



Council Communication

Office of the City Manager

Date

May 7, 2007

Agenda Item No. 67

Roll Call No. 07-

Communication No. 07-279

Submitted by: Larry Hulse

Director, Community Development Department

AGENDA HEADING:

Authorization for staff to negotiate for up to \$250,000 of HOME funds for new Construction of 40 units of low income senior housing located at 1720 SW 1st Street, owned by Curly Top, LLC.

SYNOPSIS:

Recommend authorization for staff to negotiate with Curly Top, LLC (John Mauro, President, 2611 Ingersoll Avenue, Des Moines, IA 50312) for a HOME loan to fill a financing gap on a 40-unit senior housing project; this project has received an allocation of Low Income Housing Tax Credits (LIHTC) from the Iowa Finance Authority (IFA).

FISCAL IMPACT:

Amount: Up to \$250,000.

Funding Source: FY 2006-07 Operating Budget, page 356 City HOME Loan, funded through Home Investment Partnership (HOME) funds—Investor Owner, SP036, CDD4990,0 HOME 2006002

ADDITIONAL INFORMATION:

On November 6, 2006, by Roll Call 06-2236, the City Council supported an application for Low Income Housing Tax Credits (LIHTC) for a 40 unit senior housing project to be located at 1720 SW 1st Street, proposed by Curly Top, LLC. Council supported the project because it conformed to Council adopted criteria for LIHTC projects that included: 1) location on an infill lot; 2) compact development; 3) the City had entered into negotiations with the developer for the sale of excess city-owned land to assemble the site, and 4) the project had received support from the McKinley/Columbus Park Neighborhood Association.

In March 2007, the Iowa Finance Authority awarded an allocation of LIHTC to the Senior Housing Project. In negotiations with IFA for the tax credits, a \$400,000 financing gap was identified for the following reasons:

1. The full amount of tax credits requested was not allocated;
2. The Tax Credit Purchaser is paying less for the tax credits than projected, which affects the developer's equity;
3. IFA's market study required that lower rents be charged for the development.

The developer has asked that the City cover a portion of this shortfall through HOME funds.

On March 20, 2006, by Roll Call 06-569, the City Council approved policies and procedures concerning LIHTC projects and HOME funds. These policies stipulate that:

- LIHTC projects may receive no more than \$250,000 with all funding repaid to the City at a minimum 1% interest rate. The repayment does not have to begin immediately, but can wait until the project has sufficient debt coverage ratios.
- LIHTC projects must request State HOME funds in an amount equal to or greater than the City HOME funds requested.

These policies will provide staff direction during negotiations with Curly Top, LLC. Staff is also cognizant of the federal requirements that must be part of the final HOME documents.

Developers of rental housing may make application to the City for HOME or CDBG dollars at any time during the year, although the City generally makes a preliminary commitment of funds to LIHTC projects at the time of initial submission in October or November. Factors associated with LIHTC projects change from the time of construction financing through the time of permanent financing. Because of unknown variables when a LIHTC project is submitted, Council frequently changes the amounts of awarded funding and the terms of the financing of HOME and TIF dollars for the LIHTC projects after the LIHTC have been awarded. Terms and loan amounts have been changed after construction has started because of unforeseen changes in costs and market conditions. Final terms of city financing are based on the sources and uses, operating pro-forma, and any additional costs caused by the use of federal funds.

The City has 2006 HOME funds available for funding Curly Top, LLC's project if the City Council approves the roll call. In November 2006, Council approved preliminary commitments of HOME funding for Community Housing Investment and the National Affordable Housing Foundation. However, these projects did not receive LIHTC allocations. Community Housing Investment is appealing the IFA decision and its funding is being reserved. The National Affordable Housing Foundation is attempting to secure alternative funding. If it does so, its HOME funding can come from the City's 2007 HOME funds allocation.

In all cases, HOME funds are to be the last funding that goes into a project. It is a federal requirement that the project be in such a situation that if it does not receive HOME funds, it cannot proceed. Further, the developer is expected to look for alternative funding for the financing gap in addition to or instead of HOME funds.

The developer fee and developer overhead are negotiated as a part of the developer's discussion with the Tax Credit Syndicator and also will be a key part of the HOME negotiations. Typically, the City requires the developer to defer all or a portion of the developer's fee as a condition of City participation in the project. This practice will continue with the project under discussion. Currently, the project has proposed an 11% developer fee and developer overhead. IFA allows a maximum 12% developer fee and overhead. Total project cost is projected to be \$6,009,214.

PREVIOUS COUNCIL ACTION(S):

Date: November 6, 2006

Roll Call Number: 06-2236

Action: Recommendations regarding Low Income Housing Tax Credit Applications to Iowa Housing Finance Authority by the following: [Support](#) of application by Curly Top LLC for construction of 40 units of Senior Housing at 1720 SW 1st Street. ([Council Communication No. 06-703](#)) Moved by Hensley to adopt. Motion Carried 6-0.

Date: March 20, 2006

Roll Call Number: 06-569

Action: [Adoption](#) of new policies and procedures for administration of the HOME Investment Partnership Act (HOME PROGRAM). ([Council Communication No. 06-140](#)) Moved by Hensley to adopt. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

City Council approval of final agreement before execution of HOME documents.