

**Request for Action  
by  
Board of Commissioners**

**Firm Approval of Financing for Beachwinds Apartments**

**A. PROJECT SUMMARY**

This Request for Action (“RFA”) is for the firm approval of a tax-exempt financing in an amount not to exceed \$17,500,000 for Beachwinds Apartments (hereinafter referred to as “Beachwinds” or the “Development”). Preservation of Affordable Housing, Inc. is the developer (“POAH” or the “Developer”). The Development received preliminary approval from the Board of Commissioners in April 2020.

The Development is the refinance of 2 separate post year-15 low-income housing tax credit (“LIHTC”) projects, South Winds Apartments and Beachwood Apartments, both located in Narragansett, RI and constructed in 1977. South Winds Apartments comprises 3 buildings with a total of 48 units of which 42 are one-bedroom units and 6 are two-bedroom units. Beachwood Apartments comprises 1 building with 3 wings linked by common corridors with a total of 56 units of which 52 are one-bedroom units and 4 are two-bedroom units. In total, the Development will have 104 units.

Both Beachwood Apartments and South Winds Apartments were refinanced in the early 2000’s with financing from Rhode Island Housing and Mortgage Corporation (“RIHousing”). The existing first mortgages for both sites will be paid off as part of this transaction. South Winds Apartments also has an Affordable Housing Trust Fund (“AHT”) loan that is payable from surplus cash. As part of this transaction, approximately one-half of the AHT loan will be repaid at closing. The remaining balance of the AHT loan will be paid off annually utilizing the greater of 50% of the surplus cash or \$153,333, with a cap of 60% of surplus cash flow. This will make certain that the loan can be repaid within 7 years.

As part of the proposed improvements, POAH will place a special emphasis on long term durability and energy efficiency. Exterior plans include replacement of the siding on both projects while increasing the insulation, replacement of all exterior doors and windows, and repair/replacement of roof coverings. Inside individual units, electrical panels will be replaced. All units will receive cosmetic improvements to floor covering and painting as needed. Approximately 30% of units will receive new cabinetry, counters and sinks in the kitchen and bathrooms, in addition to new paint and floor coverings. Five (5) units will be made fully ADA compliant. Common area work includes replacement of all interior common area flooring and, upgrades to common area light fixtures to become more energy efficient.

The total development cost is approximately \$36,550,000 and has increased approximately 9% since preliminary approval. Construction costs increased about \$1.6 million and the acquisition costs increased about \$1.16 million. Construction interest and the Developer’s fee increased commensurate with the increase in construction and acquisition costs.

During construction, RIHousing will issue tax-exempt bonds in an amount not to exceed \$17,500,000, which includes both the permanent loan and a bridge loan, to assist in (i) meeting the 50% test needed to be eligible to generate 4% LIHTC on all units, and (ii) to bridge the LIHTC equity. A recourse guarantee for the bridge loan will be required. The permanent loan will be amortized over 40 years but have a mandatory balloon in year 17 to improve the interest rate.

The proposed capital structure for the Development will consist of (i) construction to permanent financing utilizing tax-exempt bonds, (ii) equity from the allocation of 4% LIHTC, (iii) a deferred developer fee, (iv) various sponsor loans, (v) funds from operation, and (vi) the rollover of a portion of the existing AHT loan.

As part of the approval process, staff has determined that the Development and sponsor meet RIHousing's requirements for rollover of existing debt. Broadly, this review includes:

- Current on first mortgage or in compliance with forbearance agreement;
- No outstanding monitoring findings and no history of significant monitoring findings;
- Demonstrated, responsible long-term ownership and management of the property;
- A satisfactory equity pay-in schedule to RIHousing;
- Maximization of amortizing debt the property can support; and
- Borrower provided guarantees to cover any deficit shortfalls.

Boston Capital Corporation ("Boston Capital") will be the syndicator and is paying \$.94 per credit, an increase of \$.02 since preliminary approval. Recently it has been announced that Boston Financial Investment Management is going to acquire Boston Capital. Since the announcement, Boston Capital has reaffirmed their commitment to this transaction.

This RFA requests firm approval of \$17,500,000 in tax-exempt financing of which \$12,250,000 will remain as permanent debt.

## **B. RECOMMENDATION**

The attached resolution for firm approval of financing for Beachwinds is recommended for approval subject to:

- 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.
- Execution of a construction completion guarantee from POAH that includes a guarantee of bridge loan repayment, cost overruns and/or equity shortfalls.
- Approval by bond underwriter and bond counsel that the loans will satisfy all

required bond provisions for the bond issue.

- Approval by RIHousing of all management related issues including the marketing and tenant selection plans.
- Confirmation satisfactory to RIHousing that the syndicator's tax counsel has performed a true debt analysis of the financing for the Development. Such confirmation shall consist of a copy of the tax opinion issued by the syndicator's tax counsel, or another form of written confirmation satisfactory to RIHousing.
- Evidence that the Town of Narragansett Tax Assessor has approved the statutory "8% tax treatment" for the Development and will limit the taxation of the Development to 8% or less of gross scheduled rental income.
- Evidence the 2 Housing Assistance Payment ("HAP") contracts have been extended for a new 20-year term.
- FHA Risk-Sharing approval from the U.S. Department of Housing and Urban Development for a minimum of 50% of the first mortgage loan.
- Completion of all items required for closing in accordance with normal underwriting and processing requirements.

**C. ATTACHMENTS**

- A.** Development Summary
- B.** Term Sheet
- C.** Resolution
- D.** Site Location Map

**Attachment A**  
**Development Summary**

**A. Development Team**

- 1. Sponsor:** Preservation of Affordable Housing, Inc.  
2 Oliver Street, Suite 500  
Boston, MA 02109
  
- 2. Mortgagor:** Beachwinds II Preservation Associates  
Limited Partnership  
2 Oliver Street, Suite 500  
Boston, MA 02109
  
- 3. Architect:** Union Studio Architecture & Community  
Design, Inc.  
140 Union Street  
Providence, RI 02903
  
- 4. General Contractor:** Pariseault Builders, Inc.  
69 Illinois Ave. Suite #1  
Warwick, RI 02888
  
- 5. Management Agent** POAH Communities, LLC  
2 Oliver Street  
Boston, MA 02109
  
- 6. Legal:** Chace Ruttenberg & Freedman, LLP  
One Park Row, Suite 300  
Providence, RI 02903

**Development Team Qualifications**

*Sponsor/Mortgagor*

Preservation of Affordable Housing, Inc. (“POAH”) is a not-for-profit corporation with a core mission of preserving at-risk affordable housing, often housing that is at risk of being lost due to market pressures or physical deterioration. Based in Boston, POAH now owns and operates more than 11,000 affordable homes in 11 states and Washington DC. One of POAH’s core principles is that the real estate portfolio must be sustainable, and that the organization should be sustained primarily by the portfolio. They have an identify of interest property management company called POAH Communities, LLC.

The organization is familiar with RIHousing requirements and processes and they own/manage developments in approximately 12 communities in Rhode Island.

*Architect*

Union Studio Architecture & Community Design, Inc. (“USA”) is an architectural firm based in Rhode Island. They have designed both new construction and substantial rehabilitation developments for multiple projects in the RIHousing portfolio. Working with POAH, they recently completed the renovation of Oxford Place & Gardens in Providence, also a preservation transaction. They are currently providing architectural services for 2 new construction projects funded with 9% LIHTC. Their RIHousing portfolio includes Dean Street Studios, Palmer Point, and Shannock Falls, as well as developments in Providence, Barrington, Tiverton and North Kingstown. USA has experience working with RIHousing’s development staff and is familiar with its requirements.

*General Contractor:*

Pariseault Builders, Inc. (“Pariseault”) is a full-service general contracting firm that has extensive construction experience with RIHousing financed developments. Their portfolio includes commercial, residential, retail, and educational facilities. Pariseault has worked on several RIHousing financed developments in the past, both new construction and acquisition/rehabilitation and has successfully completed numerous other affordable housing projects in various communities across the state. They are currently the general contractor of Langford Estates at Reynolds Farm, which is under construction. These projects demonstrate Pariseault’s experience as well as their ability to handle a project of this size and scope. Pariseault will provide a payment and performance bond during construction.

*Legal:*

Chace, Ruttenberg & Freedman is a full-service law firm offering extensive experience in tax-credit developments. Attorney Drew Kaplan has represented multiple sponsors funded through RIHousing. Mr. Kaplan concentrates his practice in the areas of affordable housing, business, corporate and non-profit law and estate planning and administration. He provides comprehensive corporate and tax planning advice to area businesses. He also serves as counsel to many syndicated partnerships formed to develop affordable housing.

### C. 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
1	60%	42	\$ 1,575.00	\$ 922.00	171%	0.0%
2	60%	6	\$ 1,770.00	\$ 1,107.00	160%	0.0%
1	60%	52	\$ 1,560.00	\$ 922.00	169%	0.0%
2	60%	4	\$ 1,765.00	\$ 1,107.00	159%	0.0%
<b>Total</b>		<b>104</b>				<b>0.0%</b>

### D. Finance Summary

Sources	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
RIH First Mortgage	\$11,740,000	\$112,885	(\$510,000)	\$12,250,000	\$117,788
Assumed Debt (Rollover)	\$950,000	\$9,135	\$30,000	\$920,000	\$8,846
Seller Loan	\$876,978	\$8,432	\$40,279	\$836,699	\$8,045
Seller Loan	\$730,800	\$7,027	(\$216,776)	\$947,576	\$9,111
Seller Loan	\$7,505,982	\$72,173	(\$1,263,119)	\$8,769,101	\$84,318
LIHTC Proceeds	\$9,086,639	\$87,372	(\$634,074)	\$9,720,713	\$93,468
CF From Operations During Construct	\$600,000	\$5,769	(\$89,043)	\$689,043	\$6,625
Deferred Developer Fee	\$2,005,780	\$19,286	(\$411,242)	\$2,417,022	\$23,241
<b>Total Sources</b>	<b>\$33,496,179</b>	<b>\$322,079</b>	<b>(\$3,053,974)</b>	<b>\$36,550,154</b>	<b>\$351,444</b>

Uses	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
Construction	\$7,550,587	\$72,602	(\$1,465,347)	\$9,015,934	\$86,692
Contingency	\$756,000	\$7,269	(\$136,667)	\$892,667	\$8,583
Acquisition	\$16,375,000	\$157,452	(\$1,165,000)	\$17,540,000	\$168,654
Soft Costs	\$1,846,069	\$17,751	\$157,023	\$1,689,046	\$16,241
Financing	\$1,594,550	\$15,332	(\$68,247)	\$1,662,797	\$15,988
Developer Fee	\$4,003,000	\$38,490	(\$617,066)	\$4,620,066	\$44,424
Operating Reserve	\$866,837	\$8,335	\$56,112	\$810,725	\$7,795
Replacement Reserve Year 1 Deposit	\$208,000	\$2,000	\$0	\$208,000	\$2,000
Other Reserves	\$296,136	\$2,847	\$185,217	\$110,919	\$1,067
<b>Total Uses</b>	<b>\$33,496,179</b>	<b>\$322,079</b>	<b>(\$3,053,975)</b>	<b>\$36,550,154</b>	<b>\$351,444</b>

## Attachment B

### Construction to Permanent Financing Term Sheet Beachwinds

<b>Borrower:</b>	Beachwinds II Preservation Associates Limited Partnership
<b>Rents:</b>	The underwriting rents will be set at the lower of current HAP rents or market rents as determined by an appraisal commissioned by RIHousing.
<b>Insurance:</b>	50% FHA Risk Share Insurance on the permanent first mortgage loan.
<b>Mortgage Term:</b>	The permanent first mortgage term will amortize over 40 years but be due and payable 17 years after closing.
<b>Permanent Loan Rate:</b>	The rate on the loan will be determined at the time of the loan closing based on market conditions. The current underwriting rate is 4.125%.
<b>Collateral:</b>	The Borrower will furnish, as security for the Loan, a first mortgage covering the premises and a collateral assignment of the rents and leases.
<b>Loan to Value Ratio:</b>	The RIHousing permanent first mortgage may not exceed 90% of the as-stabilized value, subject to the lesser of market rents or contract rents as determined by an independent appraisal.
<b>Debt Service Coverage:</b>	The required debt service coverage ratio for sizing the supportable first mortgage is 1.15.
<b>Loan Fee:</b>	At or before closing, Borrower shall remit to RIHousing a permanent loan origination fee equal to 2% of the first \$5,000,000 of the permanent loan and 1% on the balance of the loan. The Borrower shall remit a bridge loan origination fee equal to 1% of the bridge loan.
<b>Third Party Fees:</b>	The Borrower shall be responsible for paying any and all of RIHousing's third party fees required to complete the due diligence review and close the transaction including cost of issuance for the bonds. Costs may be capitalized in the development budget.
<b>Replacement Reserves:</b>	The Borrower shall capitalize a new replacement reserve account equivalent to \$2,000 per unit. The Borrower shall

make monthly deposits to a replacement reserve, held by Lender, in an amount equal to \$325 per unit annually. The Lender reserves the right to increase the annual reserve contribution over the term of the loan due to inflation.

**Operating Reserve:**

The Borrower shall capitalize an operating reserve at final closing in a total amount not less than 6 months debt and 6 months operating expenses, inclusive of replacement reserve deposits.

**Insurance Escrow:**

The Borrower shall make monthly deposits to an insurance escrow, held by Lender, equal to one-twelfth of the accruing insurance premiums.

**Tax Escrow:**

The Borrower shall make monthly deposits to a tax escrow, held by Lender, equal to one-twelfth of the accruing real estate taxes.



**ATTACHMENT C**

**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 bridge financing at an economically acceptable rate to promote the acquisition, rehabilitation or preservation of affordable housing;

**Whereas:** in April 2020, the RIHousing Board of Commissioners granted preliminary approval of tax-exempt mortgage financing to the applicant (“Applicant”) listed below to acquire and/or rehabilitate the development as set forth below (the “Development”):

<u>Development</u>	<u>Applicant</u>	<u>Tax- Exempt Bonds</u>
Beachwinds Apartments	Preservation of Affordable Housing, Inc.	\$17,500,000

**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 Beachwinds II Preservation Associates Limited Partnership or an affiliated entity (the “Borrower”) in an amount not to exceed \$17,500,000 for rental housing known as Beachwinds Apartments located in Narraganset, RI;

**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 up to \$17,500,000 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; and this resolution shall take effect immediately upon adoption;

**Resolved:** that the foregoing resolutions are subject to the following special 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.
- Execution of a construction completion guarantee from the Applicant that includes a guarantee of bridge loan repayment, cost overruns and/or equity shortfalls.
- Approval by bond underwriter and bond counsel that the loans will satisfy all required bond provisions for the bond issue.
- Approval by RIHousing of all management related issues including the marketing and tenant selection plans.
- Confirmation satisfactory to RIHousing that the syndicator's tax counsel has performed a true debt analysis of the financing for the Development. Such confirmation shall consist of a copy of the tax opinion issued by the syndicator's tax counsel, or another form of written confirmation satisfactory to RIHousing.
- Evidence that the Town of Narragansett Tax Assessor has approved the statutory "8% tax treatment" for the Development and will limit the taxation of the Development to 8% or less of gross scheduled rental income.
- Evidence the 2 Housing Assistance Payment ("HAP") contracts have been extended for a new 20-year term.
- FHA Risk-Sharing approval from the U.S. Department of Housing and Urban Development for a minimum of 50% of the first mortgage loan.
- Completion of all items required for closing in accordance with normal underwriting and processing requirements.

**Resolved:** that the Executive Director, the Deputy Executive Director, or the Director of Development each acting singly, shall take any and all actions they deem necessary to carry out the foregoing resolutions.

# Attachment D Site Location Maps

## Beachwinds

