

CLACKAMAS COUNTY BOARD OF COUNTY COMMISSIONERS

Policy Session Worksheet

Presentation Date: 9/19/17 **Approx. Start Time:** 3:30pm **Approx. Length:** 1/2 hour

Presentation Title: Rosewood Terrace Apartments

Department: Health, Housing, and Human Services (H3S)

Presenters: Richard Swift, Health Housing and Human Services Director, Chuck Robbins, Housing and Community Development Director

Other Invitees: Jill Smith, Health Housing and Human Services Deputy Director, Kevin Ko, Housing and Community Development Manager, Rich Malloy, Asset Manager.

WHAT ACTION ARE YOU REQUESTING FROM THE BOARD?

Review the current Rosewood Terrace financial status in preparation for the October 3, 2017 Policy Session.

BACKGROUND:

- October 2015, Pedcor Inc., a housing developer out of Carmel, Indiana approached the Housing Authority of Clackamas County (HACC) requesting a partnership in the development of Rosewood Terrace Apartments, a 212 unit multi-family affordable rental housing project.
- September 29, 2016 the Board approved a Memorandum of Understanding and Term Sheet for this project, and instructed staff to schedule policy sessions at key milestones during the development process.
- October 20, 2016, the Board approved the award of 20 project based vouchers and \$1,100,000 in Public Housing Disposition Proceeds for the construction of the Rosewood Terrace Apartments project by Resolution number 1915.
- January 19, 2017, following the TEFRA hearing the Board of County Commissioners approved the issuance of not to exceed \$32,000,000 of revenue bonds by the Housing Authority of Clackamas County for the Rosewood Terrace Apartments by Resolution number 1918.
- On January 25, 2017, the Oregon Private Activity Bond (PAB) Committee met to consider the bond allocation request for Rosewood Terrace. The full bond request was unanimously approved by the Committee.
- Approval of the bond allowed Pedcor to make an application for \$24.4M of Low Income Housing Tax Credits (LIHTC). LIHTC's must be used for the construction of affordable housing which reduces the amount of debt on a project and allows for lower unit rents.

- On April 6, 2017 the Board approved the allocations of \$900,000 of HOME funds to the Rosewood Terrace project.

DISCUSSION:

In developing the building cost projections for Rosewood Terrace Pedcor and David Rosen and Associates (DRA), HACC’s financial consultant, did a detailed and thorough evaluation of the value of Low Income Housing Tax Credits. Based upon the established corporate tax of 35% the original projections were that LIHTC would provide approximately \$24.4M in equity to the project.

However, as a result of the new Federal Administration’s aggressive push for tax reform the investors are calculating that the new corporate tax rate will be about 20%. This has reduced LIHTC equity proceeds to the project by almost 10% from our pre-November 2016 evaluation. The impact of this change is an estimated equity reduction of approximately \$1.6M.

Additionally, the U.S. Department of Housing and Urban Development (HUD) environmental review process delayed the project’s contracting process by 6 months. Given the escalating costs associated with regional shortages in the construction labor market, and the rising prices of materials this delay resulted in construction pricing being approximately \$1M above initial estimates. HACC worked with the developer to review its construction costs and materials list for opportunities to reduce costs. This value engineering which began in May 2017 has been able to keep costs from increasing further, but has not reduced the initial cost overages. The construction cost increases, combined with the reduction in tax credit equity has created a funding gap of \$2.5M.

EFFORTS TO DATE:

- Pedcor has gone back to the LIHTC equity investor and convinced them to use a higher corporate tax rate resulting in an additional \$1,000,000 in equity.
- Pedcor has been awarded a \$500,000 grant from Metro
- HACC has instructed David Rosen and Associates, our financial consultant, to apply for \$1,000,000 from financial institutions that were fined by the Department of Justice (DOJ) for their participation in the mortgage-backed securities fraud and abuse lawsuit. To date we have applied and been turned down by 5 institutions.

PENDING EFFORTS:

Should we be unsuccessful in obtaining DOJ settlement funds, Housing and Community Development (HCD) has looked at the following options to fill the remaining funding gap of \$1M:

- HCD has identified up to \$345,000 of Community Development Block Grant (CDBG) funds that may be used to assist with the Rosewood Terrace Development.
- HCD has identified up to \$150,000 of additional HOME funds that may be added to the \$900K of HOME funds previously allocated to Rosewood Terrace
- HACC has identified up to \$505,000 of additional Disposition funds
- We will be able to share with you if our efforts to obtain DOJ settlement funds was successful by our next policy session scheduled for Oct 3, 2017 at 2:00

NEXT STEPS:

1. Should we be able to obtain DOJ settlement funds we will proceed with the Rosewood Terrace Project.
2. Should we be unsuccessful in obtaining DOJ funds we have a couple of options for the BCC to consider during the Policy Session scheduled for Oct 3rd, 2017:
 - a. Combine the options developed by HCD and HACC to close the gap and proceed with the Rosewood Terrace Project.
 - b. HCD and HACC continues to look for other funds. This will continue to delay the closing date of the project which, in this current environment, is estimated to increase construction costs by 1% per month.
 - c. The Board can reject the request for additional funds. This will probably result in the developer dropping the project. Should this occur, in addition to losing 212 units of affordable housing, HACC will lose over \$400,000 of non-reimbursable predevelopment expenditures

FINANCIAL IMPLICATIONS (current year and ongoing):

Is this item in your current budget? YES NO

What is the cost? \$1,000,000 of additional funding to be determined pending BCC direction.

What is the funding source? 1) HUD funds and 2) HACC disposition funds that came from an earlier sale of public housing units.

STRATEGIC PLAN ALIGNMENT:

- How does this item align with your Department's Strategic Business Plan goals?
 - Sustainable and Affordable Housing
- How does this item align with the County's Performance Clackamas goals?
 - Ensure safe, healthy and secure communities

LEGAL/POLICY REQUIREMENTS: The inclusion of CDBG funds in the project will require amending the Environmental Review to include the new fund source. The amended ER will need to be posted for the statutory 30 day comment periods prior to requesting HUD for a Release of Funds.

RECOMMENDATION:

SUBMITTED BY:

Division Director/Head Approval _____

Department Director/Head Approval _____

County Administrator Approval _____

For information on this issue or copies of attachments, please contact Richard Swift @ 503-650-5694