

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

REPORT TO THE COMMISSIONERS

DATE: DECEMBER 13, 2023

REGARDING: RESOLUTION RECOMMENDING ISSUANCE OF A HOME LOAN IN THE AMOUNT OF \$2,600,000; RECOMMENDING ISSUANCE OF AN SLFRF LOAN IN THE AMOUNT OF \$2,547,408; RECOMMENDING ISSUANCE OF A SUB-LOAN IN THE AMOUNT OF \$600,000 FROM A METROPOLITAN COUNCIL LCDA TOD GRANT; AND RECOMMENDING EXECUTION OF A DEVELOPMENT, SUBRECIPIENT AND LOAN AGREEMENT AND A SUB-LOAN AGREEMENT, ALL FOR THE MARSHALL AVENUE FLATS PROJECT LOCATED AT 1606 MARSHALL AVE; DISTRICT 13, WARD 4

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 following:

1. Approval of a \$2,600,000 HOME loan to the Marshall Avenue Flats project; and
2. Approval of a \$2,547,408 ARPA loan to the Marshall Avenue Flats project; and
3. Approval of a \$600,000 Met Council LCDA loan to the Marshall Avenue Flats project and approving and authorizing the execution of related documents.

Background

PAK Management Group, LLC proposes to develop Marshall Avenue Flats, a six-story building with 98 units of new, affordable rental housing and 24 underground parking spaces located at the corner of Marshall Avenue and Fry Street. Marshall Avenue Flats will serve households with incomes ranging from 30% Area Median Income (AMI) to 60% AMI. Unit sizes will range from one- to three bedrooms. The project will be built on an underutilized surface parking lot located next to an existing commercial building known as the Richards Gordon Elementary School which will remain on the site. The project will have a shared community room and fitness center on the first floor. Surrounding amenities in the neighborhood include high access to transit, healthy grocery options, parks and recreation, and healthcare.

Housing Rents

All 98 units will be affordable to households at or below the 60% Area Median Income (AMI) as defined by HUD and therefore tax credit eligible. Of these units, 64 units will be affordable to households earning 60% AMI, 24 units will be further restricted to be affordable to households earning 50% AMI and 10 units, including all 5 three-bedroom units, that will serve very low-income households earning 30% AMI.

Size and Income /Rent Limits of Units:

Unit Type	# of Bath-rooms	# of Units	Unit Sq Ft	Monthly Contract Rent	Rent Limit	Income Limit
1BR	1.00	38	750	1,398	60% MTSP	60% MTSP
1BR	1.00	6	759	1,078	50% MTSP	50% MTSP
2BR	1.00	5	900	838	30% MTSP	30% MTSP
2BR	1.00	12	900	1,397	50% MTSP	50% MTSP
2BR	1.00	26	900	1,677	60% MTSP	60% MTSP
2BR	1.00	2	900	1,320	50% MTSP	50% MTSP
2BR	1.00	4	900	1,329	50% MTSP	50% MTSP
3BR	2.00	5	1,100	969	30% MTSP	30% MTSP
		98				

Developer Experience

PAK Management Group, LLC, is owned in part by Richard Pakonen founder and President of PAK Properties, a real estate investment and development company primarily focused on urban and in-fill residential and commercial properties. The company has developed and managed a diverse real estate portfolio in Saint Paul. Mr. Pakonen has developed knowledge and experience in rehabilitating not-only distressed properties, but also the renovation of historic buildings in a design sensitive and cost-efficient manner, such as the Pioneer Endicott building, The Rossmor Building Lofts, and The Lowry Lofts all located in downtown Saint Paul. PAK Properties current real estate portfolio consists of approximately 500 rental housing units, over 200,000 square feet of urban retail/office space, and various urban land holdings.

A new entity will be formed to own Marshall Avenue Flats. Clinton Blaiser is a partner of Rich Pakonen in the ownership entity and also serves as CEO and President of the Halverson and Blaiser Group (HBG), a diversified real estate investment and management group. HBG provides services in multi-family housing and commercial property management, including leasing, consulting, brokerage, and homeowner association management. The company was established in 1988 to manage its own real estate investments. Today HBG manages nearly 2,000 multi-family units, over 100 bank REO properties, receiverships, 100 homeowner association units, and approximately 100,000 square feet of commercial/office space in the Twin Cities metropolitan area.

Budget Action

None

Future Action

1. A City Council resolution requesting approval for the HOME funds will be on City Council agenda on December 13, 2023.
2. A City Council resolution requesting authorization to transfer the ARPA funds from the 30% AMI Deeply Affordable Housing account to the Marshall Avenue Flats project will be on the December 13, 2023, City Council agenda.

Tax Exempt Revenue Bonds

There is a not to exceed total \$21,000,000 of volume cap limit tax-exempt bond authority being requested. In order to receive 4% automatic tax credits, the project must meet the “50%” test which means at least 50% of the eligible total development costs must be initially financed with bond proceeds, but no more than 53% of basis will be issued per the HRA policy. The bonds will be privately placed by Red Stone.

Tax Credits

The Project will be financed with the “Automatic 4%” Low Income Housing Tax Credits (LIHTC). Automatic 4% tax credits can be used “automatically” for projects with tax exempt revenue bond financing. These credits are not limited as are the “9%” credits.

The LIHTC will be purchased by Minnesota Equity Fund Manager (“MEF”) a subsidiary of Greater Minnesota Housing Fund (“GMHF”) and Cinnaire Corporation, a Michigan nonprofit corporation, for \$0.8328 per dollar for a total of \$12,324,549 in tax credit equity.

HOME Loan

The \$2,600,000 HOME loan will have a 1% interest rate, with both principal and interest deferred for 40 years and will be in second (2nd) collateral position to the first mortgage.

ARPA Loan

The \$2,547,408 ARPA loan will have a 0% interest rate, with both principal and interest deferred for 40 years and will be in third (3rd) collateral position to the second mortgage.

LCDA TOD Loan

The \$600,000 Met Council LCDA TOD loan will have a 0% interest rate, with both principal and interest deferred for 40 years and will be in fourth (4th) collateral position to the third mortgage.

Ramsey County Critical Corridors Loan

It is anticipated that the \$300,000 Ramsey County loan will have a 0% interest rate, with both principal and interest deferred for 40 years and will be in fifth (5th) collateral position to the fourth mortgage.

Deferred Developer Fee

The Developer Fee is in the amount of \$3,316,000. This fee is within HRA policy. The Developer will defer a portion of the developer fee in the amount of \$2,078,500 which is estimated to be repaid out of cash flow over a period of 12 years.

Seller Note

There is a Seller Note in the amount of \$455,000 that will be held by PAK Properties. It is a 40-year cash flow note with an interest rate to be set at AFR, which currently is 4.69%, to be paid from any cash flow after full payment of deferred developer fee.

GP Loan

There is a \$1,267,230 General Partnership loan that may be repaid at the time of construction completion and rent stabilization of the project.

Sources and Uses of Funding:

Sources of Funds

First Mortgage	\$ 11,150,000
LIHTC Tax Credit Equity	12,324,549
City HOME Loan	2,600,000
Energy Rebate	31,907
Seller Loan	455,000
Met Council LCDA-TOD	600,000
City ARPA	2,547,408
General Partner Loan	1,267,230
Ramsey Co. Critical Corridors	300,000
Deferred Developer Fee	<u>2,078,500</u>
Total Sources of Funds	\$ 33,354,594

Uses of Funds

Acquisition	\$ 1,455,000
Construction Costs	23,137,133
Professional Services & 3 rd Party Reports	1,787,251
Bond, Tax Credit and Other Financing Costs	2,867,500
Reserves	782,710
Developer Fee	<u>3,316,000</u>
Total Uses of Funds	\$ 33,354,594

PED Credit Committee Review

On November 7, 2023, the PED Credit Committee reviewed and approved the terms of the \$2,600,000 HOME Loan, the \$2,547,408 ARPA Loan, the \$600,000 LCDA TOD Loan, and determined the issuance of \$21,000,000 of tax exempt bond authority will meet the HRA’s policy.

Compliance

The following compliance requirements will apply to this project including Vendor Outreach, Affirmative Action, Federal Davis Bacon, Section 3, Project Labor Agreement, and the 2-Bid Policy.

Green/Sustainable Development

The Marshall Avenue Flats project will comply with Saint Paul Sustainable Development Policy.

Environmental Impact Disclosure

N/A

Historic Preservation

There is a Memorandum of Agreement by and between the City of Saint Paul and the Minnesota State Historic Preservation Office (SHPO) related to this project that will allow for mitigation of any effects on the adjacent Richards Gordon Elementary School building.

Public Purpose/Comprehensive Plan Conformance

This Project meets several public purpose objectives as listed in **Attachment B** and will further several planning strategies and goals such as the following:

1. One of the 2040 Comprehensive Plan major housing strategies is to ensure the availability of affordable housing across the city.
2. The site of the proposed Project is located along a stretch of Marshall Avenue identified as Residential and Mixed-Use Corridors in the Land Use Plan, a chapter of the Saint Paul Comprehensive Plan.
3. Policy LU-1 of the Land Use Plan encourages transit-supportive density and directing the majority of growth to areas with the highest existing or planned transit capacity.
4. Policy LU-4 calls for investment in measures that minimize displacement in neighborhoods where the proximity to high-frequency transit has increased redevelopment pressure and/or housing costs.
5. Policy LU-14 calls for reducing the amount of land devoted to off-street parking in order to use land more efficiently, accommodate increases in density on valuable urban land, and promote the use of transit and other non-car mobility modes.
6. H-31 calls for supporting the development of new affordable housing units throughout the city.

7. Policy H-37 calls for encouraging the development of affordable housing in areas well-served by transit and/or in proximity to employment centers.
8. The Union Park Community Plan, an addendum to the Comprehensive Plan, calls for finding a balance that preserves desirable assets and neighborhood character while evolving to meet present and future needs.
9. Land use policy LU 1.1 from the Union Park Community Plan calls for maintaining and establish zoning that encourages compact development in commercial areas and in mixed-use corridors; specifically, initiate and support zoning studies and adjustments, especially along Snelling Avenue and Marshall Avenue east of Snelling, to encourage more traditional neighborhood, mixed-use zoning where appropriate.

Recommendation:

The Executive Director recommends and requests the HRA Board of Commissioners consider adoption of the attached Resolution which approves the following:

1. A \$2,600,000 HOME Loan to the Marshall Avenue Flats project; and
2. A \$2,547,408 ARPA Loan to the Marshall Avenue Flats project; and
3. A \$600,000 Met Council LCDA-TOD Loan to the Marshall Avenue Flats project and authorizing the execution of related documents.

Sponsored by: Commissioner Jalali

Staff: Diane Nordquist, 651-266-6640

Attachments

- **Map**
- **Public Purpose**
- **D8 Union Park Neighborhood Profile**