

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

REPORT TO THE COMMISSIONERS

DATE: March 22, 2017

**REGARDING: APPROVAL OF A THIRD AMENDMENT TO THE PHASE III
DEVELOPMENT AGREEMENT WITH THE WSF PHASE III LLC,
WARD 2, DISTRICT 3**

Requested Board Action

Staff is requesting HRA Board approval of a Third Amendment to the Phase III Development Agreement (Agreement) with the WSF Phase III LLC (aka Sherman Associates) to:

- Extend the developer's rights under the Agreement until September 30, 2017.
- Authorize the execution of a HOME Loan Agreement in a maximum amount of \$1,120,000 for the Phase III B mixed-income building for Passive House costs.

Background

On June 8, 2016 the HRA Board approved a Second Amendment to the Agreement extending the developer's rights until March 30, 2017. The Phase III Development Agreement grants the WSF Phase III LLC (Developer) the exclusive right to make a redevelopment proposal for the 4.16 acre HRA land bounded generally by the Mississippi River, Livingston, Fillmore and the UP railroad tracks. On October 24, 2012, the HRA adopted Resolution PH 12-312, which approved the West Side Flats Phase I, Phase II and Phase III Development Agreements. The Phase I West Side Flats Apartments project was completed in 2014. The Phase II Development Agreement requires the Developer to redevelop the north parking lot of the West Side Flats Apartments project by 2022.

The Phase III development will include a 182 unit market rate apartment building with a 5,000 SF restaurant (Building AA) and an 82 unit mixed-income apartment building, with 32 units at affordable rents for families at 50% of median income, 32 units for families at 60% of median income and 18 market rate units (Building B). The two buildings will have a total of 264 apartments of which 24% will be affordable.

The developer is seeking an extension of development rights to allow time to complete the HUD mortgage insurance underwriting and to finalize the designs for Buildings A and B. The City needs additional time to finalize a financing plan for upgrade of the riverfront sanitary sewer lift station which is required for the WSF Phase III project and Weidner development south of Fillmore. The total estimated cost of the sanitary sewer lift station upgrade is about \$2.5 million. The Office of Financial Services and Public Works staff are working on options to finance this necessary upgrade.

Passive House

The Developer will design and build Building III B per the Passive House standard per the Development Agreement. Key components of this model Passive House building are:

- A tightly sealed building.
- Super insulated walls and roof.
- A heat and air exchange system that transfers heat/moisture between incoming and outgoing streams of air.
- Cuts energy use 60-80% compared to code and provides the best path for achieving a net-zero building.
- Reduced energy use helps mitigate climate change.
- Makes housing more affordable to operate.

To the extent the Passive House construction cost for the Phase III B mixed-income building is more expensive than that required to meet the Sustainable Development requirements, and where savings cannot be capitalized up-front, HOME Loan funds will be provided. Collaborating partners include: The Developer, the University of Minnesota Center for Sustainable Building Research, the Weidt Group, Onion Flats Architecture, PED staff and the Minnesota Housing Finance Agency.

Current Status

To date the Developer has accomplished the following:

- Executed a letter of intent with a restaurant operator for 5,000 SF of interior space.
- Executed engagement letters with Jones Lang LaSalle to prepare applications for HUD insured mortgage financing.

- Collaborated with PED on the design of building B to meet the Passive House energy efficiency standard.
- The Department of Safety and Inspections issued a conditional site plan approval.
- The Metropolitan Council awarded the project an \$800,000 Livable Communities Demonstration (LCDA) grant for public and storm water improvements. This grant was awarded in part due to the Building B Passive House design.

Budget Action

NA

Future Action

Future actions will include a request for approval of financial assistance for the project to include:

- Creation of a Housing Tax Increment Finance District to provide assistance for the affordable housing and public improvements.
- HRA land sales write down to provide assistance for the affordable housing and to mitigate the cost of soil correction activities.
- Approval of a \$800,000 LCDA sub-grant agreement.

Financing Structure

The HOME Loan Agreement must be executed by June 30 per HUD financing commitment rules. The final financing structure will be presented to the HRA within the next few months, prior to execution of the HOME Agreement. Assuming approval of HOME funds to WSF III, the remaining balance in the HOME Fund will be \$506,736.

Compliance

The project will comply with Vendor Outreach, Affirmative Action and Living Wage. Federal Davis Bacon labor rates and Section 3 requirements will apply. A First Developer Letter has been executed.

Green/Sustainable Development

The project will comply with the Saint Paul Sustainable Development policy. WSF Phase III B will meet the Passive House standard. To the extent there are extraordinary costs, associated with the Passive House construction, in excess of the cost of compliance with the SB 2030 energy requirements, the HOME loan funds will be provided.

Environmental Impact Disclosure

NA

Public Purpose/Comprehensive Plan Conformance

This project will redevelop vacant land, generate private investment, create a new local business and provide market rate and affordable rental housing opportunities.

The project is consistent with the following strategies from the *West Side Flats Master Plan and Development Guidelines* (2015):

- LU1. Promote active commercial, civic and institutional land uses at street level within buildings facing Mixed-Use Corridors, including the Riverfront Esplanade.
- LU3. Attract a broad range of housing types, densities and developers.
- UD4. Create a vibrant, urban and public Riverfront Esplanade that is connected to the neighborhood.
- POS2. Enliven the Riverfront Esplanade.
- SUS20. Encourage energy conservation/efficiency – building materials, design and orientation, site features and furnishings, building reuse

The West Side Community Organization is in support of the West Side Flats Phase III proposed development.

Recommendation:

The Executive Director recommends the HRA approve the Third Amendment to the Phase III Development Agreement with the WSF Phase III LLC.

Sponsored by: Commissioner Noecker

Staff: Marie Franchett 266-6702

Attachments

- **Attachment B – Background**
- **Attachment C – Map**
- **Attachment D – District 3 Profile**
- **Attachment E – Building Elevations**