

Order 288-07/08

Given first reading on 6/2/08

Public Hearing & Passage: 6/16/08 7-1 (Anton abstaining; Donoghue opposed)

EDWARD J. SUSLOVIC (MAYOR)

KEVIN J. DONOGHUE (1)

DAVID A. MARSHALL (2)

DANIEL S. SKOLNIK (3)

CHERYL A. LEEMAN (4)

CITY OF PORTLAND

IN THE CITY COUNCIL

JAMES I. COHEN (5)

JOHN M. ANTON (A/L)

JILL C. DUSON (A/L)

NICHOLAS M. MAVODONES (A/L)

ORDER APPROPRIATING HOME FUNDS FOR AFFORDABLE HOUSING PROJECT AT 53 DANFORTH STREET

ORDERED, that an amount not to exceed \$325,000 in HOME funds is hereby appropriated for a deferred payment loan to The Szanton Company/Maine Workforce Housing for 43 housing units at 53 Danforth Street, 30 of which will be set aside for households earning 60% or less of the area median income; and

BE IT FURTHER ORDERED, that in addition to the standard HOME compliance regulations, the commitment shall be subject to the conditions outlined in Section V, paragraphs 2, 3 and 4 of the Memorandum from the HNS Division Director to the City Manager, dated June 2, 2008, which is attached to this Order.

Memorandum

Housing and Neighborhood Services Division
Planning and Development Department

To: Joseph E. Gray, City Manager

From: T.J. Martzial, HNS Division Director

Cc: Elizabeth Boynton, Corporate Counsel
Sonia Bean, Executive Assistant

Date: June 2, 2008

Re: **Item for June 2, 2008 City Council Agenda: Request for Financial Assistance – HOME Program Funds 53 Danforth St. – The Szanton Co./Maine Workforce Housing**

Please place the following item on the June 2, 2008 City Council agenda, sponsored by Councilor Jill Duson, Housing Committee Chair. Action on this item will authorize a deferred payment loan of up to \$325,000 of federal HOME funds for the development of 43 units of mixed-income housing at 53 Danforth Street.

I. Summary of Issue

The Housing Committee reviewed the project design and scope and held a public hearing on April 1, 2008. The Housing Committee reviewed the request for financial assistance on May 6, 2008.

53 Danforth Street is Maine Workforce Housing's fulfillment of its commitment to build at least 33 units of housing to replace those lost due to the demolition of the YWCA on Spring Street. The 53 Danforth proposal is distinct from previous affordable rental developments subsidized by the City because of the \$900,000 subsidy held in escrow by MaineHousing to satisfy both the requirements of both the City and MaineHousing resulting from the demolition of the YWCA.

The project is proposed for a 16,800 square foot (0.4 acre) site on Danforth Street, between Maple and High Streets. This site currently accommodates a small one-story auto repair shop called New England Imports and its associated parking lot (see attached photo).

Maine Workforce Housing proposes to build a brick and clapboard building (brick on the front, clapboard on the rear) of four residential floors over a 1-level parking garage. The project, to be called simply 53 Danforth Street, will offer 43 apartments. 35 of the apartments will be 1-bedroom units and 8 will be 2-bedroom. (Maine Workforce Housing reports that demand in their other buildings for 1-bedroom apartments far exceeds demand for 2-bedroom units.) 40 off-street parking spaces will be provided on site.

Of the 43 units, 13 will be rented to anyone, regardless of income, and 30 will be set aside for households earning 60% or less of the area median income. Rents for those 30 units will be no more than 30% of the income of a household at 60% of the area median.

II. Reason for Submission

On May 6, 2008 the Housing Committee recommended to the City Council that a deferred payment loan in an amount not to exceed \$325,000 be approved to fill the financing gap for 53 Danforth Street. This item will require two readings. In order to lock in interest rates and tax credit subsidy amounts, timing requires the commitment of HOME funds in June 2008.

III. Intended Result

The project will lead to the development of 43 new units of mixed-income rental housing.

IV. Financial Impact

My underwriting and risk analysis indicates at this point that the budgets are as accurate as possible and the costs are reasonable. Standard underwriting ratios are within targeted levels and reserves are adequately funded. The 17 year cash flow statement indicates that the debt coverage ratio gets a little thin nearing the 20 year compliance period. Although I'd prefer to see a debt service coverage a little closer to 1.20, MaineHousing's target is 1.15 which is historically proven successful and I can live with that.

Currently the amount of HOME funds available for this type of activity (new construction of rental housing) is \$51,594. We have budgeted an additional \$294,496 from our 2008/09 HOME allocation. Therefore, on July 1, 2008 we will have a total of \$346,090 available for this type of housing activity until next year's HOME allocation on July 1, 2009.

As of today there are no other formal applications pending for HOME funds for new construction of rental housing. Having said that, I have spoken to two developers who are seriously considering developing affordable rental housing in Bayside and on Presumpscot Street respectively. Additionally, it is not unreasonable to expect that the prospective developer of the Adams School will request gap funding from the city for the housing component of any redevelopment of that site.

V. Staff Analysis and Recommendation

The following recommendations were proposed to the Housing Committee. On May 6, 2008 the Committee recommended to the City Council approval of a commitment of up to \$325,00 in HOME funds subject to item numbers 2, 3, and 4, in addition to the standard HOME funding commitment requirements.

- 1.) The commitment will be subject to the standard compliance with HOME regulations including but not limited to cost allocation and designation of "HOME Assisted Units", and rent limits. HOME regulations require that if there are 5 or more "HOME Assisted Units", at least 20% must be affordable to persons at or below 50% of area median income (AMI). Although HOME regulations can be satisfied here by designating two 2BR units for persons at 60% AMI, it is my recommendation that we also require one 1BR unit be reserved for persons at 50% AMI. In my opinion we should maximize benefit to low-income persons when we contribute our resources to a project.
- 2.) The commitment should be stated as "an amount up to \$xxx,xxx based on maximization of LIHTC equity raise". This will ensure that the City's contribution is leveraged to the maximum extent possible.
- 3.) Documentation acceptable to the City that the acquisition cost is reasonably related to market value. This is a HOME Program requirement.
- 4.) The commitment should be subject to the projections and assumptions in the 04/25/08 budget and the City reserves the right to reconsider and adjust their commitment if any significant alterations occur in the budget. A final commitment will be subject to a final budget.
- 5.) Considering the scarcity of HOME and CDBG resources in Portland for this type of affordable housing development, and the slow growth of our Housing Development Fund as a result of "giving away" over \$5.3 million in subsidies in the last 8 years, I would also recommend the City's contribution of HOME funds be in the form of a "cash flow loan" for this project. Briefly stated that means that any excess cash flow available in this budget at the end of each operating year (after all expenses and obligations including servicing the developer's fee loan) be used to amortize the principal amount of the City's contribution. Another way to look at that is if there are "good years", the City and the developer will share predetermined portions of the positive cash flow. In "bad years" the developer will retain all of the cash flow. This can also be structured as a 5 year deferred payment loan, and then a cash flow loan to allow the project to stabilize. These metrics, acceptable to both the City and the developer can be negotiated at a later date. Although this type of financing does not typically generate significant repayment amounts, it is generally considered a compromise between a no repayment structure (as has been done in the past) and fully amortizing debt.

- This is the outcome of a process under the direction of the Housing Committee.
- The project is consistent with the City's HUD Consolidated Plan and the City's Housing Plan.
- The development provides 30 apartments affordable to renters at or below 60% of area median income.
- Nathan Szanton, Principal Partner of Maine Workforce Housing is an experienced developer with an excellent track record creating mixed-income rental housing.

VI. Land Use & Zoning Issues

The proposed project will require a contract zone. The Planning Board has recommended approval and that item will also appear on the June 2, 2008 City Council Agenda.

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