



Council Communication

Office of the City Manager

Date

August 20, 2007

Agenda Item No. 37

Roll Call No. 07-

Communication No. 07-496

Submitted by: Larry Hulse, Community
Development Director

AGENDA HEADING:

Approving Form of Agreement and Authorizing Execution of Contract Documents for a \$250,000 HOME Loan for New Construction of 40 units of low income senior housing located at 1720 SW 1st Street with Curly Top, L.L.C. upon full compliance with all HOME Program requirements.

SYNOPSIS:

Recommend approval of a loan with Curly Top, L.L.C., (John Mauro, President, 2611 Ingersoll Avenue, Des Moines), for a \$250,000 HOME loan to fill a financing gap on a 40-unit senior housing project that has received an allocation of Low Income Housing Tax Credits from the Iowa Finance Authority. City staff have confirmed that all of the program requirement for HOME dollars have been met by the developer with the exception that the Phase II Environmental identified issues. These issues must be addressed before final execution of the contract.

FISCAL IMPACT:

Amount: \$250,000

Funding Source: Fiscal Year 2007-08 Operating Budget, Community Development Department, Home Grants – SP036 CDD49900, HOME Investment Partnership (HOME) funds – Investor owner, page 106-107.

ADDITIONAL INFORMATION:

On November 6, 2006, 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, L.L.C. In March 2007, the Iowa Finance Authority awarded an allocation of LIHTC to the 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 effects the developer's equity;
3. IFAs market study required that lower rents be charged for the development.

The developer requested the City provide a portion of this shortfall funding through HOME funds. On May 7, 2007, the City Council authorized staff to negotiate with Curly Top L.L.C. for up to \$250,000 of HOME Loan for new construction of SouthView Manor, a senior housing development located at

1720 SW 1st Street. The approval was subject to the developer meeting all HOME program requirements and ensuring that other funding sources are also used prior to using City HOME funds.

On May 15, 2007, City staff sent Curly Top, L.L.C., Attention: John Mauro, a letter stating the requirements of the HOME program and asking for additional submittals of information. Mr. Mauro submitted all requirements to allow staff to underwrite the loan, analyze the construction and operating pro forma of the development and conduct subsidy layering review according to the requirements of the HOME program. Mr. Mauro also submitted letters from the Iowa Department of Economic Development and Polk County Housing Trust Fund stating those organizations are unable to assist with this project because of the timing of their application rounds for 2008 and because all funds for multi-family housing have been exhausted for 2007. City staff also talked to IFA concerning the financing gap and when IFA expected to have the project receive tax credits and begin construction.

The time delay for this project has involved the Environmental Review Record required because of the use of HOME funds. The first delay was that the State Historic Society of Iowa required an archaeological survey and geomorphic evaluation because of the nearness of Ft. Des Moines No. 2 and the location of an Oneota Village Site. The archaeological field work for that survey was conducted on July 30-31, 2007. No evidence of earlier occupation associated with the Fort Des Moines or Native Americans was noted by the archaeologist, and that information has been communicated to the State Historic Society. The contract documents will be executed when final sign-off is received from the State Historic Society.

The second delay involved the environmental review. A Phase II Environmental has been completed but identified some concerns that will need to be addressed in order for this development to proceed. The HOME loan cannot be executed until the environmental concerns have been addressed. The HOME loan does require that the developer own the property so that a mortgage and promissory note can be recorded.

Review of Request for HOME Funds

The total development costs for the project are \$5,911,966 with a cost per unit of \$147,799. The City's HOME funding of \$250,000 will provide a construction subsidy to assist with the eight (8) units that will be rented to households at 40% of area median income. This construction subsidy for eight (8) one bedroom units allows the developer to provide those units at a lower monthly rent than can be provided when only utilizing the Low Income Housing Tax Credits. The HOME unit rents are projected to be \$440 per month, whereas the rents for those units at 60% of area median income will be \$550/month. Rents for the two bedroom units will be \$650/month. The lower rents will be in place for a period of twenty years and will be monitored for compliance by City staff during that time period.

Sources and Uses:

Sources

IFA First Mortgage (7% 30 yr. term)	\$900,300	15%
IFA First Mortgage (7% 10 yr. term)	\$244,500	4%
City HOME Loan (1% Interest only 16 yrs.)	\$250,000	4%
Equity (LIHTC 90 cents/dollar)	\$4,193,109	71%

Deferred Developer Fee	\$324,057	5%
TOTAL	\$5,911,966	100%

Uses

Land/Site Acquisition	\$99,903	2%
Site Work	\$314,201	5%
Legal costs	\$6,895	<1%
3rd party reports	\$6,000	<1%
Construction	\$3,928,845	66%
Prof. Fees	\$316,100	5%
Construction Financing	\$301,000	5%
Perm Finance	\$20,606	<1%
Soft Costs	\$97,880	2%
Syndication	\$38,000	1%
Developer Fee	\$645,536	11%
Reserves	\$137,000	2%
Less Grants	\$0	0%
TOTAL	\$5,911,966	100%

HOME funds are always to be the last dollar into a project. Staff reviews the project to determine if the project would proceed if not for the addition of HOME dollars. The developer is expected to look for alternative funding for the financing gap in addition to or instead of the HOME funds. The developer has submitted letters stating that the Iowa Department of Economic Development and the Polk County Housing Trust Fund can not participate in the project because of timing of their grant rounds. The project is not located within a Tax Increment District or State Enterprise Zone. There are no additional City funds that can be provided to the housing development.

The City HOME loan will be repaid with 1% annual interest in 16 annual installments. The first fifteen annual installments will be the amount of the accrued interest with no principal payment. The principal amount is due in its entirety in Year 16 of the project. The Debt Coverage Ratio (DCR) on the project is 1.3 in its first year and stays at close to that level in the first fifteen years of the project. This should give the operation of the project some cushion but will not generate a great deal of profit for the investors.

The developer fee and developer overhead are negotiated as a part of the developer’s discussion with the Tax Credit Syndicator and 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. The developer is deferring approximately half of this developer fee over the first 11 years of the project.

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: 06-2236

Action: 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):

Date: July 11, 2007

Board: Neighborhood Revitalization Board

Action: Recommend approval of up to \$250,000 HOME loan for new construction of 40 units of low income senior housing to be located at 1720 SW 1st Street

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE