

MINUTES
CENTRAL CITY REVITALIZATION AND HOUSING COMMITTEE
JANUARY 13TH, 2009 AT 5:30 P.M.
COUNCIL CONFERENCE ROOM – 2ND FLOOR CITY HALL

The Central City Revitalization & Housing Committee met on Tuesday, January 13, 2009. The following members were present:

Chairman Walker Reid
Councilman John Howren

Councilman Dale Burkett was not present.

Chairman Reid called the meeting to order and stated Councilman Burkett could not be here due to the birth of his grandchild. Chairman Reid welcomed guest and staff. Jim Palenick, City Manager, stated he would begin, and Ms. Annie Thombs, Community Development Administrator, would assist in the presentation.

ITEM #1 NEIGHBORHOOD STABILIZATION PROGRAM

Mr. Palenick stated the Housing and Economic Recovery Act of 2008, enacted on June 30th, 2008, authorized the Neighborhood Stabilization Program. The Neighborhood Stabilization Program provides funds to municipalities to acquire and redevelop properties that might otherwise become sources of abandonment within the communities, particularly areas affected by large numbers of foreclosures.

The program provides grants from no less than two million dollars and no more than five million dollars. The City's complete application will be submitted to the State by February 3rd, 2009. In order to complete the application by February 3rd, a Public Hearing must be held and adoption of our plan at the City Council's January 20th meeting.

Our goal is to create new, quality, affordable, owner-occupied housing in places where it will have the most impact, where it will stabilize the neighborhood, and where it deals with census tracts that are largely involved in high foreclosure rates. In our community, two census tracts meet the criteria: our Central City area and the Highland area. Seventy percent of the funds could provide housing for people with income guidelines that are higher than what is typically seen in some of these programs. Mr. Palenick asked Ms. Thombs about the percentage.

Ms. Thombs stated the program addresses middle-income beneficiaries of 120% of the area median. Ms. Thombs distributed a document with the income amounts for this area.

Mr. Palenick stated 2008 median family income within this area is \$64,300. A one-person household could make \$54,100 per year; a two-person household -- \$61,800;

three-person -- \$69,550 and four-person -- \$77,300. The Craig and Wilson Building could possibly be developed into 14 individual condominium units; ten-735 square-foot, one-bedrooms; four-1,235 square-foot two-bedrooms. The lower level would be retained by the developers and developed as a single retail condominium. Ms. Thombs provided a handout of income restrictions from HUD.

Ms. Thombs stated the income threshold for a household of four is \$32,200 per year. Our original proposal was that in addition to the senior housing in Highland, the second phase could have 10 or 12 cottage style units. Ms. Thombs advised the law states the set-aside funds must be used on abandoned and foreclosed properties -- not to redevelop a new construction project. In that case, scattered site acquisition and rehabilitation of foreclosed properties for those persons who are 50% of the median or below would have to be done. The City has many vacant properties, but the properties are not classified as abandoned or foreclosed. A plan must be submitted for any program income generated from the sale of those units in order to build additional housing for the 120% income clients/families.

Mr. Palenick stated that any program income within the first 18 months after receiving this grant would have to be returned. The financing needs to be designed so that nothing comes back within the first 18 months. In the months 19 through 48, the program income can be put back into our community. From month 19 and beyond but before month 48, the program income could roll over at least twice.

Councilman Howren asked Mrs. Thombs relative to the application for eligibility under the guidelines, a family of four in the 50% bracket could not make more than \$32,200 as a household. Is that only at that time of eligibility?

Ms. Thombs stated the income requirements would only apply during eligibility period.

Mr. Palenick addressed Mr. Greg McAllister, McAllister Obsessive Constructive, to present his concept for the project. A copy of the *pro forma* was distributed along with a copy of the building layout, photographs and renderings.

Ms. Thombs referred to the map, which indicates areas of greatest need in yellow. These areas were based upon the number of foreclosures, the number of sub-prime mortgages within the area and the likelihood of additional foreclosures in that same census tract. The areas indicated in pink have the highest number of foreclosures; however, these areas are not of greatest need based upon the criteria requested.

Mr. McAllister referred to the schematic study of the Craig and Wilson Building. The study shows the floor plan is a three-story building totaling 28,000 square feet. The space can be maximized to provide two full floors, seven units per floor for residential use. The first floor is approximately 7,200 square feet and has a mezzanine. Per downtown zoning, only retail can be on that floor. Given the 22,224 square-feet to be rehabilitated, the full cost would be 3.4 million dollars, which puts the square footage cost at \$157.21.

Mr. Palenick asked Mr. McAllister to explain that if you were buying one of the 745 square-foot units, the cost would be \$115,000. The cost for the two-bedroom 1,235 square-foot would be about \$194,000.

Mr. McAllister stated the study took into consideration the current mortgages in place for the 120% median income.

Mr. Palenick stated this number is the ceiling of what we could charge. Mr. Palenick asked Ms. Thombs to talk about her meeting with BB&T.

Ms. Thombs stated BB&T would like to use their in-house program to finance the mortgage side, which is known as the CHIP Program. BB&T would like to talk with the developer about the financing of the commercial side of the project.

Councilman Howren asked what is the CHIP Program?

Ms. Thombs answered it is BB&T's Community Housing Program. They offer 97% financing, 3% down payment plus closing costs. Ms. Thombs stated it is a fixed rate for 30 years based upon prime (4%).

Ms. Melissa Magee, Assistant City Attorney, stated we intended to use a similar loan agreement used in downtown redevelopment. Since this is federal money, a lot of the same requirements would apply. Ms. Magee stated this loan would cover the cost of the up-fit of the residential units although that can include the exterior and a certain amount of the common areas. It cannot go toward the interior up-fit of the commercial area. The terms of the loan were actually 0% interest loan. The loan term would be for five years, and no payment for the first 18 months. The repayment would be on a sliding scale based on the sale of the residential condos. If the cost of the condos were \$157 per square foot and if a condo sold for \$135 per square foot, then the City would get the cost of the condo but not its entire money back. Depending upon what the units are sold for, it is possible that the City would not be repaid all of the money that was lent to the developer.

Councilman Howren asked until the 5th year?

Mr. Palenick answered no; any money that does come back to us is program income.

Ms. Magee stated this program is actually aimed at selling the units below cost.

Mr. Palenick concurred with Ms. Magee. Ms. Magee stated if the units were being sold below cost, the loan would not be repaid in full. The loan is set up if the market required the units be sold below cost, and then the loan is based on the actual purchase price.

Chairman Reid asked how does the cost of the units on South Street compare?

Mr. McAllister stated the cost is \$30 per square foot higher.

Ms. Magee stated when the units are sold, the chain of title would have to include an affordability requirement.

Chairman Reid asked, so if they choose to sell, can they sell?

Ms. Magee stated yes, but they have to sell to someone who meets the affordability requirements for a period of time.

Ms. Thombs stated instead of using the re-sale, we would use the re-capture. If they sell before the affordability period is up, they would pay back the pro-rated share, which would allow them to sell to anyone.

Ms. Magee asked if they would allow re-capture?

Ms. Thombs answered yes.

Ms. Magee stated if the owner decided to sell within the affordability period, the money would have to be repaid.

Mr. McAllister stated the *pro forma* states that we put aside \$50,000 for down payments.

Ms. Magee stated the payment would be made on the sale of each condo as a lump sum payment.

Chairman Reid asked if we would sell to individuals--not to people who want to buy multiple units and flip them.

Ms. Thombs, Ms. Magee and Mr. Palenick agreed it has to be sold and occupied.

Ms. Magee stated a family of four probably would not purchase a two-bedroom condo, but a single person or family of two would have sufficient income to afford these condos.

Ms. Thombs stated this program is the first program that HUD has ever developed for the middle income--it has always been low to moderate.

Mr. McAllister stated the project duration is between 14 and 17 months from the approval date until the certificate of occupancy. The City sets the sliding scale, but the City wants to get back at 18 months \$157.21 per square foot. The decision on how long to hold on to those funds and when to sell would be the City's decision.

Councilman Howren asked is there an opportunity for pre-selling of these?

Mr. McAllister answered absolutely; the City would go through commission-based real estate agent.

Chairman Reid stated based on the economy is this the ideal time to do this from the cost perspective?

Mr. McAllister stated yes, given the fact of the flexibility from the pricing standpoint and the benefits of mortgage rates at 4.5%.

Chairman Reid stated downtown parking seems to be an issue – what will exist and what parking is already there?

Mr. McAllister stated there are no residual areas for parking.

Mr. Palenick stated central city revitalization would demand downtown parking, even though no funding is available. When all of these things come to be, this will change the whole culture and dynamic of downtown.

Councilman Howren stated there are businesses that would build and manage a garage.

Chairman Reid asked from this aspect of the meeting you need this committee to make a motion to take to full council?

Ms. Magee stated we are not going to have a final agreement until February 2nd. The resolution should include a provision that the City Manager has the authority to approve the final forms to include in the application.

Councilman Howren made a motion that the resolution approval be taken to council and provide authority to the city manager to execute as necessary within the parameters that may come forth out of any future meetings between staff and city manager.

Chairman Reid seconded the motion for presentation for full council. Chairman Reid asked who would be spearheading the program?

Mr. Palenick stated Ms. Thombs, Ms. Hinely, Ms. Magee and himself; however, the point person would be Ms. Thombs.

Chairman Reid asked if there were any other concerns and thanked the staff for their time and efforts.

Chairman Reid adjourned the meeting.