SALT LAKE CITY COUNCIL STAFF REPORT

DATE: March 11, 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

KEY ELEMENTS:

- 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 (parking lot south of Questar building).
- The City Plaza Apartment project consists of 200 apartment units. The entire project will be "affordable" units targeted to households at 60% or below of area median income. Past city practice has been for mixed-income housing rather than large apartment complexes of all affordable units.
- Equity of the general partners is $2,114,169 in land value. Council staff's understanding is that the general partners plan to reimburse themselves up front for land and developers fees (overhead and profit).
- On July 22, 2004, the City's Housing Trust Fund Board recommended a loan of $850,000 for the City Plaza Apartment project subject to the developers deferring an amount not less than $850,000 for their developer fee.

MATTERS OF ISSUE:

The proposed apartment building will consist of the following housing units:

Number of Units	Bedrooms	Bathrooms	Percent of Area Median Income	Monthly Rent
2	Studio	1	40%	$389
10	Studio	1	50%	$496
52	1	1	60%	$638
40	2	1	60%	$764
72	2	2	60%	$764
24	3	2	60%	$877

The total cost of the 200 unit project is anticipated to be $22,558,895. The $850,000 loan from the City's Housing Trust Fund is proposed to be for 40 years at 2.45% interest. The project will remain affordable for 51 years. The project will include 236 parking stalls with one parking stall for each unit, 11 parking stalls for visitors and staff, and 25 parking stalls available for rental.

Council staff's understanding is that equity of the general partners of $2,114,169 is in the form of land. Other funding sources are $12,667,283 of private activity bonds, $6,800,975 of Low Income Housing Tax Credits, $850,000 from the City's Housing Trust Fund, and $126,498 of interest income. Total uses of the funding include reimbursing $3,051,890 for the land costs and $2,562,070 for developer fee. The City's Housing Trust Fund Board recommended that the loan be subject to the developers deferring an amount not less than $850,000 for their developer fee.

The following are some of the project's potential strengths and weaknesses:

<u>Potential strengths of the project</u>:

- The project will provide 200 units of affordable housing near downtown.
- The project meets priority goals of the Salt Lake City Community Housing Plan to increase housing stock, particularly affordable and transitional housing.
- The Central City district has a disproportionate number of substandard quality housing units. The project will increase the availability of newer, higher quality housing units.
- The project will bring more consumers to the downtown business district.
- Even though the project is 100% affordable, the proposed rents are fairly close to market.
- 60% area median income may include entry-level teachers, police officers, or new college graduates.
- New affordable housing could spur upgrades of other nearby housing in order to remain competitive.
- The project is located within a couple of blocks of a light-rail station on Main Street and is a block away from several bus routes on State Street.
- The housing units will include dishwashers and clothes washers/dryers.
- The project includes an on-site management office.
- The project includes a fitness room and another room that serves as a library/computer resource center.
- The City's Housing Trust Fund Board recommended the loan.

<u>Potential weaknesses</u>:

- In the past, the City has not been involved in loans for large apartment complexes that are entirely comprised of affordable units. The City practice has been to encourage mixed-income housing rather than large apartment complexes of all affordable units.
- It appears that none of the general partners' equity or developers fees (overhead, profit) is being deferred. The developer is taking this money out at the time of closing.
- There may not be as much need for the three-bedroom units (24) in the downtown according to the developer's market study. These units may depend on roommate situations.

Last September, the City Council deferred consideration of all loan requests until the Council adopted a housing policy. At a February 15, 2005 Council discussion of the housing policy, the Council requested additional input from housing representatives, developers and advocates on the draft housing policy. Not all Council Members were comfortable with holding up loan applications further. There are three other loan applications pending that will be forwarded to the Council after the April 7th Housing Trust Fund Board meeting. The City Plaza Apartment loan is the only project that is on hold from prior to the Housing Policy draft being sent out for public comment.

The City Plaza Apartment project does not meet the new criteria being proposed as part of the update of the housing policy (i.e. not concentrating affordable housing). The draft policy allows for City funding of 100% affordable units if the percentage of poverty in the census tract is 15% or below. According to the draft policy, City funding is allowed for 50/50 affordable and market rate units where the percentage of poverty is 16% to 25%. No City funding assistance is available for affordable units where the percentage of poverty is 26% or greater. The City Plaza Apartment property is located in census tract 1022, which has a poverty percentage of 32.9%. The census tract across the street (1021) has a poverty rate of 36.2%. The Council may wish to discuss whether the project should be evaluated taking into consideration the draft housing policy.

Additional City involvement is the waiver of $178,000 in impact fees. The general fund will need to cover this exemption from impact fees. The payment of impact fees by the general fund for low income housing projects is consistent with the City's current policy. Over the past two years the Council has considered whether to continue this exemption since State Law actually requires the general fund to pay for any fees not paid by developments. The Council has asked that the impact fee consultant look at this issue. The developer originally applied for a loan from the City's Redevelopment Agency, but is now proposing to finance the project without the RDA funding.

The current balance of the City's Housing Trust Fund is $3,190,165. If the $850,000 loan is approved, the balance in the City's Housing Trust Fund will be $2,340,164.

The attached additional information was provided by the developers on March 11, 2005. This information also gives input to the proposed City housing policy and offers alternative criteria for the Council to consider. Since the development team has been working and planning this project for the past 19 months, the developers ask the Council to grandfather their loan application and consider it under the housing policy that was in effect when it was submitted.

OPTIONS:

The Council may wish to consider the following options:

1. Forward the resolution to a future Council meeting for consideration.
2. Revise the resolution to include the condition that the developers must defer at least $850,000 of their developer fees.

3. Forward the request at a lower dollar amount to reflect the Housing Trust Fund Board's current policy of loans not in excess of $300,000 to ensure the account has adequate funds for future projects.
4. Defer consideration until additional information can be provided or until the Council adopts a housing policy.
5. Deny the loan request.

CHRONOLOGY:

- September 3, 2003 – The Central City Community Council issued a letter of support for the City Plaza Project. At that time, the project was to be mixed use and mixed income.
- January 15, 2004 - The Housing Trust Fund Board recommended an $850,000 loan to HMG Properties to construct the City Plaza Apartment project. RDA funding was also requested for this mixed-use and mixed-income project.
- July 22, 2004 – HMG reported to the Housing Trust Fund Board that it had revised its funding to exclude the RDA loan. HMG also revised the project from mixed-use and mixed-income units to 100% affordable units. The Housing Trust Fund Board reaffirmed the January approval of an $850,000 loan to HMG Properties to construct the City Plaza Apartment project subject to the developers deferring an amount not less than $850,000 for their developer fee.
- September 8, 2004 – City Council Office received the paperwork from the Department of Community Development regarding the City Plaza Apartment project loan request. Subsequently, the Council decided to hold all housing loan applications until the Council received and adopted a housing policy.
- September 22, 2004 – The City Council Office received the draft housing policy. The draft policy was referred to the Council's housing subcommittee for review and recommendations.
- February 15, 2005 – The Council requested input from housing representatives, developers and advocates on the draft housing policy. Not all Council Members were comfortable with holding up loan applications.

cc: Rocky Fluhart, Louis Zunguze, LuAnn Clark

MAR 1 1 2005

Urban Housing Partners, LLC

12553 Eagle Run Drive
Omaha, Nebraska 68164
Office 402.504.1942
Fax 402.504.1966

March 11, 2005

Office of the City Council
451 So. State St. Rm 304
Salt Lake City, UT 84111

Re: Housing Trust Fund Loan Application for Workforce Housing Utah I, LLC, (f.k.a., "City Plaza Apartments")

Dear City Council Members,

Thank you for considering our Housing Trust Fund loan request. During the last 19 months our development team has been working hard and has invested heavily to make this exciting, transit friendly, downtown affordable housing development a reality. Developing high density affordable housing downtown comes with many unique and complex challenges not found in your typical suburban garden style development. Our development team, the general contractor, architects, engineers, city planning department staff, and our various financing partners have all been working hard to overcome those challenges. With your approval of this final aspect of our project financing we hope to start preparing the construction site within the next few weeks.

For purposes of brevity, we will provide bullet points of the main ideas expressed in the following Executive Summary. We hope you will have time to read all our comments before you consider our loan request.

Executive Summary

- During the last 19 months we have been working with our general contractor, architects, engineers and the city planning department to design a project that we could all be proud of. We have already invested over $300,000 dollars in this development. Most of this expense was incurred before we received notice that the City Council was considering developing a new housing policy.
- At the Utah Housing Coalition meeting last week Eric Jergensen and Nancy Saxton told those in attendance that the proposed Salt Lake City Housing Policy Statement was a first draft and encouraged us all to submit our comments.
- We agree with the Council and the Mayor in all areas of the proposed Housing Policy Statement (hereinafter, the "Housing Policy") except for Article M – City Funded Projects,

which proposes to use "Percentage of Poverty in Census Tract" as the determining factor for consideration of financial support by the City. The use of "Percentage Poverty in Census Tract" would create an artificial threshold for consideration of City funding. It may be more appropriate to look at a ratio of affordable units as a percentage of total housing inventory and set some threshold based on those percentages. Consideration should also be given to the percentage of older, declining properties versus newer affordable properties in a given area. Poverty isn't always associated with low income housing. For example, many elderly households are technically below the poverty line. However, 80% of the elderly in SL county own their homes and 60% of these households have paid off their mortgage. Yet because of the "percentage of poverty" threshold these elderly neighborhoods would not qualify for financial assistance.

- The proposed Housing Policy fails to differentiate between the various affordable housing programs. For example, a 4% tax credit or bond financed apartment with rent and income restrictions set at 50 - 80% AMI should be viewed differently than a 9% tax credit project with rent and income restrictions targeting tenants reporting 40% AMI and below. An apartment building with 50 - 80% AMI restrictions represents what we in the industry refer to as "workforce housing". The tenants living in 60% AMI apartments are often teachers, police officers, new college graduates, people working in the various service industries, and the like. Even though still considered low income, their incomes could substantially improve the average household income for an impoverished area.
- High density of poverty is driven by the lack of quality affordable housing in the area. The introduction of new affordable housing alternatives forces neighboring landlords to reinvest in their own properties in order to remain competitive. It can also have at very positive impact on the neighborhood environment regarding commercial development, improved property values, introducing a mix of higher income households, reduce blight, etc.
- Neighborhoods with the highest poverty rates are typically losing the higher income population as demand for quality affordable housing sends prospective tenants migrating into other neighborhoods searching for better quality housing. As this occurs, "tenant erosion" takes place, leaving only the poorest families to live in the remaining substandard properties. Neighborhoods change incrementally and projects that will improve a neighborhood, either because of the quality of a building or because their rental rates correspond to incomes higher than currently found in the neighborhood, should be supported.
- We are committed to developing safe, comfortable and affordable apartment communities. The City Plaza Apartment project was designed to help satisfy the City's need for affordable housing as described in the City's current housing plan.
- We proceeded in good faith believing that the City Council would treat us fairly and would review our application within the policies and procedures that were in place at the time. We have made a significant investment in time and treasure to bring this development to this point.
- The City Plaza Apartments project is a worthy development which benefits all the citizens of Salt Lake by addressing a very real affordable housing problem. Given the circumstances and timing of our application, we believe that it would be inherently unfair for the City Council to use a new housing policy as a basis for denying our loan application.

- We respectfully ask that you "grandfather" our loan application and consider it under the housing policy that was in effect when it was submitted and subsequently approved by both the HTF Advisory Board and the Mayor.

Our History

Early in the development process we met with the various city agencies to discuss both development plans and financing options. We also met with and garnered the approval of community organizations such as the Chamber of Commerce, the Central District Community Council and the Downtown Alliance. Considerable time was spent reviewing both the Salt Lake City Five-Year Consolidated Plan for 2000 – 2005 and the Salt Lake City Community Housing Plan Development to ensure that our development was designed with the stated goals of the City in mind. In September of 2003 we submitted a low-income housing tax credit application to the Utah Housing Corporation ("UHC") for 9% tax credits, targeting renters at 41% area median income ("AMI"). During subsequent discussions with the executive director at UHC we learned that, to be competitive, we would have to lower our tenant income target to 35 - 39% AMI. Concerned about creating a concentration of low income tenants in this high density project we took the initiative to withdraw our pending application and we re-applied for 4% tax credits, targeting tenants at 60% AMI. This strategy was proved successful and in January 2004 the UHC awarded this project private activity bond cap and an allocation of low income housing tax credits.

During this same time frame we submitted a Housing Trust Fund ("HTF") loan application and subsequently appeared before the HTF Advisory Committee, which recommended approval of our loan request for the City Plaza Apartments. Shortly thereafter, we learned that the RDA was concerned the market rate units in our affordable development would be competing with a market rate project that was receiving financial assistance from the RDA. To alleviate those concerns we changed our affordability mix to 100% affordable and again restructured our financing. After discussing these changes with LuAnn Clark we were told that the changes would necessitate that we update and re-submit our HTF loan application and go through the loan review process again. On July 22, 2004, the Housing Trust Fund Advisory Committee considered and approved our loan request for the second time. When we tried to get on the City Council docket last fall we were first told the docket was full and then on September 15, 2004, we received notice from LuAnn Clark that the City Council would not consider any HTF loan applications until the new housing study was completed.

Where are we are today?

The private activity bond allocation awarded to the City Plaza Apartments project by the State allocating agency requires that we close on the bond within a relatively short period of time. To buy additional time, we have already requested four (4) quarterly extensions to our bond allocation. Each quarterly extension is now costing us $8,000 a piece. We have been told by the Private Activity Bond Review Board that they expect us to close on the bond within the next calendar quarter, which ends in July. If we fail to close within that time frame we risk losing both our bond allocation and also the tax credit allocation, since they are interdependent. Failing to close on the bond would be viewed as a black mark against our development team's record and could inhibit our ability to complete successfully in future projects financed by the bond allocating authority in Utah and by bond allocating authorities nationally.

Through out this period we have also been working with our general contractor, architects, engineers and the city planning department to design a project that we could all be proud of. In total, we have already invested over $300,000 dollars in this development. Most of this expense was incurred before we received notice that the City Council was considering developing a new housing policy.

Just a couple weeks ago we were notified by LuAnn Clark that our HTF loan application had received approval from the mayor's office and had been forwarded to the City Council for final approval.

Comments regarding Proposed Salt Lake City Housing Policy Statement
At the Utah Housing Coalition meeting last week, council members Eric Jergensen and Nancy Saxton told those in attendance that the proposed Salt Lake City Housing Policy Statement was a first draft and encouraged us all to submit our comments. We are keenly interested in this issue and respectfully offer the following comments for your consideration.

We respect what the Council and the Mayor are trying to accomplish and we firmly agree that high concentrations of poverty in any area is a valid concern. The genuineness of our concern is evidenced by our own actions in December 2003. When faced with the decision whether to compete for 9% tax credits at 35 - 39% AMI or compete for 4% tax credits but at 60% AMI, we voluntarily withdrew our 9% tax credit application to the Utah Housing Corporation and resubmitted it as a 4% tax credit and private activity bond application. This was done specifically to could avoid creating what we recognized would be a high concentration of very low income tenants in a high density downtown project. Our actions may have been different if this was a much smaller project.

Upon review of the proposed Housing Policy, we can agree with the Council and the Mayor in all areas of the proposed Housing Policy Statement (hereinafter, the "Housing Policy") except for Article M – City Funded Projects, which proposes to use "Percentage of Poverty in Census Tract" as the determining factor for consideration of financial support by the City. The use of "Percentage Poverty in Census Tract" as the determining factor would create an artificial threshold for consideration of City funding that would inhibit development of affordable housing in many needy areas. It may be more appropriate to look at a ratio of affordable units as a percentage of total housing inventory and set some threshold based on those percentages. Consideration should also be given to the percentage of older, declining properties versus newer affordable properties. Poverty isn't always associated with low income housing. For example, many elderly households, of which Salt Lake has a disproportionate share, are technically below the poverty line. However, 80% of the elderly in the county own their own homes and 60% of these households have paid their mortgages off. Under the proposed "percentage of poverty" measure, these neighborhoods with concentrations of elderly households, which very well may not have any affordable housing projects, would be tracts excluded from receiving any housing assistance under the proposed Housing Policy.

On the other end of the spectrum, the proposed Housing Policy substantially under estimates the economic realities developers of affordable housing face due to zoning and community opposition in higher income neighborhoods that would qualify for financial assistance because there is very low percentage of poverty. People won't live where they don't feel welcomed. There is also the social reality that people tend to live in neighborhoods where they are in economic parity with their neighbors. That reality may make it difficult for affordable housing developers to lease up and maintain occupancies at acceptable (i.e., profitable) levels.

The city needs a housing policy that encourages developers to deliver more affordable housing in these high poverty areas, not less. The proposed Housing Policy in its current form also does not appear to take into consideration:

- Using an artificial threshold such as "Percentage of Poverty in Census Tract" as the determining factor overlooks the many benefits the availability of new affordable housing can have on high poverty neighborhoods. Often, in the high poverty areas, the high density of poverty is driven by the lack of quality affordable housing in the area. Higher income families are not going to move into an area unless quality affordable housing is available. As newer, higher quality units become available, more discerning higher income families will move into the neighborhood and the concentration (or percentage) of very low income families in an area is diluted.

- In its current form, the proposed Housing Policy also fails to differentiate between the various affordable housing programs available to developers. For example, a 4% tax credit or bond financed apartment with rent and income restrictions set at 50 - 60% AMI should be viewed differently than a 9% tax credit project with rent and income restrictions targeting tenants reporting 40% AMI and below. An apartment building with 50 - 80% AMI restrictions represents what we in the industry refer to as "workforce housing". The tenants living in these 60% AMI apartments are often teachers, police officers, new college graduates, people working in the various service industries, and the like. A family of four whose household income is at 60% AMI is earning approximately $36,840. This is slightly more than the median income reported for <u>all</u> apartment dwellers in Salt Lake City and 50% more than those families living right at the poverty line.

- The lack of availability of quality affordable housing in these high poverty areas. Typically, neighborhoods with the highest poverty rates are in fact losing the higher income population as demand for quality affordable housing sends prospective tenants migrating into other neighborhoods searching for better quality housing. As this occurs, "tenant erosion" takes place, leaving only the poorest families to live in the remaining substandard properties. The Salt Lake central business district has the distinction of having a disproportionately high percentage of substandard quality housing. Neighborhoods change incrementally and projects that will improve a neighborhood, either because of the quality of a building or because their rental rates correspond to incomes higher than currently found in the neighborhood, should be supported.

- The introduction of new affordable housing alternatives forces neighboring landlords to reinvest in their own properties in order to remain competitive. It can also have a very positive impact on the neighborhood environment regarding commercial development, improved property values, introducing a mix of higher income households, reduce blight, etc. Recent examples demonstrating how affordable housing can positively impact a neighborhood are the City Front Apartments (North Temple 500 West) and the three small projects at 900 South and 200 West (including 2nd West Apartments, which was completed last spring).

- High occupancy levels in substandard housing is often an indication of a lack of quality affordable housing alternatives. According to data cited in the Community Housing Plan Development (data provided by Equimark Properties, Inc., Greater Salt Lake Multifamily Report, January 2000) 45% of the renters in the Salt Lake City metropolitan area are unable to afford Fair Market Rents based on their income. According to it's own "Affordable Housing Needs Analysis" Salt Lake City has a tremendous need for more affordable housing to be developed within city boundaries.

- The significant number of market rate and luxury apartments and condos either already under construction or proposed for construction in the near future in Salt Lake City. The LDS church alone is proposing the construction of several hundred higher end market rate units downtown over the next several years. While this is truly a positive development for downtown Salt Lake City, the influx of additional workers that will be needed in the various service industries will likely exacerbate the need for yet more affordable housing down town.

- According to James A. Wood, Director of Economic and Business Research, University of Utah, the City has about 36,000 renter households. Currently 58 percent of all renter households in the City of Salt Lake have incomes at or below 60% AMI. Therefore, with 36,000 renter households in the City, nearly 21,000 renter households would income qualify at the 60% AMI target. The affordable needs are only partially met by the existing affordable housing programs:

Tax Credit Units	1,700
Section 8 Voucher	2,900
Public Housing	632
HUD project based units	1,500
Total	6,732

These numbers show that nearly 14,000 moderate and low income renter households live in market rate units. These market rate units are too often low quality and high priced for what the tenant gets. It is clear that demand for affordable units far exceeds the supply. And a supply of affordable units is essential near the Central Business District, which has an employment base of 60,000. Many of the jobs in the CBD are relatively low income jobs (i.e., retail, service and hospitality sectors, etc.) and employees often cannot afford to commute long distances. They would be better served if they could find affordable housing near their employment.

Conclusion

We are committed to developing safe, comfortable and affordable apartment communities that we would be proud to have a sibling or parent or grandparent call home. The 200 apartment units proposed in the City Plaza Apartment project will help satisfy the City's need for affordable housing. Without the financial incentives offered by the federal low-income housing tax credit program coupled with state incentive programs such as the Salt Lake City Housing Trust Fund loan program, most affordable housing developments would not be possible. We engaged the City early in the process to ensure that we designed a project that incorporates many of the elements described in the City's current housing plan. We proceeded in good faith believing that the City Council would treat us fairly and would review our application within the policies and procedures that were in place at the time. We have made a significant investment in time and treasure to bring this development to this point.

The City Plaza Apartments project is a worthy development which benefits all the citizens of Salt Lake by addressing a very real affordable housing problem and for that reason it should be supported by the City. Given the circumstances and timing of our application, we believe that it would be inherently unfair to use a new housing policy as a basis for denying our loan application. We respectfully ask that you "grandfather" our loan application and consider it under the housing policy that was in effect when it was submitted and approved by the HTF Advisory Board.

We are grateful for your consideration of this loan application and look forward to partnering with the City to address the need for quality affordable housing. Thank you again for your time and consideration of this request. I respectfully invite your inquiry if you have any questions concerning any aspect of our proposed development or in connection with the loan application. Peter Corroon can be reached at (801) 597-7471 or you can reach me at (402) 504-1942 or by email at kevin679@cox.net.

Sincerely,

Kevin Keating

Kevin M. Keating

Peter M. Corroon

SEP 8 2004

ALISON WEYHER
DIRECTOR

SALT LAKE CITY CORPORATION
COMMUNITY AND ECONOMIC DEVELOPMENT

ROSS C. "ROCKY" ANDERSON
MAYOR

COUNCIL TRANSMITTAL

TO: Rocky Fluhart, Chief Administrative Officer **DATE:** August 26, 2004

FROM: Lee Martinez, Community Development Director

RE: A resolution authorizing the Mayor to execute a loan agreement between Salt Lake City Corporation and HMG Properties, LLC, for the construction of the City Plaza Apartment project to be located at 134-164 South 200 East in Salt Lake City, Utah.

STAFF CONTACT: LuAnn Clark

RECOMMENDATION: That the City Council schedule this item on its agenda

DOCUMENT TYPE: Resolution

BUDGET IMPACT: An $850,000 loan will be made from the Housing Trust Fund. Additionally, because of the affordable nature of the project, all 200 units will be eligible for an impact fee exemption, resulting in a total exemption of $178,000. The General Fund will have to cover the exemption.

DISCUSSION: HMG Properties, LLC, is requesting an $850,000 loan for 40 years at 2.45% interest from the City's Housing Trust Fund 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.

The loan requested from the Housing Trust Fund will be leveraged with funds provided by The Richman Group, 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.

In January 2004 the Housing Trust Fund Advisory Board approved this request subject to the applicant receiving funding from the Redevelopment Agency of Salt Lake City. On July 22, 2004, the Housing Trust Fund Advisory Board again reviewed this proposal due to changes in the affordability mix of the units and the financial structuring of the project. The Board recommended approval of an $850,000 loan for 40 years at 2.45% subject to the developers deferring an amount not less than $850,000 for their developer fee. The Housing Trust Fund Advisory Board meeting minutes and staff evaluation are attached. The Central City Community Council supports this project.

The current balance of the City's Housing Trust Fund is $2,850,473; approval of this loan request would leave the fund balance at $2,000,473.

451 SOUTH STATE STREET, ROOM 404, SALT LAKE CITY, UTAH 84111
TELEPHONE: 801-535-6230 FAX: 801-535-6005

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: 9/9/2004
BY: [signature]

____
CHIEF DEPUTY CITY RECORDER

EVALUATION
SALT LAKE CITY HOUSING TRUST FUND

Name of Organization: HMG Properties, LLC

Name of Project: City Plaza Apartments

Location of Project: 134-164 South 200 East

Project Description: The project proposal has changed to be 100% affordable and will consist of 200 units. The previous proposal consisted of 170 affordable units and 30 market rate units. The affordable rents will target households at 60% or less of area median income. Plans also include 236 underground parking stalls, a small outdoor plaza and/or roof garden. Future development plans might include a separate multi-level parking structure and a high-rise commercial office building adjacent to this site.

AMI Targets:		Rents:
40% - 2	studio/one bath units	$389
50% - 10	studio/one bath units	$496
60% - 42	one bedroom/one bath units	$638
60% - 40	two bedroom/two bath units	$764
60% - 52	two bedroom/two bath units	$764
60% - 24	three bedroom/two bath units	$877

This project is located in the city's census tract with the second lowest average income ($21,131). The adjoining census tract to the east has the lowest income ($16,978)

NOTE: This project was reviewed and a loan for $850,000 was approved by the Housing Trust Fund Advisory Board in January 2004. The applicant, however, was unable to secure RDA funding. The configuration of the project has also changed from a mixed-income project to a 100% affordable project and the board needs to consider this as a new application.

Amount and terms requested: A loan for $850,000 at 2.45% for 40 years with interest only during construction and lease-up (the first 24 months) was approved at the January 2004 Housing Trust Fund meeting. The applicant is seeking approval again of the same amount and the same terms.

Is the entire project eligible for Housing Trust Fund money?
Under the new configuration, the entire project is eligible for Housing Trust Fund monies.

Are the funds leveraged with non-government dollars? Yes

Proposed Funding:

Equity	LIHTC	$ 3,945,676
Equity	State Tax Credits	126,468
Equity	General Partners	2,114,169
1st Mortgage	Private Activity Bond	11,403,114
2nd Mortgage	SLC Housing Trust Fund	850,000
		$18,439,427

Does the requesting agency have sufficient cash flow to repay the loan?

Rents from the project will be the source of the loan repayment.

Does the project have demonstrated community support?

Yes. A letter from the Central City Community Council is attached to the application.

Does the requesting agency have a track record of owning, operating and maintaining this type of housing project?

HMG Properties is a real estate investment company that, with its partners, owns and manages approximately $500 million of investment real estate properties throughout the United States. It is unclear, however, if these properties include residential projects similar to this proposal. Mr. Corroon has only a verbal agreement with HMG Properties relative to management and ownership in the partnership agreement. Salt Lake City has no history with the out-of-state, for profit developers, HMG Properties or PacifiCap Properties.

The Board may wish to ask Mr. Corroon for additional information on his organization's relationship with HMG Properties and the property management issues related to this project. If Mr. Corroon's organization is not chosen as the property manager, the City could end up dealing with an unknown entity on this project. The Board may also wish to ask Mr. Corroon to describe his expertise with a project of this size and type.

Project Strengths:

The project would provide 200 units of affordable housing.

Project rents are in line with the market study. The market study supports the construction of this project. The market study was completed by an appraiser on Utah Housing Corporation's list of approved appraisers

The project meets priority goals of the Salt Lake City Community Housing Plan to increase the City's housing stock, particularly by increasing the number of affordable housing units.

The project will remain affordable for 51 years.

The Central City Community Council voted to support this project.

Project Weaknesses:

Property Management for this project is an unknown factor and the City has no history with the out-of-state for profit developers. HMG has no loan history with Salt Lake City. Peter Corroon is selling his project at 925 South 200 West and will be returning to the Housing Trust Fund Board to request an assignment of his Housing Trust Fund loan for that project.

The Market Study states that the 24 three bedroom units have the greatest risk. According to the Market Study: "The three bedroom units imply demand by families but relatively few families rent downtown. Three bedrooms will depend on roommate situations for lease-up, e.g. student market."

The project has been reconfigured as a 100% affordable project. There is no other 100% affordable project in the city of this size. The City's policy is to support mixed-income projects.

It appears from the pro forma that none of the developer's fee is being deferred and that the developer will be taking his money out at the time of closing.

Board Options

Waive the Board's policy on loan caps and approve the request as presented subject to the project being awarded the private activity bond and receiving each of the funding sources outlined in the application in order to ensure a full funding package for the project. The Board may wish to specify that City funds should be the last funds to be put into the project.

Approve the request at a lower dollar amount to reflect the Board's policy on loan amounts in an effort to ensure the account has adequate funds for future projects.

Deny the request.

HOUSING TRUST FUND ADVISORY BOARD
Meeting of July 22, 2004

The following board members were in attendance: Curtis Anderson, Ed Barbanell, John Francis, Daniel Greenwood, Cara Lingstuyl, Kent Moore, Peter Morgan, Nancy Pace, and Geneva Powell. Staff members in attendance were LuAnn Clark, Director of Housing and Neighborhood Development, Sandi Marler, CD Programs Administrator, and Jan Davis, Administrative Secretary.

Chairperson Kent Moore called the meeting to order at 12:16 p.m.

Cara Lingstuyl motioned to approve the January 15th and March 25th minutes. Geneva Powell seconded the motion. All voted "Aye." The motion passed.

Kent Moore welcomed new Board member, Nancy Pace. Ms. Pace introduced herself and briefed the Board on her previous experience as a City Council member and Board of Adjustment member.

Reconsider the request from Multi-Ethnic Development Corporation for a short term loan (less than five years) of $300,000 at 3% to construct the 700 South Condo Project consisting of 5 live/work spaces and 30 condominium units on the southeast corner of 700 South and 200 West. Twenty percent of the units (7) will be targeted for sale to those with incomes at 80% of area median income or less.

Mr. Justin Belliveau of MEDC presented the loan request to the Board providing the information that had been requested by the Board at the meeting in March.

Mr. Belliveau stated they have refined their projections and finances with Morgan Stanley and U.S. Bank who have expressed an interest in financing this project. Mr. Belliveau said the HTF loan will be repaid from sale proceeds and all 35 units should sell within 24 months from beginning of construction. Mr. Belliveau explained the revised pre-sale terms required by U.S. Bank. He provided new documentation to the Board that U.S. Bank will accept sales guarantees and is no longer requiring 50% of the units to be pre-sold.

A lengthy discussion followed in regard to the affordability requirements for short-term loans. The Board requested restrictions be placed on the loan in order to avoid buyers selling short term for financial gain. The Board expressed concern regarding repayment of the loan and the affordability requirements if the units do not sell within five years.

Luann Clark acknowledged the Board's concerns but indicated that the City Council had recently adopted an amendment to the Housing Trust Fund ordinance that only restricts the first homeowner who purchases the property. Ms. Clark said the City Council reviewed the ordinance and wanted to provide homeownership opportunities to the community and therefore, the ordinance does not require the developer to maintain affordability for the five-year period.

The Board presented questions to Mr. Belliveau regarding the financing and availability of funds to comply with U.S. Bank's terms and repayment of the loan. Mr. Belliveau acknowledged the Board's concerns but stated that he would need to confer with Claudia O'Grady of MEDC. It was decided to table the discussion until Mr. Belliveau consults with Ms. O'Grady.

Mr. Belliveau consulted with Ms. O'Grady and reapproached the table. Extensive discussion continued regarding financing, repayment of the HTF loan and the City's position. Daniel Greenwood motioned to approve a $300,000 loan at 3% for less than five years for the 700 South Condominium Project subject to a five-year restriction on affordability being placed on the units. Cara Lingstuyl seconded the motion. Curtis Anderson suggested an amendment to the motion that any net proceeds paid to any lender not exceed 100%. Mr. Greenwood and Ms. Lingstuyl accepted the amendment to the motion and the second.

Curtis Anderson suggested an additional amendment to the motion that the loan must be paid off within five years or within 90 days of the sale of the last unit. Mr. Greenwood and Ms. Lingstuyl accepted the amendment to the motion and the second.

Following a discussion by the Board, Mr. Greenwood withdrew his motion. Cara Lingstuyl motioned to deny MEDC's request. John Francis seconded the motion. Cara Lingstuyl and John Francis voted "Aye." Curtis Anderson, Ed Barbanell, Peter Morgan, Nancy Pace and Geneva Powell voted "Nay." The motion failed.

Daniel Greenwood motioned to table the applicant's request. Cara Lingstuyl seconded the motion. Curtis Anderson, John Francis, Daniel Greenwood, Cara Lingstuyl, Nancy Pace and Geneva Powell voted "Aye." Ed Barbanell and Peter Morgan opposed. The motion passed.

Following further discussion by the Board, Daniel Greenwood motioned to reopen the 700 South Condominium Project request. Ed Barbanell seconded the motion. All voted "Aye." The motion passed.

Daniel Greenwood then moved to approve a $300,000 loan at 3% subject to the net proceeds paid to any lender not exceeding 100%, that the units retain their affordability for a period of five years, that the manner established to monitor the affordability period be delegated to and approved by the Director of Housing and Neighborhood Development; and that the loan be repaid in less than five years or within 90 days of the sale of the last unit. Ed Barbanell seconded the motion. All voted "Aye" with the exception of John Francis who was opposed. The motion passed.

Consider a request from Utah Nonprofit Housing Corporation for a $700,000 loan at 1% interest to be amortized over thirty years to rehabilitate the Milestone Apartment project. The project consists of four separate buildings containing a total of 141 units.

Mr. Dave Johnson of Kier Corporation, general partner of Milestone Housing Associates and Mr. Marion Willey of Utah Nonprofit Housing Corporation were present to provide details and answer questions in regard to the rehabilitation of the Milestone Apartment Project.

Mr. Johnson said the project, consisting of four existing buildings, has expiring Section 8 contracts and is currently going through HUD's Mark to Market restructuring process. Mr. Johnson explained the Mark to Market restructuring process and that the project is being acquired by UNPHC in order to preserve its affordability.

Mr. Willey said approval of the HTF loan would preserve and renew the Section 8 contracts providing significant federal dollars for subsidized housing. Mr. Willey said that without preservation of the Section 8 contracts, the project would be at risk of being sold and the City's affordable housing stock would be adversely affected.

The Board asked for further explanation of the Mark to Market restructure. Mr. Johnson explained as part of the HUD restructuring, the project will receive a 20 year Section 8 contract with the agreement to keep the project affordable for 10 additional years and the nonprofit assigned with the second mortgage consents to keeping the project affordable for 50 years. Mr. Johnson said if the 20 year contract is not retained all of the HUD Section 8 units would be lost. Mr. Johnson stated that HUD restructures existing rents to new market rate rents whereby mortgage debt is restructured to a 1.2 debt. The debt balance, reserves and rehab upgrades of the project will be funded with a second mortgage. Mr. Johnson said that the funds provided by HTF will be used to preserve the project and will offset depreciation and taxes.

The Board inquired about the cash flow projection and Mr. Johnson explained in detail the cash flow projection in relation to HUD's program for the second mortgage.

Ed Barbanell motioned to approve a $700,000 loan at 1% to be amortized over thirty years for the Milestone Apartment Project and to allow flexibility to adjust the exact amount of the loan and to allow the loan to become a cash flow loan if required due to federal regulations associated with the Mark to Market financial restructuring of the project. Daniel Greenwood seconded the motion. All voted "Aye." The motion passed.

Consider a request from Peter Corroon, representing HMG Properties, for an $850,000 loan at 2.45% over 40 years to construct the City Plaza Apartment Project to be located at 134-164 South 200 East. An $850,000 loan was approved for this project by the Board in January 2004; however, the unit mix has changed to 100% of the 200 units as affordable units and the financing has been reconfigured.

Mr. Peter Corroon and Mr. Kevin Keating representing HMG Properties were present to provide an update on the request since their presentation to the Board in January.

Mr. Corroon acknowledged the fact that in January the Board approved $850,000 in funding for the project, subject to additional funding to be obtained from the RDA. Mr. Corroon said RDA funds are minimal and that the RDA currently is waiting for the City to adopt new housing policies before funding any new housing projects.

Mr. Keating explained in detail the restructuring of the project in regard to the configuration from mixed-income to 100% affordable and the revised bond financing as they were unable to secure RDA funding.

The Board inquired about the developer's fee and Mr. Keating explained that the developer's fee is coming from Equity, builder and developer profit and overhead funds. The Board and Mr. Keating discussed in detail the project funding and how the HTF monies will be used for construction costs, land acquisition and provide permanent gap financing to make this project financially feasible.

Ed Barbanell motioned to reaffirm the January 2004 approval of an $850,000 loan at 2.45% over forty years for the City Plaza Apartment Project based on the changes to the project as presented and subject to the developers deferring in an amount not less than $850,000 for their developer fee. John Francis seconded the motion. All voted "Aye." The motion passed.

Schedule next meeting

The next HTF Advisory Board meeting is scheduled for Thursday, August 19, 2004.

There being no further business, the meeting adjourned at 2:45 p.m.