

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

**REPORT TO THE COMMISSIONERS**

**DATE: April 13, 2016**

**REGARDING: RESOLUTION APPROVING THE ISSUANCE AND SALE OF CONDUIT MULTI-FAMILY HOUSING REVENUE NOTES (MODEL CITIES BROWNSTONE RESIDENTIAL PROJECT), AUTHORIZING THE EXECUTION OF DOCUMENTS RELATING THERETO, AUTHORIZING THE EXECUTION OF DEVELOPMENT AGREEMENTS AND CERTAIN LOAN AGREEMENTS FOR THE BROWNSTONE RESIDENTIAL AND COMMERCIAL PROJECTS AND EXECUTION OF DOCUMENTS RELATING THERETO (DISTRICT 7, WARD 1)**

## **Requested Board Action**

The purpose of this report is to request the HRA Board of Commissioners approve the attached Resolution authorizing the sale of up to \$5M in conduit tax exempt housing revenue bonds and authorizing final approval of the HRA and City financing being provided to the Brownstone project.

## **Background**

The Brownstone project includes the redevelopment of an existing single-story commercial building and surface parking lot located at the northeast corner of University Avenue and Victoria Street currently owned by Model Cities of Saint Paul. Located at 839-849 University Avenue, the new project will involve demolishing an existing obsolete building along with an under-utilized surface parking lot and constructing a new four story mixed-used transit oriented development (TOD) adjacent to the Green Line LRT Victoria Station.

The new building will consist of thirty-five (35) units of affordable rental housing units and approximately 20,415 square feet of commercial/retail space. It is anticipated that the first floor will be leased to two restaurants, an office space, a community room, as well as a reading/museum room dedicated to the history of the Pullman workers from the 1900's which was mostly comprised of residents of the old Rondo neighborhood that was predominantly an African American workforce. The second floor space will be split between Model Cities offices and six (6) of the rental housing units. The third and fourth floor will have the remaining twenty-nine (29) rental housing units. There will be twenty-six (26) residential underground parking spaces

and thirty-six (36) surface spaces. Also included is a private courtyard/pocket park developed on an adjacent surface parking lot that currently serves a six (6) unit apartment building also owned by Model Cities. This will provide an additional outdoor amenity space for both the new Brownstone development as well as the existing apartment building. The entire development will now be referred to as the “Project”.

### **Housing Rents**

The thirty-five (35) housing units will be tax credit units affordable to households earning 60% Area Median Income (AMI) of which 20% or seven (7) units will have rents affordable to households earning 50% AMI and less.

### **Size and Income /Rent Limits of Units:**

<b>Size</b>	<b># of units</b>	<b>Gross Rent</b>	<b>Rent Limit</b>	<b>Income Limit</b>
1 BR	6	\$756	50%	50%
1 BR	26	\$926	60%	60%
2 BR	1	\$946	50%	50%
2 BR	2	\$1,112	60%	60%
Total	35			

### **Developer Experience**

Model Cities’ roots date back to the 1960s era of community empowerment. It was created in 1967 by members of St. James AME Church to remedy health access issues among low income residents of Saint Paul’s Summit-University community. Since 1987 Model Cities has been an active participant in revitalizing and strengthening the Summit-University as well as the Frogtown community as an active community-based developer. Their first multi-family development was completed in 1992 at 515 Dale Street. Since then, they have acquired and constructed thirty-two (32) additional units in five (5) multi-family apartment buildings.

Additionally, Model Cities created the MCASA mode which is a partnership between Model Cities Community Development Corporation and Aurora St. Anthony Neighborhood Development Corporation, that provides affordable homeownership opportunities to low and moderate income families. Established in 2004, the MCASA program was designed to address homeownership disparities between white households, and households of color.

The Brownstone project will be Model Cities' first Low Income Housing Tax Credit (LIHTC) financed mixed-use development. They have assembled an experienced team of legal expertise, financial consultants, construction consultants, architects and contractors. In addition they have hired Sand Companies as the on-going Property Manager of the LIHTC units. This project should help build the capacity of a socially responsible non-profit developer with strong roots in the Summit- University and Frogtown neighborhoods.

### **Budget Action**

The 2016 HRA Budget will be amended to provide the following HRA funds and outlined in **Attachment A:**

- \$2,300,000 loan through Saint Paul Foundation Funds
- \$1,773,484 loan through Pooled TIF Funds

### **Future Action**

On or before April 20, 2016, there will be a City Council Resolution submitted to approve modifications of the terms of an existing STAR loan and all other City financing associated with the Project as explained below.

### **Financing Structure**

The total development cost is \$14,762,926 for both the housing and commercial components. Of that, the housing component will total \$9,710,834 and the commercial component will total \$5,052,092. The Project will be divided by a CIC plat with two condominium units; Unit 1 is the commercial space and will be owned and managed by Model Cities BROWNstone Commercial

LLC, and Unit 2 is the housing space, it will be owned by Model Cities BROWNstone Limited Partnership and managed by Sand Companies. Each has separate financing sources and uses.

### **Financing Sources and Uses**

Please see **Attachment C** detailed sources and uses.

## **HOUSING COMPONENT**

### **Housing Revenue Bonds**

On June 17, 2015, the City Council conducted a public hearing and authorized preliminary approval to issue the housing revenue bonds for the Project. There is a total of up to \$5,000,000 in tax-exempt bond authority being requested for final approval structured into two series:

**Series A Bonds:** The Series A Bonds will be in an amount of not more than \$1,385,000.

The bonds will be tax-exempt and have an initial term of 17 years with an amortization of 32 years (2 years interest only then amortizing over 30-years). Model Cities has locked the interest rate at 5.25% for 180 days. The A Bonds will be secured by a first mortgage on the property and will be purchased by Anchor Bank, N.A.

**Series B Bonds:** In order to receive 4% automatic tax credits, the project must meet the 50% test which requires that at least 50% of the eligible total development costs be initially financed with bond proceeds. The B Bonds have a principal amount of \$3,511,000 with a 2 year term with interest only payments due monthly. The bonds will have a 4.75% fixed interest rate, will be subordinate tax-exempt and paid off with tax credit equity installments. This is a temporary source of funds and not shown in the attached sources and uses. These bonds will be purchased by Anchor Bank N.A.

**This is a conduit bond issue. The bonds shall not constitute an indebtedness, liability, general or moral obligation, or pledge of the faith or credit or taxing power of the HRA, City of Saint Paul, or any agency or political subdivision thereof, and shall not constitute indebtedness of any of the foregoing within the meaning of any constitutional, statutory, or**

**charter provision, nor be a charge against their respective general assets, credit or taxing powers, and do not grant the owners or holders of the bonds any right to have the HRA, City of Saint Paul or any agency or political subdivision thereof to levy any taxes or appropriate any funds for the payment of the principal thereof or interest thereon. Principal and interest on the bonds are payable solely out of the revenues and other sources pledged to the payment thereof as described in the bond documents.**

### **Tax Credits**

The 4% tax credits are to be purchased by Midwest Housing Equity Group (MHEG) for \$.98 per dollar and MHEG will become the Limited Partner. The tax credit equity will come in over time for a total contribution of \$3,510,636.

### **Deferred Developer Fee**

In order to maximize the amount of tax credit equity, the Developers are requesting the maximum fee under the City's Developer Fee Guidelines and will include this fee as eligible tax credit basis. A portion of the Developer Fee or \$253,000 will be deferred and paid over a period of 15 years through excess cash flow. Another portion of the fee (\$366,222) will be structured as an Owner Loan and will be a source of funding to the commercial component of the Project.

### **\$750,000 HOME Funds**

The HOME loan will be structured with a 1% interest rate with deferred principal and interest for 30 years. This loan will be in 2<sup>nd</sup> position behind the 1<sup>st</sup> Mortgage.

### **\$1,668,248 Pooled TIF Loan for Housing**

Existing cash balances from current TIF Districts will be structured as a 0% deferred loan for 30 years. This loan will be in 4<sup>th</sup> position behind the Minnesota Housing's \$1,302,000 deferred loan.

## **COMMERCIAL COMPONENT**

### **\$2,300,000 SAINT PAUL FOUNDATION LINE OF CREDIT**

The Saint Paul Foundation funds are loaned to the City of Saint Paul at 1% to help finance Transit Oriented Developments. The City will re-loan these funds to the commercial component of the Project. Based on the projected cash flow from the commercial tenants, the loan will be structured with a 2% interest rate, 10 year term and a 20 year amortization schedule.

### **\$220,000 STAR Loan and Grant**

A \$120,000 STAR loan and \$100,000 STAR grant has already been approved by the City Council in 2015. This STAR loan will have a 3.5% interest rate, and a 15 year term. Both principal and interest will be deferred for 7 years, and then start amortizing payments of principal and interest over an 8 year term.

### **\$356,000 CDBG Loan**

There will be a CDBG loan in the amount of \$356,000 with annual payments based on 50% available cash flow at 1% and a 21 year term. The balance of the cash flow will be used to make payments on the Owner Loan as described above in Deferred Developer Fee. Principal and interest on the CDBG loan will be deferred for the first two years, then interest only payments will be made based for the following two years, and then in year 5 both interest and principal payment will be due for the remaining 17 years.

### **Existing STAR Loans**

Currently there are two outstanding STAR Loans associated with the existing property. The first loan has a principal balance of \$20,185.47 due 5/1/16 with a 6.5% interest rate and will be paid in full and at closing. The second loan has an outstanding balance of \$322,296 due 6/1/17 with a 2% interest rate. Model Cities will repay \$22,296 of the second loan at closing and are requesting approval to extend the maturity date for 21 years on the balance of the loan (\$300,000) with deferred interest and principal for 10 years and then both principal and interest will start amortizing payments for an 11 year term at the same interest rate of 2%.

### **\$105,236 Pooled TIF Loan**

This loan will be structured at a 0% interest rate and deferred for 30 years, and will be used to pay for infrastructure and site improvements associated with the commercial space.

### **Met Council Grants**

The Project has been awarded several grants from the Metropolitan Council through their Tax Base Revitalization Account (TBRA) program in an amount of \$182,600, the Livable Communities Demonstration Account Grant (LCDA) program in the amount of \$646,020, and the Livable Communities Demonstration Account Transit Oriented Development Grant (LCDA/TOD) program in the amount of \$160,000. These grants are to be split between the housing and the commercial component to pay for grant eligible costs. The grant funds going toward the commercial component will be granted to the project through subgrant agreements. Due to the requirements for Low Income Housing Tax Credits, the grant funds going to the housing component will be structured as 0% interest, 30 year, deferred loans.

All other sources of grant funds listed in the sources and uses will be considered Model Cities developer equity into the Project.

### **PED Credit Committee Review**

On March 21, 2016, the Credit Committee reviewed and approved all terms and conditions of the all HRA/City financing and determined that the issuance of the Bonds meets the HRA policy.

### **Compliance**

The following compliance requirements will apply to this project including the Vendor Outreach, Affirmative Action, Federal Davis Bacon, Section 3, the 2-Bid Policy, Business Subsidy and Living Wage. A pre-bid meeting was held on February 5, 2016, and a pre-construction meeting will be scheduled after final HRA Board approval and before a final closing on financing. There will be an executed Project Labor Agreement.

### **Green/Sustainable Development**

The Brownstone project will comply with Saint Paul Sustainable Development Policy.

### **Environmental Impact Disclosure**

N/A

### **Historic Preservation**

A Section 106 letter has been prepared and submitted to the State Historic Preservation Office (SHPO) for review and comment and is due back the end of April.

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

This Project meets several public purpose objectives as listed in **Attachment D** and planning strategies including the Comprehensive Plan, the Victoria Station Area Plan, and the District 7 Neighborhood Plan.

Strategy 4.1 of the Victoria Station Area Plan calls for strengthening the avenue by encouraging a mix of services, green spaces, and gathering spaces catering to the local community. The Project will help further all these goals by creating new retail opportunities that can potentially become new “third spaces” for the community and by creating a new pocket park which will help to enliven the public realm. The Victoria street station area plan recognizes that this station area suffers from a lack of public parks, so a new pocket park will be a desirable new amenity for the community.

Strategy 4.1.1 of the Victoria Street plan states that new development should fit in with its surroundings and provides guidelines for the built form of new development and the expansion of existing buildings. This strategy calls for new buildings to be predominantly low scale and generally between three and four stories and buildings should transition down in height towards the alley. The design of the Project is consistent with both of these design guidelines.

This Project is also consistent with, and will help further, many of the goals outlined in the District 7 Neighborhood plan.



- L5. Intensify development on major transportation corridors in order to bring in more jobs and housing units.
- H6. Increase the level of home ownership and rental property for people with a variety of Income levels and housing needs.
- PED8. Increase the number of housing units in the district.
- PED5. Maintain and attract a mix of businesses to the district.

**Recommendation:**

The Executive Director recommends adoption of the attached Resolution which approves the sale of up to \$5,000,000 in tax exempt multifamily housing revenue bonds and all related City/HRA financing terms and conditions as detailed in this report.

**Sponsored by:** Commissioner Dai Thao

**Staff:** Diane Nordquist, 651-266-6640

**Attachments**

- **Attachment A – Budget Amendment**
- **Attachment B – Map**
- **Attachment C – Sources and Uses**
- **Attachment D – Public Purpose**
- **Attachment E – District 7 Profile**