

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date:	September 22, 2014
	Agenda Item No.	32
	Roll Call No.	<u>14-1476</u>
	Communication No.	<u>14-468</u>
	Submitted by:	Phillip Delafield, Community Development Director

AGENDA HEADING:

Resolution approving subordination agreement and subordination of City HOME loan security interests to allow refinancing of the primary loan for the renovation of 2714 Ingersoll Avenue by MEM Investment LLC.

SYNOPSIS:

On November 19, 2012, by Roll Call No. 12-1778, City Council approved a \$165,000 HOME loan for the renovation of a 2714 Ingersoll Avenue, a vacant, 22-unit apartment building located on the south side of Ingersoll Avenue. The rehabilitation has experienced cost overruns and the owner is refinancing with Lincoln Savings Bank of Clive to obtain additional funding and also providing funds from personal finances.

FISCAL IMPACT:

Amount: \$165,000

Funding Source: HOME Investment Partnership (HOME) Funds, SP036, CDD049900, FY11
Recommended Operating Budget

ADDITIONAL INFORMATION:

The City’s HOME loan funds are being used for rehabilitation of 11 of the 22 units which will be restricted to persons/families below 60% of median income for a period of five (5) years. The “period of affordability” does not begin until all construction work is completed and all 11 of the units are rented. The rents are restricted to \$631.00 minus any tenant paid utilities for a one-bedroom unit and \$783.00 minus any tenant paid utilities for a two-bedroom unit.

The building at 2714 Ingersoll has sat vacant since March of 2010 when it lost its rental certificate. It was eventually foreclosed upon by West Bank. The building was purchased by MEM Investment LLC for \$200,000. The ownership of the LLC was previously shared among three (3) owners, but Matthew Whitaker, 400 E. Court Avenue, now has 100% of the ownership.

The rehabilitation costs for the building were originally estimated at \$400,000 plus costs for lead testing and clearance and installation of site improvements consistent with the Ingersoll Streetscape. Unfortunately, there have been cost overruns and additional work uncovered. Major repairs such as a new roof, asbestos removal and new boiler in the building have been completed. Additional repairs

still to be made include basement water and mold mitigation, drywall and interior paint and gutter replacement, front door replacement, and repairs to the back steps and decking. The remaining work is estimated to cost approximately \$220,000.

The owner of the LLC, Matthew Whittaker, has chosen to refinance the mortgage with Lincoln Savings Bank of Clive and is requesting the City execute a subordination agreement to allow him to refinance and to borrow additional money to complete the work. An appraisal completed in August 2014 estimated the market value of the stabilized building higher than the appraisal completed in fall of 2012 allowing additional funds to be available from the Lincoln Savings Bank. Lincoln Savings Bank has confirmed Mr. Whittaker is putting his own funds into the property for equity. Mr. Whittaker is not requesting additional HOME funds.

The City's loan is structured as a \$25,000 payback and \$139,998 non-receding lien forgiven in full at the end of the five (5) year period of affordability. The City's HOME loan is subordinate to a \$514,500 Open-End mortgage loan with First Bank, 5625 Mills Civic Parkway, West Des Moines. First Bank also executed a Restrictive Covenant with the City of Des Moines acknowledging the requirements of the HOME loan including restrictive rents and incomes for a five (5) year period of affordability.

In addition to the Subordination Agreement, the City will require a Restrictive Covenant acknowledging 11 of the units are to be used for affordable housing to be executed between the City of Des Moines and Lincoln Savings Bank. The Restrictive Covenant between First Bank and the City of Des Moines will be released.

City staff is working with Mr. Whittaker on installation of the Ingersoll Streetscape Improvements.

PREVIOUS COUNCIL ACTION(S):

Date: November 19, 2012

Roll Call Number: [12-1778](#)

Action: [HOME](#) rehabilitation loan for 2714 Ingersoll Avenue with MEM Investments, LLC and execution of documents. ([Council Communication No. 12-582](#)) Moved by Hensley to adopt. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S):

Board: Plan and Zoning Commission

Date: October 18, 2012

Resolution Number: NA

Action: Approval of site plan in NPC District and Multi-family housing design guidelines.

Board: Neighborhood Revitalization Board

Date: October 3, 2012

Resolution Number: N/A

Action: Approval of loan for building.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

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