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| ITEM #: | <u>19</u>       |
| DATE:   | <u>02-28-23</u> |
| DEPT:   | <u>P&amp;H</u>  |

## COUNCIL ACTION FORM

**SUBJECT: RESOLUTION APPROVING SELECTION OF A PARTNER DEVELOPER IN CONNECTION WITH LOW-INCOME HOUSING TAX CREDIT (LIHTC) PROPOSALS FOR MULTI-FAMILY HOUSING DEVELOPMENT IN THE BAKER SUBDIVISION (321 STATE AVENUE)**

### **BACKGROUND:**

At its November 22nd City Council meeting, Council reviewed only one proposal for a 4% LIHTC 36-unit affordable housing project on the City's 2.78-acre site within the Baker Subdivision (Attachment A Location Map). The City Council declined to accept this proposal. This decision was due to the fact that the Commonwealth Companies' proposal exceeded the City's budget capacity for the project. **As a result, the City Council provided direction for staff to prepare a new Request for Proposals (RFP) for a 9% LIHTC housing project to secure additional financial resources for the development of affordable family housing on the site.**

Additionally, City Council, at its December 13th meeting, approved revisions to the RFP (see Attachment B), and staff proceeded with the solicitation process in which proposals were due by January 17<sup>th</sup>.

**The City received two proposals in response to the RFP, the Commonwealth Companies and Hatch Development Group.** Both proposals are available for review in their entirety on the Housing Division's website at: [www.cityofames.org/housing](http://www.cityofames.org/housing) under "What's New". Included as Attachment C to this report is a matrix summarizing project attributes and excerpts of their proposed design and scoring.

An evaluation committee assessed the responsiveness of both proposals to the RFP in relationship to the RFP criteria as outlined below. The evaluation criteria were based on the developer's capability and track record, housing variety, percentage of affordable housing, feasibility (proforma, etc.), cost and viability, property management experience, project design, use of geothermal, project timeline, and potential IFA score.

Initially, the committee determined that both proposals met the stated goals for the project. Next, the evaluation committee interviewed both groups to discuss and review their proposals in greater detail. **The committee's final scores for both steps in the review are as follows: The Commonwealth Companies = 625 points out of 850 points and Hatch Development Group = 740 points out of 850 points.**

The details of the projects and their evaluations are described below. The evaluation also included a review of project scoring against the IFA Qualified Allocation Plan (QAP) criteria which is critical for a competitive application at the state level. (Attachment D)

|                                   |                 |   |
|-----------------------------------|-----------------|---|
| <b>THE COMMONWEALTH COMPANIES</b> | <b>45 UNITS</b> | <b>LIHTC PROJECTED SCORING - 48 POINTS*</b> |
|-----------------------------------|-----------------|---|

\*59 Total possible points under LIHTC

The Commonwealth Companies have completed or have projects underway in 21 states with numerous federal housing projects. One project has been completed in Iowa in Johnston, which is a 62-unit senior housing project, and one project is underway in Bondurant, which is a family complex.

The proposed project includes 45 total units. Included in this total are:

- 6 four-bedroom apartments,
- 20 three-bedroom apartments,
- 10 two-bedroom apartments, and
- 9 one-bedroom apartments.

Of the total 45 units, 11 will be limited to occupancy by households earning 40% of Area Median Income (AMI) and the remaining 34 units will be a mix of income levels up to 80% AMI as allowed by LIHTC.

However, a certain percent of the units will still need to meet the City's HOME rent limitations which is a maximum income level of 60% AMI. Additionally, the City's set aside of 10% of the units for Section 8 voucher households can be for any of the family units in the project. One-bedroom units will not be accounted for as the City's set aside Section 8 units.

The Commonwealth Companies proposal is different from the earlier proposal for 37 units that the City saw during the fall of 2022 when reviewing the RFP for 4% LIHTC when it was a mix of townhomes and apartment units. The current proposal attempts to maximize the number of units on the site. This proposal includes 1 three story building and 2 one story buildings. Most of units have individual entrances similar to townhomes.

The site's design is oriented around a central parking area and common open space. Access is at the east side of the site. Parking will be provided at a rate of 2 spaces per unit. The one story building situated along Tripp Street will include covered entrances facing the street.

The building architecture includes additional aesthetic features that were not part of the 4% proposal, but the buildings are generally larger due to the additional units. Buildings include stone as an accent material, with the majority of the building façade utilizing horizontal siding. The roof design is a gabled roof with some projecting side gable elements over balconies and entrances. The overall aesthetic is that of a contemporary residential appearance.

The applicant projected an IFA score of 48 out of 59 points. The developer requested the \$1.8 million of City in HOME funds with the land at no cost. Overall, the evaluation committee's pros/cons summary of The Commonwealth proposal was as follows:

- + Experienced Portfolio as a company overall (although only two projects in Iowa, one completed, one not started)
- + Clubhouse addition
- + Specific recreational area identified
- + In-house construction and management divisions
- + Improved exterior material design & layout compared to earlier proposal
- + Increased number of units
- + On-site Management and Maintenance Team
- + Self IFA Score of 48/59 pts
- Addition of 1-Br Units (not family)
- Expansion of income limits to include up to 80% AMI
- Only 11 units would be set aside at the 40% (remaining units would be income averaged between 50% to 80% of AMI)
- Utilities only include owner paid: water/sewer/trash
- Response to a question regarding affordability performance period if high vacancy- *Did not provide a detailed plan of how the rents would be addressed or to find additional tenants; only when it became an issue would they address it at that time.*

|                                |                 |   |
|--------------------------------|-----------------|---|
| <b>HATCH DEVELOPMENT GROUP</b> | <b>38 UNITS</b> | <b>LIHTC PROJECTED SCORING – 48 POINTS*</b> |
|--------------------------------|-----------------|---|

\*59 Total possible points under LIHTC

Hatch Development Group is an Iowa-based affordable housing developer with experience receiving LIHTC awards in multiple cities across Iowa. The proposed project includes 38 units. Of this total, there are:

- 16 two-bedroom apartments,
- 18 three-bedroom apartments, and
- 4 four-bedroom apartments.

Of the 38-unit total, all units will be a mix of units affordable to households that do not exceed between 50% and 60% of the Average Median Income (AMI) for Ames. Additionally, as part of the LIHTC requirements the proposal rents will be limited to 40% of AMI. Additionally, a certain percent of the units will still need to meet the City's HOME rent limitations which is to not exceed a maximum income level of 60% AMI.

The site design is 100% 2-story townhome style apartments, meaning each unit has an individual walk-up entrance, and there are no dwellings above or below another unit. All the units along Tripp Street include a front door oriented to the street with a porch. The same design is used for units located internal to the site oriented to the parking areas.

The architectural design is of a traditional residential appearance using brick at the base level, horizontal siding for the majority of the building facades, and vertically oriented siding as an accent. The units all include a traditional gabled roof design.

The current design has the driveway situated on the west side of the site; however, this will need to change during the site review to align with the Latimer Lane intersection on

the east side of the site. If this occurs, a row of units will then be placed along the west property line rather than the east property line. The proposal will also require revisions to parking to account for two parking spaces per unit.

The applicant projected an IFA score of 48 of 59 points. The developer requested the \$1.8 million of City in HOME funds with the land at no cost and will seek to apply for \$500,000 of State HOME funds. Overall, the evaluation committee's pros/cons of the Hatch Development Group proposal were as follows:

- + Townhome style unit design for all units
- + Iowa based company with an experienced portfolio of units in central Iowa.
- + On-site sister company management partner and maintenance team
- + Long-term relationship with General Contractor
- + Satisfactory exterior material design & layout
- + Geothermal design partner
- + Self IFA Score of 48/59 pts
- + Income limits set 50 & 60% of AMI
- + 100% of the rent will be at 40% of the AMI
- + All utilities would be owner paid
- + Response to a question regarding affordability performance if there is high vacancy- provided a detailed explanation of how they would address it if it became an issue.
- Revisions to the site plan are needed for the final concept plan
- Parking lot does not contain enough stalls for the proposed number of units
- No detailed outdoor amenities and/or clubhouse identified.
- Requesting an additional \$500,000 of state HOME funding (Request is out of City control, but the developer committed to reducing developer's fee to compensate if not awarded)

The evaluation committee concluded that the proposal from the Hatch Development Group met more of the criteria of the RFP than The Commonwealth Companies.

### **Neighborhood Outreach**

Staff held a virtual meeting on the 20<sup>th</sup> to review the proposals with the neighborhood. Approximately nine people participated. The neighborhood had questions about the rent amounts, amenities, and mix of units. Staff anticipates individuals will provide specific comments to City Council for the 28<sup>th</sup>.

### **ALTERNATIVES:**

1. Direct staff to work with Hatch Development Group to prepare an agreement to partner on a LIHTC application and development of the site on Lot 27 in the Baker Subdivision located at 321 State Avenue with affordable multi-family housing for the March 14<sup>th</sup> City Council meeting. This will also require an updated concept plan per staffs comments for access and parking.

2. Direct staff to work with The Commonwealth Companies to prepare an agreement to partner on a LIHTC application and development of the site on Lot 27 in the Baker Subdivision located at 321 State Avenue with affordable multi-family housing for the March 14<sup>th</sup> City Council meeting.

**CITY MANAGER'S RECOMMENDED ACTION:**

Staff has concluded that both developers attempted to be responsive to the City's RFP criteria, but still needed to score well with IFA's QAP criteria. The City's RFP focused on ensuring affordability and accessibility to low-income family households with 10% being set aside for Section 8 voucher holders, providing up to \$1.8 million dollars of HOME funding, transferring the city land at no cost, and requiring the use of Geothermal for the project.

The scoring component of IFA's QAP differs from in past 9% LIHTC applications in that it allows for more options to score points, such as:

1. Affordability of Residents (4 scoring categories)- 30 Points Max
2. Location (7 scoring categories)-13 Points Max
3. Site Appeal (16 categories)-5 Points Max
4. Market Appeal (15 categories)-5 Points Max
5. Qualifying Development Team (4 categories)-6 Points Max

Depending on which categories are selected by the developer, the maximum scoring would be 59 points. However, there are some categories where the "City" nor the "site" would qualify for all potential LIHTC points (i.e., Disaster Recovery area, Underserved Cities, High-Quality Job Award, Social Vulnerability Index, Site Appeal, and Community Housing Development Organization (CHDO) experience). Therefore, staff agrees with the proposals that our project would be able **to score 48 of 59 points, which is approximately 81% of the points. Staff and the developers believe this is a competitive score for a LIHTC award.**

The evaluation committee felt that serving our low-income families was a top priority. Of the two options presented under the QAP scoring criteria by the developers, **the committee determined the Hatch Development Group mix of units and rent reduction approach as more responsive to our RFP.** In their proposal, they chose the Rent Reduction Category. Under this category, the following criteria:

"Projects that provide LIHTC rents for the 60% or 50% AMI units at 40% AMI rent levels. Tenant income eligibility will remain at 60% and 50% AMI, respectively. This category is unavailable to Projects with a Federal project-based rental assistance contract."

**Under these criteria, the Hatch Development Group proposes to have all rents for the 38 units at the 40% of the AMI, regardless of whether their household incomes are at the 50% or a maximum of 60% AMI. Additionally, they are proposing 2,3, and 4 bedroom units, which are more accommodating for families with children.**

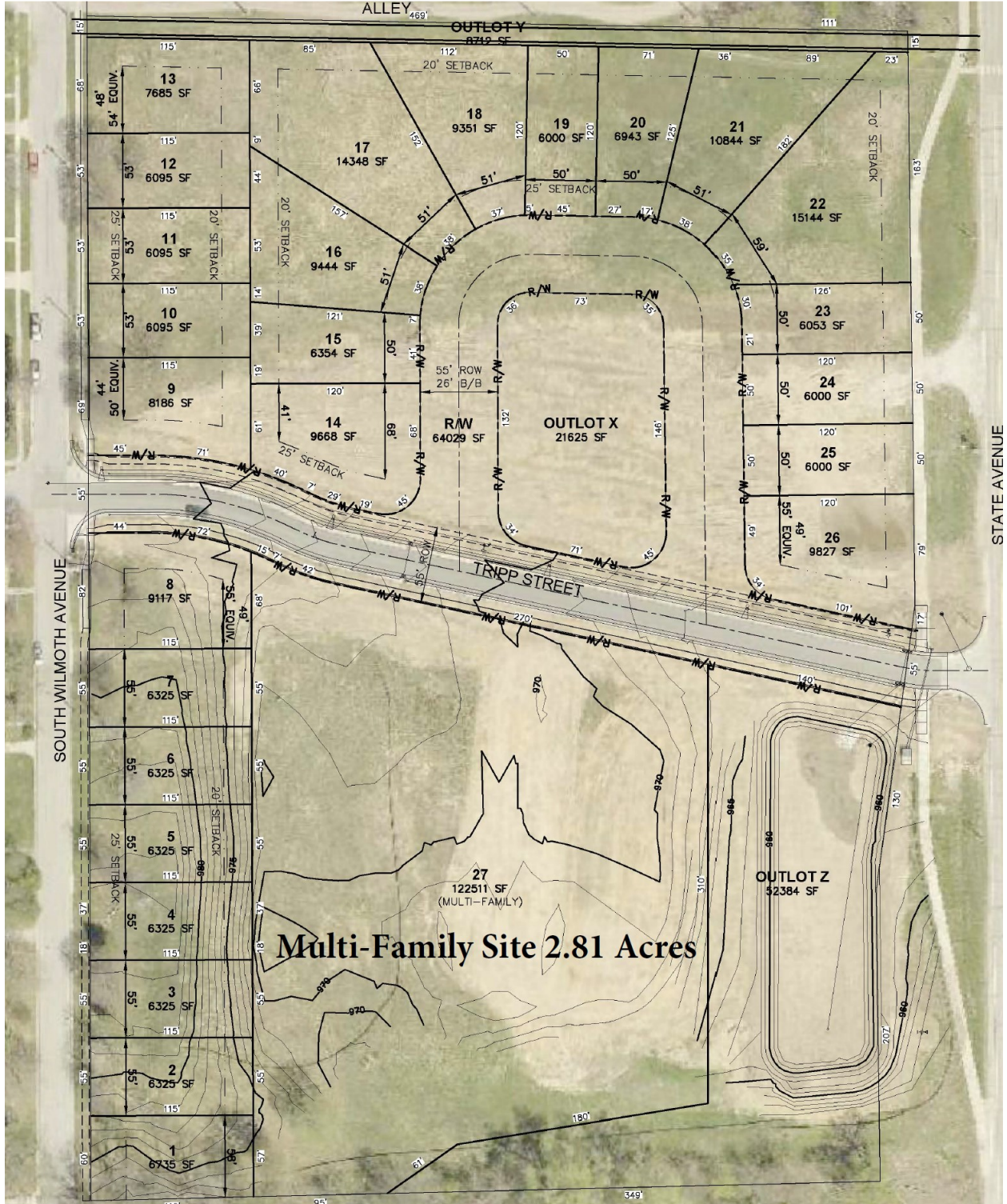
**The Commonwealth Companies would have a similar number of family units but it would have 11 specific units set aside for lower incomes at the 40% AMI level than the Hatch proposal. The remaining mix of incomes limits and units cannot be clearly quantified at this time due to the income averaging approach. Additionally, the one-bedroom units at up to 80% of AMI are essentially market rate units and are not viewed as meeting our affordability goals.**

The Hatch Development Group has a slightly stronger track record in successful LIHTC awards in Iowa. Both groups indicated a willingness to work on refining the concepts and tailoring it to the City's interests for the site.

Another consideration of the proposals will be the \$1.8 million of the City's HOME financial contribution to the project. Although the overall project will have the largest contribution of funds through the state LIHTC funding, HUD will require a certain percentage of the units to be administered under the City's HOME grant program guidelines. We are waiting on information from HUD to determine the specific requirements for both either proposal regarding specific units income limitations.

**Although there are changes need to the Hatch proposal, staff can recommend and support the Hatch Development Group proposal concept as best meeting the City's goals for developing affordable family housing on the site. Therefore, the City Manager recommends Alternative 1.**

# Attachment A-Location Map



# Attachment B

## Highlighted Revisions of the RFP :

- Proposal must utilize the Iowa Finance Authority's 9% LIHTC program
- Accept proposals only for a medium-density development with approximately 30-50 dwelling units
  - Ineligible Home Types include: senior housing, nursing homes, board, and care facilities, rooming or boarding houses, transitional housing units, homeless shelters, or permanent supportive housing units and supervised living facilities licensed by the State of Iowa or delegated to a local Department of Health, including properties where residents require a 24-hour plan for supervision and/or medical/health care.
- The City of Ames will complete the rezoning of the site to a Medium Density Planned Unit Development Overlay zoning district prior to April 1, 2023.
- Require a minimum of 10% of units as 4-Bedroom units, not to exceed six (6) units, unless a market study indicates additional units are needed
- Include a minimum of 10% of units to be set aside for Section 8 Housing Choice Voucher participants
- Enter into a developer's agreement with the City of Ames to prepare a 9% LIHTC application that includes the terms for the developer's construction and operation of the project, the City's participation in the project, transfer of land for the development of the project, and anticipated start date of the construction
- The agreement shall be completed with the City of Ames within 45 days from the date of acceptance of the proposal by the City Council. The application shall be submitted to the Iowa Finance Authority (IFA) on or about 30-45 days after a developer's agreement has been signed with the City of Ames • The City will provide the project site to the developer at no cost.
- The City will provide HOME Funds of up to \$1.8 million for units affordable to households earning between 30% to 50% Ames Area Medium Income (AMI)
- Proposal submittal will be due by January 17, 2023. The LIHTC applications to IFA are due to IFA by April 19, 2023
- Proposals will be evaluated based on developer experience, design, and property management experience. An evaluation committee comprised of staff members from Planning and Housing, the City Attorney's Office, Public Works, Electric, and the Purchasing Division will be assessing the responsiveness of the proposal in relation to the RFP submittal requirements.



