



Council Communication

Office of the City Manager

Date

July 23, 2007

Agenda Item No. 21

Roll Call No. 07-

Communication No. 07-457

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 42 units of low-income family housing located at 1815 High Street owned by Stockbridge, L.P.

SYNOPSIS:

Recommend approval for staff to negotiate with Stockbridge LP, (Robert Mickle, President of Neighborhood Investment Corporation, the General Partner of Stockbridge, L.P., 1600 Pleasant, Des Moines), for a HOME loan to fill a financing gap on a 42-unit family housing project that has received an allocation of Low Income Housing Tax Credits from the Iowa Finance Authority.

FISCAL IMPACT:

Amount: \$250,000

Funding Source: Fiscal Year 2007-08 Operating Budget, Community Development Department, HOME Investment Partnership (HOME) funds – Investor Owned, SP036 CDD049900, page 106.

ADDITIONAL INFORMATION:

On November 6, 2006, the City Council supported an application for Low Income Housing Tax Credits (LIHTC) for a 42-unit family housing project to be located at 1815 High Street proposed by Stockbridge, L.P. The general partner of Stockbridge, L.P. is Neighborhood Investment Corporation, an Iowa nonprofit organization, located at 1620 Pleasant Street in Des Moines. Bob Mickle is president of the Neighborhood Investment Corporation (NIC). Hatch Development will develop the project for the nonprofit NIC. Jack Hatch is President of Hatch Development.

Council supported the project because it conformed to Council-adopted criteria for LIHTC projects that included its location on an infill lot and the support from the Sherman Hill Neighborhood Association. In addition, the development will complement commercial and residential development occurring on the block bordered by Ingersoll, Martin Luther King, Jr. Parkway and High Street.

In March 2007, the Iowa Finance Authority awarded an allocation of LIHTC to the 42-unit Family Housing Project. In negotiations with IFA for the tax credits, a financing gap has been identified for the following reasons:

1. IFA unit cost caps prohibited the project from receiving the total amount of credits it was eligible for under basis.

2. Construction costs have increased since November of last year when the project costs were originally projected.

The NIC is asking the City to provide a portion of this shortfall funding through HOME funds. In November 2006, the developer asked for a commitment of \$165,000 of HOME funding for the project. The request for preliminary commitment was not approved because two houses on the proposed development site were occupied, and the City would be required to pay relocation costs which would add to the project costs considerably. Since that time, the proposed site plan has been changed and the project will not utilize land on which the houses sit. No relocation would be required for development of the site, removing the city's prior concerns about the use of HOME funds.

On March 20, 2006, the City Council approved policies and procedures concerning LIHTC projects and the HOME funds. These policies include the following:

- LIHTC projects may receive no more than \$250,000 with all the money 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 Stockbridge, L.P. Staff is also cognizant of the number of federal requirements that must be a 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. There are many factors that change with the LIHTC projects through the time of construction financing and up until the time of permanent financing. Because of the unknowns, when a LIHTC project is submitted, Council frequently changes the amounts of funding awarded 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 even been changed after construction has been started based on 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 the project if the City Council approves this authorization to negotiate. One of the two LIHTC projects to which Council preliminarily committed funds in November did not receive an allocation of credits. The other project, which involves purchase and renovation of Des Moines Municipal Housing Agency units by Community Housing Initiative (CHI) has won an appeal for credits if some become available. City HOME funds are still being reserved for the CHI project. City Council also authorized staff to negotiate a HOME loan of up to \$250,000 for a 40-unit senior housing project to be developed by Curly Top, L.L.C. The State Historic Society has requested a geomorphological survey as a part of the Environmental Review so approval of the Curly Top project is proceeding more slowly than anticipated.

The Neighborhood Revitalization Board reviews all rental projects over eleven units to be assisted with either HOME or Community Development Block Grant monies. Because of the NRB's heavy workload in August and September, this item was scheduled on the NRB agenda for July 11th. NIC President Bob Mickle made a presentation on the project to the NRB which recommended approval of a HOME loan for the project.

HOME funds are always to be the last dollar into a project. A federal requirement is that the project could not proceed without HOME funds. The developer is expected to look for alternative funding for the financing gap in addition to or instead of the HOME funds. The NIC intends to meet with the Iowa Department of Economic Development for possible funding and has secured a \$250,000 financing commitment from the Polk County Housing Trust Fund.

The General Partner fee and developer overhead are negotiated as a part of the discussion with the Tax Credit Syndicator and will also 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. That practice will continue with this project. The project currently has proposed 8% for Hatch Development Group's development fee with 21% of the developer fee deferred. The total project is projected to be \$6,188,710.

PREVIOUS COUNCIL ACTION(S):

Date: May 7, 2007

Roll Call Number: 07-918

Action: [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, (John Mauro, President). ([Council Communication No. 07-279](#)) Moved by Meyer to adopt, and make sure all other funding sources are used prior to using HOME funds. Motion Carried 7-0.

Date: November 6, 2006

Roll Call Number: 06-2240

Action: [Support](#) of application by Stockbridge, LLC for construction of 42 units at 1815 High Street. 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):

Date: July 11, 2007

Roll Call: N/A

Action: Neighborhood Revitalization Board Approval of HOME loan for 42-unit low income family housing at 1815 High Street.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

City Council will approve the final agreement before HOME documents are executed.