

ATTACHMENT B – BACKGROUND

HRA approved tentative developer designation to Kendal Hardware on 14 September 2011 by Resolution 11-1795. The community strongly supports the retention of Kendall Hardware in the neighborhood and believes Kendall Hardware will be a strong anchor for the corner of Payne and Phalen Boulevard.

On November 3, 2004, City Council approved the Payne-Phalen Boulevard Main Street Redevelopment Plan by Resolution 04-1059. On November 3, 2004, by Resolution 04/11/10-1, HRA also approved said Plan. The Plan outlined the need to bring in a variety of new housing types together with commercial/retail services. The neighborhood, HRA, and many other partners were successful in developing the Phalen Senior Lofts in 2007.

As part of the widening of Maryland Avenue, Ramsey County received federal funding to construct turn lanes to facilitate better traffic flow and reduce accidents. The purchase of Kendall Hardware was necessary to facilitate these turn lanes, and the County has now completed this acquisition. Kendall Hardware has been located on the avenue for more than 50 years. The community wants to retain this business on Payne Avenue and take the opportunity to show investment at a prime location. Kendall needs to be off their existing site by May 15, 2012 in order for demolition and improvements to commence in the area. This extremely tight timeline for the relocation of Kendall Hardware requires that construction of their new store get underway by early December. The delay in cost overruns may result in the hardware store being closed before the new store is available. Kendall is working with Ramsey County in an effort to extend the time line to June 1, 2012.

On November 9, 2011, HRA approved the Development Agreement, sale of the property at 840 Payne Avenue and financing assistance to Kendall Land Company, LLC by Resolution 11-1171 for the construction of a new Payne Avenue hardware store. PED staff, the community and Kendall Hardware have all been working to move the development as quickly as possible because of the need for Kendall Hardware to move from Payne and Maryland for the widening of Maryland Avenue by Ramsey County. The general contractor, Copland Building Company, had completed preliminary numbers and was moving to secure final bidding documents to be sent out to sub-contractors for finalizing cost. The project requires that Federal Davis Bacon wage rates applied together with all other City compliance requirements.

Total construction costs were originally estimated at \$1,500,000. The bids received put construction costs at \$2,123,661 an increase of \$623,661. A meeting was held on December 16, between PED staff, Kendall Crosby, architects and Copeland Building Company to discuss the final bid numbers. The meeting was to go over all the bids and determine potential areas that could be cut and/or whether negotiations with sub-contractors could be undertaken to reduce the costs. In determining cost cutting items we retained two strategies:

1. keep building performance and sustainability items in tact to meet the City Sustainability Policy
2. keep the required 2nd floor thereby meeting the massing requirements and physical statement of a prime, high profile corner as identified in the Payne-Phalen Boulevard

Main Street Redevelopment Plan approved by Resolution 04-1059 and Resolution 04/11/10-1

With these two strategies as the guidance we worked to reduce costs and have done so by approximately \$293,661.

- move building back 5 feet from Payne to reduce the need for sidewalk stabilization because of poor soil
- deleted brick on the 2nd floor north and east walls but not along Payne and Phalen which are pivotal visual points
- reworked lighting and electrical specifications, but still maintaining sustainability requirements
- reworked roofing specifications and mechanical materials
- worked with Xcel Energy to bring in 3 Phase power which opened up more bidding on electrical opportunities

A concentrated effort has been made to reduce the construction costs as much as possible. The two remaining items that are affecting costs are the 2nd story and sustainability items. These are items that both the neighborhood and PED staff agree should be met. The additional financing request of \$330,000 will allow for the 2nd floor to be constructed (estimate \$200,000) and the sustainability of the building (additional \$138,000) to be in compliance. These were the two major public purpose strategies to be met as outlined above. This additional assistance would be incorporated into the repayment plan as amended from Resolution 11-1177, approved November 9, 2011.

- Structure of the \$625,000 CDBG loan amended to \$955,000 CDBG will be tied to surplus cash-flow at the end of each year. PED staff will review year-end audited statements for Kendall Payne Hardware and any surplus cash flow over 1.20 DCR (debt coverage ratio) will be split: 60% will be paid to HRA against this deferred loan and 40% will be paid to Kendall. Anything over 1.50 DCR will be paid entirely to HRA. The term of this loan will be 22 years, which corresponds with the bank financing; the interest rate will be 0%. This loan will be due and payable in 22 years from original closing unless otherwise amended by the HRA.
- The land value of \$380,000 will be deferred until refinancing and/or sale of the property, at which time, if the land value exceeds the original land/sales value, any amount over \$380,000 will be shared 50/50 and any unpaid amount would be forgiven at that time. The term of this loan will be 22 years to correspond with the bank financing, at 0% interest.

A land value was established for HRA's site by an appraisal. The site being conveyed is 47,277 sq/ft (1.085 acres), of which 21,000 sq/ft is unbuildable due to poor soil conditions and topography issues. University Bank has hired an appraiser to establish the as-built value of the property. The appraisal completed November, 2011 puts the as-built value at \$1.125 million based on current market conditions. University Bank and PED representatives have reviewed the last three years of income on the Payne Avenue store. Both parties are using the established cash flow rather than projections which may not be realized for a few years. The proposed financing

structure being recommended for HRA repayment is based on the value gap between the cost to build and as-built value.

Uses		Sources	
Land Costs (\$10.27 sq/ft	\$ 380,000.00	University Bank/New Market Tax Credits	\$ 650,000.00
Const. Cost (bids)	2,123,661.00	Kendall Equity	208,000.00
Architectural/Engineering/Const Mgmt	113,000.00	STAR NIF funds Grant – Approved	200,000.00
Legal/Financing Fees	50,000.00	CDBG Funds (approved)	625,000.00
Contingency (Park Land Fee, quality water, street trees, const)	50,000.00	Deferred Land Cost	380,000.00
		ESNDC Financing Assistance	30,000.00
Total Development Costs	\$ 2,716,661.00	Total Development Sources	\$ 2,093,000.00
Reduction in construction costs	\$ 293,661.00	CDBG Additional financing	\$ 330,000.00
Total Project Costs	\$ 2,423,000.00		\$ 2,423,000.00