

## FY 24 AHSP Application Staff Summary: Buckeye Community Hope Foundation Redwood Commons Construction Loan

<b>70</b> Units to Be Constructed	<b>\$47,206</b> AHSP Request Per Unit	<b>\$1.00 : \$4.53</b> Leverage Ratio AHSP \$ : Other \$	<b>≤80%</b> AMI Target	<b>30 yr</b> Period of Affordability
<b>\$260,872</b> Average Cost Per Unit		<b>\$259</b> Average Cost per Unit Square Foot		<b>1 and 2</b> Bedrooms per Unit

**Project Description:** Buckeye Community Hope Foundation submitted a **New Construction Units for Rent Multifamily Loan** application requesting **\$3,304,454** to construct Redwood Commons.

**AHSP Goal:** Increase the supply of affordable housing for rent.

**AHSP Objective:** Impact, by 2030, a total of 1,500 to 1,850 rental units for households at ≤80% AMI: with an average at ≤60% AMI across all households; where 1,200 to 1,480 of those units leverage the LIHTC program; and where 200 of those units are for households at ≤30% AMI.

**Summary:** The request (\$3,304,454) is intended to support the \$18,261,001 Redwood Commons 70-unit construction project. The proposed unit mix includes 70 units for households at ≤80% AMI with 54 one-bedroom units and 16 two-bedroom units. The proposed units will serve households over age 55. The project applied for and received 9% Low Income Housing Tax Credits (LIHTC) and an RPP loan from the North Carolina Housing Finance Agency (NCHFA). The project is in the City of Asheville at 21 Governors View Road. The project has not received final development approval from the City of Asheville. The site is currently under option agreement. The project, given its LIHTC award, will accept vouchers, and estimates approximately 25% of renters will use vouchers.

**Capital Stack:** The capital stack includes:

*Committed:*

- \$10,438,956 in 9% LIHTC (estimate of \$0.87 price per tax credit)
- \$800,000 in NCHFA RPP Loan (20 years at 2%, cashflow loan)

*Requested:*

- \$3,304,454 from Buncombe County AHSP (20 years at 2%, cashflow loan)
- \$1,800,000 from Asheville Housing Trust Fund (20 years at 2%, cashflow loan)
- \$1,425,000 in permanent financing (40 years at 8.00%, principal and interest)

*Deferred Developer Fee:*

- \$520,591 in deferred developer fee (according to the FY22 NCHFA 9% LIHTC QAP a maximum of \$525,000 can be deferred).

**Requested Terms:** 20-year term, at an interest rate of 2.00%, annual payment from cashflow with principal balloon. The applicant requested a portion of the loan also effectively be a grant (forgivable loan). The project appears to demonstrate a need for the cashflow and principal balloon loan structure but granted funds are not permitted for this project within the program.

**Exceptions to Program Guidelines:** The applicant requested more funds (\$3,304,454) than can be provided within program guidelines (a maximum loan of \$1,826,100 can be provided).

**County Funding Source Options:** General Fund, AHSP Program Income or Bond Funds.

**Finance Department Assessment of Audits and Financial Position:** The applicant provided a timely audit (FY 22) free of qualifications and findings. As of June 30, 2022, the applicant's financials show a reasonably healthy financial position.

## **Review and Recommendations:**

Community Development Division staff reviewed the project based on AHSP guidelines.

*Program Requirements:* The project appears to meet program requirements; however, the program does not allow for the provision of granted funds or for the full amount of the loan/grant request.

*Proforma Analysis:* The proforma is difficult to analyze given that the applicant requested more funding from Buncombe County (\$3,304,454) than is permitted (\$1,826,100). This creates a gap in the capital stack of \$1,475,554 which impacts both the sources and operating proforma.

Sources which may be increased to complete the capital stack: equity pricing, permanent loan, Asheville housing trust fund loan, and deferred developer fee. If the applicant were to anticipate \$0.89 price per tax credit, that source could increase to \$10,680,000. If the applicant were able to secure a 40-year loan at 6.25% interest, the potential loan could increase to \$2,676,000. These would close the gap in the proforma created by the AHSP funding limitation. The City of Asheville provides a soft maximum award in its program guidance as the City Council can override the maximum, representing another potential for closing the capital stack gap. Finally, the applicant has nearly maximized its deferred developer fee; fully maximizing the developer fee would provide minimal impact closing this gap (see comments in *Deferred Developer Fee* below). The applicant has not shown property taxes in its operating proforma, which was included in analysis of debt service coverage ratio above.

Staff analyzed an operating proforma which reflected the adjustments to the sources and expenses described above. An operating proforma with a 7% vacancy rate includes \$846,362 in cash flow available to repay any deferred developer fee and soft loans. The deferred developer fee, per the NCHFA QAP, must be able to be repaid by year 15. The applicant has other soft loans (committed RPP loan in the amount of \$800,000; requested \$1,800,000 Asheville Housing Trust Fund (AHTF) loan). Assuming a 2% interest rate and no prepayment of principal, a total of \$730,440 of interest is needed for a 20-year \$1,826,100 loan from the County's AHSP. At a 7% vacancy, there is not enough cashflow to cover the deferred developer fee and cashflow loan interest payments, leaving principal balloons and unpaid interest on all soft loans. Interest payments are not fully achievable even at 3% vacancy with a shortfall in accrued interest on all soft loans estimated at \$793,930. A portion of interest payments on soft loans could be received during the 20-year loan period.

*Review of Assumptions:* Assumptions made in the proforma include a 40-year permanent loan with an interest rate of 8.00% and LIHTC credit pricing of \$0.87. This application provided the highest estimated permanent loan interest rate among its peers. Tax credit values are variable; with the Development Finance Institute estimates the price of the current tax credit to be \$0.85 - \$0.89. In this project, each \$0.01 in tax credit represents roughly \$120,000 in capital stack impact.

*Deferred Developer Fee:* The proforma includes a deferred developer fee of \$520,591. A maximum deferred developer fee of \$525,000 is permitted under NCHFA LIHTC guidelines. The request to the County could be reduced by increasing the deferred developer fee.

**Affordable Housing Committee Consideration:** The Affordable Housing Committee may recommend a loan up to \$1,826,100 with a 20-year term, at an interest rate of 2%, annual payment from cashflow with balloon payment. This loan could be supported with general fund or bond funds. Staff anticipate, based on the operating proforma, that there will be no prepayment of principal and a certain amount of unpaid accrued interest at year 20. The applicant will need to identify alternative source assumptions to complete its capital stack and to inform an updated operating proforma.

<b>PROJECT SUMMARY SHEET</b>		<b>Y/N</b>
<b>Project Description/Narrative</b>		
Clearly affordable housing focused		Y
Aligns with all components of the application		Y
Aligns with all guidelines of the AHSP program		N
Aligns with the selected strategic goal		Y
<b>Designed to Serve Households with AMI</b>		
<80%		Y
<50%		Y
<30%		Y

<b>Designed to Serve</b>		
General populous eligible for the program		N
Individuals who are age 55 or older		Y
Individuals with a disability		Y
Individuals who are hard to house		N
Individuals who are homeless		Y
Individuals who are BIPOC		N
Individuals who are justice involved		N
Individuals who have vouchers		Y
<b>Project Expenses</b>		
Complete		N
Reasonable		Y
<b>Project Sources</b>		
Complete		N
Reasonable		Y
Includes leveraging additional investment (non-AHSP funds)		Y
<b>Project Schedule</b>		
Complete		N
Reasonable		Y
<b>Project Team</b>		
Relevant experience and qualifications to complete the project		Y
<b>Project History</b>		
Indicates success in completing projects in the program category		Y
<b>Applicant</b>		
Has timely audits free of qualifications and findings which would adversely indicate ability to manage an AHSP allocation		Y
Shows a healthy financial position		Y
Is a non-profit applicant		Y

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CONSTRUCTION PROJECT ADDITIONAL SUMMARY INFO	Y/N
<b>Project</b>	
Preserves long-term affordability beyond the loan term	Y
Emphasizes quality design and construction	Y
Participates in an energy efficiency program	Y
Contains mixed unit types (affordable, workforce, market)	N
Contains mixed unit types (multifamily and single family)	N
Contains mixed unit types (units with varied number of bedroom (1,2,3+))	Y
Is geographically separated from other affordable housing projects	Y
Is coordinated with employment, services, and existing infrastructure	Y
Is located within 3/4 miles of a public transportation route	Y