

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

REPORT TO THE COMMISSIONERS

DATE: MAY 9, 2012

**REGARDING: AUTHORIZATION TO APPROVE A \$420,000 LOAN TO BB HOUSING ASSOCIATES, LLC TO REDEVELOP 242-244 MARIA AVENUE UNDER INVEST SAINT PAUL INITIATIVE LOCATED IN LOWER DAYTON'S BLUFF HISTORIC DISTRICT, WARD 7, DISTRICT 4**

## **Requested Board Action**

The specific actions being requested of the HRA Board are as follows:

1. Authorization to approve a \$420,000.00 loan to BB Housing Associates, LLC in order to acquire and redevelop the property located at 242-244 Maria Avenue in Lower Dayton's Bluff Historic District under Invest Saint Paul Initiative, District 4.
2. Authorization to waive early notification process concerning the loan for the above mentioned property in order to expedite addressing a property that has been negatively affecting the neighborhood for an extended period of time and continue meeting the strategic objectives under Invest Saint Paul Initiative and Work Plan.

## **Background**

On August 8, 2007, by Resolution 07-08/08-3 HRA approved the Invest Saint Paul Initiative and work plan (See **Attachment B – Background**). The work plan included identification of an 8-10 block area surrounding the Dayton's Bluff Achievement Plus Elementary School as an immediate and long term area for investment concentration. The ISP strategy included addressing vacant single family as well as rental properties. Properties that were illegal non-conforming uses (i.e. four-plex that should only be a duplex) need to be addressed where ever possible. HRA included both **strategic acquisition activities** and **flexible rental rehab** account in ISP funding to assist in addressing these types of properties.

The neighborhood has been trying to address these types of concerns for some time. Over the last several years the neighborhood in partnership with various developers, Dayton's Bluff NHS, Marpe Development, Historic St. Paul and BB Housing Associates, LLC have slowly been addressing these concerns (See **Attachment C – Map of Activities**). Recently BB Housing

Associates, LLC in working with the community secured a purchase agreement on 242-244 Maria Avenue (vacant building) that had recently been placed on the market for sale. This property has been a long time concern for the neighborhood. The neighborhood is concerned about the property continuing to be a problem if not purchased, improved and managed appropriately. They have indicated their support for having BB Housing Associates, LLC purchase this property because of their existing track record in the area and quality of rehabilitation/management work. The existing owner was unwilling to negotiate an extended period of time for moving forward with a closing, which hinders the ability of meeting the early notification system. The development of this distressed property will need extensive financing assistance to convert from four-plex to legal duplex, together with meeting the historic guidelines and providing a quality product.

- 242 -244 Maria is located in RT-2 zone which allows for a duplex use not a four-plex
- Parks and school locations related to development (see **Attachment C**)
- District demographic profile is attached (see **Attachment G**)
- Acquisition/rehab assistance is acceptable under ISP and CDBG funding
- Property is located in Dayton's Bluff Historic District and plans will go through the Heritage Preservation Commission for review and approval

BB Housing has submitted a request for financing assistance to undertake both the purchase and rehabilitation of this property. The cost of rehabilitation is relatively high due to the size, condition, de-conversion and addressing historic issues. The neighborhood believes that the structure preserves character, improves neighborhood stability and provides good housing options. (See **Attachment D – Project Summary** for break down of costs.)

### **Budget Action**

Obligate \$420,000 towards the purchase and rehabilitation. Funding would come from ISP funds being used for Strategic Acquisition and Flexible Rental Rehab two identified activities under ISP. Resolution also identifies that CDBG funds that have been budgeted and available from HUD June 1, that up to \$330,000 under Housing Real Estate be used to replace the ISP

rehabilitation funding and that the ISP funds when replaced will again become available for budgeting under ISP Work Plan activities.

**Future Action**

No future action will be required.

**Financing Structure**

The precedent has been set in addressing the financing of rental properties under NSP and it is recommended that the same process be followed when providing financing assistance to be used both for acquisition and rehabilitation. BB Housing Associates, LLC has secured a negotiated purchase agreement for 242-244 Maria Avenue. The after-rehab appraisal review of property sales in the area indicates the estimated value at \$190,000.

Acquisition	\$ 86,900.00
Estimated Development Costs	<u>333,100.00</u>
Total Development Costs	\$ 420,000.00
Estimated after rehab value	<u>- 190,000.00</u>
Gap Assistance	\$ 230,000.00

Gap assistance would be structured as a deferred loan with no interest accruing for the length of the CDBG affordability requirement (15 Years from date of occupancy) and then forgiven as long as the property is well managed/maintained.

The repayment of the after-rehab value (\$190,000) will be set-up both as an amortizing loan based on the project cash flow and resale of the project. The project cash flow is based on all units being affordable at or below 80% of the area median income for a period of 15 years as required by the CDBG funding.

Estimated gross	\$17,748.00
Yearly Expenses	- 12,000.00
Yearly Reserves	<u>- 600.00</u> (replacement reserve)
NOI	\$ 5,148.00 to cover debt service

The cash flow supports a payment covering 41% of the estimated fair market value (\$190,000) at 3.99% interest over 30 years. Payment each year would be \$4,577.66. HRA will evaluate year-end cash-flow statements and if the debt coverage ratio coverage is greater than 1.15 and reserves have been fully funded, the surplus cash will be paid to the HRA and applied against the loan principal. At the end of the 15-year affordability period, the property can be refinanced. If refinancing is pursued, the HRA will receive payment of the remaining amortizing debt plus 50% of the appraised value at that time. If the owner decides to sell before the 15-year affordability period is met, the HRA will receive 75% of the appraised value plus remaining amortizing debt, and the affordability requirements will continue to remain on the property until completion of the 15-year CDBG requirement. Based on these loan terms, HRA could recover up to 80% of the appraised value not including interest paid.

### **PED Credit Committee Review**

PED Credit Committee will be reviewing these terms to designate the risk rating for recording.

### **Compliance**

This development will have to comply with the following requirements:

1. Affirmation Action/Equal Employment Opportunity
2. Vendor Outreach
3. Section 3
4. Limited English Proficiency
5. Fair Housing Opportunities
6. Two Bid Policy
7. Heritage Preservation Commission

### **Green/Sustainable Development**

The project will comply with Saint Paul/HRA Sustainability Initiative. The project also needs to meet the following CDBG requirements:

1. Minnesota Green Standards for Rehab
2. HUD Healthy Home Requirements
3. Lead Base Paint and Hazardous Waste

4. All local and State building codes together with HRA's ISP/NSP guiding principle adopted February 24, 2009: "provide healthy, affordable and quality housing, improving the housing stock above minimum standards by addressing lead, mold, radon, energy efficiency and curb appeal elements."

### **Environmental Impact Disclosure**

For the existing NSP program, the Tier 1 environmental review determined that all activities were either exempt or categorically excluded. Also, Tier 1 environmental review was completed at time of acquisition and before the rehabilitation under CDBG.

### **Historic Preservation**

242-244 Maria Avenue was subject to a Tier 2 environmental review, which included consultation with the State Historic Preservation Office. Property has received the appropriate sign-offs.

### **Public Purpose**

This action supports all three strategies of the Housing Chapter of the City's Comprehensive Plan: 1) Build on Saint Paul's strengths in the evolving metropolitan housing market; 2) Preserve and promote established neighborhoods; and 3) Ensure the availability of quality and affordable housing across the City.

The development also supports the goal of the ISP/NSP Program and Plan to strategically channel resources into neighborhoods being challenged by recent economic and social downturns and persistent disinvestment including: 1) creating working partnerships among private developers, CDCs, District Councils and neighborhood residents; 2) bring together resources, time, talent and funding in neighborhoods poised to prosper after a prolonged period of disinvestment; 3) reduce the number of vacant houses; 4) rehabilitate or address housing units to strengthen the housing stock; 5) improve stability and quality of life in neighborhoods; 6) build on strengths in St. Paul's neighborhoods.

It also conforms to the Dayton's Bluff Neighborhood District Plan adopted by City Council on December 23, 2009 under H3. Identify problem properties and, in collaboration with District 4 and applicable neighborhood block clubs, develop strategies for addressing issues associated with them

**Recommendation:**

The Executive Director recommends approval of loan in accordance with the attached resolution.

**Sponsored by:            Commissioner Lantry**

**Staff: Sheri Pemberton-Hoiby (651-266-6615)**

**Attachments**

- **Attachment A -- Resolution**
- **Attachment B -- Background Attachment**
- **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 – Neighborhood Profile**