

B.

DESTINATION MEDICAL CENTER CORPORATION

EXECUTIVE COMMITTEE

RESOLUTION NO. EC-__-2023

Approving Revisions to the Bryk on Broadway Apartments Project

BACKGROUND RECITALS

A. In Resolution 113-2021, the Destination Medical Center Corporation (“DMCC”) approved the Bryk on Broadway Apartments Project as presented therein (the “Project”) as a public infrastructure project within the meaning of Minnesota Statutes, Section 469.40, subdivision 11 and as consistent with the Development Plan adopted by the DMCC on April 23, 2015, as amended (the “Development Plan”). The Project included a range of housing choices affordable to persons and families who comprise the Development District’s workforce, with 30% of units at 50% of Adjusted Median Income (AMI), 10% of the units at 60% AMI, and 60% of the units at 80% AMI.

B. The DMCC further approved the Project for the purposes of Minnesota Statutes, Section 469.47, subdivision 3, of up to \$2,200,000 in funding through general state infrastructure aid, and for purposes of Minnesota Statutes, Section 469.47, subdivision 4, and supported the City of Rochester’s (the “City’s”) expenditures of up to \$2,237,354 in tax increment financing.

C. The DMCC approvals in Resolution 113-2021 were expressly contingent upon an agreement by the parties to a development assistance agreement as to both tax increment funding and general state infrastructure aid that secured public funds and enforced the income-affordability criteria for a period of at least thirty years, requiring repayment for breach or default.

D. The Project has experienced difficulty in renting units at the 80% AMI level and has requested a temporary revision in income eligibility for certain of these 80% AMI units.

E. DMCC Resolution 51-2017 provides that the DMCC Board of Directors or the DMCC Executive Committee will reconsider a prior approval of a project upon a finding presented to the DMCC from either the City or the Destination Medical Center Economic Development Agency Board of Directors (“EDA”) of a significant change in the essence or character of the project as approved.

F. By correspondence dated March 17, 2023 and attached hereto as Exhibit A, the City and the EDA have considered the Project and the income eligibility requirements in light of current market conditions. As set forth in Exhibit A, staff have found a significant change and recommend amending the development assistance agreement and related documents by a temporary revision in the income eligibility requirements, as follows:

- One-half of the Project’s 80% AMI units (54 units) would be available to prospective tenants with income up to 110% or less of current AMI until October 1, 2023. Starting October 1, 2023, absent further approvals, any of these units that are or become vacant shall automatically convert to income eligibility of 80% AMI.
- The remaining 80% AMI units (54 units) would remain limited to income of 80% AMI or less.
- Any unit that has two or more unrelated adult occupants and at least as many bedrooms as occupants will be deemed eligible for 80% AMI if either (A) each unrelated adult occupant’s income does not exceed 80% AMI or (B) the combined income of the unrelated adult occupants does not exceed 80% of AMI multiplied by the number of adult unrelated occupants.
- Rent for all of the Project’s initially designated 80% AMI units shall remain equal to or less than 30% of 80% of AMI at the 80% level.

RESOLUTION

NOW, THEREFORE, BE IT RESOLVED, by the Executive Committee of the Destination Medical Center Corporation, that it approves, contingent upon approval by the City, the request of the City and the EDA as set forth in Exhibit A to modify the development assistance agreement and related documents:

(1) to permit up to one-half of the Project’s 80% AMI units to be available to tenants with income up to 110% or less of current AMI until October 1, 2023. Starting October 1, 2023, absent further approvals, any of these units that are or become vacant shall automatically convert to income eligibility of 80% AMI; and

(2) to deem unrelated adult occupants eligible for 80% AMI if either (A) each unrelated adult occupant’s income does not exceed 80% AMI or (B) the combined income of the unrelated adult occupants does not exceed 80% of AMI multiplied by the number of adult unrelated occupants.

The Executive Committee finds that these revisions are consistent with the Development Plan.

BE IT FURTHER RESOLVED, that these approvals are expressly contingent upon (1) the Project’s remaining 80% AMI units (54 units) continuing to be limited to income of 80% AMI or less; and (2) rent for all of the Project’s initially designated 80% AMI units shall remain equal to or less than 30% of 80% of AMI at the 80% level.

BE IT FURTHER RESOLVED, that DMCC Resolution No. 51-2017 is incorporated fully herein by reference.

BE IT FURTHER RESOLVED, that City and EDA staff are requested to provide updates with respect the Project.

BE IT FURTHER RESOLVED, that the Chair or the Treasurer of the DMCC is authorized to take such actions as are necessary and appropriate to effectuate the findings and approvals of this Resolution.

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Bryk on Broadway Apartments Project
DMC Economic Development Agency and
City of Rochester Administration
March 17, 2023

STATEMENT OF RECOMMENDATION:

Adopt a resolution authorizing the City to amend the Developer Assistance Agreement (DAA) with Bryk Apartments Rochester, LLC that would adjust the income eligibility requirements for a portion of the units within the building.

Based on our discussions with the developer, we support amending the Development Agreement to include the following:

1. Allow half of the units (54 units) restricted to 80% AMI to be rented by persons or families whose income is 110% or less of the area median income until October 1, 2023. The rents for these units will remain at 80% AMI levels. Starting October 1, 2023, these units would convert to 80% Units for the remainder of the Qualified Project Period (30 years). Part of the timeline will be to meet with the developer leading into October 2023 to understand how this change has impacted leasing opportunities in the building. Any future change past October 1st, would be brought back to the decision-making bodies for consideration.
2. In situations where two or more unrelated adult occupants and at least as many bedrooms as occupants are living together, allow for each occupant's income will be looked at separately in determining if they meet the 80% area median income restriction.

PROJECT SUMMARY:

On March 23, 2021, the DMCC Board approved a Resolution (Resolution 113-2021) between the DMCC Board and the Bryk Apartments Rochester, LLC to provide up to \$2.2M of public infrastructure funding to support the project. The project consists of a 6-story, 180-unit workforce residential apartment building with approximately 7,260 square feet of commercial/retail space, underground and surface parking, and indoor and outdoor community spaces. The project is located along North Broadway Avenue between Civic Center Drive NW and 5th Street NW.

The project provides the following mix of units:

- 30% of the units (54 units) are affordable at 50% area median income and rents. Current income limits put the income limits at \$39,050 for a 1-person family (max rent \$976), and \$55,750 for a 4-person family (max rent \$1,394).
- 10% of the units (18 units) are affordable at 60% area median income and rents. Current income limits put the income limits at \$46,850 for a 1-person family (max rent \$1,171), and \$66,990 for a 4-person family (max rent \$1,673).
- 60% of the units (108 units) are affordable at 80% area median income and rents. Current income limits put the income limits at \$62,450 for a 1-person family (max rent \$1,561), and \$89,200 for a 4-person family (max rent \$2,230).

When the project was shared with the DMCC Board in 2021, the Bryk project was presented to the DMCC Board along with its community benefits which still remain in place. These community benefits are included below.

- Mixed Income Workforce Housing: There remain different income levels within the building, allowing for people to remain in the building if they make more money each year and providing a diversity of units at different income levels that more closely match the income makeup of Rochester.
- Neighborhood Stabilization and Revitalization: Investment in a proximate downtown area and prominent intersection with housing at various affordability levels
- Designed to meet Sustainability Performance Goals: The project is tracking to receive Green Communities Certification
- Transit Corridor Density: The Bryk project is located along a primary transit corridor as identified in the City's comprehensive plan and provides 180 housing units along this corridor
- Walkability to downtown and employment: The project is located along the transit corridor, proximate to the bike trail, and 6 blocks away from downtown, a major employment center

As outlined above, there are many community benefits to the project that remain for the occupants and City of Rochester. It is a great multifamily housing project and with this change, we anticipate the project's leasing success.

The project is nearing completion and the developer has started the lease-up phase. According to the developer, they have had initial success filling the units restricted to the 50% and 60% Area Median Income (AMI) levels. However, they have needed to turn ~40

individuals away from the units restricted to the 80% AMI level since their incomes are slightly above the 80% AMI level. Income limits are established by the Department of Housing and Urban Development (HUD) on an annual basis. The updated 2023 Income Limits report has been delayed, causing the developer to rely on 2022 Income Limits to meet the AMI requirements. The developer's goal with targeting 80% AMI levels is to provide workforce housing for Rochester's large population of residency program students, nurses, and other service industry positions. Based on current income verifications, those positions earn over the 2022 HUD income restrictions for 80% AMI. This is causing a gap in the developer's ability to lease units between 60% and 80% AMI levels.

The Bryk is a unique housing product type by targeting 80% AMI levels. Typically, affordable housing projects include a mixture of market rate and 60% or below units. A reason for this is there are no Property Tax breaks for housing units above 60% AMI. Therefore, even though the Bryk is required per the DAA to provide rents at 80% AMI, they are taxed at the full market rate for those units. This coupled with the escalating costs of construction and interest rates has made it very difficult for the developer.

With the slower than expected lease up of the 80% units, in addition to the increase in costs, staff recommend adjusting the income limits for 54 of the 108 units priced at 80% AMI rents. Increasing the rent eligibility for 54 of the units will help the build leasing process and fill the building, while also providing financial relief to the developer. Through this income change, the pool of potential eligible renters will increase by about 15% or close to 14,000 workers using average wage data provided by the Minnesota Department of Employment and Economic Development (MN DEED).

Please note that this recommendation will not alter the rental rate of the units, but only broaden the income eligibility of potential renters for 54 of the 180 units in the building. There are no recommended changes to the 50% and 60% AMI rental units.