

**Rhode Island Housing and Mortgage Finance Corporation**  
**Minutes of the Meeting of the Credit Committee**  
**August 10, 2016**

The Credit Committee of Rhode Island Housing convened at the offices of the Corporation, 44 Washington Street, Providence, RI, on August 10, 2016 at 3:00 p.m.

Committee members present were Committee Chairman Kevin Orth, Chairman Nicolas Retsinas and Commissioner Maria Barry. Commissioner DiBiase was absent.

The following Rhode Island Housing staff was also present: Barbara Fields, Executive Director; Peter Walsh, Deputy Director; Nicole Clement, General Counsel; Eric Shorter, Director of Development; Anne Berman, Assistant Director of Development; Eric Alexander, Assistant Director of Development; Tim Caplice, Development Officer; Michael Liberatore, Development Officer; and Cori Myers, Deputy General Counsel.

A quorum being present, Committee Chairman Orth called the meeting to order at approximately 3:00 p.m.

The following matters were considered by the Committee.

1. Recommendation of Approval of the Draft 2017-18 Qualified Allocation Plan (QAP)

Ms. Berman made the presentation defining the revisions suggested in the draft 2017-18 Qualified Allocation Plan (QAP). She stressed that the most significant change is moving to a two (2) year plan as historically it was set at an annual basis.

Ms. Berman provided background details of the Qualified Allocation Plan. Pursuant to the Revenue Reconciliation Act of 1989, each Housing Credit allocating agency must adopt a Qualified Allocation Plan (the "Plan") that establishes the priorities and criteria for both allocating and monitoring Housing Credits. The allocating agency must conduct a public hearing and a subsequent public comment period on the Plan prior to the Plan being finalized and presented to the Governor for approval.

Rhode Island Housing has administered the Housing Credit program in Rhode Island under a Plan that was first adopted in January 1990. The Plan was last amended in November 2015. While previous years' Plans have been promulgated as agency rules in recent years, the 2017-2018 Plan is being adopted as a guidance document, in accordance with the recently amended Rhode Island Administrative Procedures Act. Rather than being filed with the Office of the Secretary of State, the Plan will be immediately available on the Rhode Island Housing website.

Staff has proposed the changes summarized below to the following sections of the Plan. These changes seek to amplify and explain our goals and procedures.

<b>SECTION</b>	<b>CHANGE</b>	<b>REASON</b>
Section I(B)-(C)	Two year term of Plan established; general information updated; housing needs updated	To reduce administrative burden and improve consistency for applicants; to reflect most current available data
Section I(E)(10), Section III(A)(3)	Requirement added for market study to accompany mixed-income project proposals	To reflect comments received from industry
Section I (L), Section VII(B)	Requirement added that owners afford certain protections to victims of domestic violence, dating violence, sexual assault, and stalking; requirement added that owners provide related certification	To comply with the Violence Against Women Reauthorization Act of 2013
Section II (A)	Clarification added with respect to the establishment of a waiting list; schedule updated	To increase the transparency of the selection process and enable developers to plan accordingly; to provide dates for this year's first funding round
Section II (B)	Clarification added with respect to the unavailability of an appeal for threshold determinations	To provide clarity for applicants. Threshold determinations are made by staff based on information provided in the application.
Section III	New criteria added with respect to the minimum number of new units in preservation deals	To minimize the disparity between preservation and new production proposals. Given the lack of affordable housing throughout the state, Rhode

		Island Housing is placing a priority on increasing the number of units.
Section III(B)	Increase points for projects serving very low income, homeless and/or special needs persons, and projects providing supportive services	To encourage the provision of supportive services for households with incomes below 30%AMI
Section III(B)	Adjust points available for projects leveraging rental and operating subsidy and total points available	To correct typographical errors
Section (III)(B)	Clarify circumstances under which points are awarded for providing housing for a range of income levels	To encourage mixed-income development
Section (III)(B)	Adjust circumstances under which points are awarded for incorporating green infrastructure	To promote design features that minimize environmental impacts
Section (III)(B)	Clarify circumstances under which points are awarded for blight remediation by defining “blighted”	To provide clarity for applicants as to whether properties qualify for points under this category
Section (III)(B)	Clarify that developers may prevent the assessment of negative points by securing other sources of funds	To clarify circumstances under which negative points are assessed to allow applicants to plan effectively
Section VII (C)-(D)	Update and clarify compliance monitoring requirements	To comply with new Internal Revenue Procedures and make language consistent

Traditionally, the QAP has been updated and approved as an annual document. Among the proposed changes in Section I is the establishment of the QAP as a two(2) year document, which will cover the 2017 and 2018 allocation rounds. The primary reason for

converting to a two (2) year document is to streamline the application and approval processes in order to allocate funds earlier in the year and reduce staff time associated with the review and other administrative functions. We believe this change will also afford applicants an additional measure of consistency.

Staff actively sought feedback from Rhode Island Housing's partners in regards to the application and scoring process in order to develop the 2017-2018 Plan. Staff held a meeting on May 26, 2016 with a committee of stakeholders to discuss the 2016 QAP and review process. Much of the conversation revolved around the tension between new production and preservation deals. As a result of this engagement with our partners, a few additional changes were made to Sections II and III. The committee included: Jeanne Cola, LISC; Paul Tavares, Providence Housing Authority; Derek Farias, Barbara Sokoloff Associates; Joe Garlick, NeighborWorks Blackstone River Valley; Sharon Conard-Wells, West Elmwood Housing Development Corporation; David Twombly, Consultant; and, Jack Bentz, PAG. Written comments were received from Raoul Moore, Enterprise; Barbara Sokoloff, Barbara Sokoloff Associates; David Pride, Consultant; and Carla Destefano, SWAP.

The Plan will become final upon (i) the expiration of the public comment period; (ii) final approval by the Board of Commissioners of the Plan (including any changes reflective of public comments received); (iii) approval by the Governor; and (iv) posting to the Rhode Island Housing website.

The public comment period will begin on or about August 24, 2016. The public hearing will be held no sooner than 30 days following the publication of the proposed Plan, with final submission to the Board of Commissioners expected in October or November 2016.

A discussion followed the presentation. The Commissioners deliberated the benefits of moving to a two (2) year plan along with recommendations for allocating incentives and points to developers for utilizing fewer Rhode Island Housing funds; doing more new construction; assigning additional points for housing for 30% of AMI with supportive services and to encourage mixed use development with at least 20% market rate.

Chairman Retsinas emphasized that staff needs to prioritize new construction; especially rental housing.

The Commissioners further clarified for staff their thoughts for consideration in finalizing the Plan. They requested strengthening incentives for developers to reduce overall total development costs to increase efficiency; limiting the use of 9% Housing Credits for preservation activities, and focus Rhode Island Housing's resources on creating new units.

Following the dialogue regarding the changes, and upon a motion made by Commissioner Barry and seconded by Committee Chairman Orth, the Committee unanimously voted to

recommend to the Board of Commissioners the approval of the Draft 2017-18 Qualified Allocation Plan.

## 2. Recommendation of Approval of the Neighborhood Opportunities Program Awards Funding

Mr. Alexander, Assistant Director of Development provided background information on the Neighborhood Opportunities Program Awards.

Mr. Alexander remarked that the State of Rhode Island established the Neighborhood Opportunities Program (“NOP”) in 2001 with the goal of increasing the supply of affordable housing for very low-income households. Originally there were three Program components: Family Housing Funds (“FHF”), which provided affordable housing for households earning no more than 40% of State median income; Permanent Supportive Housing (“PSH”), which provided affordable housing for disabled and homeless households requiring supportive services; and Building Better Communities (“BBC”), which provided funding for homeownership opportunities, mixed-use developments, and community development. Operating funds were also available for the FHF and PSH components.

The BBC component was suspended in FY 2007 to provide increased opportunities for rental housing. Since FY 2008, the majority of funds have been provided for operating assistance to support FHF and PSH. The State of Rhode Island Housing Resources Commission funded the program through FY 2011. Since FY 2012, at the direction of the General Assembly, Rhode Island Housing has provided funding for the NOP Program.

Rhode Island Housing issued a Request for Proposals for NOP Program funding in March 2016. In response, four applications were received requesting \$1,741,987 in NOP operating subsidy.

Rhode Island Housing staff met to review the applications on April 29, 2016. As a result of that meeting, three (3) proposals are recommended. The fourth application was not recommended at this time, due to the current balance of operating funds for the project.

The proposed project sites are located in Central Falls and Providence. In this FY 2016 round, 34 NOP-assisted apartments will serve families and individuals with incomes at or below 40% of State median income, including 31 homeless and disabled households and 3 families.

Following a brief discussion regarding the proposal, Chairman Retsinas asked what the consequences would be for not funding these projects. Mr. Alexander said that the program would end causing financial hardships to the affected agencies.

Committee Chairman Orth then expressed a concern regarding accountability of the recipients adhering to a budget. Mr. Alexander responded that the recipients are required to submit on a quarterly basis their operating needs and shortfall for staff's review prior to releasing funds.

Upon a motion made by Commissioner Barry and seconded by Chairman Retsinas, the Committee voted to recommend approval of the Neighborhood Opportunities Awards Funding to the Board of Commissioners.

3. Recommendation of Approval of Preliminary Commitment of Back-to-Back Financing for Lippitt Mill Apartments (West Warwick)

Mr. Liberatore, Development Officer, made the presentation for approval for preliminary commitment of financing for Lippitt Mill.

This request is for financing consideration from Rhode Island Housing's Credit Committee for Preliminary Approval of conduit tax-exempt financing in the maximum amount of \$5.5 million for the Lippitt Mill Apartments ("Lippitt Mill" or the "Development"), an historic mill renovation in West Warwick. The mill is currently vacant and uninhabitable. Prominen Management Group, LLC ("Prominen" or the "Developer") acquired the Lippitt Mill in February 2015 for \$1,185,000 through court receivership. The site includes two parcels of land totaling 15 acres and will undertake two phases of development. In the first phase, the Developer is proposing to undertake \$9 million of construction and renovate the mill into 65 new mixed-income residential units, of which 28 will be income restricted, leaving the second parcel vacant for future development.

The primary sources of financing are a tax-exempt loan of \$5.5 million, of which \$3.82 million will remain as permanent debt. The borrower has requested that Rhode Island Housing provide conduit tax-exempt financing through a "Back-to-Back" execution with Freddie Mac as the lender. Walker Dunlop is the DUS lender and will service the loan on behalf of Freddie Mac. Freddie Mac will bear all financial risk should the Borrower default on the loan. Rhode Island Housing will bear the reputational risk of this deal.

The remaining capital stack includes; \$4.7 million of equity from the sale of State and Federal Historic Tax Credits, \$1.66 million from the sale of Rebuild RI Tax Credits, \$1.24 million of equity from the sale of Low Income Housing Tax Credits ("LIHTC"), \$1.33 million of cash and \$1.9 million in deferred developer fee.

The Rhode Island Historical Preservation & Heritage Commission has reviewed and approved the rehabilitation plan and the National Park Service have issued their Part I and II approvals. This five-story main mill building and its annexes will be used to create 65 apartments; 15 efficiencies (465 sq. ft.), 34 one bedrooms (636 sq. ft.) and 16 two

bedrooms (947 sq. ft.). The common areas will feature terraces, scheduled activities and a river walkway.

The Lippitt Mill renovation and restoration is the first phase of the planned two-phase development on 15+ acres of land abutting the Pawtuxet River.

Commissioner Barry questioned if Freddie Mac is providing the construction and permanent loan on this development. Mr. Shorter noted that Rhode Island Housing is issuing the bonds for the project.

Committee Chairman Orth asked for clarification on the lenders and the flow of funds. Mr. Shorter confirmed that information would be supplied and stated that this is a true partnership with the Department of Commerce. He confirmed that the Development staff is comfortable with the underwriting for this deal. Development staff has attended two (2) construction meetings and provided a deal sign-off sheet. Commissioner Barry stressed that it is important that the Developer address Rhode Island Housing's concerns to forestall any reputational risks that could result from adverse actions.

Upon a motion made by Commissioner Barry and seconded by Committee Chairman Orth, the Committee voted to recommend preliminary approval for Back-to-Back Financing for Lippitt Mill Apartments to the Board of Commissioners. Chairman Retsinas abstained from the vote.

#### 4. Recommendation for Approval of Preliminary Commitment of Financing for Barbara Jordan I (Providence)

Eric Shorter stated that originally Barbara Jordan was presented at the June 6 Credit Committee where the Board requested additional due diligence.

Mr. Shorter explained that the properties are located near the I-95 and Route 6 Exchange and are within walking distance to transportation, shopping, restaurants, churches, schools and entertainment. Originally constructed in the 1940s and renovated in 1983 and 1984, the current ownership, SCHS Associates, has owned and self-managed the property since the renovations. SCHS Associates has exhibited poor management and oversight of the property, leading to placement of the HAP contract on the HUD Watch list for several years. Moreover, SCHS Associates recently lost the sister project, Barbara Jordan II and its HAP Contract, to a HUD foreclosure.

OmniNY is proposing to finance the transaction with 4% LIHTCs, tax-exempt bonds, a deferred developer fee and cash flow from operations to fund acquisition and rehabilitation of the property. The financing plan currently has a gap which the Developer proposes to fill with deferred developer fee though they intend to apply for other funds and/or seek a reduction in the acquisition price to offset the a portion of the deferred fee.

In addition, OmniNY anticipates that the property will receive the City of Providence's Affordable Housing Tax Rate (8% Ordinance) following the completion of the project's rehabilitation.

The 193 apartments will be available to residents with a range of income levels below 60% of Area Median Income (AMI).

Mr. Shorter then summarized the following modifications the Development team has established since the June 6, 2016 meeting.

5. New HAP rents approved.
6. OmniNY has provided updated schematic drawings and scope of work including \$63,250/unit. Given the review and scope of work, and limited additional resources available for the project, staff feels the scope of work is adequate to sufficiently stabilize and improve aesthetics and functionality of the property.
7. OmniNY has added an additional Assistant Manager to its operating budget to satisfy Rhode Island Housing's management concerns.
8. As the project faces a \$3.1 million gap, Rhode Island Housing has negotiated with the Developer and offered potential solutions.

Mr. Shorter mentioned that the gap in financing is a significant challenge the Developer is working to resolve.

He continued by stating that the loan will be underwritten to the lower of approved HAP rents and market rents. The loan principal is limited by the debt coverage ratio of 1.15, HAP contract, and 90% appraised loan-to-value. If the current mortgage sizing of \$25MM is more than 90% of appraised value, the Developer will have a greater challenge to fill the financing gap.

Since the Developer is not paying a mortgage during the construction period of 18 months, there is approximately \$1,500,000 available per year or \$2,250,000 of available cash from operations. OmniNY's original goal was to close in September to avoid penalties contemplated in the Purchase and Sales Agreement. The Developer is now prepared to close at a later date while working to resolve the gap. OmniNY will pursue supplementary grants to replace its deferred fee through the HOME and/or Housing Trust Fund programs. These programs will not make any awards until October at the earliest and possibly as late as the Spring. OmniNY has also been advised by RIH to renegotiate the Purchase & Sales Agreement given the extensive amount of required rehabilitation.

Barbara Jordan I involves the rehabilitation of existing housing units in fair to poor condition. RIH has maintained its requirement to fully fund the Replacement and

Operating Reserves. An updated capital needs assessment based on the final construction scope of work may require additional replacement reserve funding. Current occupancy of 86% is due to existing condition of the units and poor property management. Based on similar properties, the expectation is that upon completion, the development will have a vacancy of less than 5%.

The current financing plan assumes a balloon mortgage in order to lower the interest rate. The balloon mortgage will require a HUD waiver. However, the proposed revisions to the Risk Share Program recently published in the Federal Register, include provisions for balloon mortgages by right into the program.

A discussion followed where the Committee deemed that the acquisition price is still too high and does not allow for a reasonable contingency for Rhode Island Housing. They felt that under these conditions staff should approach the Developer and renegotiate terms. The Committee was not comfortable with the terms of the request and suggested tabling this item for a future meeting.

The Committee then asked a few additional questions concerning the commitment of the Developer in light of the excess purchase price. Committee Chairman Orth advised staff to focus on the affordability component of development and stress that the parties show some flexibility in discussing the terms and purchase amount. He also felt that it is not the role of Rhode Island Housing to structure financing for the deal; it is the Developer's responsibility to procure funding and explore financing options.

Commissioner Barry inquired as to whether there was a possibility of utilizing HOME funds and other sources to renegotiate the purchase price; however she felt that the matter should be tabled for this meeting.

Commissioner Barry and Chairman Retsinas concurred with Committee Chairman Orth on his thoughts of cooperation and good faith effort of working toward a common goal. If staff is able to reach a compromise acceptable to the Committee, then they are willing to revisit the proposal.

Upon a motion made by Chairman Retsinas and seconded by Commissioner Barry, the Committee voted to table the Approval of Preliminary Commitment of Financing for Barbara Jordan I.

9. Adjournment

There being no further business to discuss, a motion was duly made by Chairman Retsinas and seconded by Commissioner Barry to adjourn the meeting at approximately 4:32 p.m.

Respectfully submitted

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Barbara Fields, Secretary