Manatee County HFA 2019: Analysis of Palmetto Senior Application

Name	**Palmetto Senior**
*Owner Entity**	Palmetto Leased Housing Development I, LLC
Developer/Location	Dominium Development Plymouth, MN
Type	New Construction Mid-Rise
Street Address	705 Haben Boulevard Palmetto
Units	221
# of Buildings	1
# of Stories	Design not complete
Bond Request	$22,500,000 $101,810/unit
Total Cost	$42,230,678
Cost Per Unit	$191,089
Land Cost	$2,100,000 $9,502/unit
Acquisition of Building Cost	NA
Hard Construction Cost	$25,454,911 $115,181/unit
General Contractor	TBD
Credit Enhancement	Long-Term Bonds/Freddie Mac structure; no details
Set-Aside Period	15 years
Set-Aside Levels	100%<60% AMI

I. Background:

1. A preliminary bond application has been submitted to the HFA for Palmetto Senior Housing in Palmetto. This is a new construction senior development by Dominium Development. The HFA application fee has not been paid. Before formally beginning the process, the developer asked that we discuss the Board's interest in granting the waiver the developer says is a prerequisite for pursuing the financing—reduction of the affordability period.

2. The HFA requires an affordability period of 50 years. Long-term affordability is one of the most important, if not the most important, public policy criteria. The reasons for this are numerous, but can be summarized by the fact that developers receive significant public subsidy and fees—and losing a property in 15 years to market rate rents is little more than a very short-term fix. The cost of replacing the units will be much greater in the future, and the availability of suitable land at a reasonable cost even more problematic. To put this in a "time perspective", a property financed with only a 15-year affordability period after 9-11 would now be market rate.

3. Most new construction developments require either 9% Housing Credits, or for bond financing, SAIL or another significant subordinate debt from the public sector. At this point, we are unaware of any new construction development that does not have SAIL or equivalent.

4. Palmetto Senior is proposing to proceed using only bonds and the associated 4% Housing Credits. In exchange, they are requesting that the HFA require only a 15-year affordability requirement.

5. The development (complete application not received) appears as if it will meet other HFA requirements.

6. Before proceeding through the process, the developer wanted the Board to consider the waiver request. The MF Guidelines allow the Board to grant waivers.

7. The initial FA analysis concludes that Dominium to be an experienced developer, and there are no concerns related to their capacity to build and manage the property. All aspects of the development and developer would be reviewed and approved by the HFA's credit underwriter if the development is invited to proceed.

II. Current Situation:

1. The initial application included 40 three-bedroom units out of 221 total units—unusual for any senior development. The developer has agreed to reduce the number of these units to no more than 33 units (15%).

2. The development's pro forma shows no property taxes being paid, which would require involvement by a yet-unidentified not-for-profit entity. This equates to a public subsidy of $280,000 per year.

3. The sources and uses show a $1.3 million "Capital Improvements Above Replacement Reserves" line item. The developer proposes that these funds be fully controlled by them, with the ability to utilize for capital improvements or payment of deferred developer fee—without any review or approval by the HFA's servicer.

4. The developer's sources and uses shows $6.2 million of the $6.4 million developer fee as deferred (to be earned from cash flow).

5. After concerns were raised about the short affordability period, particularly the potential public relations nightmare of kicking low income elderly out of their homes when the property converts to market rate housing, the developer offered to grandfather persons living in the property at conversion for up to five years. When pressed to offer the grandfathering provision without a time limit, the developer declined to make the offer.

6. The developer presented a 50-year pro forma, showing that the cash flow goes "under-water" in 2045. Of course, this is not verified by the HFA's credit underwriter, and any pro forma can be shown to have positive or negative cash flow simply by manipulating the rate of increase of income and expenses.

7. The basic premise of the developer is that long-term affordability is feasible only if significant SAIL or another public subsidy is received. From a Financial Advisor's perspective, SAIL would be used primarily to pay developer fee, freeing cash-flow for distribution to the developer or use in rehabilitation or recapitalization rather than payment of deferred fees. When pressed to offer more than 15 years, the developer declined—stating that it is "likely" the development would remain affordable, but that they needed a "circuit breaker" to allow them to convert to market rate rents if the deal was actually experiencing negative cash flow.

III. **Conclusion**

1. The Board needs to determine if it will waive the 50-year affordability period, and if yes, what time period would be acceptable. The fifteen-year proposal meets the minimum requirement of federal law, but does little to assist the community or seniors long-term.

2. If the waiver is granted, determine if any additional protections would be required for low-income seniors to protect them from eviction or significant rent increases when the property converted to market rate. The five-year option only delays the problem, and would impact seniors when they were older and less able to cope financially or physically with a forced move-out.

3. The Capital Improvements Above Replacement line item needs review. Generally, the HFA does not advance $1 million to a developer for unspecified repairs.

4. If the Board does grant some affordability period waiver, it is important to not a set a precedent that this is available across the Board.