

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

REPORT TO THE COMMISSIONERS

DATE: February 22, 2012

**REGARDING: Resolution Approving the Establishment of the Schmidt Brewery
Redevelopment Project Area and the Schmidt Brewery Tax Increment
Financing District and the Adoption of a Redevelopment Plan and
Tax Increment Financing Plan, District 9**

Tax

Requested Board Action

Authorization to approve the establishment of the Schmidt Brewery Redevelopment Project Area and the Schmidt Brewery Tax Increment Financing District and the adoption of a Redevelopment Plan and Tax Increment Financing Plan in order to construct 248 units of affordable rental housing in two historic buildings and newly construct 13 affordable rental townhomes within approximately eight acres of the Schmidt Brewery site (the “Project”).

Background

On December 22, 2011 the HRA Board approved a Development Agreement with Saint Paul Leased Housing Associates VI, Limited Partnership, a.k.a. Dominion Development & Acquisition, LLC (the “Developer”) to construct the Schmidt Brewery housing project. That approval acknowledged that staff would come back for additional approvals, including this action. The Schmidt Brewery housing project (the “Project”) is located on approximately eight acres of the approximately 15 acre Schmidt Brewery site located on the south side of West 7th Street between Erie Street and Toronto Street. The Project includes the renovation and adaptive reuse of two historic Schmidt Brewery buildings including what have been historically known as the “Bottle House” and the “Brew House”. These iconic buildings have been mostly vacant and unused for nearly ten years. This substantially underutilized industrial site presents a prime opportunity for redevelopment along West 7th Street, a major transit corridor, while preserving a significant part of Saint Paul’s history.

The Schmidt Brewery project is a highly complex and difficult redevelopment project. Not only is it providing needed affordable housing, but it is also cleaning up a polluted site, preserving and adaptively reusing challenging historic structures, and re-opening and constructing new public

infrastructure (Webster Street) to integrate the site into a mostly residential neighborhood. Because of its former use as a brewery, the two historic buildings, especially the Brew House, will require a significant amount of interior demolition including cutting and removing 60 large tanks and other equipment used in the beer-making process. The Brew House was built with a castle-like element not only as an architectural interest, but to also facilitate brewery operations, enabling gravity flow equipment located at various heights. The floor plates in the Brew House, now at uneven levels, need to be torn out and replaced in order to adapt the building to a residential use. Also, there are a number of window openings that need to be re-opened and/or created in a manner that will be acceptable under local, state, and federal historic guidelines. This makes the re-use of these buildings much more difficult than many other historic buildings that are adaptively reused, such as former office or warehouse buildings, which are more straight-forward in construction and thus easier to convert to residential.

Proposal:

The Developer plans to convert the Brew House into 148 units of rental housing and the Bottle House into 100 units of rental housing. In addition, there is a strip of currently vacant land on the east side of the site where 13 new rental townhomes will be built. The new construction townhomes will have attached garages; the balance of the units will have surface parking. 100 % of the units will be income- restricted to tenants with incomes at or below 60% of the Area Median Income (AMI). In addition, at least ten percent (10%), or 27 units, will be affordable to households with incomes at or below fifty percent (50%) of AMI.

The project and project amenities will be targeted to artists. Amenities will include a clay studio, paint studio, community/club room, fitness room, sound studios, media studios, dance studio, performance and practice studios, and gallery spaces.

Size and Income /Rent Limits of Units:

Size	# of units	Gross Rent	Rent Limit	Income Limit
Eff.	10	\$723	50%	50%
1 BR	22	\$761	50%	50%
1 BR	114	\$930	60%	60%
2 BR	94	\$1,117	60%	60%
3 BR	8	\$1,245	60%	60%
3 BR TH	13	\$1,245	60%	60%

Total **261**

The maximum annual income of a two-person household at 60% of the area median income is \$39,720; the maximum annual income for a two-person household at or below 50% of the area median income is \$33,100. In addition to providing 261 units of affordable housing, the site will include several outdoor courtyard areas, a tot lot, and community space to be used as workshop and gallery spaces.

Developer Experience

Dominium Development and Acquisition, LLC has extensive multi-family housing experience. Dominion owns and/or manages over 19,000 units of multi-family rental property. Operating since 1991, they have acquired and developed apartment units in 18 states. Dominion's portfolio consists of a variety of product types and classes. Today, 58% of Dominion's properties are affordable, primarily tax credit and senior properties, and 42% are market rate properties. Recently in Saint Paul, they completed 808 Berry Place, a new construction luxury mixed income property located off of University Avenue near Highway 280. They acted as the developer consultants and oversaw the development of Carleton Place Lofts also located on University Avenue. An adaptive reuse of three historic warehouse buildings into affordable rental housing for artists, such as Carleton Place Lofts is evidence of Dominion's success in dealing with the conversion of historically significant buildings.

Budget Action

The Tax Increment Financing Budget is attached to the Resolution approving the TIF Plan.

Future Action

HRA staff will return for City Council and HRA Board approvals including:

1. City Council public hearing and approval of a Housing Program and preliminary approval of Housing Revenue Bonds; and
2. HRA Board final approval to issue Housing Revenue Bonds.

Financing Structure

Proposed Sources and Uses of Funding:

Sources of Funds

Tax Exempt Revenue Bonds – 1 st Mortgage	\$ 19,340,000
Tax Increment Financing Bonds – TIF	2,650,000
Tax Exempt – Seller Financing Note	2,500,000
Total Tax Credit Equity (LIHTC, Fed & State His.)	56,719,221
Capitalized Expenses During Construction	682,824
DEED Clean-up and RLF	1,081,525
Met Council TBRA Clean-up	1,330,826
Ramsey County Clean-up	303,690
City of Saint Paul CDBG	1,500,000
Met Council LCDA	1,250,000
Deferred Contractor Fee	888,845
Deferred Developer Fee	<u>12,366,770</u>
Total Sources of Funds	\$100,733,700

Uses of Funds

Acquisition	\$ 6,000,000
Construction Costs	62,585,592
Environmental Clean up	3,000,000
Contractor Fee	5,358,526
Professional Services & 3 rd Party Reports	2,040,000
Bond and Financing Costs	2,611,164
Capitalized Expenses During Construction	682,824
Taxes, Reserves, Construction Interest	4,865,405
Tax Credit and Bond Fees	1,223,419
Developer Fee	<u>12,366,770</u>
Total Uses of Funds	\$100,733,700

Housing Revenue Bonds

In order to receive 4% automatic tax credits available under Housing Revenue Bonds, the project must meet the “50%” test, which requires that at least 50% of the eligible total development costs be initially financed with bond proceeds. Therefore, a total of approximately \$59,610,000 of volume limit tax-exempt bond authority is required. The bond financing will be structured into two series of bonds: Series A and Series B. Both Series A and B will not be rated, will be underwritten by Dougherty & Company, and are expected to be publicly offered and sold in \$100,000 minimum denominations to both retail and institutional investors.. The A-Series bonds in the amount of \$22,110,000 are the property’s first mortgage, include TIF proceeds, and are supported by property operations. The term will be 35 years and subject to mandatory tender in 17 years. The interest will be a fixed rate. The B-series bonds will have a principal amount of \$37,500,000 and will have an optional redemption at the option of the Borrower on or after 2 years. The interest rate will be fixed. The B bonds will be repaid from installments of tax credit equity from the Tax Credit Limited Partner Investors.

Tax Increment Financing (TIF) District

Due to the high cost of developing affordable housing and the adaptive reuse of historic buildings, this project is feasible only through assistance, in part, from tax increment financing. Subject to the required public hearings and City Council and HRA approvals, it is anticipated that a new Housing TIF Financing Plan and TIF District will be created to include only the parcels that will be part of this Project. Upon approval of a tax increment district, it is anticipated that the TIF will be structured as a pay-as-you-go note to the Developers in an amount not to exceed \$2,650,000.

Seller Note

As a way to help fill the financing gap, the seller of the property has agreed to take back a Seller Note in the amount of \$2,500,000 as a portion of the purchase price. Payment on the note will be deferred approximately 15 years and paid after the Deferred Developer fee has been paid. After that time, payments on the note will be made each year out of 25% of any excess cash flow.

Tax Credits

The Project will also be financed with the “Automatic 4%” Low Income Housing Tax Credits and both the State and Federal Historic Tax Credits. Automatic 4% tax credits can be used “automatically” for projects with tax exempt revenue bond financing. These credits are not limited as are the “9%” credits. All of the units will be affordable at or below the 60% Area Median Income and therefore tax credit eligible. The Developers are now proceeding with the necessary state and federal requirements in order to apply for federal and state historic tax credits.

CDBG Loan

A \$1,500,000 CDBG loan will be awarded to the Project. HRA staff will return to the Board for final approval of terms and conditions of the loan.

Grants

The Project has already been awarded several clean-up grants including \$1,082,592 from the Metropolitan Council through their Tax Base Revitalization Account (TBRA) program and \$669,004 from the Department of Employment and Economic Development (DEED). In addition, it is anticipated that the City will receive, on behalf of the developers, several other grants including another Metropolitan Council TBRA grant in the amount of \$248,234, another DEED grant in the amount of \$412,521, and a Ramsey County Environmental Response Fund grant in the amount of \$303,690 to help pay for some of the environmental clean-up costs associated with the Project. It is also anticipated that the Project will receive final approval of a \$1,250,000 Met Council Livable Communities Demonstration Account Grant for assistance with property acquisition.

PED Credit Committee Review

On December 12, 2012 the PED Credit Committee reviewed and commented on the general terms and conditions of the Development Agreement.

Compliance

A Memorandum of Understanding related to the revenue bond financing has been signed with the Developers. The compliance requirements that apply to this project include Vendor Outreach, Affirmative Action, Federal Davis Bacon, Section 3, and the 2-Bid Policy. A pre-bid meeting was held on February 6, 2012. A pre-construction meeting will be scheduled after final HRA Board approval and before a final closing on financing. The Project will use all union labor for the construction and there will be an executed Project Labor Agreement.

Green/Sustainable Development

The new construction of the townhomes will comply with Saint Paul Sustainable Development Policy. They will be using “Green Communities” to comply. The Sustainable Development Policy does not apply to the renovation portion of the Project. However, the Developer is planning to add green building elements including the use of LED for all site and common space lighting, significantly reducing electrical use. The apartment unit heating and cooling will be done with a modern and efficient heat-pump system, the most efficient HVAC system available short of geothermal. Energy star appliances are also being installed in the units. Plumbing fixtures will be low flow. They are also working with historic preservation staff to be able to use clear, low-e, insulated glass to provide an energy efficient window (compared to typical historic windows). LEED Certification is being explored.

Environmental Impact Disclosure

N/A

Historic Preservation

The Jacob Schmidt Brewing Company Historic District was designated by the City Council in July, 2011. The District was certified for the National Register of Historic Places in September, 2011. This certification allows for developers to use both the federal and state historic tax credit for rehabilitations. The Heritage Preservation Commission has issued Conditional Approvals for both the Bottling Plan and Brew House Complex during public hearings in October and November. A site plan proposal was laid over by the HPC and is being brought back with

revised plans on December 15th. City staff is coordinating with the State Historic Preservation Office (SHPO) staff regarding their review for the historic tax credits. No plans have been forwarded to the National Park Service for final federal review. SHPO staff is requesting complete drawings, applications and revisions prior to sending to the Park Service.

Public Purpose/Comprehensive Plan Conformance

This project meets several public purpose objectives including providing high density affordable rental housing along a major transit corridor and historic preservation. The project conforms with the following plans:

District 9 Area Plan Summary (2010)

Schmidt Brewery is one of four sites identified for major housing development.

Land Use Chapter of Comprehensive Plan (2010)

Schmidt Brewery is designated as a Neighborhood Center, to which the following objectives apply: accommodating growth, supporting transit use and walking, providing a range of housing types, providing housing at densities that support transit, and providing open space and recreational opportunities. (Strategy 1.12)
Strategy 1.42: Promote the development of housing in mixed-use neighborhoods that supports walking and the use of public transportation.

The Schmidt Brewery area is identified as an opportunity site for future mixed-use development consistent with the *Saint Paul Comprehensive Plan* (Strategy 1.54).

Historic Preservation Chapter of Comprehensive Plan

Strategy 5.3.: Realize the full economic potential of key historic resources.

- Rehabilitate key historic resources to serve as a catalyst for additional development in adjacent areas;
- Integrate historic properties into new development to strengthen sense of place and provide a link between old and new

Strategy 5.4: Invest in historic resources along transit corridors as part of a larger neighborhood revitalization and reinvestment strategy

Recommendation:

The Executive Director recommends adoption of the attached resolution which establishes the Schmidt Brewery Redevelopment Project Area and the Schmidt Brewery Tax Increment Financing District and adopts a Redevelopment Plan and Tax Increment Financing Plan.

Sponsored by: Commissioner Dave Thune

Staff: Diane Nordquist, 651-266-6640

Attachments

- **Attachment A -- Resolution**
- **Attachment B -- TIF Plan and Redevelopment Plan**
- **Attachment C -- Map/Address of Project, should include libraries, parks, schools.**
- **Attachment D -- *Project Summary Form***
- **Attachment E -- *Sources and Uses Summary Form***
- **Attachment F -- *Public Purpose Form***
- **Attachment G -- Census Facts**