

Staff Report

LOW-INCOME HOUSING TAX CREDIT (LIHTC) APPLICATION FOR MULTI-FAMILY HOUSING DEVELOPMENT IN THE BAKER SUBDIVISION (321 STATE AVENUE)

March 8, 2022

BACKGROUND:

At the December 22, 2020 meeting, the City Council entered into a partnership agreement with Prairie Fire corporation and Builder's Development Corporation (BDC) to submit an LIHTC application to the Iowa Finance Authority (IFA) for thirty-seven (37) multi-family housing units (32 affordable and 5 market rate units) in the Baker Subdivision (321 State Avenue) for IFA's March 10, 2021, application deadline. This partnership supported City Council goals to create more affordable housing for both ownership and rental households within the Baker Subdivision.

In late September 2021, staff learned that our 9% LIHTC application was not funded due to the large group of disaster set aside projects that absorbed most of the funding allocation. However, staff was informed by the developer that 4% LIHTC funds were available, and that the governor's priority was to allocate an additional \$100 million dollars to affordable housing that the state was eligible to receive through the US Treasury. This additional state funding would have approximately equaled the original 9% LIHTC request if the final guidelines supported this approach. Unfortunately, the final US Treasury guidelines did not permit for the state to use the funds as they hoped. **As a result, the state is only using the funds for previously awarded 9% LIHTC projects and our submittal would not qualify for additional assistance. Therefore, the agreement with Prairie Fire and BDC in December 2020 that was predicated on receiving a 9% LIHTC award is no longer valid and the city needs to determine how to proceed.**

OPTIONS TO PROCEED:

Without a 9% LIHTC award and only an option to pursue a 4% LIHTC there is an estimated funding gap of \$2.9 million shortfall for a 100% affordable 37-unit project. The development group has continued to work with staff to discuss and understand the following options that could be considered regarding the future development of the Baker Subdivision for multi-family housing under the LIHTC Program.

Option 1: Submit for 2022 9% LIHTC program with the Current Developer

The City could request that developer enter into a new agreement with the City and submit for the next round of 9% LIHTC. The application deadline is May 18, 2022. Award

information would occur in the fall and a project would not start construction until spring of 2023.

Under this option, the developer would require local assistance for the project of at least \$650,000 of our regular HOME funds, compared to the original \$350,000. With escalating construction costs, the local contribution could be more. In addition, the project may have to be adjusted in its design and have fewer overall units configured as townhomes to meet new scoring criteria.

This option would likely have the lowest amount of local assistance. The City would be able to provide \$650,000 of regular HOME funds without significantly impacting other programs. However, the award process is an uncertainty, and it would delay construction to at least the spring of 2023. **It is important to emphasize the developer does not prefer this option due to the uncertainty of the state's new scoring criteria for 2022 and the escalating construction costs.**

Option 2- Partner with Current Developer as a 4% LIHTC project and Grant Local Assistance of Approximately \$2.9 Million Dollars

The developer is interested continuing with the project as a 4% tax credit project intended for construction beginning later this year. The proposal for this option is a 37 unit project that would have the same design as one approved by City Council, but it would have a different mix of affordability for the units. The concept would now include 100% of the units as affordable housing. However, the income levels would be 8 of the units' income restricted to households earning less than 50% of Average Median Income (AMI) and 29 of the units restricted to incomes less than 60% of AMI. Additionally, the developer would accept Section 8 vouchers for all units and reserve 4 of the units specifically for households that have Section 8 vouchers. Section 8 vouchers are a means of financial assistance for "very low" income households at 30% of AMI that do not change the actual rent received for the unit.

With this base concept for the project, the developer has a revised their development cost estimate for construction beginning in 2022 to approximately \$8.6 million dollars. This includes a \$1.0 million contingency. The original cost estimate for the project at the time of applying for the LIHTC program was \$7.9 million.

There are two major policy issues with this option for \$2.9 million of local assistance. It would require directing all of the annual HOME funds to the project (\$1.53 million current balance plus FY22/23 allocation of \$290,000). **Doing this would alter the approach to constructing affordable single-family homes in Baker Subdivision that were previously expected to utilize HOME funds to finance construction of homes along with homebuyer assistance.**

Without HOME funds, staff believes some of the initial homes could be started by nonprofit builders rather than the city, but this has not been verified at this time. The City would also need to redirect FY 22/23 CDBG funds towards down payment assistance in lieu of HOME funds. All of these program and related funding would

be part of the upcoming 2022-23 Annual Action Plan, of which funding allocations from HUD have not been announced at this time.

Secondly, all of the one-time HOME-ARP (\$1.07 million) would have to be earmarked for this project as well. This funding strategy has not been reviewed by the City Council. Furthermore, this option precludes other non-profit entities from receiving funding from this source.

Although this option requires a significant amount of local financial resources, this option is the most likely allow construction of affordable housing to begin this year. If City Council prefers to pursue this option, Staff will have to negotiate final terms with the developer, and they would need to proceed with a 4% LIHTC application and complete construction plans.

Option 3- Partner with Current Developer as a 4% LIHTC project and Local Assistance of Approximately \$2.0 Million Dollars

The developer analyzed an option for a reduced project of 30 affordable housing units that resulted in a need for approximately \$2.0 million of local HOME Funds. The developer believes it may also require additional resources such as short-term local property tax abatement and or state workforce housing funding to reduce construction costs.

If the City provided \$2.0 of assistance, City Council would need to identify its preference of funding from annual HOME Funds and the HOME ARP funds. **If City Council prefers this option with a lower local subsidy and fewer units, staff would have to negotiate final terms with the developer, and they would need to proceed with a 4% LIHTC application and complete construction plans. Staff believes using the current annual HOME Funds balance and projected FY 22/23 Home Funds would be the priority for this option. It would likely require some HOME ARP funds as well, but could leave up to \$750,000 available for use throughout the community.**

Option 4- Request New Proposals

As mentioned above, the current agreement was based upon the developer securing 9% LIHTC to proceed with the project. The agreement is no longer valid since the project did not receive a 9% LIHTC allocation in 2021.

If the City chooses to no longer pursue a project with Prairie Fire and BDC, City Council would need to determine how to proceed with the use of the property. The two most likely scenarios would be to solicit proposals in the fall of 2022 for a 2023 9% LIHTC project or to solicit new proposals this summer for a 4% LIHTC project and use of available City HOME funds.

Going out for new proposals would allow for a fresh look at the property under the current financial constraints of the market. This option would also require City Council to identify the amount of HOME funds that would be used to support the project. Considering

proposals for a 4% LIHTC project with local assistance could allow for construction of a project to begin in 2022-23. Reapplying for a 9% LIHTC project would result in construction occurring no sooner than 2024, if the project receives an award and if construction costs decline from their current projected percent increases.

STAFF COMMENTS:

There is no perfect choice regarding how to proceed. There are positive and negative aspects associated with each option. However, provided that City Council desires to continue with the effort to provide for low income rental housing as soon as possible, Staff believes that Option 2 or Option 3 are the best choices to ensure production of housing within the next year.

Location Map- Attachment A

BAKER SUBDIVISION

FINAL PLAT

