

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

REPORT TO THE COMMISSIONERS

DATE: JUNE 14, 2017

**REGARDING: RESOLUTION APPROVING SUBORDINATION FOR KENDALL LAND
COMPANY, LLC, DISTRICT 5, WARD 6.**

Requested Board Action

Approving the subordination of a third mortgage CDBG Loan and a fourth mortgage HRA Loan for Kendall Land Company, LLC, to a new first mortgage loan from Peoples Bank to Kendall Land Company, LLC.

Background

Kendall's Hardware is a business located in the commercial building at 840 Payne Avenue (the "Project"). Kendall Land Company, LLC is the owner ("Owner"), and Kendall Hardware, Inc. is the single tenant. In 2007 Ramsey County acquired properties at Payne and Maryland, including the original location of Kendall's Hardware, as part of the road improvements along Maryland. Working to relocate Kendall's Hardware and invest in the gateway of Payne/Phalen, the HRA acquired the properties at the northeast corner of Payne Avenue and Phalen Boulevard in 2007 as part of the City Council approved Payne-Phalen Main Street Redevelopment Plan (2004.) In 2011 and 2012 Kendall Land Company, LLC received financing through the HRA for the land acquisition and construction of the commercial building. Other financing for inventory and working capital for the business were financed by MidWest One Bank and TCM CDC.

The HRA financing the Owner obtained is as follows: a \$380,000 land loan from the HRA ("HRA Loan") and a \$1,305,000 CDBG construction loan from the HRA ("CDBG Loan") in 2012 for the land and the construction of the new building at 840 Payne. \$350,000 of the CDBG Loan was forgiven upon Certificate of Occupancy for 840 Payne. The HRA holds a promissory note for the construction loan in the original principal amount of \$1,305,000 secured by a third position mortgage dated April 23, 2012 and a promissory note for the land loan in the original principal amount of \$380,000 secured by a fourth position mortgage dated April 23, 2012.

As of June 1, 2017, the CDBG Loan balance totaled \$955,000. The Owner has not been required to make any payments under the conditions of the cash flow note on the loan. As of June 1, 2017 the HRA Loan balance totaled \$380,000.

Budget Action: N/A

Future Action: N/A

Financing Structure

Existing Debt – Kendall Land Company, LLC

Source	Position	Current Principal + Interest Balance	Term
MidWest One	1 st Mortgage	\$323,616	N/A
TCM CDC	2 nd	\$242,115	N/A
HRA	3 rd	\$955,000	30 yr term cash flow payment w/ balloon payment May 1, 2042
HRA	4 th	\$380,000	Deferred with no interest, forgiveness based on appraisal, payable May 1, 2042
ESNDC	5 th	\$38,568	7 year forgivable, annual reduction through 2019
Total		\$1,939,299	

Existing Debt - Kendall Hardware, Inc.

Source	Position	Current Principal + Interest Balance	Term
MidWest One	Unsecured	\$58,454	N/A
MidWest One	Unsecured	\$75,375	N/A
Total		\$133,829	

* Pay-offs subject to change based on the accrued interest on the closing date.

Proposed Debt – Kendall Land Company, LLC

Source	Position	Loan Amounts after Refinance	Term
Peoples Bank	New 1 st Mortgage	\$699,560	7 yr fixed term, amortized 20 yrs w/ balloon payment 2024
CDBG	2 nd	\$955,000	30 yr term cash flow payment w/ balloon payment May 1, 2042
HRA	3 rd	\$380,000	Deferred with no interest, forgiveness based on appraisal, payable May 1, 2042
ESNDC	4 th	\$38,568	7 year forgivable, annual reduction through 2019
Total		\$2,073,128	

The Owner is proposing to refinance the existing debt of the Project and the business by paying off senior debt for Kendall Land Company, LLC (MidWest One and TCM CDC) and junior debt for Kendall Hardware, Inc. (MidWest One.) The proposal is for a new Peoples Bank first mortgage loan in the amount of \$699,560. After the refinance, total debt will be approximately \$2,073,128, as seen in the above table.

The Owner is requesting the subordination of the HRA Loans in order to refinance to reduce debt payments and increase cash flow of the business.

PED Credit Committee Review

On March 20, 2017, the PED Credit Committee reviewed the subordination request and approved the following:

Subordination of \$955,000 CDBG loan to 2nd position and \$380,000.00 HRA loan to 3rd position with the following:

- Waive the requirement that loan is due upon refinance or sale
- Re-subordination to a new loan in the amount of the remaining MidWest One and TCM CDC loans to Kendall Land Company, LLC and MidWest One loans to Kendall Hardware, Inc.
- A subordination fee of \$6,550.00
- The cash flow repayment formula will be amended to .75 HRA/.25 Kendall Hardware, Inc. and Kendall Land Company, LLC
- Loan agreement will be amended with a cap on Owners Compensation defined by annual CPI inflation on 2015 base amount.
- The Risk Rating on the CDBG & HRA loans will remain the same.

The risk rating remained (L) Loss/Forgivable.

Compliance

N/A

Green/Sustainable Development

N/A

Environmental Impact Disclosure

N/A

Public Purpose/Comprehensive Plan Conformance

This project's primary purpose was economic and community development for continued commercial use on a significant commercial corridor. The property will continue to remain on the property-tax rolls. The refinance will allow pay-off of business loans and provide more ability for the borrower to make payments on the cash flow note with the HRA loan.

Recommendation:

The Executive Director recommends adoption of the attached resolution which approves the following for the Kendall's Hardware building:

1. Subordination of the \$955,000 HRA Loan and subordination of the \$380,000 HRA Land Loan to a new loan in the amount of the remaining MidWest One and TCM CDC loans to Kendall Land Company, LLC and remaining MidWest One loans to Kendall Hardware, Inc.
2. The Construction Loan Agreement and Promissory Note will be amended to recalculate the cash flow repayment formula to .75 HRA/.25 Kendall Hardware, Inc. and add a cap on Owners Compensation defined by annual CPI inflation on 2015 base amount.

Sponsored by: Commissioner Dan Bostrom

Staff: Hilary Holmes, 651-266-6612

Attachments

- **Attachment – Map**
- **Attachment – District 5 Profile**