



Date: June 20, 2023

To: Wanda S. Page, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Reginald J. Johnson, Director
Community Development
Subject: American Rescue Plan Act (ARPA) Funds LDG Multifamily Development, LLC – Loan Commitment Letter for Sankofa Landing

Executive Summary

The agenda item requests City Council's approval for a commitment of \$9,714,137 in funding from the City of Durham and Durham County American Rescue Plan Act (ARPA) funds for the Sankofa Landing affordable housing project. Sankofa Landing is a proposed community spanning 9.41 acres in Durham's Bragtown neighborhood, situated at the intersection of Dearborn Drive and Old Oxford Road.

In December of 2021, the City of Durham issued a Request for Proposal (RFP) to fund affordable housing developments under the Forever Home, Durham program. Forever Home, Durham is a \$160 million program to create an affordable, livable, inclusive community for low-income residents. As a result of the RFP, the City received nine responses, with funding available to provide gap financing for four of the highest ranked projects. Of the remaining five proposals, four were ranked five through eight, with the ninth proposal being identified as not meeting the minimum threshold requirements in the RFP for review.

In February of 2023, Community Development staff was informed of the availability of the City of Durham's and Durham County's American Rescue Plan Act (ARPA) funding under the State and Local Fiscal Recover Funds (SLFRF) section, with affordable housing development now defined as eligible criteria. As a result of the funding availability for affordable housing, the Community Development department requested updated information from the remaining four proposals that were not funded as part of the December 2021 RFP.

In June of 2023, the City of Durham and Durham County entered into an Interlocal Agreement (ILA) to fund Affordable Housing projects using ARPA/SLFRF funds. The ILA empowers the City to execute all loan documents and agreements relating to the ARPA/SLFRF funds on behalf of the City and County.

One of the remaining four proposals, from LDG Multifamily, LLC is a project that comprises 156 units exclusively designated for low-income families and individuals with household earnings falling within the 30% AMI and 60% AMI income bands. These units will consist of one-, two-, and three-bedroom options distributed across five three-story garden-style residential buildings. Each unit will be equipped with essential amenities, including ceiling fans, a dishwasher, a refrigerator, high-speed internet and cable wiring, exterior storage space, a microwave, mini-blinds, a patio or balcony, walk-in closets, self-cleaning ovens, washer/dryer hook-ups, a kitchen pantry, and wire shelving in all closets.

Sankofa Landing will boast a dedicated community building housing property management and leasing offices, a laundry center, a mail center, a multipurpose community room, a furnished fitness center, and a computer/office center. Additionally, residents will have access to on-site amenities such as a playground and tot lot, a covered grill area with picnic tables, and a pool.

Based on the analysis of project costs and the significance of providing affordable housing within our community, it is recommended that the LDG City Council commit \$9,714,137 in ARPA funding to support the development and realization of the Sankofa Landing project

Motion

To authorize the City Manager to issue a conditional binding commitment of permanent financing in an amount up to \$9,714,137 from the City of Durham’s and Durham County’s American Rescue Plan Act funding under the State and Local Fiscal Recovery Funds to LDG Multifamily Development, LLC, as the managing member and lead developer, or its designated affiliate approved by the City, for the development of 156 affordable rental units at Sankofa Landing;

To authorize the City Manager to execute all necessary documents and instruments required to fulfill the purpose and intent of this conditional binding commitment of permanent financing; and

To authorize the City Manager with the authority to make necessary and appropriate changes to the conditional binding commitment of permanent financing, provided that such changes do not increase the financial obligations of the City and, taken as a whole, remain favorable to the City’s interests.

Background

The City of Durham launched the Forever Home, Durham program in December 2021, a comprehensive initiative aimed at addressing the affordable housing needs of low-income residents. As part of the program, the City issued a Request for Proposal (RFP) to fund affordable housing developments. Through a rigorous evaluation process, the City received nine proposals and identified four projects eligible for gap financing.

Among the remaining proposals is LDG's Sankofa Landing project. Sankofa Landing is a key component of the Forever Home, Durham program, designed to provide affordable housing options to individuals and families with diverse income levels. The project aims to create a vibrant and inclusive community that addresses the pressing need for affordable housing in Durham.

Sankofa Landing will offer a total of 156 units, catering to households of various sizes. The unit types and their distribution across different Area Median Income (AMI) levels are summarized in Table 3 below:

Table 3: Number and Type of Units

Unit Size	Total # of Units	< 30% AMI	31-50% AMI	51-60% AMI	61-80% AMI	> 80% AMI
Studio	0	0	0	0	0	0
One Bedroom	48	11	0	25	12	0
Two Bedroom	72	14	0	40	18	0

Unit Size	Total # of Units	< 30% AMI	31-50% AMI	51-60% AMI	61-80% AMI	> 80% AMI
Three Bedroom	36	7	0	19	10	0
4+ Bedroom	0	0	0	0	0	0
TOTAL	156	32	0	84	40	0

As part of LDG's commitment to promoting equal business opportunities, the project will also prioritize minority-owned and women-owned businesses. LDG's General Contractor, Xpert Design and Construction, LLC, has established a Minority Participation Development program to surpass the City's goals of 11% Minority Owned Business and 7% Women Owned Business participation. Through outreach events and partnerships with relevant organizations, the program aims to provide support, certifications, and business opportunities to local minority, disadvantaged, women, and small businesses.

The Sankofa Landing project aligns with the City's vision of fostering community development, enhancing livability, and ensuring equitable access to affordable housing. By providing a comprehensive range of housing options and actively engaging with underrepresented businesses, the project aims to contribute to the long-term sustainability and inclusivity of the Durham community.

Through the Forever Home, Durham program and initiatives like Sankofa Landing, the City of Durham reaffirms its commitment to addressing the affordable housing crisis and creating a city where all residents can find safe, affordable, and welcoming homes.
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Issues and Analysis

CDD has the objective at this point to present an overview of the key issues and conduct a thorough analysis of the Sankofa Landing project's funding gap, proposed loan terms, and recent developments.

- **Funding Gap:** The Sankofa Landing project currently faces a funding gap of approximately \$12.3 million. However, LDG proposed reducing its ARPA funding request from \$12,481,212 to \$9,714,137. This reduction is based on LDG's confidence in securing \$2.7 million in soft loans from two local foundations. These potential funds would significantly contribute to bridging the funding gap and ensure the project's financial viability.
- **Potential Additional Funding:** LDG has received positive feedback from the Durham Housing Authority (DHA) regarding the issuance of a Request for Proposal (RFP) for 32 HUD-VASH Project-Based Vouchers (PBVs). The Sankofa Landing project is well-positioned to receive these vouchers due to the presence of veterans' support organizations on-site and a letter of support from the Durham VA. If awarded, the 32 HUD-VASH PBVs would not only enhance the project's social impact but also increase rental revenue. This increase in revenue could potentially enable LDG to secure a larger permanent loan of approximately \$2.5 million, further reducing the funding gap.
- **Revised Loan Terms:** In light of the potential additional funding sources and reduced ARPA funding request, LDG proposes revised loan terms for the ARPA loan. The proposed terms include a principal amount of \$9,714,137, a 1% simple interest rate, a term of 360 months, and an amortization period of 480 months. These terms are designed to align with the adjusted

funding request and accommodate potential changes in the permanent loan size based on the outcome of the HUD-VASH PBV application.

- **Analysis:** The recent developments regarding potential soft loans from local foundations and the possibility of securing HUD-VASH PBVs indicate a positive trajectory for the Sankofa Landing project. These developments not only address a significant portion of the funding gap but also enhance the project's financial stability and long-term sustainability. The revised loan terms proposed by LDG are aligned with the adjusted funding request and provide favorable conditions for attracting a lender to support the project.

It is recommended that the City Council carefully consider these developments, revised loan terms, and the potential impact of securing additional funding sources in their decision-making process. This analysis highlights the progress made in addressing the funding gap and the opportunities for securing necessary resources to advance the Sankofa Landing project towards successful completion.

CDD strongly recommends approving the commitment for the Sankofa Landing project. The reduced funding request, potential soft loans, and the opportunity to secure 32 HUD-VASH vouchers enhance the project's financial outlook and long-term viability. This decision will support the creation of affordable housing, leverage additional resources, and demonstrate our commitment to community development.

Alternatives

In consideration of the proposed loan terms and funding amount for Sankofa Landing, the following alternatives are presented for City Council's decision:

Approve the Proposed Loan Terms: City Council can choose to approve the proposed loan terms and funding amount of \$9,714,137 for Sankofa Landing as presented. This option involves accepting the recommended loan terms and financial commitment, providing LDG with the necessary funding to proceed with the affordable housing development project.

Authorize the City Manager to Modify Loan Terms: City Council may authorize the City Manager with the authority to make necessary and appropriate changes to the conditional binding commitment of permanent financing. These modifications should not increase the financial obligations of the City and must remain favorable to the City's interests. This option allows for potential adjustments to the loan terms while ensuring the City's financial responsibility and interests are protected.

Request Further Evaluation and Information: City Council may request additional evaluation and information regarding the proposed loan terms, funding amount, and potential alternatives. This option allows for a more thorough examination of the project's financial implications, exploring potential refinements or alternatives that align with the City's goals and interests.

Deny the Funding Commitment: City Council has the option to deny the funding commitment for the Sankofa Landing project. This decision would result in the project not receiving the proposed loan amount and would require LDG to seek alternative funding sources or reassess the viability of the project.

It is important for City Council to carefully evaluate these alternatives and consider their implications on the City's affordable housing goals, financial stability, and long-term commitment to the Sankofa Landing project. By selecting the most suitable alternative, City Council can make an informed decision that aligns with the City's objectives and best serves the needs of the community.

Financial Impact

LDG's proposed ARPA funding request is \$9,714,137. The financial impact of the project is significant, with various sources of funds contributing to its realization. One notable source of funds is the availability of the City of Durham and Durham County ARPA (American Rescue Plan Act) funds, which have been secured for the project. These funds provide a valuable opportunity to support the project's development and make a positive impact on the community. Additionally, it is worth mentioning that the project is shovel ready, meaning that all necessary preparations, including permits, approvals, and construction plans, have been completed. This readiness ensures that the project can swiftly move forward and capitalize on the available funding, expediting its implementation and maximizing its positive effects. The financial impact of the project is summarized below, highlighting the Sources and Uses of Funds:

Sources of Funds:

Category	Amount
Federal TC Equity	\$22,244,177
Equity - Other	\$1
DDF	\$1,560,000
Permanent Loan	\$16,731,000
Taxable Perm Loan Formula	\$0
ARPA	\$9,714,137
Foundation Soft Loan	\$2,387,373
Total Sources	\$52,636,688

Uses of Funds:

Land	\$1,550,000
Title Insurance & Recording	\$31,000
Legal: Zoning	\$45,000
Buildings	\$25,266,579
On Site Work Weber Est. 2023.02	\$5,373,958
Off Site Work LTC Est.	\$550,000
Contingency	\$1,777,861
Contractor Overhead	\$623,811
Contractor Profit	\$1,871,432
Contractor General Requirements	\$1,871,432
Sewer Impact Fees KH 2023.02	\$584,996
Construction Loan Interest	\$4,267,551
FF&E	\$150,000
Site and Building Permits LTC Est.	\$500,000
Architect: Design	\$972,552
Engineer: Civil	\$315,000
Engineer: MEP / SMEP	\$100,000

Feasibility Study Timmons	\$2,300
Environmental Study/Phase I/Limited Phase II Timmons	\$2,950
Market Study NCHFA	\$4,700
Geotechnical/Soils Report Timmons	\$18,500
Appraisal Cushman Wakefield	\$7,000
Real Estate Taxes During Construction	\$40,905
Inspection Fees	24,333
Hazard & Liability Insurance	\$50,000
Builders Risk Insurance	\$600,000
Legal - Bond Counsel	\$96,000
Issuance Fee	\$325,000
Financial Analysis Review Fee	\$10,000
Bond Application Fee	\$2,500
COI Cost Contingency	\$25,000
TEFRA/Publishing/Printing	\$5,000
Legal - Trustee Counsel	\$5,000
Fee - Trustee Fee	\$5,000
Origination/Underwritten Perm Phase PacWest	\$35,000
Due Diligence (Plan & Cost Review)	\$25,000
Payment & Performance Bond	\$200,000
Origination Fees PacWest	\$270,000
Closing Cost PacWest	\$50,000
Pre-App Fee	\$1,440
Full App Fee	\$1,440
TC Allocation Fee	\$556,104
Monitoring Fee	243,360
Operating Deficit Reserve	\$628,984
Third Parties Hunt	\$75,000

Legal - Borrowers Counsel	\$80,000
Fee - Accounting	\$10,000
Organizational Costs	\$15,000
Soft Cost Contingency	\$175,000
Rent Up Marketing	\$75,000
DEVELOPER FEE	\$3,120,000
TOTAL USES OF FUNDS	\$52,636,688

The project's financial impact shows that the total Sources of Funds amount to \$52,636,688, which will be allocated towards various categories such as federal TC equity, loans, and grants. The Uses of Funds amount to the same value of \$52,636,688, encompassing expenses related to land acquisition, legal fees, construction costs, insurance, and other project-related expenditures.

Equal Business Opportunity Summary

This is a Loan Commitment for funding that was not reviewed for compliance with the Ordinance to Promote Equal Business Opportunities in City Contracting. If the application for LIHTC is deemed successful, then participation goals will be assessed by the Department of Equity and Inclusion for the construction activities.

Contractor Workforce Diversity & Hiring Practices

Due to the nature of this agenda item, obtaining Contractor Workforce Diversity & Hiring Practices information is not applicable.

Attachments

Development Financing Commitment Letter

Site Plan Survey and Building Elevations