

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

REPORT TO THE COMMISSIONERS

DATE: MARCH 14, 2012

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

- 1. PARCEL 866 BURR STREET, PAYNE-PHALEN DISTRICT 5**
- 2. PARCEL 776-778 CASE 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 Eastside Homes, LLC, a limited liability company for the sale and rehabilitation of two (2) duplexes located at 866 Burr Street and 776-778 Case Avenue in Payne-Phalen District 5 under the Neighborhood Stabilization Program.
2. Authorization to designate \$538,909 of Neighborhood Stabilization Funds (NSP 2) for the rehabilitation of two (2) duplex structures providing 4 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) must 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, and that rental housing should be considered only in true duplexes up to fourplexes. Neighborhood residents prefer that single family houses be used for homeownership only.

One strategy to meet the 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.)

One of the properties, Parcel 776-778 Case Avenue, was acquired under ISP, but qualifies under NSP for rehabilitation. Parcel 866 Burr Street was purchased using NSP 2 funds. Both are true duplexes, located close to schools, and will offer larger rental units to families. Both are foreclosed properties and require substantial amounts of rehabilitation do to size and condition.

Parcel 776-778 Case Avenue (2992 GLA) will provide one two-bedroom unit and one five-bedroom unit, with a detached, two-car garage. Parcel 866 Burr Street (2248 GLA) will provide one two-bedroom unit and one three-bedroom unit, with a detached two-car garage. (See **Attachment B - Background** for further description).

Eastside Homes, LLC is being formed by Hmong American Partnership (HAP), a local nonprofit located at 1075 Arcade Street. HAP presented a proposal to the District 5 Planning Council to undertake ownership and rehabilitation of up to four duplexes on the East Side to provide safe, affordable housing to families, some of whom may be going through their supportive services programs that HAP provides. The proposal went through the Early Notification process and no other proposals were received. HAP, District 5 Community Council, and Dayton's Bluff Neighborhood Housing Service (DBNHS) have all been working on completing this

purchase/rehab. HRA also considered and approved working with HAP under Resolution 10-1638.

- All District 5 properties are zoned RT-1 for the duplex use intended.
- Parks and schools location related to development (see **Attachment C**)
- Wilder planning district demographic profile is attached (see **Attachment G**)
- Acquisition of 776-778 Case Avenue was done under ISP donation.
- Acquisition of 866 Burr Street was done under NSP.
- Properties were foreclosed and Registered Vacant Buildings, Category 2.

### **Budget Action**

Obligate \$538,909.00 towards the development of 2 duplexes. The cost of rehabilitation is higher in order to bring the properties up to code, abate lead and asbestos, make improvements that will reduce maintenance costs over time, and meet the City's Sustainability Policy. The rehabilitation of these two building will preserve substantial structures in the neighborhood, increase neighborhood stability, and provide quality housing options. 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 property, staff will proceed to work with the Eastside Homes, LLC to complete all requirements as outlined in the Development Agreement and move forward to a closing.

### **Financing Structure**

HRA purchased Parcel 776-778 Case for \$50,000 under ISP and Parcel 866 Burr Street for \$48,510 under NSP. Both properties had been foreclosed/vacant for more than a year before being identified for acquisition. The total acquisition costs \$98,510. The After-Rehab Appraisal indicates the value of Parcel 776-778 Case Avenue at \$159,000, and Parcel 866 Burr Street at \$145,000.

Acquisition Costs	\$ 98,510.00
Estimated Development Costs	<u>538,909.00</u>
Total Development Costs	\$ 637,419.00
Estimated after rehab value	<u>- 304,000.00</u>
Gap Assistance	\$ 333,419.00

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	\$32,005.00
Yearly Expenses	-21,194.00
Yearly Reserves	<u>- 7,512.00</u> (taxes, capitol costs, painting/decorating)
NOI	\$ 3,299.00 to cover debt service

Cash flow supports a payment covering 18% of the estimated fair market value (\$55,000) at 3.99% interest over 30 years. Payment each year would be \$3,147.12. HRA will evaluate year-end cash-flow statements, and if the debt coverage ratio coverage is more 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, 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 75% 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 2009-2013 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 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, March 3, 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 Dayton’s Bluff District 4 area:

<b>Property Description</b>	<b>Purchaser/Developer</b>	<b>Purchase Price</b>
776-778 Case Avenue	Eastside Homes, LLC, a Minnesota limited liability company	\$50,000.00

The property will be conveyed for the purpose of rehabilitating this existing vacant duplex into 1-2br unit and 1-5br unit (two stories) to provide affordable rental housing.

<b>Property Description</b>	<b>Purchaser/Developer</b>	<b>Purchase Price</b>
866 Burr Street	Eastside Homes, LLC, a Minnesota limited liability company	\$48,510.00

The property will be conveyed for the purpose of rehabilitating this existing vacant duplex into 1- 2br unit and 1-3br 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: Sheri Pemberton-Hoiby (651-266-6615)**

**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**