



**CITY OF DURHAM | NORTH CAROLINA**

**Date: March 22, 2011**

**To: Thomas J. Bonfield, City Manager**  
**Through: Keith Chadwell, Deputy City Manager**  
**From: Mike Barros, Director**  
**Department of Community Development**  
**Subject: Local Funding Commitment for Southside Phase I**  
**Submission to NCHFA**

**Executive Summary**

The application for the first phase of mixed-income rental development in the Southside project area is due to the North Carolina Housing Finance Agency (NCHFA) by May 13, 2011. The application submittal must include a commitment from the City of Durham to provide subordinate gap financing for the project and a commitment from the City to fund the site preparation and infrastructure improvements to serve the rental development. This initial phase will consist of 119 mix-income rental units and 13 live-work units.

**Recommendation**

The Department of Community Development recommends that City Council authorize the City Manager to issue to MBA Development Corporation a conditional commitment of subordinate financing in the amount of \$5,486,468.00 for a rental development consisting of 119 mix-income units and 13 live-work units and a conditional commitment to fund the associated site preparation and infrastructure improvements at an amount not to exceed \$3,887,410.00.

## **Background**

At its May 3, 2010 meeting, Council authorized the Manager to issue a commitment letter associated with an application to NCHFA for 2010 Low Income Housing Tax Credits (LIHTC) and other financing. Because of an error in the description of the City's financing commitment, the application did not score high enough to be awarded credits in the 2010 competition. Corrected wording describing the financing commitment has been reviewed with NCHFA staff.

No changes to the design of the project have been made and the sum of financing commitments by the City remains the same as in 2010. Phase I will consist of 119 rental units and 13 live-work units. Eighty of the rental units will be LIHTC units restricted to households with incomes at or below 60% of the area median and 39 units will have no income restrictions.

The 80 LIHTC units target varying levels of affordability. Twenty units will be targeted to households with incomes at or below 30% of the area median, including 12 units targeting formerly homeless persons or others with disabilities. Twelve units will be targeted to households with incomes at 50% of the area median and the remaining 48 units will be targeted to households with incomes between 50% and 60% of the area median.

The most affordable rents targeting households at 30% of the area median will be as low as \$298.00 a month for a one-bedroom unit. The highest LIHTC rent will be \$897.00 a month for a three-bedroom townhouse.

A Sources and Uses Summary for Phase I is attached. As the summary indicates, the total estimated project cost is \$20,521,952.00 which includes \$5,486,468.00 in gap financing from the City of Durham. Tax credit equity is estimated at \$9,633,000.00 and supplemental financing from NCHFA is estimated to total \$2,327,484.00. The project is able to support a conventional first mortgage loan of approximately \$3,075,000.00.

It should be noted that NCHFA underwrites applications that it receives using conservative assumptions about future equity pricing. The total tax credit equity shown in the summary assumes equity pricing of \$0.78 on the dollar. Higher equity pricing would have a corresponding decrease in the amount of gap financing needed from the City. Current equity pricing is in the \$0.81 to \$0.82 range. For this project, each one cent increase in equity pricing would reduce the gap financing need by approximately \$120,000.00.

While the final structure will be determined as a part of the Master Development Agreement, it is anticipated that the gap financing provided by the City will be in the form of a 0% loan with a term of not less than 30 years. Payments on the City's loan will not be subject to a fixed amortization but will instead be made from project cash flows in excess of the required debt coverage ratio. Based on the amount of the proposed gap financing and the project proforma, the annual loan payments to the City will initially be approximately \$31,788.00 per year.

The site preparation and infrastructure requirements associated with Phase I are as follows:

Site Preparation: To accommodate the 300+ units planned for the Rolling Hills site and to develop it in a way that reconnects it to the surrounding neighborhood, it will be necessary to rough grade the entire site before any public infrastructure can be constructed. The estimated cost of the grading/site preparation is \$2,514,510.00. This figure includes a 10% contingency and a 16% project management allowance.

Infrastructure: To serve the first phase of rental development, the storm water management improvements for the entire site must be completed. A new street and associated utilities will be constructed on the Rolling Hills site as an extension of Chestnut, connecting with a new north-south street segment connecting with Lakewood Avenue. The estimated cost of the infrastructure improvements is \$1,372,900.00, including a 10% contingency and a 16% project management allowance.

Summary of Phase 1 Funding Commitment

<b>Component</b>	<b>Estimated Cost</b>
Subordinate Financing for Phase 1 Mixed-Income Rental Development	\$5,486,468.00
Rolling Hills/Beamon Place Rough Grading/Site Preparation	\$2,514,510.00
Infrastructure to Serve Phase 1	\$1,372,900.00
<b>Total</b>	<b>\$9,373,878.00</b>

**Issues/Analysis**

The development of mixed-income rental housing is one component of the overall revitalization plan for Southside. Contracts are pending for the rehabilitation of the first two owner-occupied housing units and Self Help plans to begin the development of new homeownership units later this year in partnership with other non-

profit and, potentially, for-profit builders. Within the next year, 20 or more new homeownership units are planned.

A second phase of mixed-income rental development on the Rolling Hills site is also planned. Within the next four to five years, a total of 211 mixed income rental units and approximately 45 new homeownership units are expected to be completed.

A market study commissioned by NCHFA found strong demand for the mixed-income rental units. This finding is consistent with the housing market and needs assessment conducted as a part of the City's Five Year Consolidated Plan which found that affordable rental housing was the City's greatest affordable housing need.

Funding announcements by NCHFA are expected in August and the commitment of funds is conditioned on the award of low income housing tax credits and other funding from that agency. Site scores associated with 2011 pre-applications were recently released by NCHFA. Eleven other proposed projects in the "Metro" category received site scores that were equal to or higher than the Phase I site. However, there is a limit on the amount of tax credits that can be awarded to projects within a single county and nine of the eleven proposed projects are located in Wake County. Therefore, the Southside Phase I project appears to be well-positioned to receive credits.

### **Alternatives**

The local commitment of funding is necessary not only to make the project financially feasible, but also for the application to NCHFA to earn points for that commitment. Without the commitment, an application cannot be submitted.

Alternatively, Council could elect not to authorize the conditional commitment or to postpone the project for some period of time. Proceeding with the project now would take advantage of very competitive pricing in the construction industry and would spur job creation.

Should Council decide not to proceed with the project, an alternative would be to land bank the Rolling Hills site until the economy improves. At that time, the property could be sold through a Request for Proposal or bid process.

### **Financial Impacts**

The proposed funding source for site preparation and infrastructure costs is a CDBG Section 108 loan. HUD allows local units of

government to borrow against future CDBG entitlement amounts with loan terms of up to 20 years. The site preparation and infrastructure costs associated with Phase I total \$3,887,410.00.

As noted previously, the \$5,486,468.00 in required gap financing is based on conservative assumptions about future tax credit equity pricing and the actual amount needed is expected to be somewhat lower. Currently, approximately \$2,500,000.00 in housing bond program income and unallocated HOME funds are available for the project. Additionally, Durham has been selected by the North Carolina Department of Commerce to receive \$950,000.00 in NSP3 funding for the project as a part of the gap financing needed. The remaining \$2,036,468.00 would be provided as construction/permanent financing from future HOME entitlement years.

As outlined, the financing scenario has no impact on the general fund.

### **SDBE Summary**

If the commitment is authorized and the project is awarded low income housing tax credits and other funding by NCHFA, a detailed construction scope for all elements will be submitted to the Office of Equal Opportunity and Equity Assurance so that participation goals may be established.

### **Attachments**

- Source and Use Summary