



Date: December 3, 2019

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Reginald J. Johnson, Director
Department of Community Development
Subject: Durham Housing Authority JJ Henderson Seniors Apartments Phase IA
Development Loan Commitment to Durham Housing Authority/Laurel
Street Residential, LLC in an Amount Not to Exceed \$3,000,000

Executive Summary

The Housing Authority of the City of Durham (DHA) and the City of Durham have partnered on a comprehensive plan to redevelop public housing in the city in order to create and preserve affordable housing opportunities and building stronger Durham communities. This plan, the DHA Downtown Neighborhood Plan (DDNP), was undertaken to develop a strategy to facilitate and conduct redevelopment work in areas of the city that are undergoing the most dramatic transformation, Downtown Durham. The Downtown & Neighborhood Plan was presented at a Special City Council Meeting held on Thursday, February 21, 2019.

The first project to be undertaken under this DDNP initiative is J.J. Henderson, which consists of the rehabilitation of the existing J.J. Henderson Tower (Phase IB), and the new construction of the J.J. Henderson Seniors Apartments (Phase IA). In December 2019, City Council approved a funding commitment for the rehabilitation of the J.J. Henderson Tower.

The current \$3,000,000 request is for the Phase IA new construction project, which will be co-developed by Laurel Street Residential, LLC and Development Ventures Incorporated.

The total project cost is estimated to be \$15,473,826. DHA is requesting a gap financing subsidy of \$3,000,000 that will be leveraged with LIHTC equity, a conventional bank loan (first mortgage), and a DHA purchase money note.

Recommendation

It is recommended that City Council:

1. Authorize the City Manager to issue to the Durham Housing Authority, Laurel Street Residential, LLC, Development Ventures, Inc., or its designated affiliate approved by the City, a conditional binding commitment of permanent financing in the amount up to \$3,000,000 in HOME and or Dedicated Housing Funds for the J.J. Henderson Seniors Apartments development; and
2. Authorize the City Manager to execute any and all documents and instruments, necessary, reasonable and appropriate in order to carry out the purpose and intent

of this conditional binding commitment of permanent financing and to make necessary and sundry changes to the conditional binding commitment of permanent financing so long as the changes do not increase the financial obligations of the City, and the changes taken as a whole, are not less favorable to the City.

Background

Development Ventures Incorporated (DVI) is the real estate development instrumentality of the Housing Authority of the City of Durham. In May 2018, DVI selected Laurel Street Residential, LLC (Laurel Street) as a development partner to assist DVI with the redevelopment of DHA's and/or DVI's properties. Laurel Street has proposed that a new affordable housing project be developed on a portion of the existing J.J. Henderson public housing development site. J.J. Henderson Seniors will consist of 80 one- and two-bedroom units in an elevator accessed building for households with incomes ranging from 80% area median income and below. Of the 80 units, there will be 70-one bedroom and 10 two-bedroom units. The community will be developed under HUD's RAD program and will be located on a parcel of land being leased from The Housing Authority of the City of Durham (DHA).

In January 2019, DHA passed a resolution authorizing submission to the North Carolina Housing Finance Agency (NCHFA) of a 2019 preliminary 9% low-income housing tax credit application for a new construction affordable housing project to be developed by Laurel Street and DVI on a portion of the existing J.J. Henderson public housing site.

In January of 2019, Laurel Street submitted a preliminary 2019 tax credit application to the NCHFA for the J.J. Henderson Seniors Apartments development. Final site scores were released on March 22, 2019, and the site received the maximum number of points allowed. Despite this, on August 9, 2019 when the NCHFA announced the 2019 9% credit award list, the J.J. Henderson development was not awarded tax credits.

There were two changes to the State's 2019 Qualified Allocation Plan (QAP), which governs the allocation of tax credits, as part of North Carolina's response to the damage caused by Hurricane Florence to the eastern part of the State that affected J.J. Henderson's ability to win a 9% tax-credit:

- 12.5% of the total tax-credits available to North Carolina were re-allocated to the Eastern Region from the three other Regions (West, Central, and Metro) resulting in fewer tax-credits being awarded to the other regions including the Metro region.
- Within the Metro region, Cumberland County was guaranteed one tax-credit award and was allowed to receive a 2nd tax-credit award when normally the maximum credits allowed in Cumberland County only allows for one award.

J.J. Henderson received a maximum site score and it received the maximum allowable points in all scoring categories except for one category—the category that awards points based on how many tax-credits per unit a project requests in its application. J.J. Henderson requested \$11,250 in tax-credits per unit which was below the average request for all projects in the Metro Region. Because J.J. Henderson's tax-credits per unit request was more than 4% below the average for all the projects in the Metro region, J.J. Henderson received one point in this category out of a maximum of two points available.

For the past several years, it has not been necessary to receive a perfect score in all scoring categories to win an award in the Metro Region. However, in 2019, because the amount of

credits allocated to the Metro region was less than normal because of the QAP changes noted above in response to Hurricane Florence, only projects with a perfect score in all categories in the Metro region received awards in 2019. If J.J. Henderson had received the maximum points in all categories, it would have been awarded tax-credits.

The credits per unit scoring category is the most unpredictable scoring category in the QAP. Because the scoring is based on the average credits per unit for projects submitted in the current year, there is no way to definitively predict what that average will be prior to a project being submitted.

DHA has made an adjustment to its financing plan for the proposed development and as a result of utilizing the 4% LIHTC and bonds, seeks a gap financing commitment of \$3,000,000 in order to keep the development on schedule.

Issues and Analysis

This request is for a conditional binding commitment of permanent financing in support of the final tax credit application to NCHFA. Laurel Street and DVI submitted a preliminary 4% tax-credit application in September 2019, prior to the second round deadline of October 1, 2019. If this commitment is obtained for the \$3,000,000 financing gap, a full application will be submitted immediately thereafter. If a full application is submitted by year end of 2019, construction on the project would then commence by the fourth quarter of 2020. Construction is expected to take up to 18 months.

If tax credits are allocated to the development effort, staff would return to City Council in the second quarter of 2020 to request approval of the loan documents.

Alternatives

The City Council could elect not to approve the conditional binding commitment of permanent financing for the development effort. Without the City’s support, the development of J.J. Henderson site would not move forward. DHA has made representations that it is unable to obtain a loan upon the same or similar terms and conditions of this loan from conventional financing sources and that this is ‘gap’ financing. (A funding gap is the difference between the cost to produce the housing and the available, secured financial resources. The financing sources secured for this affordable housing project are less than the total development cost, or TDC.)

Financial Impact

This is a preliminary commitment conditioned on the award of tax credits and an environmental clearance. The funding in the amount of \$3,000,000 is available in a combination of HOME and Dedicated Housing Fund:

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|--------------------------------|-----------------------|
| <i>HUD HOME Funds FY 18-19</i> | <i>\$388,280.68</i> |
| <i>Dedicated Housing Funds</i> | <i>\$2,611,719.32</i> |

The loan is intended to be structured as a forgivable loan at a 0% interest rate, forgivable over a period of 30 years.

Equal Business Opportunity Summary

Should the application for LIHTC be successful, applicable UBE participation goals will be set by the Office of Equal Opportunity and Equity Assurance for the construction activities.

Attachments

Conditional Binding Commitment
Project Fact Sheet and Proposal
Site Plan