COUNCIL ON HOUSING
Public Session
Smyrna Rest Area Conference Center
Smyrna, DE

ACTION ITEMS

- **Clayton Court Funding Request**
- **Hollybrook Apartments Funding Request**

On November 29, 2007, Roseann Harkins, Chair, called to order the Public Session of the Council on Housing at 2:07 p.m. In addition to Ms. Harkins, all Council members were present:

Hugh Leahy
Connie Louder
Connie McCarthy
Joe McDonough
Ruth Sokolowski
Vincent White
John Walker
Norma Zumsteg

The following persons also attended the meeting:

Calvin Bonniwell, Housing Project/Loan Manager, DSHA
Lynda Blythe, Administrative Specialist III, DSHA
Matthew Heckles, Executive Assistant, DSHA
Saundra Johnson, Director, DSHA
Jerry Jones, Housing Finance/Development Administrator, DSHA
H. James Loescher, Housing Project/Loan Manager, DSHA
Thomas McGonigle, Esq., Wolf Block Schorr & Solis-Cohen LLP
Tim McLaughlin, Deputy Director, DSHA

Guests present:

Thomas Ayd, Edwards & Layfield Development Co.
Arthur Edwards, Jr., Edwards & Layfield Development Co.
Gina Miserendino, Delaware Housing Coalition
Michael D. Skipper, WSFS Bank
Sandy Spence, Sussex County Habitat For Humanity
Glenn Worgan, Delaware Valley Development Group

Ms. Harkins began the meeting with the introduction of the newest Council Member, Hugh D. Leahy, Jr., who is currently with the Delaware Community Foundation and brings many years of banking experience with him.

APPROVAL OF MINUTES

Ms. Zumsteg made motion to approve the October 10, 2007 minutes. Mr. Walker seconded the motion and the minutes were approved unanimously as written.

HDF STATEMENT

Mr. Jones reviewed the HDF Statement (copy attached) stating that items 119 (Brightways II), 120 (Compton Apartments) and 121 (NCALL) had been approved at the October 10th meeting and that item 105 (Capitol Green) was closed. Items 122 (Clayton Court) and 123 (Hollybrook), the second and third of four Tax Credit projects of 2008 were being presented at this meeting. Brightways II was the first Tax Credit project presented; the fourth, and final project, Marcella's House, will be presented in early 2008.

CLAYTON COURT FUNDING REQUEST

Mr. Jones began the presentation for the attached Clayton Court funding request by noting, inasmuch as this is a preservation project, it will be preserving units and federal subsidy and enhancing the community. This site is near where Cornerstone West has been active in recent years with its very successful single-family acquisition/rehabilitation/for sale program. Mr. Jones continued by stating:

- It is a very major renovation project (gut rehabilitation with all new electrical, plumbing, sprinkler and heating systems).
- Construction financing, at over $13 million, is one of the largest DSHA has funded, with several funding sources, i.e. HDF, Wilmington Trust Company (WTC), City of Wilmington HOME, New Castle County HOME, Federal Home Loan Bank Affordable Housing Program and Low Income Housing Tax Credits.
- Permanent financing will be approximately $6.9 million.
- It is a 72-unit garden style apartment development on 1.67 acres of land.
- DSHA's funding is a relatively small portion of the funding but with the Tax Credit award the impact is great.
- $803,388 in Tax Credits annually will be received. Over a 10-year period the investors would receive over $8 million in Tax Credits.
- This is, and will remain, a HUD subsidized project.
- It is being purchased from a private owner.

Reviewing Sources and Uses of Funds, Mr. Jones highlighted:

- Development being purchased for $4.8 million.
- WTC funding $7.8 million or (57% of total construction financing).
- Construction interest of $671,380 is substantial in comparison to other DSHA projects but

consistent with the large amount being funded by WTC.
- DSHA construction funding is approximately 16% of total.
- Development fee is DSHA's maximum at $800,000.
- It is hoped relocation can be done on-site.

Ms. Sokolowski asked if there would be any permanent displacement due to over-income limits. Mr. Worgan replied he believed there are no tenants over income. Mr. Jones also explained a DSHA policy that no one can be forced out of a unit due to being over income and the developer could not take tax credits on over income units. Mr. McDonough asked if this was a legislated decision or policy. Ms. Johnson responded DSHA made this a policy decision, approximately seven years ago, so legislation was not pursued.

Mr. White questioned the notation that the General Partner, Developer, Social Service Provider and Management Agent are related entities. Mr. Jones explained West End Neighborhood House has a business relationship with the Developer and Cornerstone West and is providing the social services. Delaware Valley Development Company has a management company, Fairville Management, who will be the agent. This does not change the fees paid to either the social services provider or management agent. Those costs would be the same no matter who performed the duties. Mr. White asked how DSHA knew the costs would be the same and if they were bidded out. Mr. Jones replied the management fees are set at the allowable HUD or DSHA rates. The social services fees were reviewed by staff and found to be reasonable to those rates paid to other social service providers. Ms. Sokolowski asked what the social services were. Mr. Jones and Mr. Worgan replied there is a wide spectrum of services available at West End Neighborhood House, i.e. housing counseling, financial counseling, after-school programs, computer training, recreation, budgeting, health and wellness and many, many more. Ms. Sokolowski also asked if using West End Neighborhood House was in lieu of having on-site social services. Mr. Jones replied that, although the tenants could go to the provider, West End Neighborhood House must be on site as part of the LIHTC requirements.

Mr. Jones then reviewed Key Assumptions highlighting:

- This is a project-based subsidy.
- Monthly management fee to be paid, because it is HUD subsidized, is lower than other developments.
- Operating expenses are in line with DSHA guidelines, even though it is higher than rural projects due to higher insurance and maintenance costs in the city.
- Tenants pay 30% of their income for rent and the remainder, almost $1 million per year, is a rental subsidy paid by HUD.

It is the recommendation of DSHA staff that a HDF second mortgage construction loan in the amount of $2,189,463 and a deferred second permanent loan in the amount of $1,684,126 be granted.

Mr. Jones highlighted conditions of the loan noting:

- The Borrower must secure construction/permanent financing by December 21, 2007.
- HUD must approve the conversion to tenant-paid utilities.
- Thirty percent of the net equity contribution due at construction loan closing.
- The development to remain same mix of incomes currently present.
- Equity contribution almost $.90 on the dollar.
- Social services detailed in the LIHTC application and approved by DSHA to be provided for life of financing.
- DSHA standard policy requires Borrower to fund operating reserve equal to four months of operational expenses, including debt service, by time of construction closing.
- Borrower must obtain HUD approval to transfer the development to the new owner and make application to renew Section 8 subsidy.
- All current development reserves and escrow accounts to be transferred at construction closing to the new owners to fund reserves and escrows. Borrower to obtain approval from HUD for this transfer.
- Replacement reserve being funded at $500 per unit per year.
- Subsidy Reserve to be established for operating expenses in case HUD funding decreases.
- Surplus funds during construction period may be used to fund operating reserves upon proper approval.
- Borrower agrees that DSHA will claim a portion of the funds as a match under the HOME Program.
- Due to high costs of the rehabilitation, Borrower is required to obtain three bids for all work done.

Mr. White questioned why tenants should pay the utilities. Mr. Jones replied, not only is it good business practice, but tenants, historically, waste utilities if they are paid by the owner. Mr. White wondered how families at 60% of median income could afford the utilities. Ms. Sokolowski pointed out the tenants do receive a utility allowance that should cover the costs.

Mr. White asked if an Affirmative Marketing Plan was provided. Mr. Jones replied yes, the Plan is contained in the application. Mr. White also asked for a copy of the list of social services be sent to him.

Mr. White asked about the difference in cost between demolishing and rehabilitating the project. Mr. Jones stated he would have to contact a major construction company to determine those figures. However, as Ms. Sokolowski pointed out, if the project were demolished the HUD subsidy funding would terminate. Mr. White also wanted to know how much of the tax credit allocation this project will take on a yearly basis. Mr. Jones advised it would be approximately 40% of this year's IRS allocation for Delaware. Mr. Jones explained more credits are needed for preservation projects and doing more preservation projects has been a recent policy decision. Mr. White questioned what will be lacking, i.e. single family developments, if most of the Tax Credit funds are used for preservation. Ms. Johnson responded that DSHA has never used Tax Credits for single-family developments and it

would have to be done via a lease arrangement converting to homeownership after 15 years, i.e. lease/purchase which is allowed by the Tax Credits, but DSHA has identified preservation of multi-family sites as a priority for Tax Credits. Tax Credits can only be used for rental developments.

Mr. Jones also noted the Tax Credit program must follow the recently completed five-year Needs Assessment which indicated the biggest need in Delaware is family rental housing.

Council reviewed Resolution No. 366 (copy attached) after which Ms. Sokolowski moved for approval, Ms. McCarthy seconded the motion. The motion was unanimously passed with the exception of Ms. Zumsteg abstaining due to her being a member of the DCIC board.

HOLLYBROOK APARTMENTS FUNDING REQUEST

Mr. Jones presented the Hollybrook Apartments request, (copy attached) stating it is an existing development and also a preservation project. The developer is Edwards & Layfield. Mr. Edwards has had a long-term involvement with Case Edwards, a multi-state tax credit developer and management company with whom DSHA had previous dealings utilizing tax credits. This is the first project with DSHA involving this development team. The developer has been in business since 2004 and has completed three multi-family sites.

- Construction financing funds will be provided by HDF, Bonneville Mortgage Corp. and Low Income Housing Tax Credits (LIHTC).
- Bonneville Mortgage Corp. has done several Rural Development (RD) projects.
- Permanent financing funding by Bonneville Mortgage Corp., RD and HDF.

RD currently has multiple mortgages on the development. As those mortgages roll to the new ownership they will subordinate to the Bonneville Mortgage placing DSHA in a subordinate position behind the RD mortgages. Typically DSHA is in a second position.

The RD mortgages, beginning with the oldest, will begin to terminate in 2017. RD has structured the budget to pay the debt service of the four mortgages. When the oldest loan terminates, the budget will be maintained as per the prior year, so the income designated to pay that mortgage would then be used for payment on the DSHA loan. This will continue until all RD mortgages are terminated.

Mr. Jones stated the main issue is whether DSHA wants to be put in a lesser mortgage priority position than it usually is, which is the staff's recommendation. Chief reasons for staff's recommendation is the preservation of 124 units and a subsidy of approximately $500,000 per year at that site. Mr. White asked what is the deferred mortgage interest rate and Mr. Jones replied it is 1%. Ms. McCarthy asked how many RD mortgages there are. Mr. Jones replied there are four RD mortgages plus the Bonneville mortgage placing DSHA in sixth place. Ms. Sokolowski questioned if the mortgages attach to the entire development even though they occurred for individual phases. Mr. Edwards advised all the RD loans will be rolled into a parity position so, technically, DSHA's loan would be in a third position. Mr. Jones reminded Council that RD, as does HUD, will continue to subsidize the development even after the mortgages have been satisfied.

Mr. Jones next reviewed the development description:

- 124-unit garden style apartments; 15 buildings on 16.01 acres.
- New community, offices and maintenance buildings will be built.
- Handicapped accessible.
- Energy Star appliances.
- Total development cost, without land, approximately $115,000 per unit.
- 88% of the residents are at or below 50% of median income; 12% at or below 60%.
- Equity distribution allowance will approximate $50-60,000 per year from RD, which is less than DSHA allows.

Continuing with a review of the funding sources Mr. Jones noted:

- Total development costs over $15 million.
- 82% of the financing is being provided by sources other than DSHA.
- Acquisition price includes the assumption of the old debt.
- Rehab costs will approximate $61,000 per unit.
- Construction interest lower than Clayton Court because of the Bonneville mortgage being relatively small and more equity being received during construction.
- Identity of interest: Seller, General Partner, Developer, Sponsor and Management Agent are interrelated but fees paid to them would be the same as unrelated entities.

Permanent financing was next reviewed by Mr. Jones noting:

- $15 million total funding coming from Tax Credit equity, Bonneville Mortgage Corp., RD and - HDF.
- Net number available for debt service after expenses is $216,667 per year.
- RD will budget subsidy annually taking prior year's expenses into consideration.

There were no questions regarding Mr. Jones' review of either sources and uses or permanent financing.

Mr. Jones next highlighted key assumptions:

- Project-based subsidy.
- Management fee is restricted by RD at $47.66 per unit per month.
- Operating costs are $4,627 per unit.
- Net rents range from $507 to $652.
- Approximately 60% of the equity will be received prior to construction completion which saves interest charges.

During the review of key assumptions, Ms. Sokolowski asked if development costs were lower downstate than upstate to which Mr. Jones responded they are approximately the same.

Reviewing the Recommendations on the presentation, Mr. Jones stated the word 'third' in the second paragraph should be deleted.

Regarding Conditions to Funding, Mr. Jones noted:

- Financing commitments to be procured by December 13, 2007.
- 108 units to be at 50% of median income; the balance at 60% of median income and all new tenants must be at 50% of median income.
- There are also 15 non-subsidized units.
- Minimum equity of at least $.90 on the dollar will be contributed to the development.
- Borrower to provide all social services as detailed in the LIHTC application and as approved by DSHA.
- An operating reserve of four months' operational expenses to be funded by construction closing as per DSHA policy.
- Borrower to obtain HUD's and RD's consent to transfer the property and make application to renew subsidy for as long as possible.
- Minimum of three publicized bids for construction work is required.
- Replacement Reserve to be funded at permanent closing, after which DSHA will receive monthly replacement reserve funding.
- As RD loans are paid off, the budgeted funds for those loans will be used to reduce the DSHA debt.

Ms. McCarthy requested a definition of Rural Development. Mr. Jones stated Rural Development is a federal entity which is part of the U.S.D.A (United States Department of Agriculture). RD has been involved in affordable single-family and multi-family financing for many years.

There being no further questions, Council reviewed Resolution No. 367 which Ms. Zumsteg moved to approve. Ms. Louder seconded the motion and the Resolution was unanimously passed.

Ms. Harkins then asked Council to re-visit Resolution No. 366 for amending. Motion was made by Mr. McDonough and seconded by Mr. Walker that: Resolution No. 366 be amended to provide an additional condition stating the Borrower shall obtain a minimum of three competitive bids for the construction work on the development which are subject to the review and approval by DSHA. Motion was passed unanimously.

DIRECTOR'S REPORT

Ms. Johnson stated:

- Approximately 400 people from 123 different organizations attended the 2007 Governor's Conference on Housing.
- Step-Up Program Awardees are: Connections CSP, Inc., Gateway House & People's Settlement Association and West End Neighborhood House, Inc. Council Members McDonough and Walker were on the review panel that selected the awardees.

- Lieutenant Governor's Foreclosure Prevention Task Force has met and will release short-term recommendations in mid-December. It will continue to meet to address longer-term solutions.
- Lea Apartments Relocation - over 80 families relocated to date; all tenants received notice to vacate by November 30, 2007. Property remains for sale on the open market.
- DEMAP, established to help assist in foreclosure relief, has committed more than $500,000 of the over $780,000 allocated.
- $120 million in 2007-D Bonds, for single-family mortgages, became available October 2007 with over $28 million allocated to date.

Mr. McDonough asked if the DEMAP funds came from a reserve fund. Ms. Johnson responded the funds came from the State's Bond Bill and is a fixed amount. Ms. Sokolowksi asked if there had been any willingness on the part of lending institutions to waive or reduce the fees. Ms. Johnson said there is and that FDIC, and other regulators have requested lenders to make special effort to modify fees as much as possible.

OTHER BUSINESS

Ms. Harkins reviewed activities of the previous month:

- Ms. Sokolowski and Ms. Harkins testified at the Budget hearing. Mr. McDonough, Mr. Walker and Mr. White also attended.
- Ms. Harkins reminded Council Members of the letter sent by Council to the Governor supporting DSHA's budget request.
- Speakman Place opening was attended by Mr. Walker.
- The Governor's Conference was attended by Council Members Louder, Sokolowski, Walker, White, Zumsteg and Harkins.
- Ms. Harkins contacted the Governor's office by phone and email requesting a meeting to discuss DSHA's budget request. The Governor's office will get back to her regarding a date and time.
- Ms. Harkins next appointed Ms. Louder as the third member of the Governance Committee along with Mr. White, as Chair, and Ms. Sokolowski.

Mr. White gave a report on the Governance Committee stating the Committee would be recommending adoption of the proposed By-Law changes as outlined in House Bill 86 so the Council would be in compliance with the Bill when passed. These changes are the result of certain recommendations by the Joint Sunset Committee as well as suggestions by Council. The Governance Committee will present their recommendation at a later date, at which time Council will be given copies of the recommendations. Mr. McGonigle stated a 20-day notice must be given prior to changing the By-Laws and suggested a meeting be held to discuss and determine the exact changes prior to giving the notice. Ms. Harkins asked Mr. White to present the Committee's recommendations at the January meeting. Mr. White, however, stated the Committee first needs to know its parameters prior to actively reviewing and recommending changes to the By-Laws. Mr. McGonigle stated an amendment to the legislative amendment last year should be made indicating the effective date of HB 86 would be six months from the date signed by the Governor. Ms. Johnson recommended staff work with Mr. McGonigle to determine wording and timing of the By-Laws.

Mr. McDonough questioned if the final wording and passage of the By-Laws would be open to public input. Mr. McGonigle said yes, it would be; however, input would not necessarily mean that changes would be made.

Ms. Harkins stated the January 2008 agenda will include the Governance Committee with discussion on direction and objectives and a vote by the whole Council. HB86 is available for review along with Mr. Heckles' notations on the By-Laws to indicate changes that would be reflected by the passage of the Bill. It is Ms. Harkins' understanding the Council's agreement on the changes do not have to be accomplished by January.

Ms. Sokolowski has requested Council receive presentations via email prior to meetings. This will be done on a regular basis.

Mr. White stated The Village of Eastlake, Wilmington, had received the 2007 Readers' Choice Award by Affordable Housing Finance Magazine. He requested Council write a letter of congratulations to the developers for the award. Motion to a send a letter of congratulations to Leon N. Weiner & Associates, Inc. and Wilmington Housing Authority was made by Mr. Walker and seconded by Mr. McDonough. The motion unanimously passed. Mr. Jones noted DSHA also participated in financing for the multi-family side of the development.

ADMINISTRATIVE MATTERS

Mr. Jones advised there is no business scheduled for the December meeting which will be held Wednesday, December 12th, 12:00 p.m. in the Delaware Room of Dover Downs Hotel & Conference Center.

Ms. Louder asked if those persons whose names were submitted to the Governor for appointment to the Council would have to re-apply. Ms. Johnson said the applications remain on file and would not need to be re-submitted.

Mr. White asked Ms. Miserendino, of the Delaware Housing Coalition (DHC), to address Council regarding DHC's upcoming meeting. Ms. Miserendino stated DHC and Diamond State Community Land Trust would be holding their joint annual meeting November 30th at 10:00 a.m. at the Lobby House in Dover. Various speakers would be relaying information after which a buffet lunch would be served.

ADJOURNMENT

A motion was made by Mr. Walker to adjourn. The motion was seconded by Mr. McDonough and unanimously approved. The meeting adjourned at 4:00 p.m.

Respectfully submitted,

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Lynda T. Blythe