

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

REPORT TO THE COMMISSIONERS

DATE: MARCH 9, 2011

REGARDING: AUTHORIZATION TO ENTER INTO A DEVELOPMENT AGREEMENT, OBLIGATE NSP FUNDS AND APPROVE SALE AND CONVEYANCE OF LAND TO BB HOUSING ASSOCIATES, LLC FOR PROPERTIES LOCATED WITHIN ISP/NSP NEIGHBORHOODS IDENTIFIED AS:

- 1. 402 HOPE STREET, DAYTON'S BLUFF DISTRICT 4**
- 2. 947 MINNEHAHA AVENUE, DAYTON'S BLUFF DISTRICT 4**
- 3. 500 HOPKINS STREET, PAYNE-PHALEN DISTRICT 5**
- 4. 765 EDGERTON STREET, PAYNE-PHALEN DISTRICT 5**
- 5. 599 REANEY AVENUE, PAYNE-PHALEN DISTRICT 5**

Requested Board Action

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

1. Authorization to enter into a Development Agreement with BB Housing Associates, LLC, a limited liability company for the sale and rehabilitation of five (5) duplexes located at 402 Hope Street and 947 Minnehaha Avenue in Dayton's Bluff District 4; and 500 Hopkins Street, 765 Edgerton Street and 599 Reaney Avenue in Payne-Phalen District 5 under the Neighborhood Stabilization Program.
2. Authorization to designate \$1,150,000 of Neighborhood Stabilization Funds (NSP) for the rehabilitation of five (5) duplex structures providing 11 units of housing.

Background

The HRA/City has received \$28.0 million in NSP funding. All NSP 1 funds (\$10.6 million) had to be either expended or obligated by September 13, 2010. The NSP 2 funds (\$18.03 million) have to be half spent by February 20, 2012, and all NSP 1 and 2 funds have to be expended by February, 2013. Of this NSP amount, \$7.3 million needs to be spent on housing units at or below 50% of the area median income. Discussions were held at previous community meetings concerning the need to meet the 50% affordability requirement. It was agreed upon that the best way to meet this requirement was with rental housing and some ownership housing undertaken by Habitat for Humanity. In respect to the rental housing, only true duplexes, threeplexes and fourplexes are to be considered to meet the affordability requirement. The neighborhoods

wanted single family houses to be used exclusively for homeownership and that Habitat would assist with some ownership

In addition to meeting the NSP expenditure of funds timeline, staff is also trying to insure all ISP properties that HRA recommended for acquisition use NSP funds where possible to insure sufficient ISP funding for the properties that are not located in NSP areas. Two (2) of the properties (765 Edgerton and 402 Hope) are properties that have historic significance, both registered as Category 3 vacant buildings, were donated to the HRA by banks through the legislative hearing process to insure they were saved. They are both foreclosed properties and located in NSP qualified areas and require substantial amounts of rehabilitation due to their size and condition.

BB Housing Associates, LLC submitted a proposal for the development of five (5) duplexes in December, 2010. On December 23, 2010, staff posted an Early Notification on the proposal requesting that if there were any other interested parties please submit a proposal by February 13, 2011. No other proposals were submitted.

BB Housing Associates, LLC presented their proposal for rehabilitating 402 Hope and 947 E. Minnehaha Avenue to the District 4 Vacant Land Use Committee on January 27, 2011. The committee recommended moving forward with their development. BB Housing also presented their proposal for the properties at 500 Hopkins Street, 765 Edgerton Street and 599 Reaney Avenue to both the District 5 Planning Council on February 1, and the Railroad Island Task Force on February 17. Both organizations recommended moving forward with their proposal.

- All District 4 and District 5 properties are zoned for the use intended.
- Parks and schools location related to development (see **Attachment C**)
- Wilder planning district demographic profile is attached (see **Attachment G**)
- Acquisition of 402 Hope and 765 Edgerton were done under ISP donation.
- Acquisition of 500 Hopkins, 947 Minnehaha E. and 599 Reaney were done under NSP.
- Properties were all foreclosed and vacant.

Budget Action

Staff is requesting the Board to obligate \$1,150,000 towards the development of 4 duplexes and 1 triplex. These structures had previously been used to provide 16 units. That number is now being reduced to 11 units with all structures except for 765 Edgerton going back to original duplex use and 765 Edgerton from 5 units to a triplex, which has been approved by the community. There will be 1-2br., 7-3brs., 2-4brs. and 1-5br. units when the buildings are completed (see **Attachment B - Background** for further description). The cost of rehabilitation reflects bringing the properties into compliance regarding the proper unit count, size and condition of the buildings. The neighborhood groups feel that the rehabilitation of the structures preserve neighborhood character and stability and provide varied housing options for residents. See **Attachment D – Project Summary** for breakdown of costs.

Future Action

No future action will be required. Once the HRA takes action allowing the sale of the property, staff will proceed to work with BB Housing Associates to complete all requirements as outlined in the Development Agreement and move forward to a closing.

Financing Structure

HRA received title to 765 Edgerton for \$1.00 as a donation from Bank of America; and 402 Hope Street for \$1.00 from MTGLQ Investors, LP. Both properties were listed as registered vacant buildings, Category 3. Both were identified as having historic significance and 402 Hope is located in the Lower Dayton's Bluff Historic District. The property at 500 Hopkins was purchased for \$16,356 which was 37% below appraised value from GMAC Mortgage. Property at 599 Reaney was purchased for \$25,740 which was discounted by the required 1% under NSP from Federal National Mortgage. The property at 947 East Minnehaha was purchased under NSP 2 for \$82,450 which was discounted 11% from its appraised value from HSBC Bank. The total acquisition costs of all 5 properties are \$124,548.

Acquisition Costs	\$ 124,548.00
Estimated Development Costs	<u>1,150,000.00</u>
Total Development Costs	\$ 1,274,548.00
Estimated after rehab value	<u>-820,000.00</u>
Gap Assistance	\$ 454,548.00

Financing would be structured to require that the gap assistance be set-up as a deferred loan with no interest accruing for the length of the NSP affordability period (15 years) and then forgiven as long as the property is well managed/maintained. The project cash flow is based on all units being affordable at or below 50% of the area median income for a period of 15 years as required by the NSP funding. Estimated gross income is approximately \$100,388.00 yearly with expenses estimated at \$80,860.00 leaving an NOI of \$19,528.00 to cover debt service. The cash flow projections are also affected by rents being maintained at or below 50% of the area median income and scattered site rental is more costly to maintain. The cash flow can provide for a payment covering 36% of the estimated fair market value (\$300,000) at 4.5% interest over 30 years. Payment each year would be \$18,572.52. Under this scenario the debt ratio is 1.15. HRA will evaluate year end cash-flow statements and if the debt ratio coverage is more than 1.15 the surplus cash will be paid to the HRA and applied against the loan principal. At the end of the 15 year affordability period, the property can be refinanced and HRA is to receive 50% of the appraised value. If the owner decides to sell before the 15 year affordability period is met HRA will receive 75% of the appraised value and the affordability requirements continue to remain on the property to complete the 15 year NSP requirement. Based on this scenario it is highly probable that HRA could recover the full \$820,000 plus interest.

PED Credit Committee Review

PED Credit Committee will establish the risk rating based on these terms.

Compliance

This development is complying with the following requirements:

1. Affirmation Action/Equal Employment Opportunity
2. Vendor Outreach
3. Section 3
4. Limited English Proficiency
5. NSP Affordability Covenants
6. Fair Housing Opportunities
7. Two Bid Policy

The 3 properties just completed in North End District 6, by BB Housing achieved all of the requirements under Vendor Outreach and Section 3.

Green/Sustainable Development

The project will comply with the Interim Saint Paul/HRA Sustainability Initiative. The project also needs to meet the following NSP requirements:

1. Minnesota Green Standards for Rehab (as required by MHFA NSP funds received)
2. HUD Healthy Home Requirements (Lead Paint)
3. State requirement for asbestos removal where applicable.
4. All local and State building codes together with HRA's NSP guiding principle adopted February 24, 2009: "provide healthy, affordable and quality housing, improving the housing stock above minimum standards by addressing lead, mold, radon, energy efficiency and curb appeal elements."

Environmental Impact Disclosure

For the existing NSP program, the Tier 1 environmental review determined that all activities were either exempt or categorically excluded.

Historic Preservation

Each individual project, identified by the address of the property that was acquired, was subject to a Tier 2 environmental review, which included consultation with the State Historic Preservation Office. All properties have received the appropriate sign-offs. The donated property at 402 Hope Street is located in the Lower Dayton's Bluff Historic District and final Scope of Work will need to be reviewed through the HPC office.

Public Purpose

This action supports all three strategies of the Housing Chapter of the City's Comprehensive Plan: 1) Build on Saint Paul's strengths in the evolving metropolitan housing market; 2) Preserve and promote established neighborhoods; and 3) Ensure the available of quality and affordable housing across the City.

The development also supports the goal of the ISP/NSP Program and Plan to strategically channel resources into neighborhoods being challenged by recent economic and social downturns and persistent disinvestment including: 1) creating working partnerships among private developers, CDCs, District Councils and neighborhood residents; 2) bring together resources, time, talent and funding in neighborhoods poised to prosper after a prolonged period of disinvestment; 3) reduce the number of vacant houses; 4) rehabilitate or address housing units to strengthen the housing stock; 5) improve stability and quality of life in neighborhoods; 6) build on strengths in St. Paul's neighborhoods.

Statement of Chairman (for Public Hearing)

"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 certain Parcels of land located in Dayton's Bluff District 4 and Payne-Phalen District 5 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, February 26, 2011. 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 properties in the Dayton's Bluff District 4 area:

Property Description	Purchaser/Developer	Purchase Price
402 Hope Street	BB Housing Associates, LLC, a Minnesota limited liability company	\$1.00

The property will be conveyed for the purpose of rehabilitating the existing vacant four-unit building and converting it back to its original duplex use providing 2-3br. units.

Property Description	Purchaser/Developer	Purchase Price
947 Minnehaha Avenue E	BB Housing Associates, LLC, a Minnesota limited liability company	\$82,450.00

The property will be conveyed for the purpose of rehabilitating the existing vacant three-unit building and converting it back to its original duplex use providing 1-2br. unit and 1-5br. unit.

The HRA proposes to convey the following properties in the Payne-Phalen District 5, Railroad Island area:

Property Description	Purchaser/Developer	Purchase Price
500 Hopkins Street	BB Housing Associates, LLC, a Minnesota limited liability company	\$16,356.00

The property will be conveyed for the purpose of rehabilitating the existing vacant three-unit building and converting it back to its original duplex use providing 2-3br. units.

Property Description	Purchaser/Developer	Purchase Price
765 Edgerton Street	BB Housing Associates, LLC, a Minnesota limited liability company	\$1.00

The property will be conveyed for the purpose of rehabilitating the existing vacant five unit building and converting to a lower density three-unit providing 1-3br and 2-4br units.

Property Description	Purchaser/Developer	Purchase Price
599 Reaney Avenue	BB Housing Associates, LLC, a Minnesota limited liability company	\$25,740.00

The property will be conveyed for the purpose of rehabilitating the existing vacant three-unit building and converting it back to its original duplex use providing 2-3br units.

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 and staff recommend approval of sale in accordance with the attached resolution.

Sponsored by: Commissioner Lantry

Commissioner Thune

Staff: Sheri Pemberton-Hoiby (651-266-6615)

Attachments

- **Attachment A -- Resolution**
- **Attachment B -- Background Attachment**
- **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**