

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

REPORT TO THE COMMISSIONERS

DATE: OCTOBER 25, 2023

REGARDING: RESOLUTION APPROVING (I) THE EXECUTION OF A TAX INCREMENT FINANCING DEVELOPMENT AGREEMENT, INCLUDING THE ASSISTANCE OF A TIF NOTE, A CONTINGENT SUPPLEMENTAL TIF NOTE, A TAX INCREMENT FINANCING SPENDING PLAN AUTHORITY, AND (II) APPROVING AN HRA BUDGET AMENDMENT, ALL FOR THE LANDMARK TOWERS PROJECT LOCATED AT 345 ST. PETER STREET, DISTRICT 17, WARD 2

Requested Board Action

1. Authorization to approve a TIF Development Agreement between the Housing and Redevelopment Authority of the City of Saint Paul (the "HRA") and Landmark Towers Apartment LLC, an affiliated entity of Sherman Associates (the "Developer), which includes:
 - Financial assistance pledging Pay-As-You-Go tax increments from the Landmark Towers TIF District (the "TIF Note");
 - A forgivable TIF Loan funded with Spending Plan TIF Authority (aka Temporary TIF) (the "TIF Loan").
 - A contingent Supplemental TIF Note funded with tax increments from the Landmark Towers TIF District (the "Contingent TIF Note"); and
2. Approval of a budget amendment pertaining to the TIF Loan

Background

The 25-floor Landmark Towers building located at 345 St. Peter St. was originally built in 1983 as an office tower with 5 levels of condominium on the upper floors. 90% of the building is currently vacant. Sherman Ventures has acquired the building and plans to redevelop the office portion into 187 market-rate apartment units, 1,400 square feet of office space, and amenity space. The building also includes an attached parking ramp and a skyway connection.

The existing condominium units will remain and are separately owned. Portions of the parking ramp are also separately owned by the residential condominium owners, while the loading dock is shared.

Landmark Towers is directly adjacent to Rice Park, within close walking distance to Xcel Energy Center, the Roy Wilkins Auditorium, The Ordway, Minnesota Science Museum, St. Paul River Centre, and near the historic Landmark Center and Landmark Plaza in downtown St. Paul. The Project will help bring more residents to downtown St. Paul, helping create more social and economic vitality in the area.

The HRA retained the services of LHB, Inc. to complete a TIF Eligibility Assessment of the proposed development site including the 84 tax parcels comprising the Landmark Towers. This assessment determined that the proposed TIF district parcels met the qualifications of a Redevelopment TIF district including 100% improved parcels and the existence of one substandard building. To facilitate the conversion of the office portion of the building into 187 market-rate rental housing units, related parking improvements and exterior streetscaping and other improvements to the pedestrian experience along 4th Street and Market Street, **the HRA Board approved Resolution 23-1201 on August 9, 2023, establishing the Landmark Towers TIF District** (the “TIF District”). In addition, the Developer has received Part 1 approval from the National Park Service to list the Landmark Towers building (aka Amhoist Tower) on the national register. The proposed redevelopment is the only way to both preserve the historic structure and reposition the blighted property. The proposed amount of rehabilitation the building would undergo is approximately seven times the current value of the building.

The Developer, Sherman Associates is an established real estate development and management firm based in Minneapolis with properties throughout the Midwest and Colorado. Sherman develops, owns, and operates its assets with a long-term vision to build neighborhoods, enrich communities, and empower people.

Sherman Associates has developed over 11,700 multifamily units and currently owns and manages over 6,600 multifamily rental units (affordable and market-rate). Sherman also owns and manages over 640,000 square feet of commercial space, five hotels, and two solar gardens.

Sherman Associates is not on the HRA’s adverse lending list.

The total development cost for the Project is estimated to be \$96,292,502 and the unit-mix includes 16 studio units, 108 one-bedroom units, and 63 two-bedroom units.

Budget Action

The TIF Loan is funded with tax increments budgeted in the Temporary TIF Spending Plan. An HRA budget amendment is needed to allocate the \$3,825,000 to this Project as shown in the attached Financial Analysis.

Future Action

If the TIF Loan is approved, a Supplement to the Temporary TIF Spending Plan will need to be brought forward with a resolution and authorized by both the HRA Board and the City Council (including a public hearing).

Financing Structure

The proposed financing plan to complete the Project includes a private construction loan, a pay as you go TIF note pledging tax increments from the TIF District and a TIF loan funded with Temporary TIF. Other sources also include a bridge loan for construction, State and Federal historic tax credits, a deferred developer fee and equity from the owner.

Project Budget

USES			SOURCES		
Acquisition	\$	8,325,000	Construction Loan	\$	37,320,000
Construction & Site Work	\$	63,915,000	Pay Go TIF	\$	8,175,000
Interim Costs	\$	6,234,467	Temp TIF	\$	3,825,000
Soft Costs	\$	5,693,695	State Historic Tax Credits	\$	14,156,870
Development Fee	\$	7,950,757	Federal Tax Credits	\$	13,513,376
Financing Costs	\$	961,999	Deferred Developer Fee	\$	3,411,818
Reserves	\$	3,211,584	Equity	\$	15,890,439
Total Uses:	\$	96,292,502	Total Sources:	\$	96,292,503

Tax Increment Financing (TIF) Pay-Go Note – TIF Note

Due to the high cost of redeveloping and adaptively reusing an historic building, the project is feasible only through assistance from tax increment financing along with the Federal and State historic tax credits. Upon final analysis of the amount of tax increment financing needed, it is anticipated that the TIF note in the estimated amount of \$8,175,000 will be issued pledging not more than 90% of the tax increments collected from the TIF District, with a further semi-annual

cap of \$372,047, the interest rate set on the TIF note will be based on the rate set by the lender originating a TIF loan secured by the TIF Note for the construction of the project.

TIF Loan (aka Spending Plan TIF/Temporary TIF)

The Project will also be financed with an HRA allocation of Spending Plan TIF/Temporary TIF funds in the amount of \$3,825,000. The TIF Loan will have a 42-month term to be coterminous with the construction loan, with a rate of 0%. The TIF Loan will be risk rated “**Forgivable**”, with the following conditions required to fully forgive the principal amount:

- a) A jobs report is submitted by the developer to PED by December 31, 2025
- b) All funds are disbursed by December 31, 2025
- c) Exterior improvements as stated in the TIF Development Agreement are completed and approved by the HRA
- d) A certificate of occupancy is delivered to the developer.

Contingent Supplemental TIF Note (Contingent TIF Note)

To address any negative financial impact that may stem from any repeal of the 20-year new construction exemption of the City’s Rent Stabilization Ordinance and keep the project financially sound, the TIF Development Agreement includes the requirement for the HRA to issue a Contingent TIF Note if necessary. The Contingent TIF Note would pledge an amount equal to 95% of the Available Tax Increments less the amount of Pledged Tax Increment paid to the Developer for the TIF Note, mentioned above, for such period. The Contingent TIF Note will only be issued to the developer on a pro rata basis, if a repeal of the 20-year new construction exemption is enacted through an amendment of the Rent Stabilization Ordinance. It is likely that to issue the Contingent TIF Note, the TIF Plan will need to be amended with actions by the City Council and HRA Board.

A lookback provision is included, which will be for the term of the TIF Note (i.e., through the term of the TIF District). The Developer will be required to submit annual reports on the net operating income of the project, which could result in a payment due to the HRA. Furthermore, a sale of the Project will result in a calculation of the internal rate of return and the potential for an additional payment if the Developer’s internal rate of return exceeds the investor’s required return. Any payments received under the Lookback section will be tax increment revenue to the TIF District.

PED Credit Committee Review

On October 24, 2023, the PED Credit Committee will review the proposed Contingent Supplemental TIF Note; on September 26, the PED Credit Committee reviewed the request for the Pay-Go TIF Note and found it to be consistent with PED policies and approved the terms of the TIF Loan to be forgiven under the conditions stated above and risk rated as “Forgivable”.

Compliance

The following compliance requirements will apply to this project: Vendor Outreach, Affirmative Action, City Labor Standards, Project Labor Agreement, and the Two-Bid Policy.

Green/Sustainable Development

The Development in the TIF district will comply with the Saint Paul Sustainable Building Ordinance.

Environmental Impact Disclosure

N/A

Historic Preservation

The Landmark Towers building is listed on the National Register of Historic Places. In order to receive federal and state historic tax credits all improvements to the building will need to meet the Secretary of the Interior’s (SOI) Standards for Rehabilitation and be reviewed by the State Historic Preservation Office (SHPO) and National Park Service. No federal funds are being provided to the project at this time, therefore no Section 106 review process is required.

Public Purpose/Comprehensive Plan Conformance

This project meets the public purpose objective of providing high density housing downtown in proximity to the Green Line Light Rail station. The project is in conformance with the City of Saint Paul's Comprehensive Plan. The office-to-residential conversion project supports strategies in the following plans.

The Downtown Development Strategy (2003) supports a growing downtown residential neighborhood. Policy 4.1 calls for increasing the number of housing units downtown.

Comprehensive Plan (adopted 2020)

Land Use Chapter Policies:

A goal of the chapter is economic and population growth focused around transit.

- Policy LU-1. Encourage transit-supportive density and direct the majority of growth to areas with the highest existing or planned transit capacity.
- Policy LU-25. Continue to strengthen Downtown as a residential neighborhood that provides services and amenities for people of all ages.

Heritage and Cultural Preservation Goals and Policies:

A goal of the chapter is the preservation of built, cultural and natural environments that express the identity and sense of place of Saint Paul.

- Policy HP-6. Maintain and preserve designated and determined eligible historic and cultural resources.
- Policy HP-15. Utilize historic and cultural resources to support neighborhood revitalization and reinvestment, focusing increased density along transit corridors.

Recommendation:

The Executive Director recommends approval of the resolution which shall authorize the execution of a tax increment financing development agreement, which includes financial assistance pledging Pay-As-You-Go tax increments from the Landmark Towers TIF district (the "TIF Note"), and a and a Spending Plan TIF Loan (aka Temporary TIF, the "TIF Loan"), Contingent Supplemental TIF Note (the "Contingent TIF Note") and approving an HRA budget amendment, all for the Landmark Towers Project.

Sponsored by: **Commissioner Noecker**

Staff: Jules Atangana (266-6660) and Jenny Wolfe (266-6680)

Attachments:

- Financial Analysis
- Map
- D17 Downtown Neighborhood Profile