves-Wiersum-Hiller-Wagner-Schneider
3. APPROVAL OF AGENDA
4. APPROVAL OF MINUTES: May 2, 2011
5. BUSINESS ITEMS
 - A. Resolution approving a master amendment agreement between the city of Minnetonka, the Minnetonka Economic Development Authority and Crown Ridge Apartments Limited Partnership

RECOMMENDATION: Adopt the resolution (4 VOTES)
6. ADJOURN

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**MINUTES
MINNETONKA ECONOMIC DEVELOPMENT AUTHORITY
MONDAY, MAY 2, 2011**

1. CALL TO ORDER.

President Schneider called the meeting to order at 11:27 p.m.

2. ROLL CALL

EDA Commissioners Bob Ellingson, Dick Allendorf, Amber Greves, Brad Wiersum, James Hiller, Tony Wagner, and Terry Schneider were present.

3. APPROVAL OF AGENDA

Wagner moved, Wiersum seconded a motion to accept the agenda, as presented. All voted "yes." Motion carried.

4. APPROVAL OF MINUTES: Dec 20, 2010 minutes

Allendorf moved, Wagner seconded a motion to approve the December 20, 2010 minutes. All voted "yes." Motion carried.

5. BUSINESS ITEMS

A. Resolution approving a contract for private development between the EDA and Community Housing Coalition (Sunset Hill Apartments-Duffy Development)

Wagner moved, Wiersum seconded a motion to adopt Resolution No. 2011-01 All voted "yes." Motion carried.

6. ADJOURNMENT

Wiersum moved, Allendorf seconded a motion to adjourn the meeting at 11:29 p.m. All voted "yes." Motion carried.

Respectfully submitted,

David E. Maeda
City Clerk

EDA Agenda Item #5A
Meeting of August 22, 2011

Brief Description: Resolution approving a master amendment agreement between the City of Minnetonka, the Minnetonka Economic Development Authority and Crown Ridge Apartments Limited Partnership

Recommended Action: Adopt the resolution

Background

Crown Ridge Apartments is a 64-unit mixed income apartment building developed in 1997 as part of the West Ridge Market redevelopment, and is now under ownership by CommonBond Communities. In 1996, as Crown Ridge was under construction, the city received a \$100,000 Local Housing Incentive Account (LHIA) funds from the Metropolitan Council. These funds were loaned to Crown Ridge Apartments Limited Partnership where they were used to finance a portion of the acquisition and construction costs to provide affordable units. The loan term is for 30 years at a 1% interest rate, maturing on February 4, 2027.

Due to a number of factors, including unit mix and debt service, CommonBond has never been able to achieve positive cash flow on the Crown Ridge property. In an effort to cover expenses, CommonBond has worked with the U.S. Department of Housing and Urban Development (HUD) to refinance the first mortgage. In order to do so, HUD is requiring that all other subordinate debt be extended beyond the new loan term; therefore, CommonBond Communities is requesting the city and EDA extend the loan term 25 years until December 31, 2052 (pages A1-A2). The 1% interest rate will remain the same. The loan is not required to be repaid until the end of the loan term, at the time of sale of the property, or if there is a default. Once repaid, the loan funds and any interest must be used for other affordable housing activities. If the loan term is extended, this will amount to approximately \$172,850.

Today, when the city receives a grant from the Metropolitan Council for purposes of affordable housing, the city typically acts as a pass-through because the grant funds are awarded only to municipalities. However, in the late 1990's, there were three affordable housing grant awards from the Metropolitan Council which were then loaned to developers—these projects were Crown Ridge, Minnetonka Mills, and Minnetonka Heights. They were structured as a loan to ensure that the work was completed, and additionally, it allowed for these funds to be returned to the city for other affordable housing projects—this was done at a time prior to the establishment of the Livable Communities and Development accounts. It is anticipated that between these three projects, the city may receive up to \$442,000 from the loan repayments and interest to be used for other affordable housing activities.

Recommendation

Staff recommends the EDA adopt a resolution (pages A3-A5) approving a master amendment agreement between the City of Minnetonka, the Minnetonka Economic Development Authority and Crown Ridge Apartments Limited Partnership (pages A6-A12).

Because the city was a part of the original agreement, the city council will also be asked to adopt a resolution for this same project.

Submitted through:

John Gunyou, City Manager
Julie Wischnack, AICP, Community Development Director

Originated by:

Elise Durbin, AICP, Community Development Supervisor



June 22, 2011

Julie Wischnack
Community Development Director
City of Minnetonka
14600 Minnetonka Boulevard
Minnetonka, MN 55345

RE: Crown Ridge Apartments, Minnetonka, MN
Re-Subordination and Extension of deferred note (\$100,000)

Dear Julie,

As background, Crown Ridge Apartments in Minnetonka provides sixty-four units of affordable housing to families. The apartments are owned by Crown Ridge Apartments Limited Partnership and were originally developed by CSM Investors, Inc. ("CSM") in 1997. Eloigne Company is the limited partner. After CSM struggled to operate the development, CommonBond Communities agreed to assume ownership and management of the development, starting in 2001.

The property has never achieved positive cash flow. CommonBond has worked for the past 10 years to stabilize operations at the development and has accomplished a great deal in terms of improved maintenance and the provision of Advantage Services to residents. However, stabilization efforts are hampered by a number of outstanding conditions at the development that increase operating expenses:

- Unit Mix – The property has a mix of Holman (see below), tax credit and market rate units that are all identical, making marketing and potential rent achievable a challenge for property management .
- Holman units – The Project includes 6 units that are leased to public housing tenants in accordance with a Regulatory and Operating Agreement with the Minnesota Economic Development Authority and the Minneapolis Public Housing Authority. These place additional challenges on maintaining a mixed-income project.
- Debt Service – the debt assumptions of this development at original development were simply too aggressive. The first mortgage in the amount of \$2,134,500 with interest at 8.125% requires annual debt service of \$190,000 representing close to 40% of gross potential rents in 2010.

As a result of the remaining issues, the property's income is not sufficient to cover expenses. Projections show that even if the property were to be fully leased at maximum rental rates, the income still would not cover expenses at the property.

For the past ten (10) years, CommonBond Communities has subsidized the operations of this development in amounts of up to \$120,000 per year with outstanding payables to CommonBond, including unpaid management fees, standing at \$608,956.

Under the new HUD refinance program known as 223(a)(7), CommonBond has the opportunity to refinance the HUD first mortgage with highly favorable terms. The annual debt service will be \$120,000 following refinance, which will bring the operations and expenses into closer alignment. The refinanced loan will have a new 40 year term, a principal balance of \$2,052,800, and an interest rate of approximately 4.8%. This refinance will allow the project to achieve a positive debt coverage ratio and end the General Partner's need to fund operating deficits of this project with scarce resources that could be better serve the residents of Crown Ridge through the provision of Advantage Services.

The refinance is being processed by Northmarq and Amerisphere as underwriters. Along with CommonBond, the financial team has been in close contact with HUD regarding the re-finance and re-amortization of the mortgage loan. HUD is highly favorable towards refinancing this development.

However, in order to process the refinance, HUD requires that the existing subordinate debt be extended beyond the new loan term. The City of Minnetonka provided a note to the original development in the amount of \$100,000. The note bears 1% interest and is due April 1, 2038. We are hereby requesting that the City extend the term of the note (following the exit of the limited partner) to December 31, 2052 in order to facilitate the refinance.

Because the loan is below market and the extension is more than five years, this will result in income to the Partnership. To avoid any adverse tax consequences to Eloigne as a result of the debt restructuring, CommonBond is working with Eloigne to facilitate their exit from the Partnership. The ten year tax credit period has run and CommonBond will continue to operate the project in accordance with Section 42 of the Internal Revenue Code for the balance of the tax credit period.

This development also has subordinate loans in place from Minnesota Housing, Hennepin County, and the Family Housing Fund. Minnesota Housing has agreed to extend and subordinate their ARIF note.

Please contact Rachel Robinson at 651-288-8696 or rachel.robinson@commonbond.org with any questions. We look forward to hearing from you.

Sincerely,



Kevin Myren
Chief Financial Officer

CC: Tonja West-Hafner, Hennepin County

EDA RESOLUTION NO. 2011-02

RESOLUTION APPROVING MASTER AMENDMENT AGREEMENT BETWEEN THE CITY OF MINNETONKA, THE ECONOMIC DEVELOPMENT AUTHORITY IN AND FOR THE CITY OF MINNETONKA, AND CROWN RIDGE APARTMENTS LIMITED PARTNERSHIP

BE IT RESOLVED by the Economic Development Authority of the City of Minnetonka, Minnesota as follows:

Section 1. Background.

- 1.01 The Economic Development Authority in and for the City of Minnetonka, Minnesota (the "Authority") is administering Development District No. 1 (the "District") pursuant to Minnesota Statutes, Sections 469.124 to 469.134, in an effort to encourage the development of certain designated areas within the City.
- 1.02. In connection with the District, the Authority and the City of Minnetonka, Minnesota (the "City"), entered into a Contract for Private Redevelopment with CSM Investors, Inc. (the "Redeveloper") dated December 11, 1995 (the "Contract") regarding redevelopment of certain property in the District (the "Property").
- 1.03. In accordance with the Contract, the Redeveloper conveyed a portion of the Property to Crown Ridge Apartments Limited Partnership, a Minnesota limited partnership (the "Borrower"), which entity constructed a 64-unit residential rental housing facility subject to certain affordability restrictions (the "Rental Residential Component").
- 1.04. Pursuant to a grant agreement between the Metropolitan Council and the City (the "Grant Agreement"), the City received from the Metropolitan Council certain grant funds intended, in part, to facilitate development of the Rental Residential Component, the administration and control of such funds the City subsequently transferred to the Authority.
- 1.05. From the grant funds, the Lender provided a loan of \$100,000 (the "Loan") to the Borrower pursuant to a Loan Agreement, dated November 25, 1996 (the "Loan Agreement"), between the City, the Authority, and the Borrower, in order to finance a portion of the cost of the acquisition and construction of the Rental Residential Component.
- 1.06. To evidence the Loan, the Borrower issued its promissory note (the "Note") to the Authority, dated November 25, 1996, which was secured by a mortgage of even date therewith (the "Mortgage"), from the Borrower to the Authority.
- 1.07. The principal of and interest on the Loan is due in full on February 4, 2027, which is thirty years after the closing of the Loan.

- 1.08. The Borrower has requested that the term of the Loan be extended to December 31, 2052.
- 1.09. There has been presented before the Authority a form of Master Amendment Agreement between the City, the Authority, and the Borrower (the "Master Amendment Agreement"), which amends the terms of the Loan Agreement and the Note to extend the term of the Loan to December 31, 2052.
- 1.10. The Authority has reviewed the Master Amendment Agreement and finds that the execution of the same and the Authority's performance of its obligations thereunder are in the best interest of the Authority and of the residents of the City.

Section 2. Economic Development Authority Action.

- 2.01. The Master Amendment Agreement, as presented to the Authority, is hereby in all respects approved, subject to modifications that do not alter the substance of the transaction and that are approved by the President and Executive Director, provided that execution of such documents by such officials shall be conclusive evidence of their approval.
- 2.02. The President and Executive Director are hereby authorized to execute the Master Amendment Agreement on behalf of the Authority and to carry out, on behalf of the Authority, the Authority's obligations thereunder.
- 2.03. The President and Executive Director are also authorized and directed to execute an agreement providing for the subordination of the interests of the City and EDA in the Loan Agreement and Note to HUD's interests with respect to the refinancing debt.

Adopted by the Economic Development Authority of the City of Minnetonka, Minnesota, on August 22, 2011.

Terry Schneider, President

ATTEST:

Secretary

ACTION ON THIS RESOLUTION:

Motion for adoption:

Seconded by:

Voted in favor of:

Voted against:

Abstained:

Absent:

Resolution adopted.

I hereby certify that the foregoing is a true and correct copy of a resolution adopted by the Economic Development Authority of the City of Minnetonka, Minnesota, at a duly authorized meeting held on August 22, 2011.

Secretary

MASTER AMENDMENT AGREEMENT

between

**CITY OF MINNETONKA, MINNESOTA
as City**

**ECONOMIC DEVELOPMENT AUTHORITY
IN AND FOR THE CITY OF MINNETONKA, MINNESOTA
as Lender**

and

**CROWN RIDGE APARTMENTS LIMITED PARTNERSHIP
as Borrower**

Dated _____, 2011

This document was drafted by:

Kennedy & Graven, Chartered (JAE)
470 U.S. Bank Plaza
200 South Sixth Street
Minneapolis, Minnesota 55402-1458
(612) 337-9300

MASTER AMENDMENT AGREEMENT

THIS MASTER AMENDMENT AGREEMENT, dated _____, 2011 (the “Master Amendment Agreement”), is made and entered into between the CITY OF MINNETONKA, MINNESOTA, a home rule city and political subdivision of the State of Minnesota (the “City”), the ECONOMIC DEVELOPMENT AUTHORITY IN AND FOR THE CITY OF MINNETONKA, MINNESOTA, a public body corporate and politic under the laws of the State of Minnesota (the “Lender”), and CROWN RIDGE APARTMENTS LIMITED PARTNERSHIP, a Minnesota limited partnership (the “Borrower”).

RECITALS

WHEREAS, the City, the Lender, and CSM Investors, Inc. (the “Redeveloper”), have entered into that certain Contract for Private Redevelopment dated December 11, 1995 (the “Development Agreement”), which required the Redeveloper to cause to be constructed a 64-unit rental residential facility (the “Rental Residential Component”) on certain property in the City (the “Property”) attached as Exhibit A to the Loan Agreement (as hereinafter defined); and

WHEREAS, the Redeveloper transferred the Property to the Borrower, subject to the Borrower’s compliance with certain terms and conditions of the Development Agreement (without relieving the Redeveloper’s obligations thereunder), including without limitation the affordability covenants set forth in Section 4.5(d) of the Development Agreement; and

WHEREAS, the City received grant funds in the amount of \$100,000 from the Local Housing Incentives Account of the Metropolitan Livable Communities Fund, the uses of which grant are subject to and restricted by the Grant Agreement entered into between the Metropolitan Council and the City, Grant No. SG-96-74 (the “Grant Agreement”); and

WHEREAS, the City transferred the administration and control of such funds to the Lender in order to make the loan described in the Loan Agreement, subject to all the terms and restrictions of the Grant Agreement; and

WHEREAS, pursuant to the terms of a Loan Agreement, dated November 25, 1996 (the “Loan Agreement”), between the City, the Lender, and the Borrower, the Lender loaned to the Borrower the sum of \$100,000 (the “Loan”), from the grant funds received under the Grant Agreement, in order to finance a portion of the cost of the acquisition and construction of the Rental Residential Component, all in order to make possible the development of such affordable housing in the City; and

WHEREAS, to evidence the Loan, the Borrower issued its promissory note (the “Note”) to the Lender, dated November 25, 1996, which was secured by a mortgage of even date therewith (the “Mortgage”), from the Borrower to the Lender; and

WHEREAS, the principal of and interest on the Loan is due in full on February 4, 2027, which is thirty years after the closing date of the Loan; and

WHEREAS, the Borrower has requested that the term of the Loan be extended to December 31, 2052; and

WHEREAS, the City, the Lender, and the Borrower now wish to enter into this Master Amendment Agreement in order to amend the Loan Agreement and the Note.

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto covenant and agree as follows:

Section 1. Amendment to Loan Agreement. Section 2 of the Loan Agreement is hereby deleted in its entirety and shall be replaced with the following:

2. Repayment of Loan. The Loan shall be repaid with interest as follows:

(a) Interest at the simple rate of one percent (1.00%) per annum shall accrue from the Loan Closing Date (as hereinafter defined) until the Loan is repaid in full.

(b) The entire unpaid balance of principal and interest shall be due and payable in full on the earlier of the following: (i) ten days after written notification by Lender to Borrower of the occurrence of an Event of Default as defined in Section 5 hereof and demand of payment according to this Section 2(b)(i); or (ii) ten days after the Borrower makes or allows to be made any total or partial transfer, sale, assignment, conveyance, lease (except a lease to a residential tenant of a unit within the Rental Residential Component), or transfer in any other mode, of the Property or Rental Residential Component constructed thereon; or (iii) December 31, 2052.

Section 2. Amendment to Note. Paragraph 2 of the Note is hereby deleted in its entirety and shall be replaced with the following:

2. The entire unpaid balance of principal and interest shall be due and payable in full on the earlier of the following: (i) ten days after written notification by Lender to Maker of the occurrence of an Event of Default as defined in the Loan Agreement and demand of payment according to Section 2(b)(i) of the Loan Agreement; or (ii) ten days after Maker makes or allows to be made any total or partial transfer, sale, assignment, conveyance, lease (except a lease to a residential tenant of a unit within the Rental Residential Component), or transfer in any other mode, of the Property or Rental Residential Component constructed thereon, all as such terms are defined in the Loan Agreement; or (iii) December 31, 2052.

Section 3. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when mailed by certified or first class mail, return receipt requested, postage prepaid, with proper address as indicated below. The City, the Lender, and the Borrower may, by written notice given by each to the others, designate any address or addresses to which notices, certificates or other communications to them shall be sent when required as contemplated by this Master Amendment Agreement. Until otherwise provided by the respective parties, all notices, certificates and communications to each of them shall be addressed as follows:

To the City: City of Minnetonka
14600 Minnetonka Boulevard
Minnetonka, MN 55345
Attention: Community Development Director

To the Lender: Economic Development Authority in and for the City of
Minnetonka, Minnesota
14600 Minnetonka Boulevard
Minnetonka, MN 55345
Attention: Executive Director

To the Borrower: Crown Ridge Apartments Limited Partnership
c/o CommonBond Communities
328 Kellogg Blvd West
St. Paul, MN 55102
Attention: Chief Financial Officer

A duplicate copy of each notice, certificate, request, or other communication given hereunder to the City, the Lender, or the Borrower shall also be given to the others. The Borrower may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates, requests or other communications shall be sent.

Section 4. Binding Effect. This Master Amendment Agreement shall inure to the benefit of and shall be binding upon the City, the Lender, and the Borrower and their respective successors and permitted assigns. Nothing in this Master Amendment Agreement, express or implied, shall give to any Person, other than the parties hereto, and their respective successors and permitted assigns hereunder, any benefit or other legal or equitable right, remedy, or claim under this Master Amendment Agreement.

Section 5. Severability. If any provision of this Master Amendment Agreement shall be held invalid, illegal, or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof, and the remaining provisions shall not in any way be affected or impaired thereby.

Section 6. Execution Counterparts. This Master Amendment Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 7. Construction. This Master Amendment Agreement shall be construed in accordance with the laws of the State of Minnesota without giving effect to the conflicts-of-laws principles thereof.

Section 8. City's Costs. The Borrower shall reimburse the City for any costs it incurs, including administrative expenses and legal fees, with respect to the extension of the maturity of the Note described herein and the execution of this Master Amendment Agreement.

Section 9. Conflict among Documents. If a conflict arises between the provisions of this Master Amendment Agreement and the Loan Agreement or the Note, the provisions of this Master Amendment Agreement shall control.

Section 10. Effective Date. This Master Amendment Agreement shall be effective as of _____, 2011.

IN WITNESS WHEREOF, the City, the Lender, and the Borrower have caused this Master Amendment Agreement to be executed in their respective corporate names by their duly authorized officers, all as of the day and year first written above.

**CITY OF MINNETONKA, MINNESOTA,
as City**

By: _____
Mayor

By: _____
City Manager

Signature page of the Lender to the Master Amendment Agreement, dated as of the date and year first written above.

**ECONOMIC DEVELOPMENT AUTHORITY IN
AND FOR THE CITY OF MINNETONKA,
MINNESOTA
as Lender**

By: _____
President

By: _____
Executive Director

Signature page of the Borrower to the Master Amendment Agreement, dated as of the date and year first written above.

**CROWN RIDGE APARTMENTS LIMITED
PARTNERSHIP,
as Borrower**

By: CSM Investors, Inc.,
a Minnesota corporation
Its General Partner

By: _____
Chief Financial Officer

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