

DESTINATION MEDICAL CENTER CORPORATION

RESOLUTION NO. 145-2024

Approving Further Revisions to the Bryk on Broadway Apartments Project

The following Resolution was offered by R.T. Rybak, seconded by Douglas M. Baker, Jr.

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 experienced difficulties in renting units at the 80% AMI level. 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. On March 17, 2023, the City and the EDA staff recommended a six-month revision in the income eligibility requirements for one-half of the units available at 80% AMI (54 units) of up to 110% AMI.

E. On March 23, 2023, in Resolution No. EC-9-2023, the Executive Committee of the DMCC Board approved certain modifications to the development assistance agreement, including income eligibility changes for 54 units of the Project at the 80% AMI of up to 110% AMI, for a period of six months. The DMCC Board ratified and confirmed this action on May 25, 2023 by Resolution 127-2023. The revisions specified in these Resolutions expired on October 1, 2023.

F. The Project continued to experience difficulties in renting units at the 80% AMI level. By correspondence dated May 16, 2024, and attached hereto as Exhibit A, EDA staff has 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:

- Allowing all of the Project's 80% AMI units (108 units) to be available to prospective tenants with income up to 110% or less of current AMI, without revising rental rates; and
- Continuing this revised income eligibility for a period of one year from the date of approval by the DMCC and the City. Thereafter, absent further approvals, any of these units that are or become vacant shall automatically convert to income eligibility of 80% AMI.

RESOLUTION

NOW, THEREFORE, BE IT RESOLVED, by the Board of Directors of the Destination Medical Center Corporation, that it approves, contingent upon approval by the City, the request of the EDA as set forth in Exhibit A to modify the development assistance agreement and related documents to permit all of the Project's 80% AMI units (108 units) to be available to tenants with income of up to 110% or less of current AMI for a period of one year, without revising the rental rate. The Board finds that these revisions are consistent with the Development Plan.

BE IT FURTHER RESOLVED, that the City is authorized to extend the approvals within this Resolution for up to three additional twelve-month periods, under appropriate circumstances, including financial needs demonstrated by the Project.

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 to 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.

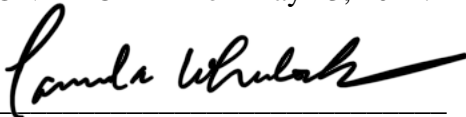
The question was on the adoption of the Resolution and there were 8 YEAS and 0 NAYS, as follows:

BOARD OF DIRECTORS

Destination Medical Center Corporation

	<u>YEA</u>	<u>NAY</u>	<u>OTHER</u>
Douglas M. Baker, Jr.	<u>X</u>	_____	_____
James R. Campbell	<u>X</u>	_____	_____
Brooke Carlson	<u>X</u>	_____	_____
Kim Norton	<u>X</u>	_____	_____
R.T. Rybak	<u>X</u>	_____	_____
Mark Thein	<u>X</u>	_____	_____
Pamela Wheelock	<u>X</u>	_____	_____
Paul D. Williams	<u>X</u>	_____	_____

RESOLUTION ADOPTED on May 23, 2024.

ATTEST: 

Pamela Wheelock, Chair
Destination Medical Center Corporation

EXHIBIT A

Housing: Bryk on Broadway

To: DMCC Board of Directors
From: DMC EDA
Date: May 16, 2024



Request of the board of directors:

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.

Background:

On March 23, 2021, the DMCC Board approved a Resolution 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).

The project is complete and just over a year into the lease-up. With the slower than expected lease up of the 80% units, in addition to the increase in project costs, in March 2023 DMCC and City Council approved an amendment adjusting the income limits for 54 of the 108 units priced at 80% AMI rents for a period of 6 months. This modification did **not** alter the rental rate of the units, but only broadened the income **eligibility** of potential renters for 54 of the 180 units in the building up to 110% AMI. There were no changes to the 50% and 60% AMI rental units.

The 2023 amendment expired in October 2023. Since then, the developer has continued to experience challenges finding enough income qualified renters for the 80% AMI units. In consultation with City staff, DMC staff is recommending extending the same income qualification of up to 110% AMI (with no change in the rents, which will stay tied to 80% AMI levels) for a period of 12 months for all 108 of the 80% AMI units to allow the project to gather data and align with the workforce housing needs within the 80 – 110% AMI ranges. Up to three (3) one-year extensions of this amendment could be exercised by the developer automatically, subject to evidence of mutually agreed upon good faith efforts by Project to attract applicants at 80% AMI qualifications.

Fulfilling the DMC Vision, Mission, and/or Goals:

The project aligns with the following DMC and City priorities as follows:

- Workforce housing project within the City, Transit-Oriented Development (TOD) and DMC zones.
- Revitalizes blighted site
- Provides a balanced and sustainable housing stock
- Promotes neighborhood stabilization and revitalization in coordination with the North Broadway reconstruction project
- Increase to the city's tax base

Bryk on Broadway Apartments Project

DMC Economic Development Agency and City of Rochester Administration

May 16, 2024

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 all of the units (108 units) restricted to 80% AMI to be rented by persons or families whose income is 110% or less of the area median income until June 15, 2025. The rents for these units will remain at 80% AMI levels. Up to three (3) one-year extensions of this higher AMI limit of 110% are also available providing the Project provides evidence of good faith efforts to attract income-qualified candidates that would meet the 80% AMI threshold. At the end of this modification period these units would convert back to 80% units for the remainder of the Qualified Project Period.
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:

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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.

In March of 2023 DMCC and City Council approved an amendment adjusting the income limits for 54 of the 108 units priced at 80% AMI rents for a period of 6 months. This modification did not alter the rental rate of the units, but only broadened the income eligibility of potential renters for 54 of the 180 units in the building up to 110% AMI. There were no changes to the 50% and 60% AMI rental units.

The developer reported in March of 2023 had they not received the 110% AMI qualification 6-month special agreement, they would only have 29 out of 108 80% units rented today. They were able to rent an additional 41 units with the special agreement. The 2023 amendment expired in October 2023. During the period from the expiration in October 2023 until early March 2024, the developer was only able to lease an additional 7 units of the 80% AMI pool of apartments. They had to turn away 26 applicants with incomes that fall between 80% AMI and 110% AMI during that same period.

The developer advertises units in the following places and feels like these are the channels for reaching potential renters:

- rent.com
- zillow.com
- rentcafe.com
- brykonbroadway.com
- apartmentfinder.com
- apartments.com
- facebook
- instagram

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 all 108 units priced at 80% AMI rents. Increasing the rent eligibility for all 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 the 180 units in the building. There are no recommended changes to the 50% and 60% AMI rental units. This will allow for a full year of additional income data to be gathered and inform the future income qualifications for this pool of units when this project is revisited on a regular basis by staff and good faith efforts are documented.