

Request for Action
by
Board of Commissioners

**Firm Approval of Reservation of Low-Income Housing Tax Credits (LIHTC)
for Paragon Mill**

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for the reservation of up to \$1,108,117 of 2020 and/or 2021 Low-Income Housing Tax Credits (“LIHTC”) for Paragon Mill (the “Development” or “Paragon Mill”), a 101-unit rental housing development 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. The Development received preliminary approval from the Board of Commissioners in May 2020.

TAC proposes an adaptive reuse and environmental clean-up of the historic Earnscliffe & 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 but restricted to households with incomes below 120% of AMI. The Development notably incorporates an array of public and private sources including:

- Private equity investment for federal and state tax credits
- A construction to permanent loan from Citibank
- Private investment into the State of Rhode Island Opportunity Zone program
- The Providence Redevelopment Authority’s (“PRA”) contribution of: (i) the real estate, (ii) a tax stabilization agreement and (iii) a subordinate loan with attractive terms.

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 Paragon 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 to identify a qualified developer to redevelop the mill. After a national outreach campaign, TAC submitted the current proposal and was selected as the Developer. Closing is anticipated by April 2021.

The 11-building Development includes environmental clean-up and site improvements to retain stormwater runoff and protect the sensitive wetlands abutting the Woonasquatucket River. The site investigation identifying the environmental hazards is complete and a remedial action work plan (“RAWP”) has been filed with the State of Rhode Island’s Department of Environmental Management. 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 was commissioned by RIHousing in October of 2020 that supports the proposed 60% AMI units and market rate units evidencing desirable penetration and absorption rates. The appraisal was commissioned by Citibank Community Capital ("Citibank"), the permanent lender.

Final plans and specifications have been submitted and approved by RIHousing staff. Since preliminary approval, the total development cost ("TDC") has increased 20% from \$29,365,000 to \$35,294,000. TRAC Builders, Inc. of Rhode Island (the "general contractor" or "TRAC") was selected after competitively bidding the project with partially complete plans and then TRAC competitively bid each trade of the construction budget as required by RIHousing guidelines. The resulting increase of \$4.3 million in construction and contingency costs were attributed to increased environmental remediation of the subsurface soil contaminants, inflation of materials and labor cost, and a higher deferred developer fee to allow for an increase in the historic tax credit basis.

As part of the underwriting process, RIHousing staff worked 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 were allocated to the Development. Draft loan documents have been circulated amongst the development team and lenders in anticipation of a closing in early April 2021 and construction completion by August 2022.

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 \$15,000; (iv) improved environmental protection for the abutting Woonasquatucket River and (v) significant access to retail, entertainment, schools, government and employment opportunities given the location of the site in a highly developed commercial area. It is anticipated the Development will generate 181 jobs during construction.

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.

Affordable Housing Partners, Inc. has provided a letter of interest ("LOI") to TAC with pricing of approximately \$0.89 for the LIHTC and \$0.82 per FHTC. The LIHTC pricing did drop between preliminary and firm commitment. National Funding Incorporated has provided an LOI to TAC with pricing of approximately \$0.92 per SHTC.

Citibank will provide the construction to permanent loan for the Development secured by a first mortgage. The PRA is providing a junior loan secured by a second mortgage and

facilitated a tax stabilization agreement restricting 100% of the rental units to 120% AMI; this effectively restricts the remaining 57 non-LIHTC units as workforce units.

The total development costs for Paragon Mill are approximately \$35,294,310. 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; (iv) a second mortgage loan from the PRA; and (v) a deferred developer fee.

The Request for Action is for firm approval of a reservation of \$1,108,117 of 2020 and/or 2021 LIHTCs.

B. RECOMMENDATION

The attached resolution is recommended for approval subject to:

- Availability of subordinate financing in amounts sufficient to achieve project feasibility or the availability of alternative equity satisfactory to RIHousing.
- Syndication equity from the allocation of LIHTC, FHTC, SHTC and OZ credits in amounts sufficient to achieve project feasibility.
- Final approval of plans and specifications by RIHousing, as well as related construction documentation.
- Execution and delivery by TAC of a Construction Completion Guaranty in form and substance satisfactory to RIHousing and any lender.
- Approval of a final 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 all management related documentation, including the marketing and tenant selection plans.
- Completion of all items required for 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, Architect and Management:	The Alexander Company, Inc. 2450 Rimrock Road, Suite 100 Madison, WI 53713
Agent:	
Architect Consultant:	DBVW Architects, Inc. 111 Chestnut Street Providence, RI 02903
General Contractor:	TRAC Builders, Inc. 28 Wolcott St Providence, RI 02908
Legal:	Michael Best & Friedrich LLP One South Pickney Street, Suite 700 Madison, WI 53703

Development Team Qualifications

Developer, Architect 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 7,630 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 and has an in-house architectural team. 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 Consultant

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.

General

Contractor

TRAC Builders, Inc., based in Providence, Rhode Island, has provided general contracting services since 1994. William Tracey, President and Founder of TRAC Builders, Inc., has over 20 years of experience in construction management and development leading to direct delivery of contracting/construction management services for clients throughout New England. He has experience in new construction, renovations, historic preservation and design-build contracting. Mr. Tracey is past President of the Construction Specification Institute Northeast Region, as well as an active member of the Greater Providence Chamber of Commerce and a Corporate Affiliate member of the American Institute of Architects. Mr. Tracey is a LEED AP as certified by the US Green Building Council. He is certified and licensed as a general contractor in Rhode Island, Massachusetts and Connecticut. He received his Bachelor of Science degree in construction management from Roger Williams University. Mr. Tracey also serves on the University's Construction Management Advisory Board.

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	AMI Restriction	Units	Gross Rents			Underwriting Rents		
			Underwriting	LIHTC or 120% AMI	Market	% of Max	Discount from Market	Effective AMI
1	60%	34	\$954	\$978	\$1,618	98%	-41.0%	59%
2	60%	4	\$1,145	\$1,174	\$1,804	98%	-36.5%	59%
2	60%	4	\$1,155	\$1,174	\$1,904	98%	-39.3%	59%
3	60%	2	\$1,335	\$1,357	\$2,372	98%	-43.7%	59%
1	120%	47	\$1,443	\$2,088	\$1,618	69%	-10.8%	83%
1	120%	1	\$1,668	\$2,088	\$1,718	80%	-2.9%	96%
2	120%	3	\$1,804	\$2,349	\$1,804	77%	0.0%	92%
2	120%	3	\$1,904	\$2,349	\$1,904	81%	0.0%	97%
2	120%	2	\$2,254	\$2,349	\$1,954	96%	15.4%	115%
3	120%	1	\$2,387	\$2,610	\$2,372	91%	0.6%	110%
Total		101	\$131,814	\$166,984	\$169,756	79%	-22.4%	74%

C. Finance Summary

Sources	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
Citibank 1st Mortgage	\$8,100,000	\$80,198	(\$1,600,000)	\$6,500,000	\$64,356
PRA HTF 2nd Mortgage	\$0	\$0	\$5,000,000	\$5,000,000	\$49,505
LIHTC Proceeds	\$10,080,707	\$99,809	(\$219,451)	\$9,861,256	\$97,636
Fed. Historic Tax Credit Proceeds	\$4,366,351	\$43,231	\$812,095	\$5,178,446	\$51,272
State Historic TC Proceeds	\$5,858,471	\$58,005	\$1,404,710	\$7,263,181	\$71,913
Opportunity Zone Investment	\$144,502	\$1,431	\$5,895	\$150,397	\$1,489
Deferred Development Fee	\$815,352	\$8,073	\$525,678	\$1,341,030	\$13,278
Total Sources	\$29,365,383	\$290,746	\$5,928,928	\$35,294,311	\$349,449

Uses	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
Construction	\$20,502,424	\$202,994	\$3,785,706	\$24,288,130	\$240,477
Contingency	\$1,956,192	\$19,368	\$489,178	\$2,445,370	\$24,212
Acquisition	\$25,000	\$248	(\$10,000)	\$15,000	\$149
Soft Costs	\$2,787,619	\$27,600	\$487,508	\$3,275,127	\$32,427
Financing	\$1,392,497	\$13,787	\$47,229	\$1,439,726	\$14,255
Paid Developer Fee	\$1,915,200	\$18,962	\$0	\$1,915,200	\$18,962
Incentive Developer Fee	\$0	\$0	\$1,229,601	\$1,229,601	\$12,174
Replacement Reserve Year 1 Deposit	\$35,350	\$350	\$0	\$35,350	\$350
Total Uses	\$29,365,383	\$290,746	\$5,928,927	\$35,294,310	\$349,449

Attachment B

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

- 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,** Rhode Island Housing and Mortgage Finance Corporation (“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,** in May 2020, the RIHousing Board of Commissioners granted preliminary approval of the reservation of low-income housing tax credits available in calendar year 2020 and/or 2021 (the “Tax Credits”) as follows:

Applicant	Development	9% LIHTCs
The Alexander Company, Inc.	Paragon Mill	\$1,108,117

- Whereas,** RIHousing staff has reviewed the submission, inspected the site, and determined that this Development has met all special conditions required for preliminary approval of the reservation of Tax Credits.

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, the 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, the foregoing resolution is subject to the following conditions:
- Availability of subordinate financing in amounts sufficient to achieve project feasibility or the availability of alternative equity satisfactory to RIHousing.

- Syndication equity from the allocation of LIHTC, FHTC, SHTC and OZ credits in amounts sufficient to achieve project feasibility.
- Final approval of plans and specifications by RIHousing, as well as related construction documentation.
- Execution and delivery by TAC of a Construction Completion Guaranty in form and substance satisfactory to RIHousing and any lender.
- Approval of a final 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 all management related documentation, including the marketing and tenant selection plans.
- Completion of all items required for closing in accordance with normal underwriting and processing requirements.

Resolved, that the Executive Director, the 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

