

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

REPORT TO THE COMMISSIONERS

DATE: MAY 22, 2019

**REGARDING: RESOLUTION APPROVING AND AUTHORIZING \$200,000 IN HRA
LOAN ENTERPRISE FUNDS TO SCHMIDT KEG HOUSE HOLDING,
LLC, 928 WEST 7TH STREET, DISTRICT 9, WARD 2**

Requested Board Action

Approve a \$200,000 loan to Schmidt Keg House Holding, LLC for the completion of an adaptive reuse development of a historic property at 928 West 7th Street.

Background

The Schmidt Keg House was built in 1937 as an expansion of the Jacob Schmidt Brewery. The long-vacant and much-deteriorated structure was acquired in 2015 by Schmidt Keg House Holding, LLC (“Developer”). The building was redeveloped to HPC and SHPO standards and repurposed as a food hall, the Keg & Case Market (“Market”). It partially opened in September 2018, and is now fully-operational. The hall holds approximately 24 businesses and has created between 200 and 300 jobs.

Total project costs for the Market came in at \$10.4 million, approximately \$500,000 over budget. Primary reasons for the cost overruns were: 1) extraordinary historic rehab costs; 2) extraordinary environmental abatement costs; and 3) delays in the construction schedule related to the previous items and code/compliance items.

The Developer was able to cover \$300,000 of the cost overruns from additional bank debt related to monetizing the Market’s parking lot and year-one cash flow, but is unable to access additional private sources. The PED Resource Team has recommended a \$200,000 loan to cover the remaining gap, matching the interest rate of the market financing, or 6.0%. Repayment of the loan will be deferred through the end of the historic tax credit compliance period in 2024, with possible interest forgiveness tied to the Developer’s participation in a Cultural Destination Area (“CDA”) project within the Market.

Budget Action

This loan is funded from the fiscal year 2019 budgeted funds in the HRA Loan Enterprise – Business Assistance Program. No budget amendment is required. If this resolution is adopted, the balance in the program will be \$423,077.

Future Action

N/A

Financing Structure

SOURCES

First Mortgage	\$ 4,208,000
Historic Tax Credit Equity	\$ 3,000,000
HRA Deferred Loan	\$ 200,000
Tax Increment Note	\$ 1,500,000
DEED / Met Council Grants	\$ 205,000
Developer Cash Equity	\$ 540,000
Deferred Developer Fee	<u>\$ 810,000</u>
TOTAL	\$10,463,000

USES

Property Purchase	\$ 593,000
Hard Construction Costs	\$ 7,037,000
Soft Costs (construction)	\$ 1,044,000
Development Fee	\$ 1,010,000
Capitalized Interest Expense	\$ 407,000
Operating Reserve	\$ 250,000
Other	<u>\$ 122,000</u>
TOTAL	\$10,463,000

The term of the loan would be five years, with all principal and interest deferred until maturity in 2024. The interest rate would be 6.0% to match the existing first mortgage debt. Accruing interest will be forgiven based on leasing a defined food stall for use by the CDA Collaborative for a discounted rate. The loan will be a full-recourse obligation of Schmidt Keg House Holdings, LLD. The HRA will have a mortgage interest in the Market; a separate security interest in the Market's fixtures, equipment, and other business assets; and a personal guaranty from Craig Cohen.

PED Credit Committee Review

The Credit Committee reviewed the proposed HRA Loan Enterprise Fund Loan on May 14, 2019 and approved a recommended Risk Rating of Vulnerable.

Compliance

The Developer has completed the project and met the Compliance requirements including Vendor Outreach, Affirmative Action, Federal Labor Standards, Living Wage Ordinance, Project Labor Agreement, and the Two-Bid Policy.

Green/Sustainable Development

The Project complied with the Saint Paul Sustainable Development Policy.

Environmental Impact Disclosure

A Remedial Action Plan was approved by the MPCA and implemented during the redevelopment with financial support from DEED and the Met Council.

Historic Preservation

The Jacob Schmidt Brewing Company Historic District has been designated as a Saint Paul Heritage Preservation Site. The developer used Federal and State Historic Tax Credits as part of the equity financing for the Project and met the requirements of the State Historic Preservation Office and National Park Service.

Public Purpose/Comprehensive Plan Conformance

The Project, which is consistent with both the District 9 Plan and the Comprehensive Plan, accomplished the following public purposes:

- Created construction jobs and permanent jobs.
- Redeveloped a vacant building, bringing new commercial activities to West 7th Street.
- Achieved historic preservation of this historic property for adaptive reuse.
- Continued redevelopment of the larger historic district, and complimented recent and future development projects.
- Increased the tax base in Saint Paul.

Recommendation:

The Executive Director and staff recommend approval of the attached Resolution authorizing the loan to Schmidt Keg House Holdings, LLC.

Sponsored by: Commissioner Noecker

Staff: Ross Carrier, 266-6611

Attachments

- **Map**
- **Sources and Uses**
- **Public Purpose**
- **District 9 Profile**