



Council Communication

Office of the City Manager

Date

March 10, 2008

Agenda Item No. 36
Roll Call No. 08-
Communication No. 08-124
Submitted by: Larry Hulse, Director
Community Development Department

AGENDA HEADING:

Authorizing Execution of HOME Contract Documents with Community Homes, L.P. for renovation of low income rental housing.

SYNOPSIS:

Recommend authorization for execution of HOME Contract Documents with Community Homes, L.P. for renovation of low income rental housing. This project involves allocation of City HOME funds for rehabilitation of eighteen (18) units that the Governing Board of the Des Moines Municipal Housing Agency has approved for sale to Community Housing Initiatives, Inc. (14 W 21st Street, Spencer, Iowa 51301, Doug LaBounty, President).

Community Housing Initiatives, Inc. (CHI) has formed a for-profit company CHI GP, Inc. as a general partner of Community Homes, L.P., which will be the developer for the project. Doug LaBounty is the President of CHI GP, Inc. Community Housing Initiatives, Inc. will manage the project after completion. Council is asked to approve HOME contract documents for \$370,000 for renovation of duplex and townhouse style rental housing with Community Homes, L.P.

FISCAL IMPACT:

Amount: \$370,000 – City HOME Loan to be advanced during construction as work is completed.

Funding Source: FY 2007-08 Operating Budget, HOME2007009, SP036, CDD49900, HOME 2007009, page 315.

ADDITIONAL INFORMATION:

The Community Homes, L.P. project is a scattered site rehabilitation project that consists of: 3 duplexes in the 1200 block of Highview Drive; 2 duplexes in the 6200 block of SW 14th Street; and an 8 unit town house development at 5301 SW 9th Street. The total number of units is 18. The Des Moines Municipal Housing Agency Governing Board has or will approve the sale of these buildings to Community Housing Initiatives, Inc. (CHI) on November 19, 2007; January 7, 2008; and March 10, 2008.

CHI is a not-for-profit housing development organization that is based in Spencer, Iowa. The Executive Director is Doug LaBounty. CHI has worked on successful developments in numerous Iowa and Nebraska towns that utilize Low Income Housing Tax Credits, Historic Tax Credits and Iowa Department of Economic Development funds. This is the second such project with which

CHI has worked with the City in purchasing units owned by DMMHA and using HOME funds in rehabilitation. To begin development and management of the units in Des Moines, CHI has opened an office in the East Village.

A for-profit organization is needed to utilize a low income housing tax credit allocation. As such, CHI has formed a for-profit partnership for this project, Community Homes, L.P. Doug LaBounty remains the President of CHI GP, Inc., the General Partner of Community Homes, L.P.

The Community Homes L.P. Project is to be financed with multiple funding sources including: Low Income Housing Tax Credits; Polk County Housing Trust Fund funds; and City HOME funds. The units to be rehabilitated were sold by the Des Moines Municipal Housing Agency at 75% of assessed value to the non-profit CHI. CHI will sell the units to Community Homes, L.P. at 100% of assessed value and will use this 25% discount as General Partner equity.

Of the units to be rehabilitated, four will be occupied by households at or below 40% of median income, five will be occupied by households at or below 50% of median income and nine will be occupied by households at or below 60% of median income. The rent will vary by location and income level, but will be approximately \$487 for a one bedroom unit, \$550 for a two-bedroom unit and \$595 for a three-bed room unit. These rents are below the maximum rents allowed in the HOME program.

On November 6, 2006, by Roll Call No. 06-2243, the City Council approved the LIHTC application for submittal to the Iowa Finance Agency (IFA) for funding in the year 2007. The City made a preliminary commitment for \$250,000 of HOME funds for 44 units of DMMHA housing. Unfortunately, because of a scoring inaccuracy on the part of IFA, the project did not receive an allocation of Low Income Housing Tax Credits in March 2007. The owner appealed and was allocated credits in November 2007.

On March 6, 2006, by Roll Call No. 06-569, the City Council approved a policy for Low Income Housing Tax Credit projects that recommended that no project receive more than \$250,000 in HOME funds and additionally, each project requesting City HOME funds should also request HOME funds from the Iowa Department of Economic Development. Staff is recommending that the Council deviate from this policy because of the loss of IDED HOME funds created by the IFA scoring inaccuracy and because the funding will be fully paid back at the end of sixteen years.

In the original application, CHI applied for \$800,000 of HOME funds from IDED. Because of the delay in receiving the LIHTC allocation, the owner was not provided the projected HOME funds from IDED for the project. As a consequence, the City has increased its portion of the funding to \$370,000 to fund rehabilitation.

The total development costs for the project are \$1,902, 250 with a cost per unit of \$105,681. The City's HOME funding will be used only for rehabilitation costs and equal \$20,556 per unit. The City HOME funding is secured with a HOME Agreement, 16-year mortgage and promissory note and ten-year period of affordability during which the housing must be occupied by low income renters.

The City HOME loan will be repaid in full over a sixteen year period at a 1% interest rate. A payment will be made annually and credited toward interest for the first fifteen (15) years of the

loan beginning in June 2010. All unpaid principal and interest (\$398,845) will be due in a balloon payment in June 2025.

Many projects would not happen without the equity raised through the LIHTC program, but it adds to the overall cost of the project. Specifically, the LIHTC process adds costs to the project through fees, soft costs and required contingency. The developer is taking a 12% developer fee, but would actually be allowed a 17% developer fee under the IFA program. The syndicator for this project, the Midwest Housing Equity Group, was able to sell the tax credits for 92 cents on the dollar; however, the Midwest Housing Equity Group then required that the developer not defer any of the developer fee. Taking the fee allows the non-profit developer to absorb any costs that occur during the project without risking the success of the project. City staff has had several discussions with the developer and Midwest Housing Equity Group concerning the developer fee and concurs with their reasoning.

Sources and Uses:

<u>Sources</u>			<u>Uses</u>		
Private Debt	\$150,000	8%	Acquisition	\$733,000	39%
LIHTC Equity	\$949,000	50%	Rehabilitation	\$556,300	29%
Polk Co. Housing	\$250,000	13%	Construction Ins.	\$6,300	1%
Trust Fund Loan			Prof. Fees	\$41,000	2%
City HOME	\$370,000	19%	Taxes during	\$32,985	2%
Developer Equity	\$183,250	10%	Construction		
			Finance Costs	\$36,000	2%
			Soft Costs	\$53,500	3%
			Tax Credit Fees	\$26,620	1%
			Developer Fee	\$235,000	12%
			Reserves	\$99,600	5%
			Contingency	\$81,945	4%
TOTAL	<u>\$1,902,250</u>	100%	TOTAL	<u>\$1,902,250</u>	100%

PREVIOUS COUNCIL ACTION(S):

Date: November 6, 2006

Roll Call Number: 06-2243

Action: Recommendations regarding Low Income Housing Tax Credit Applications to Iowa Housing Finance Authority by the following: [Support](#) of application by Community Housing, LP for renovation of 44 units of scattered site family housing. Moved by Hensley to adopt. Motion Carried 6-0.

Date: March 20, 2006

Roll Call Action: 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: March 5, 2008 - Neighborhood Revitalization Board

Roll Call Number: N/A

Action: Support of HOME funds for rehabilitation of Community Homes, L.P. Project

Date: January 07, 2008 - Des Moines Municipal Housing Agency Governing Board

Roll Call Number: 08-002

Action: [Approving](#) conveyance of 6211-6213 and 6215-6217 SW 14th Street to Community Housing Initiatives, Inc. ([Board Communication No. 08-012](#)) Moved by Coleman to adopt. Motion Carried 8-0.

Date: November 19, 2007 – Des Moines Municipal Housing Agency Governing Board

Roll Call Number: 07-2171, 07-2172, and 07-2173

Action: MHAGB Item 6 - Approving conveyance of the following to Community Housing Initiatives, Inc.: (A) [1218/1220 Highview Drive](#). Moved by Kiernan to adopt. Motion Carried 7-1. ([Board Communication No. 07-695](#)) (B) [1225/1227 Highview Drive](#). Moved by Kiernan to adopt. Motion Carried 7-1. ([Board Communication No. 07-692](#)) (C) [1219/1221 Highview Drive](#). Moved by Kiernan to adopt. Motion Carried 7-1. ([Board Communication No. 07-693](#))

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

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