

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

REPORT TO THE COMMISSIONERS

DATE: March 9, 2016

REGARDING: RESOLUTION APPROVING THE TRANSFER OF OWNERSHIP AND EXECUTION OF ASSIGNMENT AND ASSUMPTION OF EXISTING HRA/CITY FINANCING INCLUDING EXTENSION OF MATURITY DATES AND RE-SUBORDINATION FOR SUPERIOR STREET COTTAGES, DISTRICT 9, WARD 2

Requested Board Action

The purpose of this report is to request the Housing and Redevelopment Authority (HRA) Board of Commissioners to consider 1) the approval of a transfer of ownership, 2) re-issue the TIF Note, 3) execution of the assignment and assumption of existing HRA/City financing including extension of maturity dates, 4) re-subordination request for the Superior Street Cottages.

Background

The Superior Street Cottages was newly constructed in 1999 by a partnership of Lyngblomsten and the Fort Road Federation on the former Holm & Olsen site located at the NW corner of Duke and Superior Streets. The development is designed as 23 units of slab on grade, one story townhomes (the “Project”). It is a unique housing resource providing one level townhome-style units to seniors, with a mix of one and two-bedroom units and attached garages. The Project requires that at least one person per household must be 62 years or older. It is a mixed-income development with nine rent and income restricted units reserved for households earning 50% Area Median Income and less. The remaining fourteen units are also age restricted but are not rent and income restricted.

The unit mix, unit size and rent ranges are as follows:

<u>Unit Type</u>	<u>Unit Mix</u>	<u>Gross Rent</u>
1-BR Affordable	3	\$670 - \$841
1-BR Market	4	\$841 - \$884
2-BR Affordable	6	\$841
2-BR Market	10	\$1,035

Lyngblomsten is a 501(c)(3) non-profit organization incorporated in 1906 affiliated with the Evangelical Lutheran Church of America. In addition to Superior Street Cottages, they also own and operate a larger senior housing continuum of care development in Saint Paul's Como Neighborhood. Over the past 17 years, Lyngblomsten has done a good job of maintaining Superior Street Cottages and it has been consistently leased at or above 95% occupancy. Recently, Lyngblomsten has made the decision to sell the Project to focus more on their Como properties.

A new buyer, Shawn Devine (the "Buyer") a local West 7th community real estate investor, is interested in purchasing and managing the Project. For the past 20 years, Mr. Devine has been purchasing, renovating and personally managing rental property as a part time job. He has now started to pursue real estate development on a full time basis. He has successfully rehabbed 20 single-family homes and in 2013 he established an investment group to purchase a townhouse complex, originally built by Brighton Development on the former Koch/Mobile site, now called Townhomes at Victoria Park. He personally manages, markets, and oversees the operational aspect of these 13 units of high end market rate townhomes.

Budget Action: N/A

Future Action: N/A

Financing Structure

Superior Street Cottages was originally financed with 501(c)(3) bonds, Tax Increment Financing (TIF), and three different City and HRA sources of subordinate financing (\$400,000 STAR, \$753,000 HOME, and \$246,000 UDAG). When the Project is sold to the new Buyer, the bonds will be repaid and the Buyer will take out a new first mortgage through a private bank. In addition to Project income, the first mortgage loan will also be supported by the TIF income by continuing the on-going TIF payments through a new TIF pay go note which is estimated to be approximately \$36,000 per year for the next six years. An amendment to the TIF to provide for administrative changes to the budget and restate the affordability requirements is required. The

Plan Amendment does not increase the total estimated tax increment expenditure, the amount of the bond indebtedness, or capitalized interest.

Because the new first mortgage financing cannot cover repayment of all existing debt, sales costs, and needed capital improvements, the Buyer is requesting to assume all current HRA/City subordinate debt (including accrued interest) in exchange for making identified and on-going capital needs improvements, will keep the property age restricted, and will extend the affordability period on 9 affordable units for an additional 20 years from date of purchase. Currently, the HOME restrictions remain on the property until 2019 (3 more years) and the TIF restrictions remain on the property until 2024 (8 more years). Which means the Buyer will continue to operate the property as is with the current age and affordable housing restrictions and will agree to extend the affordable period until 2036.

EXISTING HRA/City FINANCING TO BE ASSUMED

In addition to the new \$1,165,000 first mortgage, the following table shows the existing debt to be assumed by the Buyer:

Principal Balances	Source	Principal Balance	Term : Mat Date	Rate	Current Interest Due
2nd Mortgage	STAR	\$400,000 Contingent 20 yrs.	Refinanced to 3/31/36	1% annual	\$67,933
3rd Mortgage	HOME	\$753,000 Deferred 20 yrs.	Refinanced to 3/31/36	1% annual	\$132,734
4th Mortgage	UDAG	\$246,000 Deferred 20 yrs.	Refinanced 3/31/36	1% annual	\$43,363
Total		\$1,399,000			\$244,030

Proposed New Sources and Uses

Sources

Sunrise Bank First Mortgage	\$ 1,165,000
Buyer Equity	\$ 188,135
Credit for Assumed HRA Interest	\$ 244,030
Operating/Replace Reserves	\$ 9,085
Credit for Immediate Repairs	\$ <u>2,750</u>
Total Sources	\$ 1,609,000

Uses

Purchase Price	\$ 1,081,000
Rehab and Repairs Escrow	409,000
Buyer Transaction Costs	<u>119,000</u>
Total Uses	\$ 1,609,000

PED Credit Committee Review

On February 29, 2016, the PED Credit Committee reviewed and approved the transfer of ownership and assignment and assumption of the HRA/City loans and confirmed that the TIF pay go note meets the City/HRA TIF policy for Superior Street Cottages.

Compliance

N/A

Green/Sustainable Development

The project will comply with Saint Paul Sustainable Development Policy

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose/Comprehensive Plan Conformance

The project meets the public purpose objective from the Housing Affordability Policy and Plan to maintain a variety of housing options to a mix of incomes. It will extend the affordability period on 9 units of rental housing for households earning 50% Area Median Income and less. It also is providing townhome-style one level housing units restricted to persons 62 years and older.

Recommendation:

The Executive Director recommends and requests the HRA Board of Commissioners to consider adoption of the attached resolution which approves the following for the Superior Street Cottages project:

1. The sale and transfer to a new owner/operator; and
2. The reissue of a new TIF Note; and
3. Assignment and assumption of a City and an HRA loan and extension of the maturity dates; and
4. Re-subordination of the City and HRA loans to a new first mortgage.

Sponsored by: Commissioner Rebecca Noecker

Staff: Diane Nordquist 651-266-2240

Attachments

- **Attachment B – Project Summary**
- **Attachment C – Map**
- **Attachment D – Public Purpose**
- **Attachment E – District 9 Profile**