

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

**REPORT TO THE COMMISSIONERS**

**DATE: August 12, 2015**

**REGARDING: RESOLUTION APPROVING AN EXTENSION OF THE MATURITY DATE OF A HOME LOAN AND SUBORDINATION REQUEST FOR THE SELBY GROTTO APARTMENTS, WARD 1, DISTRICT 8**

**Requested Board Action**

The purpose of this Resolution is to obtain approval by the Housing and Redevelopment Authority of the City of Saint Paul Board (the “HRA”) of the extension of the maturity date on an HRA HOME deferred loan and approval to re-subordinate this loan to a new first mortgage on the property.

**Background**

The Selby Grotto apartments is a three story building located at the northeast corner of Selby Avenue and Grotto Street. The project was developed, owned, and operated by Selby Grotto Limited Partnership which is comprised of principals from Legacy Management and Development Corporation and the Selby Area Community Development Corporation (CDC), both General Partners of the project. This mixed use development was constructed in 2004 consisting of 14 one-bedroom, 26 two-bedroom units and 4,000 square feet of commercial space on the first floor (the “Property”). The commercial space is currently leased by a property management company that also manages the rental housing units. Of the 40 units, 65% are affordable to households earning 60% area median income and below, 25% are affordable to households earning 50% area median income and below, and 10% are affordable to households earning 30% area median income and below.

Legacy Management and Development Corporation, the Managing General Partner for the Selby Grotto Limited Partnership (the “Partnership”) has requested an extension on the term of a \$330,000 HRA deferred HOME loan and \$540,000 deferred STAR loan. Both deferred loans were originated in 2003. Currently the City STAR loan is in 3rd position and the HRA HOME loan is in 4th position to the HUD 221(d)(3) 1<sup>st</sup> mortgage loan. There are also two Minnesota Housing (MHFA) deferred loans (total \$939,241), a Family Housing Fund (FHF) Loan in the

amount of \$220,000, and a Ramsey County Loan in the amount of \$200,000. (See summary below). All loans are secured by a note and mortgage on the property. For the past few years, the Project has been experiencing negative cash flow because it is heavily leveraged, and it has not been achieving the projected rent levels.

**Budget Action**

N/A

**Future Action**

At the August 12, 2015 City Council meeting, the City Council will be asked to consider approval of the same request to subordinate and extend the term of the City STAR loan.

**Financing Structure**

The partnership will be refinancing the first mortgage of \$2,538,799 through a Department of Housing and Urban Development (“HUD”) insured first mortgage loan through the 223(a)(7) program. The new first mortgage loan has a lower interest rate that will allow the Project to achieve a break-even or positive cash flow. Occupancy has been good with less than 5% vacancy over the past 3 years. The commercial space was vacant for a short period, but is now fully leased. It is anticipated that all other funding partners, including the FHF, MHFA, and Ramsey County will agree to re-subordinate and extend the maturity dates on their loans.

**EXISTING FINANCING**

The following table shows the existing debt on the property:

<b>Principal Balances</b>	<b>Source</b>	<b>Principal Balance</b>	<b>Term : Mat Date</b>	<b>Rate</b>	
1st Mortgage	Oak Grove 221(d)4	2,538,799 Amortizing	40 yrs: 9/1/44	5.91%	
2nd Mortgage	MHFA MARIF	739,241 deferred	40 yrs: 9/1/44	0%	
3rd Mortgage	City STAR	540,000 deferred 50% cash flow note	40 yrs: 9/1/44	1.0%	
4 <sup>th</sup> Mortgage	HRA HOME	330,000 deferred	40 yrs: 9/1/44	1.5%	

5th	FHF	242,000 deferred	40 yrs: 9/1/44	0%	
6th	Ramsey County	200,000 deferred 50% cash flow note	40 yrs: 9/1/44	1.0%	
7th	MHFA EDHC	200,000 deferred	40 yrs: 9/1/44	0%	

**PROPOSED NEW TERMS AND RE-SUBORDINATION**

<b>Principal Balances</b>	<b>Source</b>	<b>Principal Balance</b>	<b>Term : Mat Date</b>	<b>Rate</b>	
1st Mortgage	Oak Grove 223(a)7	2,679,300 Amortizing	40 yrs: 9/1/55	3.2%	
2nd Mortgage	MHFA MARIF	739,241 deferred	51 yrs.: 9/1/55	0%	
3rd Mortgage	City STAR	540,000 Deferred 50% cash flow note	51 yrs.: 9/1/55	1.0%	
4 <sup>th</sup> Mortgage	HRA HOME	330,000 deferred	51 yrs.: 9/1/55	1.5%	
5th	FHF	242,000 deferred	51 yrs.: 9/1/55	0%	
6th	Ramsey County	200,000 deferred 50% cash flow note	51 yrs.: 9/1/55	1.0%	
7th	MHFA EDHC	200,000 deferred	51 yrs.: 9/1/55	0%	

**PED Credit Committee Review**

On July 27, 2015, the PED Credit Committee reviewed and approved the requested maturity date extension and subordination of both the STAR and HOME loan.

**Compliance**

N/A

### **Green/Sustainable Development**

The Project complies with the Saint Paul Sustainable Development Policy.

### **Environmental Impact Disclosure**

N/A

### **Historic Preservation**

N/A

### **Public Purpose/Comprehensive Plan Conformance**

Preservation of 40 units of affordable rental housing, see **ATTACHMENT C**.

### **Recommendation:**

The Executive Director recommends and requests the HRA Board of Commissioners consider the approval of the attached Resolution authorizing the following:

1. Extension of the maturity date on the HRA HOME loan from September 1, 2044 to September 1, 2055 in order to coincide with the new first mortgage term.
2. Approve a re-subordination of the existing HRA HOME loan to the new first mortgage loan, the existing Minnesota Housing MARIF loan, and the existing City STAR loan.

**Sponsored by:** Commissioner Dai Thao

**Staff:** Diane Nordquist, Project Manager 651-266-6640

### **Attachments**

- **Attachment B – Map/Address of Project**
- **Attachment C – Public Purpose**
- **Attachment D – District 8 Profile**