DURHAM

1 8 6 9
CITY OF MEDICINE

CITY OF DURHAM | NORTH CAROLINA

Date:	**April 17, 2012**
To:	**Thomas J. Bonfield, City Manager**
Through:	**Keith Chadwell, Deputy City Manager**
From:	**Reginald J. Johnson, Interim Director Department of Community Development**
Subject:	**Conditional Loan Commitment to Development Ventures Incorporated for Preiss-Steele Place**

Executive Summary

On or before June 8, 2012, Durham Housing Authority's (DHA) development entity, Development Ventures Incorporated (DVI), intends to submit a Low Income Housing Tax Credit (LIHTC) application to the North Carolina Housing Finance Agency (NCHFA) for the acquisition and renovation of Preiss-Steele Place. If the project receives an allocation of tax credits, the property would be sold and existing loans would be paid off, including a City of Durham second mortgage loan in the amount of approximately $1,512,122.00. From that payoff, DVI is requesting a conditional loan commitment of the same amount from the City as partial financing for the acquisition and renovation. The City would have a first lien position.

Recommendation

The Department of Community Development recommends that City Council authorize the City Manager to issue to Development Ventures Incorporated a conditional commitment of construction/permanent financing in the amount of $1,512,122.00 with a term of not less than 20 years and an interest rate not less than 2% for the acquisition and renovation of Preiss-Steele Place.

Background

Preiss-Steele Place is a former LIHTC property owned and operated by DVI and consisting of 102 one-bedroom units for near-elderly and disabled individuals. The property was placed in service in 1993 by the Oxford Commons Limited Partnership and was financed through tax credits, a first mortgage loan from the Community Investment Corporation of the Carolinas (CICCAR), and second mortgage loan from the City of Durham and other subordinate financing from NCHFA.

Now almost 20 years old, the property is in need of significant refurbishing and other modifications. In part because of the condition of the property, occupancy fell to 76% in 2011 resulting in operating deficits which have been funded by DHA.

As a part of the planned renovation, DVI intends to reconfigure 40 of the single bedroom units into 20 two-bedroom units to accommodate tenants requiring a live-in aid. The total renovation cost is just over $2.2 million. The total project cost including acquisition, soft costs and fees and a DVI developer's fee of $984,000.00 is $7,263,413.00.

DVI plans to target 26 units for households with incomes at 30% of the Area Median Income (AMI), 15 units for households with incomes at 40% AMI and 41 units for households with incomes at 60% AMI. Twenty-six units would serve mobility impaired households. In conjunction with the tax credit application, DVI is applying for project-based vouchers for the property to enhance affordability and better ensure higher occupancy rates.

The City's existing loan is 0% interest and is scheduled to balloon in January 2014. If tax credits are awarded, DVI plans to sell the property at its approximate tax value of $2,650,000.00, paying off the existing CICCAR first of approximately $739,627.00, the City's second and other subordinate debt. That sales price would also be sufficient to partially reimburse DHA for accumulated deficits it has covered of approximately $322,816.00 and a DHA advance for heating system repairs of approximately $82,350.00. The balance of the reimbursement may be paid out of the developer's fee.

Issues/Analysis

The LIHTC program in North Carolina is highly competitive and there is no guarantee that DVI will be successful in receiving an allocation of 2012 credits. However, the LIHTC program does provide a mechanism for:

(a) funding needed property improvements to achieve improved occupancy,
(b) retiring the existing first mortgage loan which has a maturity date of April 2024 and has a 9.25% interest rate, and
(c) replacing the City's existing 0% second mortgage loan which is set to balloon with a new 2% loan with the City having first position.

The commitment to provide a new loan to DVI is conditioned on the allocation of FY 12 tax credits and the full repayment of the outstanding loan balance on the City's existing second mortgage loan. The final loan term will be determined when firm estimates are in place for the renovation work and equity pricing has been established. Council approval will be required for the new loan.

Alternatives
DVI intends to request the maximum in subordinate financing from NCHFA and has no funds available to replace the proposed first mortgage loan from the City. A conventional first mortgage loan would not enable DVI to meet its proposed income targeting.

Financial Impacts
The proposed loan would come from the repayment of the existing loan. No additional commitment of City funds is proposed.

SDBE Summary
If tax credits are awarded, the renovation scope will be submitted to the Department of Equal Opportunity and Equity Assurance in order that participation goals might be established prior to bidding the work.