

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

REPORT TO THE COMMISSIONERS

DATE: May 28, 2014

**REGARDING: Resolution Approving and Authorizing Debt Forgiveness for Central Towers LP, District
17, Ward 2**

Requested Board Action

The purpose of this report is to request the Board of Commissioners of the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota (HRA) to consider approval of a debt forgiveness for Central Towers LP an affordable rental senior housing development located at 20 E. Exchange Street in District 17 in the amount of \$2,400,000.00 and all accrued interest in the approximate amount of \$2,830,000.00

Background

Central Towers, was built in 1967, and was owned by Central Towers, a 501(c)(4) not-for-profit corporation that was originally sponsored by the Central Presbyterian Church. The 271 unit apartment building was financed with a HUD 202 loan and was comprised of 213 efficiency and 58 one bedroom units. The building served primarily very low income older adults in the downtown area. Tenants only pay 30% of their monthly income towards rent. Under the terms of a Housing Assistance Payments contract, a portion of the rent for eligible tenants is paid for by the U.S. Government.

In the mid 1990's Central Towers was plagued with chronic low occupancy of the single-room units. The average occupancy of the entire building was 72.6%. Back then, HUD held a \$2,187,000 first mortgage on the property through its 202 program. Central Towers was over 6 months delinquent in its mortgage payments to HUD due to low cash flow as the result of low occupancy of the efficiency units.

The Central Towers board of directors then requested that Presbyterian Homes of Minnesota (PHM), a major owner and manager of senior housing in Minnesota, assume ownership and management of the building. PHM agreed to the acquisition and renovation of the building. To alleviate the chronic occupancy problem, PHM's strategy was to convert 144 (of the 213) efficiency units into 69 efficiencies, 127 one- bedroom and 1 two- bedroom units for a total of 197 units, which were more marketable.

Presbyterian Homes of Minnesota formed a for-profit Central Towers Limited Partnership with PHM as the sole managing general partner to finance the acquisition and renovation of the building. The \$5.4 million of renovation costs was paid with foundation grants, the sale of low income housing tax credits to the limited partnership, a Minnesota Housing Finance agency loan, and a HRA gap financing loan in the sum of \$400,000 (fully paid-off in February 2014). Initially, PHM was going to purchase the property directly from Central Towers by assuming the HUD mortgage. However, it was discovered by HUD's attorney that without a competitive bidding process such an

assumption by a for-profit or non-profit entity which in turn would sell to a for-profit entity was statutorily prohibited. However, HUD allowed sale of the property to a public body without competitive bidding. It was both PED's and HUD's opinion that using a non-competitive process to sell the property to the Limited Partnership with PHM as the general partner was in the best interest of the city and the project because PHM had the financial strength and excellent reputation to operate such project. PHM was probably the only organization immediately available that could raise the \$1.5 million in private donations and \$4,681,811 in tax credit investor equity to undertake the renovation being proposed.

Therefore, Central Towers deeded the property to HUD in lieu of foreclosure on the mortgage. In the late 1990's HUD sold the property to the HRA for \$1.00. In addition, the sales agreement contained an equity recapture covenant that stated that in the event the property is resold by the Partnership within 30 years, HUD would be entitled to a portion of the net sales proceeds. The recapture amount was to decline over time and expire in 30 years. The recapture clause was required by HUD to prevent windfall profits by the owner, to keep the project affordable and to recapture some of the \$2,187,000 million in outstanding debt that HUD had into the project. Simultaneously with the acquisition of the property from HUD, the HRA sold the property to the Limited Partnership and took a promissory note secured by a mortgage of an amount of \$2.4 million dollars. The terms of the note are 1% simple interest, 30 year term with interest and principal payments due upon sale or maturity of the loan. The purpose for the note was to increase the low income housing tax credit basis in order to raise additional investor equity for the project. The \$2.4 million note was to raise approximately \$650,000 to \$700,000 of additional investor equity that could be used to renovate the building.

The sale and financing documents were structured such that there will be no liability by the HRA to HUD as a conduit for the sales transaction. In the event of a sale by the new owner, any proceeds would have to be paid to HUD as a recapture amount owed on the original HUD mortgage, not to the HRA.

In January of 2014 Presbyterian Homes of Minnesota requested that the HRA forgive the \$2.4 million and all accrued interest on the note in order for them to be able to finance a \$3 million dollar rehabilitation and capital improvement to the aging facility. PHM will complete all items identified in a Physical Needs Assessment, plus replace all of the fixtures, furniture, and equipment in all of the rooms and common areas.

Having a "clean balance sheet" improves Presbyterian Homes of Minnesota chances of raising funds and they anticipate that donors will be reluctant to give if they think their contributions might end up paying down subordinated debt.

Budget Action

The write-off of 2,400,000.00 plus all accrued interest will have no impact on the City's or HRA budget.

Future Action

None

Financing Structure

None

PED Credit Committee Review

Credit Committee recommended approval of Central Towers LP debt forgiveness of \$2.4 million mortgage and all accrued interest. The recommendation is based on the fact that there is no gain or loss with repayment of such debt for the HRA since any proceeds would have to be paid to HUD as a recapture amount owed on the original HUD mortgage, not to the HRA. This approval will allow the HRA to assist Central Towers in the major renovation (\$3million) of 197 units of affordable housing servicing senior residents in Saint Paul without any HRA financial assistance.

Compliance

No compliance issues

Green/Sustainable Development

N/A

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose/Comprehensive Plan Conformance

The comprehensive plan calls for “aggressive housing rehabilitation” and “maintaining the vitality and high quality life in existing neighborhoods by supporting private investment in the existing housing stock”. Presbyterian Homes of Minnesota will rehabilitate and invest as much as \$3 million and will continue to provide much needed supply (197 units) of very low income senior affordable housing in downtown Saint Paul.

Statement of Chairman (for Public Hearing)

Recommendation:

Approval of debt forgiveness for Central Towers LP in the amount of 2,400,000.00 and all accrued interest in the approximate amount of \$2,830,000.00.

Sponsored by: Commissioner Dave Thune

Staff: Eduardo Barrera

Attachments

- **Attachment A -- Resolution**
- **Attachment B -- Background Attachment**
- **Attachment C -- Map/Address of Project, should include libraries, parks, schools.**
- **Attachment D -- *Project Summary Form***
- **Attachment E -- *Sources and Uses Summary Form***
- **Attachment F -- *Public Purpose Form***
- **Attachment G -- Census Facts**