

Item Title: Gap Funding and Loan Term Amendment for Pine Ridge Apartments in Garner, NC

Specific Action Requested:
That the Board of Commissioners:

1. Approves an increase in loan amount of up to \$1,000,000, for a cumulative total of up to \$2,230,000, to support the development of Pine Ridge Apartments, an affordable family housing development to be located in Garner, NC; and
2. Amends the terms of the loan, from amortized to cash-flow debt service annual payments.

All funding commitments are subject to terms and conditions acceptable to the County Attorney. Awards are also contingent upon the development receiving local approvals including site plan approval, all necessary permits from the local municipality, and an award of tax credits from the NC Housing Finance Agency. In addition, all awards are contingent upon the basic terms as identified in the project descriptions.

Item Summary:

Purpose: The Board of Commissioners approves all Wake County real estate transactions.

Background: On April 4, 2019 Wake County approved a \$1,230,000 loan to Evergreen Construction on behalf of the ownership entity to be formed to develop Pine Ridge Apartments, a 72-unit affordable multifamily development for families to be located in Garner. On August 25, 2020 Evergreen Construction requested an additional \$1,000,000 through the Affordable Housing Development Program to fill a financing gap created by the loss of a loan from the NC Housing Finance Agency (NCHFA), as well as an increased construction budget related to economic impacts of the COVID-19 pandemic and site conditions.

As negotiated, Housing staff recommends fulfilling this increased request in exchanged for 10 additional permanent supportive housing (PSH) units. These 10 units are in addition to the seven units set-aside for the County's Rental Assistance Housing Program (RAHP) voucher clients.

Additional updates are required for the terms of the County loan due to a change in the development's financing requiring the County's debt be paid out of 75 percent of available cash flow after the first mortgage debt service has been paid.

Board Goal: This Board action directly supports the Board's desire to implement the Wake County Affordable Housing Plan in the Social and Economic Vitality goal area.

Fiscal Impact: The County allocated \$1,000,000 in County funds in the FY2020 Housing CIP Fund to support the development of permanent supportive housing.

Additional Information:

On April 4, 2019, Wake County approved a \$1,230,000 loan to Evergreen Construction on behalf of the ownership entity to be formed to develop Pine Ridge Apartments, a 72-unit affordable multifamily development for families earning 30, 40, 50, and 60 percent of the area median income (AMI) or less, to be located in Garner. The terms of the original loan were 2% interest over 30 years, with set annual debt service payments totaling approximately \$255,183 over 21 years and a balloon payment in year 30. The County loan would be in second lien position junior to a commercial bank permanent loan, with a \$800,000 loan from the North Carolina Housing Finance Agency (NCHFA) in third lien position.

The NCHFA loan was to be funded with National Housing Trust Fund dollars, but an environmental concern made the project ineligible for this source of federal funding. A Phase I and Phase II Environmental Site Assessment was conducted, and volatile organic compound (VOC) contamination was detected in the groundwater and soil samples collected likely from the release associated with the nearby Joy Cleaners. Since the water service for this development will come from Raleigh Public Utilities, contamination of the groundwater will not pose a problem with the water supply.

The report did state that vapor intrusion cannot be ruled out, and the developer is conducting a soil vapor test. Once the data from this vapor test is received, the developer will design and install a passive vapor venting remediation system that will be constructed beneath the concrete slab-on-grade. Satisfactory completion of the recommended remediation will be a conditional requirement in the Development Agreement between the County and Evergreen Construction.

While the environmental concern will be mitigated and the property will be safe for residential construction, the project is ineligible for NHTF funding due to the Environmental Provisions at 24 CFR § 93.301(f)(1) or (2), e.g., contamination. Other Federal funding, such as funds from HUD, would be eligible with the proper mitigation steps documented and met during the development process. However, NCHFA did not have any additional unallocated funds to switch with the NHTF funding for this project.

In addition, the project's construction budget has increased by \$1.6 million due to site work costs, as well as significantly increased lumber costs related to the economic impact of the COVID-19 pandemic.

On August 25, 2020 Evergreen Construction requested an additional \$1,000,000 through the County's Affordable Housing Development Program to help fill this financing gap. Other development cost will be offset by a slight rent increase and additional first

mortgage debt. Rents will still be below the maximum allowable rent limits. Evergreen will also use a Fannie Mae mortgage product, taking advantage of a lower interest rate, to allow for more first mortgage debt. Underwriting standards of the Fannie Mae mortgage only allows subordinate debt to be repaid out of 75% of remaining cash flow which requires a change to the terms of the original loan. Staff have evaluated the revised pro forma and determined the project to be financially feasible under these new conditions.

In exchange for additional funding, staff also negotiated ten additional units to be set-aside at Pine Ridge for County PSH clients, for the total 30-year affordability period. Wake County would also maintain its seven-unit (10%) RAHP set-aside in addition to the new units.

Approximate funding sources are illustrated in the table below.

Pine Ridge Lender Summary	Funding Request
Bank (approx.)	\$ 3,575,000
Wake County	\$ 2,230,000
Federal Tax Credit Equity (approx.)	\$ 7,447,255
Deferred Developer Fee	\$ 400,000
Total	\$ 13,652,255

Attachments:

1. Site Map