

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

REPORT TO THE COMMISSIONERS

DATE: MAY 22, 2019

REGARDING: RESOLUTION (i) APPROVING THE ESTABLISHMENT OF THE 848 PAYNE AVENUE HOUSING PROJECT AREA AND THE TAX INCREMENT FINANCING DISTRICT (848 PAYNE AVENUE HOUSING PROJECT), (ii) APPROVING A HOUSING DEVELOPMENT AND REDEVELOPMENT PLAN AND TAX INCREMENT FINANCING PLAN, RESPECTIVELY, THEREFOR, (iii) AUTHORIZING EXECUTION OF A TAX INCREMENT DEVELOPMENT AGREEMENT, AND (iv) APPROVING AN HRA BUDGET AMENDMENT, DISTRICT 5, WARD 6

Requested Board Action

The HRA Board will take action on three separate HRA Board resolutions pertaining to the 848 Payne Avenue project. The first resolution will pertain to the Tax Increment Financing, the second will be for the Multifamily Housing Revenue Bonds, and the third will be a Public Hearing to sell the HRA owned land to the Developer.

The HRA Board is requested to approve the following:

1. Establishment of the 848 Payne Avenue Redevelopment Project Area and the Tax Increment Financing District (848 Payne Avenue Housing Project)
2. Approving a Housing Development and Redevelopment Plan and Tax Increment Financing Plan, Respectively.
3. Approval of a Development Agreement with 848 Payne, LLLP.
4. Approving an HRA Budget Amendment.
5. Authorizing the Executive Director to finalize all documents for execution by the appropriate HRA Officers in connection with the 848 Payne Avenue project.

Background

The HRA acquired 848 Payne (29.29.22.42.0263) and 844 Payne (29.29.22.42.0346) from Richard A Wybierala Trust on April 24, 2007 for purchase price of \$525,000 (Fund 117). In 2012, a portion of 844 Payne Avenue was split off from the full parcel and sold to Kendal Ace Hardware for \$380,000 and this portion of land now includes the Kendall Ace Hardware store at Payne Avenue and Phalen Boulevard.

The HRA acquired 856 Payne Avenue (29.29.22.42.0238) from L & D Metz on April 12, 2007 for \$135,000 (Fund 117).

The HRA acquired three parcels on Wadena (Aquirre) Street (29.29.22.42.0246, 29.29.22.42.0247 and 29.29.22.42.0349 (Lots 35-41) from Janice Timmers on February 23, 2006 for \$60,000. (Fund 100).

In February 2015, The HRA entered into an Exclusive Sales Listing Agreement with ESNDC Real Estate Brokerage, LLC to list the property. ESNDC Real Estate Brokerage, LLC received three inquiries regarding the purchase of the HRA owned property. PED Staff consulted with all three companies and reviewed their proposals. PED Staff then requested a formal application to purchase the property. In February 2017, PED Staff received a proposal from 848 Payne, LLLP (SR Development II, LLC; of which, Schafer Richardson is the sole member) and a proposal from Commonwealth Development Corporation. Both applications indicated that the developers would like to purchase the property and construct a mixed-use building on the site.

PED Staff reviewed both proposals and recommended 848 Payne, LLLP (Shafer Richardson is the Managing Partner) for tentative developer status for this property. The Developer has extensive experience in rehabilitation of historical properties and construction of new multifamily and mixed used buildings. In the last three years, The Developer has completed 580 new construction units, 74 historical rehabilitation units and 32,000 square feet on new commercial space. In addition to these construction projects, The Developer currently manages 361 multifamily units and 162,000 sq. ft. of commercial space. On September 14, 2016, the HRA Board approved the purchase agreement with 848 Payne, LLLP to develop 175 market rate units at 217 Chestnut Street (Ryan Lot).

848 Payne, LLLP (SR Development II, LLC) proposes to construct a four-story building with 99 housing units, 5,600 sq. ft. of commercial space and 90 parking spaces. The proposed housing will consist of 36 efficiencies, 42 one-bedroom and 21 two-bedroom units.

The ninety-nine (99) housing units will be tax credit units affordable to households as follows:

Size and Income /Rent Limits of Units:

Size	# of units	Gross Rent	Rent Limit	Income Limit
Studio	31	\$991	60%	60%
Studio	5	\$711	FMR	50%
1 BR	37	\$1,062	60%	60%
1 BR	5	\$864	FMR	50%
2 BR	11	\$1,273	60%	60%
2 BR	10	\$1,089	FMR	50%
Total	99			

* FMR = Fair Market Rents

The Developer is experienced in the construction and management of multifamily housing projects within the metropolitan area.

The Project has a financing gap and the Developer has requested the establishment of a new housing Tax Increment Financing district to provide assistance. The City Council held a public hearing on April 17, 2019 and adopted RES PH #19-101 authorizing the establishment of the 848 Payne Avenue Housing Project Area and the Tax Increment Financing District (848 Payne Avenue Housing Project) and approving a Housing Development and Redevelopment Plan and Tax Increment Financing Plan.

The property is currently zoned T2 – Traditional Neighborhood and the proposed project is permitted in this district. See **Attachment** for a Map/Address of the Property, and **Attachment** for a demographic profile of District 5, the Saint Paul Planning District in which the Project is located. No businesses will be displaced, and no land acquisition took place as a result of eminent domain.

Budget Action

The HRA is approving a budget amendment to align with the financing and spending included in the TIF Plan. The budget amendment is included in the Attached Financial Analysis.

Future Action:

None

Financing Structure

The Developer has proposed the following permanent sources and uses to complete the construction project. They are seeking HRA issued Multifamily Housing Revenue Bonds with automatic 4% Low Income Housing Tax Credits (LIHTC) and Tax Increment Financing (TIF).

<u>SOURCE</u>		<u>USES</u>	
Housing Revenue Bonds/LIHTC	\$7,512,724	HRA Owned Land	\$ 500,000
First Mortgage	\$11,065,217	New Construction	\$16,748,334
TIF Mortgage	\$2,082,000	Developer Fee	\$ 2,427,252
Deferred Developer Fee	\$1,262,171	Enviro Clean Up	\$ 50,000
Met Council Loan	\$ 269,500	Professional Fees	\$ 1,235,929
Solar ITC Equity	\$ 78,000	Financing Costs	\$ 2,328,684
Fannie Mae Deposit	\$ 131,472	Operating Reserves	\$ <u>786,681</u>
General Partner Loan	<u>\$1,675,796</u>		
TOTAL	\$24,076,880		\$24,076,880

Summary of Estimated Permanent Sources and Uses for the Project is shown on **Attachment - Sources and Uses Summary**.

HRA Property Sale

848 Payne LLLP is requesting to purchase the Property for \$500,000. A Development Agreement will provide the terms and conditions of this transaction.

Tax Increment Financing (TIF) Assistance

- Due to the high cost of developing affordable housing, the Project is feasible only through assistance from tax increment financing. With the establishment of the housing TIF district for the 848 Payne Avenue Project, TIF will be provided through a pay-as-you-go note to the Developer. Upon final analysis of the amount of tax increment financing needed, the TIF will be structured as a Pay-As-You-Go Note to the Developer, pledging 90% of the tax increments collected by the HRA from the TIF district, for TIF-eligible expenses incurred to construct the affordable housing, including interest. The remaining tax increment is budgeted for administration costs. The principal amount of the note is approximately \$2,082,000 with an estimated interest rate of 4.44% (the interest rate will equal the rate on the bonds). Pay-As-You-Go obligations are limited obligations without scheduled payments, and revenues are first used to pay interest and then to retire principal. The HRA makes no representation that the pledged increments will be sufficient to pay principal and interest. See **Attachment - Housing Development and Redevelopment Plan for 848 Payne Avenue Housing Project and Tax Increment Financing Plan for Tax Increment Financing District (848 Payne Avenue Housing Project)**.

Multifamily Housing Revenue Note and 4% LIHTC

On March 20, 2019, the City Council conducted a public hearing and authorized preliminary approval for the HRA to issue a tax-exempt multifamily housing revenue note for the Project. The principal amount of the note will not exceed \$13,000,000 and will have fixed interest. The Project will also be financed with 4% non-competitive Low-Income Housing Tax Credits available with the issuance of a tax exempt multifamily housing revenue note. The Developer is asking for a waiver of the HRA policy that requires that the Bonds be sold with minimum denominations of \$5,000 for rated bonds. The Developer is requesting that the Bonds be sold with a minimum denomination of \$1,000 with added increments of \$1.00. PED staff and the PED's Housing Director support this recommendation. The reduced denomination is a requirement of a new financing product from Fannie Mae. This new financing product will increase the private mortgage, reducing the financial gap.

Low Income Tax Credits (LIHTC)

The 4% LIHTC are to be purchased by National Equity Fund for \$0.885 per dollar and National Equity Fund will become the Limited Partner.

\$269,500 Metropolitan Council's Livable Communities Demonstration Account – Development Grant Program Loan

The City's \$269,500 Met Council loan will be structured as a 1% deferred loan for 30 years. This loan will be in 2nd position behind the combined first lender's \$11,065,217 loan and the TIF Mortgage.

Deferred Developer Fee

In order to maximize the amount of tax credit equity, the Developers are requesting the maximum fee under the City's Developer Fee Guidelines and will include this fee as eligible tax credit basis. A portion of the Developer Fee of \$1,264,151 will be deferred and paid over a period of up to 15 years through excess cash flow.

PED Credit Committee Review

On May 7, 2019, the Credit Committee reviewed the proposed Multifamily Housing Revenue Bonds, tax-exempt note and Tax Increment Financing assistance. The Borrower has requested a waiver of our minimum bond denominations to allow the bond financing through a new Fannie Mae product, which results in higher mortgage proceeds and reduces the gap. The Credit Committee approved the TIF assistance as consistent with PED policies and approved the waiver for the bond financing. The Credit Committee also approved of the terms of the City's \$269,500 Met Council loan with a risk rating of Originated as a Loss.

Compliance

The Applicant has signed the compliance letters regarding the Project. The Project will comply with the following programs and/or requirements: Vendor Outreach Program, Affirmative Action, Local Labor Standards, Project Labor Agreement, Sustainable Green Policy and Two Bid Policy. The Project is exempt from the following: Business Subsidy based on development of housing; Living Wage based on the number of employees.

Green/Sustainable Development

The project will comply with the Saint Paul Sustainable Development Policy.

Environmental Impact Disclosure

N/A

Historic Preservation

This project will not require HPC PED Staff review. However, a HUD 106 review was completed.

Public Purpose/Comprehensive Plan Conformance***Housing***

This project conforms to the adopted Saint Paul Comprehensive Plan (2010), particularly Land Use Strategy 1: Target growth in unique neighborhoods. It meets the goals of increasing density where appropriate, particularly along Mixed-Use Corridors, and supporting a mix of uses in those corridors. This project also meets the stated goals of Housing Strategy 1: Build upon Saint Paul's strengths in the evolving metropolitan housing market, particularly regarding increasing housing choice (H-1.1), meeting market demand for transit-oriented housing (H1.2).

The project also meets the stated goals and objectives of the Phalen Corridor Development Strategy Summary (2001), and the Phalen Corridor Development Strategy Middle Section Summary (2004), specifically the strategy/implementation step: "Create new mixed-use development at the intersection of Payne Avenue and the new Phalen Boulevard. The mix will include new housing and commercial opportunities and infill housing where appropriate."

Recommendation:

The Executive Director recommends approval of the attached resolution which approves the following actions:

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Sponsored by: Commissioner Kassim Busuri

Staff: Report prepared by: Daniel K. Bayers, (266-6685)
Jenny Wolfe (266-6680)

Attachments

- Budget Amendment
- Housing Development and Redevelopment Plan for 848 Payne Avenue Housing Project and Tax Increment Financing Plan for Tax Increment Financing District (848 Payne Avenue Housing Project)
- Project Summary
- Map
- Sources and Uses
- Public Purpose
- District 5 Profile