

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

REPORT TO THE COMMISSIONERS

DATE: DECEMBER 13, 2017

**REGARDING: RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF
CONDUIT MULTI-FAMILY HOUSING REVENUE NOTES (LEGENDS AT
BERRY SENIOR APARTMENTS PROJECT); APPROVING RELATED
DOCUMENTS; WAIVING THE POLICY ON DEVELOPER'S FEES; AND
ADOPTING A HOUSING PROGRAM, 700 EMERALD STREET,
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 \$38,000,000 in conduit tax exempt housing revenue bonds and approving a waiver of the City's Developer Fee Policy for the Legends at Berry Senior Apartments project.

Background

Dominium is proposing to construct the Legends at Berry Senior Apartments, a 242-unit senior 4-story rental building at 700 Emerald Street, the former Weyerhaeuser Lumber site. The project will include 1-, 2-, and 3-bedroom units, with 100% of the units affordable at 60% of area median income for 22 years. Total development costs for the project will be over \$76,000,000. Dominion has applied to DEED and Ramsey County for environmental clean-up funds, but no other loans, subsidies or grants have been received or requested at this time.

Size and Income /Rent Limits of Units:

| Size | # of units | Net Rent | Rent Limit | Income Limit |
|-------|------------|----------|------------|--------------|
| 1 BR | 82 | \$952 | 60% | 60% |
| 2 BR | 97 | \$1,014 | 60% | 60% |
| 3 BR | 14 | \$1,284 | 60% | 60% |
| 3 BR | 48 | \$1,412 | FMR | 60% |
| Total | 242 | | | |

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 2nd largest owner of affordable housing in the country. Dominion has developed numerous other projects in Saint Paul including Schmidt Artist Lofts, The Cambric, and Lonnie Adkins Court, and has begun construction on the Union Flats project.

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 housing revenue bonds in an amount not to exceed \$42,000,000; the tax-exempt portion of the issuance may not exceed \$38,000,000. Tax exempt housing revenue bonds come with automatic 4% low income housing tax credits (LIHTC) that generate equity for the project.

Due to the uncertain outcome of federal tax reform and the possibility that it will eliminate private activity bonds, Dominium has chosen to cash collateralize the bonds. The bonds will be sold to U.S. Bank National Association, who will manage the bond sales; the cash will then be ready to draw for project costs, and replaced with a HUD 221(d)(4) that will be part of the project's permanent financing.

On June 14, 2017, the HRA approved changes to the 2018 Qualified Action Plan, including a prohibition on raising rents on tenants' mid-lease. While this requirement was not in place at the time the Legends at Berry Senior Apartments Project application was submitted, staff and the developer have agreed that it will apply.

Permanent Sources of Funds

| | |
|-------------------------|-------------------|
| First Mortgage | \$ 36,283,149 |
| LIHTC Tax Credit Equity | 26,015,271 |
| Release of Escrows | 2,539,820 |
| Developer Equity | <u>11,309,714</u> |
| Total Sources of Funds | \$ 76,147,954 |

Permanent Uses of Funds

| | |
|--|-------------------|
| Acquisition | \$ 3,615,000 |
| Construction Costs | 48,079,500 |
| Cash Accounts/Reserves | 3,916,339 |
| Professional Services | 2,419,618 |
| Bond, Tax Credit and Other Financing Costs | 5,426,171 |
| Developer Fee | <u>12,691,326</u> |
| Total Uses of Funds | \$76,147,954 |

FHA First Mortgage

The Project will be receiving a Federal Housing Administration (FHA) insured first mortgage loan in an amount of approximately \$36,370,000 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 \$38,000,000 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 in one bond series. The series will be short term and repaid by first mortgage proceeds and installments of LIHTC equity.

The bonds will be in an amount of approximately \$38,000,000 with a 22 month term. The interest rate will be fixed subject to market rate currently estimated to be at 2%. They expect a rating from Standard & Poor’s of AA+. The Bonds will be secured by eligible investments and available moneys, i.e. cash that will be placed in a project account with a trustee. The bonds will be publicly offered and sold in denominations of \$5,000 or more to both retail and institutional investors.

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.

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 fee percentage, based on 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 20% of TDC for all units. Most of the developer fee is deferred and paid over a period of 15 years out of available cash flow, and therefore acts as both a source and a use. For each dollar of fee, approximately \$0.40 in tax credit equity is generated, which, when balanced with the amount of bonds, eliminates the need for gap funds from the city. In exchange for the fee waiver, Dominion has agreed to extend the affordability period on all 242 units for an additional 7 years beyond the IRS-required 15-year compliance period, for a total of 22 years.

By Resolution #17-346, the HRA authorized the acquisition of 2.9 acres of land at the Weyerhaeuser site for public open space and new streets at a cost of \$1.6 million. This investment represents a public commitment to the successful redevelopment of this site and complements the growing Westgate neighborhood. Most of the land will be a neighborhood park and fill a park service gap identified in the Parks Department's systems plan. A strategy identified in the Parks and Recreation chapter of the Comprehensive Plan (2.10) requires that the location and design of parks, open space and trails be an integral part of large-scale redevelopment projects. A portion of the land will be used for a pedestrian and bike trail that will connect to the Twin Cities' Grand Round system. The remaining land is for infrastructure development. The closing on this land took place on March 14, 2017.

PED Credit Committee Review

On December 11, 2017, the PED Credit Committee will review the proposal and determine whether the issuance of the housing revenue bonds meets HRA policy.

Compliance

The following compliance requirements will apply: Vendor Outreach, Affirmative Action, Federal and/or City Labor Standards, Living Wage, and the Sustainable Building Policy.

Green/Sustainable Development

The project will comply with the Saint Paul Sustainable Development Policy.

Historic Preservation

A Section 106 Historic Review analysis was conducted and submitted to SHPO for review. Because the project site is adjacent to the Prospect Park Historic District, SHPO has requested additional information regarding the project's relationship to the district as well as any potential impacts. A presentation is scheduled before the HPC on December 7th to address these concerns.

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 Westgate Station Area Plan and the Public Realm Plan that was developed in cooperation with the Saint Paul Design Center. The project will reintroduce the street grid, provide a range of affordable housing options in mid-rise buildings with access to transit and daily needs, establishes an approximately 3-acre public open space and bike/ped paths, adding to the city's overall network.

Recommendation:

The Executive Director recommends adoption of the attached Resolution, authorizing the issuance of up to \$38,000,000 in tax exempt and up to \$4,000,000 in taxable multifamily housing revenue bonds and approving the waiver of the Developer Fee Policy.

Sponsored by: Commissioner Russ Stark

Staff: Sarah Zorn, 651-266-6570

Attachments

- **Map**
- **Public Purpose**
- **District 12 Profile**