

05-04-2022 Town Council Meeting Responses to Council Questions

ITEM #6: Consider Approving the Affordable Housing Bond Funding Plan

Council Question:

Given that the 2200 Homestead Project will be receiving significant Federal funding, is the full \$3.3 million subsidy still required?

Staff Response:

The \$3.3 million in Town affordable housing bond funds that was awarded to the Homestead Gardens project in May 2020 is intended to support predevelopment activities and site construction. This award only partially funded site construction, so the development team has been working to identify additional sources to cover the site budget. The federal Community Project Funding (CPF) award will help to cover the cost of site construction, along with the Orange County affordable housing bond award the project received in fall 2020. Any CPF funds not needed for site work will be applied to the vertical construction budget.

Council Question:

Why does the Indigo need a possible \$1.3 million loan when the other two LIHTC projects do not (if 9 percent credits are received)?

Developer Response:

Indigo has requested the Town of Chapel Hill funding based on DHIC's structuring of the construction costs, sources, and expenses for the project. There are several reasons that the Indigo has submitted a funding ask when the other two LIHTC projects did not:

- *DHIC has modeled the construction costs for the Indigo based on actual construction cost estimates and has included escalation in the budget. We are in an historic environment for construction cost increases and our goal is to ask for an amount that would be sufficient to avoid having to come back to the Town for additional funds.*
- *The Indigo is designed to be 100% affordable and does not contain any units for households at 80% of area median income. This is for two reasons: 1) the past several years have shown that income-averaging projects using 80% AMI have struggled to find investors and 2) DHIC is of the opinion that the rents being charged on 80% AMI units do not serve the most rent-burdened households that DHIC strives to support.*
- *As part of the land acquisition, the Indigo is responsible for a \$750,000 purchase price of the land to reimburse approximately \$793,000 in infrastructure costs that Northwood Ravin incurred to improve the parcel and make it development-ready.*

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- *The Indigo, unlike other projects, is not located in a Qualified Census Tract (QCT), which increases the amount of tax credits the project can request by 30%. Projects in QCTs are often better candidates for 4% LIHTC applications because of this than projects not located in a QCT.*
- *Indigo does not have project based vouchers or rental assistance like one of the Town projects. That can substantially increase the income to the project and allow for larger permanent loans.*

Staff Response:

Town staff would add that this response reflects the specific details of the Indigo project. Town staff have previously discussed some of these issues with the developers of Jay Street and Trinity Court, including:

- *Both Jay Street and Trinity Court include escalation in their budgets to protect against additional construction cost increases.*
- *Both Jay Street and Trinity Court have identified investors willing to support their projects when utilizing income averaging.*
- *Trinity Court, but not Jay Street, is located in a Qualified Census Tract.*
- *Jay Street has modeled the budget to include project-based vouchers; Trinity Court has modeled their budget to include Rental Assistance Demonstration vouchers.*

Council Question:

If the Indigo is unable to repay the loan, what would eventuate?

Staff Response:

Typically, the outstanding principal on a subordinate loan like this would be paid through a balloon payment at loan maturity. This would be paid as part of the resyndication and rehabilitation of the project. This also serves to extend out the affordability period of the project an additional 30 years from the date of rehab.

In the past, the Town has provided loans that require repayment and are secured by a lien on the property through the Promissory Note and Deed of Trust. If the Council approves DHIC's funding request and they are awarded the 9% tax credits, we would work with our legal counsel to structure the terms of the loan to protect the Town's interests.