

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS

**FROM JON M. GUTZMANN
EXECUTIVE DIRECTOR**

REGARDING RAD Financing Plans;
Use of “Excess Funds” in RAD Transaction

DATE June 26, 2019

Staff is requesting Board direction on how to utilize \$101,990 in “excess funds” that are not specifically needed in the RAD transactions as currently projected. That is, this amount is not needed to fund the Initial Deposit to Replacement Reserves (IDRR), the RAD Conversion Year Funding and the scattered site capital improvements. The “excess funds” consist of the 2017 Replacement Housing Factor (RHF) grant and part of the 2019 Capital Fund Program (CFP) grant which was higher than originally estimated. If the Board decides to add these excess funds to the RAD transaction, we need to show that in the final Financing Plan revisions which will be part of the RAD closing documents. In the alternative, the Agency could keep the excess funds in the remaining Public Housing program for capital improvements in the 418 scattered site single family homes and duplexes, to supplement the \$552,737 already budgeted for that purpose.

Staff recommends dedicating the full amount of excess funds (\$101,990) to the Replacement Reserves for RAD Project #2 (Front, Hamline and Seal Hi-Rises, previously known as AMP 2), to supplement the available funds for Front Hi-Rise boiler replacements and plumbing modernization. As explained in a November 28, 2018 Board report,

Front Hi-Rise (727 Front Street) is a 20-story apartment building built in 1969, with 151 dwelling units. The boilers and plumbing systems are original to the building construction; and after 49 years they have exceeded their expected service lives. The PHA’s consultant (Stanley Consultants) did an evaluation of 13 hi-rise heating plants in 2003 and updated it in 2009 and 2014. Stanley also did an evaluation of 15 of the hi-rise plumbing systems in 2016. They updated both the heating plant and plumbing portions of their earlier surveys for the current application. Stanley estimates the cost to expand

the boiler room, replace the boilers and replace the plumbing at the Front Hi-Rise will be about \$4,888,000. Stanley also estimates that the total cost would be about \$366,000 higher if the boilers and plumbing were replaced as two separate projects, rather than doing the work as a single construction project.

Staff agree with Stanley that the Front Hi-Rise boiler and plumbing replacements are the PHA's highest priorities now for seeking funding from Minnesota Housing. The plumbing has been replaced at the Ravoux and Valley Hi-Rises; and the same work began in September at Montreal Hi-Rise. The boilers were replaced at the Central, Neill, Cleveland and Montreal Hi-Rises in 2010. Recent boiler repairs and plumbing leaks at Front Hi-Rise, as well as the extremely small boiler room there, underscore the need to complete the boiler and plumbing system replacements without further delay.

The costs to replace the boilers and plumbing at Front Hi-Rise will be paid partly by the \$1,000,000 award from Minnesota Housing and, if awarded, another \$1,000,000 we have requested from the Federal Home Loan Bank of Des Moines for this project. Additional funds will be needed to cover the cost, so adding the excess funds to the Replacement Reserve account for Project #2 would help.

Although the amount of the excess funds is small compared to the total costs of capital improvements needed at Front Hi-Rise, adding it to the RAD transaction will trigger adjustments in the figures shown in the Capital Needs Assessment (CNA) for RAD Project #2, and in the 20-year Pro Forma for that project and the total RAD conversion (copies are attached). If the Board approves staff's recommendation to add the excess funds (\$101,990) to the Replacement Reserves for RAD Project #2, staff will make the necessary adjustments in the spreadsheets before the closing.

In the alternative, no adjustments would be needed in the Financing Plans, CNA and Pro Formas if the Board decides to keep the excess funds in the Public Housing program for capital improvements in scattered site properties.

History: On November 28, 2018 the Board approved using the 2019 CFP and the 2017 RHF grant awards to fund the IDRR which is required as part of the conversion process for the eight RAD-PBRA Projects. The IDRR is based on the independent recommendation from the Capital Needs Assessment (CNA) contractor. At the time of Board approval, the actual 2019 CFP award was not known, but staff estimated that it would be approximately \$11,177,209, the same as the previous year’s grant. That amount would have been sufficient to fully fund the IDRR balance. Staff have since evaluated and refined the actual IDRR based on guidance from our Financing Transaction Manager at HUD, Arnold Taylor. The total IDRR amount now required is \$9,381,000, which is the sum of the amounts required for each RAD Project, as follows:

RAD Project #	RAD Project Name	IDRR Required
1	McDonough Homes	\$250,000
2	Front – Hamline - Seal	\$170,000
3	Edgerton - Iowa - Wilson	\$415,000
4	Roosevelt Homes	\$135,000
5	Mt Airy - Valley	\$7,659,000
6	Exchange - Wabasha	\$337,000
7	Central – Neill - Ravoux	\$115,000
8	Dunedin - Cleveland - Montreal	\$300,000
	TOTAL	\$9,381,000

As explained above, the PHA’s 2019 CFP grant announced by HUD on April 23, 2019 is \$11,628,402. As shown below, the award amount is sufficient to fund the conversion needs and provide funding for continued improvements to the scattered site and duplex properties that are not converting to RAD-PBRA, leaving the \$101,990 as “excess funds” available for other uses.

2019 CFP Award	\$11,628,402
Add 2017 Replacement Housing Factor	+ 9,564
Total Available Funds	\$11,637,966
Subtract Initial Deposit to Replacement Reserve	- 9,381,000
Subtotal 1	\$2,256,966
Subtract Scattered Site/Duplexes funding	- 552,737
Subtotal 2	\$1,704,229
Subtract CFP Conversion Year Funding Eligibility	- 1,602,239
EXCESS CFP/RHF FUNDS	\$101,990

As explained above, staff is recommending that this amount be added to the Replacement Reserves for RAD Project #2 (Front, Hamline and Seal Hi-Rises, previously known as AMP 2), to supplement the available funds for Front Hi-Rise boiler replacements and plumbing modernization.

JMG/AJH/FAH

Attachments: St. Paul PHA’s 20 Year Capital Needs Assessment Excerpt; AMP 2 Front Hi-Rise
 EMG’s 20 Year Capital Needs Assessment Summary
 20 Year Operating Pro Forma for AMP 2
 20 Year Consolidated Operating Pro Forma – All AMPs