

## 01-12-2022 Town Council Meeting Responses to Council Questions

### **ITEM #11: Consider Authorizing the Town Manager to Execute Option to Ground Lease Agreements with the Developers of the Trinity Court and Jay Street Affordable Housing Development Projects**

**Council Question:**

Why is the proposed Jay Street option for 2 years instead of 3? Is the Taft Mill's not interested in keeping open the option to re-submit for 9% credits in 2023?

**Staff Response:**

*It is Trinity Court (Community Housing Partners) that has a 2-year option period and Jay St (Taft-Mills Group) that has a 3-year option period.*

*Trinity Court's Option is shorter to allow the developer to meet certain Rental Assistance Demonstration (RAD) timelines as well as those of the Tax Credit applications. If the option is not exercised within the two years, we may have to re-submit our HUD application.*

**Council Question:**

If we approve ground lease agreements, are we obligated to provide construction funding if the projects require subsidies to be built?

**Staff Response:**

*The Council vote on the option agreement is separate from any request the project may make for project funding. So, Council could authorize the option agreement and then decline a project funding at a later vote. In addition, the execution of a ground lease is conditional on two key requirements related to funding:*

- *Optionee/Lessee shall have received an allocation of low-income housing tax credits from the NCHFA*
- *Optionee/Lessee shall have secured the funding needed for the development of the project.*

*So, the developer is responsible for securing project funding (tax credit and/or other sources) before a ground lease can be executed.*

*At this point we are seeking authorization to grant Community Housing Partners an Option to exercise the Ground Lease Agreement. This is one more step in the process to complete the tax credit application. The option describes our mutual intention to enter into a Ground Lease and to design, finance, and redevelop the property at Trinity Court.*

*The executed ground lease agreement will further spell out both parties' obligations.*

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### **Council Question:**

Do the ground leases expire if the projects are not able to obtain funding and proceed with construction? If so, what would that time frame be?

### **Staff Response:**

*The option expires if the developers are unable to obtain funding and proceed with the redevelopment. The tax credit award will be made in August of 2022 and we would know better how much financing is needed to proceed with the redevelopment.*

*As drafted, the option periods for each option-to-lease agreement are:*

- *Trinity Court: through December 31, 2023*
- *Jay Street: 36 months from execution of the option agreement*

### **Council Question:**

For Jay Street, can we have Community Home Trust provide information on the options they considered (townhomes, rental, different densities) and rationales for why they chose the project they're presenting?

### **Staff Response:**

*Staff reached out to our development partner for the Jay St project, Taft Mills, who provided the following response:*

*In responding to the Town of Chapel Hill's Request for Qualifications, our firm evaluated several different building types (single, duplex, townhomes, single-building multi-family and traditional garden-style multi-family) in an effort to maximize the amount of high-quality affordable units that could be produced on the Jay Street Site. The Jay Street site itself presents several layout and design hurdles, primarily challenging topography and a limited building footprint, that made the traditional garden-style design the most effective product type for the proposed development. As proposed, with a garden style design, we anticipate being able to provide approximately 48 units in two separate residential buildings, all while preserving almost 50% of the site. The significant site preservation is accomplished by the efficient layout and minimal footprint necessary for this design.*

*In evaluating rental versus an owner-occupied concept, we specialize in developing high-quality affordable rental housing that relies heavily upon the Low-Income Housing Tax Credit ("LIHTC") for financing. The LIHTC program is the nation's single largest generator of affordable housing rental units. While we previously evaluated the concept of developing owner-occupied single-family homes, we haven't found a path that is financially feasible enough to make any significant unit contributions. In most cases, there is limited significant or reliable funding available for affordable, owner-occupied developments, outside of local subsidies. Often,*

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*affordable, single-family homes are subsidized by a larger market rate development and the affordable units generated by those efforts is often just a small fraction of the overall number of units being developed. The result is far fewer units being produced in a community as compared to those that could be developed under the LIHTC program. Based on this reasoning, we believe that rental units financed under the LIHTC program provides the most cost-effective way to maximize the number of high-quality affordable units on the Jay Street site.*

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**Council Question:**

Are we giving up the ability to do sliding scale and serve 30% AMI and below by selling the project off? Will the affordable housing be in perpetuity or only 30 years?

**Staff Response:**

*The Town is not selling the property. Our Memorandum of Understanding (MOU) with Community Housing Partners (CHP) states the intention for the Town and CHP to enter into a ground lease, which will be negotiated in future agreements. The Option to Ground Lease Agreements, which the Council will consider tonight, describes the terms of the ground lease, including that the term of the Ground Lease shall be ninety-nine (99) years. If executed, and if CHP satisfies the conditions of the option agreement, the Town will enter into a long-term ground lease (99 years) with CHP and the Town would continue to own the land.*

*The Council authorized the Town to submit a Rental Assistance Demonstration (RAD) Program application in 2018 to redevelop the Trinity Court community, and the Town received approval in 2019. (see attached Resolution)*

*Once the application was approved, we presented a Public Housing Master Plan (attached) to the Council that outlined our plans for Trinity Court. In May of 2019 the staff presented options for the Council to consider for the redevelopment of the site. The Council preferred the rebuild option, with RAD financing, and demonstrated a preference for putting as much housing on the site as it could reasonably accommodate. (see attached Trinity Court Update)*

*Based on the Council's direction, we have entered into a Memorandum of Understanding with Community Housing Partners (CHP) to develop 54 units on the site. Forty of these units would replace the Trinity Court units and would be removed from the Town's Public Housing portfolio and converted into Housing Choice Voucher (formerly the Section 8 program) units. A long-term contract as required by law will renew this contract in perpetuity. The 40 units that are served by the Housing Choice Vouchers would serve households earning up to 50% of the Area Median Income and would continue to guarantee that those households would not spend more than 30% of their income on rent. CHP's Rental policy also supports interim recertifications anytime income decreases by any amount or income increases by more than \$200/month. (Additionally, if expenses increase dramatically (such as childcare) CHP can also do an interim to adjust the rent.*

*As currently proposed, up to 14 (35%) of the 40 RAD units would serve households at or below 30% AMI, and 26 (65%) would serve households serving between 30% and 50% AMI. Additional*

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*Town subsidy would be required to serve more households at a lower AMI. The Town would have to increase its subsidy to serve a larger number of lower income households whether we are successful with the 9% application or not.*

### **Council Question:**

If Jay Street doesn't get full LIHTC funding, where do the millions of dollars of additional subsidy come from, and is there an opportunity to evaluate other models/reevaluate in terms of our overall goals?

### **Staff Response:**

*If the 9% LIHTC application for Jay Street or Trinity Court is not successful, the Town and the development team(s) can decide whether they want to apply for a 4% LIHTC award, which is not competitive. With a 4% award, either project would need to pursue financing to fill the estimated \$2-\$3.5 million subsidy gap, or whether it makes more sense to apply for a 9% LIHTC award again in 2023.*

*In the event that either team decides to pursue a 4% LIHTC award, the development team will be responsible for obtaining the financing needed to fully finance the project. Staff does anticipate the developer requesting Affordable Housing Bond funding to cover much of the financing gap for either project, consistent with projections we have provided to Council previously. We also anticipate other funding sources will be pursued, including ARPA funds, project-based vouchers, HOME and HOME ARP funding, North Carolina Housing Finance Agency, and the Federal Home Loan Bank Affordable Housing Program, among others.*

*The Council decision this evening on site control is separate from any funding decision the Council will make later. Authorizing site control simply makes the project eligible for a 9% tax credit application in 2022 and gives the developers an option on the parcel for a specified amount of time. If the developer does not receive the tax credits and other funding needed to develop the project, or it does not receive rezoning approval from Council, the ground lease will not be executed.*

*In the planning process for Jay Street, staff have been following direction from Council to pursue the development of affordable housing on Town-owned parcels as a way of contributing to the Town's affordable housing goals in a unique and impactful way. The Town received six developer responses to the project RFQ. The only financially feasible models of those responses were exclusively rental housing projects. The proposed site plan with 48 rental units was the minimum number of units proposed by the RFQ respondents. A substantially different development plan, such as switching the housing type or ownership structure, would also likely necessitate substantial Town subsidy, and the issuance of a new RFQ to identify a developer for the site as the current development partner has explored this option and determined it is not financially feasible (see Staff Response to this Council Question). In addition, while developing*

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*fewer units is feasible at the Jay Street site, staff understood that Council was interested in maximizing the use of valuable Town land. The proposed site plan aims to do this while still preserving half of the site in its natural state. Based on the engineering test-fit drawings the Town received after Council prioritized these sites, a single-family, townhome, or duplex type of development is likely to disturb a similar amount of the parcel, while gaining less affordable units*