

Request for Action
by
Board of Commissioners

Firm Approval of Financing for Park Holm IV

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for firm approval of: (i) Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) tax-exempt financing in an amount not to exceed \$11,400,000, of which \$4,200,000 will remain as permanent debt; (ii) a Housing Production Fund loan equal to \$1,576,250 (the “HPF Loan”); and (iii) a Capital Magnet Fund loan equal to \$926,900 (the “CMF Loan”) for Park Holm IV (hereinafter referred to as the “Development”). The Housing Authority of the City of Newport is the developer (the “Developer” or “HACN”). The Development received preliminary approval for this financing from the Board of Commissioners on March 17, 2022 and June 16, 2022 (“Preliminary Approval”).

B. DISCUSSION

Park Holm IV is the fourth phase of the planned five-phase redevelopment of an existing 262-unit public housing development located in the City of Newport’s North End. This proposed 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 an anticipated net loss of 16 units after the completion of Phase IV. In response to that loss and as a requirement of RIHousing’s Qualified Allocation Plan, HACN has provided a plan to complete a full one-for-one replacement within the proposed Phase V. An Application for Phase V is anticipated in 2024.

Similar to previous phases, this Development 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. The units will be constructed to Tier II Energy Star standards and will be restricted to households with incomes at or below 60% of area median income (“AMI”). The new units will be subsidized with a mix of Annual Contribution Contract (“ACC”) subsidy and Section 8 Project-Based Vouchers (“PBV”) from HACN.

Since Preliminary Approval, the Developer has selected a General Contractor through a competitive bid process and finalized their construction pricing. Due to industry-wide construction cost increases, the overall construction budget has increased by approximately \$2,000,000. Additional low-income housing tax credit (“LIHTC”) basis and increased amortizing debt helped to mitigate the increase. The Developer was also awarded additional Building Homes Rhode Island (“BHRI”) funds from the Rhode Island Housing Resources Commission.

The collective capital stack for the Development will consist of: (i) proceeds from the tax-exempt financing and sale of 4% LIHTCs; (ii) the HPF Loan; (iii) the CMF Loan; (iv) the BHRI Loan; (v) a deferred developer fee; and (vi) a sponsor loan. Boston Financial Investment Management (“BFIM”) will be the syndicator purchasing the 4% LIHTCs at \$0.965 per credit. Citizens Bank, N.A., which is BFIM’s upper-tier LIHTC investor, will provide an initial construction loan in an amount not to exceed \$7,200,000 (the “Construction Loan”). The Construction Loan will be paid off and replaced by RIHousing’s permanent loan when the bonds are issued, which is expected at 50% completion.

This RFA requests firm approval of: (i) an amount not to exceed \$11,400,000 in tax-exempt financing, of which \$4,200,000 will remain as permanent debt; (ii) a Housing Production Fund Loan of \$1,576,250; and (iii) a Capital Magnet Fund Loan of \$926,900, subject to certain conditions as set forth in the attached Resolution.

C. ATTACHMENTS

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

Attachment A

Credit Summary

Approval Loan Recommendation Summary – Park Holm IV

Preliminary _____

Firm X

Date: March 16, 2023

Project: New construction of 51 affordable apartments in Newport comprised of 16 one-bedroom, 28 two-bedroom, 5 three-bedroom, and 2 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 Architecture & Community Design, Inc.	Providence, RI	Low
General Contractor	Pezzuco Construction, Inc.	Cranston, RI	Low
Legal	Nicholson & Sampson LLC and Klein Hornig LLP	Newport, RI and Boston, MA	Low
Management Agent	Housing Authority of the City of Newport	Newport, RI	Low
Consultant	TAG Associates LLC	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 Financing	\$11,400,000	

Construction/Bridge Loan	\$7,200,000	6.5%, 36 Month
Permanent Loan	\$4,200,000	7.25%, 35 Year
Housing Production Fund Loan	\$1,576,250	3%, 35 years
Capital Magnet Fund Loan	\$926,900	1%, 35 Year

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

Proposed Sources & Uses:

Sources	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
RIH First Mortgage	\$2,183,000	\$42,804	\$2,017,000	\$4,200,000	\$82,353
Building Homes Rhode Island	\$2,550,000	\$50,000	\$2,000,000	\$4,550,000	\$89,216
Capital Magnet Fund	\$999,000	\$19,588	(\$72,100)	\$926,900	\$18,175
Housing Production Fund	\$0	\$0	\$1,576,250	\$1,576,250	\$30,907
HACN CFP/RHF Funds	\$2,000,000	\$39,216	(\$173,426)	\$1,826,574	\$35,815
Housing Trust Fund	\$1,000,000	\$19,608	(\$1,000,000)	\$0	\$0
RIH HOME Loan	\$2,000,000	\$39,216	(\$2,000,000)	\$0	\$0
LIHTC Proceeds	\$8,743,000	\$171,431	\$1,066,000	\$9,809,000	\$192,333
HACN Deferred Dev Fee	\$332,508	\$6,520	(\$176,979)	\$155,529	\$3,050
Total Sources	\$19,807,508	\$388,383	\$3,236,745	\$23,044,253	\$451,848

Uses	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
Construction	\$14,498,615	\$284,287	\$2,001,385	\$16,500,000	\$323,529
Contingency	\$724,931	\$14,214	\$100,069	\$825,000	\$16,176
Acquisition	\$1,000	\$20	\$0	\$1,000	\$20
Soft Costs	\$1,828,405	\$35,851	\$20,195	\$1,848,600	\$36,247
Financing	\$1,148,348	\$22,517	\$515,233	\$1,663,581	\$32,619
Developer Fee	\$1,071,000	\$21,000	\$107,100	\$1,178,100	\$23,100
Operating Reserve	\$358,470	\$7,029	\$118,457	\$476,927	\$9,352
Lease Up Reserve	\$60,000	\$1,176	\$0	\$60,000	\$1,176
Replacement Reserve Year 1 Deposit	\$20,400	\$400	\$0	\$20,400	\$400
Other Reserves	\$96,339	\$1,889	\$374,306	\$470,645	\$9,228
Total Uses	\$19,807,508	\$388,383	\$3,236,745	\$23,044,253	\$451,848

\$1,016,606 LIHTC @ \$0.965/credit

Loan to Value Test:

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$421,998	\$8,274	(\$30,100)	\$391,898	\$7,684
Appraisal Cap Rate	6.00%			6.00%	
Valuation	\$7,030,000	\$137,843	(\$498,371)	\$6,531,629	\$128,071
Loan Principal	\$4,200,000	\$82,353		\$4,200,000	\$82,353
LTV	59.74%		5%	64.30%	

Underwriting Metrics:

Metric	Amount	Comment
Total Development Cost Per Unit	\$451,848	\$431,686 without reserves
Residential Vacancy Rate	5%	
DCR Yr 1	1.18	
DCR Yr 15	1.23	
NOI	\$391,898	
Income Trending	2%	
Expense Trending	3%	
Loan to Value	59.74	
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)	\$476,927	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

The cost per unit has risen beyond the 2023 QAP cost per unit cap.

Approximately 60% of the cost increases can be attributed to increased construction costs. The developer went out to bid on 3 different occasions and only received back one bid each time from the same contractor. The Developer received approval from HUD to utilize the one bid. The Development also requires Davis Bacon wage rates, which generally add 20% in additional costs. Overall, the current combined TDC net of reserves is \$431,686, which exceeds the current cap of \$429,000 by \$2,686. Our construction team has evaluated the current proposed schedule of values and determined that the current pricing is consistent with pricing on other similar projects.

Unit Distribution and Revenue

Unit	Rent Type	Number of Units	Gross Rent	LIHTC Max Rent	Gross Rent as a		Discount from Market Rent
					% of LIHTC Max Rent		
1	30%	5	\$ 552.00	\$ 656.00	84%		68.6%
1	50%	6	\$ 992.00	\$ 1,093.00	91%		43.6%
1	50%	4	\$ 1,583.00	\$ 1,093.00	145%		10.1%
1	60%	1	\$ 1,583.00	\$ 1,312.00	121%		10.1%
2	30%	5	\$ 1,975.00	\$ 787.00	251%		0.0%
2	50%	22	\$ 1,975.00	\$ 1,312.00	151%		0.0%
2	60%	1	\$ 1,975.00	\$ 1,575.00	125%		0.0%
3	30%	1	\$ 2,275.00	\$ 909.00	250%		0.0%
3	50%	4	\$ 2,275.00	\$ 1,516.00	150%		0.0%
4	50%	2	\$ 2,750.00	\$ 1,691.00	163%		0.0%
Total		51					12.8%

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

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 conduit tax-exempt financing at an economically acceptable rate to promote the acquisition, rehabilitation, or preservation of affordable housing;
- Whereas,** on March 17, 2022, the RIHousing Board of Commissioners granted preliminary approval of tax-exempt mortgage financing to The Housing Authority of the City of Newport (“Applicant”) to rehabilitate the affordable housing to be known as Park Holm IV (the “Development”);
- Whereas,** the Applicant is requesting firm approval of tax-exempt mortgage financing for the Development as set forth below:

<u>Development</u>	<u>Applicant</u>	<u>Tax- Exempt Bonds</u>	<u>HPF Loan</u>	<u>CMF Loan</u>
Park Holm IV	The Housing Authority of the City of Newport	\$11,400,000	\$1,576,250	\$926,900

- Whereas,** said bonds shall have a term not to exceed 35 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 The Housing Authority of the City of Newport or other affiliated entity of the Applicant (the “Borrower”) in an amount not to exceed \$11,400,000 for rental housing known as Park Holm IV located in Newport, Rhode Island to be financed in part with tax-exempt bonds.

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, and to reimburse qualified expenditures incurred by the Borrower or RIHousing in advance of the issuance of the bonds, up to \$11,400,000 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, subject to the special conditions listed below, RIHousing hereby grants firm approval for a Housing Production Fund Loan to the Borrower, in an amount not to exceed \$1,576,250 for rental housing known as Park Holm IV located in Newport, Rhode Island.

Resolved, that, subject to the special conditions listed below, RIHousing hereby grants firm approval for a Capital Magnet Fund Loan to the Borrower, in an amount not to exceed \$926,900 for rental housing known as Park Holm IV located in Newport, Rhode Island.

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

- Syndication equity from the sale of low-income housing tax credits in an amount sufficient to achieve project feasibility;
- Final U.S. Department of Housing and Urban Development (“HUD”) approval of the mixed financing proposal, including demolition and construction of new tax credit units within the existing Park Holm neighborhood;
- Final approval of the Project-Based Voucher contract and Public Housing Authority ACC rents;
- Availability of subordinate financing in amounts sufficient to achieve project feasibility or the availability of alternative equity satisfactory to RIHousing;
- Final approval of plans and specifications by RIHousing, as well as related construction documentation;
- Approval by RIHousing of all management related issues including the marketing and tenant selection plans;

- Execution and delivery by the Applicant of a Construction Completion Guaranty in form and substance satisfactory to RIHousing and any lender;
- Approval by the bond underwriter and bond counsel confirming the loans satisfy all required bond provisions for the bond issue;
- Closing of a construction loan with Citizens Bank, N.A. in an amount sufficient to achieve project feasibility.
- 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 loan; and
- Completion of all items required for closing in accordance with normal underwriting and processing requirements.

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 resolutions.