MINUTES
COMMUNITY DEVELOPMENT
AFFORDABLE HOUSING ADVISORY BOARD MEETING
DOWNTOWN LIBRARY—MEETING ROOM A
WEDNESDAY, MAY 11, 2016, 4 P.M.

Members Present: Frank Adams, Jon Carroll, Shawn Pritchett, and Kate Parker (exoffico)

Members Absent: Annie Brokenleg, Robert Hodgson, and Gayleen Riedemann

Also Present: Les Kinstad, Matt Cerny, and Al Roettger, Community Development staff

AGENDA

1. **CALL TO ORDER**
Jon Carroll called the meeting to order at 4:05 p.m.

2. **ADDITIONS OR DELETIONS TO THE AGENDA**
There were no additions or deletions to the agenda.

3. **APPROVAL OF THE MINUTES FOR THE MEETING OF OCTOBER 28, 2015**
Due to lack of quorum, the minutes for the meeting of October 28, 2015, and March 23, 2016, were unable to be approved.

4. **OLD BUSINESS**
There was no old business to discuss.

5. **NEW BUSINESS**
   a) **Horizon Place/Cumberland Acquisition Loan**
   Les distributed a photo of the Horizon Place project to all attendees for their review (see attached Exhibit A). Les said the application for Horizon Place was submitted by Inter-Lakes Community Action Partnership (ICAP) as an expansion of their Bright Futures program. Due to changes in the program, Inter-Lakes is only able to pay fair market rent and they are having difficulty finding landlords accepting fair market rent. Community Development currently funds the Bright Futures program and related programs for housing homeless or near-homeless families.

   Les stated he received four comments/questions via email from Gayleen Riedemann who was unable to attend today's meeting (see attached Exhibit B). Her first thought on the project was that there is a huge need for more three-bedroom units that are affordable for low-income families, which this project will address. Les agreed and concurred that three-bedroom units are in short supply, and both Community

Development and the Board welcomed the three-bedroom units being proposed in this project.

Gayleen's next question was that she liked the idea that there will be case management for the tenants but wanted to know what happens if they get into an apartment, but fail the Bright Futures program. Also, will they have to show they are working the program before they get to move in? Les's response was a primary requirement for being accepted into the Bright Futures program and for staying in the program, is full compliance with the program requirements including completion of the life skills course, securing employment, and acceptance and participation in the case management part of the program. If they are noncompliant with any of those requirements, they must exit the program.

Gayleen also asked if this is an existing complex, why all of the developer fees, etc. Les said the developer fees both for new and also for existing rehabilitation projects are the rule in development of affordable housing projects. Reponses Les received from Lorraine Polak from SD Housing and a consultant, Hoby Abernathy, revealed their perspectives show that 12-15 percent developer fees are allowable by SD Housing Development Authority and typically in the industry as a whole (see attached Exhibits C and D). Shawn Pritchett from Costello Companies also stated that affordable housing projects generate little bottom-line cash flow due to an attempt to keep the rents low. Therefore, without the normal bottom-line returns to investors in these projects, the profit incentive necessary to attract companies willing to take the risk takes the form of developers' fees.

The proposed rents in this project are compressed and will all be in the 30, 40, and 50 percent (MFI) median-family income in lieu of 60 percent, which will enable the City to stretch their dollars.

After reviewing ICAP's application, Gayleen was also concerned about the high apartment rehabilitation costs of $20,000. Les said he did some research on the project, and the rehabilitation includes more than just cosmetic improvements. In addition to paint, cabinets, woodwork, and appliances, the project also includes new windows, roofs, siding, and replacement of the boiler systems for the associated buildings. In addition, replacement of some of the concrete work and parking lots outside the buildings and relandscaping is also included.

After a brief group discussion, Jon Carroll proposed an informal poll on the Horizon Place/Cumberland project with the Board members in attendance at today's meeting since there was no quorum present. Frank, Shawn, Kate, and Jon unanimously indicated they were in favor of the Horizon Place Apartments/Cumberland project. All Board members felt the project was a positive effort to further address affordable housing in the community.

6. **OTHER BUSINESS**
   There was no other business to discuss.

7. **ADJOURN**
   Upon motion by Les Kinstad, the meeting adjourned at 4:25 p.m.

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Secretary

Exhibit A

Exhibit B

From: Kinstad, Lester
Sent: Thursday, May 12, 2016 10:28 AM
To: Gayleen Riedemann

Subject: RE: Horizon Place Apts - Loan Application
Attachments: 5-1-16 Lorraine Polak Email r.e. Developers Fees.msg.pdf; 5-2-16 Hoby Abernathy Email r.e. Developers Fees.msg.pdf

Gayleen:

We held the AHAB meeting yesterday and the group felt the project was a positive effort to further address affordable housing in the community. The agreement will now move on through the various steps for final approval.

We did address the four observations that you made in your email below. I will summarize the information I was able to gather and transmit to the committee. My comments will be in bold blue letters below.

Thanks,
Les

From: Gayleen Riedemann
Sent: Thursday, May 05, 2016 9:40 AM
To: Kinstad, Lester
Subject: Re: Horizon Place Apts - Loan Application

I don't think I will be able to attend the meeting next week. Here are my thoughts on the project:

1. There is a huge need for more 3 bedroom units that are affordable for low income families which this project will address.
   - **As we have discussed before, we concur that three bedroom units are in short supply and both our office and the committee welcomed the three bedroom units in this project.**

2. I like the idea that there will be case management for the tenants. What happens if they get into an apartment, but fail the program? Or will they have shown they are working the program before they get to move in?
   - **A primary requirement for being accepted into the program and for staying in the program is full compliance with the program requirements including completion of the life skills course, securing employment and acceptance and participation in the case management part of the program. If they are non-compliant with any of those requirements, they must exit the program.**

3. If this is an existing complex, why all the developer fees, etc?
   - **Developer fees both for new and also for existing/rehab projects are, generally speaking, the rule in development of affordable housing projects. I have attached copies of emails from Loraine Polak at the SD Housing Authority (SDHDA) stating their policy and also from a**

consultant (Hoby Abernathy) who has helped develop dozens of projects over the past 15 years. Their perspectives show that 12-15% developer fees are allowable by SDHDA and typically in the industry as a whole.

Shawn Pritchett from Costello Companies also made the point that affordable housing projects generate precious little bottom line cash flow due to an attempt to keep the rents low (in this project, only $15K on $300K annual revenue).

Therefore, without the normal bottom line returns to investors in these projects, the profit incentive necessary to attract companies willing to take the risk takes the form of developers fees contingent upon the project becoming a reality. It should also be noted that the developer fees for this particular project are below the "norm" of 12% and come in at 9.6% of the total project cost.

4. I cannot believe it takes over $20,000 to rehab an apartment. I could do it for under $10,000 which would include new carpet, paint, new plumbing fixtures and new appliances. I redid a couple of 2 bedroom apartments last year with new doors and cabinets for around $12,000. You can make apartments look really nice with paint and new flooring. These clients generally don't take good care of things, so putting in first class finishes doesn't pay. What else are they planning to do to justify that kind of cost?

- I did some research on the scope of the project and as I suspected, the "rehab" includes more than cosmetic improvements. In addition to paint, cabinets, wood work appliances, etc etc – the project also includes new windows, new roofs, new siding, replacement of the boiler systems for the buildings and new water heaters. In addition, replacement of some of the concrete work and parking lots outside the buildings and re-landscaping to prevent pooling of water next to the foundations of the building is also included. With those broad scale improvements, we felt and the committee concurred that the cost of $23,800 per unit was not unreasonable.

Exhibit C

From: Lorraine Polak >
Sent: Sunday, May 01, 2016 8:33 AM
To: Kinstad, Lester
Cc:
Subject: HOME underwriting

Hi Les,
Sorry I didn't get you called on Friday. I will now be out of the office until Thursday so I wanted to send this to you.

For both HOME and Housing Tax Credits, we use the following criteria for developer's fee. We allow up to 12% for the larger developments, but we calculate it a little differently by using total costs less the developer's fee.

If you have any questions regarding our calculation please contact Stephanie Pierson or Scott Rounds for further clarification. Thank you!

Developer's Fees: The developer of a HOME project will be entitled to a Developer's Fee not to exceed 15 percent of the total project costs minus Developer's Fees and Consultant's Fees for projects of 16 units or less and not to exceed 12 percent of the total project costs minus Developer's Fees and Consultant's Fees for projects of 17 units or more. For purposes of the foregoing limitations, "total project costs" do not include any costs that exceed the Project Cost Limits. The Developer Fee will be limited to the fee calculated at the time of Board reservation.

Developers may choose to defer their Developer Fee. The amount of deferred Developer Fee or owner equity presented in the application will be underwritten as a project financing source. The submitted pro forma must evidence sufficient project cash flow after all debt service applied, with repayment of the deferred Developer Fee within the first twelve years of operation.

Lorraine Polak, Director
Rental Housing Development
South Dakota Housing Development Authority

Exhibit D

From: Hoby Abernathy
Sent: Monday, May 02, 2016 10:08 AM
To: Kinstad, Lester
Cc:
Subject: RE: voicemail

Hi Les,
I believe that using annual payments over 30 years would be appropriate, so I think you're on the right track. I've submitted some draft numbers to Lorraine for her feedback, but she's out of the office this week until Thursday so I doubt if I'll hear anything back until late this week.

That's an interesting perspective on the developer fee, and one we hear every so often, but it usually comes from someone who has not sat in the developer's seat before and views the developer fee line item as simply pure profit, without completely understanding the vast amount of risk, cost, time, and effort involved in developing a project.

I saw the response that you received from Lorraine, and how the developer fee is limited is exactly how I calculate it for this and all other projects. I can't recall a project that has requested less than the limit, and in talking with Cindy Koster from MHEG, who sees dozens and dozens of tax credit projects, says that she sees the same across the board. In fact, for a rehab project like Horizon Place, she says that she more often hears that the fee isn't enough, due to the increased risks involved with a rehab vs. new construction.

There are some good arguments for keeping the developer fee at the maximum allowed...first, because the fee is included in the eligible basis, it actually generates more tax credit equity for the project. Also, as in the Horizon Place project, a portion of the developer fee can be deferred and utilized as a source for the project. I believe that this is viewed in a positive light by lenders and investors...it shows that the owner has some "skin in the game" and that the owner/developer is in for the long haul.

As you've been a developer, I'm sure you're familiar with the risks involved; if a project is unsuccessful in being funded, the developer has to absorb all the pre-development expenses that they have incurred prior to submitting an application, such as a market study, soils testing, legal fees, application fees, etc. Also, if the unforeseeable happens and project expenses exceed the budgeted amounts and contingencies are used up, cost overruns are taken out of developer fees...yet another risk.

Anyway, we are happy to discuss this in more depth in our call tomorrow morning. In the meantime, please feel free to contact us if you have any questions.

thanks,
Hoby