

Draft

**MINUTES OF MEETING
OF THE TRUSTEES OF THE
AFFORDABLE HOUSING TRUST**

A meeting of the Trustees of the Affordable Housing Trust Fund of Rhode Island Housing and Mortgage Finance Corporation was scheduled for Thursday, August 18, 2011 at 9:30 a.m. at the Offices of the Corporation, 44 Washington Street, Providence, RI.

Trustees in attendance were Richard Godfrey, Thomas Hogg and James DeRentis. Michael Milito, Deputy Assistant Director of Law and Human Resources and Anne Berman, Assistant Director of Development were also present.

Pursuant to Chapter 46 of Title 42 of the General Laws of Rhode Island, notice of the meeting of the Trustees was posted in the Offices of Rhode Island Housing, and at the first floor bulletin board in the State House.

The Trustees convened the meeting at approximately 9:50 a.m.

Approval of Minutes of the Affordable Housing Trust Fund Meeting of April 21, 2011

Upon a motion made by Mr. Hogg and seconded by Mr. Godfrey, the following was approved:

VOTED: That the Minutes of the Affordable Housing Trust Fund Meeting held on April 21, 2011 be, and hereby are, approved.

Firm Approval of Financing for Woonsocket Village and Village West Apartments

Mr. Godfrey made this presentation.

This Request for Action (RFA) is for firm approval of a loan from the Affordable Housing Trust (AHT) for Woonsocket Village/Village West Apartments.

Atlantic Development, LLC (“Atlantic”), a for-profit housing real estate development and investment company based in Kittery, Maine, proposes the acquisition and rehabilitation of Woonsocket Village and Village West Apartments (collectively, the “Development”), two adjacent family developments in Woonsocket, Rhode Island. This financing will preserve 122 existing affordable apartments while greatly improving the quality of life, safety and security of the residents.

Woonsocket Village was developed in 1975 under the FHA Section 236-mortgage insurance and interest subsidy program. Though not the original lender, Rhode Island Housing is the current mortgage holder of the original 236 loan. The site is an 87 unit family development consisting of 30 one-bedroom, 30 two-bedroom, 22 three-bedroom and 5 four-bedroom units located at 170 Cumberland Street. Woonsocket Village has project based Section 8 assistance pursuant to a

Housing Assistance Payment (“HAP”) contract. The developer is seeking a renewal of the existing HAP contract with a 20-year term and rent adjustment to market levels.

Village West, built in 1982 with financing from Rhode Island Housing, is a 35-unit family development located at 182 Cumberland Street, and contains 10 one-bedroom, 19 two-bedroom and 6 three-bedroom units. It also has a project based Section 8 HAP contract which runs through 2012 with rent levels that are close to current market rents.

The two developments are currently owned by the same developer. Although the existing Section 236 first mortgage for Woonsocket Village will not mature for another 6 years, it is eligible for pre-payment as discussed below. The first mortgage for Village West was fully paid in July of 2006. Though currently separate developments, the two will be considered as one Development moving forward.

Both sites meet the basic needs of its target population for accessible and convenient housing, but the properties suffer from substantial deferred maintenance particularly Woonsocket Village, where the current rents are well below market, generating insufficient surplus cash to undertake any improvements except for immediate repairs for many years. The buildings are 35 years old and require significant rehabilitation. The site is serviced by an underground central heating system that is outmoded and requires replacement. The proposed transaction would enable Atlantic to implement significant capital improvements to the buildings and to bring in a new management team to operate the development.

Atlantic proposes to purchase the existing developments and extensively rehabilitate them in order to significantly improve the living conditions including interior and exterior conditions as well as safety and security at each development. The target population will remain family households with incomes below 60% of median income, though the Section 8 contract allows the Development to serve residents with much lower incomes. No displacement is anticipated as a result of the rehabilitation. Accommodations will be made for residents who may be out of their units during the work day. The owners will sign a 40-year use agreement ensuring long term affordability.

The Sponsor intends to undertake approximately \$5 million in rehabilitation or \$40,000 per unit. Rehabilitation plans call for complete new exteriors including roofing, windows, doors and extensive site work and drainage improvements. Interior plans will include mechanical and electric upgrades, fire protection improvements, kitchen and bathroom renovations and upgrades to meet ADA requirements. The scope of rehabilitation work also includes improving ventilation, insulation and moisture protection to ensure long term viability. An inefficient heating and domestic hot water system at Woonsocket Village will be replaced with a modern energy efficient system. Working with the Woonsocket police, Atlantic will make improvements to the security system to address chronic security problems that have plagued the site.

Since Preliminary Approval of Tax Exempt Financing in April of 2011, the development team, including the project architects and the proposed contractor, has engaged in a value engineering process allowing for an increased rehabilitation scope within existing budget constraints. Consistent with recommendations from a recently commissioned Capital Needs Assessment, a revised rehabilitation program calls for kitchen renovations for all 122 apartments rather than the 45 apartments which were included in the original scope of work. In addition, defined

outdoor patio spaces and additional security measures have been added to enhance the safety and quality of life for the families who reside at the Development

In addition to an AHT Loan, the primary sources of financing for the transaction include a 40 year tax exempt first mortgage based on the lower of current (or approved) HAP rents or current market rents determined by a Rhode Island Housing commissioned appraisal. Sized at \$7.48 million, the new first mortgage will replace a small existing Rhode Island Housing mortgage, adding a valuable asset to Rhode Island Housing's loan portfolio. Federal law allows pre-payment of existing 236 mortgages and allows the owner/purchaser to use the remaining Interest Reduction Payments ("IRP") to capitalize a new mortgage. A 5 year second mortgage will be capitalized based on the remaining IRP payments and will be supported by the IRP contract. Other sources include equity from the sale of 4% housing tax credits (HTCs), a deferred developer fee, and cash flow from the operation of the property during rehabilitation.

With the improving HTC market and renewed interest in Rhode Island development projects, the Sponsor has identified Boston Capital as the HTC syndicator for this transaction. Boston Capital, which has previously invested in Rhode Island Housing financed developments, has provided a letter of intent expressing its interest in investing in the HTCs that result from the proposed tax exempt financing in this transaction. Boston Capital will require that the operating reserve be increased by approximately \$500,000 to secure against the unlikely event that the Section 8 subsidies were reduced or eliminated. However, after the first seven years of stabilized operation, Boston Capital will authorize an incremental release of a portion of their reserve funds which will be available to repay the AHT loan. In addition, 50% of the available cash flow on an annual basis will be used to repay the AHT loan with full repayment anticipated in less than 15 years.

At a per unit investment of approximately \$6,150, funds from the Affordable Housing Trust will help to significantly improve the physical surroundings and the long term viability of this important family housing resource. This RFA is for Firm Approval of an Affordable Housing Trust Loan in an amount up to \$750,000 as part of the new financing for the Development.

A brief discussion followed the presentation. Mr. Hogg inquired to repayment terms of the reserve funds. Ms. Berman responded that the availability of repayment of reserve funds was anticipated to commence within 7 years or less.

Upon a motion made by Mr. Godfrey and seconded by Mr. Hogg the following resolution was unanimously adopted:

**Resolution of the Board of Trustees
of The Affordable Housing Trust Fund**

Whereas: The Affordable Housing Trust Fund (the "Trust") is authorized to make loans to mortgagors or sponsors for the development of housing to be occupied by low- and moderate-income persons or families in Rhode Island;

Whereas: The applicant ("Applicant") listed below has presented an application to the Trust requesting a loan to acquire and rehabilitate the buildings known as Woonsocket Village/Village West Apartments as set forth below (the "Development"):

<u>Development</u>	<u>Applicant</u>	<u>Trust Loan</u>
Woonsocket Village/Village West Apartments	Atlantic Development, LLC	\$750,000

Whereas: Trustees have reviewed the submission and determined that the Development qualifies for a loan under the Trust Agreement dated July 1, 1988, as amended; and

NOW, THEREFORE, IT IS HEREBY:

Resolved: That, subject to the special conditions listed below, the Trust hereby declares firm commitment of a loan to Atlantic Development, LLC or an affiliated limited partnership (“Borrower”), in an amount not to exceed \$750,000 for rental housing located in Woonsocket, Rhode Island;

Resolved: That the foregoing resolutions are subject to the following conditions:

- Approval, closing and disbursement of financing from Rhode Island Housing Mortgage and Finance Corporation;

Resolved: That the Trustees are authorized to set the terms and conditions of the loan as they seem advisable and in the best interests of the Trust, and be, and are hereby authorized to take any actions as they deem necessary to carry out this Resolution.

There being no further business, a motion to adjourn the meeting at 10:01 a.m. was made by Mr. Hogg and seconded by Mr. Godfrey.

Respectfully submitted,

Richard Godfrey,
Secretary and Executive Director