

**Request for Action
by
Board of Commissioners**

**Firm Approval of Tax-Exempt Financing for
Reynolds Farm Senior Housing II (North Kingstown)**

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for firm approval of: (i) a Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) tax-exempt construction loan in an amount not to exceed \$8,750,000; (ii) a taxable permanent loan in an amount not to exceed \$625,000; (iii) a Development of Affordable Housing – 2 (“DAH-2”) Loan in an amount not to exceed \$7,860,000; (iv) a Housing Trust Fund (“HTF”) Loan in an amount not to exceed of \$1,340,000; and (v) a HOME Investment Partnerships Program (“HOME”) Loan in an amount not to exceed \$1,000,000 for Reynolds Farm Senior Housing II (hereinafter referred to as the “Development”). Valley Affordable Housing Corp. is the developer (“VAH” or the “Developer”) of this Development and received preliminary approval from the Board of Commissioners in May 2023 (“Preliminary Approval”).

B. DISCUSSION

The Development involves the new construction of 40 affordable age-restricted units in North Kingstown, Rhode Island. The Development is the second phase of a planned two-phase project which will create 80 new construction units. The development and construction of the initial 40 units of affordable senior housing was completed in the Spring of 2021. This Development will include a combination of 31 one-bedroom units and 9 two-bedroom units. Eleven units will be restricted to households with incomes at or below 30% of area median income (“AMI”) and the remaining units will be restricted to households with incomes at or below 60% of AMI. There are several community spaces, including one specifically designated for providing social services to the residents. All the units are designed with universal access in mind, and the project includes 12 one-bedroom and 4 two-bedroom barrier-free ADA units.

The collective capital stack for the Development is anticipated to consist of (i) the permanent loan from RIHousing contemplated herein, (ii) proceeds from the tax-exempt financing and sale of 4% low-income housing tax credits (“LIHTC”), (iii) the HOME Loan, (iv) the DAH-2 Loan, (v) the HTF Loan, (vi) General Partner Capital, and (vii) a deferred developer fee.

Since Preliminary Approval, the plans and specifications have been completed and construction costs have significantly increased. Insurance costs for both builder’s risk and operations have increased, as have interest rates. The softening of the LIHTC equity market has resulted in a slightly lower credit price; however, the overall LIHTC equity has increased due to higher overall costs. At the March 2024 RIHousing Board of Commissioners meeting, the Development was awarded an additional \$1,000,000 in DAH-2 funding to

cover a portion of the overall cost increase.

Hudson Housing Capital LLC will be the syndicator purchasing the 4% LIHTC and they are paying \$0.90 per credit.

This RFA requests firm approval of: (i) a RIHousing tax-exempt construction loan in an amount not to exceed \$8,750,000; (ii) a taxable permanent loan in an amount not to exceed \$625,000; (iii) a DAH-2 Loan in an amount not to exceed \$7,860,000; (iv) a HTF loan in an amount not to exceed of \$1,340,000; and (v) a HOME Loan in an amount not to exceed \$1,000,000 for Reynolds Farm Senior Housing II, subject to certain conditions as set forth in the attached Resolutions.

C. ATTACHMENTS

- A.** Credit Summary
- B.** Resolutions

Attachment A

Approval Loan Recommendation Summary – Reynolds Farm Senior Housing II

Preliminary _____

Firm _____

Date: May 16, 2024

Project: New construction of 40 affordable age-restricted apartments in North Kingstown comprised of 31 one-bedroom units and 9 two-bedroom units.

Development Team

	Name	Location	Risk Rating
Sponsor/Developer	Valley Affordable Housing Corp.	Cumberland, RI	Low
Mortgagor	RFSH II, L.P.	Cumberland, RI	Low
Architect	Ed Wojcik Architect, Ltd.	Providence, RI	Low
Legal	Chace Ruttenberg & Freedman, LLP	Providence, RI	Low
Management Agent	Pinnacle Property Management LLC	Cumberland, RI	Low
General Contractor	Nation Wide Construction Corp.	Woonsocket, RI	Low
Consultant	Barbara Sokoloff Associates, Inc.	Providence, RI	Low
Syndicator	Hudson Housing Capital, LLC	New York, NY	Low

Executive Summary

Property Address	Driftwood Lane	North Kingstown, RI
Proposed Loan Amount(s) and Terms		
Tax-Exempt Construction Loan	\$8,750,000	7.260% / 24 months
Taxable Permanent Loan	\$625,000	8.00% / 40 years
DAH-2 Loan	\$7,860,000	0% / 40 years
HTF Loan	\$1,340,000	0% / 40 years
HOME Loan	\$1,000,000	0% / 40 years

Note: Interest rates are subject to change based on market conditions.

Proposed Sources & Uses:

Sources	Consolidated Round 2023		Delta	Consolidated Round 2024	
	Amount	Per Unit		Amount	Per Unit
RIH First Mortgage	\$200,000	5,000	\$425,000	\$625,000	\$15,625
HOME	\$1,000,000	25,000	\$0	\$1,000,000	\$25,000
DAH-2	\$6,860,000	171,500	\$1,000,000	\$7,860,000	\$196,500
Housing Trust Fund	\$1,340,000	33,500	\$0	\$1,340,000	\$33,500
LIHTC Proceeds	\$5,131,730	128,293	\$443,822	\$5,575,552	\$139,389
General Partner Capital	\$0	0	\$100	\$100	\$3
Deferred Development Fee	\$195,442	4,886	\$54,558	\$250,000	\$6,250
Total Sources	\$14,727,172	368,179	\$1,923,480	\$16,650,652	\$416,266

Uses	Amount		Delta	Per Unit	
	Amount	Per Unit		Amount	Per Unit
Construction	\$10,596,775	\$264,919	\$1,539,190	\$12,135,965	\$303,399
Contingency	\$1,059,678	\$26,492	(\$79,481)	\$980,197	\$24,505
Soft Costs	\$1,072,356	\$26,809	\$25,491	\$1,097,847	\$27,446
Financing	\$1,012,535	\$25,313	\$364,422	\$1,376,957	\$34,424
Developer Fee	\$756,000	\$18,900	\$44,000	\$800,000	\$20,000
Operating Reserve	\$177,432	\$4,436	\$25,342	\$202,774	\$5,069
Replacement Reserve Year 1 Deposit	\$13,000	\$325	\$0	\$13,000	\$325
Other Reserves	\$39,396	\$985	\$4,515	\$43,911	\$1,098
Total Uses	\$14,727,172	\$368,179	\$1,923,480	\$16,650,652	\$416,266

Loan to Value Test:

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$113,754	2,844	(\$26,817)	\$86,938	\$2,173
Appraisal Cap Rate	5.75%			5.75%	
Valuation	\$1,980,000	49,500	(\$468,037)	\$1,511,963	\$37,799
Loan Principal	\$625,000	15,625		\$625,000	\$15,625
LTV	31.57%		10%	41.34%	

Underwriting Metrics:

Metric	Amount	Comment
Total Development Cost Per Unit	\$416,266	\$409,774 without reserves
Residential Affordable Vacancy Rate	7%	
DCR Year 1	1.67	
DCR Year 15	1.14	
NOI	\$86,938	
Rental Income Trending	2%	

Operating Expense Trending	3%	
Loan to Value	31.57%	
Initial Installment (%) of syndication proceeds	15%	
Acquisition Price equal to or less than Appraised value	N/A	
Operating Reserve (Amt and confirm consistency with UW requirements)	\$202,774	Equal to six months OpEx & Debt Service
Replacement Reserve (Amt and confirm consistency with UW requirements)	\$13,000	\$325 per unit

Deviations from standard underwriting – Yes

The debt service coverage in year 15 is 1.14 rather than 1.15. Given that the vacancy rate is underwritten at 7% and the vacancy rate for Phase I is below 5%, staff is comfortable with this slight deviation.

Transaction fails Part 2 of the Bridge Loan Test – This is a tax-exempt transaction. The Bridge Loan is sized at the minimum amount required to ensure that 50% of the aggregate basis of the project is funded with tax-exempt bond proceeds as required by the applicable tax code provisions.

Unit Distribution and Revenue

Unit	Rent Type	Number of Units	Gross Rent	LIHTC Max Rent	Gross Rent as a % of LIHTC Max Rent	Discount from Market Rent
1	30%	6	\$ 960.00	\$ 576.00	167%	59.0%
1	30%	3	\$ 960.00	\$ 576.00	167%	59.0%
1	30%	2	\$ 960.00	\$ 576.00	167%	59.0%
1	60%	20	\$ 1,094.40	\$ 1,152.00	95%	52.4%
2	60%	9	\$ 1,313.85	\$ 1,383.00	95%	49.4%
Total		40				53.5%

ATTACHMENT B

**Resolution of the Board of Commissioners
of Rhode Island Housing and Mortgage Finance Corporation**

- Whereas,** Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) is authorized to make loans to mortgagors or sponsors for such developments as in the judgment of RIHousing have promise of supplying well-planned, well-designed apartment units which will provide housing for low and moderate-income persons or families, or the elderly, or others in locations where there is a need for such housing;
- Whereas,** RIHousing intends to issue tax-exempt bonds for financing qualified housing developments throughout the state;
- Whereas,** RIHousing is authorized to issue tax exempt bonds at an economically acceptable rate to promote the acquisition, rehabilitation or preservation of affordable housing;
- Whereas,** said bonds shall have a term not to exceed 36 months and shall be in the approximate amount sufficient to finance the mortgage, pay the costs of issuance, fund a capital reserve fund and to provide the capitalized interest if determined to be necessary;
- Whereas,** On May 18, 2023, the RIHousing Board of Commissioners granted preliminary approval of mortgage financing to Valley Affordable Housing Corp. (the “Applicant”) to acquire and/or develop the development as set forth below (the “Development”):

<u>Development</u>	<u>Applicant</u>	<u>Tax-Exempt Bonds</u>	<u>RIHousing 1st Mortgage</u>
Reynolds Farm Seniors Housing II	Valley Affordable Housing Corp.	\$8,750,000	\$625,000
<u>DAH-2 Loan</u>	<u>HOME Loan</u>	<u>HTF Loan</u>	
\$7,860,000	\$1,000,000	\$1,340,000	

Whereas, staff has reviewed the submission and determined that the Development may qualify for financing under RIHousing’s enabling legislation, regulations, guidelines and policies; and

Whereas, RIHousing finds:

(1) that there exists a shortage of decent, safe, and sanitary housing at rentals or prices which persons and families of low or moderate income can afford within the general housing market area to be served by the proposed housing development;

(2) that private enterprise and investment have been unable, without assistance, to provide an adequate supply of decent, safe, and sanitary housing in the general housing market area at prices which persons or families of low and moderate income can afford or to provide sufficient mortgage financing for residential housing for occupancy by those persons or families;

(3) that the housing sponsor or sponsors undertaking the proposed housing development in this state will supply well-planned, well designed housing for persons or families of low and moderate income and that those sponsors are financially responsible;

(4) that the proposed housing development to be assisted pursuant to the provisions of this chapter will be of public use and will provide a public benefit; and

(5) that the proposed housing development will be undertaken, and the housing sponsor or sponsors regulated pursuant to the authority and within the restrictions provided for by the RIHousing Enabling Act, Chapter 55 of Title 42 of the Rhode Island General Laws.

NOW, THEREFORE, IT IS HEREBY:

Resolved, that RIHousing hereby declares firm commitment of tax-exempt mortgage financing in an amount not to exceed \$8,750,000 to the Applicant or an affiliated entity of the Applicant (the “Borrower”) for rental housing known as Reynolds Farm Senior Housing II in North Kingstown to be financed, in part, by tax-exempt bonds.

Resolved, that RIHousing hereby declares that this firm commitment of financing for the Borrower constitutes the affirmative official act of RIHousing of its intention to issue bonds to finance, and to reimburse qualified expenditures incurred by the Borrower or RIHousing in advance of the issuance of the bonds, up to \$8,750,000 in mortgage funds for demolition and new

construction of the Development, plus the required bond reserve funds, and the related costs of issuance for the bond issue for the above-referenced Development pursuant to the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder. The intent to reimburse the aforementioned bond-funded costs is intended to satisfy the requirements of Section 1.150-2 of the United States Treasury Regulations. This resolution shall take effect immediately upon adoption.

Resolved, that, subject to the special conditions listed below, RIHousing hereby approves a permanent taxable loan to the Borrower in an amount not to exceed \$625,000 for the rental housing to be located in North Kingstown and known as Reynolds Farm Senior Housing II.

Resolved, that, subject to the special conditions listed below, RIHousing hereby approves a Development of Affordable Housing – 2 (“DAH-2”) loan to the Borrower in an amount not to exceed \$7,860,000 for the rental housing to be located in North Kingstown and known as Reynolds Farm Senior Housing II.

Resolved, that, subject to the special conditions listed below, RIHousing hereby approves a HOME Investment Partnerships Program loan to the Borrower in an amount not to exceed \$1,000,000 for rental housing to be located in North Kingstown and known as Reynolds Farm Senior Housing II.

Resolved, that, subject to the special conditions listed below, RIHousing hereby approves a Housing Trust Fund loan to the Borrower in an amount not to exceed \$1,340,000 for rental housing to be located in North Kingstown and known as Reynolds Farm Senior Housing II.

Resolved, That the foregoing resolutions are subject to the following conditions:

- Syndication equity from the allocation of low-income housing tax credits in an amount sufficient to achieve project feasibility;
- Final approval of plans and specifications by RIHousing, as well as related construction contract documentation;
- Approval by RIHousing of management documentation;
- Recordation of a RIHousing Declaration of Land Use Restrictive Covenants and Regulatory Agreement in form(s) acceptable to RIHousing;
- Execution and delivery by the developer of a Construction Completion Guaranty in form and substance satisfactory to lender and RIHousing;
- Approval by bond underwriter and bond counsel that the loans will satisfy all required bond provisions for the bond issue;
- Closing of a construction loan with RIHousing in an amount sufficient to achieve project feasibility; and
- Completion of all items required for closing in accordance with normal

underwriting and processing requirements.

Resolved, that the Executive Director, Deputy Executive Director, and Director of Real Estate Development, each acting singly, are hereby empowered and directed to take any and all actions they deem necessary to carry out the foregoing resolutions.