



**Date:** May 7, 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 J.J. Henderson Tower Rehabilitation – Phase IB  
Loan Commitment to Durham Housing Authority/ Development Ventures,  
Inc. in an Amount Not to Exceed \$2,900,000.00

### **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 build stronger Durham communities. The DHA Downtown and Neighborhood Plan (DDNP) was presented at a Special City Council Meeting held on Thursday, February 21, 2019.

In May 2018, DHA selected California Commercial Investment Group, Inc. and The Florian Companies as development partners to assist DHA with redevelopment projects planned as part of the DDNP. The first project site to be redeveloped is J.J. Henderson. The subject project is the rehabilitation of the 178-unit J.J. Henderson Seniors high-rise apartment. The project is to be co-developed by a joint venture between California Commercial Investment Group, Inc.(CCI), The Florian Companies and Development Ventures Incorporated (DVI), DHA's real estate development subsidiary.

The J.J. Henderson redevelopment will be 178-units in an elevator-accessed building for senior households (age 62+) with incomes at or below 60% area median income. All units will have project-based vouchers making them affordable to extremely low-income households, including current public housing residents. The total project cost is estimated to be \$18,400,000.00. DVI is requesting a gap financing subsidy from the City of \$2,900,000.00 that will be leveraged with Low Income Housing Tax Credit equity, a conventional bank loan (first mortgage), a DHA purchase money note and operational cash flow.

### **Recommendation**

The Department recommends that the City Council:

1. Authorize the City Manager to issue to the Durham Housing Authority's subsidiary Development Ventures, Incorporated or its designated affiliate approved by the City, a conditional binding commitment of permanent financing in the amount up to \$2,900,000.00, the source of these loan funds shall be U.S. Department of Housing and Urban Development ("HUD") HOME Investment Partnerships Program funds and City of Durham Dedicated Housing Funds; 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 changes to the conditional binding commitment of permanent financing, including assignment of the commitment, 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**

In May of 2018, DHA selected California Commercial Investment Group, Inc. and The Florian Companies as development partners to assist with the redevelopment of properties envisioned under DDNP. In June of 2019, DHA will have passed a resolution authorizing submission to the North Carolina Housing Finance Agency (NCHFA) of a 2019 preliminary 4% low-income housing tax credit application for the rehabilitation of the J.J. Henderson public housing apartment complex.

In July of 2019, the CCI/Florian/DVI venture will submit a preliminary 2019 4% tax credit application to the NCHFA for the J.J. Henderson Apartment development. For all LIHTC projects proposing public permanent financing, binding commitments are required to be submitted by the full application deadline. The City's conditional binding commitment of permanent financing must be included as part of the final application, which is due by the time of the July submission.

### **Issues and Analysis**

J.J. Henderson will consist of a 178-unit, elevator-accessed building for senior households (age 62+) with incomes at or below 60% area median income. The building currently contains 141 studio and 37 one-bedroom units. As the redevelopment program is finalized, there may be an increase in the number of one-bedroom units and a reduction in the number of studios, while still maintaining 178 units overall.

All units will have project-based voucher assistance making them affordable to extremely low-income households, including current public housing residents. There will be no tenant displacement associated with this development. There will be temporary relocation of residents during construction.

The total project cost is estimated to be \$18,400,000.00. A major part of financing affordable housing is covering funding gaps. A funding gap is the difference between the cost a developer pays to produce the housing and the available, secured financial resources to help pay for costs. DHA had identified a \$2,900,000.00 project gap. DVI is requesting a gap financing subsidy from the City of \$2,900,000.00 that will be leveraged with Low Income Housing Tax Credit equity, a conventional bank loan (first mortgage), and a DHA purchase money note.

This request is for a conditional binding commitment of permanent 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.

NCHFA will accept 4% Tax Credit applications any time between May 13 and October 1. When a preliminary application has been submitted in this timeframe, a schedule of milestones will be provided. The preliminary application submission date will determine when those milestones occur. It is expected that NCHFA notification of tax credit awards would occur in early 2020. If tax credits are allocated to this development effort, staff would return to City Council requesting 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 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 essential gap financing.

**Financial Impact**

This is a preliminary commitment conditioned on NCHFA approval of the project and environmental clearance.

The funding in the amount of \$2,900,000.00 is available in HUD Home Investment Partnership (HOME) and Dedicated Housing Funds:

<i>HUD HOME Funds</i>	<i>FY 18-19</i>	<i>\$ 663,000.00</i>
	<i>FY 19-20</i>	<i>\$ 517,000.00 (future year commitment)</i>
<i>Dedicated Housing Funds</i>	<i>FY 19-20</i>	<i>\$1,720,000.00</i>

The loan is intended to be structured as a cash flow loan at a market interest rate, with a noncontingent obligation to pay and unpaid interest must accrue and compound.

**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
- Site Plan