

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

REPORT TO THE COMMISSIONERS

DATE: JUNE 28, 2017

**REGARDING: RESOLUTION APPROVING THE ISSUANCE AND SALE OF CONDUIT MULTI-FAMILY HOUSING REVENUE NOTES (UNION FLATS PROJECT); APPROVING RELATED DOCUMENTS; WAIVING THE POLICY ON DEVELOPER'S FEES; AND ADOPTING A HOUSING PROGRAM, 787 HAMPDEN AVENUE, DISTRICT 12, WARD 4**

## **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 \$32,000,000 in conduit tax exempt and up to \$2,500,000 in taxable housing revenue bonds and approving a waiver of the City's Developer Fee Policy for the Union Flats project.

## **Background**

Dominium is proposing to construct a new 100% affordable rental apartment building at 787 Hampden Ave near the Raymond LRT Station. Union Flats will include 217 apartments, with a mix of 1-, 2-, and 3-bedroom units. The project site is the former headquarters for Hunt Electric, and was rezoned from Industrial to T3 in September 2016. Total development costs for the project will be over \$67 million. Union Flats has received several grants for environmental clean-up and site improvements.

## **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	92	\$1,012	60%	60%
2 BR	79	\$1,214	60%	60%
3 BR	46	\$1,402	60%	60%
Total	217			

### **Developer Experience**

Dominium has extensive experience developing, owning, and managing affordable multi-family housing. Founded in 1972, they currently manage more than 25,000 units of housing in 23 states, and are the 2<sup>nd</sup> largest owner of affordable housing in the country. Dominium has developed numerous other projects in Saint Paul including Schmidt Artist Lofts, The Cambric, and Lonnie Adkins Court.

### **Budget Action**

**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.

### **Future Action**

None

### **Financing Structure**

Dominium is requesting the HRA issue tax exempt and taxable housing revenue bonds in an amount not to exceed \$34,500,000. The tax exempt housing revenue bonds come with automatic 4% low-income housing tax credits (LIHTC) that generate equity for the project. The taxable conduit bonds are described in more detail below.

Union Flats has several grants for environmental clean-up and site improvements, including \$965,000 in LCDA funds and \$413,365 in TBRA funds from the Metropolitan Council,

\$763,327 from DEED, and \$225,000 in Environmental Response Funds (ERF) from Ramsey County. There is no request for City/HRA financial assistance to the project. Dominion has requested a waiver from the City's Developer Fee Policy, in order to generate more tax credit equity to help close the remaining financing gap on the project. Staff has negotiated an additional five years of affordability beyond the 15 years required by the LIHTC program.

On June 14, the HRA approved changes to the 2018 LIHTC Qualified Allocation Plan, including a prohibition on raising rents on tenants' mid-lease. While this requirement was not in place at the time Union Flats application was submitted, staff is recommending that this apply.

#### **Permanent Sources of Funds**

First Mortgage	\$ 30,630,000
LIHTC Tax Credit Equity	22,668,568
Imputed Expenses (Capitalized Interest)	347,346
Letter of Credit (for HUD-Required Escrows)	2,144,100
Met Council TOD	965,000
Met Council TBRA	413,365
DEED	763,327
Ramsey County ERF	225,000
Developer Equity	<u>9,493,573</u>
Total Sources of Funds	\$ 67,650,279

#### **Permanent Uses of Funds**

Acquisition	\$ 1,830,000
Construction Costs	42,954,985
Imputed Expenses (Capitalized Interest)	347,346
Cash Accounts	3,701,096
Professional Services	1,786,195
Bond, Tax Credit and Other Financing Costs	4,632,690
Developer Fee	8,118,454

Construction Management Fee	<u>4,279,513</u>
Total Uses of Funds	\$67,650,279

### **FHA First Mortgage**

The Project will be receiving a Federal Housing Administration (FHA) insured first mortgage loan in an amount of approximately \$30,630,000 under the Section 221(d)(4) program.

Dougherty Mortgage LLC will be the FHA lender.

### **Housing Revenue Bonds**

There is a not-to-exceed total of \$32,000,000 in 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 two series of bonds: Series A and B. Both series will be short term and repaid by first mortgage proceeds and installments of LIHTC equity. Additionally, Dominion has requested a not-to-exceed total of \$2,500,000 in taxable conduit revenue bonds, to fund project reserves required by HUD for the 1<sup>st</sup> mortgage. This C series will be repaid with tax credit equity or unused reserve balances.

**Series A Bonds:** The Series A Bonds will be in an amount of approximately \$16,025,000 with a 36 month term. The interest rate will be fixed subject to market rate currently estimated to be at 1.50%. 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 Series B Bonds in the amount of approximately \$15,975,000 will have a term of 36 months. The interest will also be a fixed rate and tied to market estimated at 3.0%. 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 taxable Series C Bonds in the amount of approximately \$2,500,000 will have a term of 48 months. The interest will also be a fixed rate and tied to market 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.

### **Tax Credits**

The Project will be financed with 4% Low Income Housing Tax Credits. The site is in a Qualified Census Tract which allows the project to receive an additional 30% “boost” in tax credit equity.

### **Metropolitan Council, DEED, and Ramsey County Grants**

Union Flats has received several grants for acquisition, environmental clean-up and site improvements, including \$965,000 in LCDA funds and \$413,365 in TBRA funds from the Metropolitan Council, \$763,327 from DEED, and \$225,000 in Environmental Response Funds (ERF) from Ramsey County.

### **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 correspondingly increase eligible tax credit basis. The Developer Fee Policy allows a different fee percentage, based upon the number of units in the project: the first 50 units are calculated at 15% of net Total Development Cost (TDC), with any additional units at 8%.

If approved, the requested waiver will allow the fee to be calculated at 15% of net TDC for all units. It will increase the fee by approximately \$2,916,000, which will raise an additional \$1,111,000 in tax credit equity for the project. The majority of the Developer Fee (\$7,392,355) will be deferred and paid over a period of 15 years through the project’s cash flow. In exchange for the fee waiver, Dominion has agreed to extend the affordability period on all 217 units for an additional 5 years beyond the IRS-required 15-year compliance period.

### **PED Credit Committee Review**

On April 17, 2017 the PED Credit Committee reviewed the proposal, determined that the issuance of the Housing Revenue Bonds meets 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, Federal and City Labor Standards, Living Wage, Project Labor Agreement, and the 2-Bid Policy.

### **Green/Sustainable Development**

The Union Flats project will comply with Saint Paul Sustainable Development Policy.

### **Historic Preservation**

A Section 106 historic analysis was submitted to SHPO for review, with a finding of no adverse impacts from the proposal. As part of the City's Certified Local Government responsibilities, SHPO invited the City to comment on the analysis. Staff presented the review at the 6/8/17 HPC meeting, where HPC members requested additional information before providing formal comments. This additional information is tentatively scheduled for HPC review on 6/22/17.

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

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

The Project is consistent with the strategies outlined in the Raymond Station Area Plan including: contribute to streetscape improvements, enhance connectivity and pedestrian-supportive character of streets, and promoting a medium-density neighborhood.

**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 \$32,000,000 in tax exempt and up to \$2,500,000 in taxable multifamily housing revenue bonds and approve the waiver of the City Developer Fee Policy.

**Sponsored by:** Commissioner Russ Stark

**Staff:** Amy Geisler, 651-266-6602

**Attachments**

- **Attachment – Map**
- **Attachment – Sources and Uses Summary**
- **Attachment – Public Purpose**
- **Attachment – District 12 Profile**