

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

**REPORT TO THE COMMISSIONERS**

**DATE: OCTOBER 24, 2012**

**REGARDING: ESTABLISHMENT OF THE WEST SIDE FLATS TAX INCREMENT FINANCING DISTRICT AND THE ADOPTION OF A TAX INCREMENT FINANCING PLAN, DEVELOPMENT AGREEMENT AND TBRA, LCDA AND DEED SUBGRANTS WITH WEST SIDE FLATS APARTMENTS LLC, ACCEPTANCE OF LAND FROM THE CITY OF SAINT PAUL, CONVEYANCE OF LAND TO WEST SIDE FLATS URBAN DEVELOPMENT LLC, AND AGREEMENT WITH WEST SIDE FLATS URBAN DEVELOPMENT LLC REGARDING LAND NOTE AND LOAN AGREEMENT WITH WEST SIDE FLATS REDEVELOPMENT LLC, PHASE III DEVELOPMENT AGREEMENT WITH WEST SIDE FLATS PHASE III LLC, PARCEL 4 AGREEMENT WITH SHERMAN ASSOCIATES AND RELATED BUDGET AMENDMENT, WARD 2, DISTRICT 3**

## **Requested Board Action**

The specific actions being requested of the HRA Board include: authorization to establish the West Side Flats Tax Increment Financing (TIF) District; adoption of a TIF plan, and authorization to execute a \$3.8 million tax increment pay-go note and development agreement; authorization to execute a \$500,000 Metropolitan Council Tax Base Revitalizing Account (TBRA) contamination cleanup subgrant agreement, a \$750,000 Metropolitan Council Livable Communities Demonstration Account (LCDA) subgrant agreement, and a \$598,906 Minnesota Department of Employment and Economic Development (DEED) redevelopment subgrant agreement with West Side Flats Apartments LLC (“Developer”); approval of a short-term loan of \$198,906 with the West Side Flats Urban Development LLC; HRA acceptance of a six foot parcel of land from the City and the subsequent conveyance of the parcel to the West Side Flats Urban Development LLC (with a portion of subsequently dedicated to Harriet Island Blvd via an easement); approval of amended terms of the West Side Flats Urban Development LLC \$315,000 land note and forgiveness of \$466,775 of principal and interest for the West Side Flats Urban Development LLC contamination cleanup loan; approval of a Phase II Development Agreement with West Side Flats Redevelopment LLC; approval of a Phase III Development Agreement with WSF Phase III LLC; and approval of a Parcel 4 agreement with Sherman Associates.

## **Background**

The Phase I project is a 178-unit apartment building with 6,185 square feet of commercial space. Twenty percent of the units (36) will be affordable to households with incomes at or below 50% of area median income; 142 units will be market rate. 131 parking spaces for the residents will be located underneath the building. There will be a 65-space surface parking lot located at the northwest section of the site that will serve commercial tenants. The building will have five stories along Fillmore, dropping to four stories closer to the Mississippi River. The Developer will be responsible for the construction of the new Harriet Island Boulevard, West Side Flats Drive, and related improvements. The Developer projects construction start in the fall of 2012, with completion by June 30, 2014. Per the Developer's schedule, remediation and road construction will be completed in spring/summer of 2013.

The HRA is accepting a six foot parcel conveyance from the City which the HRA will subsequently convey to the West Side Flats Urban Development LLC upon the HUD closing. The West Side Flats Urban Development LLC is a minority member of the West Side Flats Apartments LLC. Upon the HUD closing, a plat will be filed that will allocate a portion of the parcel for West Side Flats Drive and a portion of the parcel will be conveyed by the West Side Flats Urban Development LLC to West Side Flats Redevelopment for the parking lot/Phase II parcel. George Sherman is the controlling partner of the development entities listed above.

The Phase II development agreement addresses future development of the 65-space surface parking lot just north of the apartment building. The West Side Flats Redevelopment LLC will have ten years to develop the surface parking lot as a residential and/or commercial, one to five story building. Development must be consistent with the West Side Flats Master Plan (in effect as noted below). The Phase II developer has to be different from the Phase I Developer due to HUD mortgage insurance requirements.

The Phase III development agreement with WSF Phase III LLC gives the WSF Phase III LLC the exclusive right for three years to make development proposals to the HRA for the HRA land located west of Livingston, north of Fillmore, and east of the railroad line. The HRA will be under no obligation to accept or finance any proposal submitted by the WSF Phase III LLC.

The Parcel Four Agreement relates to the HRA land located immediately east of the new Harriet Island Boulevard and west of the railroad line. The current West Side Flats Master Plan calls for that parcel to be used for storm water management and open space. The Parcel Four Agreement indicates future development of Parcel Four will be in compliance with the West Side Flats Master Plan. If there is a change in the West Side Flats Master Plan that would permit a use other than open space, community activities and storm water retention, Sherman Associates will be given an exclusive right for two years to submit a development proposal to the HRA. The HRA will be under no obligation to accept or finance a proposal submitted by Sherman Associates for this parcel.

### **Budget Action**

The budget action will allocate a \$3,800,000 in TIF. The note will be structured as a pay-go note to the West Side Flats Apartments LLC for TIF eligible expenses and will allocate a Fund 117, \$198,906 short-term loan for West Side Flats Urban Development LLC. A promissory note will be executed for these funds, and will be secured by a personal guarantee from George Sherman. (Further information is detailed in **Financing Structure** below.)

### **Future Action**

No future action is anticipated from the HRA.

### **Financing Structure**

This \$35,437,340 project will have a \$23,200,000 HUD insured loan. The HUD insured loan includes the TIF revenues received from the pay-go TIF note. Per the \$3,800,000 TIF pay-go note, the Developer will receive 90% of tax increment generated by the project. The HRA has executed a \$2,500,000 HOME loan with the Developer. Minnesota Housing is providing a \$2,000,000 deferred loan.

The Developer will be awarded subgrant agreements for the Metropolitan Council TBRA \$500,000 contamination cleanup funds; the DEED \$598,906 redevelopment grant for construction of the West Side Flats Drive and acquisition of a parcel of land for Harriet Island

Boulevard; and a Metropolitan Council LCDA grant of \$750,000 for construction of Harriet Island Boulevard. The City has requested a TBRA Metropolitan Council grant extension for completion of contamination cleanup and we anticipate approval within the next few weeks.

Subgrants to the Developer for contamination cleanup and roads total \$1,848,908. The TIF note and subgrant agreement funds will not be disbursed to the Developer until after the HUD closing.

Upon closing, the HRA will provide a \$198,906 short-term loan to West Side Flats Urban Development LLC. West Side Flats Urban Development LLC will assign the funds to the West Side Flats Apartment project. The Note will require the HRA be reimbursed within 45 days of the HUD closing from either the DEED grant or West Side Flats Urban Development LLC. The promissory note will be secured by a personal guarantee from George Sherman.

The 2006 West Side Flats Urban Development LLC \$315,000 land acquisition note for parcel five, located west of Starkey and east of the Llewellyn site, is due on December 1, 2012 and has an interest rate of 4%. Staff is recommending the terms be amended so the principal amount of the loan is repaid the earlier of 12 months following final endorsement of the HUD loan or 30 months after HUD closing. Interest will be at the same rate as the HUD loan going forward from the HUD closing, with the accrued interest forgiven if the loan is paid when due. The note will be secured by a personal guarantee from George Sherman. If the loan is not paid on time, George Sherman will be required to repay the loan in its entirety plus accrued interest.

In 2006, the HRA made a \$400,000 cleanup loan to the West Side Flats Urban Development LLC relating to the previous condominium project. The loan is due December 1, 2012 and has an interest rate of 4%. Originally, remediation of parcel five was to be funded through an earlier DEED contamination cleanup grant. When the Trooien-Sherman partnership was dissolved, the DEED clean-up funds for parcel five were allocated entirely to the HRA properties to the east of parcel five. The \$400,000 cleanup loan was made to West Side Flats Urban Development LLC to replace the DEED grant funds. Assuming Sherman's acquisition holding costs since 2004 are considered equity contributions to the apartment project, the Developer's projections indicate there won't be sufficient surplus cash flow to provide an adequate return to the developer and

repay the \$400,000 loan. Thus staff is recommending the outstanding principal and interest of approximately \$466,775 be forgiven at the time of the HUD closing.

The Developer indicates closing on the HUD insured loan will be contingent upon a United States Army Corp. of Engineers (“Army Corp”) determination on the design of Harriet Island Boulevard and upon Developer selection of a general contractor. The construction budget contained in the attached Sources and Uses of funds may change depending on the contractor bids received by the Developer, which are due October 17th. Public Works anticipates the Army Corp. will provide a decision within the next few weeks. (Public Works is a signatory to the Development Agreement regarding the terms of the road construction.) The HUD firm commitment for mortgage insurance will expire late November 2012, so time is of the essence.

The Sources and Uses of Funds is included in Attachment E.

### **PED Credit Committee Review**

The Credit Committee reviewed the proposed HRA financing for the project and determined the proposed TIF financing is consistent with HRA policy. The \$315,000 note and \$198,906 loans were risk rated doubtful. Since the Credit Committee reviewed this loan, DEED has agreed to extend the grant, which substantially reduces the risk of non-payment.

HRA policy requires notification of the HRA Board if a developer seeking additional HRA/City funding is on the adverse lending list. As indicated in prior board reports, Sherman Associates/affiliates have not completed the Printers Row and Whitehall projects due to the collapse of the condominium/townhome for-sale market. PED will ultimately need to negotiate amended agreements and an amended acquisition note with the Sherman Associates affiliates.

### **Compliance**

The Developer will comply with Vendor Outreach, Section 3, Affirmative Action, Federal Davis Bacon, and Living Wage. The Developer Compliance Acknowledgement Letter has been executed and received. The project will create approximately 70 construction jobs. This project will have a project labor agreement (PLA).

**Green/Sustainable Development**

The project will achieve the Green Communities program requirements and meet the requirements of the Saint Paul overlay portion of the Saint Paul Sustainable Development policy.

**Environmental Impact Disclosure**

PED has completed the environmental review required by HUD.

**Historic Preservation**

NA

**Public Purpose**

The project will result in the redevelopment of previously blighted and contaminated property with the construction of 178 housing units with adjacent commercial development on the Mississippi River, across from the core downtown area. Affordable units will be provided per HOME and housing tax increment finance district requirements. A minimum of 20% of the units will be affordable to households at 50% of median income (36 units).

On October 12, 2009, the West Side Citizens Organization (WSCO) board adopted a resolution that strongly recommends support of the site plan. WSCO found the site plan “fulfills the intent and scope of the West Side Flats Master Plan.” Since that time, the heights of the project have decreased from a maximum of six stories to a maximum of five stories. These heights are consistent with the West Side Flats Master Plan and TN3 zoning. WSCO’s Riverfront and Development Committee continue to support this project. This past spring, the Developer revised the road design for Harriet Island Boulevard Road. This site plan revision was approved by the WSCO Riverfront and Development Committee.

**Land Use Plan**

This project is consistent with the Land Use and Housing Chapters of Saint Paul’s Comprehensive Plan.

Land Use: Policy 1.2 Permit high-density residential development in Neighborhood Centers, Mixed-Use Corridors, the Central Corridor and Downtown. The West Side Flats is a proposed Neighborhood Center. Policy 1.12 Balance the following objectives for Neighborhood Centers through the density and scale of development: accommodating growth, supporting transit use and walking, providing a range of housing types, providing housing at densities that support transit, and providing open space and recreational opportunities.

Housing: Policy 1.3 Revitalize the city by developing land-efficient housing. Land-efficient housing is residential development that makes the most of redevelopment sites, including higher-density multi-family buildings along busy streets.

The project is also consistent with the *West Side Flats Master Plan*, which was adopted as part of the TN3 zoning for the site to implement the Saint Paul Comprehensive Plan on this important riverfront site.

### **Statement of Chairman**

“Being duly authorized by the Board of Commissioners to conduct this Public Hearing, the hearing is now open. This is a Public Hearing called for the purpose of conveyance of a certain Parcel of land located in District 3 by the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota (HRA).

Notice of time, place, and purpose of this hearing was published in the Saint Paul Pioneer Press on Saturday September 15, 2012. The Affidavit of Publication of the Notice of Public Hearing will be made a part of these proceedings.

The HRA proposes to convey the following property in District 3:

<b>Property Description</b>	<b>Purchaser/Developer</b>	<b>Purchase Price</b>
See Attachment H	West Side Flats Urban Development LLC	\$1.00

The property will be conveyed for The development of market rate and affordable housing

Is there anyone who wishes to be heard on this sale? If not, the Chair will declare this Public Hearing adjourned.”

**Recommendation:**

The Executive Director recommends approval of the attached resolution.

**Sponsored by: Commissioner Thune**

**Staff: Marie Franchett, 651-266-6702**

**Attachments**

- **Attachment A -- Resolution**
- **Attachment B -- Background**
- **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 -- Census Facts**
- **Attachment H -- Legal Description of Parcel to be conveyed**
- **Attachment I --- Site Plan**
- **Attachment J -- Development Phases**