Complex financing matrix at heart of plan for Covenant project

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What do you get for $100 million these days?

• IKEA's acquisition and construction of its recently announced St. Louis location.

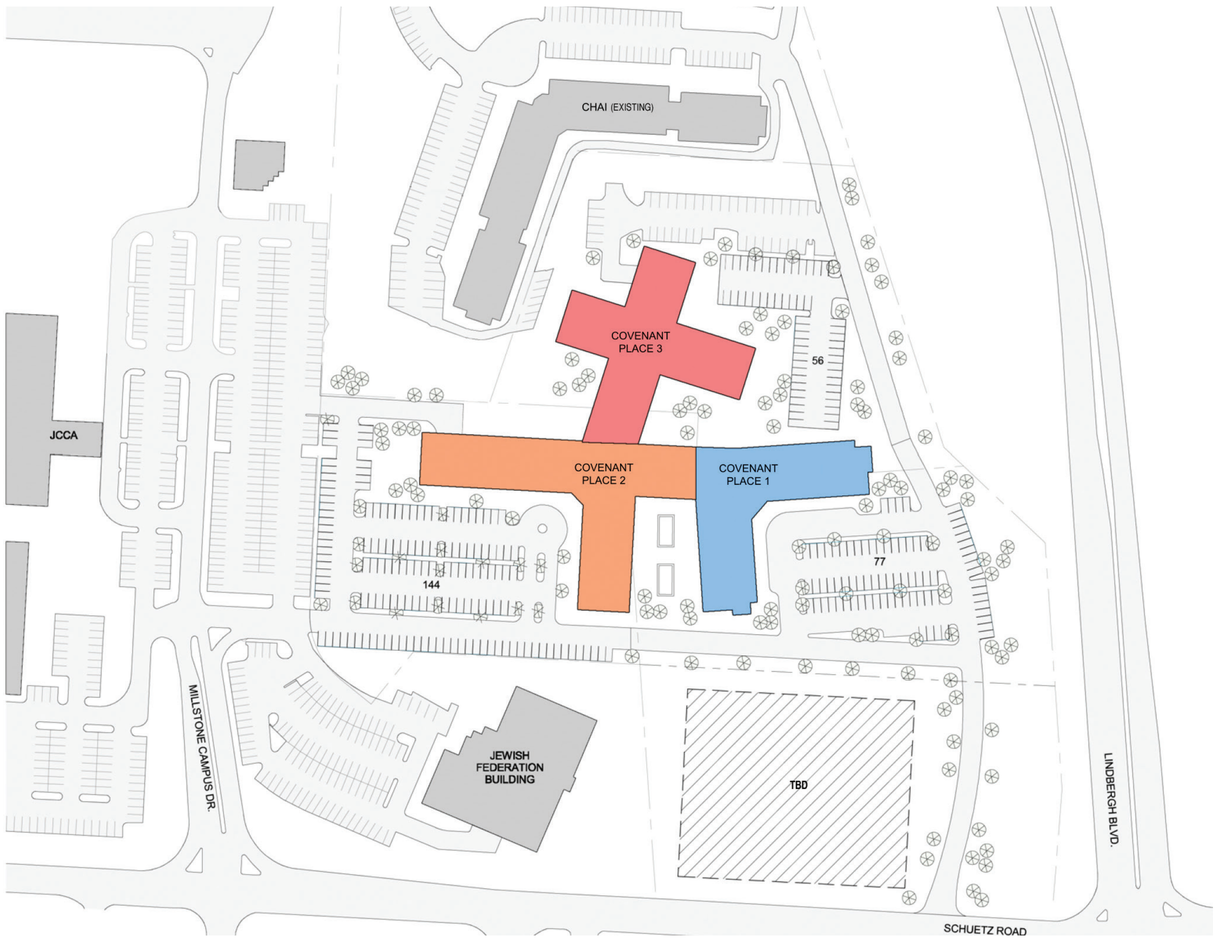
• Phase 1 of Ballpark Village adjacent to Busch Stadium.

Here's one you might not have considered: New development on the I.E. Millstone Campus.

If all three phases of Covenant Place's proposed development come to fruition, then along with the Jewish Community Center's construction and renovation of its facilities, the investment in the Millstone campus over a little more than a decade would be within striking distance of nine figures.

It doesn't seem at first blush that the work being done on this acreage housing several key agencies and their programs would rival that of major commercial projects. But in the aggregate, the JCC's athletic, administration and cultural arts complex, along with several hundred Covenant housing units and a senior center, represent a major development project for St. Louis County.

The *Jewish Light* reported last week that the Covenant/CHAI Apartments, being renamed Covenant Place — A Community for Seniors — is embarking on the first of three phases of development. If fully completed over the course of a decade, the result would be replacement of all three of its towers and relocation of tenants into the new buildings, without the disruption of temporary or off-site housing.



A NEW VISION FOR COVENANT HOUSE: Pictured at left is a conceptual site plan for the three-phase redevelopment proposal Covenant House has created for the Millstone Campus. The blue building marks Phase 1; orange is Phase 2 and red is Phase 3. Phase 1 would include building on part of the site formerly occupied by the old AMF Strike 'n Spare Lanes (and owned by the Jewish Community Center), currently optioned to Covenant.

Cost structures aren't what they were some 40 years ago when leaders from the Jewish Federation of St. Louis, JCC, B'nai B'rith and the former Jewish Center for Aged joined to address the needs of the elderly community. The process of putting together funding for such substantial endeavors is rarely easy, and receiving public financing is particularly sensitive in an economy of strained government resources.

Yet St. Louis County listed Covenant as its top priority among the tax-credit proposals recently submitted to the Missouri Housing Development Commission, showing the importance of the project to the community.

"When you think about elderly housing, part of what makes independent living viable, is the ability to provide wrap-around support services," said Michael W. Jones, Senior Policy Advisor in the county executive's office. "It's problematic to talk about long-term senior housing that doesn't have these kinds of support services. What we need to figure out is how to do more in St. Louis County."

Jones indicated that the United States Department of Housing and Urban Development (HUD)'s extension of affordable-housing payments for Covenant's assisted units for an additional 20 years was key in elevating Covenant among the other projects on the county's recommended list.

"The merits of the project are compelling," said Alan Witte, President of the Covenant board. "The senior demographic is an expanding one in our community and, unfortunately, the economically damaged segment of that demographic has grown more than proportionately."

The approximately $20 million Phase 1 of the Covenant project, replacing the existing Covenant I tower, will come from a complex mix of funding sources, including tax-credit programs, donations and mortgage. (The accompanying chart describes the combination of sources more fully.)

This patchwork is hardly unique, said Covenant Executive Director Joan Denison.

"Our developer consultant, McCormack Baron Salazar, is a national expert on these types of projects," she said. "(The firm has) built many senior housing developments across the country using a similar funding model."

Phase 2, designed to replace the Covenant II, is initially estimated at about $26.7 million, and is intended to have a similar funding matrix, said Denison.

"The numbers will certainly change when we get further into designing the Phase 2 building," said Denison. "We can say that the building will be funded by a combination of a 40-year mortgage, low-income housing tax credit equity, Affordable Housing Assistance Program tax-credit donations, and private donations."

Denison indicated that the application process for the various public funding and financing mechanisms for Phase 2 will occur during 2014-2015 but the private fundraising campaign for Phases 1 and 2 is being conducted concurrently. While Phase 1 is estimated to need about $4 million in private donations, the Phase 2 needs for that funding are almost double, resulting in a close to $12 million fundraising campaign for both phases.

Providing buildings large enough to retain and extend all the eligible HUD affordable-housing payments is one reason for the scope of fundraising for the project. Another major factor for greater fundraising needs for Phase 2, Denison said, is the inclusion of a senior center that would serve not only residents but the broader community.

"Community space is a requirement for any senior housing low-income housing tax credit project," Denison said. "However, as we have three buildings and want to have one space serving not only residents...but also serving the larger community of seniors, this phase 2 senior center will be larger than the low-income housing tax credit requirement. Therefore, it will require additional funding from donations and grants."

Once Phase 2 is completed, Denison said, the required Phase 1 community space can be converted to two additional living units, while the larger Phase 2 center will be connected to and serve Phase 1, along with serving as a resource for the broader community.

The efficacy and funding plan for Phase 3, which would replace the CHAI buildings, is subject to further evaluation based on market factors more than a half decade from now.

Along with finding sources of funding, exercising discipline over the costs associated with the Covenant development is key. Witte indicated the team of professionals, leaders and advisors has expertise in "FHA/HUD finance, real estate development, construction, design, major transaction(s) and governmental relations." Several team members are attorneys as well.

The publicly funded nature of the project, said Denison, puts pressure on cost containment and efficiency.

"There is tremendous scrutiny of the costs, materials, energy efficiency, operation costs, and debt-service ratios," Denison said. "Plans are made with all these considerations and our general contractor, S.M. Wilson, is at the table to ensure that design/build considerations are thought through in the most cost effective way."

Denison cited expert team members such as Michael Staenberg, "who is giving an enormous amount of time and guidance to the project"; McCormack Baron Salazar; architects KAI Design & Build; Witte; building committee chair Josh Corson; mortgage lender Matt Segal and construction company owner Barry Spiegelglass.

She also indicated that Jewish community leaders Bob Millstone and Tom Green "have both provided valuable input and assistance from conceptualization through the present time."

Adds Denison: "The team has imposed and continues to impose a cost and value rigor on all phases of our planning for this project."

By the numbers:

Covenant Place, Phase 1, which would replace the current Covenant I building

• New units, overall: 101 (66 subsidized)
• Estimated Cost: $20 million

Sources of funding for $20 million
(figures are approximated, and may not fully correspond to cost due to rounding and estimation):

• $8.245 million of low-income housing tax credit equity (comprising $5.645 million generated through federal credits and $2.6 million generated through state credits).
• $5 million first mortgage as a HUD loan through a Federal Housing Administration lender. (A 40-year loan will be requested, with interest rate to be finalized at firm commitment, but anticipated at about 5 percent plus mortgage insurance premium.)
• $750,000 under the state "HOME" funds program. (This will be funded as a second mortgage, and repaid out of annual cash flows, with payment period determined at time of final award.)
• $1 million in Affordable Housing Assistance Program (AHAP) production tax credits*
• $4-$5 million in private fundraising. (Total Phase 1 and 2 fundraising is about $12 million, see story.)

* These are used as incentive to secure donations of about $1.8 million, with a minimum donation of $1,000. The donations are highly desirable because in addition to the donor receiving standard charitable deductions under federal and state law, the donor receives a 55 percent state tax credit for every dollar donated.

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