

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

REPORT TO THE COMMISSIONERS

DATE: DECEMBER 13, 2023

REGARDING: RESOLUTION APPROVING AND AUTHORIZING (i) THE ESTABLISHMENT OF THE HEIGHTS HABITAT FOR HUMANITY PHASE I HOUSING TAX INCREMENT FINANCING DISTRICT IN THE PROJECT AREA (ii) A TAX INCREMENT FINANCING PLAN THEREFOR (iii) AN HRA BUDGET AMENDMENT AND (iv) THE EXECUTION OF A TAX INCREMENT DEVELOPMENT AGREEMENT AND RELATED DOCUMENTS, INCLUDING THE ISSUANCE OF A TIF NOTE AND TAX INCREMENT FINANCING SPENDING PLAN AUTHORITY, DISTRICT 2, WARD 6

Requested Board Action:

The purpose of this report is to request the Housing and Redevelopment Authority (HRA) Board of Commissioners:

- Approve the establishment of The Heights Habitat for Humanity Phase I Housing Tax Increment Financing District;
- Adopt the TIF Plan;
- Authorize the execution of a development agreement and related documents, consistent with the terms outlined in the Term Sheet between the Housing and Redevelopment Authority of the City of Saint Paul (the “HRA”) and Habitat for Humanity which includes a \$4,200,000 forgivable TIF Loan funded with Spending Plan TIF Authority and a Pay-Go TIF Note up to \$5,478,091; and
- Approve the budget amendment pertaining to the TIF District and TIF Loan.

Background

In 2019, the entire 112-acre former Hillcrest Golf Course site was purchased by the Saint Paul Port Authority (SPPA) using bonding authorized by the Saint Paul City Council via Ordinance 19-39. Ordinance 19-39 establishes the framework of for the arrangement between the City and the SPPA. A requirement of the ordinance was to develop a Master Plan to guide future development of the site. On June 1, 2022, the Saint Paul City Council approved the Hillcrest Master Plan and associated actions (rezoning, zoning code amendments, and Comprehensive Plan

amendment). The Master Plan outlines future land uses and a new street network for the site. The City worked alongside community members, consultants and the SPPA to develop the Master Plan, and engaged residents through the process to determine how to build opportunity and community wealth on the site, now known as The Heights.

The overall site priorities for both the housing and light industrial, production and modern manufacturing include:

- 1,000 jobs
- 1,000 households
- 20 acres of parks, trails, and open space
- Neighborhood Node

Affordable housing priorities were established during the Master Plan process and the Master Plan was approved June 1, 2022, through RES PH 22-128. The housing portion of the site includes 25 acres of land available with both T1 (traditional neighborhood) and traditional Neighborhood + Mixed Use, except (drive- through). The housing priorities include: rental, owner occupied, market rate, affordable, deeply affordable, multi- generational households and senior living.

All affordable housing developments seeking public assistance on The Heights site will be individually underwritten to ensure reasonable development costs and maximization of all available sources, as is customary for any requests throughout the City.

Current Action

The HRA received an application from Twin Cities Habitat for Humanity (“Habitat” or “Developer”) requesting tax increment financing assistance to construct approximately 145 units of affordable owner-occupied housing units across three phases of development as follows:

Phase I: 73 units

Phase II: 28 units

Phase III: 44 units

Each phase of development will require the establishment of a separate housing TIF district. The current action establishes the district required to construct units in Phase I as follows:

Unit Type	Block 3	Block 4
Single family	6	2
Twin home	6	10
Townhome	30	19
Total	42	31

All units contemplated in the 145-unit proposal will be sold to households at or below 100% of area median income (in 2023, this is equal to \$124,900 for a 4-person household), with a goal to spread home sales across three income ranges as follows:

- ≤ 60% of AMI (approximately 25% of home sales)
- 60% - 80% of AMI (approximately 50% of home sales)
- 80% - 100% of AMI (approximately 25% of home sales)

Habitat will act as the developer of the site and will construct the single family and twin homes using their volunteer labor model. Habitat has hired Doran Special Projects as the general contractor for the townhome units. Of the 73 units planned in Phase I, 40 will be constructed during the Jimmy and Rosalynn Carter Work Project, which will take place in October 2024. Hundreds of volunteers will come together to work on all three unit types in areas ranging from framing to finishing. In preparation for this event, Habitat and Doran will begin construction in the summer of 2024.

To assist with financing affordable housing at The Heights, the Saint Paul HRA prepared a Housing TIF Plan and with this action, the HRA Board will establish The Heights Habitat for Humanity Phase I TIF District (the “TIF District”) contingent on City Council consideration following a public hearing on December 20, 2023. The TIF District will encompass Lot 1, Blocks 3 and 4 of the Habitat development area as well as a light industrial parcel (Lot 1, Block 1) where Xcel Energy plans to construct a new service center. TIF generated by development on the Habitat parcels will be pledged to that activity and TIF generated by development on the commercial parcel will be split on a percentage basis amongst the three affordable projects, which include the two mentioned in the subsequent paragraph.

Under separate actions on this same date, an amendment to the Saint Paul Neighborhood Redevelopment Project Area and the establishment of two additional TIF districts (for affordable

rental projects proposed by Sherman Associates and JO Companies) will be considered by the HRA. The amendment and establishment of all three housing TIF districts will be considered by the City Council on December 20, 2023 following a public hearing.

In addition to TIF generated by the TIF District, Habitat has requested an allocation of up to \$4,200,000 in Spending Plan TIF to assist in filling the funding gap (the “TIF Loan”).

Budget Action

The HRA is approving a budget amendment to align with the financing and spending included in the TIF Plan. The TIF Loan is funded with tax increments budgeted in the Spending Plan. An HRA budget amendment is needed to allocate the \$4,200,000 to this project. Both budget actions are as shown in the attached Financial Analysis.

Future Action

This is no future action anticipated at this time.

Financing Structure

The proposed financing plan to complete the project will include a private construction loan, a pay as you go TIF note pledging tax increments from the TIF District and a TIF loan funded with Spending Plan TIF. Other sources may include state or local sources, or funds raised by Habitat.

The Developer will enter into a Development Agreement consistent with the Term Sheet in substantially final form on file in the office of the Executive Director.

Project Budget

Uses	Total	Per Unit
Acquisition	\$ 3,055,000	\$ 41,849
Construction	\$ 50,400,632	\$ 690,420
Soft Costs	\$ 5,526,915	\$ 75,711
Developer Fee	\$ 4,587,404	\$ 62,841
TDC	\$ 63,569,951	\$ 870,821
Sources		
Pay Go TIF	\$ 5,478,091	\$ 75,042
Spending Plan TIF	\$ 4,200,000	\$ 57,534
Xcel Rebates/Rewards	\$ 2,336,860	\$ 32,012
1st Mortgage Proceeds-Home Sales	\$ 19,696,284	\$ 269,812
TCHFH Fundraising	\$ 2,000,054	\$ 27,398
Downpayment Assistance - CDFI	\$ 1,460,000	\$ 20,000
Homebuyer Closing Costs	\$ 219,000	\$ 3,000
State/Federal Applications/Requests	\$ 28,179,662	\$ 386,023
Total	\$ 63,569,951	\$ 870,821

Tax Increment Financing (TIF) Pay-Go Note – TIF Note

Due to the high cost of construction relative to the anticipated sales price, and the scale of development proposed by Habitat at The Heights, the project is feasible only through assistance from tax increment financing. Upon analysis of the amount of tax increment financing needed, it is anticipated that the TIF Note in the estimated amount of \$6,443,000 (this amount is based on a lender's interest rate of 7.5%) will be issued pledging tax increments from the TIF District as follows: 90% of the Housing Tax Increments (which shall mean the tax increments derived from the Housing Development, which have been received and retained by the HRA in accordance with the TIF Act); plus 20.7% of the Commercial Tax Increments (which shall mean the tax increments derived from the Commercial Development which have been received and retained by the HRA in accordance with the TIF Act). In no case may the combined Housing Tax Increment and Commercial Tax Increment be greater than the tax increments which have been received and retained by the HRA from the TIF District. The interest rate on the TIF Note will be based on the rate set by the lender originating a loan secured by the TIF Note for the construction of the project; the estimated TIF Note issuance date is September 1, 2027.

TIF Loan

On June 22, 2022, the HRA Board adopted RES 22-955, which authorized the adoption of a Spending Plan, authorizing the HRA to spend available tax increment from any existing tax increment financing district; which authority was provided under the Omnibus Tax Bill of 2021 (the “Spending Plan”). The Spending Plan authorizes financial assistance to advance construction of private development of all types of housing production within the City. The development proposed by Habitat for Humanity meets all other Spending Plan criteria, including job creation and retention, and the project would not commence without financial assistance authorized by the Spending Plan. The Spending Plan is identified as the best-fit resource for this project. Additionally, on February 22, 2023, the HRA Board adopted RES 23-252, which authorized the adoption of a Supplement to the Spending Plan.

The project will also be financed with an HRA allocation of available tax increments authorized under the Spending Plan in the amount of \$4,200,000.

The Spending Plan TIF Loan (the “TIF Loan”) will be secured with a note and mortgage lien against all parcels slated for development, have a 36-month term to coincide with the anticipated construction and home sale period, with an interest rate of 0%. The TIF Loan will be risk rated as “Forgivable.” At the time of acquisition, \$550,000 will be forgiven, and each unit sale to a qualified homeowner will result in a pro-rata forgiveness of the remaining loan amount (\$50,000 per unit) and release of the lien from the affected parcel. The following conditions are required to fully forgive the principal amount:

- a) A jobs report is submitted by the developer to PED by December 31, 2025.
- b) All funds are disbursed by December 31, 2025. To ensure funds are expended on time, the Developer will use this source to acquire Lot 1, Blocks 3 and 4, and begin construction.
- c) 73 units of owner-occupied housing are constructed and completed in the TIF District.
- d) All 73 units are sold to and occupied by eligible households whose area median income, as adjusted for household size, falls within a targeted income range.

A declaration of covenants, deed restriction, land lease or the like will be recorded against each unit’s development parcel to ensure that, for a period of 30 years, all units sold and re-sold will be income restricted.

TIF Lookback Provision

Both the pay-go note and TIF Loan sources must meet the “but for” test to ensure that the project does in fact need the TIF that’s been allocated and to protect against an extreme developer windfall. To confirm this test has been met, staff will evaluate financial commitments received by the developer and, upon project completion, a final cost certification. If the “but for” test is not met, and the project has been over-subsidized, the commercial TIF funds will be subject to a claw back. If there are sufficient eligible expenses in Phase II or III, the clawed back funds can first be applied there; if there are not enough eligible expenses in Phase II and/or Phase III, the TIF Note will be amended and the principal amount will be reduced by the over-subsidized amount remaining.

PED Credit Committee Review

On December 5, 2023, the PED Credit Committee reviewed the proposed request for the Pay-Go TIF Note and found it to be consistent with PED policies and approved the terms of the TIF Loan to be forgiven under the conditions stated above with a risk rating of “Forgivable.”

Compliance

The following compliance requirements will apply to this project: Vendor Outreach, Affirmative Action, City Labor Standards, Project Labor Agreement, and the Two-Bid Policy. Compliance requirements may change depending on final funding sources.

Green/Sustainable Development

The development in the TIF District will comply with the Saint Paul Sustainable Building Policy and Sustainable Building Ordinance.

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose/Comprehensive Plan Conformance:

1. The proposed Heights development is consistent with Comprehensive Plan policies, including LU-30 (growth at Neighborhood Nodes), LU-2 (pursuing redevelopment of Opportunity Sites as employment centers), LU-32 (establishing open space at Neighborhood Nodes), LU-6 (facilitating business creation/attraction, supporting family-

sustaining jobs, and growing the tax base), LU-34 (providing medium-density housing in Urban Neighborhoods), and H-16 (increase housing choice to maximize housing and locational choices for residents of all income levels).

2. Specific to the housing proposals, they are consistent with Comprehensive Plan policies H-16 (increase housing choice to maximize housing and locational choices for residents of all income levels), H-31 (support the development of new affordable housing units throughout the city), and H-42 (pursue funding sources for affordable housing production).
3. Comprehensive Plan policy H-34 calls for development of new affordable housing ownership opportunities, such as proposed.

Recommendation:

The executive Director recommends and requests the HRA Board of Commissioners consider adoption of the attached Resolution which will approve the following:

1. Establishment of The Heights Habitat for Humanity Phase I TIF District for the construction of the proposed affordable, for-sale housing project.
2. Adoption of the TIF Plan and the associated budget amendment.
3. Execution of a development agreement and related documents, for the purpose of constructing the proposed project, consistent with the terms outlined in the Term Sheet.
4. Execution of a Spending Plan TIF Loan in the amount of up to \$4,200,000 and approval of the associated budget amendment.

Approval of the establishment of the TIF District and adoption of the TIF Plan are subject to City Council consideration following a public hearing on December 20, 2023.

Sponsored by: Commissioner Nelsie Yang

Staff: Sarah Zorn, 651-266-6570

Attachments

- **Financial Analysis**
- **Map**
- **D2 Greater East Side Neighborhood Profile**
- **The Heights Habitat for Humanity Phase I TIF Plan**