

# **HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA**

**REPORT TO THE COMMISSIONERS**

**DATE: OCTOBER 26, 2022**

**REGARDING: RESOLUTION APPROVING THE ISSUANCE OF CONDUIT MULTIFAMILY HOUSING REVENUE BONDS; APPROVING A RELATED HOUSING PROGRAM; AND APPROVING THE EXECUTION OF A TAX INCREMENT FINANCING DEVELOPMENT AGREEMENT, INCLUDING A POOLED TIF LOAN AND RELATED DOCUMENTS, 2285 HILLCREST AVENUE (THE NELLIE FRANCIS COURT PROJECT), DISTRICT 15, WARD 3**

## **Requested Board Action**

The purpose of this report is to request approval from the Housing and Redevelopment Authority (HRA) Board of Commissioners for the issuance and sale of Conduit Multifamily Housing Revenue Bonds, the entrance into a TIF Development Agreement, which includes a Pooled TIF loan, by and between the Housing and Redevelopment Authority of the City of Saint Paul and Nellie Francis Court Limited Partnership, and approval of related documents, all in accordance with the attached Resolution.

## **Background**

On December 4, 2019, the Saint Paul City Council and HRA Board approved a redevelopment agreement with Ryan Companies for the redevelopment of the Ford site, now known as “Highland Bridge”, (RES 19-2066 and RES PH 19-388) (the “Agreement”). Terms of the Agreement were based on the vision laid out in the Ford Master Plan, approved in 2017, and included affordable housing goals for the entire site. These goals were memorialized in the Agreement with Ryan Companies and require that at least 20% of all housing units (or approximately 760) constructed be affordable at various affordability tiers and with a mix of rental and owner-occupied housing. Of these 760 affordable housing units approximately 5% (190 units) are to be affordable to households earning 60% of Area Median Income (AMI), 5% (190 units) affordable to households earning 50% AMI, and 10% (380 units) to households earning 30% AMI.

Ryan Companies selected Project for Pride in Living (“PPL” or the “Developer”) to construct one of the first affordable housing developments on the Ford site, located at 2285 Hillcrest Avenue. Nellie Francis Court (the “Project”) is a proposed five-story building with 75-units of affordable rental housing restricted to households at or below 50% and 60% of area median income. The building includes 26 efficiency units, 30 one-bedroom units and 19 two-bedroom units. The building includes a lobby, on-site management offices, a fitness room, a community room and 40 underground parking spaces. The Project is connected via the underground parking to the adjacent Restoring Waters project being constructed by the same Developer.

On June 23, 2021, the Saint Paul HRA approved a new Housing TIF District (Ford Site Housing TIF District #1) which paired the PPL affordable housing project with a market-rate senior housing project developed by Presbyterian Homes which will consist of a 182-unit independent senior independent living and memory care building. Pairing the two properties in one TIF district increases the availability of TIF assistance for development of the affordable housing units.

### **Unit Mix and Affordability Levels**

All 75 units will be affordable at or below the 60% Area Median Income (AMI) as defined by HUD and therefore low-income housing tax credit (LIHTC) eligible. Fifteen (15) units will be reserved for households at or below 50% AMI and sixty (60) units will be reserved for households at or below 60% AMI. The unit mix and affordability levels are as follows:

| <b>Unit Type</b> | <b># Baths</b> | <b># Units</b> | <b>Unit Sq Ft</b> | <b>Monthly Contract Rent</b> | <b>Rent and Income Limit</b> |
|------------------|----------------|----------------|-------------------|------------------------------|------------------------------|
| Efficiency       | 1              | 11             | 410               | 973                          | 50%                          |
| Efficiency       | 1              | 15             | 410               | 1,117                        | 60%                          |
| 1-br             | 1              | 2              | 605               | 1,035                        | 50%                          |
| 1-br             | 1              | 28             | 605               | 1,189                        | 60%                          |
| 2-br             | 1              | 2              | 860               | 1,213                        | 50%                          |
| 2-br             | 1              | 17             | 860               | 1,398                        | 60%                          |

## **FINANCING**

As of the writing of this report, interest rates are 5.9%. GMHF and the Development Team intend to lock the interest rate at the end of October and GMHF has committed to a maximum interest rate of 6.25% through November 30, 2022. Project financing, including the information in this report, was modeled using the higher rate of 6.25%.

Nellie Francis Court and the adjacent Restoring Waters project, in combination, will receive 90% of the TIF generated from District #1; this is the maximum amount available under HRA policy. If the interest rate is less than 6.25%, the project- and TIF-supported debt will increase and the Pooled TIF loan will decrease.

### **GMHF Financing**

Greater Minnesota Housing Fund (GMHF) will provide an estimated \$14,857,000 first mortgage loan during construction, which will convert to permanent financing upon construction completion. The loan will be capitalized by net operating income (NOI) in the amount of \$6,429,000 and TIF will capitalize the remaining \$8,428,000. The NOI portion of the loan will have a term of 40 years and a 26-year amortization, the TIF portion will fully amortize over 26 years, both will have an estimated interest rate of 6.25%.

### **Tax Increment Financing (TIF) Note**

The HRA will provide the project an estimated \$8,428,000, but up to \$8,719,000 (maximum TIF at a 5.9% interest rate), in tax increment financing in the form of a pay as you go note to help fund the first mortgage loan. The Developer will receive a payment of approximately 66.06%% of the tax increment generated or \$656,600 on an annual basis. The interest on the TIF Note will be a maximum fixed rate of 6.25% and will be set at the same rate as the GMHF first mortgage.

### **Pooled TIF Loan**

The City will provide a Pooled TIF loan in the amount of up to \$600,000 to fill the gap on this project. The loan will be fully deferred for 30 years with an interest rate of 0%.

### **Conduit Multifamily Housing Revenue Bonds**

There is a total not to exceed of \$11,200,000 of bond authority being requested. In order to receive the 4% “automatic” tax credits, the project must meet the “50% test” which means at least 50% of the Developer’s basis must be initially financed with Bond proceeds (the City’s QAP limits this to 53% as an additional cushion in case costs change). The tax-exempt financing will be short term (approximately 24 months) and repaid with permanent financing and tax credit equity. The Bonds will be a direct placement with GMHF.

### **Low Income Housing Tax Credits**

The tax-exempt Housing Revenue Bonds come with the “Automatic 4%” Low Income Housing Tax Credits (LIHTC) provided they meet the “50% test”. The projected credit price is \$0.865, Minnesota Equity Fund is the syndicator and Cinnaire is the investor.

### **Deferred Developer Fee**

The Developer will defer a portion of their developer fee over 12 years in an amount of approximately \$1,040,000 to be paid out of cash flow.

### **Sources and Uses of Funding:**

#### **Sources of Funds**

|                              |               |
|------------------------------|---------------|
| First Mortgage               | \$ 6,429,000  |
| LIHTC Equity                 | \$ 6,554,989  |
| City Tax Increment Financing | \$ 8,428,000  |
| Sales Tax Rebate             | \$ 458,000    |
| Energy Rebate                | \$ 25,000     |
| Deferred Developer Fee       | \$ 1,039,000  |
| GP Loan                      | \$ 360,308    |
| Income from Operations       | \$ 221,000    |
| Pooled TIF Loan              | \$ 579,148    |
| Total Sources of Funds       | \$ 24,095,445 |

#### **Uses of Funds**

|                                            |               |
|--------------------------------------------|---------------|
| Acquisition                                | \$ 1,431,900  |
| Construction Costs                         | \$ 16,891,318 |
| Professional Services                      | \$ 1,186,255  |
| Bond, Tax Credit and Other Financing Costs | \$ 1,641,195  |
| Reserves                                   | \$ 844,777    |
| Developer Fee                              | \$ 2,100,000  |
| Total Uses of Funds                        | \$ 24,095,445 |

**Budget Action**

No budget action is needed. The HRA approved a budget amendment to align with the financing and spending included in the TIF Plan in June, 2021.

**This is a conduit bond issue.** The bonds shall not constitute an indebtedness, liability, general or moral obligation, or pledge of the faith or credit or taxing power of the HRA, City of Saint Paul, or any agency or political subdivision thereof, and shall not constitute indebtedness of any of the foregoing within the meaning of any constitutional, statutory, or charter provision, not be a charge against their respective general assets, credit or taxing powers, and do not grant the owners or holders of the bonds any right to have the HRA, City of Saint Paul or any agency or political subdivision thereof to levy any taxes or appropriate any funds for the payment of the principal thereof or interest thereon. Principal and interest on the bonds are payable solely out of the revenues and other sources pledged to the payment thereof as described in the bond documents.

**Future Action**

None

**PED Credit Committee Review**

On October 18, 2022, the Credit Committee reviewed and approved the terms of the TIF assistance and Pooled TIF loan terms and determined that the bond issuance is consistent with PED policies.

**Compliance**

The following compliance requirements will apply to this project: Vendor Outreach, Affirmative Action, Federal Davis Bacon, Section 3, Project Labor Agreement, Living Wage, Sustainable Building Ordinance, and the Two-Bid Policy.

**Green/Sustainable Development**

The Project will comply with Saint Paul Sustainable Development Ordinance.

**Environmental Impact Disclosure**

N/A

## **Historic Preservation**

N/A

## **Public Purpose/Comprehensive Plan Conformance**

1. The Ford Master Plan is in conformance with the Land Use and Housing Chapters of the 2040 Comprehensive Plan, which identifies the site as part of a mixed-use corridor and an opportunity site and a partial contributor to the Highland Village/Ford Site neighborhood node.
2. Comprehensive Plan policy H-16 calls for increasing housing choice across the city to support economically diverse neighborhoods.
3. Comprehensive Plan policy H-37 encourages new affordable housing development near transit and jobs.

## **Recommendation:**

The Executive Director recommends and requests the HRA Board of Commissioners consider adoption of the attached Resolution which will approve the tax increment financing Development Agreement, including a Pooled TIF loan and the issuance and sale of conduit multifamily housing revenue bonds for the Nellie Francis Court project, and the execution of related documents. The bond issuance is subject to final approval by the Saint Paul City Council.

**Sponsored by:** Commissioner Chris Tolbert

**Staff:** Sarah Zorn, 651-266-6570

## **Attachments**

- **Map**
- **Public Purpose**
- **D15 Highland Park Neighborhood Profile**