

STAFF REPORT

Affordable Housing Fund Request

November 9, 2021 Town Council Meeting



On December 15, 2020 Town Council approved two prior DHIC, Inc. funding requests from the Town's Affordable Housing Fund (AHF) for the Broadstone Walk project. Those included: (1) a 30-year term, one-percent (1%) fixed interest rate loan in the amount of \$1,000,000 for construction, and (2) a grant totaling \$165,000 to offset water and sewer capital reimbursement fees. The DHIC, Inc. Broadstone Walk project will include a total of 164 affordable rental units, affordable to those who make between 40% - 60% of the Raleigh, NC Metropolitan Statistical Area (MSA) Area Median Income (AMI). This proposed project will be the largest one-hundred percent (100%) affordable housing project in Town history. Table 1 below provides a summary of the Town's affordable housing projects.

Table 1
Town Affordable Housing Projects

Project Name	# of Affordable Units	Project Date
*Broadstone Walk Apartments	164	Est. Start – Q1/Q2 2022
Beechridge Apartments	72	Completed 1999
West Haven Apartments	72	Completed 1998
Wake Acres Apartments	48	Completed 1983
White Oak Villas	16	Completed 2013
Oak Grove	10	Completed 1963
Kissena Lane	9	Under Construction
Total	391	

*Proposed project would be the largest affordable housing project in Town history.

North Carolina General Statute (N.C.G.S.) 160A-20.1 provides authority for the Town to expend funds for public purposes, including providing affordable housing, and N.C.G.S. 157-3(12)(e) authorizes the Town "to provide grants . . . and other programs of financial assistance to public or private developers of housing for persons of low income, or moderate income, or low and moderate income."

On August 13, 2021 DHIC Inc. was awarded a four-percent (4%) Low-Income Housing Tax Credit (LIHTC) which includes a tax-exempt bond through the North Carolina Housing Finance Agency (NCHFA). Shortly after receiving a NCHFA 4% LIHTC award notification, DHIC, Inc. updated their overall project underwriting analysis. Due to the following conditions: (1) rising construction costs, (2) a decrease in equity pricing, (3) a first mortgage loan interest rate increase, and (4) LIHTC investor income averaging requirements requiring deeper affordability; DHIC, Inc. identified a funding gap necessary to complete the project of approximately \$1,500,000.

LIHTC's are federal tax incentives given to states who then award developers such as DHIC, Inc. these credits for projects that meet certain criteria as outlined by both the state and federal government. DHIC, Inc. once awarded, then goes and markets these tax credits to investors who will then purchase them in exchange for offsetting taxes otherwise owed over a ten-year period. DHIC, Inc. can then use the funding provided from the tax credit investors as equity. However, the disbursement of the tax credit funding is subject to negotiation

between DHIC, Inc. and an investor and in most cases, the bulk is only distributed upon stabilization because the credits are not officially awarded until the project is up and running. Because this is a negotiation process between DHIC, Inc. and an investor and due to other market factors, DHIC's equity pricing decreased from \$0.90 to \$0.87 which reflects the current investor market for tax credits.

To-date Wake County has committed \$3,000,000 of funding to the project. In addition, Wake County is considering contributing an additional \$500,000. The remaining \$1,000,000 of gap funding is proposed to come from the Town's AHF from fiscal year (FY) 2021-22 revenues. In the Town's FY 2021-22 annual operating budget regarding the AHF, the initial balance was \$1,596,000. In addition, there was \$21,000 of prior year carryover which brought the total FY 2021-22 AHF starting balance to \$1,617,000. In the FY 2021-22 AHF budget, the Broadstone Walk project was budgeted for \$500,000 and Apex Cares Housing Rehabilitation Program (Apex Cares Program) for \$250,000 which left \$867,000 of unallocated funds remaining. However, to-date the Apex Cares Program, which is a new program, has only expended \$100,000 of their original \$250,000 budget allocation back from FY 2020-21 and does not need the full \$250,000 budgeted in FY 2021-22. As a result, a portion of the Apex Cares Program funds can be reappropriated to the Broadstone Walk project in order to fully fund the \$1,000,000 gap funding request. This proposed budget amendment would still leave the Apex Cares Program with \$117,000 of available funding in FY 2021-22. Table 2 below shows the proposed budget amendment and impact to the AHF for FY 2021-22.

Table 2
Affordable Housing Fund Budget Summary

Fund 21 – Affordable Housing		
Revenues		
Activity	Prior Approved FY 2021-22	Proposed Amended FY 2021-22
Initial Starting Balance	\$1,595,000	\$1,595,000
Interest Earned/Prior Year Carryover	\$22,000	\$22,000
Total Revenues	\$1,617,000	\$1,617,000
Expenses		
Activity	Prior Approved FY 2021-22	Proposed Amended FY 2021-22
DHIC, Inc. Broadstone Walk	\$500,000	\$1,500,000
Apex Cares Program	\$250,000	\$117,000
Reserved for Future Expenditures	\$867,000	\$0
Total Expenses	\$1,617,000	\$1,617,000

Table 3 below provides a summary of the estimated total Broadstone Walk project costs itemized by funding source, dollar amount and percentage of funding.

Table 3
Broadstone Walk Project Budget Summary

Funding Source	Dollar Amount	Percentage of Funding
Permanent Loan	\$17,619,000	50.67%
Wake County (FY 2020-21)	\$3,000,000	8.63%
*Wake County (FY 2021-22)	\$500,000	1.44%
Town of Apex (FY 2020-21)	\$665,000	1.91%
Town of Apex (FY 2021-22)	\$500,000	1.44%
**Town of Apex (FY 2021-22)	\$1,000,000	2.88%
Deferred Developer Fee	\$1,107,000	3.18%
Federal LIHTC Equity	\$10,380,737	29.85%
Est. Total Project Costs	\$34,771,737	100.00%

*Subject to Wake County Board of Commissioners Approval

**Subject to Town Council Approval

The primary goal of the Town's AHF is to support affordable housing development. The Town's funding to DHIC Inc. through this request would come in the form of a 30-year term, one-percent (1%) fixed interest rate loan in the amount of \$1,000,000 for construction costs. If DHIC, Inc. is able to obtain the necessary financial commitments in order to receive project and underwriting approval, the Town would execute the following documents with DHIC, Inc. to ensure compliance and regulatory requirements are carried out: (1) Development Agreement, (2) Promissory Note, (3) Deed of Trust and (4) other due diligence documentation. The Town's funding to DHIC Inc. will also require a 30-year affordability restriction period to ensure rents remain affordable long-term, which is consistent with NCHFA LIHTC regulations.

Staff Recommendation:

Planning staff recommends approval of the additional \$1,000,000 gap funding request to DHIC, Inc. for the Broadstone Walk affordable housing project in order to complete the project.

Attachment 1:
DHIC, Inc. Letter Requesting Support



Ms. Catherine Crosby
Town Manager
Apex Town Hall
73 Hunter Street
P.O. Box 250
Apex, NC 27502
919-249-3400

Ms. Crosby,

As you are most likely aware, since we last applied the development and construction industries have faced unprecedented cost increases and general business-related strains as a result of COVID-19 and the attendant economic uncertainties. Due in part to these circumstances, we've gone back and reevaluated our underwriting for Broadstone Walk to more accurately reflect current conditions. Please find attached our updated Broadstone Walk proforma reflecting such changes, along with the resulting funding gap. Below is a brief list of the more material impacts to the model:

- Equity pricing decreased from \$0.90 to \$0.87 to better reflect investor appetite for tax credits.
- Interest rate on first mortgage loan increased from 4.10% to 4.15% to better reflect current environment.
- Construction pricing increased from \$75 PSF to \$90 PSF, based on guidance from our third-party Construction Manager and recent pricing we've received from several general contractors.
- All 70% Income Average (IA) units have been lowered to 60% AMI, due to investors still lacking the appropriate guidance from the IRS to provide them the comfort necessary to fund IA deals.

As a result of the above, we are currently facing a gap of roughly \$1.5mm. This also assumes a deferred developer fee of 50%, which is the highest allowed by NC Housing Finance Agency's underwriting guidelines. DHIC is committed to bringing much-needed affordable housing to Apex, as it has done in the past with Beechridge Apartments. We also know that the Town itself is deeply committed to helping fund such developments, recognizing the need for more varied local housing options. Between the Steering Committee and recent staffing additions, the Town has demonstrated steadfast determination in tackling an issue all too often ignored or left to market forces.



It is with this in mind that we are requesting an additional \$1,000,000 (one million dollars) in addition to the generous \$1,000,000 the Town has already committed, for a total commitment of \$2,000,000. We are also requesting an additional \$500,000 from Wake County, bringing their total potential investment in the project to \$3,500,000. We feel it is also important to note that all of the Town's dollars would come in during the Construction phase, so that those monies would be directly supporting the physical construction of affordable housing in Apex.

This additional commitment would greatly help us in realizing our collective vision first discussed over three years ago. We understand the level of support this would represent, financially and otherwise, and sincerely appreciate your consideration of this request. We would welcome any additional questions you may have and are happy to discuss further as needed.

Best Regards,

A handwritten signature in blue ink, appearing to read "Yolanda Winstead", with a long, sweeping horizontal line extending to the right.

Yolanda Winstead
President
DHIC, Inc.