



Date: April 21, 2015

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Reginald J. Johnson, Director
Department of Community Development
Subject: HOME Loan documents for the Whitted School Project

Executive Summary

At the City Council work session on March 19, 2015, Council suspended the rules and voted to authorize the City Manager to issue a commitment letter providing construction/permanent financing in the amount of up to \$600,000.00 at 0% interest rate, with a term of not less than 40 years to Whitted School Redevelopment, LLC for the renovation and expansion of the former Whitted School. This project will include 79 units of affordable housing for seniors aged 55 and above.

In May of 2014, Integral Development, LLC submitted an application to the North Carolina Housing Finance Agency (NCHFA) for an allocation of 2014 Low Income Housing Tax Credits (LIHTC). As part of the updated financing plan submitted with the application, Integral had requested \$600,000.00 in local government financing from the City of Durham. Integral's application was successful and they received an award of \$631,210.00 in 2014 tax credits each year for ten years.

Recommendation

The Department of Community Development recommends that City Council authorize the City Manager to execute the HOME Loan Agreement and related legal documents with the Whitted Redevelopment, LLC for construction/permanent financing in the amount of \$600,000.00 at a 0% interest rate, with a term not less than forty years. Loan repayment will be deferred until the expiration of the term, whereupon the entire principal balance will be due. Loan proceeds will only be used for the renovation and expansion of the Whitted School for 79 affordable senior housing units.

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 79 units of affordable senior housing and a pre-kindergarten facility.

Based on the market study and other factors, 20 of the senior units (26%) would serve households with incomes at or below 30% of the area median income (AMI) with 59 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.

At the April 15, 2013 City Council Meeting, Council authorized 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 of not less than twenty years at an interest rate not exceeding 2% for this project. Subsequent to the issuance of this conditional commitment, Integral did not receive an award of 2013 LIHTC. In May, 2014, Integral again submitted an application for and received an award of 2014 LIHTC in August in the amount of \$631,210.00 per year for 10 years. Integral then formed the Whitted School Redevelopment, LLC as the ownership and development entity for the project.

Current project financials attached indicate a total project cost for only the residential portion of the project of \$13,858,487.00. The \$600,000.00 requested from the City of Durham represents approximately 4.4% of the total development costs.

It should be noted that in addition to the funding contributions for the 79 residential units for senior citizens, approximately \$5 million from Durham Public Schools has been committed 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.

Issues and Analysis

With the re-submission of the tax credit application for 2014, the structure of the project has changed due to several factors. Construction cost estimates increased over the previous projections from 2013, even with a reduction of units from 89 to 79. Another major factor was the loss of State Historic Tax Credits, which expired at the end of 2014 creating an additional shortage of approximately \$1.4 million in funding, which widened the funding gap. In an effort to balance the project costs, the developer is maximizing all other available funding sources. They have been successful in securing a grant of \$350,000.00 under the Affordable Housing Program, increasing the funding commitments from the Durham County Public Schools by approximately \$800,000.00, and Durham County by approximately \$840,000.00. If Council approves this request, the City of Durham loan will be increased by \$100,000.00.

This restructuring also included reducing the interest rate on the City's loan to 0% and increasing the loan term to not less than 40 years to conform with guidelines of the Housing and Urban Development (HUD) 221 d4 program to insure HUD approved lenders. The City loan will feature a balloon at the end of the term, when the entire principal balance will be due.

Alternatives

The developer has been successful in securing a new grant and in increasing the commitments from the other stakeholders. The Council approved increase of permanent financing requested from the City, will enable the project to proceed.

Financial Impact

The proposed source of funding is dedicated funding source for affordable housing, or HOME funds may be substituted for some or all of the DFS.

SDBE Summary

The scope of work and project budget will be submitted to the Department of Equal Opportunity and Equity Assurance in order that participation goals can be established.