

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

REPORT TO THE COMMISSIONERS

DATE: NOVEMBER 12, 2015

REGARDING: AUTHORIZATION TO GRANT VALUE GAP ASSISTANCE IN THE AMOUNT OF UP TO \$120,023.59 TO URBAN HOMEWORKS, INC., FROGTOWN DISTRICT 7, WARD 1.

Requested Board Action

The specific actions being requested of the HRA Board are intended to formalize an agreement regarding a partnership between Urban Homeworks, Inc. and Goodwill/Easter Seals of Minnesota with the goal of expanding the Goodwill/Easter Seals construction training program as it relates to HRA's work in the Inspiring Communities Program. Additionally, this action will allocate the value gap subsidy per the aforementioned agreement in order to complete the construction of the three remaining projects referenced in this action.

- Authorize additional value gap assistance in the amount of \$20,023.59 for the construction of a new single family dwelling at 431 Charles Avenue, and
- Authorize the allocation of value gap subsidy up to \$100,000 for the construction of new single family dwellings at 422 Charles Avenue and 543 Edmund.

Background

Previous HRA Board action(s) pertaining to these properties includes:

431 Charles Avenue

- Allocation of \$500,000 to the Neighborhood Stabilization Program – Vacant Lot Development Partnership with Twin Cities Community Land Bank (TCCLB) (RES 12-2129). This action granted \$500,000 to TCCLB for the purpose of providing gap financing, in turn leveraging Living Cities construction financing and helping to meet the HRA's legal obligations under the Neighborhood Stabilization Program by using the funds on property in the HRA inventory. TCCLB held a competitive RFP process and selected seven development projects to assist using these grant funds, 431 Charles and recently-completed 462 Edmund were included.

- Authorization of sale and conveyance of 431 Charles from the HRA to Urban Homeworks, Inc. and allocation of a value gap grant in the amount of \$40,995 (RES PH 13-152). The sale of this property, and allocation of value gap, was one component in an agreement that had been struck between HREEO and a partnership between Urban Homeworks, Inc. (UHW) and Goodwill/Easter Seals Minnesota (GWES) to expand the capacity of the GWES construction training program. HREEO granted funds in the amount of \$200,000 for wages/salaries from their Section 3 Implementation Fund to GWES in order to carry out the expansion. As part of the agreement, UHW was to act as the developer, with GWES as the general contractor, on the construction of four single family homes.

In order to carry out the four new construction projects, PED pledged \$200,000 in Neighborhood Stabilization Program funds for value gap assistance. Unfortunately this pledge was never properly codified and there is no official agreement in place. However, UHW and HRA staff have been working on development projects predicated on knowledge of this agreement. UHW/GWES completed the first project, 462 Edmund Avenue, earlier this year and closed on the sale to an end buyer within the last few months. This project required less value gap assistance than anticipated.

422 Charles Avenue and 543 Edmund Avenue

- HRA adoption of the HRA Land Disposition Strategy, Work Plan and Budget Amendment (RES 13-1097), which allocated funding to what became the Inspiring Communities Program. The Work Plan categorized HRA-owned property into various disposition strategies based on property location and features, and funding obligations. Both properties were identified as requiring a housing outcome due to their funding source.
- HRA approval of key terms of the Inspiring Communities Homeownership Program Manual (RES 13-1592), which contains all applicable requirements for development and redevelopment of single family property. This manual accompanied a Request for Proposals that was released by HRA staff on October 15, 2013. Property located at 422 Charles and 543 Edmund, along with 75 others were released in the RFP.

- The RFP was designed to allocate value gap subsidy to projects selected through the RFP process. On January 22, 2014, the HRA approved the sale and conveyance, and the ability to enter into a development agreement, to nine development teams that covered twenty-seven properties (RES PH 14-26). The Charles and Edmund properties were awarded to UHW through this process and both projects are nearing completion.

The partnerships described in this report have been instrumental in the success of the city’s Section 3 program, Inspiring Communities and workforce development in the City of Saint Paul. In 2012, Goodwill received 112 referrals and graduated 38 participants from the program. In 2013 Goodwill received 128 referrals and graduated 34 participants. During 2012 and 2013 Urban Homeworks was working with the city to secure the vacant lots addressed in this report in order for participants to complete the second half of their training.

In 2014, once the lots had been secured and in combination with the funding received from HREEO, Goodwill was able to double their program, receiving 244 referrals and placing 63 individuals. Additionally, a total of 129 HUD Section 3 residents completed Goodwill’s program by working on three single-family homes in Saint Paul, earning a wage while they get training and experience to build a career.

Budget Action

The budget action requested is the allocation of up to \$120,023.59 to Urban Homeworks, Inc. for development gap subsidy on 431 Charles, 422 Charles and 543 Edmund.

Future Action

No future action is required. Once the allocation is approved, staff will execute the proper documents to memorialize the allocation of subsidy.

Financing Structure

431 Charles Avenue estimated Source and Uses

Uses

Acquisition from HRA (plus closing costs)	\$	46,195
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Hard construction costs	\$ 250,000
Contingency	\$ 12,500
Soft costs	\$ 37,772
Developer fee	\$ 25,000
Total Development Costs	\$ 371,467
Anticipated sale price to end buyer	\$ 170,000
Development gap	\$ (201,467)

Sources for Development Gap

Forgivable acquisition loan	\$ 46,195
PED development gap (\$40,995, plus additional requested allocation of \$20,23.59)	\$ 61,019
TCCLB development gap (awarded through RFP)	\$ 75,000
Program income from sale of 462 Edmund (developer equity)	\$ 19,163
Total Development Gap Sources	\$ 201,467

422 Charles Avenue and 543 Edmund Sources and Uses

Uses

	422 Charles	543 Edmund
Acquisition from HRA	\$ 9,000	9,000
Hard construction costs	\$ 245,241 ¹	237,900 ¹
Contingency	\$ 11,000	11,000
Soft costs	\$ 41,450 ²	41,450 ²
Developer fee	\$ 27,045	27,045
Total Development Costs	\$ 333,736	324,395
Anticipated sale price to end buyer	\$ 160,000	160,000
Development gap	\$ (173,736)	(164,395)

Sources for Development Gap

Forgivable HRA acquisition loan	\$ 9,000	9,000
PED development gap – UHW/GWES partnership	\$ 50,000	50,000
Inspiring Communities development gap award	\$ 89,495	89,495

Soil correction	\$ 25,241	15,900
Total Development Gap Sources	\$ 173,736	164,395

¹ Extensive soil correction was required. Per RFP/development agreement documents, the HRA can assist developers with unforeseen circumstances such as soil correction.

² Includes financing expenses of approximately \$8,000

All subsidy funds are paid on a reimbursement basis. Upon project completion, if there are subsidy dollars remaining, these funds will be retained by the HRA. Approval of this action will fulfill PED’s commitment to the Urban Homeworks, Inc. – Goodwill/Easter Seals Minnesota partnership and will fill out the value gap necessary to complete the remaining three projects.

PED Credit Committee Review

Credit Committee review is not a requirement of this action. There are development agreements currently in place, which can be amended in cooperation with the city attorney’s office to reflect the commitment of additional subsidy. The budget for HRA-owned Inspiring Communities property has been established under Resolution 13-1097 and will be used to fund the subsidy request.

Compliance

These projects will comply with all applicable requirements, which may include the following:

1. Affirmative Action/Equal Employment Opportunity
2. Vendor Outreach
3. Section 3
4. Limited English Proficiency
5. NSP Affordability Covenants
6. Fair Housing Opportunities
7. Two Bid Policy

Green/Sustainable Development

431 Charles is required to be built to Minnesota Green Communities standards per the HRA-TCCLB grant agreement. 422 Charles and 543 Edmund are receiving funds through the Inspiring Communities program, which requires certification through Enterprise Green Communities and that new homes meet the ENERGY STAR for New Homes standards.

Environmental Impact Disclosure

The Tier 1 environmental review determined that all activities referenced in this report were either exempt or categorically excluded.

Historic Preservation

Where applicable, projects will comply with historic district guidelines and regulations.

Public Purpose/Comprehensive Plan Conformance

The Public Purpose and Comprehensive Plan Conformance for the overall HRA Land Disposition Strategy, Work Plan and Budget was detailed in Resolution 13-1097 and is attached to this report as **Attachment B**.

Recommendation:

The Executive Director recommends approval of the allocation of additional value gap subsidy up to \$120,023.59 for Urban Homeworks, Inc. for single family new construction projects located at 431 Charles Avenue, 422 Charles Avenue and 543 Edmund Avenue.

Sponsored by: Commissioner Thao

Staff: Sarah Zorn, 651-266-6570

Tchu Yajh, 651-266-6592

Attachments

- **Attachment B – Comprehensive Plan**
- **Attachment C – Map**
- **Attachment D – District 7 Profile**