

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

REPORT TO THE COMMISSIONERS

DATE: FEBRUARY 8, 2023

REGARDING: RESOLUTION RECOMMENDING APPROVAL OF THE FINANCING OF A \$2,363,000 COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) LOAN AND THE EXTENSION OF TERMS FOR ONE EXISTING HRA LOAN, BOTH FOR THE 653 ARTIST LOFTS PROJECT AT 653 GALTIER STREET, DISTRICT 7, WARD 1

Requested Board Action

1. Approve the financing of a Community Development Block Grant (CDBG) loan; and
2. Approve the extension of terms for one existing HRA deferred loan

Background

653 Artist Lofts is a two-story brick and wood frame apartment building located at the southwest corner of Como Avenue and Galtier Street in the Frogtown Neighborhood. The property was originally constructed in 1917 as a warehouse for a clothing manufacturer. An addition was added in the 1930s to house the Brandt Jens Kluge printing machine manufacturer. In 1992, the building was purchased by Artspace Frogtown, LLC and converted into affordable rental housing units for the creative arts industry using low-income housing tax credits. The units are designed to provide both living and studio space for the tenants. The building consists of 12 two-bedroom units and 24 three-bedroom units. Rents were restricted to households earning 60% and less of Area Median Income (AMI) for 30 years, or until 2022.

Twin Cities Housing Development Corporation (TCHDC), the Managing General Partner for the Brandt Jens Kluge Limited Partnership (the “Partnership”) is requesting a CDBG loan for \$2,363,000 and an extension of terms for a \$544,000 HRA deferred loan. The HRA deferred loan was originated in 1992 in connection with the conversion of the property into 36 affordable units for artists. In 2012, the HRA extended their loan to mature on April 28, 2022.

The property came to the end of its 30-year Low Income Housing Tax Credit (LIHTC) affordability period at the end of 2022. Based on a physical needs assessment, the property needs

approximately \$2,539,500 in capital improvements over the next 20 years. The new CDBG loan will fund critical and immediate exterior and interior capital improvements while maintaining affordability. Capital improvements will include kitchen and bath cabinet updates, window replacements, tuckpointing for the entire building, and repair of exterior retaining walls and sidewalks.

Currently, the units are rent- and income- restricted to tenants paying 60% of AMI and less with 33% of resident households using a tenant-based rental subsidy as of May 2022. With the new funding, BJK will commit to further income- and rent- restrictions so that half of the units are restricted to households earning 50% of AMI. The rest of the units will remain income- and rent-restricted at 60% of AMI. Affordability will be restricted for an additional 20 years. The property has about \$400,000 in reserves which will be used along with annual cash flow to pay for needed capital improvements.

Budget Action

The requested budget action to designate up to \$2,363,000 in CDBG funds will go through City Council for approval via Administrative Order on February 8, 2023.

Future Action

None

Financing Structure

TCHDC is requesting a new first mortgage of \$2,363,000 with a 2% interest rate and a term of 20 years. The existing deferred loan of \$544,000 will be extended for 20 years to be coterminous with the new first mortgage loan and will remain at a 2% interest rate as well.

The Partnership plans to continue to own and operate the property as an affordable housing development. It is a unique resource of family-oriented loft-style apartments, with its mix of two and three-bedroom units arranged around an inner courtyard and play space. When all amortizing debt (US Bank and roof loan from Family Housing Fund) was paid off, projections show that the property could keep operating as an affordable housing development while

addressing larger deferred maintenance needs out of cash flow such as tuck-pointing and large-scale re-landscaping. This approach would allow the property to remain affordable after the 30-year tax credit term without the need to refinance or re-syndicate. Current estimates have shown that not all capital improvements can be paid out of cash flow.

Proposed Sources and Uses

The estimated total sources and uses of funds statement for the interior and exterior renovations are as follows:

Sources	
CDBG Loan	\$2,363,000
Family Housing Fund Grant	\$642,193
Total	3,005,193

Uses	
Family Housing Fund Refinance	\$1,246,693
Construction Costs	\$1,686,250
Soft Costs	\$72,250
Total	3,005,193

PED Credit Committee Review

The PED Credit Committee reviewed and recommended the requested maturity date extension of the HRA loan and a new CDBG loan on July 24, 2022.

Compliance

The following compliance requirements will be applicable to the project:

1. Affirmative Action including Workforce Utilization Template
2. Vendor Outreach Program, including Business Opportunity Template (BOT)
3. Labor Standards – Federal Davis Bacon and City Davis Bacon
4. Two Bid Policy
5. HUD Section 3
6. Project Labor Agreement

7. Living Wage
8. Early Notification System (ENS)

Green/Sustainable Development

653 Artist Lofts is not required to comply with the Sustainable Building Ordinance.

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose/Comprehensive Plan Conformance

The subject property is in a location defined by the comprehensive plan as an Urban Neighborhood. Urban Neighborhoods are primarily residential areas with a range of housing types. Single family homes and duplexes are most common, although multi-family housing predominates along arterial and collector streets, particularly those with transit. The proposed rehabilitation of this affordable multi-family development is consistent with the Urban Neighborhood general land use designation, as well as numerous policies in the housing chapter of the Comprehensive Plan such as:

- Housing Policy H-39. Promote preservation of existing income-restricted affordable housing units to ensure continued affordability of those units.
- Housing Policy H-42. Pursue public and private funding sources, including local sources, for affordable housing preservation and production.

The proposed rehabilitation of the multi-family affordable housing development is also consistent with Frogtown Neighborhood Plan; specifically land use policy L5 which calls for supporting the retention and development of new missing middle housing types in Frogtown's urban

neighborhoods, such as duplexes, townhomes, and medium density residential apartments that are compatible with the scale of existing development.

Recommendation:

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

1. Approval of a new CDBG loan in the amount of \$2,363,000 with a 2% interest rate deferred for 20 years to complete capital improvements; and
2. Approval of the extension of terms for a \$544,000 HRA deferred loan to be coterminous with the new CDBG loan

Sponsored by: Commissioner Russel Balenger

Staff: Hannah Chong, 951-266-6552

Attachments

- Map
- D7 Frogtown Thomas Dale Neighborhood Profile