



Date: April 19, 2018

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Reginald J. Johnson, Director
Department of Community Development
Subject: Jackson/Pettigrew Street Development Loan Commitment in an Amount Not to Exceed \$3,600,000

Executive Summary

On January 2, 2018 City Council approved a Resolution in support of the Jackson/Pettigrew Street Development and to Exercise Power Granted to Municipal Housing Authorities pursuant to G.S. 160A-456(b); authorized the City Manager to execute an Option Contract with Self-Help Ventures Fund and DHIC, Inc. for the purchase of approximately 2 acres of land at the Durham Station Transportation Center for the sum of One and No/100 Dollars (\$1.00) subject to conditions in the Option Contract; and authorized the City Manager to issue to Self-Help Ventures Fund and DHIC, Inc., a letter, to the North Carolina Housing Finance Agency (NCHFA), supporting the Jackson/Pettigrew Street Development through subordinate financing to fill a project financial gap, which was estimated to be \$3,516,111.00.

As a result of the actions taken by City Council, DHIC and Self Help Ventures Fund, a Joint Venture (JV), submitted a preliminary tax credit application to the North Carolina Housing Finance Agency (NCHFA) in January of 2018. The final application to the agency is due on or before May 11, 2018 and will require an executed loan commitment from the City of Durham in the amount in amount not to exceed \$3,600,000,00.

Recommendation

It is recommended that City Council:

1. Authorize the City Manager to issue to DHIC, Inc. or it's designated affiliate approved by the City, a conditional commitment of subordinate financing in the amount up to \$3,600,00 for the Jackson/Pettigrew Street development consisting of 82 affordable rental units;
2. Authorize the City Manager to make changes to the letter of conditional commitment of subordinate 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; and
3. Adopt an ordinance amending the FY 2017-18 City of Durham Budget Ordinance, the same being ordinance #15153.

Background

In January of 2018, the JV submitted a preliminary 2018 tax credit application to the NCHFA for the Jackson/Pettigrew Street development. Final site scores were released on March 22, 2018, and the site received the maximum number of points allowed. The City's preliminary approval of a conditional commitment of financing must be included as part of the final application, which is due on or before May 11, 2018.

Issues and Analysis

The request is for a conditional commitment of financing in support of the final tax credit application to NCHFA. There is no guarantee that the proposed project will receive an allocation of tax credits. If tax credits are allocated to the development effort, staff would return to City Council requesting approval of the loan documents and a developer's agreement associated with the construction of the 82 units. The developer's agreement would set forth the roles and responsibilities of the City and the JV.

As the original design concept has changed, the development team, City staff and the architect are studying options other than the original concept. The options include (i) construction of solely the 82 affordable units with sufficient parking and retail for those units; (ii) building out the entire deck/parking podium to support a future phase of residential development; or (iii) building out the entire deck/parking podium and constructing a second phase of housing at the same time. Design concepts along with preliminary cost for a second phase of development will be presented at the July 26, 2018 work session with staff seeking City Council input and direction.

If the JV were to receive an allocation of tax credits in August of 2018, staff along with the JV would return to City Council in September/October of 2018 and provide an update to include defined cost associated with a preferred option, loan documents and a developers agreement.

Alternatives

The City Council could elect not to approve the conditional commitment of financing for the development effort. Without the City's support, the development of the Jackson/Pettigrew site would not move forward.

Financial Impact

City Council approved a resolution supporting the Jackson/Pettigrew Street development effort on January 2, 2018. The letter of support to the North Carolina Housing Finance Agency stated that the City, through subordinate financing, would assist to fill a project financing gap. The financial gap was estimated not to exceed \$3,600,000.

The funding in the amount of \$2,835,186 is available in the Dedicated Housing Fund (FY 2017-18 budget) and the remaining amount of \$764,814 is available in the Dedicated Housing Fund Balance. The attached budget amendment will appropriate the \$764,814 of fund balance.

The loan will 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.

