

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

REPORT TO THE COMMISSIONERS

DATE: JUNE 25, 2014

REGARDING: RESOLUTION APPROVING A BUDGET AMENDMENT IN THE AMOUNT OF \$750,000 IN ORDER TO EXECUTE A \$1,000,000 CDBG LOAN TO TWIN CITIES HOUSING DEVELOPMENT CORPORATION FOR THE ACQUISITION OF JAMESTOWN HOMES, SUMMIT-UNIVERSITY, DISTRICT 8, WARD 1.

Requested Board Action

1. Approve the attached Resolution authorizing a budget amendment for an additional \$750,000 in order to increase the amount of CDBG funds from \$250,000 to \$1,000,000, thereby replacing the use of Affordable Housing Trust Fund dollars budgeted for a deferred loan to Twin Cities Housing Development Corporation to assist in the acquisition of Jamestown Homes Apartments; and
2. Authorize the Executive Director to negotiate all terms and execute all required documents related to this amendment.

Background

Jamestown Homes (aka Malcolm Shabazz Apartments) is an existing four-building, 73-unit affordable rental housing complex located at 564 Central Avenue. The property is zoned RM2 – medium-density, multiple-family residential and is located three blocks from the Green Line’s Dale Street Station. The buildings were constructed in the 1970s, and all units are currently under a Department of Housing and Urban Development (HUD) Section 8 assistance contract. The current owner of the property, BNV Limited Partnership (BNV), is no longer interested in owning the property.

Twin Cities Housing Development Corporation (TCHDC) executed a purchase agreement with BNV in 2013 and has since extended the agreement by one year; TCHDC is required to close by the end of the year or forfeit their opportunity to purchase the property. BNV was amenable to the extension because of TCHDC’s plans to retain the Section 8 project-based contract and rehabilitate the property. Due to the property’s current condition, the scope of work is extensive

and includes updates to HVAC and mechanical systems, a new roof, window and siding replacement, addressing deferred maintenance items, and cabinet/appliance replacement. Additional external improvements will include retaining wall replacement, site grading, stormwater management plan implementation, parking lot enhancements, and ensuring connections within the site and to the Dale Street Station.

Provided they can secure the necessary financing, TCHDC has a plan in place to acquire Jamestown in 2014 and is prepared to hold the property for up to five years. This plan will allow TCHDC to apply for low income housing tax credit cycles from the Saint Paul HRA and Minnesota Housing Finance Agency this year and in coming years.

Unit Affordability

Since 100% of the units are Section 8, residents will pay no more than 30% of their income in rent. In addition, during the life of the tax credit requirements, all units will be affordable to residents with incomes at or below 60% of area median income (AMI). The annual income limit for a one-person household is \$34,860. The annual income limit for a two-person household is \$39,840.

Unit Types and Rents (less utilities)

UNIT TYPE	NUMBER of UNITS	SQUARE FOOTAGE	RENTAL RATES
1-Bedroom	10	554	\$781
2-Bedroom	57	756	\$947
3-Bedroom	6	1,103	\$1,113
TOTAL	73		

Developer/Owner Experience

TCHDC is a Saint Paul, MN-based nonprofit developer of affordable housing. Since 1984, TCHDC has built or renovated over 2,500 units of housing across the Twin Cities. They have extensive experience with the use of Low Income Housing Tax Credits, and are committed to developing housing that complements the community in which it’s located.

PED staff has reviewed the audited financials for both the property under its current ownership and TCHDC; there are no material findings.

The developer presented the proposal to acquire and rehabilitate the property to the Summit University Planning Council. A letter of support was approved on March 25, 2014. The letter accompanies this report as Attachment C.

Budget Action

The original budget action allocated a total of \$1,000,000 to Twin Cities Housing Development Corporation in the form of a deferred loan. The source of funds authorized on May 14, 2014 by Resolution 14-846 included \$750,000 from the preservation of affordable multifamily housing portion of the Affordable Housing Trust Fund (AHTF), and \$250,000 of CDBG funds. Additional CDBG funds have become available and it is preferable to use the more restrictive funds on this project. This budget action will allocate an additional \$750,000 in CDBG funds to TCHDC to replace the AHTF funds budgeted.

Future Action

No future Board action is required.

Financing Structure

The total acquisition and rehabilitation cost is \$13,920,000. Below is a preliminary Sources and Uses statement.

USE	\$	SOURCE	\$
<i>Acquisition</i>	\$ 4,250,000	<i>Bremer Bank</i>	\$ 2,500,000*
		<i>HRA Loan</i>	\$ 1,000,000
		<i>LCDA-TOD or LISC</i>	\$ 750,000*
<i>Construction</i>	\$ 6,025,000	<i>LIHTC</i>	\$ 6,025,000
<i>Soft Costs</i>	\$ 1,175,000	<i>LIHTC</i>	\$ 1,175,000
<i>Developer Fee</i>	\$ 1,575,000	<i>LIHTC</i>	\$ 1,575,000
<i>Financing Costs</i>	\$ 395,000	<i>LIHTC/TCHDC</i>	\$ 395,000
TOTAL USES	\$13,920,000	TOTAL SOURCES	\$13,920,000

*Amounts may change depending on LCDA-TOD results

Gap Financing

A portion of the acquisition financing has been conditionally approved through Bremer Bank for a five-year term, split between a two-year interest-only and three-year amortization period. The

developer has applied for \$750,000 in Metropolitan Council's LCDA-TOD funding, and is requesting up to \$1,000,000 from the HRA; any remaining acquisition funding needs will be provided via TCHDC equity. The HRA loan will be for a five-year term with 1% accrued annual interest; interest and principal payments will be deferred. The HRA loan will be in a second lien position to Bremer Bank.

Low Income Housing Tax Credits

TCHDC will be applying for low income housing tax credits in 2014 through the HRA and MHFA to finance the rehabilitation. A commitment of HRA funding prior to MHFA's June 10 application date will increase TCHDC's score, thus improving its probability of being awarded tax credits and other funding.

PED Credit Committee Review

On April 28, 2014, the PED Credit Committee reviewed the proposed terms of the loan for the Jamestown Homes project, and recommended approval. The Committee assigned a risk rating of 'Originated as Loss.'

Compliance

The 1st Developer Letter was received, along with an application for funding, on May 1, 2014. The notice under the Early Notification System is normally sent within ten days of receipt of the application. Given the date the application was received, an oversight, and the date of the Board meeting, the notice was only 12 days. The following compliance requirements may apply to this project: Vendor Outreach Program, Affirmative Action, Section 3, Labor Standards, Project Labor Agreement and Two-Bid Policy.

Green/Sustainable Development

Since this project consists of rehabilitating existing buildings, the City's Sustainable Development policy would not apply. The project's scope of work however, includes replacement of all mechanical systems, windows, and boilers, which will improve the project's overall energy efficiency.

Environmental Impact Disclosure

CDBG funding requires an environmental review which will be completed.

Historic Preservation

A HUD 106 review is required on this project and has been completed. SHPO has determined that no historic resources will be affected by this project.

Public Purpose/Comprehensive Plan Conformance

This project meets the public purpose objectives of preserving high density, affordable rental housing with access to transit, and conforms to the following plans:

Land Use Chapter of the Comprehensive Plan (2010), Strategy 3: Ensure the Availability of Affordable Housing Across the City

3.1 Support the preservation of publicly-assisted and private affordable housing.

b. Support the application of LIHTC, historic tax credits and other appropriate funding sources to maintain existing low-income units. The City/HRA should work with Minnesota Housing, community development corporations, and property owners to continue the provision of low-income housing units in these developments and to use LIHTC on the rehabilitation of existing affordable units.

The project will be a highly-visible gateway development to the Dale Street Station from the south, the existence of which is supported by the Dale Street Station Area Plan. Further, housing goals supported by the Summit-University neighborhood include the provision of a housing mix that provides lifelong options for residents and to maintain the diversity of neighborhood residents.

Recommendation:

The Executive Director recommends adoption of the attached Resolution, approving the budget amendment for an additional \$750,000 per the terms and conditions set forth in Resolution 14-846 and related documents to be executed.

Sponsored by: Commissioner Dai Thao

Staff: Sarah Zorn, 651-266-6570

Attachments

- **Attachment A -- Resolution**