2018/19 Housing Institute
Workshop 4 HOMEWORK

- ☐ Review the updated information the Lakes Region Housing Coalition has uncovered and work as a team to determine whether the Bluewater Senior Housing project is viable by answering the following six questions:
    - What funding resource(s) could be utilized to capitalize the Bluewater Senior Housing project?
    - What are the funding cycles for each source – when are applications due and when are the awards announced?
    - Is there any gap in funding that needs to be filled and how might the coalition meet this need?
    - Is the budget complete; are there specific costs missing If so, list them and explain how it will affect the budget.
    - Based on the debt on this project, an assumed vacancy rate of 7% and assumed operating costs listed in the proforma (including operating and replacement reserves), is this project self-supporting? (A feasibility workbook will be uploaded to the HI web portal for your use. Please refer to the tab labeled Op_Pro_Forma_Hsg to view the 20 year project proforma.) How much income would you need from the commercial space rental in order to offset any operating deficits?
    - What other strategies could be implemented to make this project sustainable?

- ☐ Be prepared to share with the large group at workshop 5:
    - Are there enough resources available to fund this project and what are they? What, if any, additional funding resources were added to the list created by the coalition?
    - Did your team uncover any missing construction costs?
    - Is the project viable – is there enough income to support any debt on the property?

- ☐ In thinking about the Bluewater exercise, create a list of questions to ask the funders attending workshop 5. What information do you need to help you with one or more projects that members of your team are either currently working on or are considering as a project? See "Fund Source Analysis Worksheet" in your packet as an example.

- ☐ Schedule next conference call and meetings with TA staff
    - Conference call date & time:_____
    - Local TA meeting date & time:_____

Next Housing Institute Workshop: **May 14 and 15, 2019 at the Willmar Conference Center**

Homework – Workshop 4 - Capitalize the Bluewater Senior Housing Project

The Lakes Region Housing Coalition has completed its activities to determine whether or not the 1912 Bluewater High school could be turned into 24 units of senior housing. The group decided to move forward with the adaptive reuse of this building and here are a few things they uncovered while doing their preliminary work.

- There is strong community support for the redevelopment of this building. There has been no new multi-family housing developed in the region for 17 years. Because the area is in the heart of lake country, there is strong competition for available units (both single-family and multi-family) from those metro folks looking for a summer get-away. Property previously owned by seniors is being rapidly absorbed by this second-home market; putting a strain on the already tight vacancy of existing local multi-family units.
- While the building has been around for over one hundred years, and the locals consider it a historical icon, it has not been formally registered to national, state, or local register. There may be financial benefits to doing so, but it could also increase the cost of construction due to increased regulations. Depending on other funding sources used in the project, historic preservation may be a consideration in this project.
- The School District is willing to sell the property for $1 as is; provided the owner pays all legal and closing costs.
- A large industry in the region has a philanthropic arm and has expressed interest in helping move this project forward. It has invited the group to submit an application for up to $30,000 for predevelopment costs.
- The Fair Housing Act will require this building to have an elevator and requires all units to comply with the Fair Housing Act's access requirements.
- The Bluewater School building is a three story building. The LRHC has determined through community input that the upper two stories will be converted to Senior Housing and the main level will be converted to commercial and office space. A local Community Action Agency has outgrown its current offices and is looking for new digs (including a Head Start center). This organization is willing to partner on the project – perhaps even taking an ownership role; seniors are a demographic often served by the CAC.
- Several of the coalition members have begun to look for resources to capitalize the project and have compiled a brief outline of a number of potential funding resources with a suggested breakdown of funding resources. See information following.
- A local contractor on the coalition was tasked to come up with a preliminary cost estimate for the project. See information following.
- A real-estate agent has provided the coalition with market rate rents for 1, 2, and 3 bedroom units in the community. She prepared a chart comparing market rate rents for Bluewater with HUD Fair Market rents for Lester County, and suggested a mix of unit sizes/income targets.

Based on the information gathered, work as a team to determine whether or not this project is viable by answering the questions below:

1. What funding resource(s) could be utilized to capitalize the Bluewater Senior Housing project?
2. What are the funding cycles for each source – when are applications due and when are the awards announced?
3. Is there any gap in funding that needs to be filled and how might the coalition meet this need?
4. Is the budget complete; are there specific costs missing If so, list them and explain how it will affect the budget.
5. Based on the debt on this project, an assumed vacancy rate of 7% and assumed operating costs listed in the proforma (including operating and replacement reserves), is this project self-supporting? (A feasibility workbook will be uploaded to the HI web portal for your use. Please refer to the tab labeled Op_Pro_Forma_Hsg to view the 20 year project proforma.) How much income would you need from the commercial space rental in order to offset any operating deficits?
6. What other strategies could be implemented to make this project sustainable?

Potential Funding Resources for the Bluewater Senior Housing Project

State Funding through Minnesota Housing – http://www.mnhousing.gov

FHA/HUD Section 221(d)(4): Construction or Substantial Rehabilitation

- Term: Actual construction period plus 40 years (fully amortizing with interest only payable during construction period)
- Interest Rate: Fixed for term of loan, including construction period, determined by market conditions at time of rate lock
- Availability: Applications accepted throughout the year Funds may be used for new construction or substantial rehabilitation of multifamily rental housing. Eligible properties include market rate, low-to moderate income and subsidized multifamily properties.

Low-Income Housing Tax Credit Program (LIHTC)

- Term: 15-year compliance period and 30-year extended use period
- Interest Rate: N/A
- Availability for 9% credits: Applications accepted only through annual RFP and Supplemental Round 2
- Availability for 4% credits: Applications accepted throughout the year in conjunction with tax-exempt volume limited bonds

The Low Income Housing Tax Credit is a federal income tax credit awarded to owners and then sold to investors to generate capital for construction or acquisition with substantial rehabilitation of eligible rental housing. Applicants must meet the priorities of Minnesota Housing's Housing Tax Credit (HTC) Qualified Allocation Plan (QAP). Visit www.mnhousing.gov to view the QAP.

Economic Development and Housing Challenge Program (EDHC)

- Term: Typically 30 years
- Interest Rate: Generally zero percent unless a higher rate is necessary to allow the funding source to be used with other sources, such as housing tax credits
- Availability: Applications accepted through the annual RFP process

Funds may be used for construction, acquisition and rehabilitation of permanent rental housing that supports economic development and redevelopment activities, job creation or job preservation within a community or region by meeting locally identified housing needs.

HOME Investment Partnerships (HOME) Program

- Term: 30 years
- Interest Rate: Generally zero percent unless a higher rate is necessary to allow the funding source to be used with other sources, such as housing tax credits
- Availability: Applications accepted throughout the year and during the annual RFP process Funds may be used for rehabilitation or acquisition and rehabilitation of federally assisted multifamily rental housing.

Low and Moderate Income Rental Program (LMIR) and Flexible Financing for Capital Costs (FFCC)

- Term: Maximum of 40 years, fully amortizing
- Interest Rate: Fixed for the full term of the LMIR loan
- Availability: Applications accepted throughout the year and through the annual RFP process Funds may be used for the refinance, acquisition, rehabilitation or new construction/conversion of rental apartment buildings that house low- and moderate-income Minnesotans.

Selection criteria are included in Minnesota Housing guides and manuals on our website. FFCC is a deferred loan at low or no interest, available only in conjunction with LMIR first mortgage loans.

USDA – RD - https://www.rd.usda.gov/programs-services/community-facilities-direct-loan-grant-program

Community Facilities Direct Loan & Grant Program

- Term: 40 years
- Interest Rate: Fixed
- Availability: Low interest loans and grants which may be combined with commercial financing to finance one project if all eligibility and feasibility requirements are met.

Funds can be used to purchase, construct, and / or improve essential community facilities, purchase equipment and pay related project expenses.

Tax Increment Financing – Local Gov't Authority

Municipality has existing TIF district to encourage development and to pay for related public improvements and infrastructure needs such as streets, sidewalks, or sewer.

Greater MN Housing Fund - http://www.gmhf.com/finance

GMHF Interim Financing Products

- Predevelopment Loans - To pay for third-party reports, fees, deposits and other project-specific start-up costs.
- Acquisition Loans- To finance a significant portion of the purchase price for property acquisition.
- Construction/Rehabilitation Loans - To pay hard and soft costs for new construction, adaptive reuse, or acquisition/rehabilitation projects.
- Tax Credit Bridge Loans - To bridge projected Low Income Housing Tax Credit (LIHTC) equity for new construction, adaptive reuse, or acquisition/rehabilitation projects.
- Historic Tax Credit (RTC) Bridge Loans - To bridge projected equity pay-ins for historic rehabilitation projects with an affordable housing component.
- Mini-Perm Loans - To provide interim amortizing debt for new construction and preservation projects.
- Flexible Short-Term Loans - Innovative financing programs to help meet the unique local affordable housing and community development needs of partners in Greater Minnesota.

GMHF Multifamily Permanent Financing Products - GMHF provides several types of permanent loans on a pipeline basis, as well as gap loans through the Minnesota Housing Multifamily Request for Proposals (Super RFP), as described below.

- Permanent Loans- To provide longer-term, amortizing debt for new construction and projects.
- Tax Increment Financing (TIF) Loans - Capitalize long-term tax increment financing (TIF) income stream to help pay for up-front development costs.

- Mezzanine Loan Program - To provide flexible loan capital that maximizes debt, leverages equity, and reduces subsidies for the construction of new workforce/family rental housing.
- Gap Loans for Multifamily - To provide longer-term, very-low-interest, subordinated cash-flow loans for new construction and preservation developments.

New Market Tax Credits -

New Markets Tax Credits are federal income tax credits used to encourage private investment in low-income communities. The focus of the program is to drive positive community impacts such as job creation, providing commercial goods and services, providing community services, eliminating food deserts and environmentally sustainable outcomes. The NMTC Program attracts private capital into low-income communities by permitting individual and corporate investors to receive a tax credit against their federal income tax in exchange for making equity investments in specialized financial intermediaries called Community Development Entities (CDEs).

Historic Tax Credits -

State Tax Incentives

The Minnesota Historic Structure Rehabilitation Tax Credit offers a 20% state tax credit for qualified historic rehabilitations, and parallels the existing federal rehabilitation tax credit. It also offers project investors an option of a grant in lieu of a credit, whichever option best suits a developer's tax situation, in order to maximize the efficiency of the public dollars assisting the project. The program requires an application with the State Historic Preservation Office before project work begins. The current sunset date for the program is 2021.

- The property must be a certified historic structure: A building listed on the National Register of Historic Places or certified as contributing to a Registered Historic District.
- Owner must submit an application to the SHPO before construction work begins
- The project must meet the "substantial rehabilitation test"
- Project plans must be approved by National Park Service (NPS) and certified as meeting the Secretary of the Interior's Standards for Rehabilitation.
- The completed work must be approved by NPS and allowed the federal tax credit.
- The completed project must be income-producing.

Applicants are strongly encouraged to seek the advice of a qualified tax advisor with questions concerning specific tax consequences before proceeding with any tax credit rehabilitation project.

Federal Investment Tax Credits

One of the ways the federal government encourages the preservation of historic buildings is through federal tax laws that benefit qualifying historic preservation projects. A project may qualify for a 20-percent investment tax credit if:

- It involves rehabilitation of a certified historic building used for income-producing purposes;
- the rehabilitation work follows the Secretary of the Interior's Standards for Rehabilitation; and
- the project receives preliminary and final approval from the National Park Service.

Property owners, developers and architects must apply for the tax credit through the Minnesota SHPO and are encouraged to work with SHPO staff to ensure that appropriate rehabilitation measures are followed. The SHPO then passes its recommendations on to the NPS for approval.

Minnesota SHPO contact: Natascha Wiener, Senior Design Reviewer.

Federal Home Loan Bank of Des Moines – AHP Grant

AHP subsidy must be used exclusively for the purchase, construction, or rehabilitation of affordable homeownership or rental housing. Inpatient drug and alcohol treatment centers, nursing homes, skilled nursing and medical care facilities are not eligible for funding.

Rental projects must ensure that at least 20% of the units in the project are occupied by and affordable to very low-income households, which are defined as households who are at or below 50% of the area median income (AMI). All AHP subsidized units must be occupied by households who are at or below 80% AMI.

- Term: Deed restriction for 15 years
- Interest Rate: Forgivable grant
- Availability: Competitive Grant application – awards announced in December. Maximum grant $1 million with $50,000 max per unit subsidy.

PROPOSED SOURCES OF FUNDING

Source of Funds	Housing	Rate (%)	Term *(years)*	Amort Period *(years)*	Annual Debt Svc (Housing) Must Pay Only
LIHTC Equity	$ 256,000.00				
MHFA Challenge Grant	$ 250,000.00	0.000%	30.0	0.0	
Tax Increment Financing	$ 150,000.00				
MHFA LMIR Loan	$ 280,092.00	5.040%	40.0	40.0	$ 18,120
GMHF	$ 200,000.00	4.000%	30.0	30.0	$ 11,460
Historic Tax Credits	$ 392,832.00				
Local Employers	$ 50,000.00				
HOME	$ 120,000.00	0.000%	30.0	30.0	
FHLB AHP Direct Subsidy	$ 750,000.00				
Total Funding Sources	**$ 2,448,924.00**				$ 29,580

Estimated Construction Costs:

Description of Work	
Concrete	
Masonry	
Rough Carpentry	$ 65,000
Exterior Doors, Windows, Glass	$ 105,457
Waterproofing	
Insulation	$ 43,000
Roofing and Sheet Metal	
Siding	
Total Rough Structure	$ 213,457
Finish Carpentry	$ 56,840
Cabinets, Vanities, and Countertops	$ 75,015
Interior Doors and Frames	
Lath and Plaster	
Drywall	$ 73,000
Tile Work	
Acoustical	
Carpeting	$ 18,879
Resilient Floor	$ 55,993
Painting and Decorating	
Specialties and Furnishings	
Special Equipment	$ 11,662
Appliances	$ 48,178
Special Construction	
Elevators	
Total Finish Structure	$ 339,567
Plumbing	$ 330,888
Heat and Ventilation	$ 431,000
Air Conditioning	
Fire Protection	$ 149,049
Electrical	$ 67,200
Total Mechanical Systems	$ 978,137
Other Structure:	
Total Structure	$ 1,531,161
Onsite Accessory Buildings & Garages	$ 250,000
Onsite Earth Work	
Onsite Site Utilities	$ 35,000
Onsite Road and Sidewalks	$ 103,000
Onsite Site Improvements	
Onsite Landscaping	$ 45,000
Onsite Unusual Site Condition	
Onsite Environmental Remediation	
Total Onsite Improvement	$ 433,000
Total Estimate of Costs	$ 1,964,161

Summary of Uses of Funds

Acquisition Costs	
Building Acquisition	
Land Acquisition	
Carrying Costs	
Legal Fees	
Closing Costs	
Title and Recording	
Total Acquisition Costs	$ -
Construction/Rehabilitation Costs	
Construction Costs (Structure)	$ 1,531,161
Rehabilitation Costs (Structure)	$ -
On-Site Improvements	$ 433,000
Off-Site Improvements	$ -
Demolition	
Contingency	$ 153,161
Total Construction/Rehabilitation Costs	$ 2,117,322
Soft Costs	
Architect	
Engineering	
Appraisal	
Attorney	
Accounting	
Environmental Study	
Municipality	
Permits	$ 750
Market Study	
Survey	
Marketing Expenses	$ 8,075
Soft Cost Contingency	
Construction Period Insurance	
Construction Period Property Taxes	
Other Soft Costs	
Total Soft Costs	$ 8,825
Construction/Bridge Loan Financing	
Interest	$ 40,000
Origination Fees	$ 20,000
Application Fees	
Other Fees	$ 25,000
Total Construction Financing	$ 85,000
Permanent Financing	
Permanent Loan Origination Fees	$ 5,000
Bond Related Costs	
Application Fees	$ 10,000
Other Permanent Financing Fees	
Total	$ 15,000

Other Financing Fees and Expenses	
Tax Credit Reservation Fees	
Application Fees	
Other Financing Costs	
Total Other Financing Fees and Expenses	$ -
Developer Fees	
Developer Fees	$160,000
Consultant Fees	$ 62,777
Total Developer Fees	$ 222,777
Project Reserves	
Real Estate Taxes	
Insurance	
Lease-up Reserves	
Operating Reserves	
Replacement Reserves	
Rental Assistance Reserves	
Debt Service Reserves	
Supportive Service Reserves	
Other Reserves	
Total Project Reserves	$ -
Total Project Costs	$ 2,448,924

Rent Rates:	Efficiency	1 Bedroom	2 Bedroom	3 Bedroom	4 Bedroom
HUD Fair Market Rents for Lester County	437	522	681	935	939
Bluewater Actual Market Rent Rates	500	550	655	825	1050

Assumed Income Targeting	**# Units**
<= 50% AMI	5
51% - 60% AMI	3
61% - 80% AMI	11
Over 80% AMI	5
Total Units	24

Minnesota Housing Partnership

GREATER MINNESOTA HOUSING FUND

Fund Source Analysis Worksheet

This form is designed to compare the terms and conditions of the funding sources for your project. It should document the project's funding sources, all restrictions with which to comply, and the compatibility of funding sources.

Program Parameters	Source #1:	Source #2:	Source #3:	Source #4:	Source #5:
Name of Funding Source:					
Total subsidy amount: • Are there per project or per unit caps?					
Subsidy type: • Is it a grant or a loan? • If a loan, what are the terms? What is the interest rate, repayment requirements, when is it due in full?					
Total development cost: • Is there a cap on total cost and/or the cost of component parts (especially acquisition or developer's fee)?					
Development activities: • What activities are allowed? Acquisition, rehab, new construction? • Are funds restricted to only the construction phase, or only the permanent phase? Are predevelopment expenses eligible?					
Standards: • Are there any specific construction, environmental, contracting or hiring requirements that must be followed?					
Form of Tenure: • Is the source restricted to only rental housing or only homeownership?					
Affordability: • Are there affordability restrictions? Is there a maximum income that a tenant can have to qualify?					
Rent levels: • Is there a minimum or maximum amount of rent that can be charged? • Are there requirements regarding how much of a tenant's income can be spent on rent, such as 30% of their income for rent/utilities?					
Occupancy: • Is occupancy limited in any way? Can units house only persons who have been homeless, only persons with physical disabilities, only seniors or others?					