

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

REPORT TO THE COMMISSIONERS

DATE: FEBUARY 22, 2012

REGARDING: RESOLUTION APPROVING THE ASSIGNMENT, ASSUMPTION, MODIFICATION AND SUBORDINATION OF A CDBG LOAN IN THE AMOUNT OF \$240,000.00 AND A CDBG LOAN IN THE AMOUNT OF \$150,000.00, AND AUTHORIZING THE EXECUTION OF VARIOUS DOCUMENTS IN CONNECTION WITH THE ST. PHILIP'S GARDEN PROJECT, DISTRICT 8

Requested Board Action

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

1. Approval of an Assignment, Assumption, Modification and Subordination of an existing HRA CDBG Loan in the amount of \$240,000 for St. Philip's Gardens II Limited Liability Limited Partnership to assist in the acquisition and rehabilitation of St. Philip's Gardens.
2. Approval of an Assignment, Assumption, Modification and Subordination of an existing HRA CDBG Loan in the amount of \$150,000 for St. Philip's Gardens II Limited Liability Limited Partnership to assist in the acquisition and rehabilitation of St. Philip's Gardens.
3. Authorize the Executive Director to negotiate the terms and execute all required documents.

Background

St. Philips Gardens apartments, located at 754 Concordia Avenue (the "Property"), is a 56-unit low-income housing project containing 12 townhomes and 44 apartment units in two, three-story walk-up buildings. Unit mix includes 12 one-bedroom units, 39 two-bedroom units, and five three-bedroom units. The Property is being acquired and rehabilitated by the St. Philip's Gardens II Limited Liability Limited Partnership (the "Developer"). In 2009, St. Philip's Gardens, Inc. entered into a purchase agreement with Twin Cities Housing Development

Corporation (the “TCHDC”) for the Property. TCHDC is the sole member of TCHDC SPG, LLC, which is the managing general partner of the Developer.

The rehabilitation will entail both interior and exterior rehabilitation, including storm water retention, concrete replacement, parking lot replacement, interior upgrades, an energy efficient HVAC system, plumbing, kitchen and bathroom upgrades.

In 1999 St. Philip’s Gardens, Inc. (the “Seller”) received a deferred loan of \$240,000 in CDBG funds from the HRA for the acquisition and renovation of the Property. The HRA made an additional deferred loan of \$150,000 using CDBG funds in 2001.

The current \$240,000 CDBG loan has an interest rate of 2%. The principal and all accrued interest on the loan is due and payable on December 2, 2013. The \$240,000 CDBG loan balance is \$302,160 as of February 1, 2012.

The \$150,000 CDBG loan has an interest rate of 2%. The entire principal and all accrued interest of the loan is due and payable on December 1, 2013. The \$150,000 CDBG loan balance is \$183,291 as of February 1, 2012.

Affordability

St. Philip’s Gardens currently serves a very low-income resident population, and will continue to serve as an affordable rental housing resource for large families and individuals. Currently, the average household size is 2.3 people, with an average annual household income of \$7,469; this is below 11% of area median income (AMI). All of the rents will remain affordable at or below 60% of HUD’s area median income rent levels. Four units will be reserved for families experiencing Long Term Homelessness (LTH); five units will be reserved for individuals with physical disabilities. Forty-one of the units will have Section 8 project-based rental assistance and four units will offer HUD Shelter + Care rental assistance.

In addition to preserving the affordable rents and completing significant renovation, the operating deficit reserves will be capitalized to assure long term financial stability while providing safe, decent, affordable rental housing.

No tenants will be displaced. However, there will be some internal displacement of tenants to facilitate the rehabilitation of units. All tenants will be moved to similar vacant units in the development and will return to their units once the renovation of their unit is completed. No properties will be acquired by eminent domain. The properties are currently zoned RM-1; rental housing is an allowable use.

Budget Action

No budget action will be required from the HRA Board.

Future Action

No further action will be required from the HRA Board.

Financing Structure

The Developer has requested that the \$240,000 CDBG loan and the \$150,000 CDBG loan interest rates be reduced from 2% to 1%; that the term be extended for 31 years; and that loan payments and accrued interest be deferred until the maturity date. The Developer has requested that the HRA CDBG loans be subordinated to some of the other existing and new debt. The loans would be secured by a note, mortgage, assignment of leases and rents, security agreement, fixture financing statement and a UCC.

In addition to Credits and developer equity, the Project has been awarded new funding from Minnesota Housing Finance Agency (MHFA), Family Housing Fund (FHF), HUD’s SHP, and City of Saint Paul (STAR). The project will assume all existing debt from HUD, MHFA, FHF, HRA (CDBG).

Projected Sources and Uses

The estimated total development cost is currently \$10,286,000. Estimated sources and uses are detailed below.

Sources:

Investor Equity	\$6,500,000	(63%)
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General Partners Contribution	\$ 600,000	(6%)
HUD (assumed)	\$ 222,842*	(2%)
MHFA (assumed)	\$ 211,530*	(2%)
MHFA (assumed)	\$ 326,530*	(3%)
Family Housing Fund (assumed)	\$ 207,500*	(2%)
Family Housing Fund	\$ 317,500*	(3%)
St. Paul HRA (assumed)	\$ 310,000*	(3%)
St. Paul HRA (assumed)	\$ 190,000*	(2%)
MHFA/Parif	\$1,167,940	(11%)
St. Paul STAR Loan	\$ 55,000	(1%)
HUD SHP	<u>\$ 177,158</u>	(2%)
Total Sources	\$10,286,000	

* = indicate an estimate with accrued interest

Uses:

Acquisition	\$ 2,031,000	(20%)
Rehabilitation/Construction	\$ 5,000,000	(49%)
Rehabilitation Contingency	\$ 500,000	(5%)
Soft Costs	\$ 580,000	(5%)
Developer Fee	\$ 1,255,000	(12%)(\\$300,000 contributed back to project)
Relocation Costs	\$ 395,000	(4%)
Reserves & Escrows	<u>\$ 525,000</u>	(5%)
Total Uses	\$10,286,000	

PED Credit Committee Review

On October 23, 2011 and January 30, 2012, the PED Credit Committee reviewed the request for Assumption, Assignment, Modification and Subordination for the St. Philip's Gardens HRA CDBG funding. The PED Credit Committee recommends approval of the Assumption, Assignment, Modification and Subordination for the St. Philip's Gardens project. Both HRA CDBG loans are Risk Rated as Originated Loss.

Compliance

The Applicant has signed the 1st compliance letter for this project. The project will comply with the following programs and/or requirements: Vendor Outreach Program, Affirmative Action, Labor Standards, Two Bid Policy and Sustainable Green Policy. This project is exempt for Business Subsidy, Section 3, Living Wage, Project Labor Agreement, and Limited English Proficiency.

The Developer has indicated that they will include Section 3 requirements in their bid specifications. The Developer has also indicated that they will most likely sign a Project Labor Agreement for this project. They estimate that this project will create 57 temporary construction jobs.

Green/Sustainable Development

The project will comply with the Saint Paul/HRA Sustainable Initiative. In addition, this project will comply with the Green Communities Minnesota Overlay.

The Developer has indicated that they will incorporate the following green initiatives into the project: installation of new high efficiency hot water heaters; high efficiency gas forced air furnaces with setback thermostats; installation of all new energy star rated light fixtures and kitchen appliances; installation of new exterior envelope with addition of new insulation on all exterior surfaces; new onsite storm water retention system; and reduction of impervious surfaces.

Environment Impact Disclosure

An Environmental Review has been completed on this project. No environmental impact was indicated.

Historic Preservation

754 Concordia Avenue is not a local Heritage Preservation Site. The site is also not located in a local Heritage Preservation District and has not been identified a historic resource. A 106 Historic Review is not required for this project.

Public Purpose

The project will provide 56 affordable housing opportunities for persons at or below 60%, 50% and 30% of median incomes.

In addition, the Project meets objectives of *The Housing Plan*, adopted as part of the City's Comprehensive Plan, Section 6.0, Strategy 3: Ensure Availability of Affordable Housing.

It also meets the objectives of the Summit-University (District 8) Plan - Area Plan Summary Addendum to the Comprehensive Plan for the City of Saint Paul which states "The community supports quality housing that provides life-long options for residents at all stages of their lives. Recommendations for Housing include: Sec. 24 – Preserve the existing housing stock with special commitment to the preservation of affordable housing."

Recommendation:

The Executive Director recommends the HRA Board of Commissioners adopt the attached Resolution authorizing the Assumption, Assignment, Modification and Subordination of the \$240,000 CDBG loan and the \$150,000 CDBG loan to St. Philip's Gardens II Limited Liability Limited Partnership to assist in the acquisition and rehabilitation of St. Philip's Gardens apartments.

Sponsored by: Commissioner Carter

Staff: Report prepared by: Daniel K. Bayers, (266-6685)

- Attachment A -- Resolution A
- Attachment B -- Map and Address of Project
- Attachment C -- Project Summary Form
- Attachment D -- Sources and Uses Summary Form
- Attachment E -- Public Purpose Form
- Attachment F -- Census Facts