

Request for Action
by
Board of Commissioners

**Approval of Development of Affordable Housing 2 Program (DAH-2)
Funding Awards**

1. Summary of Issues

The Development of Affordable Housing 2 Program (“DAH-2”), which is also known as the ARPA Production Fund Program and in previous rounds has been referred to as the RI Rebounds Production Fund, is funded with State and Local Fiscal Recovery Funds (“SFRF”) appropriated to the United States Department of Treasury (“Treasury”) through the American Rescue Plan Act of 2021 for the production of affordable housing for households with incomes at or below 80% of area median income (“AMI”). Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) was authorized to implement and administer the DAH-2 using approximately \$75,000,000 in funds for the new production of affordable housing for rental opportunities. As of February 2024, approximately \$18,000,000 in DAH-2 funds is available for award.

Deals reviewed for additional DAH-2 funding were originally proposed in January 2023 and received preliminary approval in May 2023. Generally speaking, they are experiencing gaps due to (i) increased construction pricing, (ii) lower syndication pricing, and (iii) higher interest rates. These deals generally have nearly final plans and specifications and should be able to move to closing quickly once the funding gaps are filled. While reviewing these deals for additional commitments, staff paid particular attention to the following factors: (i) the size of the gap for which the developer was seeking additional funding as compared to the overall transaction, which, for these deals, ranged from 10%-44%, (ii) deferred developer fees, (iii) any value engineering undertaken, and (iv) updated equity pricing to ensure an equitable review across all projects.

In November 2023, RIHousing issued a Request for Proposals (“RFP”) for DAH-2 funds from qualified applicants as part of a consolidated funding round. All applications are being reviewed by Development Division staff in accordance with the published Program Review Criteria. Those applications remain under review..

RIHousing staff recommends approval of funding for five proposals in the total collective amount of \$5,049,551. The recommended awards are described in Attachment A and all such awards are contingent upon the applicant’s ability to close by July 31, 2024 or sooner, as outlined in Attachment A.

2. Recommendation

The attached resolution authorizing the allocation of up to \$5,049,551 in DAH-2 funds is recommended for approval, contingent upon on (i) receipt of the DAH-2 funds from the State of Rhode Island; (ii) the availability of all other funding for each project; and (iii) compliance

with DAH-2 guidelines.

3. Attachments

- A. Summary of Recommendations
- B. Resolution

Attachment A

Summary of Recommendations

Reynolds Farm Senior Housing II – Valley Affordable Housing Corp. (“VAH”) has proposed the new construction of 40 affordable, 55+ age-restricted units in North Kingstown to be known as Reynolds Farm Senior Housing II (the “Development”). The 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 AMI and the remaining units will be restricted to households with incomes at or below 60% of AMI. The newly constructed building will contain community space specifically designed for providing social services to the residents.

Since Preliminary Approval in May 2023, construction costs have significantly increased, and increased insurance costs and higher interest rates have added to the overall funding gap. In addition, the softening of the LIHTC equity market has resulted in a slightly lower price; however, the overall LIHTC equity has increased due to higher overall costs. The overall total development cost reflects an increase of approximately \$1,970,000. While VAH requested \$1,000,000 in additional gap funds allocated between two different sources, staff recommends that \$1,000,000 in DAH-2 funds be awarded to expedite overall feasibility. This \$1,000,000 DAH-2 award would be added to the \$6,860,000 DAH-2 award preliminarily approved in May 2023 and is contingent upon completion of standard underwriting and closing by July 31, 2024.

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
ARPA Production Fund	\$6,860,000	171,500	\$0	\$6,860,000	\$171,500
Housing Trust Fund	\$1,340,000	33,500	\$0	\$1,340,000	\$33,500
DAH-2	\$0	0	\$1,000,000	\$1,000,000	\$25,000
LIHTC Proceeds	\$5,131,730	128,293	\$484,874	\$5,616,604	\$140,415
General Partner Capital	\$0	0	\$100	\$100	\$3
Deferred Development Fee	\$195,442	4,886	\$64,378	\$259,820	\$6,496
Total Sources	\$14,727,172	368,179	\$1,974,352	\$16,701,524	\$417,538
Uses	Amount	Per Unit	Delta	Amount	Per Unit
Construction	\$10,596,775	\$264,919	\$1,539,190	\$12,135,965	\$303,399
Contingency	\$1,059,678	\$26,492	(\$149,481)	\$910,197	\$22,755
Soft Costs	\$1,072,356	\$26,809	\$191,560	\$1,263,916	\$31,598
Financing	\$1,012,535	\$25,313	\$366,092	\$1,378,627	\$34,466
Developer Fee	\$756,000	\$18,900	\$0	\$756,000	\$18,900
Operating Reserve	\$177,432	\$4,436	\$22,646	\$200,078	\$5,002
Replacement Reserve Year 1 Deposit	\$13,000	\$325	\$0	\$13,000	\$325
Other Reserves	\$39,396	\$985	\$4,345	\$43,741	\$1,094
Total Uses	\$14,727,172	\$368,179	\$1,974,352	\$16,701,524	\$417,538

Broad Street Homes - Broad Street Homes (the “Development”) consists of three proximate lots along Broad Street in the heart of Central Falls adjacent to City Hall. The City of Central Falls (the “City”) purchased the properties using RIHousing Site Acquisition Program funds. The properties include (i) a historic former police station and courthouse, (ii) a former Dunkin Donuts site, which is a blighted property and will be demolished, and (iii) a municipal parking lot. Originally expected to produce 47 units, the Development has been reduced to 44 units based on a request from the Mayor of Central Falls.

Since Preliminary Approval in May 2023, softening of the LIHTC equity market has lowered LIHTC pricing, permanent debt interest rates have increased, and the development has incurred a very significant increase in construction costs, mostly related to State Historic Preservation office review requirements in connection with the Section 106 review of the former courthouse building. The overall total development cost reflects an increase of approximately \$4,200,000, and this gap in the Development’s capital stack is being addressed by a number of different sources, including the developer’s request for \$1,538,070 in additional DAH-2 funds. Staff recommends the award of \$1,538,070 in DAH-2 funds, to be added to the \$5,800,000 DAH-2 award preliminarily approved in May 2023, which is contingent upon completion of standard underwriting and closing by July 31, 2024.

Sources	2023 Consolidated Round		Delta	2024 Consolidated Round	
	Amount	Per Unit		Amount	Per Unit
RIH First Mortgage	\$825,000	18,750	\$361,491	\$1,186,491	\$26,966
Community Revitalization	\$2,000,000	45,455	\$0	\$2,000,000	\$45,455
DAH-2	\$5,800,000	131,818	\$0	\$5,800,000	\$131,818
Federal Appropriations	\$2,000,000	45,455	\$0	\$2,000,000	\$45,455
Additional RIH Funding Request	\$0	0	\$1,538,070	\$1,538,070	\$34,956
LIHTC Proceeds	\$9,326,145	211,958	\$1,412,155	\$10,738,300	\$244,052
Deferred Development Fee	\$189,569	4,308	\$250,000	\$439,569	\$9,990
Seller Note	\$0	0	\$335,000	\$335,000	\$7,614
Infrastructure Grant	\$0	0	\$300,000	\$300,000	\$6,818
Total Sources	\$20,140,714	457,744	\$4,196,715	\$24,337,429	\$553,123
Uses	Amount	Per Unit	Delta	Amount	Per Unit
Construction	\$15,004,000	\$341,000	\$2,275,093	\$17,279,093	\$392,707
Contingency	\$1,244,900	\$28,293	\$483,009	\$1,727,909	\$39,271
Acquisition	\$110,000	\$2,500	\$225,000	\$335,000	\$7,614
Soft Costs	\$1,615,840	\$36,724	\$434,190	\$2,050,030	\$46,592
Financing	\$871,322	\$19,803	\$472,249	\$1,343,571	\$30,536
Developer Fee	\$990,990	\$22,523	\$250,000	\$1,240,990	\$28,204
Operating Reserve	\$249,242	\$5,665	\$2,758	\$252,000	\$5,727
Lease Up Reserve	\$0	\$0	\$20,000	\$20,000	\$455
Replacement Reserve Year 1 Deposit	\$15,275	\$347	\$34,725	\$50,000	\$1,136
Other Reserves	\$39,145	\$890	(\$310)	\$38,835	\$883
Total Uses	\$20,140,714	\$457,744	\$4,196,715	\$24,337,429	\$553,123

Ade Bethune House - Ade Bethune House is a new construction project that consists of a single building with 54 units of affordable, 55+ age-restricted housing and a new Senior Center in Portsmouth. Church Community Housing Corporation (“CCHC”) is the developer. CCHC plans to reuse the site of the former Portsmouth Senior Center to construct the new building. There will be a 99-year land lease between the Town of Portsmouth and CCHC, and the building will be structured as a condominium with the intent for the Town to purchase the new Senior Center upon completion. Of the 54 housing units, 6 one-bedroom units will be restricted to households with incomes at or below 30% of AMI and the remaining one and two-bedroom units will be available to households with incomes up to 60% of AMI. The 30% AMI units will receive operating subsidy through the HPF-ELI program.

Since Preliminary Approval in May 2023, CCHC has had to procure and contract with a new General Contractor and construction costs have increased by approximately \$4,500,000, some of which can be attributed to general increases in the construction industry. In addition, softening of the LIHTC equity market has lowered LIHTC pricing contributing to a gap in the Development budget. The overall total development cost reflects an increase of approximately \$6,100,000; however, due to changes in the small area fair market rents, the Development is now located in a Difficult to Develop area which makes the project eligible for additional LIHTC equity. Developer has requested \$1,471,481 in additional ancillary funds, and staff recommends the award of \$1,471,481 in DAH-2 funds, to be added to the \$5,550,000 DAH-2 award preliminarily approved in May 2023, which is contingent upon completion of standard underwriting and closing by July 31, 2024.

Sources	2023 Consolidated Round		Delta	2024 Consolidated Round	
	Amount	Per Unit		Amount	Per Unit
RIH First Mortgage	\$3,200,000	59,259	(\$520,000)	\$2,680,000	\$49,630
Capital Magnet Fund	\$200,000	3,704	\$0	\$200,000	\$3,704
DAH-2	\$5,550,000	102,778	\$0	\$5,550,000	\$102,778
HOME	\$1,000,000	18,519	\$0	\$1,000,000	\$18,519
Community Development Block Grant	\$750,000	13,889	\$0	\$750,000	\$13,889
Housing Trust Fund	\$1,000,000	18,519	\$0	\$1,000,000	\$18,519
FHLB Affordable Housing Program	\$0	0	\$850,000	\$850,000	\$15,741
Town Purchase Senior Center	\$1,000,000	18,519	(\$1,000,000)	\$0	\$0
LIHTC Proceeds	\$6,456,200	119,559	\$5,087,552	\$11,543,752	\$213,773
General Partner Capital	\$0	0	\$100	\$100	\$2
Deferred Development Fee	\$620,268	11,486	(\$170,000)	\$450,268	\$8,338
RI Housing Predevelopment Grant	\$0	0	\$250,000	\$250,000	\$4,630
Renewable Energy Fund Grant & Investmen	\$0	0	\$106,248	\$106,248	\$1,968
Additional DAH-2	\$0	0	\$1,471,481	\$1,471,481	\$27,250
Total Sources	\$19,776,468	366,231	\$6,075,381	\$25,851,849	\$478,738
Uses	Amount	Per Unit	Delta	Amount	Per Unit
Construction	\$13,391,184	\$247,985	\$4,329,953	\$17,721,137	\$328,169
Contingency	\$1,004,339	\$18,599	\$331,392	\$1,335,731	\$24,736
Soft Costs	\$1,685,215	\$31,208	\$593,065	\$2,278,280	\$42,190
Financing	\$1,700,023	\$31,482	\$861,253	\$2,561,276	\$47,431
Developer Fee	\$1,520,600	\$28,159	(\$49,732)	\$1,470,868	\$27,238
Operating Reserve	\$401,379	\$7,433	(\$4,127)	\$397,252	\$7,357
Replacement Reserve Year 1 Deposit	\$18,550	\$344	\$0	\$18,550	\$344
Other Reserves	\$55,178	\$1,022	\$13,577	\$68,755	\$1,273
Total Uses	\$19,776,468	\$366,231	\$6,075,381	\$25,851,849	\$478,738

Walker Lofts - The developer, Odin Properties, LLC, has proposed to re-construct a historical blighted mill complex in Lincoln known as Walker Lofts. The development will consist of 126 total units, of which 32 units (equal to 25% of the total units) will be affordable. Walker Lofts will provide 25 one-bedroom, 6 two-bedroom and 1 three-bedroom units, all restricted to households with incomes at or below 80% of AMI. The remaining units will be unrestricted. The property is located five minutes from the newly constructed Pawtucket/Central Falls Commuter Station.

Since Preliminary Approval in May 2023, the developer has experienced rising construction material costs, prevailing wage requirements tied to State Historic Tax Credits, and higher financing costs related to higher rates. The overall total development cost reflects an increase of approximately \$10,540,000. Developer has requested \$5,876,831 in additional ancillary funds; however, only 25% of units in the development are affordable so staff has applied that percentage to the gap request thereby reducing the request to \$1,470,000. Staff is recommending a \$940,000 DAH-2 award, which is contingent upon completion of standard underwriting and closing by July 31, 2024. RIHousing is recommending that the balance of the gap request be funded with Middle Income Program funds, which is the subject of a separate Request for Action to be presented to the Board. The developer will need to secure funding for the remaining \$4,400,000 in connection with the market rate units from other non-RIHousing sources.

Sources	Consolidated Round 2023		Delta	Consolidated Round 2024	
	Amount	Per Unit		Amount	Per Unit
RIH First Mortgage	\$21,750,000	172,619	\$1,000,000	\$22,750,000	\$180,556
Providence Revolving Fund	\$1,000,000	7,937	\$0	\$1,000,000	\$7,937
Community Revitalization	\$2,000,000	15,873	\$0	\$2,000,000	\$15,873
Middle Income Program	\$2,230,000	17,698	\$530,000	\$2,760,000	\$21,905
DAH-2	\$0	0	\$940,000	\$940,000	\$7,460
GP Equity	\$2,000,000	15,873	(\$2,000,000)	\$0	\$0
Developer Funding Gap (Market Units)	\$0	0	\$4,406,831	\$4,406,831	\$34,975
Fed. Historic Tax Credit Proceeds	\$5,479,855	43,491	\$1,572,014	\$7,051,869	\$55,967
General Partner Capital	\$2,000,000	15,873	\$1,000,000	\$3,000,000	\$23,810
State Historic TC Proceeds	\$2,975,000	23,611	\$0	\$2,975,000	\$23,611
Deferred Development Fee	\$2,209,145	17,533	\$594,855	\$2,804,000	\$22,254
RI Rebuild Credit	\$1,000,000	7,937	\$2,500,000	\$3,500,000	\$27,778
Total Sources	\$42,644,000	338,444	\$10,543,700	\$53,187,700	\$422,125
Uses	Amount	Per Unit	Delta	Amount	Per Unit
Construction	\$25,975,000	\$206,151	\$8,802,000	\$34,777,000	\$276,008
Contingency	\$2,597,500	\$20,615	\$880,200	\$3,477,700	\$27,601
Acquisition	\$3,300,000	\$26,190	(\$25,000)	\$3,275,000	\$25,992
Soft Costs	\$3,306,500	\$26,242	(\$1,231,500)	\$2,075,000	\$16,468
Financing	\$3,075,000	\$24,405	\$900,000	\$3,975,000	\$31,548
Developer Fee	\$4,390,000	\$34,841	\$1,218,000	\$5,608,000	\$44,508
Total Uses	\$42,644,000	\$338,444	\$10,543,700	\$53,187,700	\$422,125

Parcel 9 - Parcel 9 is a hybrid development featuring both a 9% and 4% LIHTC tranche. The developer, Pennrose, LLC, is in the midst of constructing a 66-unit building utilizing a condominium structure. Parcel 9 (9%) will consist of 15 units between 30% - 60% of area median income (“AMI”) and 22 market rate units. Parcel 9 (4%) will consist of 29 units, 100% of which will be LIHTC units, between 30% - 60% AMI. The project closed in June 2023 and is currently under construction.

Subsequent to construction closing, the developer ran into cost overruns related to site conditions, structural, electrical scope, and insurance increases. The developer is also experiencing delays related to switch gears, which is adding time to the construction schedule. The overall total development cost for both tranches has increased by approximately \$1,030,000 and the developer has requested this approximate amount in additional ancillary funds. Staff has determined that sufficient contingency exists to cover the majority of the items included in the gap request. In addition, staff acknowledges that since the development has closed, it is the developer’s responsibility to manage the budget without seeking additional funds. However, staff has determined that the request for gap funds relative to the switch gear and electrical equipment is reasonable. Therefore, staff recommends an award of \$100,000 in DAH-2 funds to be prorated between the two tranches.

DAH-2 Award Summary

Reynolds Farm Senior Housing II	\$1,000,000
Broad Street Homes	\$1,538,070
Ade Bethune House	\$1,471,481
Walker Lofts	\$ 940,000
Parcel 9 (4%/9%)	\$ 100,000
Total DAH-2 Awards	\$5,049,551

Attachment B

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

WHEREAS, The State of Rhode Island has established the Development of Affordable Housing 2 Program (“DAH-2”), which is also known as the ARPA Production Fund Program, using State and Local Fiscal Recovery Funds appropriated to the U.S. Department of Treasury under the American Rescue Plan Act of 2021 to provide funding for the development of new multifamily units for households with incomes below 80% of Area Median Income;

WHEREAS, Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) has been designated by the State of Rhode Island to administer DAH-2;

WHEREAS, the applicants listed in Attachment A have submitted applications that meet the threshold requirements of DAH-2;

WHEREAS, staff of RIHousing have reviewed each of the eligible applications submitted and recommend that DAH-2 funds be committed to the proposals listed in Attachment A; and

WHEREAS, RIHousing staff have reviewed the submissions and determined that the recommended proposals qualify for financing under RIHousing’s enabling legislation, regulations, guidelines and policies.

NOW, THEREFORE, IT IS HEREBY:

RESOLVED, that RIHousing is authorized to commit up to \$5,049,551 in DAH-2 funding in compliance with DAH-2 guidelines, subject to certain conditions as well as the receipt of other sources of funds, for the proposals reviewed by staff, as set forth in Attachment A; and

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 resolution.