SALT LAKE CITY COUNCIL STAFF REPORT

DATE:	April 15, 2005
SUBJECT:	**Request for $850,000 Housing Trust Fund Loan for Construction of City Plaza Apartments**
AFFECTED COUNCIL DISTRICTS:	District 4
STAFF REPORT BY:	Gary Mumford
ADMINISTRATIVE DEPT. AND CONTACT PERSON:	Housing and Neighborhood Development LuAnn Clark

HMG Properties is requesting a loan of $850,000 from the City's Housing Trust Fund to construct the City Plaza Apartment project to be located at 134-164 South 200 East. At the Council Meeting on April 5, 2005, the Council deferred action on the loan for two weeks and requested additional information regarding deferral of developer's fees and whether there are implications for placing a stipulation that restricts the general partner's ability to sell its interest in the proposed development for a period of time.

Deferral of Developers Fees – Mr. Kevin Keating provided a schedule explaining the developer's fees. (See attached.)

Restriction of Ownership Transfer – Mr. Kevin Keating provided the following additional information regarding ownership conveyance:

> "During Tuesday's city council meeting, the council asked us to investigate the implications of placing a restriction on the general partner's ability to sell its interest in the project while the Housing Trust Fund loan remains outstanding. Actually, this is a fairly common request by cities lending funds to developers. Because we plan to hold this property long term, it's not a problem for us. We spoke to the senior lender and the tax credit syndicator and both agreed they would not object to the city council's request for restrictions as long as the restrictions do not (i) prevent them from taking over the general partners ownership interest in the event of default, or (ii) otherwise prevent them from assigning their own interest in the ordinary course of their business. As you know, lenders commonly participate loans to other lenders to spread the risk and the tax credit syndicator will want to assign its interest to one or more investment partnerships that will utilize the tax credits. The restriction on conveyance should apply to the general partner and should not affect the tax credit syndicator or senior lender's rights to intercede in the event of a default or otherwise prevent them from conveying their interests in the Development in the ordinary course of business."

The loan from the City's Housing Trust Fund is proposed to be for 40 years at 2.45% interest. Restricting the general partner's ability to sell its interest in the development while the Housing Trust Fund loan remains outstanding provides for a 40-year restriction unless the loan is paid off early. According to the City's Director of Housing & Neighborhood Development, paying off the City's loan before 15 years is not practical because there is a 15-year compliance period related to the tax credits.

It is normal practice for developers to transfer each project to a separate limited liability company. If the Council approves the loan, the loan will be transferred to Workforce Housing Utah I, LLC.

The City normally releases Housing Trust Fund loans to developers upfront upon signing the loan documents. Another option would be to provide the loan proceeds after a certain percentage of construction has been completed. This may help ensure that the project is moving ahead before public funds are involved.

POTENTIAL MOTIONS:

The developers have agreed to the deferral of $850,000 of developer fees and to the restriction of the general partner's ability to sell its interest in the project as long as the City's loan is outstanding.

1. ["I move that the Council"] **Adopt a resolution authorizing $850,000 loan from the Salt Lake City Housing Trust Fund to Workforce Housing Utah I, LLC for the City Plaza Apartments project, provided, the loan documents reflect the following restrictions: (i) restrict the General Partner's ability to sell its interest in the Development while the Housing Trust Fund loan remains outstanding, and (ii) the developer agrees to defer receipt of at least $850,000 of its developer fee.**

   In addition to the above motion, the Council may wish to make the loan proceeds available after construction is partially complete, such as:

   I further move that the loan be released after the developers provide appropriate documentation showing that construction is at least 50% complete.

2. ["I move that the Council"] **Deny the loan request.**

Proposed Project Funding

Private activity bond	$12,667,283
Low-income housing tax credits	6,800,975
Salt Lake City Housing Trust Fund loan	850,000
Interest earnings	126,468
Equity of general partners – cash	2,114,169
Total Sources	$22,558,895

$	850,000	Owners contribute $ then expect reimbursement to be paid in form of Deferred Developer Fee*
$	716,000	Owners contribute $ then expect reimbursement to be paid from final installment of tax credit equity, which is released after construction completion, lease-up and 90 days stabilized occupancy.
$	548,169	Owner/GP Capital Contribution remains in project indefinitely. If there are cost over-runs during construction or if interest rates go up, the general partners will have to contribute additional equity to cover the shortfall.
$	2,114,169	

Proposed Uses of Funding

Land costs	$2,610,818
Predevelopment/soft costs (feasibility studies, market studies, environmental studies, land-use studies, land surveys, preliminary site drawings, legal fees, loan application fees, appraisal fees, real estate taxes and insurance)	175,286
Remediation of existing environmental issues	8,500
Building demolition/disposal fees	80,000
Initial site work	40,000
Architectural & engineering	546,384
Building permits (impact fees not included because reimbursable)	94,786
Utility connections	178,000
Site work & parking garage	3,108,949
Construction costs	10,550,770
Interim financing expenses	637,152
Permanent financing expenses	528,563
Project reserves (required by permanent lender/bon	754,631
Construction contingency (about 5% of constructio	682,986
Builder & developer profit & overhead	2,562,070
Total Uses	$22,558,895

$	850,000	Deferred Fee used to reimburse Owners
$	1,112,070	Developer Profit & Overhead
$	600,000	General Contractor Profit & Overhead
$	2,562,070	

$	1,112,070	Developer Profit & Overhead
$	(548,169)	Minus GP Capital Contribution
$	563,901	Net Developer Fee **

* The total developer fee was established within safe harbour established by state tax credit allocating agency (UHC). A portion of the total developer fee is then deferred to bring remainder down to a level that can be paid by existing sources of funding. Developer Fee is an eligible expense and as such it is included to determine a projects total eligible basis. A projects eligible basis multiplied by the applicable fraction (currently 3.42%) equals the amount of tax credits the project will receive. In this case, even though the total developer fee is reduced by the amount of the deferred developer fee, the total eligible basis still includes the full developer fee amount. That additional basis ($850,000) is multiplied by the applicable fraction (currently 3.42%) resulting in an allocation of $29,070 in low income housing tax credits. If we reduce the total developer fee we also lose the eligible basis and the equity from the low income housing tax credits goes down by $29,070.

** Apply State & Federal tax at 38%, leaves approximately $349,618 net. During the 49 month development period, the developers expect to incure approximately $80,000 in non-reimburseable expenses for travel meals, hotels, long distance telephone, etc. These non-budgeted expenses operate to further reduce the Net Developer Fee. The developer fee remaining is divided into three categories. One portion is paid out in salaries and benefits, another portion is retained as seed money for the next project and the final portion is retained in a loss reserve account.

RESOLUTION NO. _____ OF 2004

AUTHORIZING A LOAN FROM
SALT LAKE CITY'S HOUSING TRUST FUND
TO HMG PROPERTIES, LLC FOR
THE CITY PLAZA APARTMENT PROJECT

WHEREAS, Salt Lake City Corporation (the City) has a Housing Trust Fund to encourage affordable and special needs housing development within the City; and

WHEREAS, HMG Properties, LLC, an Illinois limited liability company, has applied to the City for an $850,000 loan at 2.45% for 40 years to purchase property and to construct the City Plaza Apartment project to be located at 134-164 South 200 East, consisting of 200 affordable units for households with incomes at 60% of area median income or less.

THEREFORE, BE IT RESOLVED by the City Council of Salt Lake City, Utah:

1. It does hereby approve Salt Lake City to enter into a loan agreement with HMG Properties, LLC, an Illinois limited liability company, for $850,000 at 2.45% for 40 years from Salt Lake City's Housing Trust Fund.

2. HMG Properties will use the loan to purchase property and to construct the City Plaza Apartment Project at 134-164 South 200 East in Salt Lake City, Utah.

3. The loan requested from the Housing Trust Fund will be used for property acquisition and construction. These funds will be leveraged with funds provided by The Richman Group and PNC Multifamily Capital. The City will be in third position on the loan. It is anticipated the total cost of the project will be $18,439,427. The loan will be transferred to a limited liability company upon its organization.

4. Ross C. Anderson, Mayor of Salt Lake City, Utah, following approval of the City Attorney, is hereby authorized to execute the requisite loan agreement documents on behalf of Salt Lake City Corporation and to act in accordance with their terms.

Passed by the City Council of Salt Lake City, Utah, this __________ day of ____________________, 2004.

SALT LAKE CITY COUNCIL

By: ________________________
CHAIR

ATTEST:

APPROVED AS TO FORM
SALT LAKE CITY ATTORNEY'S OFFICE
DATE: 4/14/2005
BY: [signature]

____
CHIEF DEPUTY CITY RECORDER