

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

REPORT TO THE COMMISSIONERS

DATE: APRIL 11, 2012

**REGARDING: AUTHORIZATION TO APPROVE SALE AND CONVEYANCE OF PARCEL
652 CONWAY STREET TO DAYTON'S BLUFF NEIGHBORHOOD HOUSING
SERVICE, INC. LOCATED WITHIN ISP/NSP NEIGHBORHOOD, DAYTON'S
BLUFF DISTRICT 4**

Requested Board Action

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

1. Authorization to approve the sale and conveyance of Parcel 652 Conway to Dayton's Bluff Neighborhood Housing Services, Inc. in Dayton's Bluff District 4 under the ISP/Neighborhood Stabilization Program/Plan 2009-2013.
2. Authorization to finalize the NSP obligation in the amount of \$562,000.000 for the rehabilitation of 652 Conway in the Dayton's Bluff Historic District to provide for 2-4br rental units.

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 a true duplex up to fourplex. 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 and/or CDBG 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.)

On August 8, 2007, by Resolution 07-08/08-3 HRA approved the Invest Saint Paul Initiative and work plan including strategic acquisition of vacant properties. Dayton's Bluff District 4 identified a 4-5 block radius around Dayton's Bluff Achievement Plus School as an immediate area of concentration. One of the properties, Parcel 652 Conway, was a property that had historic significance, and was purchased with CDBG funds in December, 2007. Since this property was originally foreclosed and vacant when purchased and meets the NSP requirements the rehabilitation can be funded under NSP. (See **Attachment B – Background** for further description).

On June 23, 2010, by Resolution 10-06/23-4, HRA approved entering into a Development Agreement, Obligating NSP funds of up to \$800,000 to Dayton's Bluff Neighborhood Housing Services (DBNHS) for the rehabilitation of 652 Conway Street. The final development approval was subject to a public hearing for sale and conveyance of property. The obligation was contingent on finalizing the scope of work and development plan which includes engineering evaluation for 652 Conway covering structural concerns and off-street parking, bidding process, approvals required through the Heritage Preservation Commission, finalizing an agreement concerning easement in MnDot right-of-way property at the front of 652 Conway and meeting all other NSP requirements as necessary.

Moving forward with the rehabilitation of this property was significantly delayed while trying to deal with MnDot on resolving access to the front of the property which was over MnDot land

taken at the time Mounds Blvd was widened when I-94 was put in. This problem of access has been a long term issue and no outside financing is willing to provide funding for the building, which has sat vacant for more than 7 years. 652 Conway was built 1917 and is a contributing element within the Dayton's Bluff local historic district. It was originally built as 4-1br apartments. The property is being fully rehabilitated into 2-4br units with off-street parking to provide affordable rental housing at 50% of the area median income.

Dayton's Bluff NHS is local neighborhood non-profit with an office located at 823 E. 7th Street, St. Paul. It already owns the successful Homes for Learning scattered rental projects in and adjacent to 652 Conway. The close proximity allows for easy management inclusion with the other units.

- 652 Conway Street is located in RT-2 Zone and meets all compliance requirements
- Parks and schools location related to development (see **Attachment C**)
- District demographic profile is attached (see **Attachment E**)
- Acquisitions of 652 Conway was done under ISP using CDBG funding
- Property was foreclosed; Registered Vacant Building, Category 2 since 1/23/06
- Heritage Preservation Commission approved plans 2/23/2012

Budget Action

Obligate \$562,000.00 towards the development of 652 Conway Street. The cost of rehabilitation is relatively high due to the size, condition of the buildings, de-conversion and addressing historic issues. The neighborhood believes that the structure preserves character, improves neighborhood stability, and provides good 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 Dayton's Bluff Neighborhood Housing Services, Inc. to complete all requirements as outlined in the Development Agreement and move forward to a closing.

Financing Structure

HRA/DBNHS purchased Parcel 652 Conway for \$165,000 with CDBG funding in 2007. Property had been foreclosed and vacant since January, 2006. The After-Rehab Appraisal review of property sales in the area indicates the estimated value at \$160,000.

Acquisition Costs	\$ 165,000.00
Estimated Development Costs	<u>562,000.00</u>
Total Development Costs	\$ 727,000.00
Estimated after rehab value	<u>- 225,000.00</u>
Gap Assistance	\$ 502,000.00

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	\$21,620.00
Yearly Expenses	-17,480.00
Yearly Reserves	<u>- 1,080.00</u> (replacement reserve, painting/decorating)
NOI	\$ 3,060.00 to cover debt service

The cash flow supports a payment covering 22% of the estimated fair market value (\$225,000) at 3.99% interest over 30 years. Payment each year would be \$2,861.04. HRA will evaluate year-end cash-flow statements and if the debt coverage ratio coverage is greater than 1.15 and reserves have been fully funded, 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 be reviewing these terms to designate the risk rating for recording.

Compliance

This development will have to comply 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
8. Heritage Preservation Commission

Green/Sustainable Development

The project will comply with Saint Paul/HRA Sustainability Initiative. The project also needs to meet the following NSP requirements:

1. Minnesota Green Standards for Rehab
2. HUD Healthy Home Requirements
3. Lead Base Paint and Hazardous Waste
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. Also, Tier 1 environmental review was completed at time of acquisition under CDBG.

Historic Preservation

652 Conway Street was subject to a Tier 2 environmental review, which included consultation with the State Historic Preservation Office. Property has 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 available of quality and affordable housing across the City.

The development also support 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) bring together resources, time, talent and funding in neighborhoods poised to prosper after a prolonged period of disinvestment; 3) reduce the number of vacant houses; 4) rehabilitate or address housing units to strengthen the housing stock; 5) improve stability and quality of life in neighborhoods; 6) build 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 Parcel of land located in Dayton's Bluff District 4 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 31, 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:

Property Description	Purchaser/Developer	Purchase Price
652 Conway Street	Dayton's Bluff Neighborhood Housing Services, Inc. a Minnesota non-profit corporation	\$165,000.00

The property will be conveyed for the purpose of de-converting this non-conforming four-plex and rehabilitating into 2-4br units to provide affordable rental housing with off-street parking.

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 Lantry**

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 – District 4 Profile**