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

REPORT TO THE COMMISSIONERS **DATE: September 23, 2015**

REGARDING: RESOLUTION REGARDING LONNIE ADKINS COURTS APARTMENTS PROJECT, APPROVING ASSUMPTION, RESUBORDINATION AND MODIFICATION TO AN EXISTING LOAN; APPROVING A WAIVER OF THE HRA MAXIMUM DEVELOPER FEE GUIDELINES; AND APPROVING A PARTIAL WAIVER OF THE SAINT PAUL SUSTAINABLE BUILDING POLICY, SUMMIT-UNIVERSITY DISTRICT 8, WARD 1.

Requested Board Action

1. approval of assumption, re-subordination and modification of an existing HRA loan
2. approval of a waiver of the HRA Maximum Developer Fee Policy
3. approval of a partial waiver of the St. Paul Sustainable Building Policy

Background

Lonnie Adkins Courts Apartments is a 77-unit multifamily apartment complex that was constructed in 1973 (rehab in 1999). It is located at the NE corner of Western Avenue and St. Anthony Avenue (just north of Interstate 94). The complex consists of two 3-story residential buildings and three 2-story residential buildings.

The 77 units include
9 one-bed-one-bath
47 two-bed-one-bath
9 two-bed-one-bath townhome-style
12 three-bed-one-bath townhome-style

57 units have a project-based Section 8 HAP contract that is set to expire on 31 March 2019.

Dominium (dba St. Paul Leased Housing Associates VII, LLLP) intends to purchase the complex and perform substantial renovations, which will increase unit count to 79. They will secure a 20-year renewal of the Section 8 contract for 57 units and will designate the remaining 22 units as LIHTC 60% AMI units.

Rehabilitation scope includes replacement of all light fixtures, toilets, plumbing fixtures, thermostats, and unit entry doors; as-needed replacement of appliances, interior apartment doors, countertops, kitchen cabinets, vanities, tubs, windows and flooring; ADA upgrades in select units; new playground, camera security system, and boilers; re-opening of previously closed laundry rooms; parking lot and sidewalk improvements; and the new construction of a clubhouse with community room and office to replace the existing non-ADA-compliant office.

Dominium will purchase the apartment complex for $5,690,000 (combination of cash to seller, assumption of debt, payoffs, and some seller financing). New construction, rehab, construction contingency and contractor fee total $3,077,043. Total Development Cost is $12,447,376 (see **SOURCES AND USES**).

Developer/Owner Experience

Dominium is a Plymouth, MN-based developer of market-rate and affordable housing. Since 1972, Dominium has developed, owned, and managed over 22,000 housing units across 20 states. Currently, 80% of Dominium's portfolio is affordable housing (low income housing tax credit, and Section 8 projects) and 20% is market rate.

PED staff have reviewed the audited financials for both the property and Dominium and no material findings were found.

Budget Action

None. HRA's financial assistance will be in the form of re-subordination and re-structure of existing debt.

Future Action

None

Financing Structure

Dominium will obtain a HUD 223(f) PILOT $3,870,000 loan from Dougherty Mortgage. The tax exempt bonds will generate $415,518 of annual 4% Low Income Housing Tax Credits which will raise $4,195,896 in syndication proceeds ($1.01 per credit dollar), to be purchased by WNC. (see .**SOURCES AND USES** and **PERMANENT FINANCING**). Dominium has secured a commitment from MHFA of $600,000 gap financing, as well as their willingness to re-commit $1,075,000 of existing debt to the project. Family Housing Fund has agreed to re-commit their existing $230,000 debt to the project after payment of accumulated interest.

HRA loaned the current owner $475,000 in 1999 to assist in a rehabilitation of the apartment complex. This loan accrued interest-only until June 2013, then principal-and-interest payments started, fully amortizing across 14 years (maturity in 2029, 2% interest rate). The loan accumulated $133,396 in interest prior to the start of P&I payments. The payments are current and present principal amount is $420,991. The current HRA loan is in 2nd position behind an existing HUD 236 loan (see **PERMANENT FINANCING**). The source of funds was the HUD Rental Rehab Program, a precursor to the HOME program. Any funds received back by HRA shall now be treated as HOME funds. The seller agrees to pay to HRA the accumulated interest when they close on acquisition of the property ($133,396). Dominium requests permission to assume the principal ($420,991), requests HRA re-subordinate to the new HUD 223(f) PILOT loan, and requests HRA extend the maturity to 2050. Dominium also requests that HRA turns off the amortized payments and adjusts the interest rate to 1%. HRA staff analyzed projected cash flow and determined that neither amortized payments nor available cash-flow payments are feasible. HRA staff analyzed projected future value and determined that 1% interest on the deferred debt was the maximum feasible rate.

PERMANENT SOURCES AND USES

Uses	
acquisition: cash to seller	$1,952,611
acquisition: closing costs	$208,609
acquisition: pay HRA interest	$133,396
acquisition: pay FHF interest	$30,000
acquisition: pay off HUD debt	$99,393
acquisition: take on seller loan	$1,540,000
acquisition: pay off MHFA debt	$1,075,000
acquisition: assume HRA debt	$420,991
acquisition: pay off FHF debt	$230,000
new construction	$120,000
rehabilitation	$2,338,846
contractor fees and contingency	$618,197
professional fees	$873,648
developer fee	$1,387,510
syndicator fee	$135,000
financing cost	$737,613
reserves	$546,562
	$12,447,376

total acquisition = $5,690,000

Sources	
first mortgage	$3,870,000
syndication proceeds	$4,195,896
MHFA new loan	$1,675,000
seller new loan	$1,540,000
HRA existing loan	$420,991
FHF new loan	$230,000
deferred developer fee	$515,489
	$12,447,376

PERMANENT FINANCING

Current

position	lender (source)	original principal	current balance	terms
1st	The Riggs National Bank of Washington, D.C. (HUD 236 insured)	$1,384,200	$192,000	7%, amortized, matures 12/1/15
2nd	HRA (HUD Rental Rehabilitation Funds)	$475,000	$420,991 prin $133,396 int	2%, amortized payments started in 15th year (6/1/13), matures 6/30/29
3rd	MHFA (PARIF)	$245,000	$245,000	0%, deferred, matures 12/30/29
4th	Family Housing Fund	$230,000	$230,000 prin $30,000 int	1%, deferred, matures 12/17/29
5th	MHFA	$80,000	$80,000	0%, deferred, matures 12/30/29
6th	MHFA (PARIF)	$750,000	$750,000	0%, deferred, matures 12/30/29
7th	HUD	$125,000	$88,088	1%, matures 12/1/15

PERMANENT FINANCING

Proposed

position	lender (source)	principal	terms
1st	Dougherty Mortgage (HUD 223(f) pilot insured)	$3,832,100	3.25% (estimated), fully amortized, 35 years
2nd	HRA (HUD Rental Rehabilitation Funds)	$420,991	1%, deferred, 35 years
3rd	MHFA (PARIF)	$245,000	0%, deferred, 35 years
4th	Family Housing Fund	$230,000	1%, deferred, 35 years
5th	MHFA (old 5th+ old 6th+ new)	$1,430,000	0%, deferred, 35 years
6th	Seller Note	$1,540,000	2.91% (estimated), deferred, 35 years

Dominium proposes a developer fee of $1,387,510, which exceeds HRA maximum by $664,014. HRA staff analyzed this request and determined that Dominium's proposed fee is 1) consistent with MHFA's maximum fee policy; 2) their tax credit investor perceives developer fee as necessary contingency for the project; and 3) reduction to HRA's limit will result in loss of syndication proceeds thereby creating a financing gap.

PED Credit Committee Review

On August 24, 2015, the PED Credit Committee reviewed the proposed assumption, re-subordination and modification of the existing HRA loan for the Lonnie Adkins Courts Apartments project, and recommended approval.

On that same date, the PED Credit Committee reviewed the request for waiver of the HRA Maximum Developer Fee Policy for the Lonnie Adkins Courts Apartments project, and recommended approval.

Compliance

A pre-construction meeting will be held prior to commencement of construction. The following compliance requirements will apply to this project: Vendor Outreach, Affirmative Action, Little Davis-Bacon, Affirmative Fair Housing Marketing, and the St. Paul Sustainable Building Policy (see **Green/Sustainable Development**).

Green/Sustainable Development

In consultation with the Center for Sustainable Building Research at the University of Minnesota, HRA staff recommends a partial waiver of the St. Paul Sustainable Building Policy for the Lonnie Adkins Courts Apartments project. The Policy applies only to new construction, and as such will apply only to the clubhouse portion of the project. Staff recommends a partial waiver because it is believed that application of the entire policy to the small clubhouse (approximately 800 square feet) will disproportionately increase costs and administrative workload. Instead, staff recommends applying only the Saint Paul Overlay portion of the Policy. Compliance with the Overlay ensures that the building will conserve energy, reduce use of potable water, divert construction waste from landfills, and attain a high level of indoor environmental quality. All of this will be achieved with relatively lower cost and administrative effort than if the Policy was applied in its entirety.

Environmental Impact Disclosure

N/A

Historic Preservation

The Lonnie Adkins Courts Apartments complex was constructed in 1973 and is not deemed historic.

Public Purpose/Comprehensive Plan Conformance

This project meets the public purpose objective of preserving high density, very affordable rental housing and conforms to the following plans:

<u>Land Use Chapter of Comprehensive Plan (2010):</u> The Lonnie Adkins Courts Apartments project is in conformance with the City of Saint Paul's Comprehensive Plan policy to preserve existing affordable housing.

Strategy 3: Ensure the Availability of Affordable Housing Across the City

3.1 Support the preservation of publicly-assisted and private affordable housing.

> b. Support the application of LIHTC, historic tax credits and other appropriate funding sources to maintain existing low-income units. The City/HRA should work with Minnesota Housing, community development corporations, and property owners to continue the provision of low-income housing units in these developments and to use LIHTC on the rehabilitation of existing affordable units.

Recommendation:

The Executive Director recommends adoption of the attached Resolution, approving the assumption, re-subordination and modification of the existing HRA loan, approving a waiver of the HRA Maximum Developer Fee Policy, and approving a partial waiver of the St. Paul Sustainable Building Policy.

Sponsored by: Commissioner Dai Thao

Staff: Joe Musolf, 612-266-6594

Attachments

- **Attachment B -- Map**
- **Attachment C -- Project Summary**
- **Attachment D -- Sources and Uses**
- **Attachment E -- Public Purpose**
- **Attachment F – District 8 Profile**