

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

**REPORT TO THE COMMISSIONERS**

**DATE: January 28, 2015**

**REGARDING: RESOLUTION APPROVING AND AUTHORIZING  
EXECUTION OF AGREEMENT FOR TRANSFER OF DEBT  
IN CONNECTION WITH PHASE V OF AMES LAKE  
DEVELOPMENT, DISTRICT 2, WARD 6**

**Requested Board Action**

The specific action being requested of the HRA Board is as follows:

Approving and authorizing the execution of an Agreement for the transfer of debt in connection with Phase V of Ames Lake housing development.

**Background**

In the early 1960's, thirty-four walk-up apartments comprised of 12 units each, were developed for singles and small families. In 2001 the need for small starter apartments had lessened, and the need for long-term, affordable units for larger families had grown. The Ames Lake Neighborhood project, formerly referred to as the Superblock, was developed as a single project, under a single ownership, without the usual cross streets that we now know give identity and security to a neighborhood. Over 40 years, the ownership of the project was divided, management and maintenance deteriorated, crime increased, many buildings were severely overcrowded, and low-income families, including many immigrants, found themselves living in what had become housing-of-the-last resort. The result was that the Ames Lake Neighborhood project had become a blighted housing project, physically isolated from the surrounding neighborhood, and socially isolated from the larger Saint Paul community.

**Community Participation**

The City has been unable to get the separate owners, with widely different capacities, to address these problems on their own in a coordinated and effective manner. In early 2000, the Director

of the HRA met with the President of the Wilder Foundation and the Executive Director of the Public Housing Agency to explore a coordinated redevelopment of the Superblock. The result has been to convene the *Superblock Strategic Planning Group*, with representatives from key public agencies, community organizations, foundations, and elected officials. This group met periodically to guide the redevelopment of the Superblock and to generate the community and political support necessary to implement a complex undertaking. To address the potential controversy over the need to dramatically reconfigure the project, the *Superblock Strategic Planning Group* agreed that selective demolition may be necessary to reduce overcrowding and improve circulation and safety, but that there will be no net loss of housing in Saint Paul, including affordable housing.

In 2001, a group of elected officials, housing agencies, non-profits, community groups, Real Estate Equities (REE) and the City of Saint Paul developed a *Master Plan* for the Ames Lake Neighborhood. The key elements of the redevelopment strategy included: improve livability, increase housing diversity, increase green space, improve connectivity, evoke a sense of place, foster public safety, maximize value, and maintain and build neighborhood integrity.

This was accomplished by breaking up the neighborhood into four phases that included:

- demolishing 7 buildings,
- substantially rehabilitating 297 units and converting some 1-bedroom units into 3 and 4-bedroom units
- newly constructing eleven 2, 3, and 4-bedroom town homes,
- landscaped open space, walkways and playground space,
- new road to connect three dead-end cul-de-sacs, and
- constructing a new community center and gathering place.

## **Project Details**

Ames Lake Neighborhood covers four city blocks originally consisting of 34, two and a half story walk up style apartments consisting of 408 one and two bedroom units on the East side of

Saint Paul. The Ames Lake Neighborhood suffered from mismanagement, physical deterioration, overcrowding, and a high level of police calls. In 2001, the Twin Cities rental market was experiencing an extremely low vacancy rate and speculative buying and selling of the buildings has resulted in increasing rents and rising sale prices. The HRA's key redevelopment strategy was to achieve the goal of single ownership and management of the Ames Lake Neighborhood. With encouragement from HRA staff, REE secured options on all of the 34 buildings.

The *Master Plan* was conducted in phases from 2002 through 2006 and resulted in the breaking up the isolated "Superblock" into four separate neighborhoods and reconnecting it to the surrounding community, rehabilitating the blighted and overcrowded buildings, and providing social services to reduce tenant mobility.

### **Current Request**

Four apartment buildings totaling 48 units adjacent to Ames Lake Phase I were a part of the original *Master Plan* vision, but REE was unable to secure site control in 2006. Over the years the building continued to flip to the next undercapitalized buyer(s) who did not operate the buildings to the standards and systems to screen and control their residents. At the urging of the neighborhood, REE has now secured purchase agreements on all four buildings. Lack of security, mismanagement, and a high level of police calls have caused safety issues for the surrounding neighbors. REE has agreed to purchase the buildings, address the security issues and develop a Plan to rehabilitate the 4 buildings without new financial resources from the HRA/City. Instead of cash support to complete this plan, staff and REE has come to an agreement on the transfer of a portion of the existing HRA debt on the three of the four phases of Ames Lake in exchange for certain conditions which are detailed below.

1. Loans to be Retained by HRA/City

- A. The City of Saint Paul STAR loan in the original amount of \$500,000 on Phase I of Ames Lake ("Phase I STAR Loan"), and the HRA CDBG loan in the original amount of \$750,000 on Phase III of Ames Lake ("Phase III CDBG Loan"), will be retained by the City and HRA, respectively, and will not be transferred to REE.

- B. The same amount of interest accrual on the \$1,025,162.06 loan on Phase I will accrue to the Phase III CDBG Loan, and to accomplish this, the Phase III CDBG Loan will be amended to provide for payment of interest at the rate of 1.367% per annum, with interest payable yearly beginning on August 1, 2015 and continuing each year thereafter until December 1, 2035, at which time the entire principal and accrued interest on the Phase III CDBG Loan shall be due and payable to the HRA. The yearly interest amount will be \$10,252.50.
2. Loans to be Transferred to REE. The three deferred CDBG loans in the original amounts of \$1,025,162.06 (“Phase I CDBG Loan”), \$865,000 (“Phase II CDBG Loan”), and \$2,861,200 (“Phase IV CDBG Loan” ), in the aggregate amount of \$4,751,362.06, will be transferred to REE (or an affiliate) in 2 steps on the terms as described in conditions below. In addition, the debt transfers shall be without warranty by or recourse to the HRA.

3. **Step 1**

The Step 1 Assignment together with the original note evidencing the current balance of \$2,861,200 will be placed in an escrow account with a title company mutually agreed to by the parties, and only released to REE on satisfaction of the conditions as described below (a-j). The Step 1 Assignment and original note will be returned to the HRA if all of the conditions for delivery to REE as set forth in the escrow agreement are not fully and timely satisfied.

Conditions for Step 1 debt transfer:

- a. REE acquires the four building (48 units) apartment complex located at 1178 Barclay and 1495-1511 Rose, in St. Paul (“New Rose Apartments”) without requiring funding from HRA/City.
- b. Immediately following closing of the New Rose Apartments, REE agrees to commence and continually repair, maintain and manage the New Rose Apartments as follows: to meet and comply with all city housing codes; to

add a controlled entry system to allow residents to limit access to their buildings; to add or repair such other life safety and cosmetic changes as REE and its lenders and insurers may require; and to provide resident access to Ames Lake community amenities and programs.

- c. REE will collaborate with HRA to create and agree upon a plan for additional desired capital improvements (“Plan”) to the current Ames Lake buildings and/or New Rose Apartments, which will be submitted to funders (other than HRA or City of Saint Paul) for support on or before 12/31/2015. No additional funding will be provided by the HRA or City. If not fully funded by 12/31/2015, REE agrees to use commercially reasonable efforts to continue to request Plan funding through 12/31/2019. The Plan shall contain capital improvements with a cost of at least \$2,004,200.
- d. REE agrees to include and manage the New Rose Apartments within the current Ames Lake neighborhood properties in accordance with the industry’s best practices; applying the same screening and security personnel oversight. Through 12/31/2019, the four existing Ames Lake projects and the New Rose Apartments will continue to be owned and held under affiliated ownership with a single property manager, REE, or other property manager acceptable to the HRA.
- e. The condition of the New Rose Apartments will at all times comply with all city housing codes.
- f. At least \$500,000 (which can be a part of the minimum amount of \$2,004,200 of the Plan) of REE’s equity and/or borrowed funds will be spent on New Rose Apartments as capital improvements, and not as maintenance expenses.
- g. REE shall make monthly reports to the HRA on its efforts to obtaining funding for and implementing the Plan.
- h. REE executes and has recorded against the New Rose Apartments a Declaration of Restrictions (in the form of Attachment E to this

Agreement) so that the New Rose Apartments can only be sold as a single property unit.

- i. In addition, following the recording of the Declaration of Restrictions described in above, REE must also obtain the consent of the HRA to the proposed new owner, which consent cannot be unreasonably withheld, denied or delayed. The criteria the HRA will be considering in evaluating the proposed new owner includes the buyer's credit worthiness, prior experience in owning and managing similar types and sizes of apartment buildings, track record of success in its projects, and staff available to effectively manage and operate these buildings.
- j. REE executes and has recorded a subordination, whereby the Phase IV CDBG Loan is subordinated to the Declaration of Low Income Housing Tax Credits, and the Declaration of Restrictions which limits the sale of Phase IV buildings to a single property unit. REE agrees not to foreclose on the Phase IV CDBG Loan mortgage ("Phase IV Mortgage") as long as the mortgages of Minnesota Housing Finance Agency and Family Housing Fund remain outstanding.
- k. Provided that REE has satisfied all of the conditions described in sections 3 (a-j) above, then the Step 1 Assignment and original Phase IV note will be delivered to REE on the earlier of 12/31/2019 or the date the Plan has been fully funded and implemented.

#### **4. Step 2**

The HRA will execute and deliver to REE an assignment of the Phase I CDBG Loan and Phase II CDBG Loan, in the aggregate amount of \$1,890,162.06 ("Step 2 Assignment") upon the timely and full satisfaction of the conditions described in sections 4 (a-h ) below. The form of the Step 2 Assignment is set forth in Attachment G to this Agreement. If all the Step 2 conditions are not timely and fully satisfied, then no transfer of the Phase I CDBG Loan and Phase II CDBG Loan shall be made by the HRA to REE.

Conditions for Step 2 debt transfer:

- a. The conditions of sections 3 (a-j) have been fully and timely satisfied.
- b. REE is not in default under any of its obligations stated in this Agreement.
- c. An annual inspection of the Phase I, II, III, IV and V buildings will be made by HRA staff, any deficiencies will be noted to REE, and REE will cure any defects within thirty (30) days.
- d. A Land Use Restrictive Agreement (LURA) will be executed and recorded on the New Rose Apartments for the period ending in 2050.
- e. REE shall obtain from the lender(s) for the acquisition or refinancing of the New Rose Apartments its consent to the LURA described in section 4(d) above.
- f. REE executes and has recorded a subordination, whereby the Phase I CDBG Loan and Phase II CDBG Loan are subordinated to the Declaration of Low Income Housing Tax Credits, and the Declaration of Restrictions which limits the sale of Phase I buildings to a single property unit, and Phase II buildings to a single property unit. REE agrees not to foreclose on the Phase I or Phase II CDBG Loan mortgages ("Phase I and II Mortgages") as long as the mortgages of Minnesota Housing Finance Agency and Family Housing Fund and Phase I STAR Loan remain outstanding.
- g. Each of the partnerships that own the Phase I-IV Ames Lake Neighborhood properties shall enter into an amendment extending the period for compliance of Section 42 income and rental restrictions for an additional deferred 17 year period until 2050.
- h. The Plan has been fully funded and implemented by 12/31/2020.

**Budget Action**

No impact on the budget

**Future Action**

Not Applicable

## Current Financing Structure on Ames Lake Phases I - IV

Sources of Loans						
Project	Lender	Original Amount	Date	Interest Rate	Maturity Date	Loan Balance
Rose Hill (Phalen I)	US Bank	\$ 2,650,000	11/6/2002	7.25%	11/6/2018	\$ 2,288,133
Rose Hill (Phalen I)	HRA-CDBG	\$ 1,175,000	6/26/2002	1.00%	8/1/2033	\$ 1,025,162
Rose Hill (Phalen I)	MHFA	\$ 850,641	6/26/2002	0.00%	11/18/2033	\$ 850,641
Rose Hill (Phalen I)	FHF	\$ 300,000	6/26/2002	1.00%	8/1/2033	\$ 300,000
Rose Hill (Phalen I)	STAR Loan (ST. Pau	\$ 500,000	6/26/2002	1.00%	8/1/2033	\$ 500,000
Barclay Terrace (Phalen II)	US Bank	\$ 2,400,000	11/21/2003	7.41%	5/21/2020	\$ 2,141,388
Barclay Terrace (Phalen II)	HRA-CDBG	\$ 865,000	11/21/2003	0.00%	1/1/2035	\$ 865,000
Barclay Terrace (Phalen II)	FHF	\$ 200,000	11/21/2003	1.00%	1/1/2035	\$ 200,000
Barclay Terrace (Phalen II)	MHFA	\$ 1,747,717	11/21/2003	0.00%	1/1/2035	\$ 1,747,717
Ames Green (Phalen III)	US Bank	\$ 1,200,000	2/2/2004	6.97%	7/1/2021	\$ 1,085,768
Ames Green (Phalen III)	MHFA	\$ 1,450,000	11/29/2004	0.00%	12/1/2034	\$ 1,450,000
Ames Green (Phalen III)	HRA-CDBG	\$ 750,000	12/2/2004	0.00%	12/1/2035	\$ 750,000
Ames Green (Phalen III)	FHF	\$ 300,000	5/13/2005	0.00%	1/1/1935	\$ 300,000
Ames Green (Phalen III)	MHFA	\$ 140,000	11/29/2005	0.00%	12/1/2034	\$ 140,000
Halzelwood (Phalen IV)	US Bank	\$ 2,100,000	8/24/2005	6.42%	8/1/2022	\$ 1,923,362
Halzelwood (Phalen IV)	HRA-CDBG	\$ 2,861,200	12/2/2004	0.00%	12/31/2036	\$ 2,861,200
Halzelwood (Phalen IV)	FHF	\$ 250,000	6/9/2006	0.00%	12/31/2036	\$ 250,000
Halzelwood (Phalen IV)	MHFA	\$ 750,000	10/5/2006	0.00%	10/5/2036	\$ 750,000
<b>Total</b>						<b>\$ 19,428,371</b>

Ames Lake Loans Priority												
Addresses	Valuation*	1st Mortgage		2nd Mortgage		3rd Mortgage		4th Mortgage		Transferable HRA/CDBG	Amount to be transferred on Step 1	Amount to be transferred on Step 2
		Lender	Amount	Lender	Amount	Lender	Amount	Lender	Amount			
1510 Rose Phase I	\$ 4,638,800	US Bank	\$2,288,133	HRA***	\$ 1,525,193	MHFA**	\$ 850,641	FHF	\$ 300,000	\$ 1,025,162	\$ -	\$ 1,025,162
1088 Barclay Phase II	\$ 4,792,800	US Bank	\$2,141,388	HRA	\$ 865,000	MHFA**	\$ 1,747,717	FHF	\$ 200,000	\$ 865,000	\$ -	\$ 865,000
1112 Barclay Phase III	\$ 3,671,600	US Bank	\$1,085,768	MHFA**	\$1,590,000	HRA	\$ 750,000	FHF	\$ 300,000	\$ -	\$ -	\$ -
1515 Magnolia Phase IV	\$ 6,018,500	US Bank	\$1,923,362	HRA	\$2,861,200	MHFA	\$ 750,000	FHF	\$ 250,000	\$ 2,861,200	\$2,861,200	\$ -
<b>Total</b>	<b>\$ 19,121,700</b>									<b>\$ 4,751,362</b>	<b>\$ 2,861,200</b>	<b>\$ 1,890,162</b>

\*Source: Ramsey County \*\*Includes different funding sources (Challenge Loan and MARIF) \*\*\*HRA (Phase I) includes a \$500,000 STAR loan and \$175,000 from HRA internal 117 funds

## PED Credit Committee Review

PED Credit Committee approved the transaction with the following conditions:

- Step 1, as listed in the report, for the assignment of \$2,861,200 to REE, with the following adjustments: the \$500,000 in capital expenditures has to be spent within the five years for the transfer to occur; and a plan to include at least \$1,504,200 in additional capital improvements needs to be submitted for approval. The \$2,861,200 will be transferred at the end of 5 years or earlier if the conditions have been satisfied (earlier if the Plan is funded and implemented).



- Step 2, as listed in the report, for the assignment of the remaining \$1,890,193, with the following adjustments: the minimum Plan has to be implemented (as opposed to good faith efforts to receive funding)
- Additional requirements:
  - HRA needs to maintain in 1<sup>st</sup> position on Declaration of Covenants
  - Any new lender is subject to Declaration of Covenants and the LURA
  - Require that all transferred mortgages are subordinate to the Declaration of Covenants and the LURA
  - Require that the transferred mortgages are subordinated to MHFA mortgages

**Following the Credit Committee recommendations:**

The following changes were made to the initial agreement:

- \$500,000 in capital expenditures has to be spent within the first five years for the transfer to occur; and a plan to include at least \$2,004,200 in additional capital improvements needs to be submitted for approval. The \$2,861,200 will be transferred at the end of 5 years or earlier if the conditions listed on Step 1 above have been satisfied (earlier if the Plan is funded and implemented).
- For the assignment of the remaining \$1,890,193, the minimum Plan has to be implemented (as opposed to good faith efforts to receive funding) along with the conditions listed on Step 2 above
- CDBG loans to be transferred will be subordinate to LURA and Declaration of covenants on all corresponding Phases.
- REE shall obtain from the lender(s) for the acquisition or refinancing of the New Rose Apartments its consent to the LURA
- REE agrees not to foreclose on the Phase I, Phase II, or IV CDBG Loan mortgages as long as the mortgages of Minnesota Housing Finance Agency and Family Housing Fund and Phase I STAR Loan remain outstanding.

**Compliance**

Not applicable

**Green/Sustainable Development**

Not applicable

**Environmental Impact Disclosure**

Not applicable

**Historic Preservation**

Not applicable

**Public Purpose/Comprehensive Plan Conformance**

If all conditions are met in **Step 1**, then **CDBG loan Phase IV (\$2,861,200)** will transfer to REE and in exchange, the HRA/City receives:

- 48 additional units will be added to the City of Saint Paul affordable housing stock.
- Common controlled ownership and a single property management for all five phases
  - As a result of this, residents of the new Phase V will have access to Ames lake community amenities and programs.
- Restrictive covenant on Phase V to limit the sale of Phase IV buildings to a single property unit.
- Investment of at least \$500,000 in capital improvements to Phase V. At a minimum,
  - New Rose Hill must meet City of Saint Paul minimum housing standards and codes
  - Improvement of curb appeal, residents and neighborhood safety.
- Phase IV CDBG loan will be subordinated to the Declaration of Low Income Housing Tax Credits, and the Declaration of Restrictions which limits the sale of Phase IV buildings to a single property unit.

- Protection of our funding partner investments: REE agrees not to foreclose on the Phase IV CDBG Loan mortgage as long as the mortgages of Minnesota Housing Finance Agency and Family Housing Fund remain outstanding.

If all the conditions in **Step 2** are met, then **CDBG loan Phase I and Phase II (\$1,890,162.06)** will transfer to REE and in exchange, the HRA/City receives:

- Capital investment of at least \$2,004,200 to improve the physical condition of Phases I-V
- A Land Use Restrictive Agreement (LURA) is recorded on Phase V to insure affordability until 2050
- Phase I and Phase II CDBG Loans are subordinated to the Declaration of Low Income Housing Tax Credits, and the Declaration of Restrictions which limits the sale of Phase I buildings to a single property unit, and Phase II buildings to a single property unit.
- Protection of our partner investments: REE agrees not to foreclose on the Phase I and II CDBG Loan mortgages as long as the mortgages of Minnesota Housing Finance Agency, Family Housing Fund, and Phase I STAR Loan remain outstanding.
- A Land Use Restrictive Agreement (LURA) is executed and recorded on Phase I-IV for the period ending in 2050 which is 17 years longer than the current term.

### **Recommendation:**

HRA Executive Director recommends the approval of the Agreement for transfer of debt as part of the acquisition of Phase V of Ames Lake by Real Estate Equities Development, LLC (REE).

**Sponsored by: Commissioner Bostrom**

**Staff:** Patty Lilledahl, Jules Atangana 651-266-6552

### **Attachments**

- **Attachment A -- Resolution**
- **Attachment B-- Background**
- **Attachment C-- Map/Address of Project.**
- **Attachment D—Census Facts**