

Staff Report

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

April 12, 2022

BACKGROUND:

At its March 8, 2022 meeting, the City Council received an update regarding the 37-unit Low Income Housing Tax Credit (LIHTC) development agreement with Prairie Fire Corporation and Builder's Development Corporation (BDC) in the Baker Subdivision (321 State Avenue). The application to the state for 9% LIHTC funding was unsuccessful, thereby leaving a financial gap for the 37-unit project originally approved by the City Council (Attachment 1).

At that meeting, City Council directed staff to discuss with Prairie Fire what type of project could be built with an application for 4% LIHTC and local assistance of HOME funds and HOME American Rescue Plan (ARP) funds totaling \$2 million dollars. City Council wanted to further consider this option in order to see if the project could still begin later this year and not be delayed to 2023.

FINANCING UPDATE:

Prior to contacting Prairie Fire, staff reviewed its HOME grant funding availability and options. Staff concluded that to fulfill the City's funding commitment, the City should consider its current HOME allocation balance of \$1.53 million, plus a portion of the anticipated 2022-23 HOME allocation. The total anticipated 2022-23 HOME allocation is \$350,000; approximately \$262,000 of that amount would be available for programming. Therefore, the current HOME funding balance plus the programming portion of the anticipated 2022-23 allocation would total approximately \$1.8 million of HOME funds.

Staff also reviewed the guidelines for HOME ARP funds and how they could apply to the project to bring the City funding total to \$2 million. Approximately \$200,000 in HOME ARP funds were assumed to be able to be used for the project during the March discussion. **The program guidelines for use of HOME ARP funds are still unclear. Further research is required before staff could recommend committing a portion of the \$1.02 million in HOME ARP funds to this project. Therefore, staff recommends moving ahead without considering the use of HOME ARP funds at this time.**

City staff also analyzed the possibility of the additional funding source of state workforce housing tax credits. Eligibility rules of the state program will preclude applying for this incentive as the state will not allow for LIHTC projects to apply. **Based on this analysis, the total available funding identified at this time for the Baker Subdivision LIHTC project is \$1.8 million.**

OPTIONS:

Based upon the City Council discussion in March and City staff's assessment of the funding options for the project, staff consulted with Prairie Fire to determine its willingness in moving forward. Following the discussions with Prairie Fire, City staff believes there are two available options for City Council to consider:

Option 1 – Continue Partnership with Current Developer as a 4% LIHTC project with Local Assistance of Approximately \$1.8 Million of HOME funds

The developer analyzed an option for a reduced project of 30 affordable housing units and \$1.8 million of local assistance (Attachment 2). The design would follow the approved style of units and mix of apartments and townhomes. Reducing the total number of units would eliminate a building located in the south portion of the site; the buildings located along Tripp Street would remain as originally designed.

Prairie Fire stated that the project could still work at the \$1.8 million if the project is consistent with their projected construction costs, which are constantly changing. The developer has indicated that lumber prices have started to decline, and if they continue to decline, that will help sufficiently.

If the Council proceeded with the partnership with Prairie Fire in this option, Prairie Fire stated that they would pursue applying for the 4% credits through the Iowa Finance Authority (IFA). A commitment letter from the City stating that the funding for the 2022-23 HOME allocation would be coming in at a later date would be sufficient to proceed with that application. City staff expects that the developer would proceed with the 4% LIHTC application while work proceeds on a development agreement specifying funding, unit types, and developer obligations.

The City is required to provide a 25% local match to the HOME funds. To achieve this, the City may also need to consider using partial property tax abatement with the project, which potentially helps with the financing of the project. This detail would be determined at a later date with a development agreement.

The steps identified in this option are the best path if it is the desire to have a project break ground by fall 2022.

Option 2 – Request New Proposals

The current agreement with Prairie Fire was arrived at with the initial assumptions that the project would involve: 1) 37 units (32 affordable), 2) securing 9% LIHTC funding, and 3) City assistance in the form of the land and \$350,000 of HOME funds. Since the project did not receive a 9% LIHTC allocation in 2021, this agreement is not currently binding. Therefore, the City could choose to no longer pursue a project with Prairie Fire and BDC. Instead, the City would solicit new proposals.

Before doing so, a series of steps would need to occur. City staff would need to complete the 2022-23 Annual Action Plan for the use of CDBG and HOME Funds and integrate the HOME ARP funds into the 2020-21 Action Plan. Although final

allocations have not yet been received from HUD, staff anticipates being able to complete these plans for submittal on or by August 16, 2022.

Once the financial options would be known, the City Council would need to define what level of financial commitment it would make to the project and consider a new RFP. The two most likely scenarios would be to solicit new proposals in the summer of 2022 for either:

- 1) A competitive 9% LIHTC funding round that, if awarded, would begin in the spring of 2024, or
- 2) Non-competitive 4% LIHTC funding that is awarded in approximately 30 days.

With either option, Council would need to determine the amount of HOME funds that would be utilized to make the project successful. **If the City Council is willing to consider offering the \$1.8 million of local HOME funding at the outset of the proposal process (or some other amount greater than the \$350,000 offered in the original RFP), then a fresh proposal process would likely attract more competition. Additionally, a new proposal process would provide an opportunity for construction costs to potentially stabilize prior to negotiating a new agreement. This approach could also generate proposals that achieve a different number of total units.**

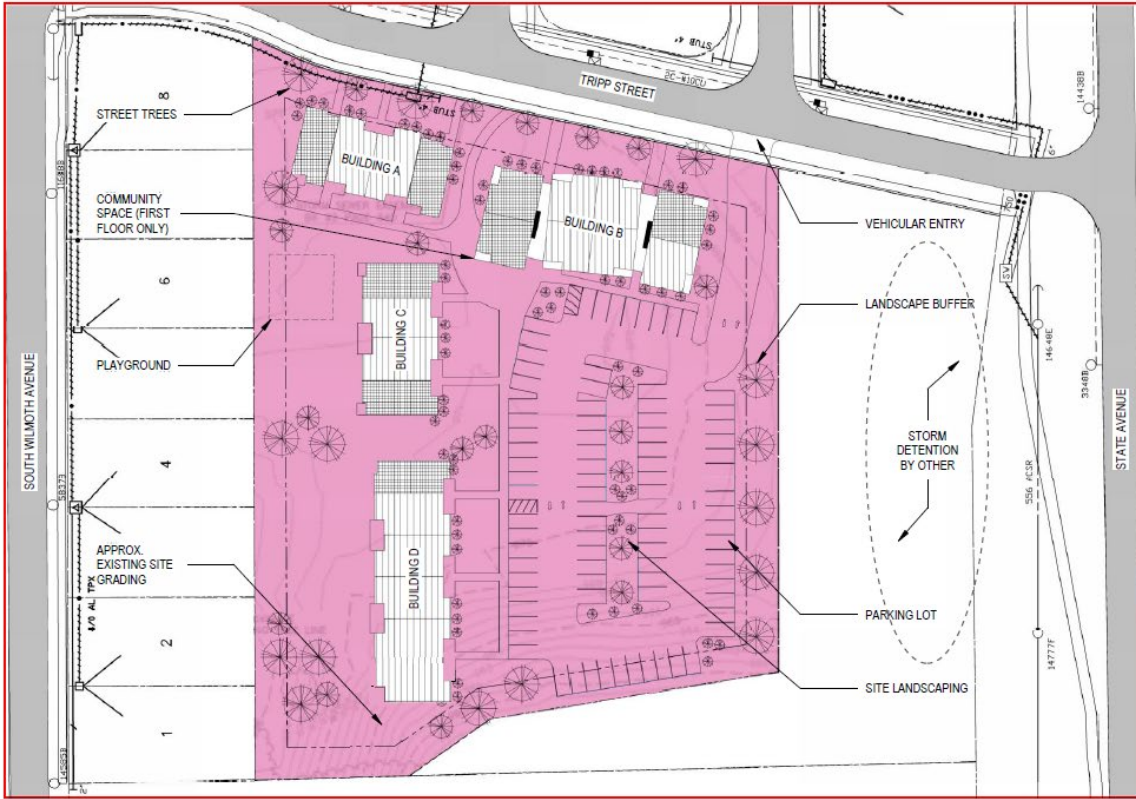
However, soliciting new proposals would likely delay the start of construction to 2023 or 2024. Additionally, there is no guarantee that satisfactory proposals will be received.

STAFF COMMENTS:

A variety of factors have complicated the choice regarding how to proceed with this project, including escalating costs and changes to revenue sources. **If City Council is willing to accept a 30-unit project and believes that starting the construction of a project this year is the priority, then the City Council should choose Option 1.** This option has the most certainty in that there is partner developer and project concept. With Option 1 staff would work with Prairie Fire to complete the LIHTC application and a development agreement.

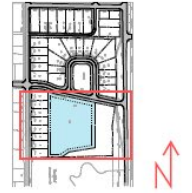
If the City Council does not favor a 30-unit project for the site, or would like to consider different multi-family proposals, it would choose Option 2. Option 2 would delay construction of an affordable housing project by at least one year, but it would allow for consideration of new proposals. Staff believes the City would need to increase its HOME funding from \$350,000 to a higher amount for a future project, likely approaching the \$1.8 million described for Option 1. However, there is uncertainty in any RFP process regarding whether the City will receive satisfactory proposals.

ATTACHMENT 1 – Approved 37-unit proposal layout 9% LIHTC Application



GENERAL NOTES:

- UNIT MATRIX - (37) UNITS TOTAL
 - (8) 2 BEDROOM TOWNHOMES
 - (15) 2 BEDROOM APARTMENTS
 - (5) 3 BEDROOM TOWNHOMES
 - (9) 3 BEDROOM APARTMENTS
- PARKING: (87) REQUIRED
(87) PROVIDED
- COMMUNITY ROOM: (1) PROVIDED

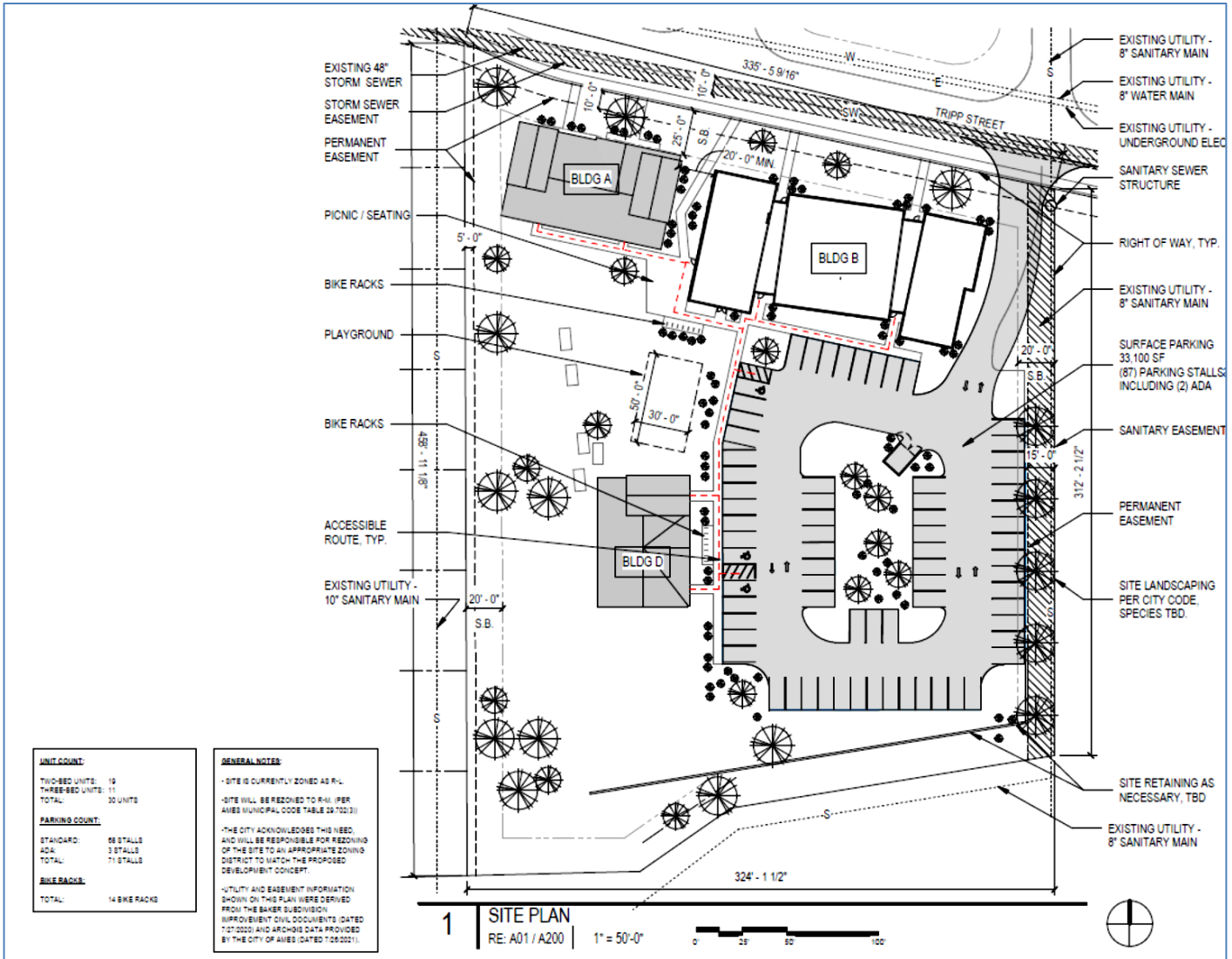


CONCEPT SITE - 1" = 60'-0" | 1



TRIPP STREET PERSPECTIVE - NTS | 2

ATTACHMENT B – 30-Unit Site Proposal Layout



| UNIT COUNT: | |
|------------------|----------------------|
| TWO-BED UNITS: | 19 |
| THREE-BED UNITS: | 11 |
| TOTAL: | 30 UNITS |
| PARKING COUNT: | |
| STANDARD: | 88 STALLS |
| ADA: | 3 STALLS |
| TOTAL: | 91 STALLS |
| BIKE RACKS: | |
| TOTAL: | 14 BIKE RACKS |

GENERAL NOTES:

- SITE IS CURRENTLY ZONED AS R/L
- SITE WILL BE REZONED TO R-4H (PER ARIES MUNICIPAL CODE TABLE 20.702(3))
- THE CITY ACKNOWLEDGES THIS NEED, AND WILL BE RESPONSIBLE FOR REZONING OF THE SITE TO AN APPROPRIATE ZONING DISTRICT TO MATCH THE PROPOSED DEVELOPMENT CONCEPT.
- UTILITY AND EASEMENT INFORMATION SHOWN ON THIS PLAN WERE DERIVED FROM THE BAKER SUBDIVISION IMPROVEMENT CIVIL DOCUMENTS (DATED 7/27/2022) AND ARCHIBUS DATA PROVIDED BY THE CITY OF ARIES (DATED 1/26/2021).