CITY OF PROVIDENCE

Angel Taveras, Mayor

December 5, 2013

Scott Duhamel
Rhode Island Building & Construction Trades Council
1808 Elmwood Ave
Warwick, RI

RE: Records Request

Dear Mr. Duhamel:

The Public Records Unit is in receipt of your letter dated November 19, 2013 addressed to Michael D'Amico, Chief of Staff seeking certain records. Specifically, you request "information and correspondence relative to all potential and pending tax stabilization agreements that the City of Providence has in its possession, including access to any correspondence sent to or received by any developer and/or business by the City that specifically discusses the construction costs of these potential and pending projects."

Enclosed please find records related to two (2) projects that are currently in negotiations. To the extent that your request includes email communications, the Public Records Unit will have to review all emails within the City of Providence to determine whether or not there are email communications responsive and if responsive, whether those communications are public records. Due to the broad nature of your request, this would require the Public Records Unit to devote a significant number of hours to this task.

Pursuant to R.I.G.L. §38-2-2(4)(b) the City is able to assess a charge of $15 per hour for search and retrieval with the first hour being free. Please advise if you would like the Public Records Unit to provide you with an estimate to complete this search. In the event that you would like the Public Records Unit to undertake this task, kindly note that the time for the City to respond is tolled pending the receipt of your authorization and prepayment of the estimate to be provided. Alternatively, you are welcome to clarify, limit, or otherwise amend your request. Additionally, nothing in this letter represents a determination that responsive email communications will be found or that if found responsive records are public records.

Thank you.

Very truly yours,

Amy L. Crane
Public Records Unit

Enclosures

October 17, 2013

Sharon Conard-Wells
West Elmwood Housing Community Development Corporation
224 Dexter Street
Providence, Rhode Island 02907

Dear Ms. Wells:

I write today regarding the proposed Sankofa development and your recent request for preferential tax treatment under R.I.G.L. § 44-5-13.11 (the so-called "8% law").

As you know, R.I.G.L. § 44-5-13.11 stipulates that certain affordable housing developments (namely, residential properties that have undergone substantial rehabilitation as defined by the U.S. Department of Housing and Urban Development (HUD), maintain a deed restriction and have an occupancy permit after January 1, 1995) shall be subject to a tax equal to eight percent (8%) of gross scheduled rental income.

Furthermore, HUD defines substantial rehabilitation as (1) gutting and extensive reconstruction, (2) renovations, alterations or remodeling required for habitation, or (3) repair and/or replacement of major building systems or components in danger of failure. Substantial rehabilitation cannot consist of new construction, cosmetic improvements or reconstruction after demolition (See C.F.R. Sec. 883.302). It is the opinion of the City's Law Department that the plain language of this statute applies only to substantially rehabilitated property, not newly constructed property. On the basis of this interpretation, it is our understanding that the Sankofa development is ineligible for this alternative tax rate.

We are aware that the City of Providence, along with other Rhode Island municipalities, has previously extended the 8% rate to newly constructed property. It is the position of this administration that properties previously financed and developed on this commitment shall continue to receive this alternative rate. Moving forward, however, the City shall instead apply to deed-restricted, newly constructed affordable rental housing the same practice of discounting a property's assessment that it applies to deed-restricted, newly constructed properties intended for homeownership. Under this policy, a property's assessment is reduced in direct correlation to the income restriction on the property's deed. For example, the assessment of a property that is restricted for individuals earning 80% of area median income (AMI) shall be reduced, for the purposes of calculating taxation, by 20%. Preliminary calculations, based on the materials that you have forwarded to us, show that the Sankofa development would incur $85,875 annually in property taxes under this scenario.

In recognition that this amount of taxation exceeds the total amount that Sankofa would pay under the 8% alternative tax rate, the City is willing to entertain entering into a tax stabilization agreement with West Elmwood Housing regarding this project where the full taxes of this property would be incrementally phased-in over a 12 year period. Under this scenario, West Elmwood Housing would pay no taxes for the first three years of the property's development. In year four, West Elmwood Housing would pay 11% of the full assessment (using the discounted calculation described above). In year five, West Elmwood would pay 22% of its full assessment and so on until, in year 12, West Elmwood would be responsible for paying the full discounted assessment of this property. The City extends this model tax stabilization in special instances to encourage the redevelopment of blighted property or to further the City's economic development goals. Your project of providing fifty units of affordable housing on the City's West End is clearly a worthy goal, and one that our administration would be pleased to support with an agreement such as this one. In fact, using this methodology, the total taxes on the property over 12 years would actually be *lower* than they would be if we applied the 8% law. The total taxes over 12 years under the tax stabilization agreement would be $425,940, approximately $46,322 less than the total amount that would be incurred ($472,262) using the 8% law. Given that this approach is less costly for West Elmwood, we are hopeful that you will find this proposal acceptable.

Please know, however, that I have asked our assessor's office to review the pro-forma that was provided to us by the Peregrine Group and they have raised several concerns as it is presently structured. First, they question why the gross income rises at a rate lower (32% raise from 2015 to 2029) than the expenses (49% from 2015 to 2029). This seems to run counter to our experiences with similar properties. Second, they advise that the operating, maintenance, and administrative expenses for this development seem very high –$175,000 in the first year alone and growing annually thereafter. Before we can enter into a tax stabilization agreement, it is important that these concerns are addressed to our satisfaction.

I invite you to work with our assessor's office on the issues raised above and am confident that we can engage in productive discussions regarding effectuating the tax stabilization described in this letter.

Thank you for your work on behalf of the affordable housing community in Providence.

Sincerely,

____

Michael D'Amico
Director of Administration

CC: Gayle Corrigan, Deputy Director, Rhode Island Housing
Carol Ventura, Director of Development, Rhode Island Housing
David Pride, Principal, Pride Development LLC

RhodeIslandHousing
working together to bring you home

November 6, 2013

The Honorable Angel Taveras
Mayor
City of Providence
25 Dorrance Street
Providence, RI 02903

Dear Mayor Taveras:

Last week, Rhode Island Housing sent letters to all applicants for our 2014 Housing Credit round requesting that they provide certification from the community where each proposed development will be located that the development will be taxed as provided in Rhode Island law, R.I.G.L. §45-5-12(a)(1) and §45-5-13.11 (the "8% law"). We need this information so that we can properly underwrite the proposals to determine whether each proposed development is financially feasible for the respective compliance periods. Seven of those applications are for developments located in Providence and five of these involve some elements of new construction. In order to meet various funding deadlines, we need to receive the letters by November 15, 2013.

Even though Rhode Island Housing believes that the language of the combined provisions, along with the legislative history of the law and its 20 year application, make the law applicable to both rehabilitation and new construction, we also know that it has been interpreted by some to not apply to new construction. Over the past year or so, we have worked diligently with several members of your administration to resolve issues with regard to existing developments. We thank you for all of that work.

Because of the uncertainty surrounding the law and the current critical need for both municipal revenues and affordable housing investment, we believe that everyone would benefit from clarification of the statute. In a recent meeting, Senate President Paiva Weed expressed concern about the confusion that arose around the issue during the last legislative session and predicted that it would be raised again in 2014. We committed to work with her staff to provide information on how various affordable apartment complexes are being assessed and taxed across the state. We would welcome the opportunity to work with your policy and financial staff, other cities and towns and affordable housing advocates to craft a legislative proposal that works.

That brings us to the issue of the seven new development applications that we have received for properties in Providence. I request that the City agree that deed-restricted properties located in Providence will be assessed and taxed in accordance with the 8% law.

We have received a copy of a letter from Director of Administration Michael D'Amico, with regard to Sankofa Apartments, that offers a tax stabilization agreement that over a 12-year period gradually moves taxes on the properties from zero to an amount equal to 100% of the applicable rate on assessed values discounted by 40% to reflect the deed restrictions on the properties to families earning not more than 60% of median income. This proposal by the City indicates your support of this great development. I also think that for a typical for-profit developer the proposal would be well received.

Unfortunately the convoluted nature of developments, such as Sankofa, that are financed primarily by federal tax credits and other public subsidies, undermines the value of Mr. D'Amico's proposal. Among the issues are the caps on rents imposed by the IRS that prevent rent increases to match the tax phase-in. Also the low or no taxes in the early years actually diminish the value of federal tax credits while local tax increases in later years occur just as the developments will incur greater expenses for maintenance. Another issue is that if a development financed by HOME or other federal sources goes into default before the end of the federal use restriction, the public agency would have to reimburse HUD for their money.

One major benefit of the 8% law is that lenders, public funders and investors will have confidence in the viability of the development for the entire compliance period. Without assurances that the City will tax these proposed developments at the 8% rate, the Providence applications will be disadvantaged in the competition for Housing Credits compared to those located in communities that have provided this confirmation. In the past five years alone, Rhode Island Housing has financed seven other large developments in Providence, including Olney Village Apartments, Smith Hill Visions II and Broad Street Revitalization. These developments included the rehabilitation of blighted buildings, new construction on vacant lots, restoration of historic buildings and have greatly contributed to the revitalization of Providence neighborhoods. Altogether, the equity investment of more than $51 million generated by the investment of Housing Credits in these developments has supported the creation of 408 affordable homes in Providence.

I thank you again for all of the effort by members of your administration to resolve the issues of tax payments on affordable housing developments with deed restrictions held by Rhode Island Housing. We hope for an effective resolution on the current applications and look forward to working with you on a clarified and workable amendment to the statute.

Very truly yours,

Richard Godfrey
Executive Director

cc: Michael D'Amico

November 14, 2013

Richard Godfrey
Executive Director
Rhode Island Housing
44 Washington Street
Providence, Rhode Island 02903

Dear Mr. Godfrey:

I write today in response to your letter of November 6, 2013 regarding applications for the 2014 Housing Tax Credit round and Providence's application of R.I.G.L. § 44-5-13.11, the so-called "8% law."

As I stated in my October 15, 2013 letter to Sharon Conard-Wells of West Elmwood Housing Community Development Corporation it is the opinion of the City's Law Department that the plain language of this statute applies only to substantially rehabilitated property, not newly constructed property. As you are aware, the U.S. Department of Housing and Urban Development defines substantial rehabilitation as (1) gutting and extensive reconstruction, (2) renovations, alterations or remodeling required for habitation, or (3) repair and/or replacement of major building systems or components in danger of failure. Substantial rehabilitation cannot consist of new construction, cosmetic improvements or reconstruction after demolition. On the basis of this interpretation, it is our understanding that the Sankofa development is ineligible for this alternative tax rate.

As I expressed to Ms. Conard-Wells, the City of Providence sees great potential in the proposed Sankofa development which, as proposed, would realize fifty units of new affordable housing in the City's West End. That is why, despite the project's ineligibility for taxation under R.I.G.L. § 44-5-13.11, I indicated to Ms. Conard-Wells that the City of Providence would be willing to explore several other alternatives that would ultimately cost West Elmwood Housing Community Development Corporation *less* in property taxes than if the project were to be taxed at a rate of 8% of scheduled gross rental income.

Specifically, as I indicated to Ms. Conard-Wells, the City of Providence will discount the assessment of this property in correlation with the income restrictions on each unit. This treatment is similar to how the City discounts assessments of deed restricted affordable housing intended for home ownership. If all units are restricted to individuals earning 60% of area median income ("AMI"), then – based on information provided us to date by West Elmwood Housing – it appears that this property would be assessed at $2,200,733. This amount is $1,309,897 lower than the assessed value would be with no income restrictions, reflecting the diminished resale value imposed on the property by its deed restrictions.

Further, as I represented to Ms. Conard-Wells, the City of Providence would entertain entering into a tax stabilization agreement with West Elmwood Housing such that the full taxes of this property would be incrementally phased-in over time. Originally, I proposed a tax stabilization agreement wherein the full taxes of this development would be phased in over a 12 year period. Under this scenario, West Elmwood Housing would pay no taxes for the first three years of the property's development. In year four, West Elmwood Housing would pay 11% of the discounted full assessment, in year five West Elmwood Housing would pay 22% of the discounted full assessment and so on until, in year 12, West Elmwood Housing would be responsible for paying property taxes on the full discounted amount of this property.

In your letter, you object to an incremental phase-in of property taxes on several grounds. You write, for example, that IRS restrictions prevent the property owner from increasing rents to match the increased tax phase-in. You also raise a concern that the lowered tax rate in the early years diminishes the value of the federal tax credits while the higher tax rate in the later years would make it difficult for the developer to keep up with maintenance costs.

In reading these concerns it appears that your objection is not with the concept of a tax stabilization *per se*, but rather with its length of time and rate of incremental increase. I am pleased to know this because I am optimistic that we will be able to structure a tax stabilization that satisfies the needs of this development despite its ineligibility for treatment under R.I.G.L. § 44-5-13.11. Working with the Providence City Council and with West Elmwood Housing, we are willing to extend the length of the tax stabilization, to increase the rate of taxation in the early years and decrease it in the later years, or make other reasonable amendments as necessary to make this project financially feasible to the developer as conceived.

I believe you will find that this proposal clearly demonstrates our sincere interest in supporting new construction of affordable rental housing in Providence within the applicable confines of state law. We hope that a tax stabilization agreement that recreates or closely matches the tax treatment West Elmwood Housing would receive under R.I.G.L. § 44-5-13.11 were it eligible for treatment under this statute will allow you to continue considering this proposal as a competitive applicant for the 2014 Housing Credit Tax round. In short, we wish to facilitate, not prevent, the continued development of both new and substantially rehabilitated affordable housing in the City of Providence.

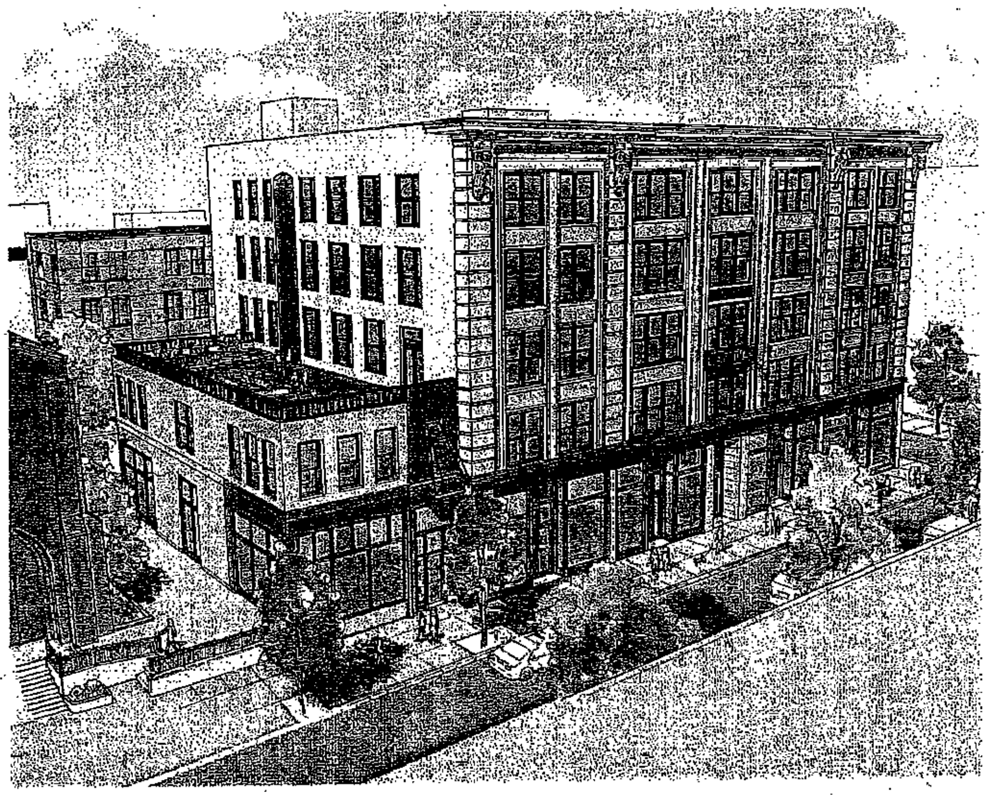
I understand you have an internal deadline of November 15, 2013 to resolve these matters. While we may not be able to effectuate a tax stabilization with West Elmwood Housing in that time period, please know that we are actively working with that organization to develop a tax stabilization for the Sankofa project.

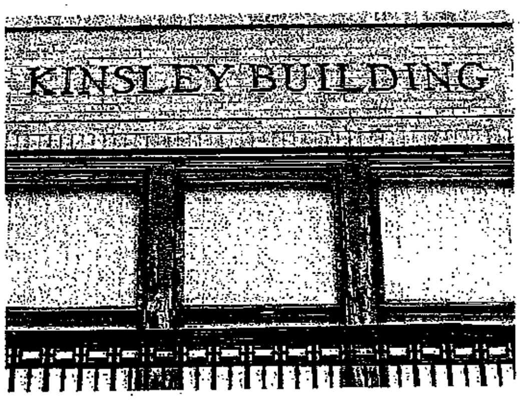
Thank you for your continued partnership on this important issue.

Sincerely,

Michael D'Amico
Director of Administration

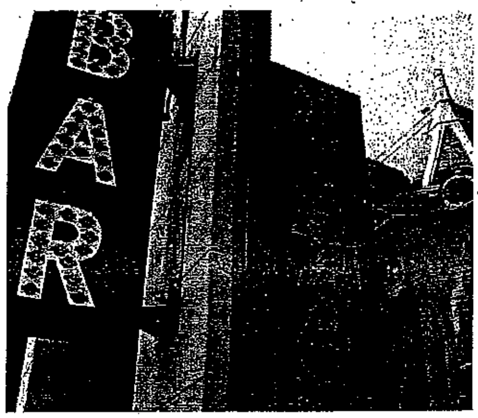
CC: Sharon Conard-Wells, Executive Director, West Elmwood Housing Community Development Corporation

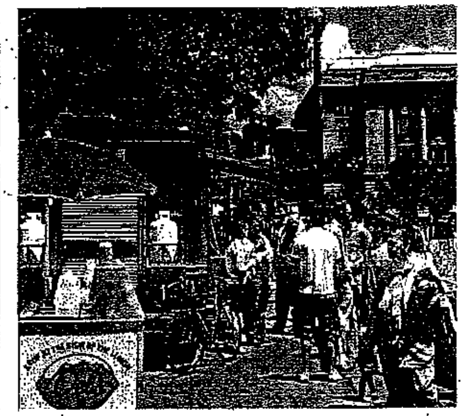




Cornish Associates
46 Aborn Street
Providence, RI 02903

401.421.0254
www.cornishlp.com



Downtown Revitalization 2012

As the economy of Providence struggles to emerge from the recession an essential component to the success of any strategy for growth will be the creation of a vital and energetic mixed-use environment. The new workplace of the 21st century requires a mixed use, multi-faceted environment where young workers can live/work/play. It will be difficult if not impossible for Providence to compete nationally and globally within the new economy without a strong mix of all these elements.

The revitalization of Providence's historic downtown of the last 20 years was lead by the creation of new housing options which was followed by new stores, restaurants, bars and entertainment. This has in turn created an environment that is attractive to new economy workers, who desire to be proximate to these exciting services. Continuing to expand on this successful strategy in the downtown is crucial to grow the appeal of Providence for new economy entrepreneurs. The creation of additional new housing is a necessary component of the infrastructure that will be an incentive for new knowledge based industries to locate in Providence.

Betaspring, a nationally recognized business accelerator, represents another opportunity to grow the Downtown to this strategy. The three principals of Betaspring are choosing to locate their new hub in downtown Providence if a suitable facility can be found. For Betaspring it's an issue of competitiveness and the success of their business model is contingent on being able to offer a dynamic live/work/play environment, in an 18 hour district, to their participants. The proposed campus will allow Betaspring to attract top-notch candidates from across the country and make Providence a center for the new economy entrepreneurs.

The proposed Betaspring campus represents a model of what development in this new economy will look like: jobs, housing, retail and public space.

Kinsley Project - Providence Innovation Center

The transformation of the Kinsley Building into a new hub of entrepreneurs and innovation will be the centerpiece of an effort that will stimulate and catalyze new development and attract new economy companies to the area.

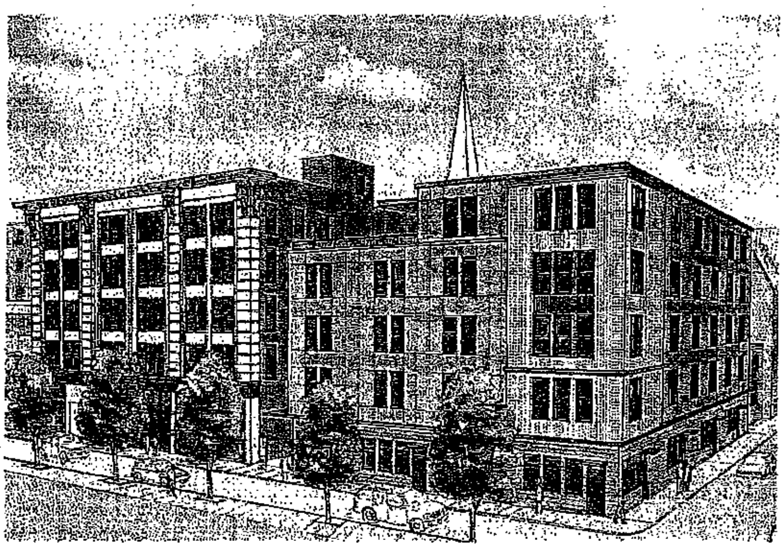
The historic Kinsley building is located at 326 Westminster Street and is currently owned by Johnson & Wales University. The acquisition of the Kinsley Building by Cornish Associates is an opportunity to expand the work that was done over the last 20 years along Westminster Street. While the initial downtown revitalization projects were primarily focused on new housing and retail, the need and demand for new economy workspace has increased and we believe the best use for the Kinsley building is to create the space to meet this demand. Cornish has been working with Betaspring to design a campus that would include not only the core functions of Betaspring but a new co-working model and a new center of entrepreneurship. A necessary component of the new campus is the construction of 50 units of workforce housing in a new building.

HISTORIC REHABILITATION

The complete renovation of the currently vacant 5 story, 43,000 square foot building will create new modern, open and flexible office space for Betaspring and the new economy companies that will be occupying it. Improvements will include replacing all windows, a new roof, mechanical systems, masonry re-pointing and repair, all necessary utility upgrades, and new 1st floor storefronts. The project will utilize Federal Historic Tax Credits and New Market Tax Credits.

NEW CONSTRUCTION

A new residential building is being proposed with approximately 50 units of workforce housing built on an existing parking lot on Snow Street adjacent to the Kinsley Building. This building will provide dedicated housing for the Betaspring companies who will require a convenient place to live while participating in the 6 month program. The option of offering a place to live as part of the program will differentiate Betaspring from all of their national competitors.



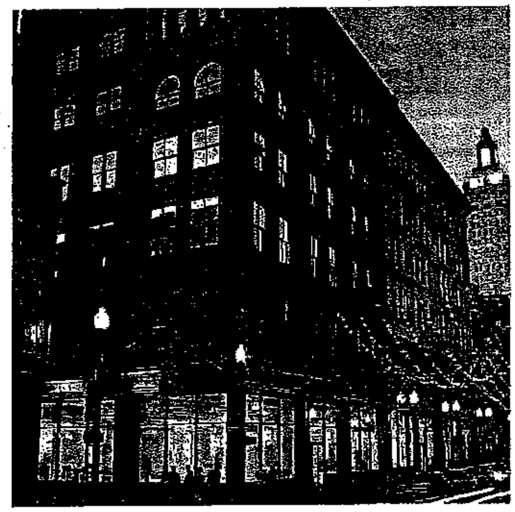
The redevelopment of the Kinsley Building and adjacent parking lot into the Betaspring urban campus will define the next generation of revitalization in the historic downtown neighborhood of Providence and provide a center of activity further west on Westminster Street.

FINANCIAL REQUIREMENTS

A number of resources will be required in order to bring this project to fruition. The project has a development cost of nearly $15mm. The private sector will be investing $5-7MM into the project, together with an additional investment of $8-9MM in the form of debt financing. In addition to the aforementioned significant investment, in order to be able to proceed with the project, several key concessions from the City will be required - a **Tax Stabilization Agreement** for the project at the current tax level for a period of 12 years (both properties are currently tax exempt, this project will ultimately make this taxable property); assistance with a **credit enhancement** for the anchor tenant, Betaspring; and an **expedited permitting process** in order to meet the Betaspring schedule to occupy the space by January 1, 2014.

TEAM

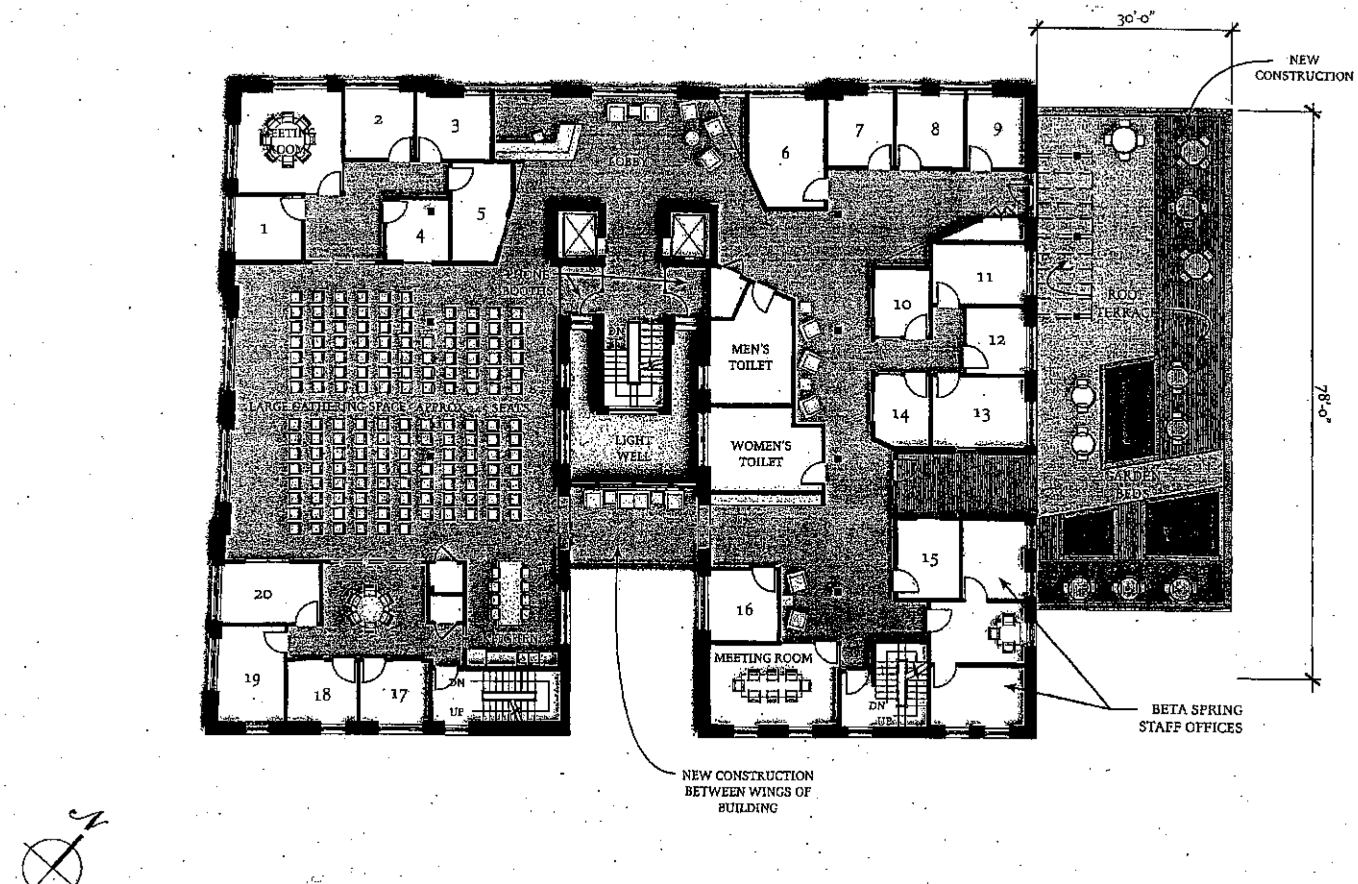
Cornish Associates, LP, a Providence, RI based real estate development company founded in 1986, provides planning, design, and development management services as owner/developer and consultant on a broad variety of mixed-use real estate ventures. For the past 20 years, Cornish has been focused on the revitalization of Downcity Providence. These successful efforts have been achieved through the combined implementation of sustainable design, lifestyle amenities, and the commitment to establish and promote urban living within Providence's cultural and civic center. Cornish has acquired and restored 8 buildings in the Downcity district, including The Westminster Lofts, with 200 residential apartment units, 50,000 square feet of commercial and office space, including the recent renovation of the Biltmore Garage. This effort and investment has led the way in transforming Downcity Providence into a distinct residential and retail district. Throughout the economic downturn, Cornish properties have remained in high demand with full occupancy.

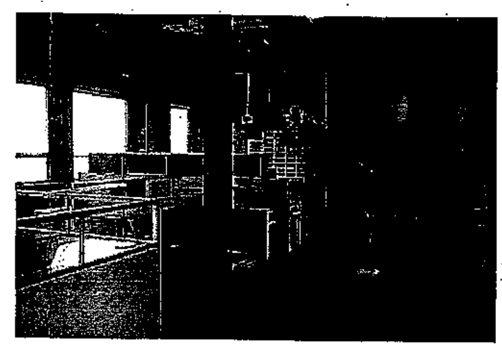


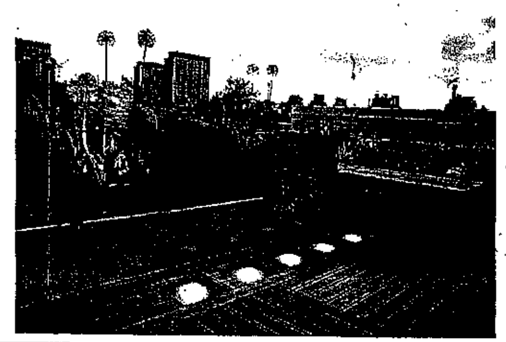
Cornish Associates, founded by **Arnold B. Chace, Jr.** currently employs 12 full-time staff members and works with consultants on an individual project basis. The firm is headquartered in historic Downcity Providence at 46 Aborn Street. Mr. Chace has been in real estate development since 1985. Mr. Chace is a leader in the new urbanist movement nationwide.

Steve Durkee, Director of Development for Cornish, oversees the design, construction and property management of the company. Prior to joining Cornish in 2010, Mr. Durkee was the founder of Durkee Brown Architects, Rhode Island's largest architectural firm. While at Durkee Brown, Mr. Durkee worked with Mr. Chace for many years on the redevelopment and revitalization of downtown Providence. Mr. Durkee will oversee the development of the Kinsley Building and the adjacent housing.

Eric Busch will provide development and financial support for the project. Mr. Busch is the Principal of Rustpoint Advisory, LLC, a RI- based consulting firm committed to assisting and leading responsible real estate and economic development initiatives through strategy, feasibility, structuring, and project management services. Prior to establishing Rustpoint Advisory, Mr. Busch was Development Director at a national planning, development, and construction firm, managing large-scale urban development projects. Mr. Busch holds an undergraduate degree in Finance/Real Estate from James Madison University and a Certificate in Real Estate and an MBA from the University of California-Berkeley.







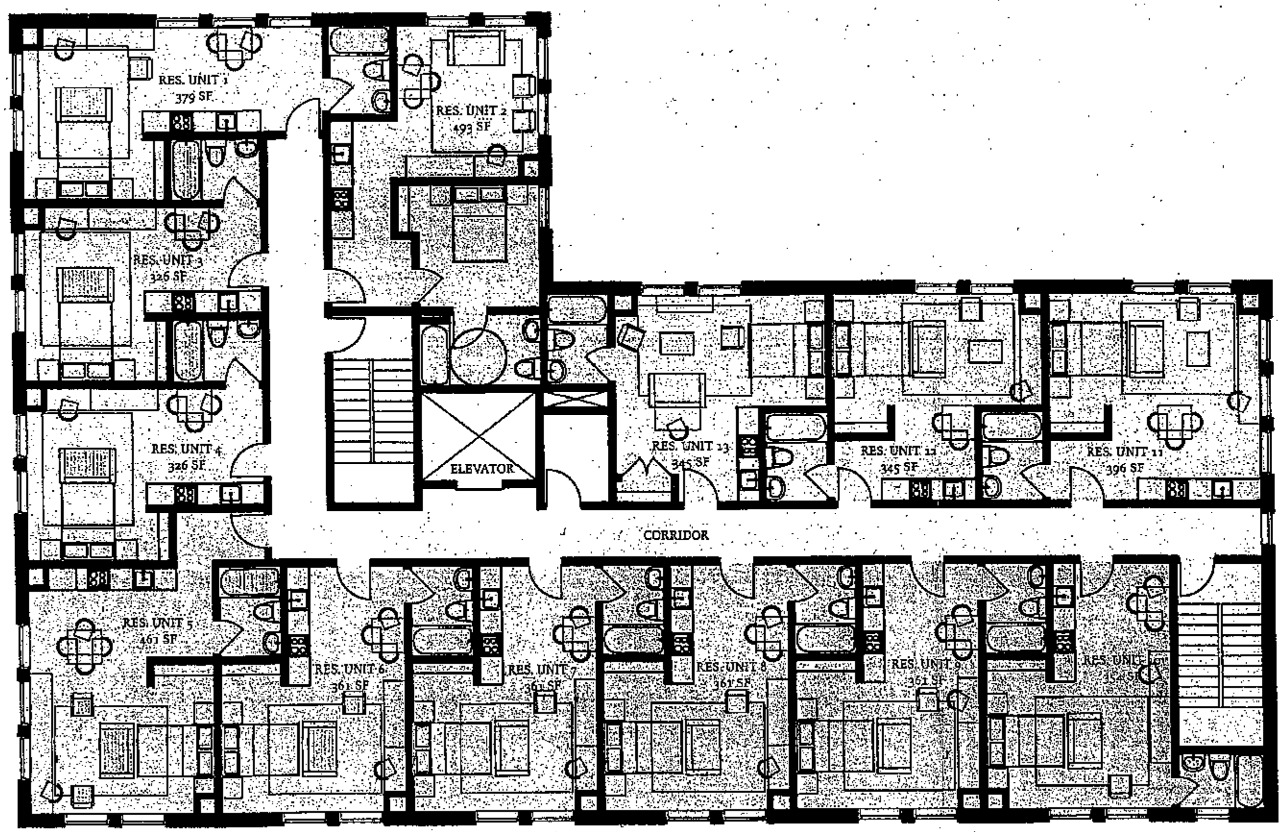
PROPOSED IMPROVEMENTS AT THE KINSLEY BLOCK

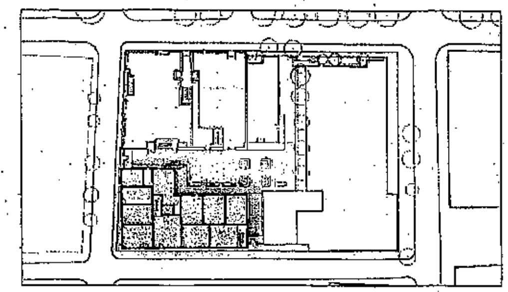
KINSLEY BUILDING - UPPER FLOOR OFFICE PLAN
JULY 30, 2012

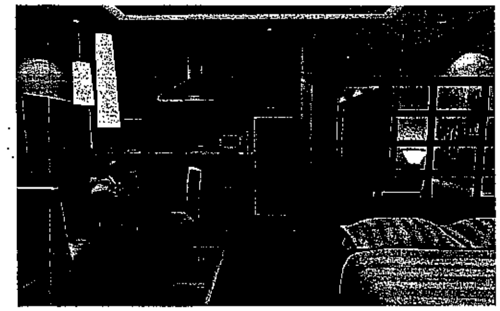
0 2' 4' 8' 16' 32' 64'

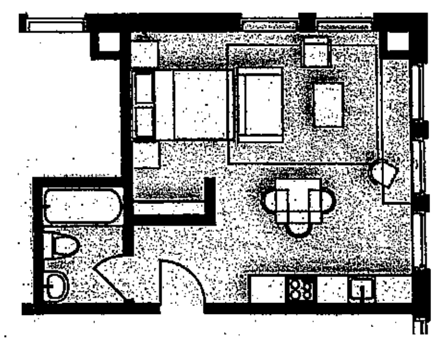
CORNISH ASSOCIATES

UNION STUDIO
ARCHITECTURE & COMMUNITY DESIGN









SAMPLE UNIT PLAN

PROPOSED IMPROVEMENTS AT THE KINSLEY BLOCK

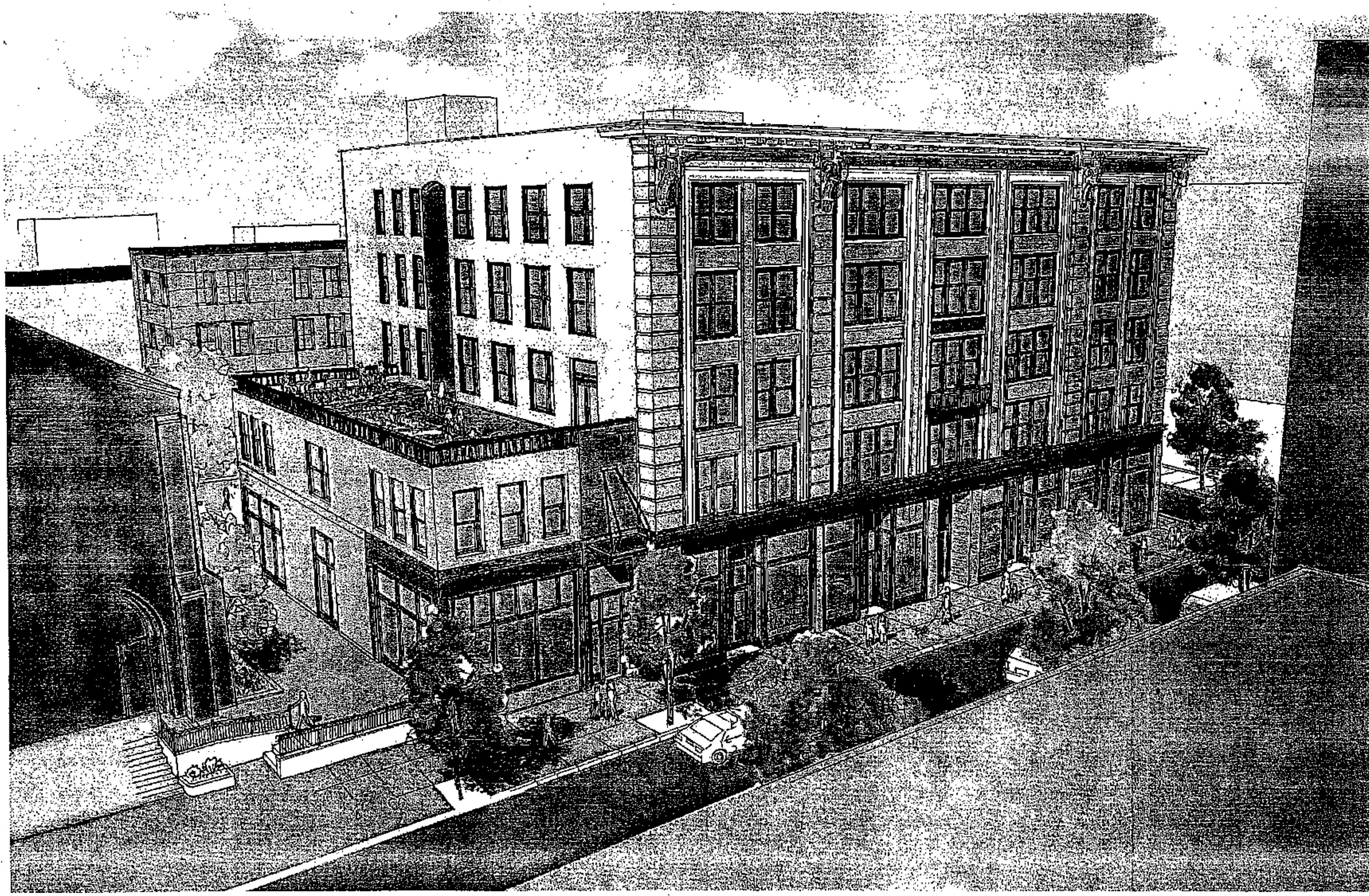
NEW MIXED-USED MICRO LOFT BUILDING - TYPICAL UPPER FLOOR PLAN

JULY 30, 2012

0 1 2' 4' 10' 20' 40'

CORNISH ASSOCIATES

UNION STUDIO
ARCHITECTURE & COMMUNITY DESIGN

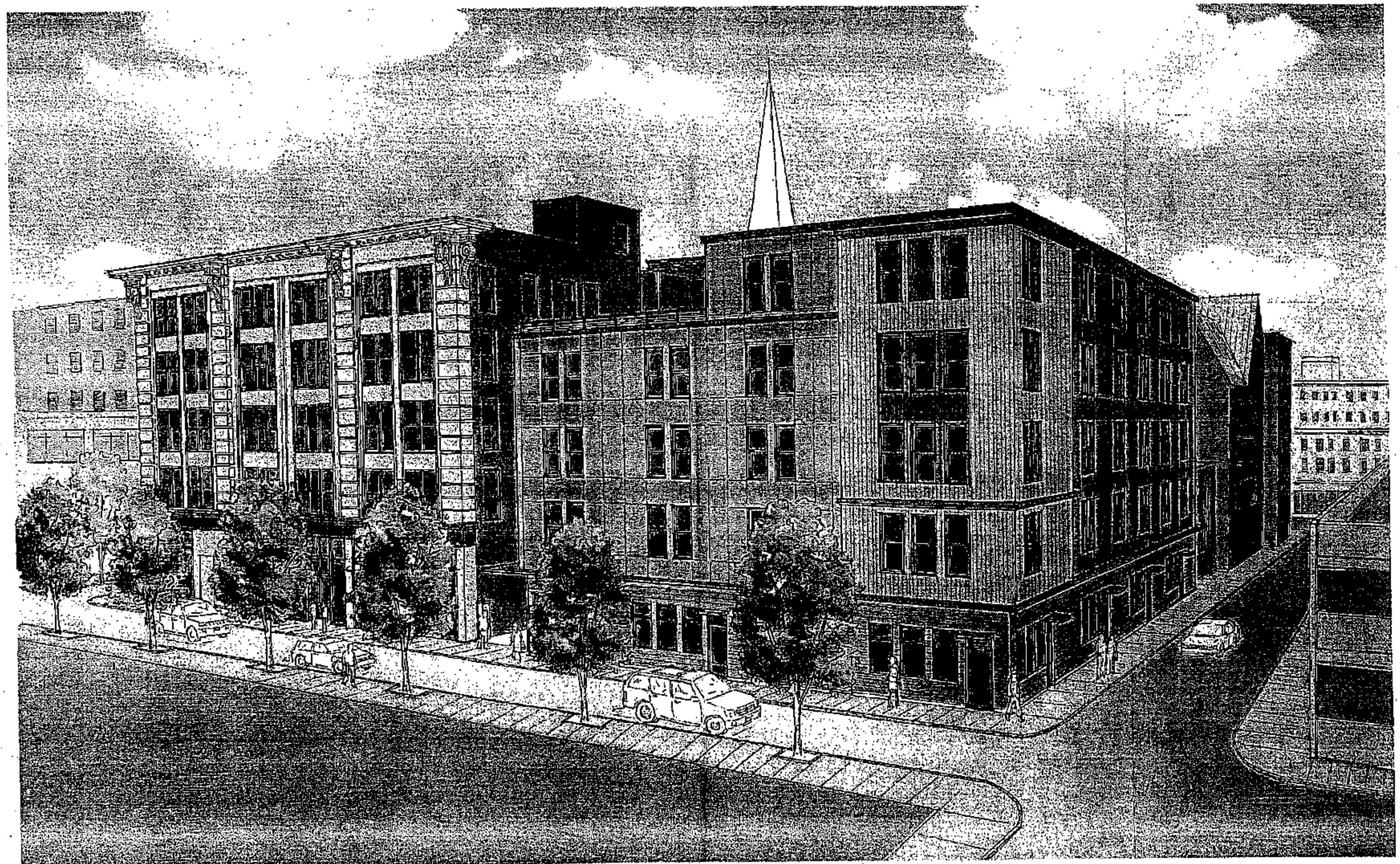


PROPOSED IMPROVEMENTS AT THE KINSLEY BLOCK

PERSPECTIVE FROM WESTMINSTER STREET
JULY 30, 2012

CORNISH ASSOCIATES

UNION STUDIO
ARCHITECTURE & COMMUNITY DESIGN

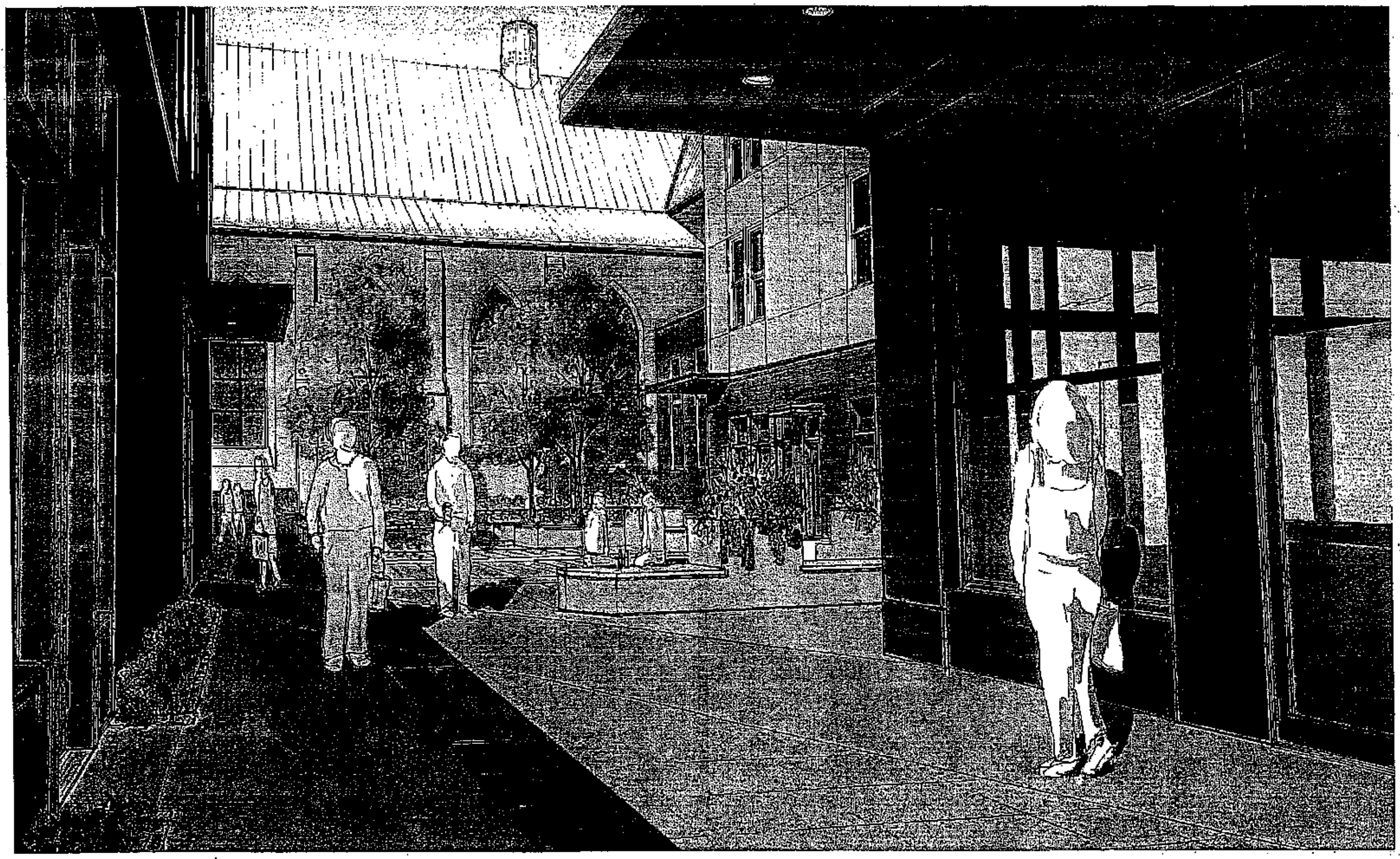


PROPOSED IMPROVEMENTS AT THE KINSLEY BLOCK

PERSPECTIVE FROM SNOW AND CHAPEL STREETS
JULY 30, 2012

CORNISH ASSOCIATES

UNION STUDIO
ARCHITECTURE & COMMUNITY DESIGN



PROPOSED IMPROVEMENTS AT THE KINSLEY BLOCK

PERSPECTIVE FROM COURTYARD
JULY 30, 2012

CORNISH ASSOCIATES

UNION STUDIO
ARCHITECTURE & COMMUNITY DESIGN