

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

REPORT TO THE COMMISSIONERS

DATE: MAY 10, 2023

REGARDING: RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF THE CONDUIT MULTIFAMILY HOUSING REVENUE BONDS FOR THE BALSAM ON BROADWAY PROJECT LOCATED AT 540 BROADWAY STREET; ADOPTING A HOUSING PROGRAM; APPROVING A WAIVER OF THE HRA MAXIMUM DEVELOPER FEE GUIDELINES; AND AUTHORIZING THE EXECUTION OF RELATED DOCUMENTS, DISTRICT 4, WARD 2

Requested Board Action

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

1. Approval of a maximum of \$33,000,000 in volume cap conduit multifamily housing revenue bonds for the Balsam on Broadway project located at 540 Broadway Street; adoption of a Housing Program; and approval of the execution of related documents.
2. A waiver from the HRA's maximum developer fee guidelines.

Background

The HRA has received a proposal from LSB D St. Paul Broadway, LLC, a private developer of multifamily projects in Minnesota (or an affiliated entity, the "Borrower"), that the HRA undertake a housing finance program (the "Housing Program") to finance The Balsam on Broadway project, a 6-story multifamily development located 540 Broadway Street through the issuance of tax exempt housing revenue bonds or notes (the "HRA Bonds"), in one or more series in an estimated aggregate principal amount not to exceed \$33,000,000. The project to be financed by the HRA Bonds is the acquisition, demolition, and construction of a building with approximately 128-unit multifamily rental housing development and functionally related facilities, including covered and surface parking stalls, a bicycle room, dog wash, children playroom, exercise room, office, and community space. The Project will be owned and operated by the Borrower, or an affiliated entity, and the proposal calls for the HRA to loan the proceeds realized upon the issuance and delivery of the HRA bonds to the Borrower pursuant to a loan agreement wherein the Borrower will be obligated to pay all costs and expenses of the HRA and the City incident to the issuance of the HRA bonds.

Thirty-nine units will be restricted to households with income at 80% area median income (AMI) or below, sixty-three units will be restricted to households with income at 60% area median income (AMI) or below and twenty-six units will be restricted to households with income at 30% area median income (AMI) or below with supportive services.

Unit Mix and Affordability Levels

Unit Type	Number of Units	Monthly Gross Rent	Rent and Income Limits
Efficiency	1	\$949	30% AMI
1 Bedroom	4	\$944	30% AMI
1 Bedroom	11	\$1,402	60% AMI
1 Bedroom	6	\$1,553	80% AMI
2 Bedroom	11	\$841	30% AMI
2 Bedroom	28	\$1,683	60% AMI
2 Bedroom	17	\$2,244	80% AMI
3 Bedroom	10	\$972	30% AMI
3 Bedroom	24	\$1,944	60% AMI
3 Bedroom	16	\$2,592	80% AMI
Total	128		

Budget Action:

There is no budget action required

This is a conduit bond issue. The Bonds shall not constitute an indebtedness, liability, general or moral obligation, or pledge of the faith or credit or taxing power of the HRA, City of Saint Paul, or any agency or political subdivision thereof. Principal and interest on the Bonds are payable solely out of the revenues and other sources pledged to the payment thereof as described in the bond documents.

Future Action

N/A

Financing Structure

The Project will be funded by a combination of multifamily tax-exempt housing revenue bonds, Federal Low-Income Housing Tax Credit program (4%), 1st Mortgage, DEED, Greater Minnesota Housing Fund (GMHF), Ramsey County ERF, deferred developer and contractor fees and equity. The tax credits are not from the City's annual 9% allocation but are 4% credits eligible for use with tax exempt bonds. The Bonds require the maximum rents must be affordable at no more than 60 percent of area median income, on average, and 20% of the units (26 units) will be at Fair Market Rent (FMR), which is satisfied by the 26 – 30% units.

Construction Loan – Housing Revenue Bonds

The HRA will provide a total of not to exceed \$33,000,000 of volume cap to help finance the Project. To receive automatic 4% tax credits, the project must meet a “50%” test which means at least 50% of the Borrower's basis must be initially financed with bond proceeds, but no more than 53% of the Borrower's basis will be issued per HRA policy. The bonds will be purchased by Red Stone and be loaned to the Project. At or prior to stabilization approximately \$3,900,000 of the bonds shall be redeemed and the permanent loan amount shall be \$29,100,000. Redstone will execute an Investor Letter.

Permanent Loan – Red Stone

Red Stone will provide a \$29,100,000 permanent loan at or prior to stabilization (after the bonds are drawn). Red Stone is sizing the permanent loan amount based on a minimum 1.15x Debt Service Coverage Ratio and a maximum 90.0% Loan to Value Ratio. The loan will be amortized for 45 years with a 5-year interest only payments and an estimated interest rate of 7.05%.

Tax Credits

The project will be financed with the 4% Low Income Housing Tax Credits (LIHTC). The 4% tax credits can be used for projects with tax exempt revenue bond financing, provided they meet the 50% test detailed above. Based on a term sheet from US Bank, the Tax Credit's projected price is \$0.92.

DEED Grant

On behalf of the Developer, the City applied and successfully secured a grant in the amount of \$280,234 from the DEED to fund the cost of activities related to asbestos abatement, lead-based paint abatement, and related environmental oversight. These funds will be in a form of a grant to the project.

Ramsey County Environmental Response Fund (ERF) Grant

The Developer has successfully secured a grant from Ramsey County in the amount of \$76,854. The grant funds will be for activities related to asbestos abatement, lead-based paint abatement, and related environmental oversight.

GMHC Subordinated Cash Flow Loan

GMHC will provide a \$2,000,000 loan to the project. The loan is a cash flow subordinated debt with a 6% interest rate and a term of 15 years. Payments are based on available cash flow.

Developer Fee

A waiver of the HRA's Maximum Developer Fee Guidelines is being requested. The guidelines allow for a developer fee of \$6,481,538. The requested developer fee is \$9,183,170. This is \$2,701,632 more than would be allowed per the HRA Guidelines. The Developer will defer a portion of the developer fee in the amount of \$5,246,662 or 57%. An exception to the HRA guidelines is recommended as the larger fee increases the eligible basis and generates more tax credit equity, decreasing the gap and making the project financially feasible. This project has a significant gap due to higher construction costs for larger size apartments, inflation, higher interest rates and the cost of the 26 housing units at 30% of AMI. US Bank, the tax credit investor, has confirmed the developer's proposed structure of deferred developer fee with the inclusion in the eligible basis of the full amount of the developer fee.

The estimated total development cost is \$70,404,306. The budget includes the following sources and uses:

Permanent Sources and Uses:

<u>Source</u>		<u>Uses</u>	
First Mortgage	\$29,100,000	Acquisition	\$ 2,223,458
LIHTC Equity (4%)	\$28,678,372	Construction	\$44,546,223
Deferred Developer Fee	\$ 5,246,662	Professional Fees	\$ 3,724,041
Deferred Contractor Fee	\$ 2,172,142	Financing Const.	\$ 9,887,414
Ramsey County ERF	\$ 76,854	Developer Fee	\$ 9,183,170
DEED Cleanup Grant	\$ 280,234	Replacement Reserves	<u>\$ 840,000</u>
Solar PTC Equity	\$ 329,354		
Cash Flow from Operations	\$ 2,016,491		
Reinvestment Income	\$ 504,197		
GMNHF Subordinated Loan	<u>\$ 2,000,000</u>		
TOTAL	\$70,404,306		\$70,404,306

PED Credit Committee Review

The Credit Committee reviewed the proposed financing on April 26, 2023, and confirmed the bond structure is in conformance with PED policy and approved a waiver of the HRA’s maximum developer fee guidelines.

Compliance

The Applicant has signed the 1st compliance letters regarding this project. The project will comply with the following programs and/or requirements: Vendor Outreach Program, Affirmative Action, Labor Standards, Project Labor Agreement, Sustainable Building Policy, Two Bid Policy, Saint Paul Living Wage and Compliance Agreement for Conduit Bonds. This project is exempt from Business Subsidy since the assistance is for pollution control and abatement.

Green/Sustainable Development

The City Green Sustainable Policy is applicable to this project.

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose/Comprehensive Plan Conformance

The 2040 Saint Paul Comprehensive Plan designates the site's future land use as part of a Mixed Use area, which the proposed project conforms to. Comp Plan Policies H-7, H-31, and H-37 support provision of affordable housing, especially in this location near the central business district, as is proposed by the project.

Recommendation:

The Executive Director recommends that the HRA Board of Commissioners adopt the attached resolution regarding issuance of conduit revenue bonds in the maximum amount of \$33,000,000 and adopting a Housing Program, and a waiver of the HRA's maximum developer fee guidelines for the Balsam on Broadway project.

Sponsored by: Commissioner Rebecca Noecker

Staff: Daniel K. Bayers (651-266-8685), Jenny Wolfe (651-266-6680)

Attachments:

- Map
- D4 Dayton's Bluff Neighborhood Profile