

 <p style="text-align: center;"><b>Council Communication</b> Office of the City Manager</p>	<b>Date</b>	October 12, 2009
	<b>Agenda Item No.</b> <u>25</u> <b>Roll Call No.</b> <u>09-</u> <b>Communication No.</b> <u>09-711</u> <b>Submitted by:</b> Larry Hulse, Director <span style="padding-left: 100px;">Community Development</span>	

**AGENDA HEADING:**

Authorizing Execution of HOME Contract Documents with the Iowa Department of Economic Development and Oakridge Neighborhood Associates, L.P. and Oakridge Neighborhood Associates, Phase II, L.P. for renovation of low income rental housing.

**SYNOPSIS:**

This project involves allocation of City and State HOME funds for rehabilitation of 300 units of low income housing located at the Homes of Oakridge, ONS Ventures, Inc., Managing General Partner, President Robert Rafferty, Executive Director Teree Caldwell-Johnson, 1236 Oakridge Drive. Phase I of the rehabilitation project combines \$800,000 of State HOME funds and \$250,000 of City HOME funds with a Low Income Housing Tax Credit allocation for rehabilitation of 150 units. Phase II of the rehabilitation project combines \$800,000 of State HOME funds and \$25,000 of City HOME funds with a Low Income Housing Tax Credit allocation for rehabilitation of an additional 150 units.

Council is asked to approve the HOME Contract documents for each phase with the Iowa Department of Economic Development (IDED) for use by Oakridge Neighborhood Associates L.P. and Oakridge Neighborhood Associates, Phase II, L.P. for rehabilitation of housing at the Homes of Oakridge. Council is further asked to approve HOME contract documents for \$1,050,000 and \$825,000 between the City of Des Moines and Oakridge Neighborhood Associates, L.P. and Oakridge Neighborhood Associates, Phase II L.P. for renovation of the housing.

**FISCAL IMPACT:**

Amount: \$250,000 for Phase I, \$25,000 for Phase II

Funding Source: Special Revenue Funds HOME Grants – SP036 CDD049900 HOME Funds.

**ADDITIONAL INFORMATION:**

**Rehabilitation Work**

The buildings of the Homes of Oakridge are 38 years old and in need of rehabilitation and updating. Occupying the 300 units of the entire complex are 982 residents and 488 children.

The architects for the projects are attempting to return to the best parts of the original design and also incorporate needed upgrades to the buildings. When constructed, three building types were erected with interior courts connecting the structures. The architects are proposing rehabilitation ideas that range in complexity. Some simple ideas are proposed that should make a big difference in appearance such as,

ensuring the gutters and downspouts match the color of the roof and introducing warmer residential colors for trim. Other ideas are larger and more complex, and will involve correcting drainage issues, replacing railroad tie retaining walls with stone and reopening some paths between buildings. Many of the concrete stoops and wooden patios will be replaced. Safety issues are also a concern, including replacing door jams because trim contains lead paint and repairing any ceilings or walls that contain asbestos. Washers/Dryers are to be installed in each unit and electric issues such as exhaust fans and upgrades will also be addressed.

Finally, accessibility issues will be addressed at Oakridge. For example, the existing laundry facilities are being converted to units, added on to and converted to four and five bedroom accessible units with two baths. Door jams, etc. are being adjusted for accessibility in some of the ground floor units in existing structures.

### **Financing**

By Roll Call 07-2077 on October 22, 2007, the Des Moines City Council supported a Low Income Housing Tax Credit application (LIHTC) and preliminarily approved a HOME loan of \$225,000 to Oakridge Neighborhood Associates, L.P. for rehabilitation of 150 units of low income family housing. Phase I of the Homes of Oakridge were allocated tax credits for rehabilitation of 150 units of existing low income housing in the 2008 round of Low Income Housing Tax Credits. In its October 2008 meeting, the NRB approved a \$250,000 loan for the Oakridge Phase I project and on December 8<sup>th</sup> by Roll Call 08-2130, the City Council authorized staff to negotiate a HOME loan for up to \$250,000 for the project.

By Roll Call 08-1902 on October 27, 2008, the Des Moines City Council supported a LIHTC application for rehabilitation of 150 units for rehabilitation by Oakridge Neighborhood Associates, Phase II, L.P. Phase II of the project were allocated tax credits for rehabilitation of 150 units of existing housing in the 2009 round of credits. The City will provide an additional \$25,000 to Phase II in order to be able to “count” HOME units for Housing and Urban Development (HUD) monitoring and for additional rehabilitation.

The Oakridge projects were delayed because the tax credits received could not be syndicated for the planned budget amount. Unfortunately, after signing a preliminary agreement with the National Equity Fund (NEF) for tax credit syndication, NEF was not able to buy the tax credits. The Oakridge project subsequently submitted a new application to Iowa Finance Authority (IFA) for a larger amount of tax credits. In addition, the IFA is providing an additional \$4,288,515 in Tax Credit Assistance Funds (TCAP) for Phase I and II to make the projects financially feasible. The TCAP funds are a special allocation of HOME funds administered by IFA, and require full repayment beginning in year five. NEF will be able to buy the credits, but at a lower price.

In addition to the City’s HOME funds, Phase I of the Oakridge project will receive \$800,000 of State HOME funds and Phase II of the Oakridge project will receive an additional \$800,000 of State HOME funds. Those funds (\$1.6 million) are actually granted to the City of Des Moines for use in the rehabilitation of Oakridge. Community Development will administer those funds during construction and Housing Services will monitor the HOME units for a ten year period of time. The City will receive an additional grant of \$30,000 from IDED to administer the Davis-Bacon wage rates and other construction monitoring. That \$30,000 will be shared by the Community Development and Engineering Departments.

The City's HOME program will receive a 1% interest payment (\$18,750) annually for sixteen years, at which time the full amount of the loan is due. The loan amounts of \$250,000 and \$25,000 are in compliance with a City Council policy adopted March 20, 2006 by Roll Call 06-569 that states, up to \$250,000 of funding can be provided to a LIHTC project, with all the money repaid to the City at a minimum 1% interest rate.

The general managing partner that has been formed for the LIHTC project purpose is ONS Ventures, Inc., but the board of the corporation is still the same as the Board of the Homes of Oakridge. Robert Rafferty as the Chair of the Homes of Oakridge Board is the President of ONS Ventures, Inc. and will be the signatory on the agreements. The developer is Newberry Development Company, Frank Levy, President, 3408 Woodland Avenue, West Des Moines, IA 50266. IFA requires that an experienced developer manage the development of the LIHTC project and Newberry has experience with projects both in Polk County and other areas of the state.

The current pro-forma shows a \$1.15 million developer fee for each of the projects. This developer fee is \$650,000 less than the \$1.8 million dollar maximum fee that is allowed under the tax credit program. In addition, the national syndicators are insisting LIHTC projects budget for a substantial developer fee because it is the only true contingency the developer can use for problems with the project. Generally a developer fee is reduced throughout the project as unanticipated issues arise. Of the fee, \$400,000 is being deferred at this time.

Lastly, the developer fee will be split between Newberry Development and the ONS Ventures, Inc. ONS will utilize the developer fee it receives for operating programs at the Homes of Oakridge and investing in the development and in the residents of the Homes of Oakridge.

The project will qualify for ten year tax abatement, but that abatement is not part of the sources and uses because the rehabilitation projects will not borrow against that abatement. Each project continues to pay taxes throughout the abatement period. It is estimated that the assessed value on the 300 unit Homes of Oakridge development will increase by \$1.6 million, so taxes will increase substantially at the end of ten years.

All financing should close by the end of October and work should begin in November.

## Phase I

USES of FUNDS			SOURCES of FUNDS		
	Amount	%		Amount	%
Land/Site Acq.	\$3,140,000	20%	IDED HOME	\$800,000	5%
Construction	\$7,287,000	47%	Conv. Debt	\$1,250,000	8%
Legal costs	\$234,200	2%	TCAP	\$1,954,345	13%
3rd party repts	\$40,000	0%	Soft Seller Note	\$977,663	6%
Contractor	\$1,043,000	7%	LIHTC Equity	\$7,186,296	47%
Prof. Fees	\$280,000	2%	Historic TC	\$0	0%
ConstrFinancing	\$360,676	2%	HEZ Equity	\$501,813	3%
Soft Costs	\$190,411	1%	Roll Over Flex Sub Loan	\$1,915,217	12%
Developer Fee	\$1,150,000	7%	Const. Period Income	\$60,000	0%
Reserves	\$1,350,000	9%	Ex. Repl. Reserves	\$150,000	1%
IFA Fees	\$120,147	1%	G.P.	\$100	0%
Temp Reloc	\$250,000	2%	Def'ed Dev Fee	\$400,000	3%
			City HOME	\$250,000	2%

**TOTAL**            **\$15,445,434**    100%

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Cost/Unit    **\$102,970**

**Phase II  
USES of FUNDS**

**SOURCES of FUNDS**

	<b>Amount</b>	<b>%</b>
Land/Site Acq.	<b>\$4,000,000</b>	24%
Construction	<b>\$7,184,392</b>	44%
Legal costs	<b>\$231,000</b>	1%
3rd party repts	<b>\$40,000</b>	0%
Contractor	<b>\$1,043,000</b>	6%
Prof. Fees	<b>\$275,000</b>	2%
ConstrFinancing	<b>\$577,606</b>	4%
Perm Finance	<b>\$23,699</b>	0%
Soft Costs	<b>\$130,000</b>	1%
Syndication		0%
Developer Fee	<b>\$1,150,000</b>	7%
Reserves	<b>\$1,360,000</b>	8%
IFA Fees	<b>\$128,740</b>	1%
Temp Reloc	<b>\$250,000</b>	2%
<b>TOTAL</b>	<b>\$16,393,437</b>	100%
Cost/Unit	<b>\$109,290</b>	

	<b>Amount</b>	<b>%</b>
IDED HOME	<b>\$800,000</b>	5%
Conv. Debt	<b>\$600,000</b>	4%
TCAP	<b>\$2,334,170</b>	14%
Soft Seller Note	<b>\$1,845,875</b>	11%
LIHTC Equity	<b>\$7,688,159</b>	47%
Historic TC	<b>\$0</b>	0%
HEZ Equity	<b>\$573,639</b>	3%
Roll Over Flex Sub Loan	<b>\$1,909,794</b>	12%
Const. Period Income	<b>\$43,000</b>	0%
Ex. Repl. Reserves	<b>\$173,699</b>	1%
G.P.	<b>\$100</b>	0%
Def'ed Dev Fee	<b>\$400,000</b>	2%
City HOME	<b>\$25,000</b>	0%
		0%
<b>TOTAL</b>	<b>\$16,393,436</b>	100%

**PREVIOUS COUNCIL ACTION(S):**

Date: December 8, 2008

Roll Call Number: 08-2130

Action: Support of Low Income Housing Tax Credit application for the rehabilitation of 150 units of low-income family housing at the Homes of Oakridge, Phase 1, and authorization to negotiate a home loan up to \$250,000. (Council Communication No. 08-719) Moved by Vlassis to adopt. Motion Carried 7-0.

Date: October 27, 2008

Roll Call Number: 08-1902

Action: Applications to Iowa Housing Finance Authority requesting low-income housing tax credits for the following: (Council Communication No. 08-650)  
(C) Oakridge Neighborhood Associates, Phase II, LP for rehabilitation of 150 units of low-income family housing in the vicinity of 15th Street and Oakridge Drive. Moved by Kiernan to adopt. Motion Carried 7-0.

Date: October 22, 2007

Roll Call Number: 07-2077

Action: Applications to Iowa Housing Finance Authority requesting low income housing tax credits for the following: (B) Oakridge Neighborhood Associates, L.P. for rehabilitation of 150 units of low-income family housing at 15<sup>th</sup> and Oakridge Drive. Moved by Coleman to adopt. Motion Carried 7-0.

**BOARD/COMMISSION ACTION(S):**

Date: October 7, 2009

Board: Neighborhood Revitalization Board

Action: Update on status of Oakridge Projects

Date: October 1, 2008

Board: Neighborhood Revitalization Board

Action: Approve \$250,000 HOME loan for Homes of Oakridge Phase I Rehabilitation

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE**

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