

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

REPORT TO THE COMMISSIONERS

DATE: SEPTEMBER 28, 2022

**REGARDING: RESOLUTION APPROVING MODIFICATIONS TO A 2002 HOME LOAN
MADE TO RS EDEN, OWNER OF SEVENTH LANDING, A 12-UNIT LOW
INCOME RENTAL PROPERTY LOCATED AT 1364 WEST 7TH STREET IN
SAINT PAUL, DISTRICT 9, WARD 2.**

Requested Board Action

Approval of the following loan modifications to an existing loan made to RS Eden, a Minnesota non-profit corporation:

- Forgive the accrued and unpaid interest charges on that certain HOME Loan made to RS Eden in 2002 in the original principal amount of \$387,000 (the “2002 Home Loan”);
- Extend the maturity date of the 2002 HOME loan for five years from November 27, 2022 to a new maturity date of December 31, 2027;
- Modify the interest rate of the 2002 Home Loan from 2.0% to 0%; and
- Make the loan forgivable at maturity conditioned upon RS Eden’s continued compliance with the low-income housing Declaration (defined below).

Background

Seventh Landing is a 12-unit permanent supportive housing building located at 1364 West 7th Street. This property houses and provides services to homeless young adults transitioning out of foster care. Seventh Landing was built in 2002 with funding from Minnesota Housing Finance Agency (MHFA), Ramsey County, the Housing and Redevelopment Authority of the City of Saint Paul (“HRA”), the Federal Home Loan Bank, and HUD.

RS Eden, the owner of Seventh Landing, has been working since 1971 to meet the needs of the most vulnerable community members by:

- Providing low-barrier, permanent, and supportive housing across the metro area for individuals and families, including youth transitioning from foster care.
- Providing treatment services to those struggling with substance use disorders.

- Providing comprehensive services for individuals exiting incarceration and reintegrating into community.

RS Eden owns 17 locations across the metro area that served more than 1,500 individuals last year.

Future Action:

Upon approval of the proposed loan modifications by the HRA Board of Commissions, HRA Staff will prepare an appropriate modification agreement of the 2002 HOME Loan containing the modification terms described in this report and will submit it to the City Attorney's Office for review and approval before the loan modification agreement is submitted for execution.

Financing Structure

The loans associated to this project consist of the following:

Lender	Original amount	Current balance	Current Rate	Current Maturity date
MHFA	\$1,500,000	\$150,000	0%	11/27/2022
Ramsey County	\$300,000		2%	11/27/2022
St. Paul HRA	\$387,000	\$539,806.68	2%	11/27/2022

In addition to the above loans, original financing included a loan from the Federal Home Loan Bank Affordable housing program in the amount of \$59,900 that has been paid off, and a grant in the amount of \$400,000 from HUD's Supportive Housing Program.

According to the terms of the MHFA loan of \$1.5 million, a default during the first ten years (between 2002-2012) would result in the loan becoming due in full. But, during the second ten years of the loan, the MHFA loan has been forgiven in annual increments of \$150,000 per year. The current outstanding balance of the MHFA loan is now only \$150,000, and the MHFA loan is on track to be forgiven on November 27, 2022. MHFA has communicated that its intention is to fully forgive its loan as scheduled.

The Ramsey County loan of \$300,000 (the “County loan”) also matures in November 2022, but Ramsey County is considering a similar maturity date request as is before the HRA board; to forgive and/or extend its loan. The County has communicated to staff they will likely forgive the accrued interest and extend the principal term for a minimum of 20 years. This will satisfy RS Eden request to have some level of government funds in the property to take advantage of the property tax reduction.

As of August 2022, the outstanding balance of the 2002 HOME Loan is \$539,806.68, consisting of \$152,806.68 in accrued and unpaid interest and the principal balance of \$387,000. HRA staff has received and reviewed the past 3-year financial audits of the project, including a 15-year operating projection. The projection indicates no positive cash flow on the project; it is not able to pay off the 2002 HOME Loan when due in November of 2022. Further, an analysis of the projected cash flow shows that the project is not able to pay back any of the loans and would not support any debt service. Given the deep affordability of the units and the significant wrap around services needed, it is not surprising that the project cannot afford to repay the loan or support any debt service.

The project is encumbered by restrictive covenants under a Declaration affecting the 5-HOME units, which runs with the land (the “Declaration”). The Declaration expires on December 31, 2027. RS Eden intends to continue to operate this property as affordable housing through and beyond such expiration date, as will be required by . The project has a housing assistance program (HAP) contract in place that expires in 2023. The HAP contract has been renewed every 5 years.

PED Credit Committee Review

PED Credit Committee in its September 6, 2022 meeting reviewed the relevant materials and recommended the following:

- Forgive all accrued and unpaid interest charges on the 2002 HOME Loan;
- Extend the maturity date of the 2002 HOME loan for five years to a new maturity date of December 31, 2027;
- Modify the interest rate of the 2002 Home Loan from 2.0% to 0%;
- Make the loan forgivable at maturity conditioned upon RS Eden’s continued compliance with the low-income housing Declaration; and
- Update the risk rating from “Loss” to “Forgivable”

Compliance

NA (loan modifications only)

Green/Sustainable Development

NA

Environmental Impact Disclosure

NA

Historic Preservation

NA

Public Purpose/Comprehensive Plan Conformance:

The project is supported by the following policies from the 2040 Comprehensive Plan:

Policy H-15. Accommodate a wide variety of culturally appropriate housing types throughout the city to support residents at all stages of life and levels of ability.

Policy H-42. Pursue public and private funding sources, including local sources, for affordable housing preservation and production.

This Project meets several public purpose objectives, including:

- Job retention
- Investments in low- to moderate-income areas
- Positive tax base impacts through capital investment in real property

And will further several goals in the 2040 Comprehensive Plan in the Land Use Chapter under Policy LU-6, including:

- facilitating business retention and expansion
- supporting family-sustaining jobs
- supporting business, real estate and financial models that keep more money locally

Recommendation:

The HRA's Executive Director recommends adoption of the attached Resolution, approving the below-stated modifications to the 2002 HOME Loan, in accordance with the terms and conditions set forth herein and in the related documents to be executed. Modifications to the 2002 HOME Loan:

- Forgive all accrued and unpaid interest charges on the 2002 HOME Loan through maturity (as of August 2022 the amount is at \$152,806.68, accruing daily until modified);
- Extend the maturity date of the 2002 HOME loan for five years through December 31, 2027;
- Modify the interest rate of the 2002 Home Loan from 2.0% to 0%; and
- Make the loan forgivable at maturity conditioned upon:
 - RS Eden's continued compliance with the low-income housing Declaration; and
 - The extension of the County loan for a minimum of 20 years.

Sponsored by: Councilmember Rebecca Noecker

Staff: Jules Atangana (651-266-6660)

Attachments

- Map
- D9 West Seventh Neighborhood Profile