



Council Communication

Office of the City Manager

Date

September 24, 2007

Agenda Item No. 32

Roll Call No. 07-

Communication No. 07-569

Submitted by: Larry Hulse

Director, Community Development Department

AGENDA HEADING:

Approving Form of Agreement and Authorizing Execution of Contract Documents for a \$250,000 HOME Loan for New Construction of 42 units of low income family housing located at 1815 High Street with Stockbridge L.P.

SYNOPSIS:

Approval of a loan with Stockbridge L.P. (Robert Mickle, President of Neighborhood Investment Corporation, the General Partner of Stockbridge, L.P., 1600 Pleasant, Des Moines), for a \$250,000 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. City staff has confirmed that all the program requirements for HOME dollars have been met by the developer.

FISCAL IMPACT:

Amount: \$250,000

Funding Source: 2006-2007 Operating Budget, Page 356, SP036 CDD49900 HOME Investment Partnership (HOME) funds – Investor owner

ADDITIONAL INFORMATION:

By Roll Call 06-2240 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 (NIC), an Iowa nonprofit organization, (Bob Mickle, President) located at 1620 Pleasant Street in Des Moines. Hatch Development (Jack Hatch, President) will develop the project for the nonprofit NIC.

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.

Review of Request for HOME Funds

The total development costs for the project are \$6,188,710 with a cost per unit of \$147,350. The City’s HOME funding of \$250,000 will assist with nine (9) units that will be rented to households at 40% of area median income by providing a construction subsidy. This construction subsidy for seven (7) one bedroom units and two (2) two 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 \$465 per month whereas the rents for those units at 60% of area median income will be \$600/month. Rents for the Home Assisted two bedroom units will be \$550 month and \$770 for the non HOME units. 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

Equity (Limited Partner) 89.9 cents/LIHTC	\$4,519,647	73%
State Enterprise Credits	\$125,165	2%
General Partner Contribution	\$100	0%
Deferred Developer Fee	\$103,798	2%
First Mortgage	\$940,000	15%
Polk County Housing Trust Fund (Loan on Tax Abatement)	\$250,000	4%
HOME Loan	\$250,000	4%
TOTAL	\$6,188,710	100%

USES

Land Acquisition	\$222,623	4%
Construction Costs	\$4,374,819	71%
Legal costs	\$115,000	2%
3 rd Party Reports	\$5,000	0%
Professional Fees	\$273,000	4%
Construction Financing	\$275,000	4%
Soft Costs	\$252,267	4%
Syndication Fees	\$1,000	0%
Developer Fee	\$500,000	8%
Lease Up Reserve	\$40,000	1%
Operating Reserve	\$130,000	2%
TOTAL	\$6,188,709	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 a letter stating that the Iowa Department of Economic Development can not participate in the project because of timing of their grant rounds. The developer was awarded a \$250,000 loan from the Polk County Housing Trust Fund based on the tax abatement for the site. The project is utilizing

Enterprise Zone Credits, however, it is not located within a Tax Increment Finance District. There are no additional City funds that can be provided to the housing development.

The HOME funds will be lent to the project at the applicable federal interest rate as required by the HOME program, approximately 5% with a thirty year term. Starting in March of 2009 the HOME program is guaranteed a payment of \$2500 annually to be paid toward interest. An additional annual payment will be paid to the HOME Loan from any cash flow over \$25,000/year in the years 2010 to 2038. All unpaid principal and interest will be repaid to the City in year 2039.

The developer fee and developer overhead in this project is at 8%, less than the amount allowed by the Iowa Finance Project for a project of this size. 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 project currently has proposed 8% for Hatch Development Group's development fee with 21% of the developer fee deferred to make up a portion of the shortfall (\$103,798). Staff believes this to be an adequate deferral amount based on the smaller than allowed developer fee.

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.

PREVIOUS COUNCIL ACTION(S):

Date: July 23, 2007

Roll Call Number: 07-1404

Action: [Authorization](#) 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. ([Council Communication No. 07-457](#)) Moved by Vlassis to adopt. Motion Carried 6-0. Council Member Hensley declares a conflict of interest and abstains from voting.

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: September 6, 2007

Board: Plan and Zoning Commission

Action: Approval of Site Plan Conformance with Neighborhood Pedestrian Commercial Guidelines.

Date: July 11, 2007

Board: Neighborhood Revitalization Board

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

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE