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|  <p style="text-align: center;">Council Communication Office of the City Manager</p> | Date: October 22, 2012 |
| | Agenda Item No. 46 Roll Call No. <u>12-1665</u> Communication No. <u>12-558</u> Submitted by: Phillip Delafield, Community Development Director |

AGENDA HEADING:

Approval of the NSP and HOME funding agreement and contract documents with Hatch Development Group and Southern Meadows Homes LP for the development of 38 units of housing 2800 SE 8th Street (Southern Meadows Apartments).

SYNOPSIS:

By Roll Call No. 12-0122, the City Council approved an agreement for purchase and sale of the property at 2800 SE 8th Street to Hatch Development Group to redevelop the site as affordable housing. City staff originally agreed to provide \$400,000 to assist with the development of the site. However, staff has determined that an additional \$491,000 of site preparation work is necessary. Due to IFA’s reduced cost caps for LIHTC projects, this site work cannot be funded by the developer without a significant decrease in the quality of corresponding development. Council is also approving a PUD Restoration Bond and a Private Construction Contract for the project.

FISCAL IMPACT:

Amount: \$891,000

Funding Source: \$400,000 Neighborhood Stabilization Program (NSP) Funds
\$491,000 HOME Funds

ADDITIONAL INFORMATION:

City staff has been working to redevelop the Southern Meadows Apartments for over three (3) years. In 2009, the Southern Meadows Apartments were 34 severely distressed apartment units that were under the ownership of the Iowa Finance Authority (IFA) after they had received a deed-in-lieu of foreclosure from an absentee landlord. The building had a failing sewer system; the elevators weren’t properly functioning, and had several major fire hazards. Knowing the extent of the problems, City staff began working with IFA officials to acquire the property to redevelop the site. The City Council authorized staff to acquire the property in September 2009, by Roll Call No. (09-1743). The City closed on the purchase in April 2010.

Staff determined it was not feasible to rehabilitate the structure and the building needed to be demolished. Because the structure was eligible for listing on the National Register of Historic Places, staff had to work with the State Historic Preservation Office and the National Parks Service to obtain

approval for the demolition. By Roll Call No. 11-1583, the City entered into a Memorandum of Agreement with the State Historic Preservation Office to allow for the demolition of the structure.

In addition to the parcels at 2800 SE 8th Street and 2810 SE 8th Street the City acquired from IFA, the City acquired several of the adjacent properties (2933 Indianola Avenue, 2843 Indianola Avenue, and 2839 Indianola Avenue) to enhance the redevelopment project. One of these parcels, at 2933 Indianola Avenue, had two small buildings on the site that were demolished in March 2012.

The City hired Confluence to create a redevelopment concept plan for the site. The goal of this plan was to create a redevelopment project that would be agreeable to the neighborhood, marketable to developers, and would help ease some of the storm water runoff near the site. After extensive work with the neighborhood and other area neighborhood groups, Confluence created a redevelopment plan that created 38 row-house housing units on the site. The concept and design was supported by the neighborhood and by Roll Call No. 11-2003 the site was rezoned to PUD to allow the development of the concept plan.

By Roll Call No. 11-1582, Council directed staff to begin the disposition process for site. An RFP was sent to developers in September 2011 to obtain proposals to redevelop the land. There were three (3) responses to the RFP, and by Roll Call No. 12-0122, the City directed staff to enter into a Development Agreement with Hatch Development Group (HDG) to redevelop the site.

In May 2012, HDG was awarded Low-Income Housing Tax Credits (LIHTC), to finance the redevelopment of the site. The project will be a ROSE (Renter to Ownership Savings Equity) project. The ROSE program is a rent-to-own program where a portion of tenants rent each month is placed in escrow to use as downpayment assistance when/if the tenant(s) moves into homeownership. After the affordability period of 15 years, the units are sold to owner occupants.

After the City finalized the redevelopment concept plan and finalized the RFP, there were two (2) changes to IFA's 2012 Qualified Allocation Plan for the distribution of LIHTC had a significant negative impact on the project. The first change was the lowering of cost-caps. In 2011, IFA allowed total development costs of \$210,000/unit for a 3 bedroom unit. In 2012, this cost cap was reduced \$25,000 down to \$185,000. This reduced the available funding for the project by \$950,000. It should be noted that a developer cannot exceed the cost caps even if there is available capital. The second change was the elimination of the 130% basis boost for the ROSE program. The elimination of the basis boost cost the Southern Meadows project approximately \$1 million in availability of tax credit equity for the project.

City staff met with representatives from HDG to determine how to best move forward. Consensus was that HDG would proceed with the approved and that all parties would attempt to find ways to reduce costs. HDG agreed to reduce the developer fee to \$420,000 (which is approximately 6% of the total project cost) and the City agreed to provide \$400,000 of NSP funds to assist with soft costs of the development.

In August, while doing due diligence for the project, the developer found significant problems with the soils on the site and complications in completing a storm sewer extension to improve the storm water runoff along SE 7th Street north of the site. The estimated cost for the additional site preparation work is \$491,000. The developer has requested HOME funds to pay for the remediation of these issues.

Staff recommends using HOME funds to reimburse the developer for the site prep work up to \$491,000. If costs exceed this amount, any additional project costs will be the responsibility of the developer. If the total cost is less, the savings will come back to the City.

HOME funds are the only dollars available to pay for this site work and make the project succeed. Council policy is to provide a maximum of \$250,000 to any project unless there are exceptional circumstances. In addition, Council policy is to request a payback of the funds with at least a 1% interest rate. A payback is not possible in this case, because the HOME funds cannot be considered a part of the project without violating the IFA cost caps. Lastly, the City has not made HOME funds available for the LIHTC in the past two (2) years because of the cutbacks to the HOME allocation to the City.

There are compelling circumstances that staff believes allows for an exception to these policies. The only other way to pay for the improvements would be to “cheapen” the project. Staff does not believe this is feasible, as the City worked for over two (2) years with the Indianola Hills Neighborhood and other area stakeholders to develop the current plan for the site. Any significant changes to architectural quality and overall site layout at this point would seem like a bait and switch with the neighborhood.

The City has examined placing some HOME Projects on hold until the 2013 funding cycle and also to substitute NSP funds for some projects that have applied for HOME funds. Through this process of substitution and/or delay the allocation of HOME funds to the Southern Meadows development will have a minimal impact on other city projects.

In order to meet the project deadline of December 2013 occupancy, staff is also moving ahead with other pre-development documents including the PUD Restoration Bond and the Private Construction Contract. When a property is zoned PUD, Planned Unit Development, a PUD restoration financial surety must be approved by the City Council before the grading permit can be issued. This is done to ensure that the required grading and ground surface restoration are completed in a timely manner. The Engineering Department has determined that a restoration surety in the amount of \$50,435 is required for this project for grading, filter socks / silt fence, seeding, mulching, silt basin outlets and Engineering Department administrative and inspection costs. The surety will be released once the grading and ground surface restoration of the project is completed.

In addition, Council is asked to approve a Private Construction Contract for a storm sewer extension along the northwest corner of the site. The storm sewer extension will run along a sidewalk that currently runs from the property to SE 7th Street between the homes at 2708 SE 7th Street and 2713 SE 7th Street. This storm sewer extension should help alleviate the run-off from the area that has caused problems for several of the property owners along SE 7th Street, in addition to providing storm water management for the proposed development.

PREVIOUS COUNCIL ACTION(S):

Date: May 21, 2012

Roll Call Number: [12-0788](#)

Action: [2012](#) Program Allocations for the Home Investment Partnerships Program (HOME) administered by the Community Development Department. ([Council Communication No. 12-234](#)). Moved by Hensley to adopt. Motion Carried 7-0.

Date: January 23, 2012

Roll Call Number: [12-0122](#)

Action: [On](#) sale of Southern Meadows site at 2800 SE 8th Street and adjoining parcels and on vacation and conveyance of City-owned property and approving proposed development agreement with Hatch Development Group, LLC, \$43,400. ([Council Communication No.12-029](#)). Moved by Meyer to adopt. Motion Carried 7-0.

Date: December 5, 2011

Roll Call Number: [11-2056](#)

Action: [Authorizing](#) the City Manager to negotiate an agreement with Hatch Development Group to redevelop the Southern Meadows site at 2800 SE 8th Street. ([Council Communication No. 11-737](#)) Moved by Mahaffey to adopt. Motion Carried 7-0.

Date: September 12, 2011

Roll Call Number: [11-1582](#)

Action: [Competitive](#) request for proposals on method of disposition. ([Council Communication No. 11-592](#)). Moved by Maffey to adopt. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

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