

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

REPORT TO THE COMMISSIONERS

DATE: SEPTEMBER 27, 2023

**REGARDING: RESOLUTION APPROVING AND AUTHORIZING THE SALE AND CONVEYANCE OF 1195 BUSH AVENUE; AUTHORIZATION TO ENTER INTO A DEVELOPMENT AGREEMENT, AND AUTHORIZATION OF EXPENDITURES FOR REDEVELOPMENT UNDER THE INSPIRING COMMUNITIES PROGRAM, DISTRICT 4, WARD 6**

## **Requested Board Action**

Approval of the sale and conveyance of 1195 Bush Avenue, owned by the Housing and Redevelopment Authority of the City of Saint Paul (“HRA”) to New Verticals Development, LLC (“Developer”), authorization to enter into development agreements with the Developer for the redevelopment of said property and authorization of expenditures, all under the Saint Paul HRA Disposition Work Plan and Budget’s (“DWPB”) Inspiring Communities program.

## **Background**

Staff from the City’s Department of Planning and Economic Development have periodically analyzed all property in the HRA inventory and made informed recommendations regarding retention and disposition of properties. These recommendations are organized and effected under a Disposition Strategy Work Plan and Budget (DWPB). The HRA Board of Commissioners first approved the DWPB on recommendation of staff on July 24, 2013 by Resolution 13-1097, simultaneously creating the Inspiring Communities program as a component of the DWPB to redevelop certain high-priority HRA properties. The goals of the Inspiring Communities program are to:

- Leverage HRA property to build community wealth.
- Create job opportunities for local residents, including low-income residents, small and emerging businesses, and businesses owned by women and people of color.
- Achieve goals identified in the Housing Chapter of the City of Saint Paul’s 2040 Comprehensive Plan.

- Inspire innovative and environmentally sound design and construction.

Staff released the first Inspiring Communities Request for Proposals (“RFP”) in October 2013; the second RFP in November 2014; the third RFP in August 2015; the fourth RFP in March 2016; the fifth RFP in November 2016; the sixth RFP in September 2018; and the seventh RFP in August 2022. Requested actions are a result of responses to the seventh RFP.

To date:

- Over 290 properties have been sold or are under development.
- The program has created over 240 affordable homeownership opportunities and over 50 affordable rental units.
- Nearly two out of every three homeowners and more than three out of every four renters served are people of color.
- Funding has come mostly from state and federal resources.
- By returning vacant, City, and HRA-owned properties to productive use, maintenance costs to the City have been reduced and tax revenues have increased.

The August 2022 RFP made 12 Inspiring Communities sites available for redevelopment. Proposals were received to redevelop 11 of the 12 properties with 19 total units.

On July 13, 2022, by Resolution 22-1072, the HRA Board of Commissioners authorized a request for \$2,000,000 from the Housing Trust Fund (HTF) to fund Inspiring Communities projects. By the same action, the HRA Board of Commissioners approved key terms of the Inspiring Communities Program Manual. The Inspiring Communities Homeownership Program Manual and Inspiring Communities Rental Program Manual guide implementation of the Inspiring Communities program. These manuals explain program requirements to developers, standardize processes and foster consistency and transparency. Manual key terms, clarifications and amendments have been approved on October 9, 2013 by Resolution 13-1592, July 13, 2016 by Resolution 16-1190 (which was rescinded), and July 13, 2022 by Resolution 22-1072.

On December 14, 2022 staff presented the results of the RFP to the HRA, prior to requesting authorization to proceed with the selected developers and enter into development agreements. Since that time, staff has been working with developers to clarify proposals and collect due diligence items. At this time, staff is prepared to proceed with the Developer’s proposal to construct a duplex.

**1195 Bush Avenue, District 4, Ward 6**

This lot is 5,080 square feet. The developer proposes to construct two-story duplex. This duplex will consist of a main level 3-bedroom 1-bathroom home of approximately 1,280 square feet. The upper level will be a 3-bedroom 1-bathroom home of approximately 1,125 square feet. A 2-car garage will also be built on the lot. Following completion, the duplex will be sold to an income-eligible buyer at or below 80% of area median income. This will be an owner-occupant of one of the units who will rent out the other unit.

The land will be sold to the Developer for \$35,500 and the development subsidy request is \$345,356, for a gross subsidy request of \$380,856. The total development cost for this project is \$812,856 and the estimated sales price is \$432,000. In addition, the buyer will be eligible to receive homebuyer assistance for down payment assistance and/or affordability gap in accordance with program guidelines.

Project costs are broken out as follows:

Land	\$ 35,500.00
Construction Costs	\$ 613,550.00
Soft Costs	\$ 94,806.00
Developer Fee	\$ 69,000.00
<b>Total Development Cost</b>	<b>\$ 812,856.00</b>
<i>Estimated Sales Price</i>	\$ 432,000.00
Total Development Gap (TDG)	<b>\$ 380,856.00</b>
TDG Less Land Cost	\$ 345,356.00

**Recommendation**

Staff has determined that (a) the construction costs are competitive and do not have any excessive design elements; (b) proposed developer fees are within program parameters; (c) the estimated sale

price is in line with the market; and (d) a reduced subsidy request can only occur if there is a reduction in construction costs in the future and/or an increase in sales prices, which is unknown at this time. By proceeding with the proposed sales and subsidy allocation, the HRA will save holding and maintenance costs, the property will be put back on the tax rolls and contribute to the city's economy, and owner-occupied duplex for a low- to moderate-income household will be produced.

### **Budget Action**

No budget action is required. These projects will be funded via the DWPB. HRA budget actions pertaining to the DWPB had authorized overall spending, but the HRA Board requires that expenditures for each project be approved.

### **Future Action**

No future action will be required. Once the HRA takes action to approve the sale of property and authorizes associated expenditures, staff will proceed to execute development agreements and convey property.

### **Financing Structure**

As indicated in the program manual, development subsidy and land write-down (value gap) provided to awardees will be secured with a note and mortgage at 0% interest. At the time the property is sold to a homeowner, the value gap assistance loan will be forgiven. Funds will be disbursed, along with any additional project financing, on a reimbursement basis during construction. The final disbursement will be at the time the property is sold to a homeowner or when all expenditures can be reconciled, and the final value gap amount can be determined based on the purchase price and actual costs incurred.

### **PED Credit Committee Review**

Credit Committee review is not a requirement of the sale of property. However, the Credit Committee has periodically reviewed financing terms contained in the Homeownership and Rental Program Manuals, initially in 2013 and most recently on November 30, 2021, and has recommended approval.

## **Compliance**

Development under the Inspiring Communities program will comply with all applicable requirements, which may include:

1. Affirmative Action/Equal Economic Opportunity
2. Vendor Outreach
3. Section 3
4. Two Bid Policy
5. Limited English Proficiency
6. Applicable affordability requirements
7. Fair Housing Opportunities

Projects included in this action were exempted from the Project Labor Agreement area of compliance via Resolution 22-1074.

## **Green/Sustainable Development**

On May 10, 2023, the HRA Board of Commissioners approved a partial waiver of Chapter 81 of the City of Saint Paul Administrative Code by Resolution 23-698. These projects will comply with Enterprise Green Communities criteria as modified by the Minnesota Housing Overlay and those portions of the Sustainable Building Ordinance that are not waived with the aforementioned action, as applicable.

## **Environmental Impact Disclosure**

Environmental determinations are dictated by a project's funding source and proposed redevelopment plans. All projects will adhere to applicable environmental requirements.

## **Historic Preservation**

This property is not located in a Heritage Preservation District and is currently a vacant lot.

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

Inspiring Communities projects substantially meet each of the seven major goals of the housing chapter of the City's 2040 Comprehensive Plan. Those specific policies of the housing chapter which these projects address to the greatest degree are:

- Policy H-10. Encourage the use of energy efficient mechanical systems and building products in rehabilitation and new construction to decrease building operation costs and impacts on the environment.
- Policy H-13. Encourage the use of long-lasting, high-quality building materials for residential buildings to decrease long-term housing maintenance and energy costs.
- Policy H-22. Consider a City or HRA sponsored down-payment assistance program and support partner organizations' down payment assistance and first time homebuyer mortgage programs to help homebuyers invest in Saint Paul.
- Policy H-24. Encourage homeowner education through continued support of organizations that provide services, such as financial counseling and pre-and post-purchase training, to help potential and new homeowners make well-informed financial and maintenance decisions.
- Policy H-33. Further affordable ownership housing goals in HRA/City-financially-assisted projects by working toward 10 percent of all ownership units being affordable to residents earning 60 percent of AMI and 20 percent of all ownership units being affordable to residents earning 80 percent of AMI.
- Policy H-34. Support the development of new affordable ownership opportunities through the Inspiring Communities program, including selling vacant HRA-owned single-family lots and identifying sites appropriate for new ownership housing.
- Policy H-42. Pursue public and private funding sources, including local sources, for affordable housing preservation and production.
- Policy H-43. Encourage and support state and federal legislation that preserves existing programs and provides new funding, including a dedicated funding source, for affordable ownership and rental housing.
- Policy H-44. Make achieving the Metropolitan Council's affordable housing goals a top priority both in planning and legislative efforts.
- Policy H-46. Support the development of new housing, [...] to meet market demand for living in walkable, transit-accessible, urban neighborhoods.

- Policy H-47. Encourage high-quality urban design for residential development that is sensitive to context, but also allows for innovation and consideration of market needs.

**Statement of Chairman (for Public Hearing)**

Being duly authorized by the Board of Commissioners to conduct this Public Hearing, the hearing is now open. This is a Public Hearing called for the purpose of conveyance of a certain parcel by the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota.

Notice of time, place and purpose of this hearing was published in the Saint Paul Pioneer Press on September 15, 2023. The Affidavit of Publication of the Notice of Public Hearing will be made a part of these proceedings.

**Recommendation:**

The Executive Director recommends approval of the sale, entrance into development agreement and the associated expenditure authorization in accordance with the attached resolution.

**Sponsored by:** Commissioner Yang

**Staff:** Joe Musolf 651-266-6594

**Attachments**

- **RFP Award Recommendation**
- **Map**
- **D4 Dayton’s Bluff Neighborhood Profile**