

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

REPORT TO THE COMMISSIONERS

DATE: JUNE 12, 2019

REGARDING: RESOLUTION AUTHORIZING THE APPROVAL OF A FIFTH AMENDMENT TO THE PHASE III DEVELOPMENT AGREEMENT BETWEEN THE WSF PHASE III LLC AND THE HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA, DISTRICT 3, WARD 2

Requested Board Action

Staff is requesting approval of a Fifth Amendment to the Development Agreement between the Housing and Redevelopment Authority of the City of Saint Paul (HRA) and the WSF Phase III LLC (Developer/Sherman Associates). The Amendment will extend the developer designation until December 15, 2019.

Background

The WSF Phase III project is located on 5.3 acres of HRA land at the northwest corner of Fillmore and Livingston on the West Side Flats. Redevelopment of this contaminated and vacant land will include construction of a 174-unit market rate apartment building, and an 82 unit affordable building, with 32 units at 50% of median income and 50 units at 60% of median income. The affordable building will have 10 studios, 19 one-bedroom, 43 two-bedroom and 10 three-bedroom units. The affordability requirements will be for 40 years. The market rate building will have 69 studios, 81 one-bedroom and 24 two-bedroom units. The project will include a tot lot, a pedestrian/bike trail from Fillmore north to the Mississippi River esplanade, and an amphitheater just south of the esplanade.

The affordable building will be designed and constructed to meet the Passive House ultra-high energy efficiency standard. Buildings contribute 39% of CO2 emissions in the United States. The Passive House multi-family model will encourage the construction of more ultra-high energy efficient projects, resulting in lower utility bills for residents, decreased CO2 emissions and mitigation of global warming. Passive House buildings typically achieve over a 75%

savings in heating and cooling compared to average new builds. Assuming a conservative 70% reduction in energy bills for tenants of the affordable building, residents will realize estimated annual energy savings of \$325 to \$725. The estimated total annual energy savings to be realized by tenants of the building is \$44,374.

Global warming is an equity issue at the local, national and international level. “Low-income communities in the United States already have higher rates of many health conditions, are more exposed to environmental hazards and take longer to bounce back from natural disasters. These existing inequalities will only be exacerbated due to climate change” according to the Fourth National Climate Assessment report delivered to the US Congress, November of 2018. In a June 2018 report, the Canadian government concluded developing countries are the most impacted by climate change, especially due to the economic importance of climate-sensitive agriculture, and the limited financial and human capacity to respond to the impacts of climate change.

Developer Designation Extension

The HRA approved a Fourth Amendment to the West Side Flats Phase III Development Agreement on December 13, 2017. The Fourth Amendment extended the Developer designation until September 30, 2018. The project was delayed in part due to the length of time required for the HUD mortgage insurance underwriting process, followed by increased construction and interest costs. To ensure the economic feasibility of the project, the Developer had to secure recourse bank financing instead of HUD insured non-recourse loans, which allows for a higher amortizing loan amount.

The developer has also determined it was not economically feasible to construct a restaurant and structured parking at this location. As a result, the market rate building was redesigned without the restaurant and parking. This reduced the height of the building from five to four stories. The site plan has remained substantively the same with a reworking of the design of the amphitheater.

The Developer now has financing and a design concept in place and is ready to move forward, and is requesting the developer designation period be extended to December 15, 2019 with benchmark dates as follows:

Site Plan and Army Corp submittals completed	6/1/2019
Detailed construction pricing confirmation	7/8/2019
Permit drawings completed and submitted	8/16/2019

These dates are reflected in the Fifth Amendment to the Development Agreement. If the developer has made significant progress on the benchmark dates, the Executive Director of the HRA has the authority to extend the developer designation until January 31, 2020. Currently the Developer anticipates a closing in October.

Special Sanitary Sewer Availability Connection Charge (SSSACC)

Public Works has determined the Riverview sanitary sewer lift station must be upgraded to allow for redevelopment within the Riverview lift station service area, which includes the West Side Flats. On December 13, 2017, the HRA approved a loan and grant totaling \$2,278,918 to be allocated to Public Works for completion of the upgrade work. Although it was previously determined the loan would be repaid from assessments, the City Attorney's Office is recommending repayment of the loan via a new City SSSACC district. City Council action on this will be required as outlined below.

Budget Action

NA

Future Action

HRA approvals will need to include:

- Creation of a housing TIF district and financing plan
- Amendment to the Development Agreement regarding tax increment pay-go note financing, a Livable Communities Demonstration Account grant of \$800,000 and a Tax Base Revitalization Account grant of \$343,700.
- A \$1,120,000 HOME loan agreement

- A sale of HRA land for \$2,200,000 with \$2,000,000 of the sale price in the form of a market rate seller note for the market rate building, and a sale of HRA land for \$1.00 for the affordable building
- Final approval for issuance of approximately \$13.5 million in tax-exempt 4% housing revenue bonds
- Expansion of the Riverfront Redevelopment Project boundaries to be coterminous with the Riverview SSSACC district boundaries and amendment to Riverfront Renaissance TIF Plan
- Updated amended and combined inter-department loans agreement for upgrade of the Riverview sanitary sewer lift station

City Council approvals will need to include:

- Preliminary approval for issuance of approximately \$13.5 million in tax-exempt 4% housing revenue bonds
- Amendment to Chapter 76 to give the City authority to create SSSACC districts
- Creation of the West Side Flats Riverview sanitary lift station SSSACC district, budget amendment and execution of the inter-department loan agreement.
- Expansion of the Riverfront Redevelopment Project boundaries to be coterminous with the Riverview SSSACC district boundaries and amendment to Riverfront Renaissance TIF Plan

Financing Structure

The Developer has requested financial assistance to construct the affordable housing building through tax increment financing. The HRA will propose issuing pay-as-you-go financing, pledging tax increments generated from the market rate and affordable buildings. Tax increment will only be used to assist the affordable building. Other financial assistance requested by the Developer of the affordable building includes the HOME loan, a land sale write down, and the issuance of 4% tax-exempt housing revenue bonds.

PED Credit Committee Review

Credit Committee review will be completed prior to a request for HRA approval of financing.

Compliance

The project will comply with Vendor Outreach, Affirmative Action and Living Wage. Little Davis Bacon labor rates will be required for the affordable building. Since Federal HOME funds are to be used for the affordable building, Federal Davis Bacon labor rates and Section 3 will apply. A First Developer Letter has been executed. The Developer will execute a project labor agreement.

Green/Sustainable Development

The project will comply with the Saint Paul Sustainable Development policy. The Developer will design the affordable building to meet the Passive House standard which was discussed above.

Environmental Impact Disclosure

A HUD environmental review was completed with a Finding of No Significant Impact.

Historic Preservation

Although the development will be located on vacant land, HUD is requiring a 106 review prior to construction start.

Public Purpose/Comprehensive Plan Conformance

This project will redevelop blighted and vacant land, generate private investment, provide market rate and affordable rental housing opportunities and public amenities for the community.

The project is consistent with the following strategies from the *West Side Flats Master Plan and Development Guidelines* (2015):

LU3. Attract a broad range of housing types, densities and developers.

UD4. Create a vibrant, urban and public Riverfront Esplanade that is connected to the neighborhood.

POS2. Enliven the Riverfront Esplanade.

SUS20. Encourage energy conservation/efficiency – building materials, design and orientation, site features and furnishings, building reuse.

The West Side Community Organization (WSCO) in its letter dated November 29, 2017 expressed their support for the WSF Phase III B affordable project and commended the developer's commitment to building Passive house and developing a solar farm that will provide energy for this phase of development. WSCO also voted on May 14, 2019 to support the current project design.

Recommendation: Staff recommends approval of the resolution regarding the Fifth Amendment to the Development Agreement.

Sponsored by: Commissioner Noecker

Staff: Marie Franchett

Attachments

- **WSF Phase III Site Plan and Elevations**
- **Affordable Building Unit Rent and Size Detail**
- **Affordable Building Estimated Energy Savings**
- **District 3 Profile**