

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

REPORT TO THE COMMISSIONERS

DATE: JANUARY 25, 2012

REGARDING: AUTHORIZATION TO APPROVE ADDITIONAL FINANCING ASSISTANCE TO KENDAL LAND COMPANY, LLC FOR DEVELOPMENT OF PARCEL 840 PAYNE AVENUE, PAYNE-PHALEN DISTRICT 5

Requested Board Action

The HRA Board is being requested to authorize a budget amendment designating an additional \$330,000 of CDBG business development funds to be used in the construction of a new Payne Avenue Hardware store under the Payne-Phalen Boulevard Main Street Redevelopment Plan and ISP/NSP Rebuilding Plan 2009-2013.

Current

On November 9, 2011, HRA approved the Development Agreement, sale of the property at 840 Payne Avenue and financing assistance to Kendall Land Company, LLC by Resolution 11-1171 for the construction of a new Payne Avenue hardware store. PED staff, the community and Kendall Hardware have all been working to move forward the development as quickly as possible because of the need for Kendall Hardware to move from Payne and Maryland for the widening of Maryland Avenue by Ramsey County.

Total construction costs were originally estimated at \$1,500,000. The bids received by the general contractor, Copland Building Company, put the construction costs at \$2,123,661, an increase of \$623,661. A meeting was held on December 16, between PED staff, Kendall Crosby, architects and Copeland Building Company to discuss the final bid numbers. The purpose of the meeting was to review the bids to determine potential areas that could be cut and/or whether negotiations with sub-contractors could be undertaken to adjust their bids. In determining cost cutting items we retained two strategies:

1. keep building performance and sustainability items in tact to meet the City Sustainability Policy
2. keep the 2nd floor of the building, thereby meeting the massing requirements and physical statement of a prime, high profile corner as identified in the Payne-Phalen

Boulevard Main Street Redevelopment Plan approved by Resolution 04-1059 and Resolution 04/11/10-1

With these two strategies as guidance we worked to reduce costs and have done so by approximately \$293,661 as follows.

- move the building back 5 feet from Payne to reduce the need for sidewalk stabilization because of poor soil
- deleted brick on the 2nd floor north and east walls but not along Payne and Phalen which are pivotal visual points
- reworked lighting and electrical specifications while maintaining sustainability requirements
- reworked roofing specifications and mechanical materials
- worked with Xcel Energy to bring in 3 Phase power which opened up more bidding on electrical opportunities

(See **Attachment B** for Additional Background)

Budget Action

Approve budget amendment allocating up to an additional \$330,000 from CDBG business development funds. There is currently \$366,000 of 2010 and \$550,000 of 2011 of CDBG funds aside in the business development fund for this type of use.

Future Action

N/A

Financing Structure

A concentrated effort has been made to reduce the construction costs as much as is possible. The two remaining items that are affecting costs are the 2nd story and sustainability items. These are items that both the neighborhood and PED staff agree should be retained. The additional financing request of \$330,000 will allow for the 2nd floor to be constructed (estimate \$200,000) and the sustainability of the building (additional \$138,000) to be in compliance. These were the two major public purpose strategies to be met as outlined above. This additional assistance would be incorporated into the repayment plan as amended from Resolution 11-1177, approved November 9, 2011.

- Structure of the \$625,000 CDBG loan amended to \$955,000 CDBG will be tied to surplus cash-flow at the end of each year. PED staff will review year-end audited statements for Kendall Payne Hardware and any surplus cash flow over 1.20 DCR (debt coverage ratio) will be split: 60% will be paid to HRA against this deferred loan and 40% will be paid to Kendall. Anything over 1.50 DCR will be paid entirely to HRA. The term of this loan will be 22 years, which corresponds with the bank financing; the interest rate will be 0%. This loan will be due and payable in 22 years from original closing unless otherwise amended by the HRA.
- The land value of \$380,000 will be deferred until refinancing and/or sale of the property, at which time, if the land value exceeds the original land/sales value, any amount over \$380,000 will be shared 50/50 and any unpaid amount would be forgiven at that time. The term of this loan will be 22 years to correspond with the bank financing, at 0% interest.

A land value was established for HRA’s site by an appraisal. The site being conveyed is 47,277 sq/ft (1.085 acres), of which 21,000 sq/ft is unbuildable due to poor soil conditions and topography issues. University Bank has hired an appraiser to establish the as-built value of the property. The appraisal completed November, 2011 puts the as-built value at \$1.125 million based on current market conditions. University Bank and PED representatives have reviewed the last three years of income on the Payne Avenue store. Both parties are using the established cash flow rather than projections which may not be realized for a few years. The proposed financing structure being recommended for HRA repayment is based on the value gap between the cost to build and as-built value.

Uses		Sources	
Land Costs (\$10.27 sq/ft	\$ 380,000.00	University Bank/New Market Tax Credits	\$ 650,000.00
Const. Cost (bids)	2,123,661.00	Kendall Equity	208,000.00
Architectural/Engineering/Const Mgmt	113,000.00	STAR NIF funds Grant – Approved	200,000.00

Legal/Financing Fees	50,000.00	CDBG Funds (approved)	625,000.00
Contingency (Park Land Fee, quality water, street trees, const)	50,000.00	Deferred Land Cost	380,000.00
		ESNDC Financing Assistance	30,000.00
Total Development Costs	\$ 2,716,661.00	Total Development Sources	\$ 2,093,000.00
Reduction in construction costs	\$ 293,661.00	CDBG Additional financing	\$ 330,000.00
Total Project Costs	\$ 2,423,000.00		\$ 2,423,000.00

PED Credit Committee Review

On October 31, 2011, the PED Credit Committee reviewed and approved the terms of the HRA loan and risk rating.

Compliance

Kendall has received 2nd Acknowledgment Letter covering the compliance requirements listed below.

- Vendor Outreach Program
- Affirmative Action/EEO
- Labor Standards (federal)
- Living Wage (Exemption 20 or fewer employees)
- Business Subsidy (Exempt if assistance is less than 50% of TDC or Energy Conservation measures incorporated)
- Two Bid Policy
- Section 3
- Project Labor Agreement (Notices sent, no PLA required)

Green/Sustainable Development

The project will comply with the Saint Paul Sustainable Development Policy. Xcel has indicated that the size of this project (less than 20,000 sq/ft) makes it too small for their large program. The architect is following the State Guidelines Building Benchmarking and Beyond and is working with University of Minnesota and MNSCU.

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose/Comprehensive Plan Conformance

Primary public purpose is economic and community development:

- City of St. Paul Comprehensive Plan – Economic Development Strategy
- St. Paul Consolidated Five Year Plan- EO 3.1 Sustainability of Economic Development
- Phalen Corridor Development Strategy made a part of the Comprehensive Plan

Recommendation:

The Executive Director and staff recommend approval of budget amendment in accordance with the attached resolution.

Sponsored by: Commissioner Bostrom

Staff: Sheri Pemberton-Hoiby, 651-266-6615

Attachments

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