

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

REPORT TO THE COMMISSIONERS

DATE: JULY 25, 2018

REGARDING: RESOLUTION APPROVING THE ISSUANCE AND SALE OF CONDUIT MULTI-FAMILY HOUSING REVENUE NOTES (COMO BY THE LAKE PROJECT); APPROVING RELATED DOCUMENTS; WAIVING THE POLICY ON DEVELOPER'S FEES; AND ADOPTING A HOUSING PROGRAM, 901 E COMO BLVD, DISTRICT 10, WARD 5

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 \$7,300,000 in conduit tax exempt housing revenue bonds, and approving a waiver of the City's Developer Fee Policy for the Como by the Lake project.

Background

Como by the Lake is an existing affordable rental building for seniors and persons with disabilities, located at 901 E Como Blvd. It has 99 units, with 57 units covered by a Project-Based Section 8 contract, which enables tenants to pay no more than 30% of their income towards rent. The previous building owner gave notice of their intent not to renew the Section 8 contract and sell the building in 2015. Residents organized in response, and helped secure a sale of the building to Aeon, who acquired it in late 2016 and extended the Section 8 contract for another 20 years. Aeon is now seeking to refinance their acquisition financing and conduct rehabilitation work on the building.

Size and Income /Rent Limits of Units (Post-Stabilization)

Size	# of units	Gross Rent	Rent Limit	Income Limit
1 BR	56	\$704-998	50%	50%
1 BR	18	\$864-895	60%	60%
1 BR	1	\$860	None	None
2BR	6	\$1,295	50%	50%

2BR	14	\$978- 1,260	60%	60%
2BR	4	\$919-1,280	None	None
Total	99			

Developer Experience

Aeon has extensive experience as a developer, owner, and manager of affordable rental housing, for both families and individuals. They were founded in 1986, and have been the developer and managing partner on affordable housing projects throughout the Twin Cities. Earlier in 2018, Aeon secured approval for HRA funding for the acquisition of Larpenteur Villas in Saint Paul, which was part of a larger Naturally Occurring Affordable Housing (NOAH) portfolio acquisition by Aeon, valued at \$77 million.

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

Aeon is requesting the HRA issue tax exempt housing revenue bonds in an amount not to exceed \$7,300,000. The tax exempt housing revenue bonds come with automatic 4% low-income housing tax credits (LIHTC) that generate equity for the project. Aeon has also received \$500,000 in Local Housing Incentives Account (LHIA) funds from the Metropolitan Council, which will pass through the City to the project. Other than the bonds, there are no direct City/HRA funds being utilized for this project.

Permanent Sources and Uses of Funding

Sources of Funds

MN Housing First Mortgage	\$6,330,000
MN Housing HOME Funds	2,678,978
LIHTC Equity	3,853,238
Met Council LHIA	500,000
Interim Cash Flow	250,000
Sales Tax Rebate	77,614
Federal Home Loan Bank	500,000
Seller Note, Reserves (Aeon)	702,000
Foundation Grants	200,000
Deferred Developer Fee	258,241
Total Sources of Funds	<u>\$ 15,350,071</u>

Uses of Funds

Acquisition	\$9,589,000
Construction Costs	2,882,003
Professional Services & 3 rd Party Reports	449,994
Bond, Tax Credit and Other Financing Costs	1,149,050
Reserves	590,024
Developer Fee	690,000
Total Uses of Funds	<u>\$ 15,350,071</u>

Housing Revenue Bonds - Structure

There is a not-to-exceed total of \$7,300,000 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 bonds will be purchased via a private placement with Wells Fargo, who is

also the LIHTC investor. The bonds will be issued on a short-term basis, not expected to exceed 18 months. Wells Fargo will provide an investor letter.

Recently, the City issued all of its prior year bond volume cap entitlement and became eligible to apply to Minnesota Management and Budget (MMB) for additional bond entitlement for Como by the Lake. The City's application was successful, which means the bonds for this project will not count against the City's annual bond entitlement.

Developer Fee

The HRA's developer fee policy allows a \$672,157 developer fee on this project, while Aeon is proposing a \$690,000 fee, resulting in an overage of \$17,843. Aeon plans to defer \$258,241 of the overall fee. The HRA's developer fee policy deducts acquisition costs from the developer fee basis, which results in a lower fee for acquisition/rehab projects. For Como by the Lake, Aeon acquired the building up front to preserve the affordability and extend the Section 8 contract. Their hold period was also longer than expected, given the oversubscription of the HRA's bonding resources in the past couple of years. Both of these factors increased Aeon's acquisition risk, and justify a minor deviation from the developer fee policy. Additionally, MN Housing is putting HOME funds into the project, and the proposed fee meets their requirements. For these reasons, staff is recommending a waiver to the developer fee policy.

PED Credit Committee Review

On July 17, 2018 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, City Labor Standards, Living Wage, Project Labor Agreement, and the 2-Bid Policy.

Green/Sustainable Development

As a rehabilitation project that is not adding any additional square footage, the City's Sustainable Building Policy does not apply.

Public Purpose/Comprehensive Plan Conformance

This Project meets several public purpose objectives as listed in **Attachment – Public Purpose**. In particular, the preservation of existing subsidized housing with Project-Based Section 8 is a high priority for the City.

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 \$7,300,000 in tax exempt multifamily housing revenue bonds and approve the waiver of the City Developer Fee Policy.

Sponsored by: Commissioner Amy Brendmoen

Staff: Amy Geisler, 651-266-6602

Attachments

- **Map**
- **Public Purpose**
- **District 10 Profile**