

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

**REPORT TO THE COMMISSIONERS**

**DATE: NOVEMBER 10, 2021**

**REGARDING: RESOLUTION APPROVING AND AUTHORIZING (i) THE EXPANSION OF THE SAINT PAUL NEIGHBORHOOD REDEVELOPMENT PROJECT AREA, (ii) AN AMENDMENT TO THE REDEVELOPMENT PLAN THEREFOR (iii) THE ESTABLISHMENT OF THE 520 PAYNE AVENUE HOUSING TAX INCREMENT FINANCING DISTRICT (THE HOLLOWS) IN THE PROJECT AREA, AS EXPANDED, (iv) A TAX INCREMENT FINANCING PLAN THEREFOR, (v) THE CONVEYANCE OF LAND, (vi) THE EXECUTION OF A TAX INCREMENT DEVELOPMENT AGREEMENT, INCLUDING A POOLED TIF LOAN, AND RELATED DOCUMENTS, AND (vii) AN HRA BUDGET AMENDMENT, DISTRICT 5, WARD 7**

**Requested Board Action**

The HRA Board will take action on two separate HRA Board resolutions pertaining to the 520 Payne Avenue project. The first will be a Public Hearing to sell the HRA owned land to the Hollows Apartments LLLP (the “Developer”) and approval of Tax Increment Financing and the second resolution will authorize the issuance of Multifamily Housing Revenue Bonds by the HRA to finance the project

HRA Board is requested to approve the following:

1. The sale of HRA parcel to Developer for the purchase price of \$364,900.
2. Expanding the Saint Paul Neighborhood Redevelopment Project Area and the establishment of a Tax Increment Financing District for the 520 Payne Avenue Housing Project
3. Approving the Amended Redevelopment Plan and the Tax Increment Financing Plan.
4. Approval of a TIF Development Agreement with Hollows Apartments, LLLP, including a Pooled TIF Loan.
5. Approving an HRA Budget Amendment.
6. Authorizing the Executive Director to finalize all documents for execution by the appropriate HRA Officers in connection with the 520 Payne Avenue project.

## Background

The HRA acquired 520 Payne Avenue (Parcel ID 32.29.22.24.0179) from Standard Truck on November 25, 2003 for purchase price of \$655,000.00 (purchased with CDBG Funds). The property was not acquired via eminent domain.

In September 2018, staff received a proposal from JO Companies (Hollows Apartments LLLP) and a proposal from Dayton's Buff Neighborhood Housing Services (DBNHS). Both developers requested to purchase the property and construct a multi-family affordable housing building on the site.

On June 10, 2020, the HRA Board approved tentative developer status for the Developer for this property.

The Developer proposes to construct a four-story building with 62 housing units. The development will have 29 underground and 16 surface parking spaces. The proposed housing will consist of 32 efficiencies and 30 one-bedroom units. The projected rents and income restrictions are proposed to be affordable at or below 60% AMI, with 8 units set aside for rents not to exceed Fair Market Rents (FMR) and five (5) units set aside for income at 30% AMI.

The sixty-two (62) housing units will be affordable to households as follows:

### Size and Income /Rent Limits of Units:

| Size   | # of units | Gross Rent | Rent Limit | Income Limit |
|--------|------------|------------|------------|--------------|
| Studio | 32         | \$1,102    | 60%        | 60%          |
| 1 BR   | 8          | \$1,054    | FMR        | 60%          |
| 1BR    | 5          | \$560      | 30%        | 30%          |
| 1 BR   | 11         | \$1,181    | 60%        | 60%          |
| 2BR    | 6          | \$1,417    | 60%        | 60%          |
| Total  | 62         |            |            |              |

\* FMR = Fair Market Rents

The Project has a financing gap and the Developer has requested the establishment of a new housing Tax Increment Financing district to provide assistance. The City Council will hold a public hearing on November 10, 2021 and consider adoption of RES PH #21-314 approving the 7<sup>th</sup> Amendment to the Saint Paul Neighborhood Redevelopment Project Area and establishment of a Tax Increment Financing District for the 520 Payne Avenue Housing Project and approving the Amended Redevelopment Plan and Tax Increment Financing Plan.

The property is currently zoned T2 – Traditional Neighborhood and the proposed project is permitted in this district. See **Attachment** for a Map/Address of the Property, and **Attachment** for a demographic profile of District 5, the Saint Paul Planning District in which the Project is located. No businesses will be displaced, and no land acquisition took place as a result of eminent domain.

**Budget Action**

The HRA is approving a budget amendment to align with the financing and spending included in the TIF Plan, which budget amendment is included in the Attached Financial Analysis. The Pooled TIF funds are already budgeted for the construction of affordable housing.

**Future Action:**

None

**Financing Structure**

The Developer has proposed the following permanent sources and uses to complete the construction project. They are seeking HRA issued Multifamily Housing Revenue Bonds with automatic 4% Low Income Housing Tax Credits (LIHTC), Tax Increment Financing (TIF) and the City’s Pooled TIF.

| <u>SOURCE</u>                           |              | <u>USES</u>      |              |
|---|--------------|------------------|--------------|
| 1 <sup>st</sup> Mortgage (4.2%, 40 yrs) | \$ 6,837,000 | HRA Owned Land   | \$ 364,900   |
| Syndication Proceeds (\$.92)            | \$ 7,383,495 | New Construction | \$12,213,504 |

|                           |               |                   |                   |
|---------------------------|---------------|-------------------|-------------------|
| TIF Mortgage & Pooled TIF | \$ 3,200,000  | Contingency       | \$ 589,480        |
| Deferred Developer Fee    | \$ 1,015,862  | Developer Fee     | \$ 2,106,145      |
| Ramsey County             | \$ 208,883    | Enviro Abatement  | \$ 289,652        |
| DEED Grant                | \$ 81,117     | Professional Fees | \$ 1,367,655      |
| GP Equity                 | \$ <u>100</u> | Financing Costs   | \$ 1,309,817      |
|                           |               | Reserves          | \$ <u>485,204</u> |
| TOTAL                     | \$18,726,457  |                   | \$18,726,457      |

### HRA Property Sale

PED Staff is recommending that the HRA owned property be sold to the Developer for \$364,900. The current value is estimated at \$364,900. PED staff will file a Declaration of Restricted Uses on the property prior to selling the property.

### Housing Revenue Bonds

There is a total of not to exceed \$9,100,000 of bond authority being requested. In order to receive 4% automatic tax credits, the project must meet a “50%” test which means as least 50% of the Borrower’s basis must be initially financed with Bond proceeds (the City’s QAP limits this to 53% as an additional cushion in case costs change). The tax-exempt bond financing will be structured in one Note. The Note will be long term debt. The Note will be repaid by the installment of tax credit equity and then project cash flow. The revenue bonds issued by the HRA will be privately placed with a lender (Red Stone or an affiliated entity).

The Note will have a final maturity of 40 years, will require partial redemption from tax credit equity, resulting in a long-term principal amount of about \$7,904,000. The Note will have a fixed interest rates set prior to closing with a rate during construction with interest only due, and a different rate after construction, with an option for the Note to be tendered in 18 years from the closing.

### Low Income Housing Tax Credits

The project will be financed with the 4% Low Income Housing Tax Credits (LIHTC). The 4% tax credits can be used for projects with tax exempt revenue bond financing, provided they meet the

50% test detailed above. The Tax Credit's projected price is \$0.92. US Bank is the syndicator.

### Proposed Tax Increment Financing Structure

Due to the high cost of developing affordable housing, the Project is feasible only through assistance from tax increment financing. With the establishment of the housing TIF district for the 520 Payne Avenue, TIF will be provided through a pay-as-you-go note to the Developer. Upon final analysis of the amount of tax increment financing needed, the TIF will be structured as a Pay-As-You-Go Note to the Developer, pledging 90% of the tax increments collected by the HRA from the TIF district, for TIF-eligible expenses, including interest. The remaining tax increment is budgeted for administration costs. The principal amount of the note may change, but, in no event, will be less than their financing gap, and will not exceed the amount supported by the tax increment projections with a fixed interest rate that will be equal to the long-term interest rate on their bonds estimated to be 4.2%. Pay-As-You-Go obligations are limited obligations without scheduled payments, and revenues are first used to pay interest and then to retire principal. The HRA makes no representation that the pledged increments will be sufficient to pay principal and interest.

### City's Pooled TIF Loan

The City's Pooled TIF Loan will be based on a total financing of \$3,200,000 minus the TIF note. It is currently estimated the TIF Note will be \$1,067,000. Therefore, the Pooled TIF is estimated at \$2,133,000. The loan will be a 50% cash flow loan with a term of 40 years, at 1% simple interest. All principal and interest payments will be deferred until the deferred developer fee, is paid in full.

### Deferred Developer Fee

In order to maximize the amount of tax credit equity, the Developers are requesting the maximum fee (\$2,106,145) under the City's Developer Fee Guidelines and will include this fee as eligible tax credit basis. A portion of the Developer Fee of \$1,015,862 will be deferred and paid over a period of up to 15 years through excess cash flow.

### **PED Credit Committee Review**

On October 19, 2021, the Credit Committee reviewed the proposed Multifamily Housing Revenue Bonds and Tax Increment Financing assistance. The Credit Committee approved the bond issuance and TIF assistance as consistent with PED policies. The Credit Committee also approved of the terms of the City's Pooled loan with a risk rating of Originated as a Loss.

### **Compliance**

The Applicant has signed the compliance letters regarding the Project. The Project will comply with the following programs and/or requirements: Vendor Outreach Program, Affirmative Action, Local Labor Standards, Project Labor Agreement, Sustainable Green Policy and Two Bid Policy. The Project is exempt from the following: Business Subsidy based on development of housing; Living Wage based on the number of employees.

### **Green/Sustainable Development**

The project will comply with the Saint Paul Sustainable Development Policy.

### **Environmental Impact Disclosure**

N/A

### **Historic Preservation**

This project will not require HPC PED Staff review.

### **Public Purpose/Comprehensive Plan Conformance**

#### ***Housing***

The proposal is in conformance with the Comprehensive Plan. The 2030 Comprehensive Plan, currently in effect, designates the site for Industrial, but also as an Opportunity Site that allows for intensification through redevelopment to uses such as proposed. The 2040 Comprehensive Plan, currently under Metropolitan Council review, designates the site as Urban Neighborhood and within a Neighborhood Node, which together encourage multi-family residential uses with transit-supportive density. The Railroad Island Plan Summary (2007) calls for "working with the community to explore potential uses" in this area, "including the possibility of purchasing State Supply to allow for the creation of a more attractive gateway to the area."

**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 District 5 (Payne- Phalen) 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 Legal ledger on October 28, 2021. 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 the District 5 (Payne Phalen):

| <b>Property Description</b> | <b>Purchaser/Developer</b> | <b>Purchase Price</b> |
|-----------------------------|----------------------------|-----------------------|
| 520 Payne Avenue            | Hollow Apartments LLLP     | \$364,900             |

Legal description

1. Parcel 1. The part of Lot 1, Block 7, Brunsons Addition, lying East of the West 170 feet thereof, except railroad right of way. Those parts of Lots 3 and 4, Block 7, Brunsons Addition, lying East of the West 110 feet thereof and West of the East 66 feet thereof, and that part of the South half of the adjoining alley, vacated, lying between the extensions across it of the East line of the West 110 feet of said Lot 3 and the West line of the East 66 feet of said Lot 3.

2. Parcel 2. The East 66 feet of Lots 3 and 4, Block 7, Brunsons Addition and that part of the South half of the adjoining alley, vacated, lying between the extensions across it of the East line of Lot 3 and the West line of the East 66 feet of said Lot 3, Block 7, Brunsons Addition, except railroad right of way.

3. Parcel 3. The West 170 feet of Lot 1, Block 7, Brunsons Addition Lot 2, Block 7, Brunsons Addition and that part of the North half of the adjoining alley, vacated, lying between the extensions across it of the East and West lines of said Lot 2, except railroad right of way. The West 110 feet Lots 3 and 4, Block 7, Brunsons Addition, and that part of the South half of the adjoining alley, vacated, lying between the extensions across it of the West line of said Lot 3 and the East line of the West 110 feet of said Lot 3.

4. Parcel 4. That part of the southerly half of vacated Kenny Road (platted as Bradley Street in the plat of Brunson's Additions) lying easterly of Payne Avenue and westerly

of the West line of the Ramsey County Regional Railroad. Subject to the terms and condition of Chapter 130 of the Saint Paul Legislative Code as set forth in Doc. No. 2652085.

The property will be conveyed for redevelopment of a 62-unit apartment building. 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 the attached resolution which approves the following actions:

1. The sale of HRA parcel to Developer for the purchase price of \$364,900.
2. Expanding the Saint Paul Neighborhood Redevelopment Project Area and the establishment of a Tax Increment Financing District for the 520 Payne Avenue Housing Project
3. Approving and the Amended Redevelopment Plan and the Tax Increment Financing Plan.
4. Approval of a TIF Development Agreement with Hollows Apartments, LLLP, including a Pooled TIF Loan.
5. Approving an HRA Budget Amendment.
6. Authorizing the Executive Director to finalize all documents for execution by the appropriate HRA Officers in connection with the 520 Payne Avenue project.

**Sponsored by:** Commissioner Jane Prince

**Staff:** Report prepared by: Daniel K. Bayers, (266-6685)  
Jenny Wolfe (266-6680)

**Attachments**

- Financial Analysis
- Seventh Amendment to Redevelopment Plan for the Saint Paul Neighborhood Redevelopment Project Area
- Tax Increment Financing Plan for the 520 Payne Avenue Housing Tax Increment Financing District (The Hollows)
- Map
- D5 Payne Phalen Neighborhood Profile