Memo to: **Brooklyn Housing Authority**

From: **Peter Battles, Eastern CT Housing Opportunities**

Subject: **Applicant "De-briefing", December 23, Tiffany Place Project**

Date: **December 29, 2014**

The purpose of the meeting was for the Department of Housing (DOH) and the CT Housing Finance Authority (CHFA) to advise the Brooklyn Housing Authority (BHA) of the basis for the State's denial of BHA's application for a State-Assisted Housing Portfolio grant to fund reconstruction of the Tiffany Place development.

Attendees: Helen Muniz (DOH), Debra Olsen (CHFA), Jennifer Landau (CHFA architectural/environmental staff – via conference call), Peter Battles (ECHO – representing BHA).

Summary: In general, the "deficiencies" in the application identified by DOH and CHFA were minor and, in this writer's view, could have been dealt with via requests for clarification during the application review period, had the State been inclined to fund the Tiffany project in this funding round. The issues raised can be dealt with in a revised application without "re-inventing' the project. The DOH/CHFA representatives reiterated the State's commitment to the project and urged BHA to re-apply in the next funding round. Although not formally scheduled at this time, it is expected that a Notice of Funding Availability for the next round will be issued as early as January, with an application deadline in late April or May.

Specific Issues Raised:

1. **4% Low Income Tax Credits:** As you are aware, the State is trying to leverage its investment in SSHP properties by maximizing the number of projects that are reconstituted as 4% LIHTC deals. We retained Newcastle Housing Ventures as a sub-consultant to evaluate the possibility of this financing scenario. Newcastle's report, which was included in the application, concluded that no tax credit syndicator would be interested in Tiffany, for two primary reasons: 1) the project is too small, and therefore the credits to be derived too limited, to be of interest to investors; and 2) tax credit projects involve extensive reporting and regulatory compliance issues - failure to comply properly places the credits at risk; therefore, tax credit investors only wish to invest in projects owned and managed by entities with the LIHTC experience and staff capabilities that will ensure compliance and protect their investments.

   My sense is that the State accepts that 4% credits are not a practical alternative for this project, but that they wish us to bolster our argument. They asked that we evaluate 2 possible scenarios for increasing the size of the project: 1) combining Tiffany with Quebec Square as a single project and 2) building new units on the site or on adjacent land owned by, or able to be acquired by, BHA. I cannot imagine a scenario under which HUD would agree to a merger of Tiffany and Quebec Square – presumably Quebec Square was developed as a non-profit-owned development because they wished it to be owned by a single-asset entity. As to land for additional units, there is no space on the existing Tiffany parcels for another building. The land behind the community center parcel is, I believe, owed by BHA but has slope issues. Also, a new building or buildings would have to be designed, and the design approved by the State Historic Preservation Office. There is no pre-development funding remaining for the design work, and I don't believe it could be done before the next application deadline in any case. More importantly, merely increasing the project size does not address the compliance issue, which is easily as important to potential investors.

2. **Hazardous Materials:** The architectural reviewers are looking for clarification and additional back-up as to the possible presence of hazardous materials. One issue is that the hazmat screen found mold in the basement of 29 Tiffany Street and the architectural reviewers did not see an allocation in the construction estimate for its abatement. The application pointed out that this was covered under demolition, but apparently this was missed. The second issue is that we did not present sufficient proof, in their view, that asbestos and lead paint were fully abated during the 1980s renovations. I believe we tried to find records of the 1980s abatement but could not turn them up. We will need look again, and if records cannot be found, we may have to do a more extensive hazmat screen.

3. **Construction Cost Estimates:** The issue of "discrepancies" between our cost estimates and the estimates given in the Capital Needs Assessment produced under contract to CHFA was raised. I explained that the CNA was a "quickie" look at needs whereas our estimates are based on full architecturals. The architectural reviewer characterized our plans and specs as a "solid" set, so I think this is a non-issue.

4. **Soft Cost Budget:** Concern was expressed that the soft cost portion of our development budget was not adequate. Specifically mentioned were: 1) no allowance for cost certification, 2) inadequate allocation for title work given the need for title bring-downs in conjunction with requests for release of grant funds, and 3) no allowance for soft cost contingency. I agreed that the soft cost portion of the budget was tight but argued that we were constrained by a State-imposed requirement that soft costs not exceed 15% of the total development budget. It was suggested that our re-application spell out the reasons why the 15% limit is not adequate and that we request a waiver of the limit.

5. **Administrative Costs – Operational:** In most respects, the State had no problems with the projected operating expenses used in our sustainability plan. However, they do believe the amount estimated for administrative costs (i.e. management) is low, given the per-unit costs experienced at Quebec Square. Therefore, we should increase the administrative cost line item in the re-application.

6. **Rental Subsidy:** A major potential issue with this project from the beginning has been whether rental subsidies would be available. Our application requested rental subsidy for all 27 units based on an assumed tenant mix of two-thirds of the tenants having incomes below 25% of the Area Median Income and one-third having incomes in the lower end of the 25%-50% AMI group. Ms. Muniz stated that the proposed income mix and rental subsidy levels were reasonable and in line with those proposed by other applicants.

7. **Next Steps:** The project has now received $800,000 in HTCCP program tax credit contributions for the rehabilitation of 29 Tiffany Street. We also have received State Historic Preservation Office approval of the architectural plans and specifications for both buildings, which qualifies the project for a reservation of historic tax credits. It is allowable to apply for a reservation of historic credits on a building-by-building basis. The amount on hand in HTCCP contributions, plus historic credits for 29 Tiffany Street, should be more than sufficient to complete renovation of that structure. I have asked the State if there is any objection on their part to us phasing the project and getting 29 Tiffany out to bid and under construction while we re-apply for the remaining funding needed to complete the entire project. Ms. Muniz stated that she would have to run this by her superior; to date, I do not have a response.

   Assuming the State's concurrence, I strongly recommend that we proceed to construction on 29 Tiffany Street, for the following reasons: 1) The HTCCP funding must be fully expended within 3 years of award, and 1 year has already passed on the first contribution without any construction being initiated. We cannot sit on this funding indefinitely. 2) Going to bid on 29 Tiffany will offer a check on our construction estimates and give us an indication of whether they need to be revised for the re-application to DOH. 3) Moving forward with construction may lend an immediacy to the project so that the State is less comfortable delaying a decision on the final funding. 4) ECHO has been acting as consultant and project developer to BHA on this project for over 2-1/2 years. During this period, we have committed hundreds of hours of staff time to the project, only a small portion of which has been compensated. Initiating construction on 29 Tiffany would provide us with construction management fee income, which is necessary for us to continue on the project.