

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

**REPORT TO THE COMMISSIONERS**

**DATE: April 27, 2016**

**REGARDING: APPROVAL OF A SUBORDINATION REQUEST IN CONNECTION WITH A  
PARTIAL PAYMENT OF CLAIM TRANSACTION FOR UNIVERSITY DALE  
APARTMENTS, DISTRICT 8, WARD 1**

## **Requested Board Action**

University Dale Apartments Limited Partnership is requesting the approval of the Partial Payment of Claim transaction to be submitted to Housing and Urban Development (HUD).

## **Background**

University Dale Apartments Limited Partnership is the developer, owner, and operator of the University Dale Apartments project that was completed in 2007. The Project consists of a four story apartment building containing 98 units (79 tax credit units and 19 market rate units) built above the publicly owned Rondo Community Outreach Library. This is a low income housing tax credit project which requires eligible units be at 60% or less of area median income. The City purchased approximately 80% of the ground for the construction of the Rondo Outreach Library. The University Dale Apartments Limited Partnership purchased the balance of the ground and the air rights over the Rondo Outreach Library.

The Project does not generate sufficient revenue to pay the full amount of debt service on the Senior Loan and its necessary operating expenses. In order to bring debt service to a sustainable level, the Owner's intention (subject to receipt of the requisite documentation from the City and the other subordinate lenders) is to request HUD approval of the partial payment of claim (PPC) transaction.

HUD requires as part of its PPC application submission, the consent of all lien holders confirming their willingness to subordinate their interests to the liens of the HUD Use Agreement, the Modified Senior Loan Documents and the PPC Documents.

The HRA issued the HUD insured Bonds and provided the following loans:

\$6,300,000 Multifamily Housing Revenue Bonds

HRA is the issuer of \$6,300,000 Multifamily Housing Revenue Bonds that were used to fund a portion of the costs of acquisition and construction of the project. The current outstanding principal balance is \$5,881,018 with interest at 5.196%. Monthly PI of \$31,201 is due through July 1, 2046. The Bonds were insured by HUD and the holder of the Senior Loan is Oak Grove Capital.

\$2,300,000 TIF Loan

HRA is the current holder of a second lien mortgage of \$2,300,000 with an annually compounded interest of 1% due on December 31, 2046. Principal and interest are all deferred. These funds were used for the construction of the project.

\$900,000 CDBG Loan

HRA is the current holder of a third lien mortgage of \$900,000 with an annually compounded interest of 2% due on December 31, 2046. Principal and interest are all deferred. These funds were used for the construction of the project. These CDBG funds were initially granted to the Selby Area CDC which in turn loaned the funds to the project. Following the dissolution of Selby Area CDC, HRA repossessed this loan.

\$240,000 Additional HRA Note (August 28, 2007)

HRA is the current holder of a tenth lien mortgage of \$240,000 with 1% simple interest due on December 31, 2046. Principal and interest are all deferred. The funds were used to pay for cost overruns in the construction of the project.

**Budget Action**

N/A

**Future Action**

N/A

## Financing Structure

Current long-term debt consists of the following as of December 31, 2014

Lien Priority	Sources	Original Principal Amount	Outstanding balance
1	Oak Grove Capital	\$6,300,000.00	\$5,736,279.00
2	HRA TIF	\$2,300,000.00	\$2,300,000.00
3	HRA CDBG	\$900,000.00	\$900,000.00
4	MHFA/ ELHIF	\$791,657.00	\$791,657.00
5	MHFA/ HTF	\$300,000.00	\$300,000.00
6	FHF	\$300,000.00	\$300,000.00
7	City of St. Paul/ IHA	\$200,000.00	\$200,000.00
8	City of St. Paul/ STAR	\$65,000.00	\$65,000.00
9	MHFA/ Additional ELHIF	\$692,948.00	\$692,948.00
10	Additional HRA	\$240,000.00	\$240,000.00
11	Additional FHF	\$100,000.00	\$100,000.00

### \$6,300,000 Multifamily Housing Revenue Bonds

Assuming HUD approval of the PPC, the Bonds will be paid off but the Bond Regulatory Agreement will remain in effect. The Senior Loan will be reduced, and all then accrued and unpaid interest on the Senior Loan will be paid, by a partial payment of claim from HUD of mortgage insurance proceeds (PPC Amount) and the applicable interest rate on the Senior Loan will be reduced from 5.196% to then current available interest rate in the market. At this time, University Dale Apartments Limited Partnership anticipates the Senior Loan will be reduced by approximately 45% to \$3,146,829. For underwriting purposes, University Dale Apartments Limited Partnership has assumed a reduced interest rate of 3.75% on the modified Senior Loan. The balance of the loan will be held by HUD. The Owner will enter into a second HUD obligation in the amount of the PPC claim overdue interest on mortgage, obligating the owner to pay 75% of the project annual surplus cash flow as repayment. The owner will also enter into a 20-year HUD Use Agreement. The maturity date of the reduced senior loan and the new HUD PPC will remain the same as the current Senior Loan.

As part of the PPC transaction, HUD is requesting that the HRA enter into a Partial Payment Use Agreement and subordinate the following HRA loans; \$2,300,000 TIF Loan, \$900,000 CDBG Loan, and the \$240,000 Additional HRA Note.

**PED Credit Committee Review**

PED Credit Committee approved this request on April 11, 2016.

**Public Purpose/Comprehensive Plan Conformance**

The purpose is to preserve the solvability of this project and avoid the potential of foreclosure.

The project will continue providing affordable housing opportunities for persons at 60%, 50%, and 30% AMI.

The project meets objectives of the Housing Plan, adopted as part of the City's Comprehensive Plan, Section 6.0, Strategy 3: Ensure Availability of Affordable Housing.

**Recommendation:**

The staff recommends adoption of the attached Resolution approving the Partial Payment of Claim transaction for University Dale Apartments.

**Sponsored by: Commissioner Dai Thao**

**Staff: Jules Atangana 6-6552**

**Attachments**

- **Attachment B – Map**