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

REPORT TO THE COMMISSIONERS **DATE: October 23, 2013**

REGARDING: **Resolution Approving the Issuance, Sale and Delivery of Conduit Housing Revenue Bonds (Lewis Park Apartments Project), Series 2013; adopting a Housing Program pursuant to Minnesota Statutes Chapter 462C; and Approving the Form, and Authorizing the Execution and Delivery, of the Bonds and Related Documents, Ward 1, District 6 – North End/South Como**

Requested Board Action

Approval of the attached Resolution authorizing the issuance of up to $9,000,000 in tax-exempt housing conduit revenue bonds and related documents for the Lewis Park Apartments Project.

Background

Lewis Park Apartments is located at 180 Wayzata Street in the North End/South Como district council area, approximately one block west of Rice Street in Ward 1. The property is adjacent to a Saint Paul public park, Lewis Park. The property was originally constructed in 1979 as handicap-accessible, project-based Section 8 affordable multifamily rental housing. The site is zoned RM3-Multifamily Residential and consists of an existing 129,715 square foot building on a 3.11 acre parcel. The complex currently has 68 one-bedroom units and 35 two-bedroom units, with 41 underground parking stalls and 17 surface parking stalls. No change in the number of units or number of bedrooms for the complex will be made under this renovation. The residential use conforms to the zoning code in terms of density, but does not currently conform in terms of required parking spaces of 1.5 spaces per unit or 155 total parking spaces. Parking is not an issue for the complex; however, it was constructed at a time when the zoning code had a lower parking requirement.

Proposal

The Developer proposes to rehabilitate the existing apartment complex in order to preserve 103 existing affordable and accessible rental housing units. The scope of work for the rehabilitation will include tuck-pointing the building's brick exterior, replacement of all windows, replacement of the original mechanical and electrical systems, replacement of appliances and fixtures, upgrade of the security entry system, and installation of security cameras.

100% of the units will be income-restricted to tenants with incomes at or below 30% of the area median income (AMI). Lewis Park Apartments is currently a project-based Section 8 property with the U.S. Department of Housing & Urban Development (HUD) and the Developer intends to maintain that status. The annual income of a one-person household at 30% of the AMI is $17,310. The income limit of a two-person household at 30% of the AMI is $19,770.

Size and Income /Rent Limits of Units:

Size	**# of units**	**Gross Rent (contract rent +utilities) includes HUD Section 8 payment**
1 BR	68	$930
2 BR	35	$1,112
Total Units	**103**	

Developer Experience

Based in Maryland, the National Foundation for Affordable Housing Solutions, Inc. (NFAHS) is a 501(c) (3) nonprofit organization that was established in 1990. Since 1991, NFAHS has recapitalized and preserved approximately 50,000 units of affordable multifamily housing with transaction totals in excess of $2.5 billion. NFAHS currently owns 39 affordable housing properties amounting to 4,139 housing units in 12 states and the District of Columbia. With the acquisition and proposed rehabilitation of Lewis Park Apartments, NFAHS is entering the affordable housing market in Minnesota for the first time.

NFAHS created a development arm in 2010 called NFAHS Development LLC. Since 2010, NFAHS Development LLC has redeveloped 1,452 existing housing units and constructed 63 townhomes with approximately 480 additional units under contract. NFAHS Development LLC is the entity that will serve as the developer for the rehabilitation of the Lewis Park Apartments complex; the developer had originally selected Benson-Orth as the general contractor but is now in the process of selecting a new general contractor.

Budget Action

None. This is a conduit bond issue. The bonds shall not constitute an indebtedness, liability, general or moral obligation, or pledge of the faith or credit or taxing power of the HRA, City of Saint Paul, or any agency or political subdivision thereof, and shall not constitute indebtedness of any of the foregoing within the meaning of any constitutional, statutory, or charter provision, nor be a charge against their respective general assets, credit or taxing powers, and do not grant the owners or holders of the bonds any right to have the HRA, City of Saint Paul or any agency or political subdivision thereof to levy any taxes or appropriate any funds for the payment of the principal thereof or interest thereon. Principal and interest on the bonds are payable solely out of the revenues and other sources pledged to the payment thereof as described in the bond documents.

Future Action

None

Financing Structure

The total acquisition and rehabilitation cost is $15,432,519. The first mortgage will be in the form of a 221(d) (4) HUD-secured loan in the estimated amount of $7,232,000. NFAHS Development LLC (the "Developer") is also receiving the "automatic 4%" low income housing tax credits that can be used for projects using tax-exempt revenue bond financing. Syndication proceeds for the tax credits are estimated to be approximately $4,276,340, priced at $0.90 per dollar invested; R4 Capital is the tax credit syndicator on the project. The project has a commitment of $2,500,000 in gap financing from Minnesota Housing Finance Agency (MHFA). NFAHS Development, LLC is proposing to defer approximately $844,179 of the developer fee. A $250,000 seller note from Lewis Park Affordable, LLC is committed to assist with the acquisition. Finally, the developer proposes to use 65% of the project's Year 1 net operating income during the construction period in the amount of approximately $330,000.

Sources and Uses

USES		TDC per UNIT (103 Units)	% of LINE ITEM OF TDC
Acquisition (Land $1,080,000; structure $5,670,000)	$6,750,000	$65,534	43.7%
Rehab/Construction	$5,161,429	$50,111	33.4%
Architectural	$179,816	$1,746	1.2%
Other Soft Costs	$353,897	$3,436	2.3%
Developer's Fee	$1,320,175	$12,817	8.6%
Financing and Other Fees	$946,803	$9,192	6.1%
Capitalized Replacement Reserve	$51,500	$500	0.3%
Capitalized Operating Reserve	$524,259	$5,090	3.4%
Working Capital	$144,640	$1,404	0.9%
TOTAL	**$15,432,519**		
SOURCES			
MHFA Deferred Request – HOME	$2,500,000	$24,272	16%
Tax Exempt Bond Mortgage (FHA 221 (d)(4)	$7,232,000	$70,214	47%
4% LIHTC - Syndication proceeds at 0.90	$4,276,340	$41,518	28%
Deferred Developer Fee	$844,179	$8,196	5%
Seller Note	$250,000	$2,427	2%
Interim Income from excess NOI (65% of the NOI during the construction period)	$330,000	$3,204	2%
TOTAL	**$15,432,519**		

Housing Revenue Bonds

There is a total of up to $9,000,000 of volume limit tax-exempt bond authority being approved. The bonds will be underwritten by M.R. Beal & Company, publicly-offered, rated A-1+, and issued in

$5,000 denominations. The security for the bonds will be cash, collateralized in the form of the proceeds of the HUD 221(d) (4) loan. Essentially, the bond proceeds will serve as the bulk of the short-term construction financing for the rehabilitation of the building with the HUD 221(d) (4) loan serving as the permanent financing for the project when the bonds are retired. The bonds will be structured as short-term with a two-year maturity date, optional 12-month call date, and an 18-month mandatory tender date. The HRA will receive a 1.50% closing fee of $108,000 as a result of this transaction and will receive an annual servicing fee of .10% of the balance of the outstanding bonds.

Low Income Housing Tax Credits

The Project will be financed with the "Automatic 4%" Low Income Housing Tax Credits (LIHTC). Automatic 4% tax credits can be used "automatically" for projects with tax-exempt revenue bond financing. Estimated syndication proceeds are roughly $4,276,340. R4 Capital is the syndicator of the tax credits; credit pricing is based on $.90 per dollar.

PED Credit Committee Review

On August 12, 2013 and October 14, 2013, the PED Credit Committee determined that the issuance of the Housing Revenue Bonds for the Lewis Park Apartments project meets the HRA bond policy.

Compliance

The following compliance requirements will apply to this project: Vendor Outreach, Affirmative Action, City Davis Bacon, and the 2-Bid Policy. A pre-bid meeting was held on September 9, 2013 with Benson-Orth. Another pre-bid meeting will be held with the new general contractor entity once NFAHS, Inc. makes their selection. A pre-construction meeting will be scheduled after final HRA Board approval and before a final closing on financing. A Project Labor Agreement is required.

Green/Sustainable Development

Since this is a rehabilitation of an existing building, the City's Sustainable Development policy would not apply. The project's scope of work, however, includes replacement of all mechanical systems, windows, and insulation in order to improve the building's energy efficiency.

Environmental Impact Disclosure

N/A

Historic Preservation

The existing Lewis Park Apartments structure was constructed in 1979 and is not historic.

Public Purpose/Comprehensive Plan Conformance

This project meets the public purpose objective of preservation of high density affordable rental housing and conforms to the following plans:

Land Use Chapter of Comprehensive Plan (2010)

The Lewis Park Apartments project is in conformance with the City of Saint Paul's Comprehensive Plan policy to preserve existing affordable housing.

Strategy 3: Ensure the Availability of Affordable Housing Across the City

3.1 Support the preservation of publicly-assisted and private affordable housing.

> b. Support the application of LIHTC, historic tax credits and other appropriate funding sources to maintain existing low-income units. The City/HRA should work with Minnesota Housing, community development corporations, and property owners to continue the provision of low-income housing units in these developments and to use LIHTC on the rehabilitation of existing affordable units.

Recommendation:

The Executive Director recommends the HRA Board of Commissioners adopt the attached Resolution, which authorizes the issuance of up to $9,000,000 in tax-exempt multifamily housing revenue bonds and related documents to be executed.

Sponsored by: Commissioner Nathaniel Khaliq

Staff: Jennifer Jordan, 612-266-6598

Attachments

- **Attachment A -- Resolution**
- **Attachment B -- Map/Address of Project**
- **Attachment C --** ***Project Summary Form***
- **Attachment D --** ***Sources and Uses Summary Form***
- **Attachment E --** ***Public Purpose Form***
- **Attachment F -- Census Facts**