

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

REPORT TO THE COMMISSIONERS

DATE: APRIL 27, 2022

REGARDING: RESOLUTION AUTHORIZING A WAIVER OF THE MAXIMUM PER-UNIT SUBSIDY UNDER THE INSPIRING COMMUNITIES PROGRAM AND APPROVING ADDITIONAL FINANCING FOR THE PROJECT AT 47 DOUGLAS STREET, DISTRICT 9, WARD 2.

Requested Board Action

Approval of additional expenditures and waiver of the maximum per-unit gross subsidy cap in place under the Inspiring Communities program specific to redevelopment of the property at 47 Douglas Street.

Background

On July 24, 2013, via Resolution 13-1097, the HRA Board accepted and approved the HRA Disposition Strategy and Work Plan to address the disposition of certain parcels of real property owned by the HRA and included in the Inspiring Communities program. On October 9, 2013, the HRA Board approved, via Resolution 13-1592, key terms of the Inspiring Communities Homeowner Program Manual and Rental Program Manual, which included a maximum gross subsidy cap per unit of \$150,000. The gross subsidy is calculated by adding the cash subsidy in a project (development gap subsidy) and the sale price of the land to the developer (purchase price subsidy). In 2016, by Resolution 16-1190, the HRA Board approved an increase of the maximum gross per-unit subsidy from \$150,000 to \$175,000.

In November 2020, Staff received an unsolicited proposal from Historic Saint Paul (“HSP”) to rehabilitate and resell the Inspiring Communities-designated property at 47 Douglas Street (the “Property”) to an owner-occupant household earning at or below 80% of area median income. HSP requested a development gap subsidy from the HRA of \$129,781. HSP also secured a \$65,000 grant from the Minnesota Housing Finance Agency’s Impact Fund (“MHFA Impact Fund”) to support the project.

On June 9, 2021, by Resolution 21-141, the HRA Board approved and authorized the sale and conveyance of the Property to HSP, execution of a development agreement and expenditures of up to \$130,000 for redevelopment.

Since June 2021, two factors have produced higher cost estimates. First, this project has not been spared from recent significant cost inflation in the construction industry. Cost projections for the initial scope of work have increased by \$68,630, or roughly 22%. Second, the developer and HRA staff have become aware of property conditions requiring additional rehabilitation. Specifically, the house sewer has been scoped and revealed blockage requiring replacement, with this replacement taking place within challenging geological conditions. The bid received for replacement of the house sewer is \$35,200. These cost increases, though offset somewhat by inflationary increases to the anticipated sales price of the property, have produced a net increase to the development subsidy of \$72,610. (The estimated after-improved market value of \$230,000 should still be within reach for a household with income at or below 80% AMI.)

Staff requests approval of spending authorization to account for the aforementioned cost increases plus a contingency fund of \$22,390 to cover additional costs incurred by the HRA in carrying out the project. After the increase of \$95,000, total authorized expenditures for the project will equal \$225,000. The proposed revised project budget, accounting for the aforementioned cost increases and contingency fund, is as follows:

<u>Uses</u>		<u>Sources</u>	
land acquisition (no change)	\$ 1	Initial CDBG allocation	\$130,000
initial hard construction costs	\$306,880	+ additional CDBG allocation	\$ 95,000
+ Inflationary Increase	\$ 68,630	MHFA Impact Fund (no change)	\$ 65,000
+ Additions to Scope	\$ 35,200	initial final sale proceeds	\$199,000
soft costs (no change)	\$ 56,900	+ inflation increase sales price	<u>\$ 31,000</u>
developer fee (no change)	\$ 30,000		
+ HRA contingency	<u>\$ 22,390</u>		
	\$520,000		\$520,000

Redevelopment of this Property has to date experienced other setbacks. Namely, the HRA offered the Property through two separate Inspiring Communities Requests for Proposals in 2014 and 2015, respectively, though these attracted no bids to redevelop the Property. In 2018, the HRA entered a contract for redevelopment with a developer who was unable to perform. The HRA's options for disposition and redevelopment of the site are restricted by federal CDBG program requirements.

Staff has concluded that the HSP's proposal is viable and the HSP has the capacity to carry out their proposal. HSP has been a strong performer on HRA redevelopment projects. Based on its knowledge of trends in the construction industry, HSP, geological and utility line conditions in the neighborhood, and consultation with Saint Paul Regional Water Services, Staff has determined that the HSP's request to the HRA board to increase the development subsidy allocated is reasonable. Note that as much as \$80,000 in CDBG funds could be de-committed from the project upon completion and made available for other uses if the HRA, developer, or both, utilize less than their full amounts available for contingencies.

HSP's \$65,000 grant from the MHFA Impact Fund expires in June 2022, although HSP is pursuing an extension. Such an extension is likely to be for six months; HSP anticipates a decision shortly from MHFA and expects that MHFA will view the HRA's commitment of additional development subsidy favorably as it weighs an extension.

Budget Action

The increase to the project budget will be funded via the Inspiring Communities Disposition Work Plan and Budget using CDBG funds and will require an Administrative Order from the City Council.

Future Action

No future action will be required. Once the HRA approves the requested action, appropriate staff will amend the project budget and proceed with execution of the development agreement and property sale.

Financing Structure

There are no changes proposed to the financing structure. Financing will be as indicated in the Inspiring Communities Ownership Program Manual. Development gap assistance will be structured as a deferred loan, secured with a note and mortgage at 0% interest. Upon completion of construction and sale to an eligible buyer, the loan will be forgiven.

PED Credit Committee Review

Credit Committee review is not a requirement of this action. The Credit Committee reviewed the Inspiring Communities Homeownership Program Manual on September 23, 2013. The terms and conditions contained therein were recommended for approval by the Credit Committee at that time.

Compliance

Compliance requirements are the same as indicated in the June 9, 2021 Board Report concerning the project.

Green/Sustainable Development

The project will comply with the PED/HRA Sustainability Initiative.

Environmental Impact Disclosure

An Environmental Review for the project has been completed and no required mitigations were identified.

Historic Preservation

The site is not within a locally or federally designated historic district. The State Historic Preservation Office concluded that the project will not negatively impact any potential or existing historic resources.

Public Purpose/Comprehensive Plan Conformance:

Public purpose priorities and the ways in which this project conforms to the Comprehensive Plan have not changed since June 9, 2021.

Recommendation:

The Executive Director recommends approval of the waiver of the maximum gross per-unit subsidy cap for this project and increase to the authorized expenditure level as described in this Report.

Sponsored by:

Commissioner Noecker

Staff:

Nick Boettcher (651-266-6094) and Joe Musolf (651-266-6594)

Attachments

- **Map**