

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

REPORT TO THE COMMISSIONERS

DATE: MAY 27, 2020

**REGARDING: THE CREATION OF A HOUSING TAX INCREMENT FINANCING (TIF) DISTRICT (WEST SIDE FLATS PHASE III APARTMENTS PROJECT) AND A TIF FINANCING PLAN, AND AN AMENDMENT TO THE TIF PLAN FOR THE RIVERFRONT RENAISSANCE REDEVELOPMENT TIF DISTRICT, THE CONVEYANCE OF LAND, A LOAN OF UP TO \$990,000 IN HOME FUNDS, THE EXECUTION OF A DEVELOPMENT AGREEMENT, LCDA AND TBRA SUBGRANT AGREEMENTS, THE ISSUANCE OF CONDUIT MULTIFAMILY HOUSING REVENUE BONDS AND ADOPTING A HOUSING PROGRAM, ALL FOR THE WEST SIDE FLATS PHASE IIIB APARTMENTS PROJECT LOCATED AT 85 LIVINGSTON; FOR THE WEST SIDE FLATS PHASE IIIA APARTMENTS PROJECT LOCATED AT 55 LIVINGSTON, CONVEYANCE OF LAND, ACCEPTANCE OF A PURCHASE PRICE NOTE OF \$2,000,000, THE EXECUTION OF A DEVELOPMENT AGREEMENT, AND LCDA AND TBRA SUBGRANT AGREEMENTS
DISTRICT 3, WARD 2**

Requested Board Action

Staff is requesting approval of:

WSF Phase IIIB Limited Partnership (Sherman Associates) (affordable project)

- Creation of a housing tax increment finance district and financing plan
- An amendment to the Riverfront Renaissance TIF Plan
- A Development Agreement with TIF assistance in an amount not to exceed \$7,000,000
- Metropolitan Council Tax Base Revitalization Account loan of \$85,925 and a \$200,000 Livable Communities Demonstration Account loan
- A \$990,000 HOME loan
- A waiver from the HRA developer fee policy
- Conveyance of HRA land
- A maximum of \$20,075,321 of affordable housing conduit revenue bonds

WSF Phase IIIA Limited Liability Corporation (Sherman Associates) (market rate project)

- Approval of a development agreement regarding public improvements and a Metropolitan Council Tax Base Revitalization Account subgrant of \$257,775 and a Local Communities Demonstration Account subgrant of \$600,000.
- Sale of HRA land for \$2,221,000
- Issuance of a \$2,000,000 HRA seller note

Background

The WSF Phase III project is located on 5.3 acres of vacant and contaminated HRA land at the northwest corner of Fillmore and Livingston on the West Side Flats and will be developed by Sherman Associates. Redevelopment of this contaminated and vacant land will include construction of a 171 unit market rate apartment building, (WSF IIIA) and an 82 unit affordable building, with 32 units at 50% of area median income (“AMI”) and 50 units at 60% AMI (WSF IIIB). The affordable building will have 10 studios, 19 one-bedroom, 43 two-bedroom and 10 three-bedroom units. The affordable rent and income restrictions will be in place for 40 years. The IIIA building will have 70 studios, 74 one-bedroom and 27 two-bedroom units. The Phase III project will include a shared storm water pond and green area, pedestrian/bike trail from Fillmore north to the Mississippi River esplanade, and two public patio spaces with picnic tables in the green area adjacent to the River. The picnic areas and portion of the trail located north of the III A building are contingent upon United States Army Corp of Engineers and St. Paul Public Works’ final approval.

The affordable building has been pre-certified by the Passive House Institute of the United States (PHIUS). The rigorous energy efficiency PHIUS standard emphasizes airtightness, an ultra-efficient heating and cooling system, and a highly insulated building envelope, with a goal of producing net zero or net positive buildings. The WSF Passive House multi-family model will demonstrate high efficiency construction technology for the Minnesota climate. Because of the continuous fresh air heat exchange system, Passive House buildings also have high quality indoor air environments, which provides an important benefit for health outcomes. Passive House buildings typically achieve a 60% to 85% savings in heating and cooling compared to average new buildings. Assuming a 70% reduction in energy bills for tenants of the affordable

building, residents will realize estimated annual energy savings of \$325 to \$725 depending on the size of their unit. The estimated total annual tenant energy savings for the building is \$14,978.

According to the Fourth National Climate Assessment report delivered to the US Congress, November of 2018, “Low-income communities in the United States already have higher rates of many health conditions, are more exposed to environmental hazards and take longer to bounce back from natural disasters. These existing inequalities will only be exacerbated due to climate change”. The WSF Passive House building will be more resilient to extreme weather fluctuations and can mitigate negative impacts on residents.

Budget Action

The HRA is approving a budget amendment to align with the financing and spending included in the TIF Plan. The budget amendment is included in the Attached Financial Analysis.

This is a conduit bond issue. The bonds shall not constitute an indebtedness, liability, general or moral obligation, or pledge of the faith or credit or taxing power of the HRA, City of Saint Paul, or any agency or political subdivision thereof, and shall not constitute indebtedness of any of the foregoing within the meaning of any constitutional, statutory, or charter provision, nor be a charge against their respective general assets, credit or taxing powers, and do not grant the owners or holders of the bonds any right to have the HRA, City of Saint Paul or any agency or political subdivision thereof to levy any taxes or appropriate any funds for the payment of the principal thereof or interest thereon. Principal and interest on the bonds are payable solely out of the revenues and other sources pledged to the payment thereof as described in the bond documents.

Future Action

The United States Army Corp of Engineers and Public Works’ review and approval of the public improvements located north of Building IIIA is anticipated in late July.

Financing Structure

WSF Phase IIIB (Affordable Building)

Tax Increment Financing

The WSF Phase IIIB Project has a financing gap and the Developer has requested the establishment of a new affordable housing Tax Increment Financing (TIF) district to provide financial assistance. The City Council held a public hearing on September 4, 2019 and adopted a resolution authorizing the establishment of the Tax Increment Financing District (West Side Flats Phase III Apartment Project) and approving a Tax Increment Financing Plan. The TIF district includes the parcels of land that will be occupied by the affordable and market rate project. These parcels are currently part of the Riverfront Renaissance TIF district (a redevelopment TIF district). The action today will include the amendment of the Riverfront Renaissance TIF Plan to remove these parcels enabling the establishment of the new Housing TIF district.

Staff has determined that the WSF Phase IIIB Project is feasible only through assistance from tax increment financing (TIF) through the establishment of a new housing TIF district as detailed above.

The TIF will be structured as Pay-As-You-Go Notes to the Developer, pledging up to 90% of the tax increments collected by the HRA from the TIF district, for TIF-eligible expenses incurred to construct the WSF Phase IIIB Affordable Building, including interest.

A TIF Series A note in the approximate amount of \$1,624,679 will be issued to WSF Phase IIIB Limited Partnership (owner of the affordable building). A Series B TIF note in the approximate amount of \$5,375,321 will be issued to WSF Phase IIIB, LLC (General Partner of the affordable building). Both TIF notes will provide gap financing for the construction of the affordable WSF Phase III B building.

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. See Attached Tax Increment Financing Plan for the TIF District.

Tax Exempt Affordable Housing (4%) Conduit Revenue Bonds

The HRA will issue a maximum of \$20,075,321 million in housing conduit revenue bonds. Of that amount not more than the lesser of \$14 million or 53% of the of the borrower's basis in the project will be volume cap 4% bonds. The volume cap bonds will generate approximately \$9,005,217 in low income housing tax credit equity for the project. Additional tax-exempt bonds, not subject to volume cap, will be issued for the project, provided the total amount of bonds issued does not exceed \$20,075,321. The additional bonds are available from the repayment of prior HRA issued bonds and do not generate tax credits.

Developer Fee

A waiver of the HRA developer fee policy is recommended to allow for a fee of \$4,150,000. The proposed fee is \$663,301 more than would be allowed per the HRA policy. However the fee is 14.6% of total development cost, which is less than the 15% fee allowed by HUD HOME guidelines. An exception to the HRA policy is recommended as the larger fee increases the eligible basis and generates more tax credit equity, decreasing the gap and making the project financially feasible. This project has a significant gap due to soil contamination, geotechnical soil conditions, increased construction costs, increased construction costs due to the Passive House design, predominantly larger sized apartments, and limited revenues due to the large number of units at 50% of AMI. The TIF being generated by the market rate building will be used for the affordable building. The developer is taking on unusual risk with the simultaneous construction of a market rate and affordable building during this time of economic distress and uncertainty.

HOME Loan

The principal amount of the HOME loan will be \$990,000 where:

- The \$346,427 energy loan portion shall be amortized over 15 years at a 4% interest rate with a balloon payment due in year 20. The amortization payments are subject to surplus cash flow and reflect the anticipated energy savings for the common areas of the project.

- The deferred \$643,573 portion of the loan shall have a term of 40 years, a 1% interest rate, with principal and interest due upon the maturity date.

TBRA/LCDA Funds

A Tax Base Revitalization Account loan of \$85,925 will be used for contamination cleanup and a Livable Communities Demonstration Account loan of \$200,000 will be used for public improvements and a shared storm water pond. The loans will be deferred and due in 30 years.

Land Conveyance

The HRA land value will be written down from a value of \$955,252 to \$1.00 and conveyed to the WSF III B Limited Partnership for the affordable project. The HRA property to be conveyed is 1.78 acres and is indicated on the attached plat.

WSF Phase IIIA (Market Rate Building)

TBRA/LCDA Funds

A Tax Base Revitalization Account subgrant of \$257,775 will be used for contamination cleanup. A Livable Communities Demonstration Account subgrant of \$600,000 will be used for public improvements that will include a public bike/pedestrian trail extending through the site to the Riverfront Esplanade. The trail will be constructed and maintained by the developer and open to the public. There will also be two patio areas with picnic tables adjacent to the Mississippi Riverfront area that will be constructed and maintained by the developer. Public sidewalks will be constructed on the west side of Livingston extending from Fillmore to the Riverfront. A shared stormwater pond and green space will be constructed in the southwest corner of the property. United States Army Corp of Engineers and the Saint Paul Department of Public Works approvals are required and anticipated in late July.

Land Sale Note

3.33 acres of HRA land will be conveyed to the developer for an appraised value of \$2,221,000. The HRA will provide a \$2,000,000 Seller Note. The Note will be repaid at a market rate interest over 13 years.

Please see the attached Sources and Uses of Funds for IIIA and IIIB.

PED Credit Committee Review

The Credit Committee reviewed the proposed financing at its meeting of March 31, 2020.

Compliance

The project will comply with Vendor Outreach, Affirmative Action and Living Wage. Little Davis Bacon labor rates will be required for the affordable building. Since Federal HOME funds are to be used for the affordable building, Federal Davis Bacon labor rates and Section 3 will apply. The Developer will execute a project labor agreement.

Green/Sustainable Development

The project will comply with the Saint Paul Sustainable Development policy. The developer is working with the University of Minnesota Center for Sustainable Building Research regarding compliance of the WSF IIIA building with the SB2030 energy requirement. The WSF IIIB project has been pre-certified to meet the Passive House PHIUS 2018+ energy standard.

Environmental Impact Disclosure

A HUD environmental review was completed with a finding of No Significant Impact.

Historic Preservation

A 106 review was completed and approved by HUD and the State Historic Preservation Office.

Public Purpose/Comprehensive Plan Conformance

This project will redevelop blighted and vacant land, generate private investment, provide market rate and affordable rental housing opportunities, demonstrate highly efficient building construction technology and provide public amenities for the community. The project will create 1,350 construction jobs. Job creation is especially important during these difficult economic times.

The project is consistent with the following strategies from the *West Side Flats Master Plan and Development Guidelines* (2015):

LU3. Attract a broad range of housing types, densities and developers.

UD4. Create a vibrant, urban and public Riverfront Esplanade that is connected to the neighborhood.

POS2. Enliven the Riverfront Esplanade.

SUS20. Encourage energy conservation/efficiency – building materials, design and orientation, site features and furnishings, building reuse.

WSCO provided a letter dated May 20, 2019 indicating support for the project and in particular the passive house demonstration of energy efficient construction, the use of community solar, the provision of 32 units of housing at 50% of median income and 50 units at 60% of median income, the 40-year affordability covenant and the public improvements for community gathering.

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 certain Parcels of land located in District 3 by the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota (HRA).”

Notice of this hearing, which provided instructions on how to submit comments, and view the hearing online, was published in the Saint Paul Pioneer Press on March 28, 2020. 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 District 3:

Property Description	Purchaser/Developer	Purchase Price
Lot 1, Block 1, West Side Flats Phase III (the “WSF IIIA Parcel”)*	WSF IIIA LLC	\$2,221,000
Lot 2, Block 1,	WSF IIIB Limited Partnership	\$1.00

West Side Flats Phase III
(the “WSF IIIB Parcel”)*

*As indicated in the attached plat

The property will be conveyed for the purpose of developing vacant and contaminated property, the construction of market rate and affordable housing, and public improvements.

Is there anyone who wishes to be heard on this sale? If not, the Chair will declare this Public Hearing adjourned.”

Recommendation: Staff recommends approval of the attached resolutions.

Sponsored by: Commissioner Noecker

Staff: Marie Franchett

Attachments

- **Budget Amendment**
- **Sources and Uses of Funds**
- **WSF Phase III Site Plan and Elevations**
- **Plat**
- **District 3 Profile**
- **WSF Phase III Housing Tax Increment Financing Plan**
- **Amendment Removing Parcels from the Riverfront Renaissance Tax Increment Finance District**