

**Request for Action
by
Board of Commissioners**

Revised Firm Approval of Tax-Exempt Financing for Bernon Mills

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for revised firm approval of a Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) tax-exempt financing in an amount not to exceed \$14,500,000 for Bernon Mills (hereinafter referred to as “BM or the “Development”). Brisa Ventures LLC is the developer (the “Developer”). The Development received preliminary approval from the Board of Commissioners on May 19, 2022 and May 18, 2023 (“Preliminary Approval”) and firm approval on June 15, 2023 (“Firm Approval”) for a tax exempt loan in the amount of \$13,000,000. At that time, the Board also approved a Housing Production Fund Loan, Capital Magnet Fund loan, Community Revitalization Program grant, and RI Rebounds loan for the Development.

BM is a historic mill located in Woonsocket, which will be redeveloped into 60 units of rental housing. Utilizing income averaging, all units will be restricted to households with incomes at or below 80% of Area Median Income (“AMI”). There will be a mix of efficiency, one-bedroom, and two-bedroom units. The Development is receiving five HUD Section 811 vouchers from RIHousing.

BM is recorded as Woonsocket Company Mill Complex on the National Register of Historic Places and was originally built in 1827 for the manufacturing of cotton by the Russell Manufacturing Company. Prior to Developer’s involvement, BM went through several failed redevelopment attempts including an effort to bring the Mills back to manufacturing use and, most recently, a 2012 condominium redevelopment that was abandoned and left incomplete by the previous developer due to financial hardship.

BM consists of three historic buildings, two of which are in very poor condition primarily due to water infiltration, a collapsing and exposed roof, missing and broken windows, and deteriorating mortar between the exterior granite walls. The third building is a partially finished condominium building with 12 occupied units that were converted to rentals several years ago.

Since Firm Approval, the overall scope of the project has been modified and now includes rehabilitation of non-residential buildings. The reason for this change is due to the “10-year hold” rule in Section 42 of the Internal Revenue Code, which governs the low income housing tax credit (“LIHTC”) program. The 10-year hold rule requires ownership for a full 10 years by an owner before a property can be sold and still be eligible for acquisition LIHTC. Under the previous plan, the site was to be split into a land condominium to satisfy the Senior Lender’s requirements. However, the developer acquired the site within the last 2 years, and because the condominium structure would require an additional sale to the new partnership, the project would no longer qualify for acquisition credits under the 10-year rule. The increase in scope results in a higher total development cost, which necessitates

increased bond funding. Additional LIHTC equity will be generated; however, no additional RIHousing subordinate funding is being requested since the non-residential costs will be funded separately by historic tax credits.

The additional scope on the non-residential side will include rehabilitation of a pump house, and guard shack. The last remaining building, known as the Carriage House, will not be rehabilitated. The developer has chosen to return the second tranche of state historic tax credits originally slated for the Carriage Housing, which would have triggered prevailing wage on the entire project. The inclusion of the pump house and guard shack will provide amenity space to the development and larger community. The developer was also awarded Providence Revolving Loan Funding of \$1,300,000 since Firm Approval in June.

The proposed capital structure for BM will consist of proceeds from the tax-exempt financing, sale of 4% low-income housing credits (“LIHTCs”), Building Homes Rhode Island Funds (“BHRI”) previously awarded by the State of Rhode Island Housing Resources Commission, HPF funding, CMF Funding, RI Rebounds funding, a CRP grant, Federal Historic Tax Credit equity, Revolving Loan Fund, and a deferred developer fee.

The Developer has secured construction and permanent financing through Bank of America (“BOA”). BOA will provide cash collateral to support RIHousing’s construction loan and then, upon conversion, purchase the tax-exempt bonds issued by RIHousing. The permanent loan will be non-recourse to RIHousing with BOA assuming all financial risk.

Alliant Capital LLC will be the syndicator and is paying \$0.945 per credit, which constitutes an increase of \$863,260 of total LIHTC equity proceeds since Firm Approval.

This RFA requests firm approval of (i) \$14,500,000 in tax-exempt financing for Bernon Mills, subject to certain conditions as set forth in the attached Resolutions.

B. ATTACHMENTS

- A.** Credit Summary
- B.** Resolution

Attachment A

Approval Loan Recommendation Summary – Bernon Mills

Preliminary _____

Firm X

Date: June 15, 2023

Project: Historic mill conversion of 60 affordable apartments in Woonsocket comprised of 19 efficiency, 30 one-bedroom, and 11 two-bedroom units.

Development Team:

	Name	Location (city/state)	Risk Rating (low/med/high)
Sponsor/Developer	Brisa Ventures LLC and ADC Communities II, LLC	Brooklyn, NY/Woodland Hills, CA	Medium (No previous RI experience)
Mortgagor	Brisa Bernon Mills, LP	Brooklyn, NY	Medium (No previous RI experience)
Architect	DBVW Architects, Inc.	Providence, RI	Low
General Contractor	Pezzuco Construction, Inc.	Cranston, RI	Low
Legal	Nixon Peabody LLP	Providence, RI	Low
Management Agent	First Realty Management Corporation	Boston, MA	Low
Syndicator	Alliant Capital Management, LLC	Woodland Hill, CA	Low

Executive Summary:

	Address	City
Property Address	115-119 Front Street	Woonsocket
Proposed Loan Amount(s) and Terms		
	Amount	Interest rate/Term
Tax Exempt Conduit Financing	\$14,500,000	
BOA Construction/Bridge Loan	\$12,030,000	6.92%, 30 months
BOA Permanent Loan	\$2,470,000	6.50%, 40 years
HPF Loan	\$2,790,000	0%, 42 years
RI Rebounds Loan	\$500,000	0%, 42 years
CRP grant	\$1,838,250	N/A

CMF Loan	\$300,000	1%, 42 years
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Note: Interest rates are subject to change based on market conditions and deal specifics
RIHousing is not currently designated as the permanent lender.

Proposed Sources & Uses:

Sources	Firm (June 15, 2023)		Delta Residential	Firm (November 15, 2023)	
	Non-Residential Amount	Residential Amount		Non-Residential Amount	Residential Amount
BOA First Mortgage	\$0	\$2,327,758	\$142,242	\$0	\$2,470,000
RIH Second Mortgage	\$0	\$0	\$0	\$0	\$0
Building Homes Rhode Island	\$0	\$4,000,000	\$0	\$0	\$4,000,000
Revolving Loan Fund	\$0	\$0	\$1,300,000	\$0	\$1,300,000
RI Rebounds	\$0	\$500,000	\$0	\$0	\$500,000
Housing Production Fund	\$0	\$2,790,000	\$0	\$0	\$2,790,000
Capital Magnet Fund	\$0	\$300,000	\$0	\$0	\$300,000
Community Revitalization	\$0	\$1,838,250	\$0	\$0	\$1,838,250
LIHTC Proceeds	\$0	\$9,869,676	\$863,260	\$0	\$10,732,936
Fed. Historic Tax Credit Proceeds	\$0	\$4,109,363	(\$941,602)	\$2,075,126	\$3,167,761
State Historic TC Proceeds	\$0	\$0	\$0	\$0	\$0
Sponsor Loan	\$0	\$200,363	(\$200,363)	\$0	\$0
Deferred Developer Fee	\$0	\$1,238,717	\$944,187	\$0	\$2,182,904
Total Sources	\$0	\$27,174,127	\$2,107,724	\$2,075,126	\$29,281,851

Uses	Non-Residential		Delta Residential	Residential	
	Amount	Amount		Amount	Amount
Construction	\$0	\$16,169,101	(\$1)	\$688,600	\$16,169,100
Contingency	\$0	\$1,293,528	\$80,846	\$65,456	\$1,374,374
Acquisition	\$0	\$1,810,635	\$1,105,575	\$599,229	\$2,916,210
Soft Costs	\$0	\$2,509,450	\$732,138	\$203,828	\$3,241,588
Financing	\$0	\$1,616,986	\$214,159	\$26,047	\$1,831,145
Developer Fee	\$0	\$2,356,270	\$960,634	\$487,577	\$3,316,904
Operating Reserve	\$0	\$315,777	\$3,121	\$0	\$318,898
Lease Up Reserve	\$0	\$0	\$14,322	\$0	\$14,322
Replacement Reserve Year 1 Deposit	\$0	\$19,500	\$0	\$0	\$19,500
Other Reserves	\$0	\$1,082,880	(\$1,003,070)	\$4,390	\$79,810
Total Uses	\$0	\$27,174,127	\$2,107,724	\$2,075,127	\$29,281,851

\$1,135,874 LIHTC @ \$.945/credit

TDC for residential is \$480,822 per unit net of reserves.

Loan to Value Test:

Bank of America will be the construction and permanent lender on this transaction. They are in the process of updating the appraisal. RIHousing will be provided with a copy when it is completed. This approval is subject to the appraisal. The current LTV projections are based on the RIHousing appraisal from July 2022.

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$282,255	\$4,704	\$20,677	\$302,932	\$5,049
Appraisal Cap Rate	6.15%			6.15%	
Valuation	\$4,600,000	\$76,667	\$325,723	\$4,925,723	\$82,095
Loan Principal	\$2,470,000	\$41,167		\$2,470,000	\$41,167
LTV	53.70%		-4%	50.14%	

Underwriting Metrics:

Metric	Amount	Comment
Total Development Cost Per Unit Residential	\$488,031	\$480,822 without reserves
Residential Vacancy Rate	5%	
DCR Yr 1	1.82	1.68 without commercial income
DCR Yr 15	1.90	1.71 without commercial income
NOI	\$302,932	
Income Trending	2%	
Expense Trending	3%	
Loan to Value	53.7%	
Initial Installment (%) of syndication proceeds	20%	
Acquisition Price equal to or less than Appraised value	Yes	\$2.98MM vs appraised as-is \$3.1MM
Operating Reserve (Amt and confirm consistency with UW requirements)	\$318,898	Equal to six months OpEx & Debt Service
Replacement Reserve (Amt and confirm consistency with UW requirements)	\$19,500	\$325 per unit

Deviations from standard underwriting – Yes

The first mortgage is underwritten based on Alliant and Bank of America projections.

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. However, this is a conduit loan so RIIHousing has no financial risk.

The cost per unit has risen significantly due to the inclusion of the non-residential rehabilitation required for the property. Separating out the non-residential costs from the residential results in a per unit less reserves of \$480,822. On the residential side additional acquisition costs were included to generate additional LIHTC eligible basis. A large portion of the increase in costs on the residential can be attributed to

additional financing and soft costs required by the Senior Lender.

Previously the developer and syndicator had agreed to a \$1,000,000 reserve specifically for income averaging, As the budget began to tighten the syndicator and developer both felt the additional reserve was unnecessary.

Our construction team has evaluated the current proposed schedule of values and determined that the current pricing is consistent with pricing on other similar deals.

Unit Distribution and Revenue:

Unit	Rent Type	Number of Units	Gross Rent	Gross Rent as a		
				LIHTC Max Rent	% of LIHTC Max Rent	Discount from Market Rent
EFF	40%	5	\$ 717.00	\$ 717.00	0%	40.5%
EFF	20%	5	\$ 1,289.00	\$ 358.00	360%	0.0%
EFF	60%	3	\$ 1,075.00	\$ 1,075.00	0%	7.8%
EFF	60%	3	\$ 1,075.00	\$ 1,075.00	0%	7.8%
EFF	80% LIHTC	3	\$ 1,212.00	\$ 1,434.00	85%	-4.8%
1	60%	21	\$ 1,152.00	\$ 1,152.00	0%	23.4%
1	80% LIHTC	9	\$ 1,230.00	\$ 1,537.00	80%	17.8%
2	40%	3	\$ 922.00	\$ 922.00	0%	51.7%
2	60%	8	\$ 1,383.00	\$ 1,383.00	0%	24.5%
Total		60				20.6%

Note: The 20% units will have 811 vouchers.

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 or preserve 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 the purpose of 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,** in June 2023, the RIHousing Board of Commissioners granted firm approval of \$13,000,000 in tax-exempt mortgage financing to Brisa Ventures LLC (“Applicant”) to acquire and/or rehabilitate Bernon Mills (the “Development”);
- Whereas,** said bonds shall have a term not to exceed 40 years 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; and
- Whereas,** the RIHousing Board of Commissioners and staff have reviewed the submission of the Applicant for mortgage financing and determined that the Development qualifies for financing under RIHousing’s enabling legislation, regulations, guidelines and policies.

NOW, THEREFORE, IT IS HEREBY:

- Resolved,** that subject to the special conditions listed below, RIHousing hereby declares firm commitment for tax-exempt mortgage financing for Brisa Bernon Mills, LP or an affiliated entity of the Applicant (the “Borrower”) in a revised amount not to exceed \$14,500,000 for rental housing known as Bernon Mills located in Woonsocket to be financed in part with tax-exempt bonds.
- Resolved,** that RIHousing hereby declares that this revised 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 \$14,500,000 in mortgage funds, 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, in order to fund the loan to the Development, RIHousing may enter into a loan arrangement with Bank of America (the “Bank of America Loan”), substantially in accordance with the terms outlined in a separate Request for Action to be presented to the RIHousing Board of Commissioners.

Resolved, that the Authorized Officers be, and each of them hereby is, authorized, empowered and directed to take any and all action necessary to effectuate the purpose and intent of the foregoing resolutions, including, without limitation, (i) the execution and delivery on behalf of RIHousing of all such other agreements, documents, and instruments and the performance by RIHousing thereunder, as each of them shall determine, in his/her exclusive and reasonable judgment, to be necessary, appropriate, or advisable, and (ii) the consummation of the transactions contemplated hereby and the performance by RIHousing as required hereunder, as each of them shall determine, in his/her exclusive and reasonable judgment, to be necessary, appropriate, or advisable, each such determination pursuant to the immediately preceding clauses to be conclusively evidenced by the taking of such action by any Authorized Officer and each such determination is hereby fully and completely approved and adopted as the valid action of and by RIHousing, approved in all respects by the Board of Commissioners.

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

- Syndication proceeds from sale of 4% LIHTCs in an amount sufficient to ensure development feasibility;
- Receipt of an updated appraisal from Bank of America that has been prepared by an independent appraiser demonstrating that the first mortgage loan does not exceed 90% of the as-stabilized value of the property and the as-is value is equal to or less than the acquisition price;
- Approval of the five HUD 811 vouchers from RIHousing;
- Final approval by RIHousing of construction plans, specifications, and supporting construction documentation;
- Approval by RIHousing of management documentation;
- Execution and delivery by the Developer of a construction completion guaranty in form and substance satisfactory to RIHousing by ADC Communities, ADC Communities II, and Brisa Ventures, LLC;
- Approval by bond underwriter and bond counsel that the loans will

satisfy all required bond provisions for the bond issue;

- Recordation of a RIHousing Declaration of Land Use Restrictive Covenants and Regulatory Agreement in form(s) acceptable to RIHousing;
- Recordation of a Community Revitalization Program Deed Restriction in form acceptable to RIHousing;
- Evidence of approval of Income-Averaging from the Tax Credit Investor;
- RIHousing Board of Commissioners approval of the conduit loan arrangement with Bank of America;
- RIHousing approval of all Bank of America Loan documents;
- Completion of all items required for firm commitment and closing in accordance with normal underwriting and processing requirements; and

Resolved, that the Executive Director, the 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.