



Date: March 19, 2013

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Reginald J. Johnson, Director
Department of Community Development
Subject: Conditional Commitment to Integral Development, LLC for the Whitted School Project

Executive Summary

On or before May 17, 2013, Integral Development, LLC and its partners intend to submit an application for Low Income Housing Tax Credits (LIHTC) to the North Carolina Housing Finance Agency (NCHFA) for the repurposing of the Whitted School. As a part of the financing plan to be submitted with the application, Integral has requested \$500,000.00 in local government financing from the City of Durham. LIHTC awards will be announced in August 2013.

Recommendation

The Department of Community Development recommends that City Council authorize the City Manager to issue to Integral Development, LLC a conditional commitment of construction/permanent financing in the amount of \$500,000.00 with a term not less than twenty years and an interest rate not exceeding 2% for the renovation and expansion of the Whitted School for affordable senior housing.

Background

The Whitted School is the most visible landmark in the Southside project area in addition to being a unique and significant historic landmark. Since being declared surplus by Durham Public Schools, the property has been owned by Durham County. Through a Request for Proposals process, the County selected the team of Integral Development, LLC, Forty-AM, Belk Architecture and Durham Public Schools to repurpose the school. As envisioned by the development team, the former school and an architecturally compatible addition would provide for 89 units of affordable senior housing and a pre-kindergarten facility.

On November 28, 2012, the Department advertised the availability of \$720,000.00 for the creation or preservation of affordable rental housing serving vulnerable populations such as the elderly and persons with disabilities. Two applications requesting \$565,500.00 were received by the January 10, 2013 deadline including the request from Integral.

Subject to adjustments prior to the May NCHFA application deadline based on the market study and other factors, 25 of the senior units (28%) would serve households with incomes at or below 30% of the area median income (AMI) with 64 units serving households with incomes between 31% and 60% AMI. It is anticipated that 50 project-based Section 8 vouchers would be available for tenants having the lowest incomes.

Preliminary project financials are attached indicating a total project cost of \$21,149,131.00. Included in this total is \$5 million from Durham Public Schools to support construction of the pre-kindergarten facility and \$1.5 million in grants from Durham County for development costs. Additionally, Durham County has approved an option agreement to sell the property to the development entity for the sum of \$100.00. The \$500,000.00 requested from the City of Durham represents approximately 2.4% of the total development cost.

Issues and Analysis

The gap financing requested from the City is an integral component of the LIHTC application. Because NCHFA underwrites such applications by trending increases in income at 2% annually and increases in expenses at 3% annually, the financing structure frequently requires one or more financing sources to be subject to variable loan payments in order to maintain the required 1.15 debt coverage ratio. In its application to the City, Integral proposed 2% and a 30 year term with variable payments as required to maintain the 1.15 debt coverage ratio.

Additionally, NCHFA considers financing provided by local units of government in the highly competitive allocation of LIHTC. In past years, NCHFA's Qualified Allocation Plan (QAP), the document that sets forth guidelines and scoring criteria, specifically stated the available points to be awarded based on local funding provided per unit. However, the FY 13 QAP does not provide that specificity.

The commitment to Integral is conditioned on the allocation of FY 13 LIHTC or FY 14 LIHTC. This two-year commitment recognizes the highly competitive nature of the allocation process and would allow for Integral to address any scoring weaknesses in FY 14 should it not be successful in being allocated LIHTC in FY 13.

Final loan terms would be subject to Council approval upon the award of tax credits.

Alternatives

Without variable repayment permanent financing, it will not be possible for Integral to structure the project in accordance with NCHFA requirements.

Financial Impact

The proposed source of funding is dedicated general funds for affordable housing in FY 13-14 as outlined in the five-year funding strategy. At the time of actual loan approval after the award of LIHTC, it would be strategically beneficial to include HUD HOME funds as a part of the total loan package if funds are available. (HUD measures all HOME recipients on the extent to which HOME dollars leverage other investment and this project would have a very high leverage factor.) Therefore, that flexibility should be maintained.

SDBE Summary

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

Attachments

Preliminary Whitted Financials