

C Community Development Committee

Meeting date: October 1, 2012

ADVISORY INFORMATION

Date:	September 26, 2012
Subject:	City of Saint Paul Request for a Project Change to the TBRA Grant to <i>Rayette Lofts</i>
District(s), Member(s):	District 13: Richard Kramer
Policy/Legal Reference:	Minnesota Statute 473.25
Staff Prepared/Presented:	Deb Streets Jensen, Livable Communities Grant Administrator (651-602-1554); Paul Burns, Manager, Livable Communities (651-602-1106)
Division/Department:	Community Development Livable Communities

Proposed Action

That the Metropolitan Council approve an amendment to the Tax Base Revitalization Account grant for the City of Saint Paul's *Rayette Lofts* project (SG011-179), changing the project description to indicate that all the residential units will be market rate and reduce the amount from \$324,800 to \$231,100.

Background

The City of Saint Paul (City) was awarded \$324,800 from the Tax Base Revitalization Account (TBRA) on January 11, 2012 for contamination cleanup. The grant agreement committed the City to produce 76 apartments, 15 of which were to be affordable at 60% of Area Median Income, plus 2,500 square feet of retail space.

Unfortunately, the developer was unable to secure funding from all anticipated sources, and their current financing mix will not support any affordable units. The amendment request is to increase the residential component to 88 apartments, all at market-rate rents.

The newer configuration of this project is necessary because, due to several reasons, the City was unable to award any Tax Increment Financing (TIF) to the project. Chief among these reasons was the City's internal policy to protect its AA credit rating by not having more than 10% of its tax capacity captured in TIF Districts, and they have reached that threshold.

The Council's Livable Communities Act (LCA) Grant Amendment Guidelines state that when a change in a TBRA-funded project is requested, staff will review the change to determine whether it significantly changes the Project. The determination of a "significant" change will be based on consideration of the TBRA account-specific factors considered when the application for funding was scored. Only the factors applicable to the Project as originally proposed and scored will be evaluated.

Among other criteria, the amendment guidelines specify that for the Tax Base Revitalization Account Cleanup grants, a proposed change will be considered significant if the proposed change reduces the total percentage of affordable housing units from the Project as originally proposed.

The LCA Amendment Guidelines give the Community Development Committee the authority to approve an amendment to a grant agreement Project Summary provided

that the project, as revised, will produce the intended results described in the Livable Communities Act (shown below in italics) and meet additional account-specific conditions as follows:

- *provide the highest return in public benefits for the public costs incurred, encourage development that will lead to the preservation or growth of living-wage jobs or the production of affordable housing, and enhance the tax base of the recipient municipality, and,*
- meets the account eligibility criteria, and
- if the revised Project is acceptable to the Council's funding partners that have also granted funds to the project, and
- if the revised Project would score similarly to the original Project (i.e., it would have ranked within the list of Projects recommended for funding) in the areas of jobs/housing and net tax capacity increase;

Rationale

Staff used the information in the original TBRA *Rayette Lofts* application together with a current *Rayette Lofts* LCA/TOD application for additional clean-up funds to re-score the TBRA application and determine the impact of the requested project change. If the original TBRA application for *Rayette Lofts* had included the current information, its score would have decreased from 71 to 62 and would have made its score the lowest-ranked project in the November 2011 TBRA application cycle and the project would have received a funding recommendation of \$231,100 instead of \$324,800 as the last of the funded projects in that cycle.

Funding

No draw requests have been made against the existing grant for *Rayette Lofts*. The \$93,700 reduction in this grant would be added to the amount available for future TBRA grants in other funding cycles.

Known Support / Opposition

The City has indicated it is willing to accept the reduced grant amount. Staff is unaware of any other support or opposition.

Project Summary

Grantee: City of Saint Paul
Project Name: Rayette Lofts
Project Location: 261 - 5th Street East, St. Paul
Council District: 13 – Richard Kramer

SG011-179

Project Description:

The applicant requested \$672,901 in TBRA funding for a Phase I environmental site assessment update, asbestos and lead-based paint abatement design specifications, and asbestos and lead-based paint abatements of a seven-story building on a 0.52-acre site formerly used as a warehouse for a cosmetics and hairspray company and currently used as a parking garage.

Funding:

Total Estimated Cleanup Cost	\$672,901
Amount Requested	\$672,901
Amount Awarded	\$269,400
Use of Funds	Phase I environmental site assessment update, asbestos and lead-based paint abatement design specifications, asbestos and lead-based paint abatements

Deliverables:

Expected benefits include the renovation of the building into 76 apartments (including 15 affordable units) and 2,500 square feet of retail space. Private investment is estimated to be approximately \$10.7 million.

Increase in annual net tax capacity	\$95,398
Jobs	11 FTE
Affordable housing	15 rental units

Development Timeline:

Task	Start Date	End Date
Complete Phase I environmental site assessment update, asbestos and lead-based paint abatement design specifications, and asbestos and lead-based paint abatements.		On or before 12/31/2014
Begin development of residential units	On or before 12/31/2014	

Re: Rayette Lofts – TBRA Grant, Amendment Request

Met Council Award: SG011-179

Sub Grant Agreement: 02-16394-G

Site Control

The property is owned by an affiliate of the developer, Rayette Garage LLC. It will be sold to a new affiliated entity, Rayette Apartments Limited Partnership. Rayette Apartments Limited Partnership will redevelop the building,

Progress Towards Full Financing

Significant progress has been made towards closing on construction financing for the project. There are commitments in place for the first mortgage, federal/state historic credits and general partner equity. Metropolitan Council TBRA dollars must be solidified before we can finalize financing and set a closing date. The continued support of Metropolitan Council will enable this unique development to move forward.

Progress Towards Executed Development Agreement

There is no development agreement associated with this development.

Specific Changes to the Project

It was represented in our fall 2011 TBRA application to the Metropolitan Council that the Rayette Lofts Redevelopment Project would rent 15 units at 60% AMI rent limits. The underwriting for Rayette Lofts has changed as a result of not receiving TIF funds from the City of Saint Paul for the project. In order to make the project financially viable an adjustment in rents is required.

Sherman Associates is committed to maintaining affordability in our projects. Our revised underwriting changes from 15 units (17%) at 60% AMI to 18 units (20%) at 2012 80% Low Income Limits.

Rents at this level serve a population in need within a community that has thrived because of these diverse demographics. In addition, these rents will allow for the project's successful completion.

Schedule

Project Construction Commencement – December 2012

Grant Funded Activities Commencement – November 2012

Grant Funded Activities Conclusion – December 2012

Project Construction Completion – December 2013

Please see schedule above.

Revised Sources and Uses

Uses:

Acquisition	\$	2,850,000
Construction Costs	\$	13,417,750
Environmental Remediation	\$	672,901
Soft Costs	\$	2,011,113
Development Fee	\$	3,660,000
Financing Costs	\$	315,279
Prefunded Reserves	\$	175,000
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Total Uses:	\$	23,102,043

Sources:

First Mortgage	\$	10,037,238
Energy Rebates - Xcel	\$	95,000
Fed Historic	\$	3,900,227
State Historic	\$	3,324,479
GP Cash	\$	1,596,103
Deferred Fee	\$	3,476,095
Met Council TBRA Grant	\$	324,800
Met Council TOD TBRA Grant*	\$	348,101
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Total Sources:	\$	23,102,043

*applied for August, 2012; not yet committed

Explanation of Impact

This slight increase in rents is necessary to support the necessary mortgage for the project. The change in underwriting has no significant impact on the overall development quality for the Rayette Building.

The awarded TBRA funds are one of the last financial components that need to be solidified before moving towards closing on our construction financing. With the continued support of the Metropolitan Council, Sherman Associates will be able to continue the redevelopment efforts of the Rayette Building.