

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date: April 21, 2014
	Agenda Item No. 33 Roll Call No. <u>14-0623</u> Communication No. <u>14-175</u> Submitted by: Phillip Delafield, Community Development Director

AGENDA HEADING:

Approval of additional HOME Investment Partnership (HOME) funds for the rehabilitation of 1428 Capitol Avenue with Stewart Park Townhomes, LLLP and execution of documents.

SYNOPSIS:

On June 10, 2013, by Roll Call No. 13-0903, the Des Moines City Council approved a \$125,000 HOME loan for the renovation of 1428 Capitol Avenue, a 10 unit rental townhouse development directly to the east of Stewart Square Park in the Capitol East Neighborhood. Enterprise Zone benefits were originally a financing source for the project. Stewart Park Townhomes, LLLP is unable to sell the Enterprise Zone credits as anticipated; the rehabilitation therefore has a financing shortfall. This City action would increase the City HOME loan by \$100,000, from \$125,000 to \$225,000 to cover the loss of Enterprise Zone Tax Credits for the project.

The proposed owner of the project is Stewart Square Townhomes, LLLP a subsidiary of CommonBond Communities of St. Paul, Minnesota. CommonBond is a nonprofit developer and provider of affordable housing. CommonBond is currently rehabilitating the Bloomsbury Apartments, located at 1440 East Grand, using Low Income Housing Tax Credits. Previously CommonBond purchased and rehabilitated Stewart Park Apartments at 1401 Capitol Avenue and Des Moines Street Village at 1415 Des Moines Street.

FISCAL IMPACT:

Amount: \$225,000

Funding Source: HOME Funds, SP036, CDD049900 Fiscal Year 2013 Recommended Operating Budget, Page 57

ADDITIONAL INFORMATION:

On June 10, 2013, the Des Moines City Council approved a HOME loan for \$125,000 as part of a \$1,025,000 acquisition and renovation of 10 units of rental housing located at 1428 Capitol Avenue. State HOME funds through the Iowa Finance Authority (IFA), Polk County Housing Trust Fund, and Enterprise Zone credits made up the rest of the project funding at that time.

In September, while completing project bids, CommonBond Properties determined that the project was short funding because of cost increases for the proposed rehabilitation. At its December meeting, the

IFA Board increased its commitment of HOME funds to the project by \$270,000 in order to cover the additional rehabilitation costs. The IFA commitment to the project is now \$970,000 for 10 units.

In December, 2013 the City of Des Moines became aware of concerns about caps concerning the transferability of the Enterprise Zone Credits and notified CommonBond of the concern. There is a \$3,000,000 limit per calendar year for transferable Housing Enterprise Zone investment tax credits for projects in brownfield or blighted areas for all projects other than those financed by Low Income Housing Tax credits. The City staff and CommonBond posed the question to Iowa Economic Development Authority (IEDA) asking if the Stewart Park Townhomes project could be considered a Low Income Housing Tax Credit (LIHTC) project since the original financing for its development was for LIHTC and it might be exempt from the requirement. IEDA determined that because the project was being rehabilitated using HOME funds rather than LIHTC, even if it was still in the “Extended Use Period” that require adherence to LIHTC requirements, the exemption did not apply.

City staff also asked if there could be an exception for projects that received additional federal subsidy (HOME or Community Development Block Grant [CDBG]) for affordable housing. IEDA determined that such projects would not qualify for an exception under the Enterprise Zone rules.

IEDA determined that the Stewart Square Park project could still qualify for Enterprise Zone Tax credits at a future date if the City was able to make a new finding of blight under Iowa Code Section 403.17. There was a Capitol East Urban Renewal Area created on April 6, 1992, but that plan expired in 2003. Staff cannot find criteria to make a finding of physical blight for the following reasons:

- There has been a large amount of new construction and renovation that has occurred in this area since an Urban Renewal Plan was adopted in 1992.
- The City has worked with the Neighborhood Development Corporation for redevelopment along the East Grand Corridor and HOME, Inc. for redevelopment of housing along the 1500 block of East Walnut.
- Bloomsbury Apartments at 1440 E. Grand Avenue is in the process of renovation.
- Habitat for Humanity and NFC Properties, LLC have made improvements to single family homes in the immediate area.

After reviewing all options City staff is recommending that the City commit an additional \$100,000 to the project to bring the City’s commitment to \$225,000.

SOURCES	Original 2013 Budget	Amended 2014 Budget
State HOME Funds	\$700,000	\$970,000
City HOME Funds	\$125,000	\$225,000
EZ Credits	\$100,000	\$0
Polk County Housing Trust Fund	\$100,000	\$100,000
TOTAL	\$1,025,000	\$1,295,000

The City’s original \$125,000 HOME funds was structured as a 0% deferred payment loan. The loan was totally forgivable at the end of 15 years as long as affordability and marketing requirements were met. The additional \$100,000 will be structured as a 1% loan, 20-year term, interest only paid annually. This amount of payback was determined after reviewing the project financing and annual debt-to-income ratio. The City and IFA are still in compliance with HOME rules and maximum per unit subsidy levels even with the increase in funds.

The Stewart Square Townhomes were built in 1993 as a LIHTC Development by Newbury Development. They consist of 10 two-bedroom units. The housing has reached the end of its 15 year LIHTC Compliance period so the original developer can now sell the property. However, it is still in the “Extended Use Period” required by the LIHTC program during which the units must continue to be rented to low income households (below 60% of median income) with rent limitations.

The property will be purchased by CommonBond Communities, a St. Paul Minnesota non-profit developer and provider of rental housing, Ellen Higgins Vice President, 328 Kellogg Boulevard West, St. Paul, Minnesota 55102. The IFA has approved the sale to CommonBond Communities. CommonBond provides services, such as tutoring and financial literacy, to the tenants paid for through fund raising of the corporation. The apartments do not carry the debt of paying for the social services. CommonBond is building a special set of rooms at Bloomsbury Apartments for use by all the CommonBond properties. Social services and recreational activities will be offered at the “Advantage Center.”

The 10 units are occupied but are in need of rehabilitation including roofs, windows, siding, kitchen and bath updates, and site improvements. There will be minimal disturbance for the tenants and no tenants are being relocated for the rehabilitation. The contractor will work in the unit during the day but will complete work items so that the tenant can return in the evening.

The townhomes abut Stewart Square Park on the East.



PREVIOUS COUNCIL ACTION(S):

Date: June 10, 2013

Roll Call Number: [13-0903](#)

Action: [HOME](#) loan for rehabilitation of 1428 Capitol Avenue with Stewart Park Townhomes, LLLP and execution of documents, \$125,000. ([Council Communication No. 13-292](#)) Moved by Hensley to adopt. Motion Carried 7-0.

Date: February 28, 2011

Roll Call Number: [11-0401](#)

Action: Applications for Enterprise Zone Benefits for Housing Projects in Enterprise Zones as follows: ([Council Communication No. 11-141](#))

- (A) [CommonBond](#) Communities for rehabilitation of 40 apartment units at 1440 East Grand Avenue and 1430-1436 Capitol Avenue in the SE Agribusiness Enterprise Zone. Moved by Hensley to adopt. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

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