

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

REPORT TO THE COMMISSIONERS

DATE: AUGUST 25, 2021

REGARDING: RESOLUTION APPROVING THE RE-SUBORDINATION OF TWO CDBG DEFERRED LOANS ASSOCIATED WITH THE LOWERTOWN LOFTS COOPERTIVE PROJECT DUE TO REFINANCING THE FIRST MORTGAGE, DISTRICT 17, WARD 2

Requested Board Action

The purpose of this report is to request the Housing and Redevelopment Authority (HRA) Board of Commissioners to approve the attached Resolution authorizing the approval of partial repayment, re-subordination, and extension of terms of two deferred CDBG loans related to the Lowertown Lofts Cooperative.

Background

Lowertown Lofts Cooperative (LLC) is a 29-unit affordable artist live-work housing cooperative located at 255 East Kellogg Boulevard in Saint Paul. The project was originally established in 1985, as part of a major renovation of an historic warehouse building in the Lowertown District of downtown Saint Paul. While LLC was the first project and a pioneer in the area, over the past 35 years, Lowertown has become a cultural corridor with many artists working and residing in the area. Lowertown has been growing and changing but the area still includes artist housing projects such as the Northern Warehouse and The Tilsner mixed in with several market rate rental and for-sale housing projects. The area has also become well known for the Saint Paul Art Crawl, CHS ballpark, and the Saint Paul Farmer's Market.

Budget Action

N/A

Future Action

N/A

Financing Structure

In September 30, 2009, LLC restructured their existing financing with a new HUD insured first mortgage loan through Wells Fargo. Due to lower interest rates, they are now seeking to refinance this first mortgage again and provide additional funds for on-going needed capital improvements. They have requested that the City of Saint Paul loans which total \$790,554 in principal be extended to be coterminous and subordinated to the new financing being obtained by the Cooperative.

The existing debt structure for LLC is as follows:

- First mortgage loan with a balance of \$1,118,487, interest rate of 5.75%, due 12/1/2044.
- Second mortgage loan of approximately \$301,747 with the Housing and Redevelopment Authority of the City of Saint Paul, interest rate of 2%, payments due annually from 50% of the excess cash flow or due in full 11/1/2044 or upon sale. This loan is made up of two sources of funds, \$248,837 CDBG and \$52,910 HRA funds. The HRA has received no payments on this loan since 2014.
- Third mortgage loan of \$488,806 with the City of Saint Paul, 0% interest and due upon sale of the project.

Capital Needs Assessment

A third party 20-year capital needs assessment was completed as required for the HUD insured financing. It was determined that over the first 10 years there is a need for approximately \$121,600 in capital improvement costs. In year 11 through 20, there is a need for an additional \$405,055, for a total of \$626,655 uninflated, or \$791,400 inflated.

The new financing will allow the existing debt service payments on the first mortgage loan to increase slightly and add to an existing replacement reserve account an additional amount of \$491,377 for a total of \$551,547. In addition, LLC will be required to deposit \$250 per unit per year (\$7,250 a year) into the replacement reserve account.

New Financing

PED staff recommends the following terms for the refinancing of the Cooperative:

1. Repay the HRA flexible funds portion of this loan in the principal amount of \$52,910. Extend and re-subordinate the remaining \$248,837 CDBG loan with a new term of 35 years at 2% interest. Also require an upfront payment of all accrued interest in an amount of approximately \$84,320. Increase the cash flow note from 50% to 75% of surplus cash flow.
2. Extend and re-subordinate the \$488,806 City of Saint Paul loan for 35 years at 0% interest. The full amount will be due at the end of 35 years or 2056.
3. The LLC will be approved for a HUD insured loan for a new first mortgage not to exceed \$1,941,310 with 2.5% interest for 35 years. These funds will be used to pay off the Wells Fargo loan of \$1,118,487 and deposit the required amount of \$491,377 in a replacement reserve fund in order to complete capital improvements as identified in the 20 year physical needs assessment completed on behalf of HUD. The remaining funds will be used on refinancing costs, legal and organizational expenses.

Sources and Uses

SOURCES	Dollar Amt	USE (Estimated)	Dollar Amt
HUD 1st Mortgage	\$1,941,310	Wells Fargo 1st Mortgage Pay-off	\$1,118,487
Existing Replacement Reserve	\$60,170	Financing Fees	\$105,341
Existing Tax and Insur Escrow	\$36,748	3 rd Party Prof Services	\$72,125
		New Replace Reserves	\$491,377
		Existing Replace Reserves	\$60,170
		New Operating Reserves	\$62,246
		Existing Operating Reserves	\$36,748
		Pay off HRA Interest	\$84,320
		Pay off HRA Principal	\$52,910
Total Sources:	\$2,038,228	Total Uses:	\$2,038,228

PED Credit Committee Review

On August 10, 2021, the PED Credit Committee reviewed and approved the re-subordination, extension of terms and partial repayment of the CDBG loans for Lowertown Lofts Cooperative.

Compliance

N/A

Green/Sustainable Development

The Lowertown Lofts Cooperative project complies with Saint Paul Sustainable Development Policy.

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose/Comprehensive Plan Conformance:

This Project meets several public purpose objectives including providing high density affordable rental housing close to major transit corridor and historic preservation. This Project is also consistent with the Housing Chapter of the 2030 Comprehensive Plan including Section 3.1 Support the preservation of publicly assisted and private affordable housing.

This Project is also consistent with the goals in the Downtown Development Strategy including:

- Increase and preserve the number of housing units downtown.
- Provide a range of price options in new housing.
- Increase the amount of life-cycle housing downtown through new development and rehabilitation/conversion of existing buildings, including vacant office buildings as appropriate.
- Ensure the affordability of downtown housing by promoting a better mix of unit types, costs, and sizes.

Recommendation:

The Executive Director recommends and requests the HRA Board of Commissioners consider adoption of the attached Resolution which approves the re-subordination, partial repayment and extension of terms related to both deferred CDBG loans for Lowertown Lofts Cooperative.

Sponsored by: Commissioner Noecker

Staff: Diane Nordquist 651-266-6640

Attachments

- **Map**
- **District 17 Neighborhood Profile**