

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

REPORT TO THE COMMISSIONERS

DATE: MARCH 13, 2013

REGARDING: APPROVAL OF A \$943,592 DEFERRED HOME LOAN FOR ROLLING HILLS
ST. PAUL DEVELOPMENT LIMITED PARTNERSHIP, DISTRICT 5, WARD 5

Requested Board Action

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

1. Authorizing approval of a deferred HOME loan in the amount of \$943,592. The terms of the loan will be 32-year, 1% accrued simple interest per annum payable at the end of the term.
2. Authorizing execution of a loan agreement between the Saint Paul Housing & Redevelopment Authority and RH-St. Paul Development, LLC.
3. A partial waiver from the Saint Paul Sustainable Building Policy for the construction of a new on-site community building.

Background

The Housing and Redevelopment authority of the City of Saint Paul (HRA) received a request from RH Developer, LLC to assist with the financing of acquisition and rehabilitation of the existing Rolling Hills Apartments rental housing complex.

Rolling Hills Apartments is a six-building rental housing complex located at 1319, 1325, and 1335 Westminster Street and 1320, 1326, and 1336 Mississippi Street (the "Project"). The Rolling Hills Apartments complex currently provides housing targeted for refugee populations and women escaping prostitution through the Breaking Free organization. After rehabilitation, Rolling Hills Apartments will continue as an affordable housing complex and will include 6 units of supportive housing for long-term homeless residents, 14 units of supportive housing for homeless families, 50 supportive housing units for refugees, and 18 supportive housing units for women in the Breaking Free program. Lutheran Social Services will be providing on-site services for all refugee units and all of the homeless units; the Breaking Free organization will provide specific services to the units set aside for women escaping sexual exploitation.

The proposal includes acquisition and rehabilitation for the preservation of 108 existing, affordable rental housing units as well as construction of a new on-site community building. Of the 108 units, 102 units will be affordable to households at or below 50% of area median income and 6 long-term homeless units will be affordable to households at or below 30% of area median income.

RH Developer, LLC is the entity that will manage and oversee the rehabilitation and construction process and consists of RC Enterprises, the principals of which are Richard Pakonen and Clinton Blaiser. Richard Pakonen and Clinton Blaiser have a successful track record within Saint Paul in the rehabilitation and management of affordable housing. RH-St. Paul Development Limited Partnership will own the property and will be responsible for all asset management and property management. The General Partner of RH-St. Paul Development LP will consist of Lutheran Social Services and RC Enterprises. Lutheran Social Services will be the managing member of the GP and will handle day-to-day, on-site supportive services to the refugee residents and long-term homeless populations, as well as, coordinate with the Breaking Free organization on the service delivery to women escaping prostitution and sexual exploitation.

Past HRA Actions

- A CDBG loan in the amount of \$56,408 for emergency roof repair for the 1336 Mississippi Street building was approved at the HRA Board on July 25, 2012 (RES 12-1463). The roof was repaired in November 2012. The terms of this loan are 3% for a 5-year term.
- The Project was awarded the City of Saint Paul's 2013 allocation of 9% low-income housing tax credits in the amount of \$1,019,320. Approvals for the tax credits occurred at the HRA board on October 10, 2012 (RES 12-1919) and November 28, 2012 (RES 12-2133).

Other Information

- The property is currently zoned RM2 – Multiple Family Residential. The existing and

proposed land use will remain multifamily residential.

- Site plan review is needed for the new on-site community room.
- No tenants will be displaced or relocated outside of the boundaries of the project site.
- Project Map with parks and schools within ¼ mile of development is located in **Attachment B**.
- A detailed *Project Summary Form* is located in **Attachment C**.
- Census Facts district demographic profile is located in **Attachment E**.

Budget Action

Approve expenditure of \$943,592 of federal HOME funds to be loaned to RH-St. Paul Development Limited Partnership to acquire and rehabilitate the Project. The Budget action to amend the budget is noted in **Attachment A**.

Future Action

No other actions are anticipated.

Financing Structure

The total project development cost is \$14,967,507; this includes construction of a \$500,000 new on-site community center.

First Mortgage

The first mortgage loan will be with Park Midway bank in the amount of \$3,023,333 at a term of 30 years at 4.75%.

Tax Credits

The Project received the City of Saint Paul's 2013 allocation of 9% low-income housing tax credits in the amount of \$1,019,320. National Equity Foundation (NEF) will be the syndicator of the tax credits at a rate of 93 cents per credit generating approximately \$9,478,728 of limited partner equity.

HOME Loan

A \$943,592 HOME loan will be provided to the Project. The cash flow for the project is not sufficient to allow for debt service on the \$943,592. As such, the loan is proposed to be a deferred loan at 1% accrued simple interest per annum, payable upon the loan

maturity date. The term of the loan will be 32 years.

Minnesota Housing Finance Agency and Family Housing Fund

MHFA has awarded \$300,000 in deferred housing infrastructure bond funding to be structured as a deferred loan. The Family Housing Fund has awarded \$200,000 in funding. The terms for that financing are not yet available but it is expected to also be a long term deferred loan subordinate the HRA HOME loan.

Sources and Uses

	1/31/2013	% of TDC	Cost Per Unit
USES			
Acquisition or Refinance	\$ 5,400,000	36%	\$ 50,000
New Construction	\$ 500,000	3%	\$ 4,630
Rehabilitation (includes a 9.1% contingency)	\$ 5,804,442	39%	\$ 53,745
Environmental	\$ 165,795	1%	\$ 1,535
Soft costs	\$ 706,271	5%	\$ 6,540
Developer Fee	\$ 1,210,163	8%	\$ 11,205
Construction Interest		0%	\$ -
Syndication Fees	\$ 77,000	1%	\$ 713
Financing Costs	\$ 501,129	3%	\$ 4,640
Non-Mortgageable Costs	\$ 602,707	4%	\$ 5,581
TOTAL	\$ 14,967,507		\$ 138,588
SOURCES			
First Mortgage (Park Midway bank)	\$ 3,023,333	20%	\$ 27,994
Tax Credit Equity (Natl Equity Fund, I	\$ 9,478,728	63%	\$ 87,766
Deferred Developer Fee	\$ 550,000	4%	\$ 5,093
GP Capital	\$ 100	0%	\$ 1
MHFA Deferred Funding Request	\$ 500,000	3%	\$ 4,630
Saint Paul CDBG Loan	\$ 943,592	6%	\$ 8,737
Seller Note	\$ 415,346	3%	\$ 3,846
CDBG Loan (3% for 3 years)	\$ 56,408	0%	\$ 522
TOTAL	\$ 14,967,507		
Total # of Units			108
TDC per Unit	\$		138,588

PED Credit Committee Review

The Credit Committee reviewed the project on February 20, 2013. The Credit Committee approved a deferred, 1% accrued simple interest loan in the amount of \$943,592 with HOME as the funding source. The term of the loan will be 32 years with principal and accrued interest due upon the maturity date of the loan. The loan is risk-rated O – Originated as Loss since repayment is deferred beyond 10 years per credit policy.

Compliance

The Project is required to meet compliance requirements for Vendor Outreach, Section 3, Affirmative Action, Federal Davis Bacon Labor Standards, Affirmative Fair Housing Plan and Two-Bid Policy. The Living Wage ordinance and Business Subsidy compliance requirements do not apply.

The rehabilitation work will generate 40 construction jobs.

Green/Sustainable Development

In consultation with the Center for Sustainable Building Research at the University of Minnesota, PED staff request a partial waiver from the Saint Paul Sustainable Building Policy for the Rolling Hills project. The Policy applies only to new construction, and as such will apply only to the Community Center portion of the Rolling Hills project. Staff is requesting the partial waiver because it is believed that application of the entire policy to the small Community Center (less than 4,000 square feet) will disproportionately increase costs and administrative workload. Instead, staff recommends applying only the Saint Paul Overlay portion of the Policy. Compliance with the Overlay ensures that the building will conserve energy, reduce use of potable water, divert construction waste from landfills, and attain a high level of indoor environmental quality. All of this will be achieved with relatively lower cost and administrative effort than if the Policy was applied in its entirety.

Environmental Impact Disclosure

N/A

Historic Preservation

The property is not historic and does not require a Section 106 review.

Public Purpose/Comprehensive Plan Conformance

Preserving existing affordable housing for low-income persons with supportive service needs is the primary public purpose of this Project. The *Public Purpose Form* is attached as **Attachment D**.

Saint Paul Comprehensive Plan

Strategy 3: Ensure the availability of affordable housing across the city.

Policy 3.1: Support the preservation of public-assisted and private affordable housing through the application of Low Income Housing Tax Credits (LIHTC) and other appropriate funding sources to maintain existing low-income housing units.

The Project seeks to make the existing residential units and common spaces more energy efficient. The Payne-Phalen Neighborhood District Council is supportive of the project.

Recommendation:

The Executive Director recommends and requests the HRA Board of Commissioners to consider approval of the following:

1. Resolution authorizing approval of a deferred HOME loan in the amount of \$943,592 and authorizing execution of a loan agreement between the Saint Paul Housing & Redevelopment Authority and RH-St. Paul Development, LLC.
2. A partial waiver from the Saint Paul Sustainable Building Policy for the new construction community building.

Sponsored by: Commissioner Amy Brendmoen

Staff: Jennifer Jordan, Project Manager, 651-266-6598

Attachments

- **Attachment A -- Resolution**
- **Attachment B -- Map/Address of Project**
- **Attachment C -- *Project Summary Form***
- **Attachment D -- *Public Purpose Form***
- **Attachment E -- Census Facts**