

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

REPORT TO THE COMMISSIONERS

DATE: October 9, 2013

## REGARDING:

**Approval Actions Related to the Saint Paul Housing & Redevelopment Authority (HRA) Disposition Work Plan and Budget: 1) Key Terms of the Inspiring Communities Homeowner Program Manual and Rental Program Manual; 2) Scoring Criteria for Inspiring Communities RFP; 3) expenditure of \$1,050,000 to Rehabilitate 831 Carroll, 995 Carroll, 891 Arkwright, 771 Geranium, and 662 Cottage; and 4) Updated Policy and Procedures for Sale of Splinter Parcels, Citywide.**

## Requested Board Action

This action approves implementation of the first phase of activity under the Saint Paul Housing & Redevelopment Authority (HRA) Disposition Work Plan and Budget which was approved by the HRA Board on July 24, 2013 (Resolution 13-1097). The specific actions being requested of the HRA Board are approval of the following:

1. Key terms of the Inspiring Communities Homeowner Program Manual and Rental Program Manual;
2. Scoring criteria for Inspiring Communities RFP;
3. Expenditure of \$1,050,000 to rehabilitate 831 Carroll, 995 Carroll, 891 Arkwright, 771 Geranium, and 662 Cottage; and
4. Updated Policies and Procedures for Sale of Splinter Parcels.

## Background

Planning and Economic Development (PED) staff analyzed all HRA-owned property to make informed recommendations regarding the retention and disposition of properties, and create a disposition strategy and budget to advance redevelopment plans for the sites analyzed. Property that was considered as part of the disposition analysis was predominantly scattered site vacant lots (no more than four contiguous lots) and buildings that cannot be developed with more than four units. This information was presented to, and the (HRA) Disposition Work Plan and Budget (DWPB) was approved by, the HRA Board of Commissioners on July 24, 2013 via Resolution 13-1097.

Work has continued to prepare for implementation of the DWPB. For consistency in

presentation and clarity for the public, the Invest Saint Paul (ISP) and Neighborhood Stabilization Programs (NSP) will be jointly renamed to the “Inspiring Communities” program. “Inspiring Communities” is currently used for the marketing campaign for homes rehabilitated through NSP, and is a more accurate description of the DWBP, which consolidates the properties acquired under the NSP, ISP, and Community Development Block Grant (CDBG) programs, along with some HRA acquired property, under one strategy.

Previous Board action related to Inspiring Communities include:

- Disposition Strategy, Workplan, and Budget (13-1097)
- Guidelines for Disposition of Splinter Parcels (93-8/24-2)

The July 24<sup>th</sup> Board action established four disposition categories: two that allocated future subsidy and two that were sales strategies. Properties eligible for subsidy were either located in cluster areas (Dayton’s Bluff, Railroad Island (Payne-Phalen), Payne-Maryland (Payne-Phalen), Frogtown, and West Seventh) or had obligations for redevelopment (vacant buildings, some tax forfeit properties, some federal properties). The remaining properties were either buildable lots to be sold for appraised value, or splinter parcels to be sold for a nominal price. The intention of the workplan was to allocate properties eligible for subsidy through a competitive RFP process as funding sources became available.

After approval of the DWPB, staff organized a workshop with realtors, for profit and nonprofit developers, district councils, lenders, intermediaries, and universities in attendance to gain feedback for the workplan’s implementation. Approximately 60 people attended and comments from the workshop directly shaped the program manuals, RFP, and the proposed splinter parcel policies and procedures included as part of this board action.

Staff also met with district councils in the Frogtown (District 7), Payne Phalen (District 5), and Dayton’s Bluff (District 4). Each group expressed support for the disposition strategy and many of their recommendations were incorporated into the policies and manuals to be considered by the HRA Board under this report and the attached resolution.

## **Key terms of development manuals**

There are key terms of the rental development manual and the homeownership development manual for which staff is requesting approval, including:

- 1) **Developer fee:** Staff is proposing a Developer Fee Policy for properties with four units or less. The proposed maximum fee is 10% of total development costs, less the expense of acquisition. The recommended fee is consistent with the developer fee cap allowed by Minnesota Housing and the City of Minneapolis.
- 2) **MN Green Communities certification:** Sustainable development is a City of Saint Paul priority. As a reflection of that goal, staff successfully certified 40 HRA-developed homes through the Enterprise Green Communities Program in 2012 and 2013 as a pilot program. Moving forward, all homes receiving subsidy from the HRA through the rental or homeowner programs must be Green Communities certified. Administrative staff cost of certification is off-set by rebates for energy efficiency from Xcel Energy and for storm water management from Capitol Region Watershed District.
- 3) **Design Standards:** Recommended design standards are included in **Attachment B**. The design standards reflect an intention that homes are free from environmental hazards, are durable for 20 years, and are sustainably operated and constructed. The design standards attached were revised to incorporate comments received from attendees at public meetings held in August and comments from a public review period in early September.
- 4) **Cap on HRA Subsidy:** The recommended cap on HRA subsidy per unit through the rental and homeownership programs is \$150,000. Requests for subsidy that exceed \$150,000 will trigger additional review by staff, including the PED Credit Committee, and the HRA Board for cost reasonableness.

## **Inspiring Communities Scoring Criteria**

Respondents will be required to meet minimum qualifications to ensure that developers purchasing HRA land have demonstrated capacity to achieve the work. When there is more than one qualified proposal for an address, the proposals will be scored and the respondent with the highest score will be prioritized to purchase the property. Staff is seeking approval of the scoring criteria for the RFP process detailed in attachment **Attachment C**.

There are three goals that the scoring criteria evaluates:

- **Design Innovation (20 points):** Proposals that demonstrate compliance with the HRA design guidelines or have innovative features will receive points in the scoring process. A specific request at the District 5 community meeting was the encouragement of modern, innovative, or interesting design of new buildings.
- **Cost Reasonableness and Efficiency (50 points):** To ensure that HRA subsidy is minimized and projects are completed quickly, points will be assigned for proposals that maximize efficiency. Points will be assigned to proposals that keep soft costs (professional fees and holding costs) low, that demonstrate market justification for sales price and rental rates, that minimize HRA assistance per unit, and that deliver a completed project in one year or less.
- **Equity (20 points):** A specific request of the District 4 and District 7 community meetings was for the Inspiring Communities program to include criteria that would encourage developers to hire neighborhood residents for construction work and promote housing opportunities to existing neighborhood residents. Staff are including points for developers that have a strategy for hiring contractors or promoting housing to residents located in the zip codes of the Inspiring Communities cluster areas. In compliance with HUD Section 3 requirements, an allocation of 10% of RFP points is provided to Section 3 certified developers.

But for a select group of properties\*, developers for buildable lots and vacant buildings prioritized for subsidy in the Inspiring Communities program will be selected through an RFP process. In the first RFP round, the Frogtown, Payne-Phalen, and Dayton’s Bluff cluster areas and CDBG high priority projects will be prioritized to receive subsidy. These properties are the highest priority to the HRA because they have the shortest timeline connected to their redevelopment due to HUD and MHFA funding requirements. The property list, zoning district, and applicable funding sources for each property is attached as **Attachment C** and titled “A-list Properties”.

The Railroad Island cluster area and remaining obligated properties will also be included in the RFP; this list is also included in **Attachment C** and titled “B-list Properties”. If subsidy dollars remain after the A-list Properties are funded, or if there are proposals that don’t require additional subsidy from the HRA, B-list Properties may also move forward. Future RFP cycles

are anticipated in July 2014 and November 2014 with CDBG funds and Minnesota Housing Impact Funds (if awarded), respectively, for any properties that are not addressed through this RFP cycle.

*\*A portion of the budget approved by the HRA Board on July 24<sup>th</sup> will be utilized to fund projects that already have a developer identified, but were stalled due to lack of funding in the program or due to ongoing negotiations between the HRA and the developer. The list of these properties is included in Attachment D, titled "Pre-RFP Properties". Thus, staff is proposing that these properties not be released through the RFP process. In addition, as detailed below under the Budget Action, staff is seeking \$1,050,000 in funding for five of these properties including 831 Carroll, 995 Carroll, 891 Arkwright, 771 Geranium, and 662 Cottage. Request for funding for other properties on this list will be brought to the HRA Board if such funding is determined to be necessary.*

### **Policy and Procedures for Sale of Splinter Parcels**

Staff is seeking approval of the updated policy for the sale of splinter parcels, detailed in **Attachment E**. The proposed policies update the application form, property list\*, map, and evaluation criteria for staff to utilize, which will streamline the sale of splinter parcels. A critical first step in the evaluation process is consultation with district councils, council members, and PED's economic development department to ensure there are not alternate plans for splinter parcels. When there are no objections, HRA staff will evaluate the neighboring property owners for eligibility. If neighboring property owners are not eligible, or able, to purchase a splinter parcel, staff will engage district councils and other partners to define a public use for the lots.

*\*The list of splinter parcels attached includes notation regarding property status. "Sold" properties were identified in the DWPB but sold prior to this board action under the existing splinter sale policy. "Economic Development" properties are likely to have a commercial outcome and therefore will be exempt from the policy the Board is passing. "Soil Conditions/Title/Topography" properties are noted because these lots are typically a buildable size, but have other conditions present that classifies them as a splinter parcel and will therefore be subject to the Splinter Parcel Policy.*

Wilder planning district demographic profiles are attached for Districts 4, 5, and 7, where a majority of HRA property is concentrated under this disposition strategy **Attachment F**.

**Budget Action**

Five pre-RFP projects (as noted above) were bid directly by the HRA in spring of 2013 and are ready to begin construction. Because a contractor is selected and a reasonable development cost is established for these addresses, staff recommends moving forward with their redevelopment now with the HRA as the direct developer; as this is the most expedient method for rehabilitating the properties.

Per Resolution 13-1095, the HRA Board approved \$5,057,642 for the implementation of the DWPB. That resolution required staff to return to the HRA Board for approval of expenditures out of the DWPB. Thus, staff is requesting approval to expend \$1,050,00 of the DW Budget for the five pre-RFP properties noted below. Up to \$776,000 is expected to return to the HRA to revolve in future funding rounds.

**Uses**

Address	Acquisition Price	Development Cost	Sale Price (estimated)	Subsidy*
831 Carroll Ave	\$65,941	\$198,329	\$154,000	\$110,270
995 Carroll Ave	\$62,632	\$196,250	\$127,000	\$131,882
662 Cottage Ave	\$40,000	\$195,251	\$180,000	\$55,251
771 Geranium Ave	\$38,000	\$200,000	\$180,000	\$58,000
891 Arkwright St	\$19,783	\$178,500	\$120,000	\$78,283
Contingency/other fees (8%)		\$81,670		
<b>Total</b>	<b>\$188,356</b>	<b>\$1,050,000</b>	<b>\$776,000</b>	<b>\$433,686- \$515,356^</b>

\*Subsidy is calculated as Acquisition + Development Cost – Sales Price.

**Sources**

Acquisition	\$188,356	Already paid by NSP
Development	\$1,050,000	DW Budget

### Splinter Parcels

No budget action is required for sale of splinter parcels.

### **Future Action**

- Public hearings and HRA Board approval for the sale of any property
- Approval for additional expenditures from initial DWPB, and future budget authorization

### **Financing Structure**

- The HRA will provide value gap for owner-occupied properties (Total Development Cost - Sales Price = Value Gap), and rental projects.
  - Loans offered through the homeowner program manual will be secured with a 0% interest mortgage and note. Financing provided to developers will be forgiven upon sale of the property. For NSP houses, up to \$5,000 of financing for buyers will be available and forgiven over a 5-year affordability period.
  - Loans offered through the rental program will be secured with a 0% interest mortgage and note. Financing will be deferred and forgiven after 15 years.
- Splinter parcels will be sold for \$500, plus an administrative fee of \$125 and closing costs.

### **PED Credit Committee Review**

*RFP for obligated properties and cluster properties*

Credit committee review of the homeowner and rental program manuals occurred on September 23<sup>rd</sup> and September 30<sup>th</sup>, 2013 respectively. Loans under each program will be risk-rated forgivable.

*Splinter Parcels*

Credit committee review is not required for this action, as no financing will be provided by the HRA.

### **Compliance**

*RFP for obligated properties and cluster properties*

Applicable compliance requirements for RFP properties include:

- Vendor Outreach
- Section 3
- Affirmative Action
- Saint Paul/HRA Sustainability Initiative
- HRA Two-Bid Policy

Compliance requirements are included in the RFP and will also be the subject of a training to be held in October 2013.

#### *Splinter Parcels*

Because splinter parcels will be sold for a nominal fee with no financing and improvements are not a condition of sale, there are not compliance requirements.

#### **Green/Sustainable Development**

##### *RFP for obligated properties and cluster properties*

The project will comply with the Saint Paul/HRA Sustainability Initiative.

In addition, all homes in the Inspiring Communities program will be required to certify through Enterprise or Minnesota Green Communities, as addressed earlier in this Board report.

#### *Splinter Parcels*

Because splinter parcels will be sold for a nominal fee with no financing for improvements, there are no sustainability requirements.

#### **Environmental Impact Disclosure**

A Tier 1 environmental impact study was conducted for the target area of NSP 1, 2, and 3, which encompasses the area of all Inspiring Communities program activities.

#### **Historic Preservation**

A 106 review is conducted at the time of acquisition for all HRA properties.

#### **Public Purpose/Comprehensive Plan Conformance**



Please see *Public Purpose Form*, attached as **Attachment G**. **Attachment H** includes a list of comprehensive and neighborhood plan documents that the proposed actions fulfill.

The Disposition Strategy has been presented to the planning councils most affected by the disposition strategy - the District 5 CPED and Railroad Island committees, District 4 board, and District 7 board - and received their support.

**Recommendation:**

The Executive Director recommends approval of this board action.

**Sponsored by:** Commissioner Lantry

**Staff:** Roxanne Young, 651-266-6581

**Attachments**

- **Attachment A -- Resolution**
- **Attachment B – Design Standards**
- **Attachment C— RFP Scoring Criteria, Property List, Map**
- **Attachment D – Pre-RFP Property List and Map**
- **Attachment E – Splinter Parcel Policy and Procedures**
- **Attachment F – District Council Census Facts**
- **Attachment G – Public Purpose Form**
- **Attachment H – Comprehensive Plan Applicability**