

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

REPORT TO THE COMMISSIONERS

DATE: OCTOBER 10, 2018

**REGARDING: RESOLUTION TO APPROVE A LOAN MODIFICATION TO A
\$1,000,000 DEFERRED HOME LOAN AND RELATED DOCUMENTS
FOR THE 2700 UNIVERSITY PROJECT, DISTRICT 12, 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 a loan modification related to a deferred HOME loan in the amount of \$1,000,000 to 2700 University FC LP.

Background

Flaherty and Collins (the Developer) purchased a 1.8-acre site located at the southeast corner of University and Emerald Avenues adjacent to the Westgate Green Line station. In March of 2017, they completed the construction of a project that includes 198 market rate units and 50 units (including 11 HOME units) affordable at 50% of area median income for a total of 248 units and 3,000 SF of commercial. All 50 affordable units will remain as affordable for 30 years. The total development cost was \$54,922,899.

The Developer created two separate partnerships; the 2700 University FC, Limited Partnership (“Affordable Owner”) which owns the affordable housing portion of the project, and the 2700 University FC, LLC (“Market Rate Owner”) which owns the market rate and commercial portion of the project. Parking, common areas and amenities are shared by the entities. The split structure was originally set up because low income housing tax credit investors typically will only invest in projects with 100% affordable units. Tax credit investors do not want to be subject to risks associated with market rate apartments.

The Developer created this unique financing structure to achieve a mixed-income project with 20% affordable and 80% market rate units. Now that the project is constructed and stabilized, they are in the position to place long term financing on the entire project through a senior loan

from Freddie Mac. However, to receive this long-term financing, Freddie Mac is requiring a collateral package on the entire structure whereby the fee interest between the affordable and the market rate portions of the building is consolidated into one entity and a leasehold interest is created for the affordable units which will modify the related subordinate debt.

Budget Action

N/A

Future Action

None

Financing Structure

The Developer is requesting modifying the subordinate HOME loan by exchanging a mortgage on the fee title with a long-term leasehold mortgage. The Affordable Owner will enter into a 99-year, triple-net lease agreement with the Market Rate Owner for the affordable housing units. The HOME Loan Agreement, Mortgage, Note, and HOME Declaration will be amended to replace fee title interest with a leasehold interest. The long-term lease does not materially change the Affordable Owner's performance obligations or terms of default, and the HRA retains all its rights and remedies under the original loan agreement. This refinancing does not change the HRA's lender rights to the Project, and an Amended and Restated Subordination Agreement will be executed reflecting these terms.

Original Sources of Funds:

Sources	Affordable	Market Rate	Total
BMO Construction Loan		28,000,000	28,000,000
LISC Mezzanine Loan		6,260,000	6,260,000
Met Council TOD Grant		1,944,744	1,944,744
Series A Bonds	1,640,000		1,640,000
Tax Exempt TIF Bonds	6,679,628		6,679,628
LIHTC Equity	4,646,717		4,646,252
HOME Funds	1,000,000		1,000,000

General Partner Loan	951,878		951,878
Developer Equity		1,500,000	1,500,000
Deferred Developer Fee	317,824	1,982,008	2,299,832
TOTAL SOURCES	15,236,147	39,686,752	54,922,899

The Plan of Permanent Financing for the 2700 University project:

Affordable Portion of Project/2700 University FC LP

- Freddie Mac Senior Loan in the amount of \$1,640,000, 15-year term at around 5% interest, structured as a lease payment to 2700 University FC LLC and secured by a leasehold mortgage.
- A \$1,000,000 HOME loan, with an interest rate of 1% deferred for 30 years secured with a note and leasehold mortgage.
- Automatic 4% low income housing tax credits in the amount of \$4,646,252 in equity.
- Series B Bonds pledged with a TIF pay-go note in the amount of \$6,679,628 no mortgage security will remain in place.
- General Partner Loan \$951,878 paid per Tax Credit Partnership Agreement
- A deferred developer fee of \$315,847 paid per Tax Credit Partnership Agreement

Market Rate Portion of the Project/2700 University FC LLC

- Freddie Mac Senior Loan in the amount of \$35,281,000, a 15-year term at around 5% interest rate.
- LISC Mezzanine Loan in the amount \$1,600,000, 7% interest, a 15.5-year term, one-year interest only, then fully amortizing.

Proposed Sources and Uses

<u>Uses</u>	<u>Affordable</u>	<u>Market Rate</u>	<u>Total</u>
BMO Senior Loan Payoff		28,000,000	28,000,000
LISC Loan Payoff		6,260,000	6,260,000
Developer Equity		1,500,000	1,500,000
Deal Closing Costs		400,000	400,000

Financing Costs (Freddie/LISC)		272,000	272,000
Deferred Developer Fee		1,652,523	1,652,523
<u>Total Development Costs</u>	<u>15,233,605</u>		
TOTAL USES	15,233,605	38,084,523	53,318,128

<u>Sources</u>	<u>Affordable</u>	<u>Market Rate</u>	<u>Total</u>
Freddie Senior Loan		35,281,000	35,281,000
LISC Mezzanine Loan		1,600,000	1,600,000
Freddie Senior Loan	1,640,000		1,640,000
Tax Exempt TIF Bonds	6,679,628		6,679,628
LIHTC Equity	4,646,252		4,646,252
HOME Funds	1,000,000		1,000,000
General Partner Loan	951,878		951,878
<u>Deferred Developer Fee</u>	<u>315,847</u>	<u>1,203,523</u>	<u>1,519,370</u>
TOTAL SOURCES	15,233,605	38,084,523	53,318,128

Look Back

Staff originally negotiated terms of a “look back” on the market rate portion of the project. It was agreed that at the time the market rate side of the project is refinanced and the Market Rate Owner has been repaid in full for both their cash equity and deferred developer fee, the look back will require the Market Rate Owner to start making payments to the HRA. Based on the proposed refinancing all the equity and a portion of the deferred developer fee will be paid and it is anticipated that the HRA will start receiving look back payments starting around 2020 to 2021, sooner than if existing financing stays in place.

PED Credit Committee Review

On September 18, 2018, the PED Credit Committee reviewed and approved the loan modification request and there will be no change to the risk rating. Due to the early prepayment of the Series A Bonds on the affordable portion of the project, the Committee also is requiring

the Developer to pay an up-front fee in lieu of on-going bond Issuer Fees in the amount of \$17,904.

Compliance

N/A

Green/Sustainable Development

The Project complies with the Saint Paul Sustainable Development Policy.

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose/Comprehensive Plan Conformance

The project increases density of housing and commercial development near the Gateway Green Line transit station. It creates a pedestrian and multi-modal transportation friendly environment that is compatible with surrounding residential and commercial uses. Access to transit is very important for low income residents. The project ensures the 30year preservation of 50 affordable housing units located in a mixed-income building adjacent to the Westgate light rail transit station. All residents of the project will have excellent access to transit.

The project is consistent with the recommendations in Section 4.2.1 of the Central Corridor Westgate Station plan which calls for strengthening the mixed-use corridor land uses in this area while preserving the character of the existing neighborhood and creating transparency and activity at the street level. It is also consistent with the recommendation in 4.2.3 regarding locating private parking below grade.

Statement of Chairman (for Public Hearing)

N/A

Recommendation:

The Executive Director recommend and requests the HRA Board of Commissioners consider approval of the attached Resolution to approve a loan modification to a HOME loan for the 2700 University project.

Sponsored by: Commissioner Jalali Nelson

Staff: Diane Nordquist 651 266-6640

Attachments

- **Project Summary**
- **Map**
- **Sources and Uses Summary**
- **Public Purpose**
- **District 12 Profile**