

Request for Action
by
Board of Commissioners

**Approval of Reservation of Low-Income Housing Tax Credits and
Preliminary Approval of Financing for Paragon Mill**

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for (i) the reservation of up to \$1,108,117 of 2020 and/or 2021 Low-Income Housing Tax Credits (“LIHTC”) and (ii) preliminary approval of a taxable first mortgage loan for Paragon Mill (the “Development” or “Paragon Mill”), a 101-unit rental housing development to be located in Providence, Rhode Island. The developer is The Alexander Company, Inc. (“TAC” or the “Developer”), a Wisconsin based for-profit developer with a portfolio of mixed-use housing and historic redevelopments in Maryland, Virginia, Iowa, Missouri and Wisconsin.

TAC proposes an adaptive reuse and environmental clean-up of the historic Earncliffe & Paragon Worsted Mills located adjacent to the Woonasquatucket River in the Olneyville neighborhood of Providence. The Development would create a total of 101 new residential units of which 44 units would be restricted for households at or below 60% of the area median income (“AMI”) and the remainder of units would be rented at market rate. The Development notably incorporates an array of public and private sources including: private equity investment for federal and state tax credits, State of Rhode Island Opportunity Zone program private capital and a contribution of real estate and a tax stabilization agreement from the City of Providence.

In 2008, RIHousing provided Olneyville Housing Corporation (now d/b/a ONE Neighborhood Builders) (“ONE NB”) a predevelopment loan to undertake an environmental assessment of the mill. In 2011, ONE NB purchased the property with a loan from the Providence Redevelopment Authority (“PRA”) for \$1.2 million and secured a reservation for state historic tax credits (“SHTC”). In 2018, in lieu of the loan repayment by ONE NB, the property and the reservation of SHTCs were transferred to the PRA. The PRA issued an RFP searching for a qualified developer to redevelop the mill. After a national outreach campaign, TAC submitted the current proposal and was selected as the Developer. At closing, the property will be transferred to TAC for an acquisition price of \$25,000 along with the property’s reservation for SHTC.

The 11-building Development includes environmental clean-up and site improvements to retain stormwater runoff and protect the sensitive wetlands abutting the Woonasquatucket River. Much of the site investigation regarding the environmental hazards is complete and a plan to remediate has been developed. The public will have access to a new pocket park, bike path extension and commercial space intended for a business incubator or art studio. Paragon Mill is conveniently located within walking distance to shopping, grocery stores and public transportation. Future residents will benefit from the development’s amenities, which include an outdoor recreational area overlooking the river, fitness and community spaces.

A market study commissioned by TAC in the fall of 2019 for Paragon Mill as part of their application supports the proposed 60% units and market rate units evidencing desirable penetration and absorption rates. A new market study will be commissioned by RIHousing for Paragon Mill to confirm the proposed rents remain consistent with the proposed underwriting.

The proposed Development conforms to current zoning and no variances are required. The Developer is expecting to close and begin construction as early as January 2021. TAC will put construction pricing out to bid and has created a budget with the help of their architect, Providence based DBVW Architects, Inc. (“DBVW”) who has outlined a 13-month construction schedule. The final plans and specifications are projected to be complete in the fall and a contractor is expected to be selected in November, which would allow for firm approval at the end of the calendar year.

As part of the underwriting process, following preliminary approval, RIHousing staff will work with the Developer to appropriately size the soft cost budget, including reserves and carrying costs, to ensure that the minimum amount of tax credits and soft sources are allocated to the Development. Several of the project’s strengths include: (i) a strong developer who is currently developing affordable and mixed-income multifamily housing developments throughout the nation; (ii) equity from the allocation of federal historic tax credits (“FHTCs”) and SHTCs; (iii) the contribution by the City of Providence of a vacant and historic mill building for \$25,000; (iv) improved environmental protection for the abutting Woonasquatucket River and (vi) significant access to retail, entertainment, schools, government and employment opportunities given the location of the site in a highly developed commercial area.

Per the U.S. Department of Housing and Urban Development (“HUD”), Paragon Mill is located in a qualified census tract (“QCT”), which will allow the project’s eligible basis to be increased by up to 30%, offering the project greater financial feasibility. Paragon Mill is also located in an opportunity zone (“OZ”) as determined by the Rhode Island Commerce Corporation and the capital stack includes equity generated by OZ credits.

The Funding Committee, which is comprised of senior staff and a member of the RIHousing Board of Commissioners, determined that based on the strength of the application and the criteria outlined in the State of Rhode Island 2020 Qualified Allocation Plan (“QAP”), Paragon Mill be awarded the second highest score in the 2020 9% LIHTC Round. It is anticipated the Development will generate 181 jobs during construction.

Affordable Housing Partners, Inc. has provided a letter of interest (“LOI”) to TAC with pricing of approximately \$0.91 for the LIHTC and \$0.82 per FHTC. National Funding Incorporated has provided a LOI to TAC with pricing of approximately \$0.91 per SHTC.

The application included a term sheet from Citibank Community Capital for a construction to permanent loan for the Development. However, the Developer is open to RIHousing providing the permanent loan and RIHousing will retain the option to provide the permanent financing as long as the loan meets RIHousing guidelines.

The City of Providence has provided a letter confirming the Development’s eligibility for a 20-year tax stabilization agreement; the terms of the agreement will be determined at a later date.

The total development costs for Paragon Mill are approximately \$29,365,000. Proposed permanent sources of funding include: (i) syndication equity from the allocation of LIHTCs, SHTCs and FHTCs; (ii) OZ investment (iii) a permanent first mortgage loan from Citibank or RIHousing; and (iv); a deferred developer fee.

The Request for Action is for (i) a reservation of up to \$1,108,117 of 2020 and/or 2021 LIHTC, and (ii) preliminary approval of a first mortgage loan in an amount of up to \$8,100,000.

B. RECOMMENDATION

The attached resolution is recommended for approval subject to:

- Approval by RIHousing of the development team.
- A final appraisal and market study acceptable to RIHousing prepared by an independent appraiser demonstrating that the first mortgage loan does not exceed 90% of the as-stabilized value of the property and that sufficient demand exists for the proposed units.
- Syndication equity from the allocation of LIHTC, FHTC, SHTC and OZ credits in amounts sufficient to achieve project feasibility.
- Approval of a tax stabilization agreement from the City of Providence verifying a real estate tax assessment at an amount necessary to achieve project feasibility for the term that is no less than the initial compliance period for the LIHTC.
- Approval by RIHousing of design and construction plans, specifications and construction documentation.
- Approval of the proposed operating budget for the development.
- Approval by RIHousing of all management related documentation, including the marketing and tenant selection plans.
- Confirmation by RIHousing that the final development budget, schedule and unit configuration presented for preliminary approval is consistent with TAC's December 20, 2019 application submission for 2020 LIHTC.
- Satisfactory and timely performance in accordance with the schedule established by RIHousing staff.
- Completion of all items required for firm commitment and closing in accordance with normal underwriting and processing requirements.

C. ATTACHMENTS

- A. Development Summary
- B. Resolution
- C. Site Location Map

Attachment A Development Summary

A. Development Team

Developer and Management Agent: The Alexander Company, Inc.
2450 Rimrock Road, Suite 100
Madison, Wisconsin 53713

Architect: DBVW Architects, Inc.
111 Chestnut Street
Providence, RI 02903

Legal: Michael Best & Friedrich LLP
One South Pickney Street, Suite 700
Madison, Wisconsin 53703

Development Team Qualifications

Developer and Management Agent

The Alexander Company, Inc. (“TAC”), which was founded 36 years ago, is a Wisconsin-based real estate developer and manager involved in the acquisition and development of multi-family rental communities and for-sale projects throughout the Midwest and Mid-Atlantic states. They have completed both mixed-use and historic projects. TAC and its team have successfully acquired or completed nearly 7,628 residential units, including several historic and affordable housing developments in Virginia, Washington D.C., Wisconsin and North Carolina. As a vertically integrated company, TAC provides its own property management. Over the past 30 years, they have managed over 7,000 units including residential, commercial and mixed-use properties. Their expertise lies in marketing and leasing, affordable housing compliance, market-rate property management, asset management, and preventative maintenance.

TAC has experience with state and federal affordable housing programs, real estate transactions utilizing low-income housing tax credits, historic tax credits and other housing and urban development programs. TAC is led by principal Joseph Alexander (President). David Vos, who has been with TAC for nearly 30 years, and Christopher Day are overseeing the project management for the Development.

Architect

DBVW Architects, Inc. (“DBVW”) is a full-service architectural firm located in Providence, Rhode Island. Doug Brown began his own career in 1994 and has acted as Principal-in-Charge of many of the firm’s projects including the following Rhode Island developments: WaterFire Arts Center, Westfield Lofts, Stillwater Mill, The Institute for the Study and Practice of Nonviolence and Glenark Landing. Virginia Branch, lead architect for the Development, joined DBVW in 2001 specializing in neighborhood-friendly affordable housing and mixed-

use buildings. Virginia has helped design the following Rhode Island developments: Waterfire Arts Center, Phillipsdale Landing, Farm Fresh Rhode Island, AS220 at the Dreyfus and Mercantile Block, Westfield Lofts, and the Moran Shipping Agencies Corporate Headquarters.

Legal

Kevin Martin is a partner of Michael Best & Friedrich LLP with specific experience in affordable and mixed-income housing projects, mixed-use developments, large complex real estate projects, and mixed finance projects. Kevin provides representation in the purchase, sale, and development of a variety of real estate projects, including multifamily housing, manufacturing facilities, and office and real estate spaces. He counsels lenders and borrowers through the full spectrum of real estate financing transactions, such as those involving state and federal historic tax credits, New Market Tax Credits (NMTC), HUD insured financing, and traditional mortgage financing.

B. Unit Distribution and Revenue

Bedrooms	Rent Type	Number of Units	Gross Rent	Gross Rent as a % of		
				LIHTC Max Rent	LIHTC Max Rent	Discount from Market Rent
1	60%	34	\$ 907.00	\$ 922.00	98%	42.4%
2	60%	7	\$ 1,080.00	\$ 1,107.00	98%	44.4%
2	60%	1	\$ 1,080.00	\$ 1,107.00	98%	45.9%
3	60%	2	\$ 1,252.00	\$ 1,278.00	98%	50.0%
1	Over 120%	47	\$ 1,532.00	\$ -	0%	0.0%
2	Over 120%	8	\$ 1,880.00	\$ -	0%	0.0%
2	Over 120%	1	\$ 1,930.00	\$ -	0%	0.0%
3	Over 120%	1	\$ 2,402.00	\$ -	0%	0.0%
Total		101				

C. Finance Summary

Sources	Preliminary	
	Amount	Per Unit
Citibank	\$8,100,000	\$80,198
LIHTC Proceeds	\$10,080,707	\$99,809
Fed. Historic Tax Credit Proceeds	\$4,366,351	\$43,231
State Historic TC Proceeds	\$5,858,471	\$58,005
Opportunity Zone Credit	\$144,502	\$1,431
Deferred Development Fee	\$815,352	\$8,073
Total Sources	\$29,365,383	\$290,746

Uses	Amount	
	Amount	Per Unit
Construction	\$20,502,424	\$202,994
Contingency	\$1,956,192	\$19,368
Acquisition	\$25,000	\$248
Soft Costs	\$2,787,619	\$27,600
Financing	\$1,392,497	\$13,787
Developer Fee	\$1,915,200	\$18,962
Lease Up Reserve	\$100,000	\$990
Replacement Reserve Year 1 Deposit	\$35,350	\$350
Other Reserves	\$651,101	\$6,447
Total Uses	\$29,365,383	\$290,746

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; and
- Whereas,** the Low-Income Housing Tax Credit Program (the “Program”) was created as part of the Tax Reform Act of 1986, as amended (the “Act”); and
- Whereas,** RIHousing has been designated the administrator of the Program in the State of Rhode Island; and
- Whereas,** staff for RIHousing has determined that the Applicant (“Applicant”) listed below is eligible for the Program under the laws of the State of Rhode Island and the Federal Tax Code; and
- Whereas,** the Applicant has submitted an application to RIHousing for the reservation of low-income housing tax credits available in calendar years 2020 and/or 2021 (the “Tax Credits”), and for construction and/or permanent financing as follows:

Applicant	Development	9% LIHTCs	RIHousing 1st Mortgage
The Alexander Company, Inc.	Paragon Mill	\$1,108,117	\$8,100,000

- Whereas,** RIHousing staff has reviewed the submission, inspected the site, and determined that this development may qualify for financing under RIHousing’s enabling legislation, regulations, guidelines and policies; and
- Whereas,** RIHousing finds that:
- (1) there exists a shortage of decent, safe, and sanitary housing at rents 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) 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) 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) 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) 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, namely Chapter 55 of Title 42 of the Rhode Island General Laws.

NOW, THEREFORE, IT IS HEREBY:

Resolved, that up to \$1,108,117 of allocated 2020 and/or 2021 Tax Credits be reserved for the Applicant pursuant to Section 4.3 of the Rules Relative to Multifamily Loan Programs - Allocation of Low-Income Housing Tax Credits (825-RICR-30-00-4) (the “RIHousing Regulations”), and that the Executive Director, Deputy Executive Director, and the Director of Development, each acting singly be, and hereby are, authorized and empowered in the name of and on behalf of RIHousing to take any and all actions necessary to cause such reservation to be effective; and further, that any final allocation shall be made at such time as the applicant complies with the requirements of the Act and the RIHousing Regulations.

Resolved, that, subject to the special conditions listed below RIHousing hereby approves preliminarily commitment up to \$8,100,000 for a taxable first mortgage loan to The Alexander Company, Inc. or an affiliated entity (the “Borrower”) for rental housing to be located in Providence, Rhode Island and known as Paragon Mill.

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

- Approval by RIHousing of the development team.
- A final appraisal and market study acceptable to RIHousing prepared by an independent appraiser demonstrating that the first mortgage loan does not exceed 90% of the as-stabilized value of the property and that sufficient demand exists for the proposed units.
- Syndication equity from the allocation of low-income housing tax credits (LIHTC), federal historic tax credits (FHTC), state historic tax credits

(SHTC) and opportunity zone (OZ) credits in amounts sufficient to achieve project feasibility.

- Approval of a tax stabilization agreement from the City of Providence verifying a real estate tax assessment at an amount necessary to achieve project feasibility for the term that is no less than the initial compliance period for the LIHTC.
- Approval by RIHousing of design and construction plans, specifications and construction documentation.
- Approval of the proposed operating budget for the development.
- Approval by RIHousing of all management related documentation, including the marketing and tenant selection plans.
- Confirmation by RIHousing that the final development budget, schedule and unit configuration presented for preliminary approval is consistent with TAC's December 20, 2019 Application submission for 2020 Tax Credits.
- Satisfactory and timely performance in accordance with the schedule established by RIHousing staff.
- Completion of all items required for firm commitment and closing in accordance with normal underwriting and processing requirements.

Resolved, that the Executive Director, Deputy Executive Director, and the Director of Development, each acting singly, be and hereby are authorized to take all actions they deem necessary or desirable to carry out the forgoing resolutions.

Attachment C

SITE LOCUS MAP

Paragon Mill, 39 Manton Avenue, Providence, RI

