

**Request for Action
by
Board of Commissioners**

Preliminary Approval of Financing for Park Holm IV

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for preliminary approval of a Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) tax-exempt construction loan in an amount not to exceed \$10,100,000 for Park Holm IV (the “Development”), of which \$2,183,000 would remain as a permanent first mortgage, and a Capital Magnet Fund (“CMF”) loan in the amount of \$999,000. The Housing Authority of the City of Newport (“HACN” or the “Developer”) is the developer. HACN has also requested a Housing Trust Fund (“HTF”) loan and a HOME Investment Partnerships Program (“HOME Program”) loan in the most recent competitive round.

B. DISCUSSION

Park Holm IV is the fourth phase of a planned five-phase redevelopment of an existing 262-unit public housing development located in the City of Newport’s North End. The fourth phase involves the demolition of 74 units contained in 21 buildings and the new construction of 51 units in six townhouse-style buildings. The buildings are currently occupied, and residents will be relocated during construction. While the first three phases of redevelopment yielded a net gain of seven units, overall, there is anticipated to be a net loss of 16 units after the completion of Phase IV. HACN will need to provide a plan for addressing the replacement of these units prior to firm commitment.

The fourth phase will incorporate new site landscaping and infrastructure, including new parking areas, walking paths, and passive recreation areas. In addition, plans include the installation of new utilities serving each building and the relocation of overhead electrical lines to underground. Apartments will be restricted to households with incomes at or below 60% of AMI. The new homes will be subsidized with a mix of Annual Contribution Contract (“ACC”) subsidy and Section 8 Project-Based Vouchers (“PBV”) from HACN.

The proposed capital structure for the Development will consist of proceeds from the tax-exempt financing and sale of 4% low-income housing tax credits (“LIHTCs”), a HOME Program loan, a HTF loan, a CMF loan, Building Homes Rhode Island Funds (“BHRF”) previously awarded by the RI Housing Resources Commission, a deferred developer fee, and a sponsor loan. Boston Financial Investment Management (“BFIM”) will be the syndicator purchasing the 4% LIHTCs at \$0.965 per credit.

By this RFA, staff recommends for preliminary approval the attached resolutions authorizing \$10,100,000 in tax-exempt financing and \$999,000 of Capital Magnet Funds for Park Holm IV, subject to the conditions set forth therein.

C. ATTACHMENTS

- A.** Credit Summary
- B.** Resolutions

Attachment A

Credit Summary

Approval Loan Recommendation Summary – Park Holm IV

Preliminary X

Firm _____

Date: March 17, 2022

Project: New construction of 51 affordable apartments in Newport comprised of 16 one-bedroom, 28 two-bedroom, five three-bedroom, and two four-bedroom units.

Development Team (This is the same team that completed the previous 3 phases)

| | Name | Location (city/state) | Risk Rating (low/med/high) |
|---------------------------|--|----------------------------------|---------------------------------------|
| Sponsor/Developer | Housing Authority of the City of Newport | Newport, RI | Low |
| Mortgagor | Housing Authority of the City of Newport | Newport, RI | Low |
| Architect | Union Studio | Providence, RI | Low |
| General Contractor | TBD | | |
| Legal | Nicholson & Sampson LLP and Klein Hornig | Newport, RI and Boston, MA | Low |
| Management Agent | Housing Authority of the City of Newport | Newport, RI | Low |
| Consultant | TAG Associates, Inc | Norwood, MA | Low |
| Syndicator | Boston Financial Investment Management | Boston, MA | Low |

Executive Summary

| | Address | City |
|--|------------------|---------------------------|
| Property Address | 50-123 Park Holm | Newport |
| Proposed Loan Amount(s) and Terms | | |
| | Amount | Interest rate/Term |
| Tax Exempt Loan | \$10,100,000 | |
| Construction/Bridge Loan | \$7,917,000 | 4.75%, 36 Month |
| Permanent Loan | \$2,183,000 | 5%, 35 Year |
| Capital Magnet Fund Loan | \$999,000 | 1.86%, 35 Year |

Note: Interest rates are subject to change based on market conditions and deal specifics

Proposed Sources & Uses:

| Sources | Preliminary | |
|-----------------------------|---------------------|------------------|
| | Amount | Per Unit |
| RIH First Mortgage | \$2,183,000 | \$42,804 |
| Building Homes Rhode Island | \$2,550,000 | \$50,000 |
| Capital Magnet Fund | \$999,000 | \$19,588 |
| RIH HOME Loan | \$2,000,000 | \$39,216 |
| Housing Trust Fund | \$1,000,000 | \$19,608 |
| HACN CFP/RHF Funds | \$2,000,000 | \$39,216 |
| LIHTC Proceeds | \$8,743,000 | \$171,431 |
| HACN Deferred Dev Fee | \$332,508 | \$6,520 |
| Total Sources | \$19,807,508 | \$388,383 |

| Uses | Preliminary | |
|------------------------------------|---------------------|------------------|
| | Amount | Per Unit |
| Construction | \$14,498,615 | \$284,287 |
| Contingency | \$724,931 | \$14,214 |
| Acquisition | \$1,000 | \$20 |
| Soft Costs | \$1,828,405 | \$35,851 |
| Financing | \$1,148,348 | \$22,517 |
| Developer Fee | \$1,071,000 | \$21,000 |
| Operating Reserve | \$358,470 | \$7,029 |
| Lease Up Reserve | \$60,000 | \$1,176 |
| Replacement Reserve Year 1 Deposit | \$20,400 | \$400 |
| Other Reserves | \$96,339 | \$1,889 |
| Total Uses | \$19,807,508 | \$388,383 |

\$906,092 LIHTC @ \$0.965/credit

Underwriting Metrics:

| Metric | Amount | Comment |
|--|-----------|---|
| Total Development Cost Per Unit | \$388,303 | \$377,888 without reserves |
| Residential Vacancy Rate | 4% | Consistent with previous phases |
| DCR Yr 1 | 1.51 | |
| DCR Yr 15 | 1.20 | DCR goes negative at year 20 |
| NOI | \$199,676 | |
| Income Trending | 2% | |
| Expense Trending | 3% | |
| Loan to Value | TBD | Appraisal commissioned |
| Initial Installment (%) of syndication proceeds | 10% | |
| Acquisition Price equal to or less than Appraised value | N/A | Acquisition is \$1,000 |
| Operating Reserve (Amt and confirm consistency with UW requirements) | \$358,470 | Equal to six months OpEx & Debt Service |
| Replacement Reserve (Amt and confirm consistency with UW requirements) | \$20,400 | \$400 per unit |

Deviations from standard underwriting – Yes

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.

Unit Distribution and Revenue

| Unit | Rent Type | Number of Units | Gross Rent | LIHTC Max Rent | Gross Rent as a % of LIHTC Max Rent | Discount from Market Rent |
|--------------|-----------|-----------------|-------------|----------------|-------------------------------------|---------------------------|
| 1 | 30% | 5 | \$ 728.13 | \$ 595.00 | 122% | 0.0% |
| 1 | 50% | 6 | \$ 728.13 | \$ 992.00 | 73% | 0.0% |
| 1 | 50% | 4 | \$ 1,220.00 | \$ 992.00 | 123% | 0.0% |
| 1 | 60% | 1 | \$ 1,220.00 | \$ 1,191.00 | 102% | 0.0% |
| 2 | 30% | 5 | \$ 1,480.00 | \$ 714.00 | 207% | 0.0% |
| 2 | 50% | 22 | \$ 1,480.00 | \$ 1,191.00 | 124% | 0.0% |
| 2 | 60% | 1 | \$ 1,480.00 | \$ 1,429.00 | 104% | 0.0% |
| 3 | 30% | 1 | \$ 1,700.00 | \$ 825.00 | 206% | 0.0% |
| 3 | 50% | 4 | \$ 1,700.00 | \$ 1,375.00 | 124% | 0.0% |
| 4 | 50% | 2 | \$ 1,910.00 | \$ 1,535.00 | 124% | 0.0% |
| Total | | 51 | | | | 0.0% |

RIHousing will underwrite to the lower of the PBV/ACC rents or market.

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 financing qualified housing developments throughout the state;
- 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;
- Whereas,** RIHousing is also authorized to issue Capital Magnet Funds at an economically acceptable rate to promote the acquisition, rehabilitation, or preservation of affordable housing;
- Whereas,** The Housing Authority of the City of Newport, Rhode Island (“Applicant”) has presented an application to RIHousing requesting mortgage financing to acquire and/or rehabilitate the development as set forth below (the “Development”):

| <u>Development</u> | <u>Applicant</u> | <u>Mortgage</u> | <u>Capital Magnet Funds</u> |
|--------------------|--|-----------------|-----------------------------|
| Park Holm IV | The Housing Authority of the City of Newport, Rhode Island | \$10,100,000 | \$999,000 |

- Whereas,** staff has reviewed the submission and determined that the Development may qualify for financing under RIHousing’s enabling legislation, regulations, guidelines, and policies; and
- Whereas,** RIHousing finds that:
- (1) That there exists a shortage of decent, safe, and sanitary housing at rentals 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) That 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) That 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) That the proposed housing development to be assisted will be of public use and will provide a public benefit; and

(5) That 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, Chapter 55 of Title 42 of the Rhode Island General Laws.

NOW, THEREFORE, IT IS HEREBY:

Resolved, that subject to the special conditions listed below, RIHousing hereby declares preliminary commitment for tax-exempt mortgage financing for the Applicant or other affiliated entity of the Applicant (the “Borrower”) in an amount not to exceed \$10,100,000 for rental housing known as Park Holm IV located in Newport, Rhode Island to be financed, in part, by tax-exempt bonds.

Resolved, that RIHousing hereby declares that this preliminary commitment of financing for the Applicant constitutes the affirmative official act of RIHousing of its intention to issue bonds to finance up to \$10,100,000 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. This resolution shall take effect immediately upon adoption.

Resolved: that, subject to the special conditions listed below, RIHousing hereby preliminarily approves a Capital Magnet Fund loan to the Borrower in an amount not to exceed \$999,000 for the rental housing known as Park Holm IV located in Newport, Rhode Island.

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

- HUD approval of the mixed financing proposal, including demolition of old units and construction of new tax credit units within the existing Park Holm neighborhood;
- Approval of the project-based vouchers for 40 units;
- RIHousing approval of the plan to address replacement of lost units as a result of Phase IV;
- Syndication equity from the sale of low-income housing tax credits in an amount sufficient to achieve project feasibility;
- Availability of subordinate financing in amounts sufficient to achieve project feasibility or the availability of alternative equity satisfactory to RIHousing;
- A final appraisal acceptable to RIHousing prepared by an independent appraiser demonstrating that the purchase price is supported and market oriented, and the first mortgage loan does not exceed 90% of the as stabilized value of the property;
- 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;
- Approval by the bond underwriter and bond counsel confirming the loans 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;
- FHA Risk-Sharing Program approval from HUD for a minimum of 50% of the first mortgage; and
- 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, are hereby empowered and directed to take any and all actions they deem necessary to carry out the foregoing resolutions.