



Council Communication

Office of the City Manager

Date

October 8, 2007

Agenda Item No. 53E
Roll Call No. 07-
Communication No. 07-613
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 1900 SE 6th Street with Southview Senior Apartments, L.L.L.P. (John Mauro, General Partner) upon full compliance with all HOME Program requirements.

SYNOPSIS:

Recommend approval of a HOME loan with Southview Senior Apartments, L.L.L.P. (John Mauro, General Partner, Southview Senior Apartments L.L.L.P., an Iowa Limited Liability Limited Partnership, 2611 Ingersoll Avenue, Des Moines), for \$250,000 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. The project has moved from its original location. City Council previously approved a loan for the project for a location at 1720 SW 1st Street, and this roll call approves a loan for the same building type and number of units on a site at 1900 SE 6th Street.

FISCAL IMPACT:

Amount: \$250,000

Funding Source: Fiscal Year 2007-08 Operating Budget, Community Development Department, NCS – Investor Owned, SP036 CDD49900 HOME200602, page 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. On August 20, 2007, City Council approved the form of agreement and authorized execution of a HOME agreement with Curly Top L.L.C. for a \$250,000 loan for the project to be located at 1720 SW 1st Street, contingent upon compliance with all HOME requirements. Unfortunately, the site at 1720 SW 1st Street had been contaminated due to the fire of a roofing company formerly located on the site. The developer was not able to economically clean the site so that it complied with rules for construction of a Low Income Housing Tax Credit project and the use of HOME funds.

The developer has received permission from the Iowa Finance Authority (IFA) to change the tax credit allocation to another site on the south side of Des Moines, 1900 SE 6th Street, the past home of the South Des Moines Little League ball fields. Although IFA allows the developer to transfer the credits to another site if a problem with an original site arises, IFA still requires that 10% of the tax credits be spent by the end of 2007. IFA also will not commit to a construction loan, permanent financing loan or final

allocation of the credits until a gap of \$250,000 has been filled. The Iowa Department of Economic Development and Polk County Housing Trust Fund both submitted letters to the developer and the City stating that their funds had been allocated for the year and their funding rounds could not meet IFA's deadlines. The City HOME Loan is a key piece of the project, therefore, and has to be committed by City Council for IFA to proceed with its financing in order for the developer to expend funds by the end of the year.

A HOME loan cannot be transferred between sites and a new agreement needs to be negotiated and executed for the new site, if the City Council chooses to continue to participate in the project. The HOME program is geographically specific so it requires a new environmental review and a new review of the financing prior to commitment. A restrictive covenant for affordable housing is placed on the property title as a part of the HOME documents.

The developer has also changed the name of the developing entity from Curly Top, L.L.C. to Southview Senior Apartments, L.L.L.P. Mr. Mauro is a General Partner in Southview Senior Apartments Limited Liability Limited Partnership and President and sole owner of Curly Top L.L.C., an Iowa Limited Liability Company which is also a General Partner of Southview Senior Apartments, L.L.L.P. The developer has completed a Phase I Environmental Study with minimal recommendations for future actions, has requested changes to the zoning conditions of the site (also on this City Council agenda), and is working with the architect, Community Development staff and the Plan and Zoning Commission on the site plan.

Development costs, particularly utility plans and grading, have not all been finally determined at this point. The land for the 40-unit development will cost approximately \$50,000 more than at the original site. The developer is obtaining new bids for grading and construction, but it is estimated that bringing utilities to the site will cost more and grading costs will be less. Staff has preliminarily analyzed the construction and operating pro forma of the project at its new site and performed a subsidy layering review as required by the HOME regulations. It is staff's opinion that the 40-unit Senior Housing project now to be built at 1900 SE 6th Street has a larger gap in its financing than at its original location because of increased land costs, an estimated increase in utility costs and additional design costs.

The City HOME Loan is the same amount as previously committed and in compliance with adopted Council policies. The developer will have to provide for any gap greater than that filled by the \$250,000 HOME Loan from the developer fee. The developer was previously deferring \$324,057 of the total developer fee of \$645,536 over an 11-year period to cover development costs. The deferred developer fee will likely increase by at least \$50,000 as a result of the relocation of the project. The entire development will cost approximately \$6,000,000.

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.

The City HOME loan will be repaid over a thirty year period at the "Applicable Federal Rate" (approximately 5% as of September 2007). An annual payment of \$2500 will be paid for the first fifteen (15) years of the loan beginning in March, 2009 through March 2024. The annual payment will increase

to \$5,000 in year sixteen (16) through year twenty-nine (29) of the loan (2025 through 2038). All unpaid principal and interest will be due in a balloon payment in March 2039.

Local HOME processes require that the project be reviewed by the Neighborhood Revitalization Board at its new site. The review is scheduled for the October 3rd meeting of the NRB. A new letter from the McKinley School/Columbus Park Neighborhood has been submitted supporting the project.

PREVIOUS COUNCIL ACTION(S):

Date: August 20, 2007

Roll Call Number: 07-1613

Action: [Form](#) of Agreement and authorizing execution of HOME Agreement for HOME Loan for new construction of 40 units of low-income senior housing at 1720 SW 1st Street with Curly Top, L.L.C, \$250,000. ([Council Communication No. 07-496](#)) Moved by Meyer to adopt. Motion Carried 6-1.
Nays: Hensley.

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