

TO: Michael C. Van Milligen, City Manager

FROM: Alexis M. Steger, Housing & Community Development Director

DATE: April 27, 2021

RE: Agreement with Affordable Housing Network Inc (AHNI) for Re-Development of Bishop Block, 90 Main Street

Background

In March 1999, the City of Dubuque entered into a real estate sale agreement with Bishop's Block Limited Partnership for \$350,000. Bishop's Block Limited Partnership utilized the City's funding to leverage two HOME fund loans and Low-Income Housing Tax Credits to re-develop the building into a first floor commercial space and residential rental units in the floors above.

The note and mortgage remain unsatisfied, with no payments being made to the City of Dubuque since the revitalization of the building in 1999. The partnership was also unable to make payments on the two additional mortgages issues by the Iowa Finance Authority.

In 2011, the City of Dubuque required audited financials be submitted to evaluate the ability to pay. The audited financials for December 31, 2011 stated, "These factors raise substantial doubt about the Partnership's ability to continue as a going concern. The General Partner will continue to fund operating deficits". Upon review of the financials, the City of Dubuque recognized the operating deficit will continue without substantial change in the use of the commercial space. Nothing in the agreements allowed the City of Dubuque to require market rate rent for the commercial space; however, the Partnership leased to a new lessee for an additional \$250/month in 2011. The partnership also decreased on-site manager payroll by 50%.

In this same year, lightning struck the turret, toppling it into the street below. Taking an additional \$10,000 from available revenue for the insurance deductible.

From 2012 to 2015, financial statements continued to show an operating deficit but a partnership payment in 2014 raised concern, so the City of Dubuque required a budget be submitted with the financials in 2015 and 2016.

All reviews of the financials determined a net loss for the Partnership, which supported the claims that payments could not be made on the HOME loans or the loan from the City of Dubuque.

In 2017, the Partnership requested an extension of the maturity date on the City of Dubuque note and mortgage. This extension was granted. Each year since, the Partnership has requested an additional extension.

In 2019, the Iowa Finance Authority reviewed the financials of the Partnership and determined they would forgive the HOME loan for \$240,000. In addition, IFA reduced the interest rate of the second loan to 0% as long as \$1,000 payments were made each month. This note matures in 2024.

The Low-Income Housing Tax Credit performance period ends in 2025. The project is in the “extended use period” and IFA will inspect the property in 2022 for continued compliance.

The City of Dubuque completed a full inspection of the property in 2020, with several violations noted. Some of the violations have been remedied, but many of the high cost items remain. The cost of the items remaining will exceed the value of the City of Dubuque’s original loan with the Partnership of \$350,000.

Discussion

The Affordable Housing Network Inc (AHNI) is a well-established non-profit that partners with Four Oaks and works towards revitalizing neighborhoods. Not only do they provide the resources for rehabilitation of dilapidated structures, but they provide wrap-around services for those residing in the structures.

AHNI has entered into a purchase agreement with Bishop’s Block Limited Partnership to purchase 90 Main Street. The City of Dubuque supports this change of ownership for the well-being of the structure and the neighborhood. AHNI will not require partnership payments and expensive management fees. They are well-versed in the management of multi-unit spaces that include commercial areas, and as the State of Iowa’s only Community Housing Development Organization, AHNI is able to continue the Low-Income Housing Tax Credit performance period as required by the Iowa Finance Authority.

The City’s agreement with AHNI requires significant capital investment in an amount greater than the current note and mortgage with Bishop’s Block Limited Partnership. Once the capital investment is realized, the agreement between the City of Dubuque and AHNI is fully satisfied and the loan and mortgage will be fully forgiven.

Recommendation

I respectfully request the City Council set a public hearing on May 17th, 2021 to solicit input for a development agreement between the City of Dubuque and Affordable Housing Network Inc to re-develop 90 Main Street.