

**Request for Action
by
Board of Commissioners**

Preliminary Approval of Financing for Reynolds Farm Senior Housing II

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 \$7,500,000, a taxable permanent loan equal to \$200,000, a HOME Investment Partnerships Program (“HOME”) loan equal to \$1,000,000, and a Housing Trust Fund (“HTF”) loan equal to \$1,340,000 for Reynolds Farm Senior Housing II (the “Development”). Valley Affordable Housing Corp. (“VAHC” or the “Developer”) is the developer.

B. DISCUSSION

VAHC is proposing 40 units of new construction in North Kingstown to be known as Reynolds Farm Senior Housing II. The project will be restricted to residents aged 55+ and all 40 units will be affordable. The units are a combination of 31 one-bedroom units and 9 two-bedroom units. Eleven of the units will be affordable to households with incomes below 30% of Area Median Income (“AMI”), and the Developer has requested HPF-ELI funds to provide operating support for these 30% AMI units. There will also be multiple community spaces in the building, including space specifically designed for providing social services to the residents. In addition, all of the units are designed with universal access in mind. This project is the second of two affordable housing projects within the larger Reynolds Farm property. Phase I, which also contains 40 units, was completed in the spring of 2021.

The larger Reynolds Farm project, a market rate planned community, is a three-phase planned development located on 78 acres. The site is located just south of the junction of Route 1 (Post Road) and Route 403. Quonset Point is located to the north and there are a variety of commercial and retail amenities along Post Road. Upon completion, the Reynolds Farm project will provide more than 600 homes using a mix of single-family homes, rental apartments and townhomes. Phases I & II of Reynolds Farm Senior Housing comprise the majority of the affordable homes required as part of the Town’s approval of the Reynolds Farm project.

The Developer submitted its proposal for the Development in response to the Request for Proposals issued by RIHousing in November 2022. The collective capital stack for the Development is anticipated to consist of (i) the permanent loan from RIHousing contemplated herein; (ii) proceeds from the tax-exempt financing and the sale of 4% low-income housing tax credits (“LIHTC”); (iii) the HOME loan contemplated herein; (iv) the HTF loan contemplated herein; (v) Development of Affordable Housing 2 (“DAH-2” also known as ARPA Production Fund) funds; and (vi) a deferred developer fee.

By this RFA, staff recommends the attached resolutions providing preliminary approval of \$7,500,000 in tax-exempt construction financing, a taxable permanent loan equal to \$200,000, a HOME loan equal to \$1,000,000, and a HTF loan equal to \$1,340,000 for Reynolds Farm Senior Housing II, subject to certain conditions as set forth therein.

C. ATTACHMENTS

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

Attachment A

Approval Loan Recommendation Summary – Reynolds Farm Senior Housing II

Preliminary X

Firm _____

Date: May 18, 2023

Project: New construction of 40 affordable, 55+ apartments located in North Kingstown comprised of 31 one-bedroom and 9 two-bedroom units.

Development Team

	Name	Location	Risk Rating
Sponsor/Developer	Valley Affordable Housing Corp.	Cumberland, RI	Medium
Mortgagor	TBD		
Architect	Ed Wojcik Architect, Ltd.	Providence, RI	Low
Legal	Chace Ruttenberg & Freedman, LLP	Providence, RI	Low
Management Agent	Pinnacle Property Management LLC	Cumberland, RI	Low

Executive Summary

Property Address	Driftwood Lane	North Kingstown, RI
Proposed Loan Amount(s) and Terms		
Tax-Exempt Construction Loan	\$7,500,000	7.0%/3-year term
Taxable Permanent Loan	\$200,000	7.5%/30-year term
HOME	\$1,000,000	0%/30-year term
HTF	\$1,340,000	0%/30-year term

Note: Interest rates are subject to change based on market conditions.

Proposed Sources & Uses:

Sources	Preliminary	
	Amount	Per Unit
RIH First Mortgage	\$200,000	\$5,000
RIH HOME Loan	\$1,000,000	\$25,000
DAH-2 Program	\$6,860,000	\$171,500
Housing Trust Fund	\$1,340,000	\$33,500
LIHTC Proceeds	\$5,131,730	\$128,293
Deferred Developer Fee	\$195,442	\$4,886
Total Sources	\$14,727,172	\$368,179

Uses	Preliminary	
	Amount	Per Unit
Construction	\$10,596,775	\$264,919
Contingency	\$1,059,678	\$26,492
Soft Costs	\$1,072,356	\$26,809
Financing	\$1,012,535	\$25,313
Developer Fee	\$756,000	\$18,900
Operating Reserve	\$177,432	\$4,436
Replacement Reserve Year 1 Deposit	\$13,000	\$325
Other Reserves	\$39,396	\$985
Total Uses	\$14,727,172	\$368,179

Underwriting Metrics:

Metric	Amount	Comment
Total Development Cost Per Unit	\$368,179	
Residential Vacancy Rate	7.0%	
DCR Yr 1	3.36	Proforma utilizes negative trending
DCR Yr 15	1.20	
NOI	\$56,321	Year 1
Income Trending	2.0%	
Expense Trending	3.0%	
Loan to Value	TBD	
Initial Installment (%) of syndication proceeds	15%	
Acquisition Price equal to or less than Appraised value	NA	
Operating Reserve (Amt and confirm consistency with UW requirements)	\$177,432	Equals 6 months debt and OPEX.
Replacement Reserve (Amt and confirm consistency with UW requirements)	\$13,000	\$325/unit; consistent with UW requirement

Deviations from standard underwriting – Yes

The project fails “Test 2” of the Bridge Loan Test. The construction loan is sized at the minimum level required to meet the IRS requirement that 50% of the project be financed using tax-exempt bonds.

Unit Distribution and Revenue:

Unit	Rent Type	Number of Units	Gross Rent	LIHTC Max Rent	Gross Rent as a % of LIHTC Max Rent
1	30%	6	\$ 862.00	\$ 544.00	158%
1	30%	3	\$ 862.00	\$ 544.00	158%
1	30%	2	\$ 862.00	\$ 544.00	158%
1	60%	20	\$ 1,021.87	\$ 1,088.00	94%
2	50%	0	\$ 904.12	\$ 1,088.00	83%
2	60%	9	\$ 1,128.49	\$ 1,306.00	86%
Total		40			

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 three 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, Valley Affordable Housing Corp. (“Applicant”) has presented an application to RIHousing requesting mortgage financing to acquire and develop the development as set forth below (the “Development”):

<u>Development</u>	<u>Applicant</u>	<u>Construction Loan</u>	<u>Permanent Loan</u>	<u>HOME Loan</u>	<u>HTF Loan</u>
Reynolds Farm Senior Housing II	Valley Affordable Housing Corp.	\$7,500,000	\$200,000	\$1,000,000	\$1,340,000

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 \$7,500,000 for rental housing known as Reynolds Farm Senior Housing II located in North Kingstown, 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, and to reimburse qualified expenditures incurred by the Borrower or RIHousing in advance of the issuance of the bonds, up to \$7,500,000 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. 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 preliminary approval for a permanent taxable loan to the Borrower in an amount not to exceed \$200,000 for rental housing known as Reynolds Farm Senior Housing II located in North Kingstown, Rhode Island.

Resolved, that, subject to the special conditions listed below, RIHousing hereby grants preliminary approval for a HOME Investment Partnerships Program loan to the Borrower in an amount not to exceed \$1,000,000 for rental housing known as Reynolds Farm Senior Housing II located in North Kingstown, Rhode Island.

Resolved, that, subject to the special conditions listed below, RIHousing hereby grants preliminary approval for a Housing Trust Fund loan to the Borrower in an amount not to exceed \$1,340,000 for rental housing known as Reynolds Farm

Senior Housing II located in North Kingstown, Rhode Island.

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

- Syndication equity from the allocation of LIHTC credits in amounts sufficient to achieve project feasibility;
- A final appraisal and market study acceptable to RIHousing prepared by an independent appraiser demonstrating that the first mortgage loan does not exceed 90% of the as-stabilized value of the property and sufficient demand exists for the proposed units;
- Approval of DAH-2 funds from RIHousing in an amount sufficient to achieve project feasibility or the availability of alternative equity satisfactory to RIHousing;
- Approval by the bond underwriter and bond counsel confirming the loans satisfy all required bond provisions for the bond issue;
- Execution and delivery by the Borrower of a construction completion guaranty in form and substance satisfactory to RIHousing;
- Approval by RIHousing of all management related documentation, including the marketing and tenant selection plans;
- Approval by RIHousing of design and construction plans, specifications, and construction documentation;
- Recordation of a RIHousing Declaration of Land Use Restrictive Covenants and Regulatory Agreement in form(s) acceptable to RIHousing;
- Satisfactory and timely performance in accordance with the schedule established by RIHousing staff; 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 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.