

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

REPORT TO THE COMMISSIONERS

DATE: NOVEMBER 9, 2011

**REGARDING: PUBLIC HEARING - AUTHORIZATION TO ENTER INTO A DEVELOPMENT AGREEMENT; APPROVE FINANCING ASSISTANCE; AND APPROVE THE CONVEYANCE AND SALE OF LAND TO KENDALL LAND COMPANY, LLC FOR DEVELOPMENT OF PARCEL 840 PAYNE AVENUE, PAYNE-PHALEN, DISTRICT 5**

## **Requested Board Action**

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

1. Authorization to enter into a Development Agreement with Kendall Land Company, LLC for the sale and the construction of a new 13,600 sq/ft hardware store located at 840 Payne Avenue (NE corner of Payne and Phalen Boulevard) under the Payne-Phalen Boulevard Main Street Redevelopment Plan and ISP/NSP Rebuilding Plan 2009-2013.
2. Authorization to approve budget amendment designating \$625,000 of CDBG funds to be used in this commercial development.

## **Current**

HRA approved tentative developer designation to Kendall Hardware on 14 September 2011 by Resolution 11-1795. The community strongly supports the retention of Kendall Hardware in the neighborhood and believes Kendall Hardware will be a strong anchor for the corner of Payne and Phalen Boulevard.

On November 3, 2004, City Council approved the Payne-Phalen Boulevard Main Street Redevelopment Plan by Resolution 04-1059. On November 3, 2004, by Resolution 04/11/10-1, HRA also approved said Plan. The Plan outlined the need to bring in a variety of new housing types together with commercial/retail services. The neighborhood, HRA, and many other partners were successful in developing the Phalen Senior Lofts in 2007.

As part of the widening of Maryland Avenue, Ramsey County received federal funding to construct turn lanes to facilitate better traffic flow and reduce accidents.

The purchase of Kendall Hardware was necessary to facilitate these turn lanes, and the County has now completed this acquisition. Kendall Hardware has been located on the avenue for more than 50 years. The community wants to retain this business on Payne Avenue and take the opportunity to show investment at a prime location. Kendall needs to be off their existing site by April 15, 2012 in order for demolition and improvements to commence in the area. This extremely tight timeline for the relocation of Kendall Hardware requires that construction of their new store get underway by early December.

- zoning is T-2 and supports the proposed land use of retail development
- Parks and schools are located ¼ mile of development. (see **Attachment C**)
- Wilder planning district demographic profile is attached (see **Attachment G**)
- Acquisition of this property was done over many years using both local and federal funds to assemble a viable development site consisting of 2.56 acres
- 1.085 acre is being considered for the new hardware store, leaving over 1.47 acres for future development along Payne
- Property is located in a designated ISP/NSP targeted area and along a neighborhood commercial corridor
- Kendall currently has 12 full time employees and anticipates hiring two more full time and two part time employees with the new building

### **Budget Action**

Approve budget amendment allocating \$625,000 of CDBG funds to assist in the construction of a new 13,600 sq/ft hardware store. Total Development Costs have been identified at \$2,255,000.00 including;

- land cost
- hard construction
- soil correction costs do to poor soil on the site
- placement of street trees for the boulevard,
- park land dedication fee
- sustainability and the need to improve water quality standards on site
- winter building conditions

### **Future Action**

None. Once the HRA takes action authorizing the sale and budget amendment, staff will proceed with closing.

## Financing Structure

A land value was established for HRA's site by an appraisal. The site being conveyed is 47,277 sq/ft (1.085 acres), of which 21,000 sq/ft is unbuildable due to poor soil conditions and topography issues. University Bank has hired an appraiser to establish the as-built value of the property. The preliminary figure is \$1.1 million based on current market conditions. The final appraisal will be received on November 18. University Bank and PED representatives have reviewed the last three years of income on the Payne Avenue store. Both parties are using the established cash flow rather than projections which may not be realized for a few years. The proposed financing structure being recommended for HRA repayment is based on the value gap between the cost to build and as-built value.

- Based on this information, University Bank has made a commitment of \$800,000 at an interest rate of 5.5% (1.15 DCR/ 73% of loan to value ratio). The difference of .15 will be placed in a reserve account to be used for unforeseen reduction in cash flow due to downturn in the economy or replacement/improvements to the building subject to review by PED staff.
- Structure of the \$625,000 CDBG loan will be tied to surplus cash-flow at the end of each year. PED staff will review year-end audited statements for Kendall Payne Hardware and any surplus cash flow over 1.15 DCR will be split: 60% will be paid to HRA against this deferred loan and 40% will be paid to Kendall. The term of this loan will be 22 years, which corresponds with the bank financing; the interest rate will be 0%.
- The land value of \$380,000 will be deferred until refinancing and/or sale of the property, at which time, if the land value exceeds the original land/sales value, any amount over \$380,000 will be shared 50/50 and any unpaid amount would be forgiven at that time. The term of this loan will be 22 years to correspond with the bank financing, at 0% interest.

Uses		Sources	
Land Costs (\$10.27 sq/ft)	\$ 380,000.00	University Bank/New Market Tax Credits	\$ 800,000.00
Const. Cost (\$114,00 sq/ft)	1,500,000.00	Kendall Equity	200,000.00

Extra Soil Correction	62,000.00	East Side Neighborhood Dev. Co - Grant	50,000.00
Architectural/Engineering/Const Mgmt	113,000.00	STAR NIF funds Grant – Approved	200,000.00
Legal/Financing Fees	50,000.00	CDBG Funds (if approved)	625,000.00
Contingency (Park Land Fee, quality water, street trees, const)	150,000.00	Deferred Land Cost	380,000.00
<b>Total Development Costs</b>	<b>\$ 2,255,000.00</b>	<b>Total Development Sources</b>	<b>\$ 2,255,000.00</b>
Tenant improvements; stock relocation; business reestablishment expenses	\$ 310,000.00	Kendall Equity	\$ 310,000.00
<b>Total Project Costs</b>	<b>\$ 2,565,000.00</b>		<b>\$ 2,565,000.00</b>
Land Cost 16.8 % Construction 66.4% Extra Soil Costs 3% Soft costs 7.2% Contingency 6.6%			

### **PED Credit Committee Review**

On October 31, 2011, the PED Credit Committee reviewed and approved the terms of the HRA loan and risk rating.

### **Compliance**

Kendall has received 2nd Acknowledgment Letter covering the compliance requirements listed below.

- Vendor Outreach Program
- Affirmative Action/EEO
- Labor Standards (federal)
- Living Wage (Exemption 20 or fewer employees)
- Business Subsidy (Exempt if assistance is less than 50% of TDC or Energy Conservation measures incorporated)
- Two Bid Policy
- Section 3
- Project Labor Agreement

### **Green/Sustainable Development**

The project will comply with the Saint Paul Sustainable Development Policy. Xcel has indicated that the size of this project (less than 20,000 sq/ft) makes it too small for their large program. The architect is following the State Guidelines Building Benchmarking and Beyond and is working with University of Minnesota and MNSCU.

**Environmental Impact Disclosure**

N/A

**Historic Preservation**

N/A

**Public Purpose/Comprehensive Plan Conformance**

Primary public purpose is economic and community development:

- City of St. Paul Comprehensive Plan – Economic Development Strategy
- St. Paul Consolidated Five Year Plan- EO 3.1 Sustainability of Economic Development
- Phalen Corridor Development Strategy made a part of the Comprehensive Plan

**Statement of Chairman**

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 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, October 29, 2011. 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 property in Payne-Phalen District 5:

<b>Property Description</b>	<b>Purchaser/Developer</b>	<b>Purchase Price</b>
840 Payne Avenue	Kendall Land Company, LLC a Minnesota limited liability company	\$ 380,000

The above property is being sold by the HRA for the construction of a new Payne Avenue hardware store bringing over a \$2.0 million investment to the neighborhood.

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 and staff recommend approval of sale and budget amendment in accordance with the attached resolution.

**Sponsored by:           Commissioner Bostrom**

**Staff: Sheri Pemberton-Hoiby, 651-266-6615**

**Attachments**

- **Attachment A – Resolution**
- **Attachment B - Preliminary Plans**
- **Attachment C - Map/Address of Project, should include libraries, parks, schools.**
- **Attachment D – Project Summary**
- **Attachment E – Sources and Uses**
- **Attachment F - *Public Purpose Form***
- **Attachment G - Census Facts**