

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

REPORT TO THE COMMISSIONERS

DATE: OCTOBER 12, 2022

REGARDING: AUTHORIZATION TO EXTEND DESIGNATION OF THE SHERBURNE COLLECTIVE AS TENTATIVE DEVELOPER OF 652 SHERBURNE AVENUE, AND COMMIT FUNDING OF UP TO \$1,000,000 FOR THE PROJECT, DISTRICT 7, WARD 1.

Requested Board Action

The Housing and Redevelopment Authority of the City of Saint Paul (“HRA”) Board of Commissioners is requested to consider extending the designation of Thomas-Dale/District 7 Planning Council, Inc. d/b/a Frogtown Neighborhood Association, Model Cities of St. Paul Inc., and Hope Community Inc. (collectively referred to as “The Sherburne Collective” or “the Developer”) as tentative developer of HRA-owned 652 Sherburne Avenue (the “Property”) until March 31, 2023 and commit funding from the HRA of up to \$1,000,000 for the Project.

Background

The HRA acquired the Property in March 2018. The Property includes a vacant 8-unit apartment building of approximately 16,000 sq. ft. and adjacent vacant land of approximately 8,000 sq. ft. Tenants were relocated per Uniform Relocation Act regulations.

In accordance with the HRA policy for the disposition of HRA-owned real estate, HRA staff issued a Request for Proposals (“RFP”) for the Property on September 4, 2020 with the initial review starting on December 4, 2020. HRA staff received five offers regarding the purchase and redevelopment of the Property. HRA staff recommended The Sherburne Collective for TDS for the Property due to their redevelopment proposal’s strong alignment with the priorities identified in the RFP Specifications.

On May 26, 2021, by Resolution PH 21-130, the HRA granted Tentative Developer Status (“TDS”) to the Sherburne Collective for the Property. That Resolution authorized such status until March 31, 2022 and listed specific tasks to be completed by the Developer prior to that date. The Resolution also provided the HRA Executive Director authority to extend such status for 3 months,

which was granted, extending the TDS and tasks deadlines to June 30, 2022. The Developer has made some progress toward completion of the specified tasks and has asked for additional time. Staff has also requested additional information regarding the proposed redevelopment of the Property. Staff have prepared a renewed set of performance tasks with related deadlines.

The Developer proposes to reconfigure the building into 6 apartment units and to utilize the adjoining vacant property for parking, a garden, and green space for residents living in the building. The Developer proposes to create two four-bedroom units, three two-bedroom units, and one accessible, one-bedroom unit.

The Developer proposes to lease the units to qualified occupant households for 5 years. In the sixth year, the Developer proposes to transition ownership of the property to some form of community/occupant ownership model, such as a land trust or residential cooperative, which will own and manage the Property long-term. The developer has not yet determined the details of the proposed transition to ownership.

The Developer initially proposed that all 6 units would be income-restricted to households earning no more than 50% Area Median Income (“AMI”), with a corresponding rent restriction to rents affordable at this income level. The Developer has subsequently modified its proposal and now intends to reach deeper to 30% AMI income levels and affordability for all 6 units.

The change in affordability level and the plan to transition to community ownership both impact what sources can be considered for the project. The original proposal anticipated a \$600,000 mortgage based on rents at 50% AMI. The deeper affordability allowed the project to successfully apply for Ramsey County’s 30% AMI ARPA subsidy program, which tentatively committed funding to the project in November of 2021.

The original proposal also anticipated over \$700,000 in funding from Minnesota Housing and the Federal Home Loan Bank. The Developer has since determined that those sources are not feasible because of the planned conversion from rental to homeownership, but they have secured pre-development grants from Twin Cities LISC and the Metropolitan Council (in partnership with City of Saint Paul).

The Ramsey County funding would more than replace the original proposed sources, but costs for the project have increased as well. Inflation and fast rising construction costs have increased such that even with the significant Ramsey County investment, the project now has a larger financial gap than originally anticipated. The following table shows the original and currently proposed sources and uses.

Table 1. Original and Current Sources and Uses

	Original Proposal	Current Proposal
Funding Sources		
Saint Paul HRA	\$300,000	\$900,000
LISC	\$5,000	\$5,000
MN Housing	\$681,010	\$0
FHLB	\$210,000	\$0
Mortgage	\$600,000	\$0
Sales Tax/Energy Rebates	\$7,500	\$7,500
Owner equity	\$40,000	\$40,000
Deferred Dev Fee	\$86,140	\$128,401
Met Council Predev Grant	\$0	\$56,500
Ramsey County ARPA	\$0	\$1,683,303
Sources TOTAL	\$1,929,650	\$2,820,704
	Original Proposal	Current Proposal
Development Costs		
Land/Building	\$485,000	\$485,000
Rehab/Demo	\$1,021,700	\$1,778,605
Construction Contingency	\$76,628	\$108,500
Architect	\$65,900	\$101,325
Environmental	\$30,000	\$75,000
Legal Fees	\$20,000	\$25,000
Developer's Fee	\$175,422	\$219,638
Soft Cost Contingency	\$40,000	\$15,143
Title and Recording	\$10,000	\$10,800
City Fees	\$5,000	\$5,000
Replacement Reserves	\$0	\$106,500
Uses TOTAL	\$1,929,650	\$2,930,511

The current proposal does reflect a gap between sources and uses. Staff will continue to work with the Developer to determine the exact amount of gap financing needed. Staff recommends that the Board commit up to \$1,000,000 in funding to fill the remaining gap when sources and uses are finalized.

The Developer has made some pre-development progress. Preliminary rehabilitation drawings and specifications have been created and preliminary construction cost pricing has been completed. A detailed development budget and operating budget have been presented.

Ramsey County indicated to the developer team in Spring 2022 that it would have to reconsider its ARPA award if there was not substantial progress by early 2023 due to the time constraints of spending ARPA dollars. Staff have reviewed the original development tasks and recommend an updated list of tasks to be completed by March 31, 2023. Table 2 summarizes the revised development tasks.

Table 2. Original and updated developer tasks

Original Task	Progress/Update	Recommended Task	Due date
Complete and obtain HRA approval of a formal scope of work with architectural/engineering plans and specifications, incorporating Sustainable Development guidelines	A scope of work has been provided. Architectural and engineering plans are not usually finalized at this stage of pre-development. Staff recommend revised tasks that will prepare the project to be able to submit such plans	Meet with Sustainable Building Ordinance ("SBO") staff, and show evidence of strategy for compliance	3/31/23
		Show evidence that rehab plans are consistent with any historic preservation concerns with either Federal HUD (CDBG) or Federal Treasury (ARPA) funding	3/31/23
		Prepare plans to a level of detail that can be used for a bidding process consistent with HRA's Two-Bid Policy	3/31/23
Submit a rental proforma for the Property for review and approval by HRA staff	Completed	Completed	Completed
Frogtown Neighborhood Association, Model Cities of St. Paul Inc., and Hope Community, Inc. review	Completed	Completed	Completed

and sign a Memorandum of Understanding (MOU)			
Establish a detailed plan for the structure of the community ownership model that will be established	Progress has been made	Finalize a detailed plan for the transition from rental to ownership, including: (a) Financial and legal transition (b) Ownership structure (c) Homeowner preparedness (d) Post-transition operating budget	3/31/23
Submit evidence of both permanent and construction financing	Permanent and construction financing cannot be confirmed at this stage of development	Provide evidence of all funding commitments necessary to complete the project	3/31/23
Receive all approvals for zoning, licenses and any other required City or State approval for the Project	Final regulatory approvals are not attainable at this stage of development	Attend a Site Plan Review meeting with Department of Safety and Inspections staff and provide an explanation of the regulatory path forward	3/31/23
Negotiate final terms and conditions of a development agreement	Some progress has been made. Continued progress on all tasks will inform what final terms and conditions of a development agreement may be	Commit to certain development agreement terms and conditions to be determined by HRA legal counsel	3/31/23

Budget Action

Budget action will be presented when the funding source and final gap amount is identified.

Future Action

Future possible action by the HRA Board may include holding a public hearing to approve a development agreement, public financing, and the sale of the Property to The Developer.

Financing Structure

The extended tentative developer period would allow The Developer to secure financing for the project. The Developer has secured some development gap subsidy funding commitments, but a gap remains. Staff will work with the Developer to identify a source of local funding up to \$1,000,000.

PED Credit Committee Review

PED Credit Committee will review this project prior to any future HRA Board action for financial assistance.

Compliance

The Developer has signed a letter acknowledging receipt of the following City/HRA compliance documents (“Compliance Documents”) that will or may be applicable for this project will be due from The Developer:

- Community Development Block Grant Program Regulations
- Labor Standards
- Living Wage Ordinance
- Affirmative Action/Equal Employment Opportunity
- Vendor Outreach Program
- Section 3
- Limited English Proficiency
- NSP Affordability Covenants
- Fair Housing Opportunities
- Two Bid Policy
- Saint Paul Sustainable Building Ordinance

If at the end of the period for TDS it is determined that a sale under the HRA’s land disposition policy is desired, a second, signed compliance letter, outlining the specific compliance that will apply to the project, will be required from The Developer before seeking approval of the full development agreement.

Green/Sustainable Development

The proposed project will be required to be in compliance with the Saint Paul Sustainable Building Ordinance.

Environmental Impact Disclosure

N/A.

Historic Preservation

This project will be subject to a HUD Section 106 review and will comply with all applicable historic guidelines and regulations.

Public Purpose/Comprehensive Plan Conformance

The developer's proposed redevelopment will meet the following goals established in the City's 2040 Comprehensive Plan:

Policy H-7. Reduce overcrowding within housing units, caused by doubling up of households and inadequate space for large families, through the production of small and family-sized affordable housing options.

Policy H-21. Promote shared-equity ownership options, such as land trusts or cooperatives, to help make homeownership achievable for a greater number of households.

Policy H-40. Prioritize preservation of income-restricted and naturally-occurring affordable housing in areas with improved/improving transit and/or planned reinvestment to reduce resident displacement.

Policy H-38. Encourage acquisition, if put up for sale, of naturally-occurring affordable housing by nonprofit organizations, community development corporations, religious institutions, tenants and/or private sector actors committee to preserving and investing in affordable housing, as well as the long-term upkeep and maintenance of these properties.

Policy H-45. Support the preservation and maintenance of historic housing stock as an affordable housing options.

Policy PR-32. Support community gardens and private landscape beautification efforts where physically and financially feasible.

Recommendation:

The Executive Director recommends approval of the attached resolution.

Sponsored by:

Staff: Tara Beard (651-266-6636)

Attachments:

- **Map**
- **D7 Frogtown Thomas Dale Neighborhood Profile**