mesa·az
OFFICE OF THE CITY CLERK

COMMUNITY & CULTURAL DEVELOPMENT COMMITTEE

January 8, 2015

The Community and Cultural Development Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on January 8, 2015 at 8:02 a.m.

COMMITTEE PRESENT	COMMITTEE ABSENT	STAFF PRESENT
David Luna, Chairman	None	Christopher Brady
Dennis Kavanaugh		Natalie Lewis
Dave Richins		Alfred Smith
		Dee Ann Mickelsen

(Items were discussed out of order, but for purposes of clarity will remain as listed on the agenda).

1. Items from citizens present.

There were no items from citizens present.

2-a. Hear a presentation, discuss and make funding recommendations to the Council for the City's FY 2015/2016 HOME Investment Partnerships (HOME) rental project requests.

Housing and Community Development Department Director Tammy Albright introduced Assistant Police Chief John Meza, who was prepared to address the Committee. She explained that Chief Meza was selected by the City Manager's Office as one of three internal applicants, each of whom will shadow her for one month in order to gain an understanding of the various functions of the Housing and Community Development Department. She stated that once the applicants have completed their rotations in the Department, the City will recruit candidates nationally for her position since she will be retiring in July of this year.

Chief Meza displayed a PowerPoint presentation **(See Attachment 2)** and discussed the 2014 Council-approved funding for the HOME Investment Partnerships (HOME) Program. He reported that $1.2 million was approved for rental projects; $300,000 for a Community Housing Development Organization (CHDO) to offer a homebuyer program; and $80,000 for a homebuyer assistance program.

Chief Meza highlighted a diagram illustrating Mesa's HOME funding cycles for FY 2012/13 through FY 2015/16. (See Page 3 of Attachment 2) He noted that for FY 2015/16, staff anticipates a 5% to 10% reduction in HOME federal funding, which would equate to approximately $990,000.

Responding to a question from Committemember Richins, Ms. Albright clarified that staff anticipates "level funding" with the $990,000.

Chief Meza remarked that staff was seeking input from the Committee relative to staff's funding recommendations for the HOME rental projects to be forwarded on to the Council for approval. He pointed out that the total rating of each application consisted of a detailed 10-page rating tool. He also said that a technical review and rating by staff is weighted at 70 points and added that a presentation review by the Housing and Community Development Advisory Board (HCDAB) is weighted at 30 points.

Chief Meza further referenced a chart titled "HOME FY 2015/16 Tax Credit Applications for Funding," which illustrates the applications that staff has recommended for funding. (See Page 5 of Attachment 2)

Chief Meza also reported that pending the City's anticipated reduction in HOME federal funding for FY 2015/16, staff would recommend the following scenario:

- Upon a 10% reduction, reduce the two lowest-rated commitments to 2% needed for City participation points
- Any federal reduction should reduce the rental housing allocation, but not CHDO homeowner funding
- Fully fund projects awarded the FY 2015/16 Low Income Housing Tax Credit (LIHTC) should only a few be approved

In response to a question from Committeemember Kavanaugh, Chief Meza clarified that if, for example, Sycamore Station or El Rancho Apartments Phase II were awarded tax credits, they would receive full funding.

Ms. Albright pointed out that although staff has outlined recommendations for level funding, as well as up to a 10% reduction in federal funding, the City can only fund what the applicant actually needs as reflected in the entity's subsidy layering and financial review. She stated that this is a pre-award process, which allows staff to move forward with issuing support letters to the applicants. She explained that the U.S. Department of Housing and Urban Development (HUD) requires that the City complete, among other things, an environmental assessment and comply with all other federal pre-award requirements prior to moving forward with a contract. She added that completion of the contract constitutes the official award.

Responding to a question from Committeemember Richins, Ms. Albright confirmed that the above-noted process is in advance of an entity applying for the LIHTC.

Ms. Albright, in addition, explained that staff would recommend that the pre-award be approved only for those projects that are awarded the FY 2015/16 LIHTC. She clarified that those agencies that are not successful in this regard must reapply in FY 2016/17. She added that the Council has the discretion to recommend that the pre-award be approved for two years, but cautioned that the City has various expenditure requirements imposed by HUD.

Ms. Albright also indicated that per the City's current policy, any approved contracts would be at a 0% interest rate. She noted, however, that as a result of the Committee's earlier discussion regarding agenda item 2-b, staff will reconsider this issue.

Committeemember Kavanaugh expressed appreciation to staff for their efforts and hard work relative to this matter. He also commended the applicants for the work they have completed on their respective projects.

Committeemember Richins stated that the projects themselves are "the right projects structurally to fit with the City's vision." He noted, however, that he has concerns regarding the financing related to the Sycamore Station application. He stated that The Hub at Mesa Lofts and Sycamore Station are both targeting similar tenants and situated within a block of each other. He also remarked that The Hub at Mesa Lofts has not yet completed its market study. He commented that oftentimes, market studies do not take into consideration other projects being proposed or currently under construction. He indicated that if an area is "saturated" with affordable housing, he would worry about the long-term performance of those two projects.

Committeemember Richins, in addition, offered the following comments: that the City is restricting the projects to 60% of the median income; that the LIHTC does not allow for student housing; and that Sycamore Station and The Hub at Mesa Lofts are prime locations for student housing along the light rail corridor. He questioned whether the City "had its head around the market we are creating." He also acknowledged that the City has invested in some outstanding LIHTC projects, but noted that now it is becoming the only financing source with which to do projects. He suggested that there is not an unlimited market for affordable housing and stressed the importance of the City considering more of a "mix" of different types of housing in the downtown core.

It was moved by Committemember Kavanaugh, seconded by Chairman Luna, that staff's recommendations be forwarded on to the full Council for discussion and consideration.

Upon tabulation of votes, it showed:

AYES – Luna-Kavanaugh
NAYS – Richins

Chairman Luna declared the motion carried by majority vote.

Chairman Luna thanked staff for the presentation.

2-b. Hear a presentation, discuss and make recommendations to the Council for the City's FY 2015/2016 HOME Investment Partnerships (HOME) rental project contract loan interest.

Senior Fiscal Analyst Mischelle Durkovic introduced Development Project Coordinator Ray Thimesch, who was prepared to address the Committee.

Ms. Durkovic displayed a PowerPoint presentation **(See Attachment 1)** and stated that staff was seeking the Committee's direction regarding a request to change the interest rate on loans that are provided through the City of Mesa's Community Development Block Grant (CDBG) and HOME Investment Partnerships (HOME) grants.

Ms. Durkovic explained that an agency has requested a change in the interest rate from 0% to 3%, which would provide the agency a taxable write-off. She noted that it was staff's recommendation that the use of the current 0% interest rate continue.

Ms. Durkovic offered brief historical background relative to this matter. Her comments included, but were not limited to, the following: that prior to 2012, the loans that the City funded with CDBG and HOME monies were interest bearing; that due to the fact that several agencies requested that the interest on their loans be waived, the Housing and Community Development Department implemented a policy change in that regard; that public facilities and home ownership programs are permitted to forgive principal and interest; and that interest is permitted to be forgiven on all project types with justification and Council approval.

Ms. Durkovic highlighted a series of steps that staff would be required to take in order to forgive the interest on the loans. (See Page 4 of Attachment 1) She noted, for instance, that it would be necessary for the City to undertake an extensive evaluation of financial statements, subsidy layering pro-forma and underwriting. She commented that in order to accomplish such tasks, staff would issue a Request for Qualifications (RFQ). She added that per the new HOME rules, the owner or project could be charged for the evaluation costs incurred by the City.

Ms. Durkovic also reviewed the City's policy from 2012 to the present as follows:

- Provide no interest loans for all HOME and CDBG loans
- A reduction in staff time and resources has proven beneficial
- 0% interest was noted in past hearings and meetings
- Over 20 loans have been made at 0% interest

Ms. Durkovic further reported that three other agencies have requested an interest waiver on their loans, which would total more than $1 million in interest being forgiven. She explained that staff was currently identifying what federal forms are required since there would be a cancellation of debt. She added that if such a change is implemented, staff would anticipate the three agencies would request the same benefit of changing the interest rate on their loans from 0% to 3%.

Responding to a question from Committeemember Richins, City Manager Christopher Brady clarified that there is, in fact, a tax benefit to the financial underwriters for this interest. He explained that one of the reasons this item was brought forward to the Council is that recently, staff received an application from an agency for the City to forgive the interest on its 15-year loan. He commented that when the loan was approved 15 years ago, the City expected to accrue interest on the loan, which would ultimately be paid. He noted that the interest payment is typically deferred to the end of the term of the loan and yet during that time, there is a tax benefit to the financial underwriters for the interest accruing on the agency's loan.

Mr. Brady, in addition, commented that after going through that experience with the Council in which the City was being sensitive to "creating the expectation" that there would be an interest rate on a loan that would accrue and ultimately be paid, the City forgave a million dollars in interest. He pointed out that typically, the City has not collected the interest on these loans. He added that the applicant will approach the City some time later during the term of the loan and ask for the interest to be forgiven, which the City has agreed to do.

Mr. Brady further remarked that in order to "manage those expectations," staff implemented a policy to eliminate the interest rate on the loans and require that the agency make principal payments only. He noted, however, that staff has determined that the developers would prefer interest-bearing loans in order to receive the tax benefit as previously mentioned. He added that

certain developers have informed staff that they have already been approved for interest-bearing loans, which would assist them in moving forward with certain projects.

In response to a question from Committeemember Richins, Mr. Thimesch clarified that the agency that requested a change in the interest rate from 0% to 3% would receive a tax benefit of approximately $50,000.

Responding to a question from Committeemember Richins, Mr. Brady explained that in his opinion, what the proposal would suggest is that "it makes it more attractive" for the developer if the entity is charged interest on the loan as opposed to having a 0% interest rate. He acknowledged that it was somewhat counterintuitive, but reiterated that it was to the developer's advantage to receive the tax benefit with an interest-bearing loan. He further stated that with respect to this particular request, he was informed by the developer that they did not expect to pay the interest on the loan and would anticipate coming back to the City in 15 years to request that such debt be forgiven.

Committeemember Kavanaugh indicated that he was not opposed to staff's decision to implement an interest-free loan policy. He stated that the Committee has learned about such a decision for the first time at this meeting and suggested that it might have been appropriate to make a presentation to the entire Council to ask for more specific direction.

In response to a question from Committeemember Kavanaugh, Mr. Thimesch explained that the first phase of the project in question was not funded with HOME monies.

Committeemember Kavanaugh suggested that it might be helpful for the Committee to hear from Charles Huellmantel to explain the developer's reasons for the pending request. He stated that it was his understanding that if the developer was required to revise all of the agreements, it would result in a six-month delay in construction. He also noted that this was a unique case and suggested that when requests such as this come up from time to time, that they be reviewed on an individual basis to determine whether it was in the best interest of the community to offer the additional financial incentive.

Mr. Huellmantel, an attorney with Huellmantel and Affiliates, stated that he was one of the partners in the Encore on First project, Phase II. He concurred with Mr. Thimesch's comment that financing for the first phase of the project was acquired through means other than HOME monies. He stated that if the City does not grant the request to change the interest rate from 0% to 3% for the HOME loan, it will be necessary for the developer to renegotiate with the individual who will purchase the tax credits, which will result in a delay in construction.

Mr. Huellmantel explained that investors who purchase tax credits do so for a variety of reasons, some because it is part of their corporate structure and others who find financial benefit in doing so. He explained that in this particular case, his firm has already negotiated with the investor who will purchase the credits and noted that the agreement assumes the interest as part of the purchase.

Mr. Huellmantel also commented that he and his partners "believe in Mesa," endeavor to partner with the City and do not want to place an undue burden on staff. He stated that if his firm can assist staff in completing the various steps they must undergo in order for the City to forgive the loans, they would be happy to do so.

Mr. Huellmantel further remarked that he and his partners are ready to move forward with Phase II of the project and noted that the issue of charging 3% interest for the HOME loan is a pivotal element in this process. He stated that in order to make the project work, it was necessary for the partners to deal with "a significant and savvy investor." He pointed out that although it is a major project for him and his partners, that is not the case with the investor. He commented, however, that in his opinion, it is "a big deal" for downtown Mesa and the future residents of the site. He added that it is a fairly small modification for the City to make in order to make the project happen.

In response to a question from Mr. Brady, Mr. Heullmantel clarified that at the present time, he was unable to quantify, from a financial investor's perspective, the difference between an interest-bearing loan versus a non-interest bearing loan. He noted, however, that he would be happy to work with City staff to address the matter.

Mr. Brady acknowledged that Mr. Huellmantel and his partners anticipated having an interest-bearing loan for their project. He stated that he would like to see the project "get off the ground" as soon as possible and would support the City trying to find a solution to assist him in that regard. He also indicated that he was unsure whether the City could allow the change in interest rate separately for one application and suggested that Mr. Huellmantel work with his office to address this matter. He added that perhaps it might be beneficial for the City to maintain interest-bearing loans in order to create another level of incentive and attract different types of investors.

Mr. Huellmantel responded that he would be happy to invite some investors to participate in the meetings with City management in order to provide a clear understanding of the process from their perspective. He also pointed out that the investor would receive a tax benefit of approximately $50,000, but not him or his partners. He added that although he does not know what will happen 15 years from now, it is likely that someone associated with the project will request that the City forgive the interest on the loan.

Committeemember Richins commented that he has served on this Committee for approximately six years and indicated that the theme that has emerged is accomplishing transformative community projects, including things that "make a difference on the landscape" both to the residents and the agencies that are operating projects. He noted that the second goal was to alleviate staff's burden with respect to monitoring small CDBG and HOME contracts that were very time consuming. He stated that he would hate for the Housing and Community Development Department, which is already understaffed and overworked, to incur additional burdens.

Committeemember Richins remarked that he would prefer to see staff maintain a level of flexibility with regard to the interest rates. He stated that while some projects might need a 0% interest rate in order to be successful, other projects could benefit from an interest-bearing rate. He further commented that it was important to recognize that the City has the ability to charge fees for staff's work and added that he was confident that the fees would be reasonable and not jeopardize a project from moving forward.

Mr. Brady restated the Committee's direction as follows: that staff will work with Mr. Huellmantel to get the Encore on First, Phase II project "back on track" and move forward with the interest rate assumption on the loan; that staff will research whether such flexibility, as suggested by

Committeemember Richins, could be incorporated into the City's policy; and that staff will report back to the Committee with their findings.

Committeemember Kavanaugh remarked that the deals that are coming back with the developers requesting waivers of interest were some of the first deals that the City made. He stated that at that time, the City was under the impression that it was going to get paid the interest on the loans. He also noted that there was no warning to staff or the Council that the developers would come back and ask for a waiver. He commented that as one of the Councilmembers who approved the prior deals, in his opinion, he felt he was lied to. He added that as the City sees more experience with the agreements it has done in the past, similar requests may well become a common practice.

Chairman Luna thanked his colleagues for their historical perspective with respect to this item. He commented that the City wants to work with developers to ensure their projects are successful and thanked staff for their efforts and hard work in this regard.

Mr. Huellmantel clarified that he did not want his previous comments misconstrued. He stated that he was proud of the Encore on First project, which would not have occurred without the support of the Council, Mr. Brady and his staff. He added that he appreciated the Council considering such requests on an individual basis.

Chairman Luna thanked staff for the presentation.

3. Adjournment.

Without objection, the meeting adjourned at 8:39 a.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Community and Cultural Development Committee meeting of the City of Mesa, Arizona, held on the 8th day of January, 2015. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK

pag
(attachments – 2)

Interest on Loans for CDBG and HOME funded projects

mesa·az

Presentation to Community and Cultural Development Committee – January 8, 2015

Why we are here?

- Request received to charge 3% interest on a HOME loan, compounded annually.
- Staff has recommend continued use of 0% interest.
- Asking direction from the Cultural and Community Development Committee on applying interest to loans funded with CDBG and HOME funds.
- Would required a change in current City Housing and Community Development loan practice.

Background

- Loans provided prior to 2012 were interest bearing.
- Most loans only accrue interest but make no payments until maturity.
- At maturity, all have requested forgiveness of the principal and interest. Over one million in interest only has been forgiven to date.
- Only Public facilities and home ownership programs are permitted to forgive both the principal and the interest.
- Interest is permitted to be forgiven on all project types with justification and council approval.

Steps to forgive loan interest

- Provide written justification as to why the interest cannot be paid by the borrower – review of yearly financial statements and audits, determination of why the project was not able to follow their proforma, what factors contributed to their inability to meet their payment obligations, etc.
- Public comment and City Council Approval.
- Revise Promissory Note, Deed of Trust, and Home Loan Agreement.

Policy from 2012 to Present

- Provide no interest loans for all HOME and CDBG loans.
- Benefit - Reduction in staff time and resources.
- 0% interest was noted in past hearings and meetings.
- Over 20 loans at no interest.

If Approval of Policy Change

- We can expect:
  - Request to modify existing loans issued after 2012 and most of the past approved low income tax credit projects that were processed at 0%.
  - Increase in staff time and resources needed.

- Staff recommends denial of this modification.

Questions and Discussion

HOME Investment Partnership (HOME) Program – For Rental Housing Requests

mesa·az

Presentation to Community and Cultural Development Committee – January 08, 2015

Council Approved funding

- $1,210,893 rental projects (can also go to a CHDO doing rental)
- $300,000 (apx 30%) for a CHDO to offer home buyer program (required 15% - $148,500)
- $80,000 for a Home buyer assistances program

Mesa Funding Cycles

Program	2012/13	2013/14	2014/15	2015/16
HOME	$944,491	$907,559	$993,434	**$990,000**

Anticipated at least a 5 to 10 % reduction in HOME federal funding for FY 2015/16

Purpose and Process

- Finalize funding recommendations for HOME **rental** funding for Council approval.
- Technical review and rating by staff weighted at **70pts** of total score.
- Review and presentation score weighted at **30pts** from Housing and Community Development Advisory Board.
- Total available score is **100 points.**

HOME FY 2015/16 Tax Credit Applications for Funding

Funding Source	Applications / Project Name	Request	Staff Recommend
HOME (Rental)	La Mesita Phase III	$250,000	$250,000
HOME (Rental)	The Hub at Mesa Lofts	$350,000	$350,000
HOME (Rental)	El Rancho Apartments Phase II	$300,000	$255,000 (85% of request)
HOME (Rental)	Sycamore Station	$365,800	$274,350 (75% of request)
HOME (Rental)	Mesa ArtSpace	$500,000	$0
HOME	*Subtotal*	*$1,765,800*	*$1,129,350*

Methodology for possible funding reduction scenario

Staff Recommendation:

- Upon a reduction, reduce two lowest rated commitments to 2% needed for City participation points.
- Reduction to come from Rental Housing allocation and not CHDO homeowner funding
- Fully fund projects awarded 2015/16 LIHTC should only a few be approved

HUD requirements

HUD Requirements:

- Can only fund what subsidy layering and financial review outline is needed
- Must complete environmental assessment prior to any contracts
- Must comply with all other federal pre-award requirements prior to contract
- Contract completion constitutes official award

Staff Recommendations

Staff Recommendation:

- Award approved for only 2015/16 tax credit successful projects
- Any approved contracts be for 0% interest only

Questions and Discussion