

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

REPORT TO THE COMMISSIONERS

DATE: January 22, 2014

REGARDING: APPROVAL OF THE SALE AND CONVEYANCE OF EIGHT PROPERTIES TO WEST 7TH/FORT ROAD FEDERATION, AUTHORIZATION TO ENTER INTO A DEVELOPMENT AGREEMENT, AND AUTHORIZATION OF EXPENDITURES, WARD 2 DISTRICT 9.

Requested Board Action

Approval of the sale and conveyance of eight properties owned by the Housing and Redevelopment Authority of Saint Paul (“HRA”) to the West 7th/Fort Road Federation (the “Federation”) at a discounted price of \$1 each, authorization to enter into a development agreement with the Federation, and authorization to expend \$552,529 under the Disposition Work Plan and Budget (“DWPB”) to supplement the land-cost write down and previously-approved ISP funding.

The eight properties are as follows:

29 Douglas Street and 267 Forbes Avenue (combined), a vacant house on combined lots
280 Forbes Avenue, a vacant house
284 Forbes Avenue, a vacant house
286 Forbes Avenue, a vacant house
288 Forbes Avenue, a vacant house
326 Harrison Avenue, a vacant house
457 Smith Avenue North, a vacant house
301 Sturgis Street, a vacant house

Background

In 2007 the HRA Board approved a work plan and budget for the Invest Saint Paul Initiative (“ISP”). The ISP plan identified the Little Bohemia neighborhood (formerly referred to as the “Smith Street Redevelopment Area”) as a priority target area for investment. In 2008 and 2009, building upon the ISP work underway, the HRA Board approved Neighborhood Stabilization Program (“NSP”) work plans which also designated this area as a continued priority. Since

2007, the HRA has purchased 24 vacant properties in this area and has been actively engaged in rehabilitation and reuse efforts. To date, four houses have been extensively rehabilitated and are now owner-occupied. Additionally, some demolition has occurred, two adjacent lots have been combined to create a larger redevelopment opportunity, and one lot has been sold to an adjacent property owner for side-yard expansion. The Federation has been intimately involved throughout this entire process, carrying out tasks such as identifying properties for acquisition, assessing building conditions, and scope writing and construction management for the four rehabs. The Federation has also worked closely with residents, particularly the newly formed Little Bohemia Neighborhood Association, to assure ongoing community input. Additionally, the Federation arranged for the donation of a house and its relocation to an HRA lot. (In 2010 and 2011, the Federation undertook a significant effort to negotiate the donation by Kraus-Anderson (“KA”) of a large, two-story brick house (“the Thauwald House”) which was located at 384 Smith Avenue N. KA purchased the house with the intent to demolish it to create a larger development parcel. Instead of demolishing the house, KA donated the house to the Federation; in June of 2012 it was moved to an HRA-owned lot at 29 Douglas Street. This lot was combined with 267 Forbes Avenue).

Proposed HRA Action

In July, 2013, HRA staff received a proposal from the Federation regarding eight HRA-owned properties. The Federation proposes to purchase these eight houses from the HRA, rehabilitate each of them, and sell the homes for owner-occupancy. The Federation is requesting that the HRA write down the acquisition price to \$1 for each house, and provide \$890,529 in value gap subsidy. The Federation is committing to a 13-month timeframe for completion of the project.

HRA staff has analyzed the Federation’s proposal and has determined that it is a reasonable plan. There is significant neighborhood support for the proposal, the Federation has a proven track record of success with similar projects (Brewery Neighborhood, for example), and they have received a commitment for construction financing from a private source. The proposed rehabilitation costs, soft costs, and developer fees are in line with similar projects elsewhere in the City, and the projected sale prices are reasonable.

The value of the write-down of the acquisition costs of the eight properties (actually nine, but two have now been combined) is \$516,500, the total of the HRA's acquisition and demolition costs, house move and foundation construction related to the house move; details on this house move/foundation are noted below. (This does not include HRA's holding costs). Thus, the Federation's total subsidy request is $\$516,500 + \$890,529 = \$1,407,029$. (Staff analyzed the Thauwald house separately because of its extraordinary circumstances. HRA investment to-date for acquisition of the two properties, demolition of two houses, the house move and construction of a new foundation is \$242,200. In addition to the write-down of these costs, the Federation is requesting an additional value gap subsidy of \$106,017 for a total subsidy need of \$348,217 of this particular house.)

Regarding the other seven houses, HRA investment to-date for acquisition is \$274,300. In addition to the write-down of these costs, the Federation is requesting an additional value gap subsidy of \$784,512 for a total subsidy need of \$1,058,812. Across the seven houses, this is an average per-house total subsidy request of \$151,259.

The HRA has previously approved various amounts of ISP funds which have been used to carry out the aforementioned activities. Presently, the approved ISP budgeted account "Smith Street Development" (see HRA Resolution 10-5/26-2, and subsequent program income reinvestment approvals) has a cash balance of approximately \$338,000. The Federation's proposal is consistent with the intended use of these funds. Thus, these funds can be used as one source to cover the requested subsidy.

On July 24, 2013, by Resolution 13-1097, the HRA Board approved the Disposition Workplan and Budget ("DWPB"). That resolution required staff to return to the HRA Board for approval of expenditures out of the DWPB. Rehabilitation and redevelopment activity in the Little Bohemia neighborhood was acknowledged as part of the overall DWPB spending plan. It should also be noted that on October 9, 2013, by Resolution 13-1592, as part of the action approving release of the Inspiring Communities Request for Proposals, the HRA Board exempted certain properties from the RFP process, specifically, properties that staff began developer negotiations with prior to July 24, 2013. The eight properties identified in today's Resolution were part of that exemption list.

Budget Action

No budget action is required. The Federation's subsidy need can be funded via land-cost write-down, and a cash contribution from the HRA of the remaining \$338,000 from the ISP Smith Street Redevelopment account and \$552,529 from the DWPB account. Spending from the Smith Street Redevelopment account is already authorized by Resolution 10-5/26-2. A budget for the DWPB activities was established by Resolution 13-1097. Spending authorization is required per Resolution 13-1097 for all proposed DWPB expenditures.

Future Action

No future action will be required. Once the HRA takes action approving the sale of the property, staff will proceed to execute a development agreement and convey the property.

Financing Structure

The Federation has secured private construction financing. The Federation will acquire the eight properties from the HRA in three phases. The HRA cash subsidy will be provided as a forgivable loan secured via a mortgage on each property. Forgiveness of the loan and satisfaction of the mortgages will be upon completion and occupancy of each home.

PED Credit Committee Review

This deal will closely follow the terms outlined in the Homeownership Program Manual, which was reviewed and approved by the Credit Committee on September 23, 2013. Any deviances from those terms will be approved by Credit Committee.

Compliance

This project will comply with all applicable requirements, which may include the following:

1. Affirmative 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

Green/Sustainable Development

All eight rehabs will be in compliance with the approved Inspiring Communities Design Criteria, which meets both the Saint Paul Sustainable Development Policy and the Saint Paul/HRA Sustainability Initiative. All projects will meet the Home Performance for ENERGY STAR or ENERGY STAR for New Homes standards, and be certified by Enterprise Green Communities.

Environmental Impact Disclosure

The Tier 1 environmental review determined that all activities were either exempt or categorically excluded.

Historic Preservation

N/A

Public Purpose/Comprehensive Plan Conformance

Please see Attachment E -- Public Purpose Form.

Generally, the primary public benefits include rehabilitation of vacant structures, increasing the tax base, creation of affordable housing, and improved public safety.

The Housing section of the Saint Paul Comprehensive Plan includes the following:

- Strategy 2: Preserve and Promote Established Neighborhoods. 2.13 Continue to assess vacant housing conditions with City/HRA partners such as community development corporations, nonprofit organizations, private developers, district councils, and block groups and prioritize City/HRA revitalization assistance to areas with less vibrant housing markets.

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 certain Parcels of land located in West Seventh District 9 by the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota.

Notice of time, place, and purpose of this hearing was published in the Saint Paul Pioneer Press on Saturday, January 11, 2014. 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 to the West 7th/Fort Road Federation:

Property Description, Purchase Price

29 Douglas Street and 267 Forbes Avenue (combined), a vacant house on combined lots, \$1

280 Forbes Avenue, a vacant house, \$1

284 Forbes Avenue, a vacant house, \$1

286 Forbes Avenue, a vacant house, \$1

288 Forbes Avenue, a vacant house, \$1

326 Harrison Avenue, a vacant house, \$1

457 Smith Avenue North, a vacant house, \$1

301 Sturgis Street, a vacant house, \$1

The above property will be conveyed for the purpose of redevelopment and sale at fair market value for the purpose of homeownership.

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 sales, entrance into a development agreement and the associated expenditure authorization in accordance with the attached resolution.

Sponsored by:

Commissioner Dave Thune

Staff:

Joe Musolf 266-6594

Attachments

- **Attachment A -- Resolution**
- **Attachment B -- Sources and Uses Summary Form**
- **Attachment C -- Public Purpose Form**
- **Attachment D -- Map**
- **Attachment E -- Census Facts**