

11-16-2022 Town Council Meeting Responses to Council Questions

ITEM #16: Consider Approving the Recommended Affordable Housing Funding Plan

Council Question:

Given that costs of constructing AH units have clearly increased substantially in the past two or so years, would it not make sense to explore changes/additions to the Town's AH strategy and, perhaps, consider deferring these allocations until our strategy has been reexamined?

Staff Response:

Staff have taken project cost uncertainties into consideration when determining the timing of this funding round. The funding round was initially planned to take place in early spring. Due to market and project uncertainties, staff initially delayed the funding round to the summer and then again to the fall. We are hopeful market uncertainties and rising costs will stabilize in the next couple of years. Since there are many projects that have identified funding needs to move forward, and the Town is planning to do a bond sale in February staff have not recommended additional funding delays.

To assist the Town in understanding future funding needs and exploring changes or additions to the Town's Affordable Housing Strategy, staff are preparing to update our Affordable Housing Plan, with assistance from an outside consultant. This plan is expected to build off our existing strategies and progress and identify additional implementation tools and strategies. It will then assist in creating an investment plan that will allow the Town to comprehensively address its affordable housing needs into the future.

Council Question:

Do the proposed allocations have a time limit? Some of the projects are in very early stages. At what point might the Town reallocate the funding if the projects are not moving forward?

Staff Response:

Yes, each project that receives funding will sign a performance agreement with the Town. The performance agreement will stipulate the time-period the project, or portion of the project that is funded by the Town, needs to be completed. The time-period stipulated is typically based on the project timeline submitted in the funding application. The established deadline for drawing funding for ARPA is 2026 and within 3 years of receiving the award for bond funding.

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Council Question:

Should the Council decide to defer making decisions on Wednesday until perhaps January, are there any of the projects that would suffer due to an immediate need for the funds?

Staff Response:

While a delay in approval of a funding plan would likely delay some projects by a couple of months and cause a longer period of uncertainty for projects, the most pressing issue is related to the Town's upcoming Bond sale. To be prepared for a Bond sale in February, staff will need to submit project information on the affordable housing projects using Town bond funds by early January to the Local Government Commission. If Council is not ready to move forward with the affordable housing funding plan before January, the sale of Affordable Housing bonds, Streets and Sidewalks bonds, and 2/3 bonds would need to be moved to a later date. There are existing streets and sidewalks projects (Estes Drive, Fordham Side Path, North Street) that will need this funding in early 2023, so the sooner we issue the better for the continuation of those projects.

Council Question:

Homestead Gardens: What are the conditions associated with the Federal funds allocated to the Homestead Gardens project? If the project is delayed or substantially changed, are these funds at risk?

Staff Response:

The \$2 million federal Community Project Funding award must be obligated by September 30, 2025. The funds expire September 30, 2030. Even if the project is delayed for reasons such as rezoning, restructuring, or phasing, we anticipate that we will be able to break ground by that time, if the project receives sufficient funding. Since the grant request was for site construction, there should not be an issue expending those funds within the required timeline.

There is a more immediate deadline of December 31, 2022, to submit preliminary project information to work toward the execution of a grant agreement. We feel confident that we can meet this deadline if Council chooses to support allocating sufficient funding for the project.

Federal guidance on the funding indicates that HUD does not have the authority to approve changes that significantly change the intent of the project. However, grantees may work with their grant officer to request changes to the preliminary information submitted in December. We are hopeful there will be sufficient flexibility in the funding to accommodate the updates to the project and will work with our grant officer to confirm.

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Council Question:

Homestead Gardens: Given that the allocation recommended by the HAB is substantially less than requested, where will the funds to complete the project come from?

Applicant Response:

As we described in our follow-up email to Council members last week, we have thoroughly explored all other funding sources, and the Town is the only potential source of funding to fill our project gap. Without additional funding above the HAB's recommendation, the project will not proceed at this time. Homestead Collaborative partners have brought in substantial sources of funding for the project, with each partner's leverage of non-Town funds ranging from 44-79%, depending on the project element, but due to escalating construction costs the project needs additional support to proceed.

Council Question:

Homestead Gardens: The total subsidy proposed per unit – at over \$106,000 – is substantially higher than the level for most projects in the past. What is the justification for this?

Applicant Response:

Affordable housing and market-rate development projects alike all across the country are experiencing significant price increases for construction materials and labor. The Homestead site is not immune to this, and while it has additional site-related challenges that make the site work more costly than some other more straight-forward development sites, the general design of each housing type is simple and cost-efficient.

Council Question:

Homestead Gardens: Has the applicant and/or staff explored other ways of making the project financially viable, such as incorporating some market rate housing on the site to subsidize the affordable units such as is being done at Weavers Grove?

Applicant Response:

Incorporating market-rate housing into the project would require another rezoning process since the current RSS-CZD district requires 100% affordable housing. Rezoning would require additional study to determine the appropriate zoning designation and redesign of the project to meet the requirements of the updated zoning which would add significant time to the development process. Generally, our project team, including the Homestead Housing Collaborative partners and the Town's Housing & Community Development staff, feel that Homestead is a unique opportunity to provide a 100% affordable development in an area of town that already has a lot of recent market-rate development, including the townhomes at Bridgepoint adjacent to this site, if the necessary subsidy can be secured. As a reminder, the current funding application is based on a substantially revised site plan that removes proposed

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units from the northern portion of the site that is very expensive to develop. While this revised site plan has roughly thirty fewer units than the original plan, it reduces our potential site costs alone by close to \$4 million. Furthermore, the phased approach described in our email last week, to develop the full site and 65 of the proposed 87 units (reducing the Town funding needed by \$2M by re-envisioning the 22-unit CASA workforce apartments as a future phase of development), is, in our team's opinion, the most financially viable path forward at this time that leverages committed funding sources and puts affordable units on the ground in the near future.

Council Question:

Peach Apartments: Why are the per unit costs for this development significantly higher than other projects?

Applicant Response:

The cost of construction for P.E.A.C.H. is just under \$2.5M. We are building 7,500 sq. ft. of apartment space in a 7,900 sq. ft. total building. This puts the cost of construction per unit at \$316 per sq. ft. This is at and even below industry standard, which is pretty impressive, considering we're building for low-low-income residents of Chapel Hill with such a small, community-oriented project. The rest of the costs are soft costs and include the personnel we hire and their fees (architects, engineers, lawyers, etc). We are also providing wrap-around benefits on such a small project like innovative, green stormwater mitigation which will become a functioning garden for residents, a playground and a transportation shelter.

Council Question:

Peach Apartments: What options, if any, has the applicant explored to lower costs?

Applicant Response:

EMPOWERment has done the most diligence on checking our costs and lowering them. We are leveraging networks wherever we can to keep fees low. We did value engineering with Roger Perry and Resolute (our pre-construction firm) to make sure the costs were accurate for our project. The value engineering brought down the costs where it could. We are reducing our dependence on loans to increase the number of units that can serve 30% AMI and below, and to decrease interest on those payments further contributing to costs. A small project still has foundational, baseline costs to cover (soft costs).

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Council Question:

St. Paul's: I believe there is an approved SUP for a St. Paul's project. Does what is being proposed fit within that entitlement or will a new/modified entitlement be needed?

Applicant Response:

Yes, you are correct that an approved SUP exists for this project. The current proposal has been resubmitted to the Town Planning Department as a major modification to the original proposal as it is aligned with the current development atmosphere of increased density within a mixed-use development; consistent with developments within Chapel Hill and surrounding communities. The advantage of our proposal is that, with the increase in density of 350 total units, it allows a larger proportionality of affordable housing residences from the original SUP (although up to 300 units were allowable by its zoning our proposal was only for 16 affordable units of 87 total units; number restricted due to lack of city septic at the time and financials) to now 93 affordable units of 350 total residences.

Council Question:

St. Paul's: The per unit costs for this project seem extremely low. What is the basis for this?

Applicant Response:

Firstly, we continue to challenge the statement of "extremely low" without an itemize line comparator of the standard for which the assumption is being made. But in the absence this information, we think some differences, could be 1) the result of the exclusion of land costs, which is not a factor, 2) these numbers exclude site prep, stormwater cost and soft costs, these are purely unit construction costs. Many of the costs such as those in #2 will be covered within the cost of the other non-residential structures which are a significant portion of the total project costs. (Staff edit: For #2 the project budget includes a pro-rated share of these costs for the residential units as they are spread out over all the building types in the project, including a multi-purpose building, recreational facilities, and a sanctuary.)

These figures are not unrealistic with national costs averages when the factors mentioned above are stripped out of the projected costs. We are realistic that final costs could vary once architectural finalizations are done and we have allowed for this in the overall financial planning to the investors. For now, we are only requesting pre-development assistance inclusive of some initial site preparation and architectural work.

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Council Question:

Master Leasing: Is this program planned to continue indefinitely? If so, would it not make sense to explore working with a non-profit AH developer and borrow money to construct units as the annual subsidy amounts are close to what would be needed to cover debt service?

Applicant Response:

The program was never intended to continue indefinitely, but to fill a gap until more housing could be built such as CASA's project on Merritt Mill Rd. Working with the County we have been able to get several tenant's vouchers. We hope with vouchers and financial education provided the tenant's situation will change, allowing them to move out, and opening the unit up for another tenant in need.

Council Question:

Master Leasing: What is the average market rate rent per unit that is being subsidized?

Applicant Response:

The average market rate rent is \$1,285 for the same unit type.

Council Question:

Trinity Court: Does the cost per unit shown include inflation to the estimated date of construction?

Staff Response:

The development team has shared with Town staff that they have recently received new cost estimates from its potential general contractor that has further increased the budget from what we had assumed in the drafting of the agenda materials. The revised budget totals to nearly \$18 million, which results in a cost per unit of around \$330,000. This new cost estimate includes a \$1.2 million reserve for additional inflation in the construction numbers between now and when the project hopes to break ground in summer 2023—a sum, the development team hopes is an overly conservative estimate.

This increase necessitates an increase in the Town contribution to as much as \$3.5 million.

Council Question:

Trinity Court: Why is it significantly lower than most of the other projects shown?

Staff Response:

The new estimated project cost is in line with what we're seeing industry-wide and on other projects currently seeking Town affordable housing funding. The new cost per unit is somewhat in line with other projects in the funding pool but the requested subsidy per unit is still one of the

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lowest among the larger affordable housing development project applications. The project still receives the highest score of any affordable housing project seeking funding in this application round, if we apply the HAB's scoring rubric to this project.

Council Question:

2023-24 LIHTC Project: Why is the estimated per unit subsidy for this project nearly twice that for Trinity Court given that both are assumed to have nine percent tax credits?

Staff Response:

The subsidy per unit projected for this project falls within the current average range for 9% LIHTC projects locally.

Council Question:

Could you share which projects are the most "shovel-ready"?

Staff Response:

Of the development projects, below are those that are most "shovel-ready":

- ***Weavers Grove** is the most shovel ready project as site development is currently under way. Their vertical development is planned to be completed in five phases with the final phase completed in late 2028.*
- *The **Homestead Gardens** project and **PEACH Apartments** have received their rezonings from Council and would need to receive construction and related permits from the Town to move forward. PEACH anticipated being ready to begin construction around mid-2023 with project completion in early 2024. Homestead Gardens believes they could begin site development in mid-late 2023 with construction of at least Phase I completed in mid-late 2025.*

Council Question:

Given the funding challenges around Homestead Gardens, could AH staff provide their recommendation on whether Council should consider allocating more of this funding towards HG?

Staff Response:

The HAB's current recommendation of almost \$1.8 million for Homestead Gardens would not allow the project to move forward. Since this is a Town-initiated project with a Council created project vision that the Town has worked in partnership with the development team for the last five years, staff recommend Council consider allocating additional funding to make the project viable.

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To make the Phase I of the development team’s latest project concept viable (65 units), the Homestead Collaborative has determined there is a funding gap of \$3.475 million, or \$1,675,000 more than the HAB’s recommendation. Council could fill all or a portion of the \$1.675 million gap from the HAB recommendation by:

- pulling funding from the Affordable Housing Fund
- and/or reallocating portions of the HAB’s recommendation.

As shown in the draft staff presentation, staff have planned to make \$500,000 of the Affordable Housing Fund and \$229,000 of the Affordable Housing Opportunity Fund available for projects this fiscal year. While those sources were not included in this funding round since they follow different application processes, Council could approve using those sources to provide funding to the Homestead Gardens project. If the full \$500,000 from the Affordable Housing Fund and \$229,000 of the Opportunity Fund are allocated to Homestead Gardens, there would then be a funding gap of \$950,000. Council could choose to reallocate the HAB’s recommended funding plan to fill all or a portion of that remaining gap.

	HAB Recommendation	HAB Recommendation + Afford. Housing Fund + Opportunity Fund	Remaining Gap
Homestead Gardens	\$ 1,799,839	\$ 2,528,839	\$ 946,161

The Community Home Trust does have an outstanding funding application to the Federal Home Loan Bank for \$500,000 that could be a source to help fill that gap, if they are awarded funding.

Staff also want to note that while we have planned to make \$500,000 of Affordable Housing Fund available for projects this fiscal year, there is a total of \$1 million in unallocated funding in the AHF. Staff do not recommend allocating the full amount of this source this fiscal year, as it would deplete the fund completely and we are not anticipating the Town will receive any sizable payments-in-lieu from developers in the near future. Maintaining some funding within the Affordable Housing Fund for future years would allow us to support future development projects. There is also the possibility the Town may need some of the remaining funding to cover costs associated with pending legal action related to previous payments-in-lieu

Council Question:

Could we explore brokering a partnership between CASA and UNC Health to develop the planned workforce housing at Homestead Gardens?

Staff Response:

Yes, the Town could explore this. Staff welcome Council’s ideas for how to broker a partnership

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and think there could be opportunity for UNC Health's partnership on the UNC Horizons housing as well.

Council Question:

How much funding has been spent on Homestead Gardens to date of the total \$26,400,000 project cost?

Staff Response:

The Town has spent about \$380,000 on the Homestead project to date. This funding has paid for design and engineering costs during concept planning, rezoning, and drafting of the zoning compliance permits; and studies, surveys and other services needed during predevelopment. This does not take into account staff time.

Council Question:

What is the thinking in setting aside \$2 million for a TBD future LIHTC development? Rather than holding funds for a potential future project, why wouldn't we use that funding to keep Homestead Gardens moving forward?

Staff Response:

This spring, staff anticipates at least one and possibly several 9% LIHTC applications being submitted for projects in Chapel Hill, including Jay Street. If we do not include funding for a future LIHTC development in this funding plan, it is unlikely we would have a competitive submission for the 2023-24 LIHTC process, as projects will require a funding commitment by no later than May of 2023 and after this funding plan is approved, we will have exhausted our major funding sources for the remainder of this fiscal year. Additionally, 9% LIHTC projects leverage Town funds better than any other commonly available subsidy source and is a strategy that will play an important role in meeting the Town's affordable housing goals. Jay Street has been a Town-initiated prioritized project and staff are recommending Council set aside funding that could support this or another competitive 9% LIHTC project.

Council Question:

The HAB raised a question about St Paul's quite low projected cost per unit and it remains unclear to me whether they have an implementable plan. What is the staff's opinion on this?

Staff Response:

St. Paul's projected cost per unit is significantly lower than the other projects applying for funding in this round and is unusually low compared to projects that staff is familiar with. The applicant has indicated that the budget excludes several major cost areas, but have not provided estimates of what those costs would be.

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The project is early in the process and has just submitted a rezoning application. Their projected costs are not coming from a general contractor's quote. Anticipated project costs could increase significantly when the project gets closer to development and obtains a more formalized quote. The HAB's recommendation was to provide \$300,000 to St. Paul NIDA to provide the approximate subsidy needed to support the project making its way through the Town's entitlement process.

Council Question:

Working from the master leasing total project cost in the funding request breakdown chart, could you provide a breakdown by the years of rental subsidy that has covered for how many units and number of tenants?

Staff Response:

The master leasing program began as a pilot program in 2019. For the first two years of the pilot program there were 5 units subsidized for an average annual subsidy of \$9,732 per unit. The last two years the program has included 8 units for an average annual subsidy of \$8,750 per unit. The current application is to provide additional subsidy for the next two years of the program with an average annual subsidy of \$8,062 per unit. There have been 11 tenants that have been served by the program over the last four years.

Council Question:

I understand there were concerns about the way the HAB process played out at their meeting on this topic. Have any discussions taken place about how to improve the process in the future?

Staff Response:

Yes, staff have debriefed internally as well as with the Housing Advisory Board on the process and HAB meeting. Staff is also planning to solicit feedback from the applicants when the process is over to recommend updates and improvements to the application and HAB deliberation process. In addition to considering process improvements, staff also may propose opportunities for enhancing the training provided to HAB members.

Council Question:

I know there is a new investment plan for AH coming so maybe not to be answered this week, but wondering if an expansion of the master leasing program is envisioned in the future and perhaps the addition of new funding partners, such as employers?

Staff Response:

Staff is considering the funding needs of all affordable housing strategies, including master leasing, as part of the investment plan staff are in the process of assembling. Additionally,

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Community Home Trust has recently evaluated the current Master Leasing Program and is considering opportunities for the future of the program.