



February 27, 2019

Agenda Item 4

REPORT TO THE COMMISSIONERS

FROM: Gregory P. Russ, Executive Director / CEO

SUBJECT: Transfer of POTH unit at 3111 1st Avenue South to Harriet Tubman Women's Center

Previous Directives: The Board of Commissioners authorized MPHA to submit an application to the Minnesota Housing Finance Agency on June 24, 1992; to enter into a Development Agreement on May 2, 1995; and to execute a deferred loan repayment agreement and mortgage on September 27, 1995.

Resident Council Review/Recommendation: This matter will be discussed with the Resident Advisory Board (RAB) immediately prior to the Board's February 27, 2019 meeting.

Budget Impact: This action does not have an impact on the MPHA budget.

Affirmative Action Compliance: Not Applicable.

RECOMMENDATION: It is recommended that the Board of Commissioners approve a resolution for the transfer of MPHA's condominium unit at 3111 1st Avenue South to Harriet Tubman Women's Center by declaring the property is no longer usable to carry out the governmental purpose for which it was acquired.

In 1989, Minnesota statutes permitted Minnesota Housing Finance Agency (MHFA) to make loans to local government units to finance the acquisition, improvement, and rehabilitation of housing properties for the purpose of providing transitional housing. The 1990 legislature appropriated \$1.5 million to fund the transitional housing program under this law. These loans were known as Publicly Owned Transitional Housing (POTH) loans.

As a public agency, MPHA acquired four properties on behalf of local non-profits under the POTH program. One such property is a condominium unit at 3111 1st Avenue South, Unit 1, in Minneapolis. This condominium is one unit in a larger building owned and managed by Harriet Tubman Women's Center (Tubman). MPHA obtained a \$400,000, zero-interest forgivable loan to purchase the condominium, with the intent to transfer ownership to Tubman after the 20-year period lapsed.

The MPHA Board of Commissioners' previous directives regarding the Tubman property are as follows:

On June 24, 1992, the MPHA Board of Commissioners authorized MPHA to submit an application to the Minnesota Housing Finance Agency (MHFA) for a \$400,000, zero-interest forgivable loan under MHFA's POTH program, for the purpose of purchasing the condominium in the Tubman facility. MPHA would lease the condominium back to Tubman for use as 10 units of transitional housing.

On November 25, 1992, the MPHA Board of Commissioners authorized MPHA to enter into a Development Agreement with Tubman which would allow MPHA to own the condominium unit in the building developed and funded by Tubman, and to assure that the facility would be used for purposes of transitional housing for MHFA's requisite 20-year period. The Development Agreement was negotiated in the form of a Purchase Agreement, executed on May 2, 1995.

On September 27, 1995, the MPHA Board of Commissioners authorized MPHA to execute the MHFA deferred loan repayment agreement and mortgage, securing a zero-interest, forgivable POTH loan in an amount not to exceed \$400,000. On September 28, 1995 MPHA entered into the Deferred Loan Repayment Agreement and Mortgage and executed a lease with Tubman.

According to the terms of the Deferred Loan Repayment Agreement and Mortgage, MPHA's forgivable POTH loan was deemed to have been paid in full as of September 28, 2015. MHFA has more recently taken the position that although the loan has matured, the property must remain publicly owned and MHFA must continue monitoring the property for compliance with various program requirements for 35 years, or until September 2030. During this extended compliance period, MPHA must continue to incur administrative costs associated with MHFA reporting requirements.

Tubman, however, is unable to continue operations at the building for much longer due to substantial, necessary maintenance and repairs amounting to over \$4 million, and plans to move all housing services to its Maplewood campus. MPHA wishes to transfer its interest in the property to Tubman, so that Tubman may sell the entire parcel.

MHFA has a Request for Action (RFA) process whereby borrowers may request MHFA make an exception to the 35-year compliance period under certain circumstances. On February 6, 2019, MPHA submitted an RFA, requesting that MHFA allow MPHA to transfer its condominium unit to Tubman so that Tubman may dispose of the entire parcel, as the building will not be suited long-term for housing due to substantial unmet capital needs. As part of the RFA review process, MHFA requires MPHA's Board of Commissioners to declare by official action that the condominium unit is no longer usable.

Tubman states that the building has experienced significant structural issues since the time of construction and the issues have worsened over time with consistent use of the building. Tubman maintains that use of the building for housing or even office space is no longer feasible without substantial investment, and the cost to repair the structural issues is prohibitive. In coming to this conclusion, Tubman assembled a facilities task force which included architectural, construction, engineering, development, legal and governmental professionals who evaluated the condition of the building, its current use, and what would be needed to update and bring the building to the level necessary for Tubman to continue operations out of the building. The estimate to make the most basic

repairs was in excess of \$1 million and the cost to repair and improve the building for long-term future services exceeded \$4 million. Tubman concluded it should discontinue operations out of the building by the end of this year and intends to move its transitional housing to the Maplewood campus.

Tubman's board has authorized the sale of the building and a focus on providing services at Tubman's other locations. Tubman would like MPHA to transfer ownership in the condominium to Tubman so that it may sell the parcel as a whole. In order for MPHA to do that, it must obtain permission, including a Satisfaction of Mortgage, from MHFA. As a part of that process, MHFA requires MPHA Board action declaring the condominium is no longer usable to carry out the governmental purpose for which it was originally acquired.

This Report was prepared by Betsy Grossman, MPHA's Assistant General Counsel. For additional information, please contact Ms. Grossman at 612-342-1489 or egrossman@mplspha.org.