

CITY OF HIGH POINT

AGENDA ITEM

**Title: Amendment of Section 108 loan authorization**

From: Michael E. McNair, Director Community
Development & Housing

Meeting Date: 3/2/2015

Public Hearing: Yes

Advertising Date 2/1/2015 & 2/15/2015
Advertised By: Community Development
Department

Attachments: Executive Summary of the Application Amendment
Aerial view of site
Site plan
Project rendering
Letter from Wynnefield Properties requesting assistance
Loan commitment letter to Wynnefield Properties

PURPOSE:

A public comment period is required to initiate an amendment of the City's Section 108 loan authorization approved by the Department of Housing and Urban Development (HUD). This is the first step in obtaining HUD approval to make a loan to Wynnefield Properties towards the development of Kirkwood Crossing.

BACKGROUND:

The Section 108 Loan Guarantee Program is a HUD financing source that allows entitlement cities to secure federal loans large enough to pursue CDBG eligible projects; the City's application for a Section 108 loan commitment was approved on May 3, 2010. The loan commitment totaled \$ 3.907 million and was intended to leverage private funding from local banking institutions to create and maintain a Small Business Loan Pool totaling approximately \$9.7 million (public and private funds combined). However, after the expiration of the one year agreement, the banks declined to renew it due to prevailing economic conditions and nonperformance of the loan pool. In order to utilize the loan commitment prior to its expiration date (September 30, 2015), Council authorized an amendment to the application to allow for financial participation in Addington Ridge apartments; construction is underway.

Under HUD regulations, the section 108 loan authorization must be amended to add a new use or project that was not included in the original application. The amendment will also result in a substantial amendment to the City's 2014-15 Annual Action Plan and the 2010-2014 Consolidated Plan. A 30 day public comment period is required to receive citizen input on the amendment. Comments concerning the amendment will be accepted from March 3rd through April 1st, 2015. An additional public hearing will be conducted to complete the amendment to the City's 2014-15 Annual Action Plan and the 2010-2014 Consolidated Plan.

BUDGET IMPACT:

\$2,000,000.00 will be allocated from the section 108 loan authorization to the Kirkwood Crossings project.

RECOMMENDATION / ACTION REQUESTED:

Council's favorable consideration is requested on the following:

1. Authorize the City Manager to issue a commitment letter to Wynnefield Properties, Inc.
2. Conduct a public hearing to initiate an amendment to the City's section 108 loan authorization.
3. Schedule a public hearing on April 13th to amend the 2014-15 Annual Action Plan and 2010-2014 Consolidated Plan.



Section 108 Loan Guarantee Program

Application Amendment

Submitted by

Community Development & Housing
211 S. Hamilton Street
High Point, NC 27260

April [day], 2015



Executive Summary

The City of High Point proposes to utilize a portion of its Section 108 allocation in support of a multi-family housing development, employing one of the Section 108 application's approved uses - to finance public improvements to support multi-family housing initiatives.

Statement of Need

Recent housing market studies have revealed a significant number of High Point residents that are in need of housing that is decent, safe and affordable. A recent market study for a formerly-proposed project within 1.5 miles of the Kirkwood Crossing site shows that the affordable housing demand within the project's Primary Market Area (PMA) for 2- and 3-bedroom apartments is more than 1,000 units (net). Note that the PMA for this project as shown starting on Page 21 of the market study is not inclusive of the entire city limits of High Point, so the true demand for affordable housing in the area is significantly greater.

Substantial Amendment to 2014-15 Annual Action Plan

Upon approval, this application will constitute a substantial amendment to the City of High Point's recently submitted FY 2014-2015 Annual Action Plan. Specifically, the application will amend the resources expected to be available for the FY2014-15 program year to include an additional \$2,000,000 in Section 108 Loan Guarantee funds in support of the Kirkwood Crossing project.

Sources/Uses

Sources:

Section 108 Loan	\$2,000,000
TOTAL Sources	\$2,000,000

Uses:

Acquisition	\$850,000
Site Improvements	\$1,150,000
TOTAL Uses	\$2,000,000

Eligible Activity & National Objective

The proposed use of these funds for public improvements (e.g., water/sewer, curb/gutter, sidewalks, etc.) supporting multi-family developments benefiting low- and moderate-income persons is eligible per 24 CFR 570.703(f). The proposed uses of these proceeds for acquisition and the construction/rehab/installation of public facilities are eligible per 24 CFR 570.703(a) and 570.703(l).

This program will meet the National Objective - activities benefiting low- and moderate-income persons - per 24 CFR 570.208(a).

Partnerships

The City shall partner with an experienced for-profit developer of affordable multi-family housing, Wynnefield Properties, with experience in applying for and securing Low-Income Housing Tax Credits (LIHTC) for proposed projects. The City has previously partnered with Wynnefield by providing gap financing for two LIHTC projects in High Point, Admiral Pointe (HOME - \$500,000) and Addington Ridge (Section 108 - \$1,350,000).

Collateral and Repayment

All investments will be in the form of a loan and shall be secured by a mortgage encumbering the property (2nd lien, minimum). The Borrower shall be required to execute a deed of trust, security agreement, assignment of leases, rents, and other profits and other customary security documents in form customarily used for loans of this type.

Loan repayment shall come from the net operating income (NOI) of the project, which will be verified by project underwriting.

Project Implementation and Timeline

The City is presently in discussion with Wynnefield Properties, to support the development of a proposed 84-unit, affordable housing project named Kirkwood Crossing. Wynnefield intends to submit a LIHTC application to the North Carolina Housing Finance Agency (NCHFA) to be considered in its next funding round (application due date of May 2015).

Project Type

The City shall limit its investments to public improvements to property the City will acquire and to facilitate the construction of multi-family developments that benefit low- and moderate-income persons that will generate sufficient cash flow to repay the City's loan toward the project.

Loan Size

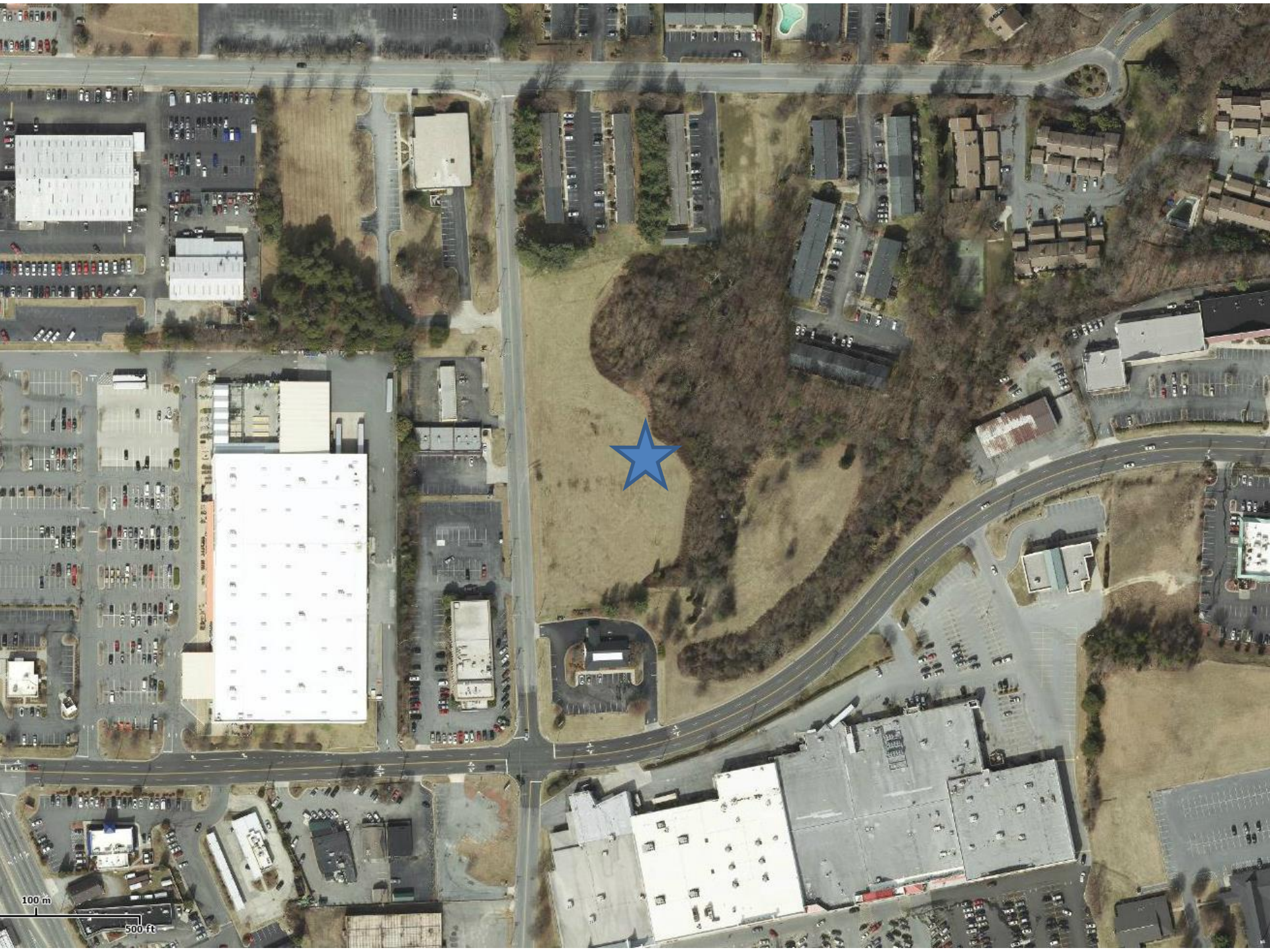
The Section 108 funds for acquisition and public improvements in support of the Kirkwood Crossing project is expected to total \$2,000,000. Once the property has been acquired and improved, the property will be conveyed to the LIHTC developer and the City's investment shall be secured by a mortgage lien to the developer.

Method of Repayment & Terms

The principal and interest amount of each note evidencing each loan shall be payable in monthly installment calculated using an amortization period not to exceed twenty (20) years with an interest rate at least equal to the rate charged the City by HUD. The loan is expected to be based on a 20 year amortization with interest only payments concluding with a balloon payment of the balance owed.

Section 108 Debt Service

The City will pay Section 108 debt service from project debt service payments it receives from project proceeds. To secure repayment of its guaranteed loan, the City will pledge its interest in the project loan secured by liens on the real estate. The City also pledges its CDBG funds as security for repaying its Section 108 Guaranteed Loan.



100 m
500 ft

KIRKWOOD CROSSING

2-23-2015

HIGH POINT, NC

SITE INFORMATION:

SITE: 6.61 ACRES
 DENSITY: 14.52 UNITS/ACRES
 BUILDINGS: (1) 1-STORY CLUBHOUSE
 (4) 3-STORY APARTMENT BUILDINGS
 SPRINKLERS: 13R
 PARKING SPACES: 192 PROVIDED @ 2 PER UNIT

UNIT INFORMATION:

UNIT MIX	SPCS/UNIT	PKG. REQ.
2-BR (B UNITS) = 45	2.0	90
3-BR (C UNITS) = 39	2.0	78
TOTAL	= 84 UNITS	168

REQUIRED SITE AMENITIES:

- A PLAYGROUND - (W/ MIN. 1 BENCH)
- B MULTI-PURPOSE ROOM (MIN. 250 SQ. FT.)
- C COVERED PICNIC AREA - (500 SQ. FT. W/ 2 TABLES & GRILL)

ADDITIONAL AMENITIES:

- D OUTDOOR SITTING AREAS W/ BENCHES - (MIN. 3 LOCATIONS)
- E EXERCISE ROOM - (W/ NEW EQUIPMENT)
- F RESIDENT COMPUTER CENTER - (MIN. 2 COMPUTERS)



MARTIN RILEY ASSOCIATES - ARCHITECTS, P.C.
 25 CHURCH STREET SUITE 200 DECATUR GEORGIA 30030-3329 404-373-2800
 HIGH POINT, NC

MRA

CSP1

NOT RELEASED FOR CONSTRUCTION

PROJECT	2014-1023
DATE	2/23/2015
DESIGNED BY / CHECKED BY	LPD



WYNNEFIELD - KIRKWOOD CROSSING - HIGH POINT, NC

KIRKWOOD CROSSING

HIGH POINT, NC

2-20-15

Wynnefield Properties

February 9, 2015

Michael E. McNair, Director
Community Development and Housing Department
City of High Point
P.O. Box 230
High Point, NC 27261

Dear Mr. McNair:

Thank you for meeting with Wynnefield Properties, Inc. to discuss the availability of HUD Section 108 Program funds to invest in community development in High Point. Based on our discussion, Wynnefield Properties, Inc. intends to submit a LIHTC application to the North Carolina Housing Finance Agency in the Agency's 2015 application round. The application will propose the development of a multifamily affordable housing development in High Point. As part of the application process, Wynnefield Properties, Inc. requests a commitment for financing in the amount of \$2,000,000 from the City of High Point Section 108 Program funds. The site location is 2208 Kirkwood Street, High Point, NC 27262.

We are currently in negotiations on several sites and will forward the information once the final site selection has been determined.

Sincerely,



C. Craig Stone
President

DRAFT

[City of High Point Letterhead]

February ____, 2015

Craig Stone
Wynnefield Properties
P.O. Box 395
Jamestown, NC 27282

RE: _____, High Point, North Carolina

Dear Mr. Stone:

The High Point City Council has authorized me to execute a permanent loan commitment letter for a \$2,000,000.00 mortgage subsidy to assist the _____ multi-family affordable housing development. Please see attached the executed permanent loan commitment letter. I also want to reiterate some of the City's expectations of you in the course of this project. In addition to the terms in the commitment letter and the forthcoming contract, Wynnefield Properties will be expected to:

- Satisfactorily complete an environmental review as determined by the City of High Point;
- Comply with the City of High Point's development review process;
- Comply with all development or any other City, state or federal regulation or requirements including traffic impact analysis necessary to obtain building or other permits; and
- Execute a mutually agreed upon Mortgage Loan Agreement and such other documents, terms and conditions reasonably required by the City to protect its interest in the project.

Upon receipt of this letter, you may undertake pre-development activities without restriction using your own funds. However, your funds should not be used for an activity that has an adverse environmental impact as defined by 24 CFR 58 or that limits the choice of alternatives prior to approval of the City's Request for Release of Funds; failure to comply with this requirement may preclude the City from funding your project.

Once these items have been properly completed and the City receives a Release of Funds for the project, a Mortgage Loan Agreement can be executed. We are very pleased that you have proposed to undertake this project to help address the affordable housing deficit in our community. We look forward to working with you on this project.

Sincerely,

CITY OF HIGH POINT

By: _____
Name: _____
Title: _____

[City of High Point Letterhead]

February ____, 2015

Wynnefield Properties, Inc.
P.O. Box 395
Jamestown, NC 27282

RE: _____, High Point, North Carolina

Gentlemen:

The City of High Point is proud to confirm its commitment to provide construction/permanent financing to _____, LLC (the "Borrower") to assist it in the development of its multi-family housing complex to be located in High Point, North Carolina, and to be known as _____ ("Project").

The terms of the proposed permanent loan ("Loan") are as follows:

1. Loan Amount: Two Million Dollars and no cents (\$2,000,000.00).
2. Interest Rate: A fixed rate of 2.0 percent interest payable as follows: Annual payments of principal and interest from cash flow The cashflow payments will be calculated such that the projectr will maintain a debt service coverage of 1.15. A balloon payment of all outstanding principal and interest shall be due and payable in one final payment on the date that is twenty years from the conversion of the Loan from construction to permanent financing.
3. Loan Term: The maturity date of the Loan shall be twenty (20) years from the date the Loan converts from construction to permanent financing. The Loan shall have an amortization period of twenty (20) years.
4. The Lender's source of funds for the Loan is the Section 108 Loan Guarantee Program.
5. Other Terms: The Loan shall be non-recourse and shall be secured by a second lien mortgage encumbering the Project during construction and a second lien mortgage encumbering the Project during the permanent phase of the Loan. There shall be no prepayment penalties associated with prepayment of the Loan.

If the above terms are acceptable to you, please sign where provided for below and return.

Sincerely,

CITY OF HIGH POINT

By: _____
Name: _____
Title: _____

Agreed to and accepted this ____ day of _____, 2015.

Wynnefield Properties, Inc.

By: _____
C. Craig Stone, President