

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

REPORT TO THE COMMISSIONERS

DATE: JUNE 14, 2017

REGARDING: RESOLUTION APPROVING THE ISSUANCE AND SALE OF CONDUIT MULTI-FAMILY HOUSING REVENUE NOTES (PIONEER PRESS PROJECT); APPROVINIG RELATED DOCUMENTS; WAIVING THE POLICY ON DEVELOPER'S FEES; AND ADOPTING A HOUSING PROGRAM, 345 CEDAR STREET, DISTRICT 17, WARD 2

Requested Board Action

The purpose of this report is to request the Housing and Redevelopment Authority (HRA) Board of Commissioners approve the attached Resolution authorizing the sale of up to \$24,000,000 in conduit tax exempt housing revenue bonds and approving a waiver of the City Developer Fee Policy for the Pioneer Press project.

Background

The Pioneer Press building (the "Project") is located at 345 Cedar Street. Originally built in 1955, as the Minnesota Mutual Life Insurance Building, the insurance company occupied this eight story building until it was sold to Ecolab in 1982 and re-sold to the Pioneer Press in 1984. The building is approximately 162,000 square feet and served as the headquarters for the Pioneer Press until they moved and sold the building to the Stencil Group in 2015. It has been unoccupied since that time. The Stencil Group, a multi-family developer, was unable to package a financially feasible market rate multi-family project, so they partnered with Real Estate Equities, an affordable housing developer, who will purchase the property and convert it into 143 units of affordable rental housing. In addition, there is a small amount of commercial space located on the skyway level. The developer is currently looking for a tenant to lease that space by a user who will enliven and activate that area of the building. Total development costs will be over \$49 million.

Housing Rents

The 143 affordable rental units will consist of 17 studios, 101 one-bedroom and 25 two-bedroom units. All units (143) will be restricted to households earning 60% AMI and less and 20% (29) of the units will be restricted to the HUD Fair Market Rents (FMR).

Size and Income /Rent Limits of Units:

Size	# of units	Gross Rent	Rent Limit	Income Limit
Studio	17	\$949	60%	60%
1 BR	97	\$1,017	60%	60%
1 BR	4	\$862	FMR	60%
2 BR	25	\$1,086	FMR	60%
Total	143			

Developer Experience

Real Estate Equities has extensive multi-family housing experience. Founded in 1972, they have been the developer and managing partner in more than 70 projects in excess of 10,000 housing units with projects in Minnesota, Wisconsin, Ohio, Missouri, South Dakota, and Indiana. Currently their portfolio consists of approximately 3,888 housing units that range from artist lofts, luxury apartments, traditional apartments, affordable apartments, as well as senior apartments. In Saint Paul, a couple of projects that they both own and manage include The Parkside market rate apartments in Lowertown, the Ames Lake Neighborhood family affordable units, and Humboldt affordable senior apartments.

Budget Action

None

Future Action

If the Project is awarded Met Council grants, there will be a City Council Resolution submitted to approve the acceptance of these grants.

- \$750,000 grant through Met Council TBRA funds;

- \$500,000 grant through Met Council LCDA funds

Financing Structure

Real Estate Equities is requesting the HRA issue tax exempt affordable housing revenue bonds in an amount not to exceed \$24,000,000. They plan to raise equity from the “automatic 4%” low income housing tax credits (LIHTC) as well as state and federal historic tax credits (HTC). The project has also applied for two grants from the Met Council, one for TBRA environmental clean-up work and one from LCDA for storm water management. There is no other request for City/HRA financial assistance, however, in order to raise more tax credit equity to help close the financing gap they have requested a waiver from the City Developer Fee Policy.

Permanent Sources and Uses of Funding:

Sources of Funds

FHA First Mortgage	\$ 13,025,000
LIHTC Tax Credit Equity	14,860,242
State Historic Tax Credits	7,391,555
Federal Historic Tax Credits	6,928,890
Met Council TBRA Clean-up	750,000
Met Council LCDA	500,000
Deferred Developer Fee	<u>5,759,334</u>
Total Sources of Funds	\$ 49,215,021

Uses of Funds

Acquisition	\$ 7,688,920
Construction Costs	28,830,237
Professional Services & 3 rd Party Reports	2,133,605
Bond, Tax Credit and Other Financing Costs	3,689,763
Reserves	728,738
Developer Fee	<u>6,134,758</u>
Total Uses of Funds	\$ 49,215,021

Construction Sources of Funds

Sources of Funds

First Mortgage	\$13,026,000
Tax Exempt Bonds	24,000,000
Tax Credit Equity	4,350,186
TBRA Loan	750,000
LCDA Loan	<u>500,000</u>
Total Sources of Funds	\$42,626,186

FHA First Mortgage

The Project will be receiving a Federal Housing Administration (FHA) insured first mortgage loan in an amount of approximately \$13,000,000 under the Section 221(d)(4) program. Dougherty Mortgage LLC will be the FHA lender for the loan which will provide some of both the construction and permanent financing for the Project.

Housing Revenue Bonds

There is a total of not to exceed \$24,000,000 of volume limit tax-exempt bond authority being requested. In order to receive 4% automatic tax credits, the project must meet the “50%” test which means at least 50% of the eligible total development costs must be initially financed with bond proceeds. The tax exempt bond financing will be structured into three series of bonds; Series A, B, and C. All three series will be short term and repaid by first mortgage proceeds and installments of tax credit equity, both LIHTC and HTC.

Series A Bonds: The Series A Bonds will be in an amount of approximately \$1,025,000 with a 36 month term. The interest rate will be fixed subject to market rate but is currently estimated to be at 1.25%. They expect a rating from Standard & Poor’s of AA+. The A Bonds will be secured by a portion of the FHA loan proceeds deposited

into a Collateral Fund. The bonds will be publically offered and sold in denominations of \$5,000 or more to both retail and institutional investors.

Series B Bonds: The B-Series Bonds in the amount of \$13,975,000 will have a term of 36 months. The interest will also be a fixed rate and tied to market but now estimated at 3.5%. The bonds will be unrated and offered and sold in \$100,000 denominations to institutional investors. The initial purchasers will execute an Investor Letter.

Series C Bonds: The C Bonds have a principal amount of approximately \$9,811,000 and have a 36 month term. During the first 12 months the bonds will have a variable interest rate equal to WSJ Prime + 75 basis points with a floor of 5%. Upon completion of construction the interest rate will step-down to a tax exempt fixed rate of 2.5%. The C Bonds require interest only payment for the first 30 months and then repaid from installments of tax credit equity from the Tax Credit Limited Partner Investors and will be paid down in stages. The C Bonds will be directly purchased by Bridgewater Bank.

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 Project will be financed with the 4% LIHTC and both the State and Federal Historic Tax Credits. The site is in a “Qualified Census Tract” which allows the project to receive an additional 30% “boost” in tax credit equity.

State Historic Tax Credit Loan

In order to keep the MN State Historic Tax Credits (MN HTC) from creating income, these credits are awarded to a non-profit entity, who in turn loans the credits to the limited partnership. The MN HTC will be awarded to Preservation Alliance of Minnesota, a 501(c)(3) organization, and then loaned to Pioneer LLLP, limited liability limited partnership.

Met Council Grants

The Project has applied for a grant in the amount of \$750,000 from the Metropolitan Council through their Tax Base Revitalization Account (TBRA) program to help pay for some of the environmental clean-up costs. The Project has also applied for approval of a \$500,000 Met Council Livable Communities Demonstration Account Grant (LCDA) for assistance with storm water management for an area west of the Pioneer Press building.

Developer Fee

In order to maximize the amount of tax credit equity, the Developer requested approval of a waiver of the City’s Developer Fee policy to include this fee as eligible tax credit “basis”. There will be a 15% Developer Fee charged per the policy, however acquisition costs have been included as part of the calculation. The policy on adaptive reuse typically excludes acquisition for the fee calculation. This will increase the fee by approximately \$1,153,000 which will raise an additional \$895,000 in tax credit equity. The majority of the Developer Fee or \$5,759,334 will be deferred and paid over a period of 15 years through cash flow as approved in the Limited Partnership Agreement. In exchange for the fee waiver, the Developer has agreed to extend the

affordability period on all 143 units for an additional 5 years past the IRS required 15 year compliance period.

PED Credit Committee Review

On May 31, 2017, the PED Credit Committee reviewed and determined that the issuance of the Housing Revenue Bonds meets the HRA policy and approved the request to waive the Developer Fee Policy.

Compliance

The following compliance requirements will apply to this project including: Vendor Outreach, Affirmative Action, Little Davis Bacon, and the 2-Bid Policy.

Green/Sustainable Development

The Pioneer Press project will comply with Saint Paul Sustainable Development Policy.

Environmental Impact Disclosure

N/A

Historic Preservation

The National Register Nomination has been in front of the local Heritage Preservation Commission (HPC); the commission was supportive of the nomination. The building has not been nominated for local designation, thus currently there are no additional actions to be taken by the HPC. In order to receive Historic Tax Credits the “Part I” has been approved and the building has been nominated to be listed on the National Registry. The “Part II” is currently in the review process and has been passed from State Historic Preservation Office (SHPO) to National Parks Service (NPS) for their review and approval.

Public Purpose/Comprehensive Plan Conformance

This Project meets several public purpose objectives as listed in the attached **Public Purpose** document and will further several planning strategies and goals.

The Project is consistent with the strategies outlined in the Downtown Station Area Plan including: focus more active uses around stations, promote innovative reuse of historic buildings and activate the ground floor of buildings.

This Project will also help further many of the goals outlined in the Downtown Development Strategy including:

- Increase the number of housing units downtown.
- Provide a range of price options in new housing.
- Increase the amount of life-cycle housing downtown through new development and rehabilitation/conversion of existing buildings, including vacant office buildings as appropriate.
- Ensure the affordability of downtown housing by promoting a better mix of unit types, costs and sizes.

Recommendation:

The Executive Director recommends and requests the HRA Board of Commissioners consider adoption of the attached Resolution which approves and adopts the sale of up to \$24,000,000 in tax exempt multifamily housing revenue bonds and approve the waiver of the City Developer Fee Policy.

Sponsored by: Commissioner Rebecca Noecker

Staff: Diane Nordquist, 651-266-6640

Attachments

- **Attachment – Map**
- **Attachment – Sources and Uses**
- **Attachment – Public Purpose**
- **Attachment – District 17 Profile**