



Date: February 17, 2015

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Reginald J. Johnson, Director
Department of Community Development

Subject: Award of Dedicated Housing Funds to Durham Community Land Trustees, Inc. (DCLT) and Woodland Associates, Inc. (Woodland) for the Preservation of Existing Rental Housing (Morehead Glen Apartments, West Park Apartments, Mutual Manor, Rockwood Cottages and Mathison Apartments)

Executive Summary

In response to the City of Durham's application for funding of CDBG, HOME, ESG and General Funds for FY 2014-2015, Durham Community Land Trustees, Inc. (DCLT) and Woodland Associates, Inc. (Woodland), submitted applications for funding being made available for the preservation of existing affordable rental units. The requested funds would be used to make urgently needed capital and accessibility improvements to each of the affordable Low Income Housing Tax Credit (LIHTC) projects.

On August 7, 2014, the City Council received a presentation from the Department of Community Development concerning the funding request from DCLT and Woodland for the preservation of existing rental housing specifically at Morehead Glen Apartments, West Park Apartments, Mutual Manor, Rockwood Cottages and Mathison Apartments. All projects are currently in compliance with federal tax credit program rules and requirements and City rent restrictions. Compliance with rent restrictions has not allowed the projects to build sufficient replacement reserves to meet their capital improvement needs. In order to allow the developments to continue to serve individuals and families whose income does not exceed 50% - 60% of Area Median Income, DCLT is requesting City funds to help address immediate capital improvement needs.

In response to Council's request, Community Development staff has prepared the necessary loan documents for each of the projects. All funding is now in place and DCLT and Woodland are ready to begin the renovation of the rental units.

Recommendation

The Department of Community Development recommends that City Council authorize the expenditure of a total of \$716,025.00 in budgeted Dedicated Funding Source funds (\$203,000.00 for Morehead Glen Apartments, \$92,800.00 for West Park Apartments, \$197,838.00 for Rockwood Cottages, \$142,859.00 for Mutual Manor and \$79,528.00 for Mathison Apartments) for the preservation of 77 existing affordable rental housing units, and authorize the City Manager to execute a Forgivable Loan Agreement and other related legal documents for each of the aforementioned projects, that is forgiven over a period of 15 years at 0% interest with Durham Community Land Trustees, Inc. and Woodland Associates, Inc.

Background

Durham Community Land Trustees, Inc. is a nonprofit, community-based organization, whose mission is to provide permanently affordable, community and resident controlled housing for low and moderate income persons and to promote revitalization of neighborhoods in Southwest Central Durham. DCLT has been renovating single family houses in the West End neighborhoods since 1987, many of which were developed for lease-to-purchase and managed by DCLT. DCLT currently manages approximately 117 rental units for special needs, supportive housing, elderly and market rate tenants.

DCLT's proposal is to preserve 20 affordable housing units at Morehead Glen Apartments located on Rock Street and 10 scattered site rental units at West Park Apartments located on Carroll Street (4 units), Exum Street (3 units) and Cornell Street (3 units) in the Southwest Central Durham neighborhood.

Woodland Associates, Inc. is a for profit organization that has developed and owned many affordable rental communities in Durham. Woodland's proposal is to preserve 20 affordable housing units at Rockwood Cottages, 18 affordable units for the elderly at Mutual Manor, located on Fayetteville Road and 9 units at Mathison Apartments, located on Mathison Avenue and Fiske Street. In addition, Woodland owns and manages Underwood Apartments and most recently, the complete renovation of the 147 unit former Mutual Heights Apartments, now known as Stewart Heights. Woodland currently manages 400 affordable residential elderly and family rental units developed by the company's founder, James W. Pou.

Issues/Analysis

The 2010-2015 Five-Year Consolidated Action Plan and the Annual Action Plan have identified as an ongoing priority need, the preservation of affordable rental housing units. The Department of

Community Development is committed to the development and preservation of safe and affordable rental housing and these projects will assist in providing additional rental opportunities for our citizens. There is a very strong demand for affordable rental units and funding this request will not only protect the City's prior investment, but will continue to provide much needed affordable rental housing for Durham residents for many years to come. The requested funding, if approved by Council, will be structured as forgivable loans at 0 % interest for a period of fifteen (15) years.

Both DCLT and Woodland have prepared detailed 20-year proformas for each of their rental housing developments. The proformas provide a description of the anticipated repairs, the number and amount of each type of repair and the year in which each repair is anticipated. Community Development staff has reviewed the proformas and has determined that the estimated reserve balances shown would be sufficient to meet the anticipated capital improvement needs of each of the developments during the 20-year time period. Community Development staff will continue to monitor all projects to ensure that the developers are making adequate contributions to the replacement reserve accounts to sustain the properties going forward.

Alternatives

If the requested funding for the preservation of affordable housing is not approved by Council, the alternative would almost certainly ensure that the owner would not be able to meet the physical needs of the properties. If that was to occur, the properties would either fall into a state of disrepair or could be sold to investors, resulting in a loss of as many as 77 affordable rental units, since at least some of the properties would attract market rate tenants.

Financial Impact

Dedicated Funding Source funds as approved in the June 17, 2013 Substantial Amendment to the Annual Action Plan are budgeted and available for these projects.

SDBE Summary

Not applicable