



Date: August 21, 2018

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Reginald J. Johnson, Director
Department of Community Development
Subject: Approval of Dedicated Housing Funds to the Durham Community Land Trustees, Inc. for the Rehabilitation of 1700 Merrimac Street

Executive Summary

Durham Community Land Trustees (DCLT) was awarded \$327,250.00 in Dedicated Housing Funds during the 2017-2018 application round for the preservation of affordable housing. The funding will be used to rehabilitate a seven (7) unit apartment building consisting of two bedroom units located at 1700 Merrimac Street in Southwest Central Durham. Two (2) of the units will be available to households earning 30% or below the area median income with the remaining five (5) units benefiting households at 50% or below the area median income. The thirty year period of affordability will be enforced through the recordation of restricted covenants.

Recommendation

The Department of Community Development (DCD) recommends that the City Council authorize the City Manager to execute a Grant Agreement with Durham Community Land Trustees, Inc. for the rehabilitation of 1700 Merrimac Street in the amount of \$327,250.00 in Dedicated Housing Funds.

Background

DCLT is a community-based nonprofit organization with a mission to develop permanently affordable housing for low and moderate income households in an effort to promote neighborhood revitalization. The organization's experience in acquiring and rehabilitating properties for rental and homeownership spans nearly 30 years and encompasses a wide range of housing needs.

The rehabilitation of 1700 Merrimac Street will include extensive interior and exterior renovations of each individual unit along with the replacement of the existing roof. As the building is of passive solar design, DCLT will work with an energy consultant to make each unit more energy efficient, improve the existing heating and air conditioning systems and to improve the quality of life and the health for its residents.

DCLT has a preliminary scope of work that will be bid out to potential contractors and subcontractors once the City of Durham funding has been approved. The estimated schedule for the bid process and renovation is seven months.

Issues and Analysis

The departments five year housing goals have identified as an ongoing need, the preservation of existing affordable rental units, specifically for households earning 50% or below the area median income. The renovation of 1700 Merrimac Street assists in the preservation of existing units that serve the identified income range.

Alternatives

The City Council could elect not to provide the requested funding for this activity. If the project does not receive Dedicated Housing Funds, it would be difficult for DCLT to obtain another source of funding and the project would most likely not move forward.

Financial Impact

DCLT is requesting \$327,250.00 in Dedicated Housing Funds. The funding is available and was approved in the FY 18/19 budget.

DCLT currently has a first mortgage on 1700 Merrimac Street in the amount of \$298,000.00. By keeping the rents affordable to households at 50% or below the area median income (rents will average \$670/month for the two (2) bedroom units), the stream of income generated from the lease of the seven (7) units does not support additional debt on the building. DCLT is requesting that the funding be in the form of a grant from the City of Durham.

Also associated with the restriction of rents; it is difficult to set-aside appropriate maintenance reserves for the seven (7) units. As required per the application process, DCLT included a 20 year operating pro forma for the project which includes an annual maintenance reserve based on industry standards of \$250.00 per unit or \$1750.00 annually. Their pro forma also indicates that the project can remain affordable for 20 years with the requested assistance from the City. As with many affordable housing projects, the pro forma outlines minimal cash flow, which if DCLT were to experience an extended period of vacancies on the property, they could potentially have a cash flow concern. However, given the property's history, location and area median income target, staff is comfortable that they should not experience high vacancy levels.

In addition, the rehabilitation budget has a contingency line with a provision that any unexpended funds will to be placed in the property's operating reserve. Staff's goal is to ensure that the property can handle smaller, routine maintenance needs such as unit turnover, painting, carpet, plumbing, electrical and mechanical minor repairs.

Although DCLT will set-aside a required maintenance reserve, it important to understand that the project will need to be substantially recapitalized in 15-20 years, when major systems need to be replaced, and the cost of that recapitalization will be more than what can be covered through the maintenance reserves. At that point, DCLT will either need to seek a new loan on the project (on the assumption that they have paid down their current mortgage) or seek another round of subsidy for capital improvement. This is standard in the multi-family area, particularly in the affordable housing industry where the rental stream is capped.

Equal Business Opportunity Summary

This is a grant and was not reviewed by the Department of Equal Opportunity/Equity Assurance for compliance with the Ordinance to Promote Equal Business Opportunities in City Contracting.