

**HOUSING AUTHORITY OF CLACKAMAS COUNTY (HACC)  
13900 S. GAIN ST., OREGON CIYT, OR**

**PROJECT-SPECIFIC APPLICATION  
FOR SECTION 108 LOAN GUARANTEE**

**FROM**

**U.S. DEPARTMENT OF HOUSING AND  
URBAN DEVELOPMENT**

**FOR**

**ARBOR TERRACE APARTMENTS  
127 N. COLE, MOLLALA, OR 97038**

**IN THE AMOUNT OF  
\$265,000**

**MAY 2, 2018**

## **I. Project Description – Arbor Terrace Apartments**

Sponsored by the Housing Authority of Clackamas County, (HACC), Arbor Terrace is an existing 25 unit farm worker housing project located at 127 North Cole Street, Molalla, OR 97038. Molalla is located in the eastern central area of the Willamette Valley region bounded by the Portland Metropolitan area to the north, the Cascade Mountains to the east the Eugene/Springfield Metropolitan area to the south and the Oregon Coast Mountain Range on the west. This is a rich agriculture region where farming operations grow a vast variety of fruits and vegetables. The valley is also one of the premier viticulture regions of the country and home to over 500 wineries.

Because Willamette Valley's large agricultural industry is predominately labor intensive, the demand for all types of farm workers is high, especially for migrant workers who perform manual labor in the fields. Further, since wages for farm work are typically lower than in other industries, the demand for affordable housing generally far exceeds the supply. Arbor Terrace is critical to filling this need for affordable qualified farm worker housing units.

Arbor Terrace was built in 1992 with financing provided by the United States Department of Agriculture (USDA) Rural 515 Program. The funding mix for these types of projects generally includes a USDA grant for 50% of the project and a loan for the remaining funding. At this point in the project's life the loan has been paid down about \$40,000. For families to qualify to live in farmworker housing, they must be employed in qualified farm work (e.g. USDA defines the array of farm work categories) and earn approximately \$5,500 in annual wages. The project is composed seven buildings: 6 four unit buildings and 1 one story manager's building with a leasing office. The bedroom mix includes 10 two bedroom units, 9 three bedroom units, 4 four bedroom units and two handicap accessible units. One of the two bedroom units is a manager's unit. The site includes a parking lot in the center of the property, a playground and a community garden.

Since Arbor Terrace is now just over 25 years old it is in need of substantial rehabilitation. All major interior and exterior building systems are due for replacement. The general scope of interior work includes replacement of: 1) Kitchen - cabinets countertops, plumbing fixtures (e.g. sinks), appliances, and electrical service outlets; 2) Flooring - vinyl, carpet, subflooring as needed; 3) Doors - all interior doors and entry doors including casings and hardware; 4) Water Heaters; 5) Baseboard heaters throughout. Exterior work includes replacement of: 1) Siding and sheathing as needed; 2) Windows; 3) Roofs and vents; 4) Stairway railings; 5) Parking lot resurfacing; 6) Playground renovation; and 7) Exterior accessibility standards for ramps. The project will be completed in two phases. Phase I will include interior work and some exterior work needed to meet accessibility standards under the Americans with Disabilities Act (ADA). Phase II will include the exterior rehabilitation work. This funding application applies to the interior work. Exterior work will be completed in segments over the next five years.

### **HOUSING AUTHORITY OF CLACKAMAS COUNTY (HACC)**

Established in 1938, as the first housing authority Oregon, HACC is a mission oriented affordable housing provider celebrating its 80th anniversary this year. HACC's portfolio includes 545 public housing units, 264 low income housing tax credit units, and another 100 units that include mental health, transitional, developmentally disabled, and affordable (e.g. income restricted) housing.

In addition, HACC administers approximately 1,600 Section 8 rental assistance vouchers.

HACC is currently, working on projects to convert its public housing to a voucher platform through HUD's rental assistance demonstration (RAD) program, is a general partner member in a 212 LIHTC project beginning construction in May of 2018 and is working with an industry partner in developing a 24 unit veterans housing project. In addition, HACC administers a resident services program and is a partner with multiple county divisions that assist with public health, social services, behavioral health and children and families support.

**DEVELOPMENT TEAM**

The development team for the proposed Arbor Terrace Apartments rehabilitation will include HACC's asset manager, an assistant and project management staff from Clackamas County Community Development Division. HACC has the capability to complete the construction drawings, preparation of bid packet, bidding and construction management in house. HACC completes rehabilitation of 20 or more units per year in its public housing portfolio. HACC also has fiscal management capacity with a finance director that is a Certified Public Accountant and procurement specialist. HACC is experienced in the specific requirements of federal procurement including Section 3 requirements, MBE & DBE contractor solicitation, prevailing wage compliance and income reporting for CDBG low income targeting requirements.

**II. Sources and Uses**

**A. Use of Funds:**

<b>Uses of Funds</b>	
Interior Rehab - Construction	597,450
Design - Plans	9,300
Subtotal	606,750
Admin Fee (Community Development)	18,250
Loan Fees	10,000
<b>Total Uses of Funds</b>	<b>635,000</b>

**B. Sources of Funds:**

<b>Sources of Funds</b>	
Section 108 Loan	265,000
CDBG Grant	250,000
Capital Reserve	120,000
Other	
<b>TOTAL Sources of Funds</b>	<b>635,000</b>

**III. Conditions of Approval:** Conditions of any commitment will include:

- **Verification of costs** – HACC will review an updated development budget based on the final rehab cost estimates.
- **Debt Coverage Ratio (DCR)** – HACC will confirm that the total amount of debt service from the permanent loan remains within an acceptable debt coverage ratio relative to the project’s stabilized Net Operating Income (NOI). DCR is measured as NOI/Total Debt Service.

**IV. Conditions prior to funding:**

1. The Borrower (HACC) must provide all requested due diligence documentation including but not limited to final budgets, final plans and specifications, and service agreements prior to closing.
2. Final construction contract acceptable to HACC prior to closing.
3. All conditions for the issuance of required permits met prior to closing.
4. Sponsor (HCD) will execute 20 year regulatory agreements on all projects with new funding. (Note: Declaration of covenants for farmworker housing use is permanent unless the demand or market for affordable farm worker housing ceases)
5. Sponsor (HCD) will execute any required federal regulatory agreements.
6. Completion of HUD Environmental clearance.

**V. Section 108 submission requirements:**

**A. Community Development Objectives**

The Arbor Terrace Project Loan proposal will further the Clackamas County HCD's affordable housing preservation and permanent supportive housing goals within the 2017-2021 Consolidated Plan and the 2018-2019 Action Plan. As an affordable housing rehabilitation project, the project loan will meet the following HCD Goal:

Priority Need #1: Affordable Housing

Goals: Development of New Affordable Units

Preserve existing affordable housing units

AFH Goal: Increase accessibility to housing

**B. Eligibility under 24 CFR 570.703, Section 108 eligibility and criteria**

Each project assisted with Section 108 guaranteed loan funds must meet one of the eligibility requirements listed in 24 CFR 570.703. Each of the projects to be assisted with the Clackamas County Housing and Community Development Loan Fund will be eligible under 24 CFR 570.703. Because the original application was for a loan pool, the individual loans will qualify under several eligible activities: 570.703(a)acquisition;

(b)rehabilitation of real property; (d)relocation; (e)clearance, demolition, removal; (f)site preparation; (h)housing rehabilitation; (i)economic development activities; or (l)public facilities.

This project qualifies under uses for relocation and housing rehabilitation 570.703 (b) and (h). All of the tenants of Arbor Terrace Apartments have incomes at or below 60% of area median income (AMI), with the majority earning 40% to 50% of AMI. Income certification will be required to ensure that the affordability and income targeting restrictions are maintained in the leasing of units for an affordability period that is permanent provided the demand for affordable farm worker housing continues in perpetuity. Incomes will be reviewed and certified on an annual basis in accordance with policies and procedures prescribed by HUD, HACC and Clackamas County Community Development Division.

## **C. Underwriting Standards for Section 108 Assisted Projects – Project Evaluation**

### **1. Project Underwriting – Housing and Community Development Loan Pool**

#### **a. Proposed Project Costs**

HACC and HCD Staff has reviewed the proposed project costs which are based on a capital needs assessment conducted by CNA Specialists, an architectural design firm specializing in cost estimating for farm worker housing. The County’s loan commitment for financing construction or rehabilitation will be conditioned on a final guaranteed maximum price (GMP) contract for development within the proposed budget.

#### **b. Commitment of all Sources of Funds**

HACC has secured a Community Development Block Grant (CDBG) funds, HACC Replacement Reserve funds and the proposed Section 108 loan to complete this project.

#### **c. Need for Assistance**

As a housing authority, the project sponsor has limited resources to contribute to the project. Further, under the USDA Rural 515 Farm Worker Housing program, the owner is responsible for operating the project but the owner's income is limited to an annual asset management fee (e.g. for Arbor Terrace the annual Asset Management fee is limited to \$7,500). Any net cash flow is retained by the project and not distributed to the owner.

#### **d. Financial Feasibility – Ability to Repay**

The project’s feasibility was evaluated by the County using the underwriting guidelines adopted for the loan pool and determined to be feasible with the financing structure proposed. The two key underwriting parameters are Loan to Value (LTV) and Debt Coverage Ratio (DCR).

The project's debt capacity was also reviewed based on current budget projections. Because it is a project targeting households at or below 60% of Area Median Income (AMI), the project's 25 units generate a fairly low Net Operating Income (NOI) as compared to similar market rate projects of this size.

Arbor Terrace currently has a small first mortgage in place where the annual payments are only \$2,500 per year. With the current budget Arbor Terrace has enough projected net operating income to support an additional loan of \$265,000. The current debt service plus adding the Section 108 loan debt service would result in a debt coverage ratio of 1.25 which is acceptable by industry standards. The loan size was calculated based on a 20 year repayment term and a 3.25% annual interest rate.

**e. Loan to Value**

Consistent with customary underwriting practice, loan to value coverage will be determined based on expected value as of the project. The current tax records indicate a total market value of \$3,600,000. Given a loan of \$265,000 plus the existing loan from the USDA, the loan to value is under 10% of total property value.

**f. Developer/Owner Commitment**

HCD Housing and Community Development Loan Pool Fund will require HACC to approve a CDBG Section 108 Loan agreement, a promissory note and a trust deed to secure the Section 108 Loan Pool funds. USDA will allow a lien subordinate to their first mortgage which is only \$40,000.

**g. Pro Rata Disbursement of the Section 108 funds**

The County distributes federal funds including CDBG Section 108 and HOME funds on a draw basis.

**h. Project Readiness to Proceed**

HACC has secured a Community Development Block Grant (CDBG) and is ready to proceed with this rehabilitation project as soon as additional funding becomes available through the Section 108 loan pool.

**i. Development Team Capacity and Experience**

The development team for the proposed Arbor Terrace Apartments rehabilitation will include HACC's asset manager, an assistant and project management staff from Clackamas County Community Development Division. HACC and County staff have extensive experience with housing rehabilitation projects and procurement of construction contractors.

**l. Loan Term**

HCD Section 108 loans shall not exceed a loan term of 20 years, with no loan to exceed the overall 20 year term of this loan fund and in no event to exceed the useful life of the asset being financed.

**m. Payment/Amortization**

Section 108 loans will be amortized over the full term of the loan (e.g., 20 year amortization for a 20 year loan) unless otherwise pre-approved by the County. Amortization greater than the term of the loan may be considered (e.g., 30 year amortization for a 20 year loan), if the anticipated financial condition of the project is sufficient to sustain a balloon payment at the end of the term.

**Schedule of Principal Repayment**

Arbor Terrace		BALANCE	\$265,000
October 1, 2018	264,214	October 1, 2028	152,729
October 1, 2019	254,622	October 1, 2029	139,459
October 1, 2020	244,714	October 1, 2030	125,752
October 1, 2021	234,479	October 1, 2031	111,592
October 1, 2022	223,906	October 1, 2032	96,966
October 1, 2023	212,985	October 1, 2033	81,856
October 1, 2024	201,703	October 1, 2034	66,248
October 1, 2025	190,049	October 1, 2035	50,126
October 1, 2026	178,010	October 1, 2036	33,471
October 1, 2027	165,575	October 1, 2037	16,268

**2. Standards for evaluating public benefit**

Arbor Terrace Apartments is qualified as eligible under Section 570.703(h) – housing rehabilitation as permitted under 570.202. Specifically, the project meets the requirements at 570.202(a)(1) and (b)(1) as eligible rehabilitation and preservation of “privately owned buildings and improvements for residential purposes.” Therefore, the public benefit standards at 570.209 do not apply.

**D. A Description of the Pledge of CDBG Guarantee**

Clackamas County understands that if the participants in this Section 108 loan fund fail to make timely payments and as a result the County fails to make a required payment on its Section 108 obligation, HUD will deduct the missed payment from the CDBG Letter of Credit and in accepting this loan guarantee, Clackamas County has pledged its CDBG funds and all other applicable grants as security for the guarantee.

**Project Contacts:**

Chuck Robbins, Executive Director  
Housing Authority of Clackamas County  
Email: [Chuckrob@clackamas.us](mailto:Chuckrob@clackamas.us)  
Phone: 503-650-5666

Rich Malloy, Asset Manager  
Housing Authority of Clackamas County  
Email: [rmalloy@clackamas.us](mailto:rmalloy@clackamas.us)  
Phone: 503-650-3128