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

REPORT TO THE COMMISSIONERS **DATE: July 24th, 2013**

REGARDING: RESOLUTION AUTHORIZING APPROVAL OF HRA LAND DISPOSITION STRATEGY, WORK PLAN AND BUDGET AMENDMENT FOR CERTAIN PROPERTIES OWNED BY THE HRA, CITYWIDE

Requested Board Action

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

1. Authorization to approve HRA Disposition Strategy and Work Plan through 2015; and
2. Authorization to approve budget for first phase of Disposition Strategy and Work Plan activities; and
3. Authorization to accept $250,000 grant from the Department of Employment and Economic Development and request $2,030,000 grant from the Minneapolis Saint Paul Housing Finance Board to support the HRA Disposition Strategy.

Background

From 2007-2013, the City of Saint Paul HRA has implemented the workplan previously authorized by the HRA for the Invest Saint Paul (ISP) and Neighborhood Stabilization Programs (NSP). Previous HRA resolutions include:

Invest Saint Paul work program	(07-08/08-3)
Neighborhood Stabilization Program 1	(09-02/25-6)
Neighborhood Stabilization Program 2	(10-3/24-3)
Neighborhood Stabilization Program 3	(11/721 and 11/623)

Through the above resolutions, the stage was set for an investment of $17 million of ISP municipal bonds and $32 million of NSP federal grants into Saint Paul's neighborhoods that were most impacted by foreclosure and vacancy. Funding received through the Neighborhood Stabilization Program had specific expenditure requirements, which the HRA has met for the first two rounds of NSP, and is projected to meet for the third round of NSP. During the course of the respective work programs, the HRA aggressively acquired blighted, vacant, and foreclosed property, provided support to community organizing initiatives, and redeveloped vacant commercial and residential buildings into neighborhood assets.

Beginning in December of 2012, HRA staff began a strategic examination of all HRA properties owned, to determine how to best focus its activities and investments to impact distressed Saint Paul neighborhoods and complete work that was begun under ISP and NSP initiatives. Staff examined the 535 parcels currently held by the HRA (which were purchased under ISP, NSP, and other funding programs over the years) and sought to classify them. Included in the 535 parcels were large redevelopment sites, commercial sites, parking lots, and properties under construction, which the staff concluded, in consultation with HRA commissioners, did not warrant a deeper disposition analysis for the following reasons:

- **Large Redevelopment Parcels**: these sites should be held by the HRA until market conditions allow for redevelopment in accordance with community plans* (see list of large redevelopment parcels in **Attachment C**)
- **Properties under construction**: there are currently 70 parcels under construction through the NSP/ISP programs. These projects are budgeted and underway and are projected for sale in 2013.
- **Parking lots, ramps, and homeless shelter**: long-term HRA assets
- **Commercial buildings and lots**: the relatively small number of commercial properties (35/535) and the availability of budgeted funds for commercial program activities led staff to conclude these addresses should not be included in the analysis.

The 240 parcels of remaining inventory were the subject of a more intensive disposition analysis. Goals that guided the disposition analysis process included:

- Quantify legal obligations and ensure properties with specific obligations are developed
- Build upon stabilization efforts in neighborhoods most impacted by vacancy and foreclosure in order to further the HRA's mission to "preserve, grow, and sustain" neighborhoods

(See **Attachment C,** a powerpoint presentation summarizing the disposition analysis process and recommendations.)

A key recommendation of the disposition analysis is to focus HRA subsidy in two disposition categories:

1. **Parcels with Obligations:** Ensure that the HRA successfully meets its federal, state, and county property development obligations.

   The HRA has a variety of legal or obligations to meet from different funding sources. They include:

   - **Community Development Block Grant (CDBG) funds**: These are federal dollars allocated to the City of Saint Paul by the Department of Housing and Urban Development (HUD). When utilized on a property, CDBG regulations typically require that the property be developed within ten years to meet one of the eligible national program objectives. There is a list of HRA-owned properties that are nearing the end of the 10-year window for CDBG compliance. Staff believes the disposition strategy included in this board report will help ensure CDBG obligations are met. This is a high priority; in the event we do not comply within the required time frame, HUD may choose to require repayment of CDBG funds.
   - **Neighborhood Stabilization Program (NSP) funds**: These are also federal dollars that were awarded to the City of Saint Paul through five different grants; three from HUD and two from the Minnesota Housing Finance Agency (MHFA). Similar to CDBG, projects funded with NSP dollars must meet a national objective by a deadline established with each of the respective grants.
   - **Ramsey County Tax Forfeit Properties**: Although there is not a legal obligation to complete Ramsey County tax forfeit properties, the HRA made a commitment at the time of acquisition from the county that some properties would be complete within 18 months. Properties with this 18 month redevelopment commitment are included as an "obligated property".
   - **Vacant Buildings:** Vacant buildings are also included as "obligated properties" regardless of funding source, due to the detrimental effect that vacant buildings have to their surrounding community.

2. **Cluster Area Parcels**: Maximize neighborhood impact by clustering investment in 10-15 block areas: maximize development of HRA owned vacant buildings, build on city and community investments, and leverage funding from private and public agencies to the

greatest extent feasible. Neighborhoods selected with a cluster area include the Payne-Phalen, Railroad Island, Dayton's Bluff, West Seventh, and Frogtown neighborhoods.

Remaining property is classified for sale without additional investment of HRA subsidy. These properties are categorized as:

3. **Splinter Parcels:** Reduce HRA holding costs by clarifying policies and procedures for splinter parcel sale, and aggressive marketing of these parcels.

4. **Buildable Lots for Sale:** In collaboration with developers and neighborhood stakeholders, update disposition policies and procedures to facilitate sale of vacant land that is not strategically clustered and does not have obligations.

HRA staff developed a 2013-2015 workplan to dispose of a majority of the 240 parcels studied. Barring unforeseen circumstances that may inhibit disposition intentions, upon conclusion of the work program there will be 20 vacant lots remaining for development in 2016-8. Projections for HRA investment needed to implement the workplan are attached as **Attachment D** and a timeline for implementation is attached as **Attachment E.** Included in the budget and workplan are three "large redevelopment parcels" that have obligations for development by summer of 2014 due to Community Development Block Grant (CDBG) funds received.

Budget Action

At this time, staff requests approval of a budget amendment to achieve the first phase of disposition strategy activity (**Attachment B)** and approval of the overall program budget strategy (**Attachment D).**

Staff recommends creation of a new project number to fund the "HRA Disposition Strategy" to be funded with the following sources at this time:

- **Community Development Block Grant:** The HRA seeks to allocate $1,092,000 of CDBG funds from its 2012 appropriation.

- **HRA 117 funds:** $940,000 was originally allocated to the Rolling Hills project; however the allocation was substituted with federal HOME dollars. As a result, there is a $940,000 balance that the HRA recommends allocating to the HRA Disposition Strategy.
- **Invest Saint Paul:** Staff reviewed each of the budget allocations within Invest Saint Paul to determine the amount of funds that could be released from the program. All Invest Saint Paul funds that are not under contract are recommended for release and consolidation in the "HRA Disposition Strategy" account. ISP funds that are already budgeted to achieve work included in the disposition strategy will remain allocated to the specific project. Existing allocations include:
    - **4th Street Preservation Project:** $359,792 balance to remain
    - **Bates/Wilson rehab project**: $400,000 balance to remain
    - **Little Bohemia Development**: $158,939 balance to remain, with program income of previous Little Bohemia sales allocated to increase this budget item
- **Bond Cost of Issuance Account (COI):** $2,030,000 is to be allocated from the Minneapolis Saint Paul Housing Finance Board (Finance Board). The COI account is a trust fund held with Well Fargo Bank, which has historically been restricted to pay costs (legal, financial, transaction costs, trustee fees, etc.) when the Finance Board issues single family mortgage revenue bonds to provide mortgage financing for first-time homebuyers under the CityLiving Mortgage program. The COI account is necessary because federal law prohibits using bond proceeds to pay costs of issuance; in other words, the cost of issuing bonds cannot be paid by the bonds – another source must be available. The COI account is funded from fees charged in the mortgage interest rate of CityLiving Mortgage loans. Effectively, the program is self-supporting: the COI account pays to issue bonds, the bonds are used to make loans to homebuyers, the homebuyers pay fees and interest, and the fees and interest replenishes the COI account, which allows for issuance of more bonds. The size of the account has grown significantly in the last two years as the result of the Finance Board selling part of its mortgage securities on the open market at a premium, thus staff is comfortable using a portion of sale proceeds for the HRA Land Disposition Strategy as there will be a sufficient balance remaining in the account to pay the costs of issuance for future bond sales. Currently, the CityLiving Program is not active because private lender mortgage interest rates are low.

- **Department of Employment and Economic Development:** Through advocacy efforts by the East Side Neighborhood Development Company and Dayton's Bluff Neighborhood Housing Services, $250,000 was appropriated by the Minnesota State Legislature to DEED during the 2013 legislative session to specifically support development activities in the NSP 3 target area of Saint Paul. ESNDC and DBNHS propose to utilize the funds to achieve redevelopment of a CDBG flagged parcel located on Wells between Payne and Greenbriar (titled "Wells Wadena" on the Large Redevelopment Parcel list). The funds are being complemented with DBNHS foundation sources and are reflected on the budget in the "external leverage" category. Approval by the HRA board is sought to facilitate receipt of the funds to redevelop this high priority site.

Future Action

The following additional approvals from the HRA board will be required to implement the disposition strategy for HRA parcels:

Properties with obligations and cluster area properties:

- Approval to accept grants or program income and amend the budget as funding is received
- Approval of development proposals/property sales received through RFP process as implemented

Properties for sale (splinter parcels and vacant lots without obligations):

- Approval of updated policies and procedures for splinter parcel and land disposition
- Approval of applications received through listing process as implemented

Financing Structure

To develop the cashflow, (**Attachment D**), staff conducted an intensive analysis of property owned, market conditions, and development costs. A key assumption of the analysis is that private developers and community development corporations will have access to capital to provide interim construction financing, and that end-buyers and rental owners will obtain provide permanent financing; in other words, we shifting from a 100% financing model to a model in which the HRA provides only gap financing. **Attachment D** reflects anticipated value gap (the difference between project cost and the permanent financing a project can support) needed to ensure that HRA parcels with obligations and cluster area properties are developed by 2015.

The HRA anticipates that a homebuyer assistance program will also be needed to ensure that homes developed are affordable to income targeted households; this will be funded with remaining NSP program income and Wells Fargo Foundation funds.

PED Credit Committee Review

There is no requirement for credit committee review of the disposition strategy or budget amendment that is the subject of this board report. However, the Credit Committee to review underwriting guidelines to be included in RFPs.

Compliance

Typical requirements that apply to projects receiving subsidy include:

- Vendor Outreach
- Affirmative Action
- Section 3/Vicinity Hiring
- HRA Sustainability Policy
- Two Bid Policy

Specific requirements will be identified when funding sources for various projects is formally identified.

Green/Sustainable Development

All projects will comply with the HRA/PED sustainability policy. In addition, design guidelines to be included in most RFPs will include the following:

- Use of low flow plumbing fixtures
- Insulation to comply with "Energy STAR for New Homes" or "Home Performance with Energy STAR"

- Rain gardens and sustainable landscape plans per the Memorandum of Understanding with Capital Region Watershed District approved by the HRA in resolution 12-680
- Compliance with HUD's Healthy Homes requirements, including abatement and mitigation of risk for lead, radon, asbestos, and mold.

Environmental Impact Disclosure

For properties acquired with, or utilizing, federal funds, an environmental review was, or will be, conducted for both the target area that the property is located within, and the specific structure acquired. Homes receiving funding from federal sources comply with noise abatement requirements when present.

Historic Preservation

The State Historic Preservation Office (SHPO) has reviewed acquisition of all structures, per federal funding requirements.

Public Purpose/Comprehensive Plan Conformance

The HRA disposition strategy strongly aligns with the City of Saint Paul's comprehensive plan. It will create affordable housing opportunities; increase the City's tax base by increasing the value of 240 vacant and blighted parcels; and stimulate the Saint Paul economy via development activity; and leverage community development partners expertise to achieve comprehensive change in cluster areas.

Recommendation:

The Executive Director recommends approval of the actions detailed in the attached resolution.

Sponsored by: Commissioner Lantry

Staff: Roxanne Young (266-6581) and Al Carlson (266-6616)

Attachments

- **Attachment A -- Resolution**
- **Attachment B – Budget Amendment**
- **Attachment C - Background**

- **Attachment D—Cash Flow Document**
- **Attachment E -- Timeline**