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TOWN OF BERLIN
SPECIAL TOWN COUNCIL MEETING
Thursday, July 6, 2023
ZOOM ONLY
Remote Meeting
6:30 P.M.

A. CALL TO ORDER

B. PLEDGE OF ALLEGIANCE

C. ROLL CALL

D. NEW BUSINESS:

1. Topic re: Authorize the Town Manager to execute the proposed final/execution versions of the deed and lease, respectively, based on the current structure of the transaction with the Berlin Housing Authority as discussed in the Special Meeting of the Town Council on July 6, 2023. – Housing Authority

E. ADJOURNMENT

Agenda Item No. _____
Request for Town Council Action

TO: The Honorable Mayor and Town Council

FROM: Arosha Jayawickrema, Town Manager

DATE: July 6, 2023

SUBJECT: Option Agreement for Development of K of C, 143 Percival Avenue, for Affordable Senior Housing

Summary of Agenda Item:

As per the Town Council's request, The Berlin Housing Authority has finalized \$34,000,000.00 in funding to move forward with the construction of affordable senior housing at 143 Percival Avenue.

Joseph A. Bajorski, Chairman of the BHA and Marie V. Phelan, Esq. of Pullman Comley, LLC. and Robert Cappelletti of Northeast Redevelopment will be present at the meeting to brief the Council as to the construction financing currently on the table. We will also discuss options for converting this construction financing to permanent financing, (approximately 3 calendar years in the future) which may, or may not, require a ground lease between Berlin Housing Authority and a Limited Liability Partnership consisting of Berlin Affordable Housing, LLC (a wholly owned subsidiary of the Berlin Housing Authority) and a LIHTC "Investor" yet to be identified.

We will also be prepared to discuss in detail the options the BHA will have in the future to exercise its ability to apply for (a) 4% Low Income Housing Tax Credit, (b) Energy Tax credits included in the Inflation Reduction Act of 2022, and (c) other sources of financial assistance that may be available to the Berlin Housing Authority including, but not limited to, Section 8 Project Based – Rental Assistance Vouchers.

Berlin Affordable Housing, Inc. will be purchasing a Construction Bond on this project. We will discuss the protections afforded by the purchase of this bond.

Wells Fargo Statutory Trust has set the closing date for July 11, 2023.

Wells Fargo Statutory Trust has completed the required closing documents and provided closing instructions to allow us to close financing on July 11, 2023, and have \$34,000,000 funded to the BHA Account at US Bank Trust, NA.

The Town Council, at its May 16, 2023, meeting authorized the Town Manager to "execute documents to facilitate transfer of title and ground lease execution for parcels of land at 143 Percival Avenue and 0 Carbo Lane, currently known as the Knights of Columbus property, contemporaneous with the closing of financing." After the May 16th meeting, the Town Council was provided with a Memorandum, dated May 8th, authored by the Authority's counsel. Since the May 16th meeting, the structure of the financing has come more into focus and the Authority

wants to ensure that the Town Council is fully apprised and provides an approval based on the most current information available.

The original proposed closing date of June 15, 2023, was postponed by the 8-24 process required to correct lot lines to account for construction of Percival Field on the former Knights of Columbus property.

In lieu of a reversion clause in the Deed, the BHA has requested Town Council approval for the BHA to provide a bond in an amount equal to the current fair market value of the property being conveyed by the Town to the BHA. The purpose of the bond is to compensate the Town for the fair market value of the subject property in the event that the development of the subject property for the stated purpose is not completed in a timely manner.

In addition, if the BHA decides to pursue LITHC Financing, the BHA will not know the precise final structure for the financing of the development until it knows the identity of the equity investor. The equity investor will be purchasing the tax credits and is thus the entity that will determine the exact structure. Therefore, the BHA requires the flexibility to achieve the permanent financing with the best deal with any number of permanent investors. If energy credits become available, the existing structure will remain intact. Regardless, CHFA has to sign off as will HUD and tax counsel on the transaction.

The Town attorney has raised concerns that the Town Council be fully informed about “the final structure of the transaction and financing; and (b) the proposed final/execution versions of the deed and lease.”

Action Needed:

Move to authorize the Town Manager to execute the proposed final/execution versions of the deed and lease, respectively, based on the current structure of the transaction with the Berlin Housing Authority as discussed in the Special Meeting of the Town Council on July 6, 2023.

Attachments:

Explanation of Project

Prepared By:

Joseph A. Bajorski
Chairman
Berlin Housing Authority

Honorable Members of the Berlin Town Council:

As requested, The Berlin Housing Authority has finalized financing in the amount of \$34,000,000 for the demolition of the existing Knights of Columbus Building and construction of 51 units of Senior Housing at 143 Percival Avenue spread over two buildings with associated parking.

Wells Fargo Statutory Trust has set the closing of financing and prepared all necessary documents along with closing instructions for July 11, 2023. Upon closing of financing, transfer of title to 143 Percival Ave and execution of ground lease for 0 Carbo Lane, \$34,000,000 will be deposited into an account at U.S. Bank Trust in the name of the Berlin Housing Authority.

These funds will be in the form of a construction drawdown bond. US Bank Trust, NA. will administer the bond and disperse the funds according to the terms of the bond.

Overview of the project, the financing and the construction and post construction phases of this project.

- The Berlin Housing Authority will be issuing a bond for \$34,000,000.
- Wells Fargo Statutory Trust will purchase this bond for \$34,000,000.
- The \$34,000,000 in proceeds from the Bond Sale will be deposited into an account, in the name of the Berlin Housing Authority, at US Bank Trust NA.
- US Bank Trust NA. will administer the funds according to the terms of the Bond Issue as a drawdown construction bond. At the end of the construction period all unused funds will be used to pay down the \$34,000,000 bond. The remaining balance could convert into permanent financing subject to any additional sources of funding obtained by the BHA such as low-income housing tax credits, State of CT grants, energy efficiency grants, etc.
- At Closing on July 11, 2023, the Berlin Housing Authority will receive title to the property at 143 Percival Avenue and will maintain the title in perpetuity.
- The Berlin Housing Authority will enter into a Ground Lease with the Town of Berlin for 0 Carbo Lane. This lease will be for a term of 99 years.
- To comply with the Internal Revenue Code the Berlin Housing Authority has created a wholly owned subsidiary known as Berlin Affordable Housing, Inc.
- The Berlin Housing Authority will enter into a Ground Lease with Berlin Affordable Housing, Inc. for the purpose of constructing the Senior Housing Project. The ground lease will cover both 143 Percival Avenue and 0 Carbo Lane. This ground lease will be for a term of up to 99 years.

- If, at some point in the future, the Berlin Housing Authority decides to move forward with low-income housing tax credits a Limited Liability Partnership will be created involving Berlin Affordable Housing, Inc.
- It is also possible that we would create another wholly owned subsidiary of the Berlin Housing Authority for the sole purpose of entering into an LLP with a LIHTC investor.
- Either of these LLPs would be for approximately a 15-year term known as “the compliance period” and would place an additional 15-year regulatory agreement on the project known as the “extended use period” where agreed to income limits and rents would be in effect.
- These LLPs and Berlin Affordable Housing, LLC. would be under the regulatory authority of the CT Department of Housing, the IRS, and if we are successful in obtaining Section 8 Project-Based Rental Assistance Vouchers, we would also be under the regulatory authority of HUD.
- At no point will the title to 143 Percival Ave. be transferred to the LLP. Title to 143 Percival Avenue will be held by the Berlin Housing Authority.
- If an LLP is created, Berlin Affordable Housing, Inc will maintain an equity position, through its role in the partnership and in the improvements to the land and structures erected thereon.
- Berlin Affordable Housing, Inc. will be managing the property regardless of LIHTC financing.
- As a condition of site plan approval, the Town of Berlin Planning and Zoning Commission has placed an age restriction on this site. All activities on this site will be done in accordance with the conditions set forth in the site plan approval.
- The Berlin Housing Authority will “loan” the \$34,000,000 to Berlin Affordable Housing, Inc. to facilitate construction of the senior housing project.
- There is a three-year construction period. The Bond calls for interest only payments during this period. Interest payments for this 3-year period are included in the financing and will be set aside in a separate account by US Bank Trust, NA.
- Depending on actual construction costs, alternative sources of funding, and the interest rate environment at the end of the three-year construction period the permanent financing will be different than the \$34,000,000 bonded. There is no prepayment penalty included in the bond.
- It is very important for the Berlin Town Council to understand that the BHA will be pursuing other sources of financial assistance to pay off this bond at the end of the three-year construction period. One of these may be the Energy Tax Credit included in the Inflation Reduction Act of 2022.

- If the BHA decides to move forward with the Energy Tax Credit, we will not be pursuing the LIHTC. As a result, no LLP and resulting ground lease will be required other than the Ground Lease for Berlin Affordable Housing, LLC.
- It is also important for the Berlin Town Council to understand that this decision will be made in 2026. It is very possible that market conditions will change and keeping the existing bond in place will be the correct course of action.
- It is also possible that other funding opportunities will arise at either the State or Federal levels, which will change everything that has been proposed regarding permanent financing.
- Upon Closing, Berlin Affordable Housing Inc. will authorize Loureiro Engineering to commence Phase II environmental surveys on the former Knights of Columbus Hall.
- Simultaneously, Point One Architects will bring their design and construction drawings to 100% and submit applications for site plan approval and special permit review.
- Once Phase II survey is completed, Berlin Affordable Housing Inc. will obtain a demolition permit from the Town of Berlin and enter into a contract with Manafort Brothers Construction to remediate and demolish the former Knights of Columbus Hall and associated parking areas.
- Once we have site plan and special permit approvals in hand, we will apply for building permits and initiate construction of the senior housing and associated parking areas. We anticipate 1.5 – 2 years to complete the project and initiate occupancy.
- I anticipate that site and foundation work would start November/December of 2023. Depending on weather conditions this winter we would probably start structural work in March of 2024. If we have another warm winter, we may start that work earlier. These dates are assumptions and will be dependent on how quickly we can remediate, demolish, and obtain permits.
- Once the property is issued Certificates of Occupancy the Berlin Housing Authority, in conjunction with Berlin Affordable Housing, Inc. will begin filling the units with qualified applicants.

I stand ready to answer any additional questions you might have.

Joseph A. Bajorski
Chairman
Berlin Housing Authority