

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

REPORT TO THE COMMISSIONERS

DATE: AUGUST 8, 2012

**REGARDING: AUTHORIZATION TO ENTER INTO A DEVELOPMENT AGREEMENT,
OBLIGATE NSP FUNDS AND APPROVE SALE AND CONVEYANCE OF LAND
TO BB HOUSING ASSOCIATES, LLC FOR PROPERTIES LOCATED WITHIN
ISP/NSP NEIGHBORHOODS IDENTIFIED AS:**

- 1. PARCEL 732 JESSAMINE AVENUE, PAYNE PHALEN DISTRICT 5**
- 2. PARCEL 697 COOK AVENUE, PAYNE PHALEN DISTRICT 5**
- 3. PARCEL 698 HAWTHORNE AVENUE, PAYNE PHALEN DISTRICT 5**

Requested Board Action

The specific actions being requested of the HRA Board are as follows:

1. Authorization to enter into a Development Agreement with BB Housing Associates, LLC for the sale and rehabilitation of three duplexes located at 732 Jessamine Avenue E, 697 Cook Avenue E, and 696-698 Hawthorne Avenue E in Payne-Phalen District 5 under the ISP/Neighborhood Stabilization Program/Plan 2009-2013.
2. Authorization to designate \$1,060,609 of Neighborhood Stabilization Funds (NSP) for the rehabilitation of three (3) duplex structures providing 6 units of housing.

Background

Since 2009, the HRA/City has received \$31.0 million through three rounds of Federal NSP funding as follows:

NSP 1 funds: \$10.6 million; one-half of the funds had to be expended or obligated by September 13, 2010; the balance has to be expended by March, 2013. (The 9-13-10 spend-down requirement was met.)

NSP 2 funds: \$18.03 million; one-half of the funds had to be expended or obligated by February 20, 2012; the balance has to be expended by February, 2013. (The 2-20-12 spend-down requirement was met.)

NSP 3 funds: \$2.8 million; one-half of funds need to be expended by February, 2013; the balance has to be expended by February, 2014.

One of the NSP regulations requires that 25% of the total NSP funds (\$7,750,000) be spent on housing units at or below 50% of the area median income. Discussions were held at various community meetings concerning the need to meet the 50% affordability requirement, and it was determined that the best place to meet this requirement was in rental housing and ownership housing undertaken by Habitat for Humanity; further, rental housing should be considered only in true duplexes, tri- and four-plexes. Neighborhood residents prefer that single family houses be used for homeownership only.

One strategy to meeting spend down requirements detailed above is the identification of properties purchased with ISP funds for which NSP funds can be used for renovation costs. (Using NSP funds where possible will also help insure sufficient ISP funding for ISP properties that do not qualify to use NSP funds.)

All three properties are true duplexes acquired with NSP 2 funds. All properties are located close to schools and require substantial amounts of rehabilitation due to size and condition. Once renovated, these properties will provide large rental units to families, and increase neighborhood stability.

697 Cook Avenue will provide two 3 BD units, 698 Hawthorne Avenue with a 4 BD and 3 BD unit, and 732 Jessamine Avenue will provide a 3 BD unit and a 2 BD unit. Each parcel will have off-street parking. (See **Attachment B – Background** for further description).

BB Housing Associates, LLC presented their proposal for rehabilitating 697 Cook Avenue, 696-698 Hawthorne Avenue, and 732 Jessamine Avenue to the District 5 Planning Council on July 10, 2012. The committee recommended moving forward with the development. HRA staff and the developer committed to further exploration of committee requests related to 697 Cook, including:

- exploring noise mitigation for property across from the alley at 697 Cook through strategic garage or parking pad placement, installation of a fence, and/or installation of landscaping.

- exploring potential use of HRA owned property at 695 Cook as additional side yard for 697 Cook, to address concerns about increased yard space for 697 Cook tenants.

BB Housing Associates, LLC is a local for-profit company located at 1645 Palace Avenue, St. Paul. The proposal went through the Early Notification process and no other proposals were received.

- All three properties are zoned for the intended use.
- Map of parks and schools location related to development is attached (**Attachment C**)
- Wilder planning district demographic profile is attached (see **Attachment E**)
- Acquisitions of 697 Cook, 732 Jessamine, and 696-698 Hawthorne was done under NSP.
- Properties were foreclosed; all were Registered Vacant Buildings, Category 1, 2 or 3.

Budget Action

Obligate \$1,060,609 towards the rehabilitation of 3 duplexes. See **Attachment D – Project Summary** for breakdown of costs.

Future Action

No future action will be required. Once the HRA takes action allowing the sale of the properties, staff will proceed to work with the BB Housing Associates to complete all requirements as outlined in the Development Agreement and move forward to a closing.

Financing Structure

HRA purchased Parcel 697 Cook for \$57,500; Parcel 732 Jessamine Avenue for \$30,485; Parcel 696-698 Hawthorne for \$86,500.00. All properties had been foreclosed/vacant for more than a year before identified for acquisition. The total acquisition costs is \$174,485.00. The After-Rehab Appraisal review of property sales in the area indicate the estimated values of Parcel 697 Cook and 732 Jessamine at \$160,000 each; Parcel 698 Hawthorne at \$180,000.

Acquisition Costs	\$ 174,485.00
Estimated Development Costs	<u>\$1,060,609.00</u>
Total Development Costs	\$1,235,094.00
Estimated after rehab value	<u>- 500,000.00</u>

Gap Assistance

\$ 735,094.00

Gap assistance would be structured as a deferred loan with no interest accruing for the length of the NSP affordability requirement (15 Years from date of occupancy) and then forgiven as long as the property is well managed/maintained. The project cash flow is based on all units being affordable at or below 50% of the area median income for a period of 15 years as required by the NSP funding.

Estimated gross	\$56,054.00
Yearly Expenses	-42,522.00
Yearly Reserves	<u>- 1,800.00</u> (replacement reserve, painting/decorating)
NOI	\$ 11,732.00 to cover debt service

The cash flow supports a payment covering 20% of the estimated fair market value (\$160,000 for 697 Cook and 732 Jessamine and \$180,000 for 696-698 Hawthorne) at 3.99% interest over 30 years. Payment each year would be \$5,730.00. HRA will evaluate year-end cash-flow statements and if the debt coverage ratio coverage is greater than 1.15, the surplus cash will be paid to the HRA and applied against the loan principal. At the end of the 15-year affordability period, the property can be refinanced. If refinancing is pursued, the HRA will receive payment of the remaining amortizing debt plus 50% of the appraised value at that time. If the owner decides to sell before the 15-year affordability period is met, the HRA will receive 75% of the appraised value plus remaining amortizing debt, and the affordability requirements will continue to remain on the property until completion of the 15-year NSP requirement. Based on these loan terms, HRA could recover 70% of the appraised value plus interest.

PED Credit Committee Review

PED Credit Committee will establish the risk rating based on these terms.

Compliance

This development is complying with the following requirements:

1. Affirmation Action/Equal Employment Opportunity
2. Vendor Outreach
3. Section 3
4. Limited English Proficiency

5. NSP Affordability Covenants
6. Fair Housing Opportunities
7. Two Bid Policy

Green/Sustainable Development

The project will comply with the City's Sustainability Policy. The project also needs to meet the following NSP requirements:

1. Minnesota Green Standards for Rehab (as required by MHFA NSP funds received)
2. HUD Healthy Home Requirements (Lead Paint)
3. State requirement for asbestos removal where applicable.
4. All local and State building codes together with HRA's NSP guiding principle adopted February 24, 2009: "provide healthy, affordable and quality housing, improving the housing stock above minimum standards by addressing lead, mold, radon, energy efficiency and curb appeal elements."

Environmental Impact Disclosure

For the existing NSP program, the Tier 1 environmental review determined that all activities were either exempt or categorically excluded.

Historic Preservation

Each individual project, identified by the address of the property that was acquired, was subject to a Tier 2 environmental review, which included consultation with the State Historic Preservation Office. All properties have received the appropriate sign-offs.

Public Purpose

This action supports all three strategies of the Housing Chapter of the City's Comprehensive Plan: 1) build on Saint Paul's strengths in the evolving metropolitan housing market; 2) preserve and promote established neighborhoods; and 3) ensure the availability of quality, affordable housing across the City.

The development also supports the goal of the ISP/NSP Program and Plan to strategically channel resources into neighborhoods being challenged by recent economic and social downturns and persistent disinvestment including:

- 1) creating working partnerships among private developers, CDCs, District Councils and neighborhood residents;
- 2) bringing together resources, time, talent, and funding in neighborhoods poised to prosper after a prolonged period of disinvestment;
- 3) reducing the number of vacant houses;
- 4) rehabilitating or addressing housing units to strengthen the housing stock;
- 5) improving stability and quality of life in neighborhoods; and
- 6) building on strengths in St. Paul's neighborhoods.

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 Parcels of land located in Dayton’s Bluff District 4 and Payne-Phalen District 5 by the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota (HRA).

Notice of time, place, and purpose of this hearing was published in the Saint Paul Pioneer Press on Saturday, July 28, 2012. The Affidavit of Publication of the Notice of Public Hearing will be made a part of these proceedings.

The HRA proposes to convey the following properties in the Payne-Phalen District 5, Railroad Island area:

Property Description	Purchaser/Developer	Purchase Price
732 Jessamine Avenue E.	BB Housing Associates, LLC, a Minnesota limited liability company	\$30,485.00

The property will be conveyed for the purpose of rehabilitating the existing vacant duplex into 1-3br unit and 1-2br unit to provide affordable rental housing.

Property Description	Purchaser/Developer	Purchase Price
696-698 Hawthorne Avenue E	BB Housing Associates, LLC, a Minnesota limited liability company	\$86,500.00

The property will be conveyed for the purpose of rehabilitating the existing vacant duplex into 1-4br unit and 1-3br unit to provide affordable rental housing.

Property Description	Purchaser/Developer	Purchase Price
697 Cook Avenue E	BB Housing Associates, LLC, a Minnesota limited liability company \$57,500.00	

The property will be conveyed for the purpose of rehabilitating the existing vacant duplex into 2-3br units to provide affordable rental housing.

Is there anyone who wishes to be heard on this sale? If not, the Chair will declare this Public Hearing adjourned.”

Recommendation:

The Executive Director recommends approval of sale in accordance with the attached resolution.

Sponsored by: Commissioner Bostrom
Staff: Roxanne Young (651-266-6581)

Attachments

- **Attachment A -- Resolution**
- **Attachment B -- Background Attachment**
- **Attachment C -- Map/Address of Project, should include libraries, parks, schools.**
- **Attachment D -- *Project Summary Form***
- **Attachment E -- *Sources and Uses Summary Form***

- **Attachment F -- Public Purpose Form**
- **Attachment G -- Census Facts**