

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

REPORT TO THE COMMISSIONERS

DATE: November 14, 2012

REGARDING: Resolution Approving the Subordination and Modification of an HRA Loan in the Original Amount of \$750,000 and Authorizing the Execution of Documents in Connection with the Gateway Village Project (aka River Crossing Project) (District 15, Ward 3)

Requested Board Action

The purpose of this report is to obtain HRA Board approval for execution of the following documents, as a requirement of the refinancing of debt of the Gateway Village Limited Partnership (aka, River Crossing Project):

- First Amendment to HRA Loan Documents;
- Amended and Restated HRA Note;
- Companion Note;
- Master Subordination Agreement; and
- Amendment to Declaration of Land Use Restrictive Covenants

Background

The primary principals of Gateway Apartments Limited Partnership (the “Borrower”) include Wally Johnson, Andy Chase and John David Anderson; this limited partnership was formed to develop and own the River Crossing Project. Stonebridge Communities, LLC was established in January, 2011 by the same principals to provide management to all Stonebridge Communities projects. Stonebridge Communities, LLC manages 1,200 apartment units, including the 313 in this project, and another 240 units adjacent to the River Crossing Project.

The Borrower entered into a Development Agreement with the HRA in June of 2003 regarding the development of the Shepard Davern area which included site assembly and new construction of three separately financed projects: 313 general occupancy apartments (River Crossing located at 1735 Graham Place), 120 units of senior apartments (Graham Place located a 1750 Graham Place) and 121 for-sale townhouses and flats.

The HRA issued \$5.035 million in tax-exempt bonds to finance the River Crossing project, plus \$2 million in tax-exempt subordinate bonds (the “2006 Bonds”), and provided a loan from HRA funds in an amount of \$750,000, \$375,000 of which as a bridge source that has been repaid. Additional sources were provided as follows: \$500,000 from Ramsey County, \$800,000 from Minnesota Housing Finance Agency, and \$100,000 from the Family Housing Fund. The HRA also established a tax increment financing district (a housing district) for the 313 unit apartment project. The action requested relative to the refinancing does not impact the pay-as-you go TIF note currently in place, nor does the request impact the senior apartments or for-sale units. Ramsey County issued \$38.69 million in senior lien bonds which will also be redeemed with the refinancing (the “2003 Bonds”).

The HRA loan currently requires monthly payments out of “net operating income” with the full principal amount and accrued interest due upon maturity on 11/1/2027. The Borrower has achieved sufficient net operating income and has made scheduled payments. The HRA recorded a mortgage in the amount of \$750,000, which is in 4th position behind the two mortgages in favor of the bondholders and a mortgage held by Ramsey County.

Budget Action

NA

Future Action

No additional approvals necessary.

Financing Structure

The Borrower is redeeming the 2006 Bonds and the 2003 Bonds, and is refinancing the outstanding loans with a \$47.242 million loan from Dougherty Mortgage LLC which will be insured under HUD’s Section 223(f) Program, (“HUD Loan”). HUD requires the HRA and other subordinate lenders to subordinate their existing loans and extend the maturity date to 1/1/2048 to match the HUD Loan. The HRA’s loan has a current outstanding balance of approximately \$294,905.03 and will now be in a third position.

Staff has negotiated, and is seeking HRA Board approval for, a subordination of our HRA loan that includes the following:

1) an Amended and Restated HRA Promissory Note (Surplus Cash Note) which includes the same payments out of surplus cash as required under the original Note, but with a longer maturity as required by HUD (final maturity of 1/1/2048 vs. 11/1/2027). The proposed payment schedule on the amended Note anticipates the principal will be retired on or before the original maturity date of 11/1/2027. Because we have been asked to extend the maturity date along with the subordination request, we are requiring Stonebridge Communities, LLC (“Guarantor”), to guarantee payments under the Note in the event the Project does not generate a surplus to make the payment. The Guarantor agrees to pay to the HRA any payment unpaid by the Borrower due to lack of surplus cash flow within thirty days after the due date.

2) a companion Note signed by Stonebridge Communities, LLC, to make payments to the HRA of \$6,385 annually for 15 years to total \$95,775 (matures on 12/1/2027), which is to compensate the HRA for the annual servicing fee the HRA will lose with the redemption of the original HRA bonds. The bonds are to be paid off in full with the HUD-insured loan in early December.

PED Credit Committee Review

On November 5, the PED Credit Committee reviewed and approved the subordination request and revised the risk rating on the HRA Surplus Cash loan from Originated as Loss to Doubtful.

Compliance

N/A

Green/Sustainable Development

N/A

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose

The approval of the subordination and establishment of the long-term fixed rate HUD-insured mortgage ensures the continued operation of housing including 25% of the units affordable at or below 50% of median income.

Recommendation

The Executive Director recommends approval of the attached resolution which authorizes the subordination and execution of required documents for the River Crossing Project.

Sponsored by: Commissioner Tolbert

Staff: Diane Nordquist (6-6640) and Jenny Wolfe (6-6680)

Attachments

- **Attachment A – Resolution**
- **Attachment B – Map of Project**