

**BOONE TOWN COUNCIL
DEVELOPMENT FINANCE INITIATIVE WORKSHOP
THURSDAY, APRIL 20, 2023, 9:00 AM
1500 BLOWING ROCK ROAD**

COUNCIL MEMBERS PRESENT: Mayor Tim Futrelle, Mayor Pro Tem Edie Tugman, Todd Carter, Dalton George, Becca Nenow, and Virginia Roseman (arrived at 1:36 p.m.)

PLANNING & INSPECTIONS STAFF PRESENT: Jane Shook-Director of Planning and Inspections, Jessica Mitchell-Long Range/Special Projects Planner, Stacey Miller-Deputy Director/Chief Building Inspector, and Brenda Henson-Administrative Support/Permit Tech

OTHER TOWN STAFF AND REPRESENTATIVES PRESENT: Amy Davis-Town Manager and Allison Meade-Town Attorney

OTHERS PRESENT: Sarah Odio-Assistant Director for Housing and Revitalization, and Frank Muraca-Real Estate Development Analyst, both with the UNC School of Government Development Finance Initiative

Call to Order

Mayor Futrelle called the meeting to order at 9:08 p.m. A moment of silence was observed.

Affordable Housing Presentation

Attached is the PowerPoint presentation given by the DFI at today's workshop.

Ms. Sarah Odio stated that the focus of the workshop would be on how affordable housing in the private sector. She explained that the developer or owner had to identify the opportunities, conduct due diligence, secure capital, build a team, oversee construction, implement a marketing and management plan, and execute an exit strategy. Ms. Odio stated that construction took at least 12 months. With pre-planning taking another 12 months, building an affordable housing unit would take at least two years.

Ms. Odio noted that restricted rents meant less access to conventional funding sources. She stated that just because you told a developer they had to build their project a certain way did not mean they actually could. Ms. Odio noted that construction costs were high, to the point where sometimes things were unbuildable. She stated that projects were sometimes driven by the funding source.

Ms. Odio stated that Low-Income Housing Tax Credits (LIHTC), credit repair, and down-payment assistance were ways to help increase home ownership. She noted that there was a funding gap between what households could afford for a mortgage payment or rent and the actual cost.

Mayor Futrelle called a break in the meeting from 10:18 a.m. until 10:34 a.m.

Ms. Odio explained that a minimum of 24 units were needed in order to qualify for the LIHTC program. However, she felt that 48 units would be more realistic and acceptable. Ms. Odio stated that LIHTC offered a 9% tax credit which was very competitive, or a 4% tax credit which was less competitive because it provided less funding. She noted that a scoring system covering a variety of topics was used when selecting projects to fund.

Ms. Odio stated that Watauga County ranked number one as the county with the highest cost-burdened low-income renters relative to the number of tax credit units funded over the last five years.

Mayor Futrelle left the meeting at 10:46 a.m.

Ms. Odio noted that the Town would have to have a site with a perfect score in order to qualify as a 9% project through the LIHTC program. In order to obtain a perfect score, the site would have to be close to

amenities such as a grocery store, pharmacy, retail store, and public transit. She stated that a site could not be within ½ mile of a landfill, wastewater facility, adult entertainment, or electric substation.

Mr. Frank Muraca reviewed opportunity sites in town that could possibly be developed with affordable housing. Council Member Nenow felt that Council should consider the Queen Street parking lot as a possible affordable housing site. It was noted that the Bolick property would not qualify as a 9% project through the LIHTC program, but could qualify for the 4% program due to its proximity to the former landfill site.

In conclusion, Ms. Odio stated that the next step of DFI involvement would be to do an opportunity site ID to look at sites on a deeper level, including how many units could fit on a site. She added that they would also do a high-level financial analysis for each site if this was the direction Council would like for them to go.

Adjournment

With nothing further, the meeting ended at 12:05 p.m.

Tim Futrelle, Mayor

Brenda Henson, Admin. Support/Permit Tech

Town of Boone

April 20, 2023

Developing an Affordable Housing Strategy

Day 2 Workshop

 **UNC** | SCHOOL OF GOVERNMENT | Development Finance Initiative

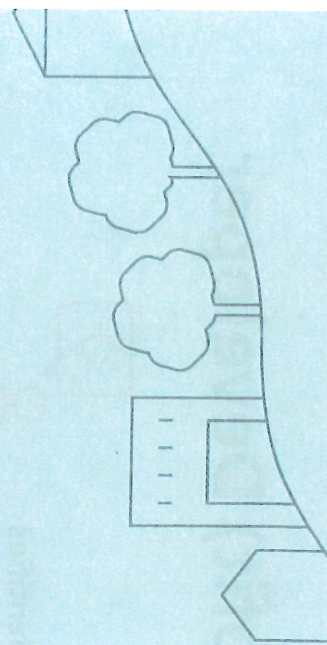


Today's Agenda

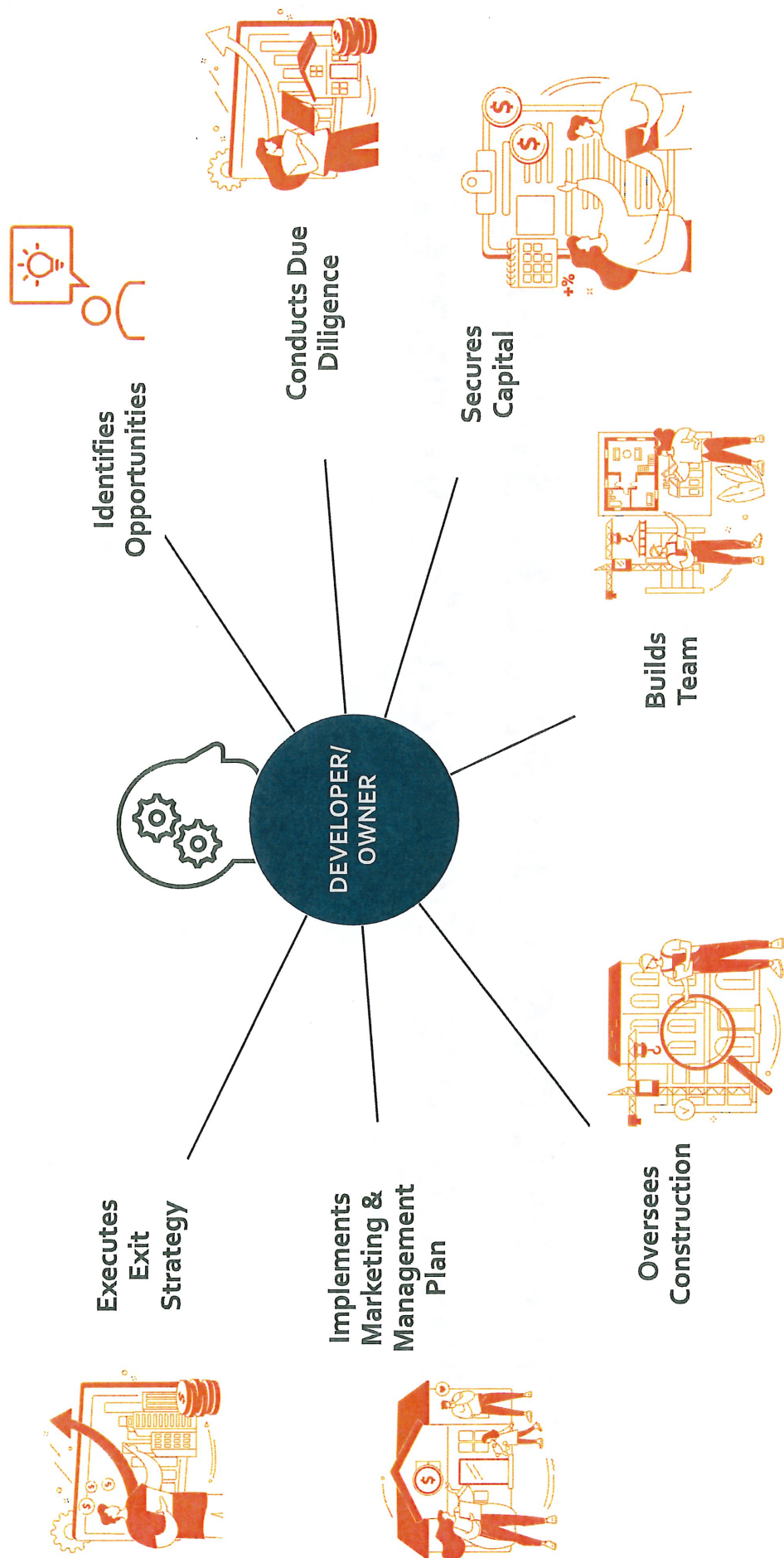
- The development finance challenge for private affordable housing
 - Homeownership
 - Rental
- Private affordable housing finance and local government role
 - Low-Income Housing Tax Credit
 - Other
- Review of opportunity sites
- Next steps for accomplishing community goals



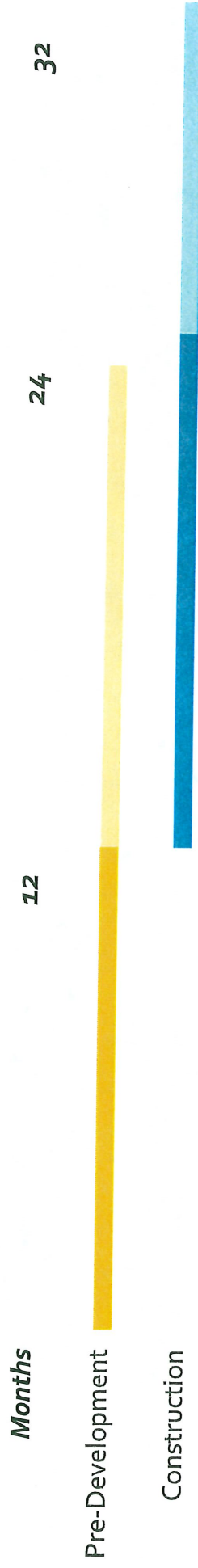
Private Development of Affordable Housing and the Local Government Role



Role of the Private (For-Profit/Non-Profit) Developer

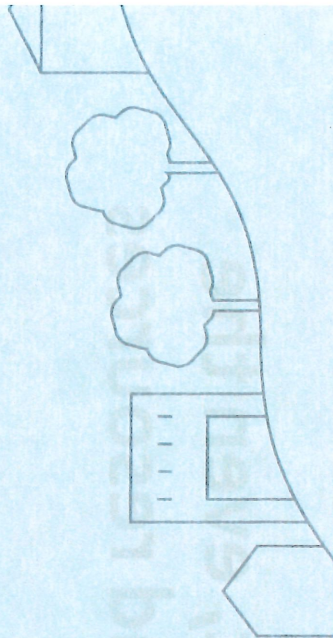


In affordable housing development, even the best-case scenario requires time and resources



- Restricted rents = less access to traditional funding sources
- Construction costs high regardless of location
- The funding source impacts where and how affordable housing can be developed or preserved – does not always match *community vision* for where development should occur
- Availability of a recurring funding source impacts development partner and contractor capacity

Homeownership



Homebuilding Development Finance Challenge

Construction Costs = Capital Sources



Construction

Sale Value > Construction Costs + Profit



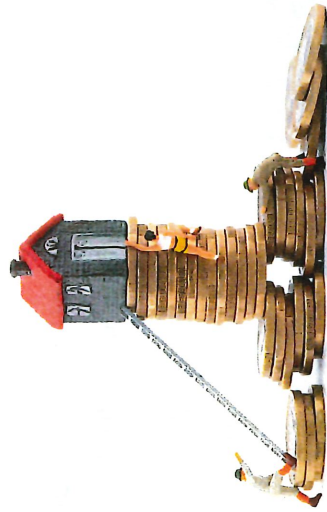
Sale

Methods for supporting housing production



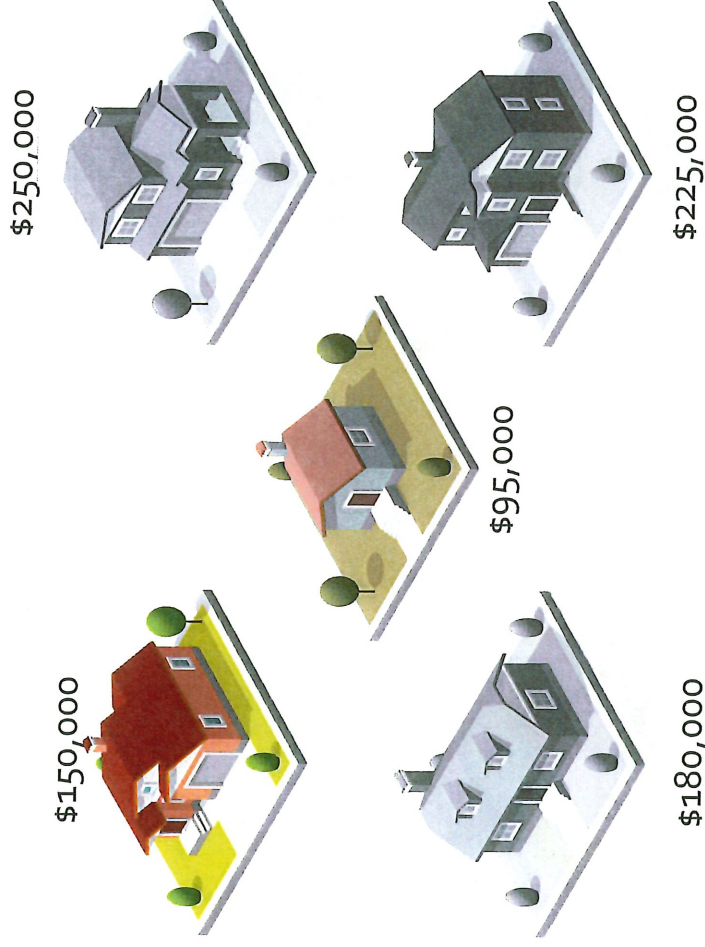
	Demand-side	Supply-side
Public		Public housing
Public- Private	Rental subsidy vouchers Credit repair Down payment assistance	LIHTC "Necessary" subsidy for private development of LI Housing Removal of barriers to production
Private	Employer-sponsored down payment	Non-traditional loans "Mill" housing

Homeownership: Demand-Side Approach

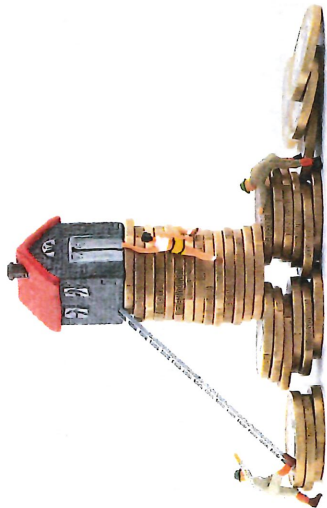


Example

	Actual
Monthly Income (Low-Income Family of 4)	\$3,500
Mortgage, Insurance, and Taxes as 30% of Income	\$1,100
Mortgage Payment	\$920
Down Payment	\$3,700
Maximum can Afford	\$149,000



Homeownership: Demand-Side Approach



Example

Monthly Income
(Low-Income Family of 4)

\$3,500

Mortgage, Insurance, and
Taxes as 30% of Income

\$1,100

Mortgage Payment

\$920

\$850

Down Payment

\$3,700

\$11,700

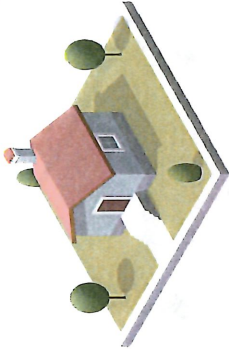
Maximum can Afford

\$149,000

\$193,000



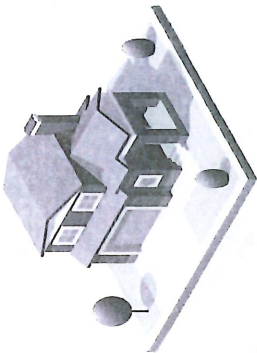
\$150,000



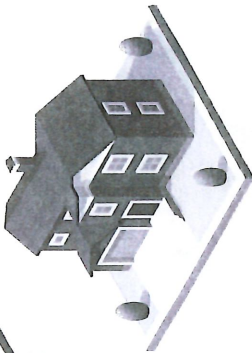
\$95,000



\$180,000



\$250,000



\$225,000

Lower interest rate

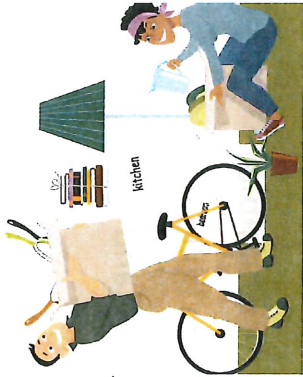
Down payment Assistance

Homeownership: Supply-Side Approach



Example	Actual	With Subsidy	
Cost to build	\$250,000	\$183,000	Infrastructure/Permitting
Cost of land	\$70,000	--	Convey land at no cost to owner or Trust
Profit	\$60,000	\$37,000	
Value of House	\$380,000	\$220,000	
Maximum LI household can afford	\$149,000	\$149,000	
Funding Gap	(\$231,000)	(\$71,000)	

Homeownership: Demand + Supply

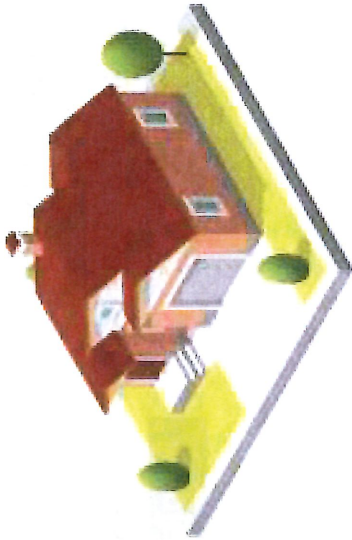


Example

Monthly Income (Low-income Family of 4)	\$3,500
Mortgage, Insurance, and Taxes as 30% of Income	\$1,100
Mortgage Payment	\$850
Down Payment	\$11,700

Maximum Home Value for LI HH

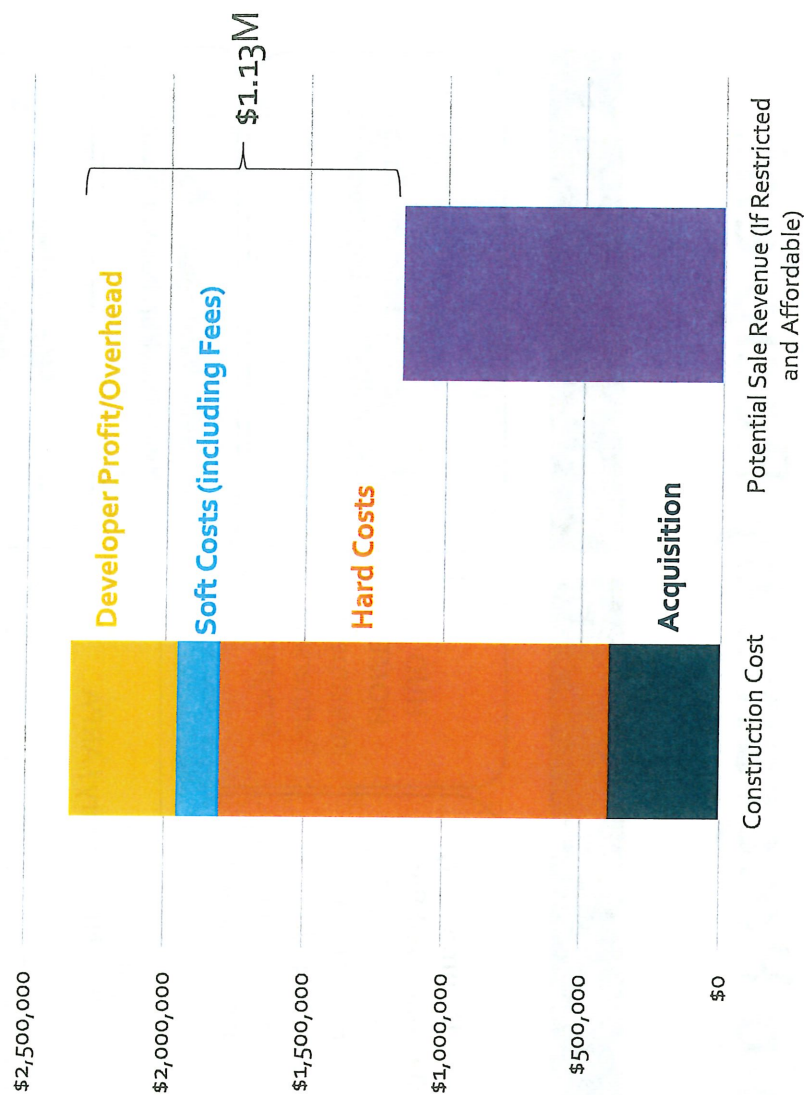
\$193,000



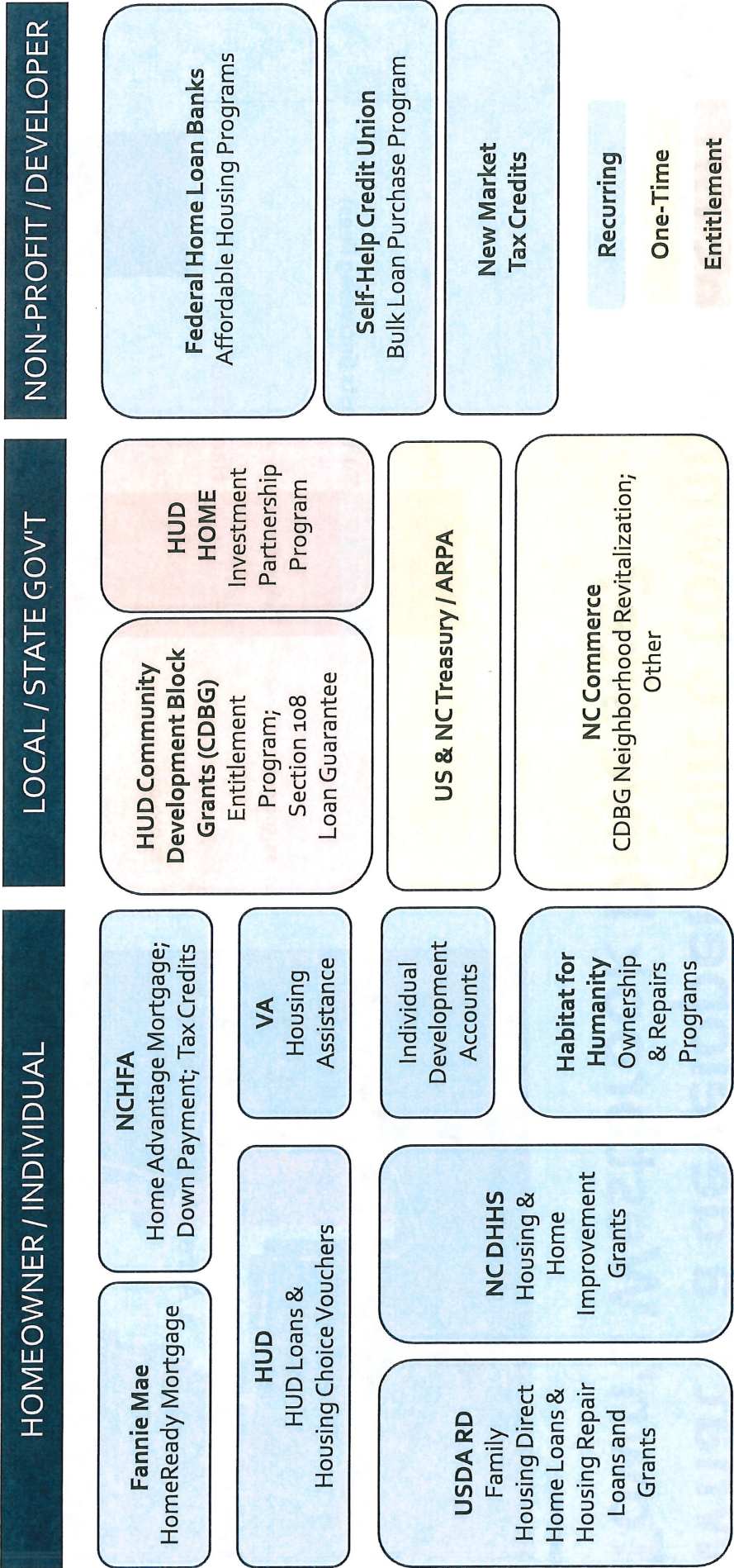
With Subsidy

Cost to build	\$183,000
Cost of land	--
Profit	\$37,000
Sale Value	\$220,000

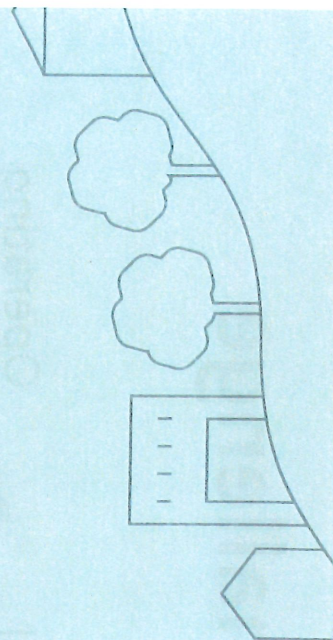
What if a developer built 6 townhomes on the Town's Westbrook Drive site?



Sample Homeownership Programs by Recipient

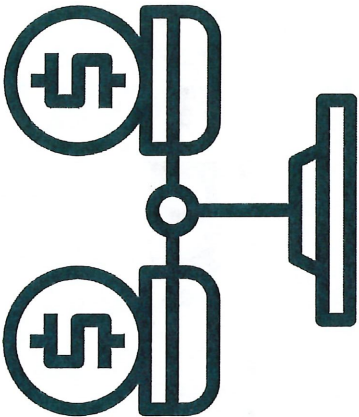


Affordable Rental Housing

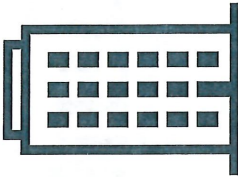
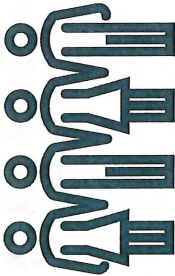


Rental Development Finance Challenge

Construction Costs = Capital Sources



Rental Income > Operating Expenses



Construction

Operations

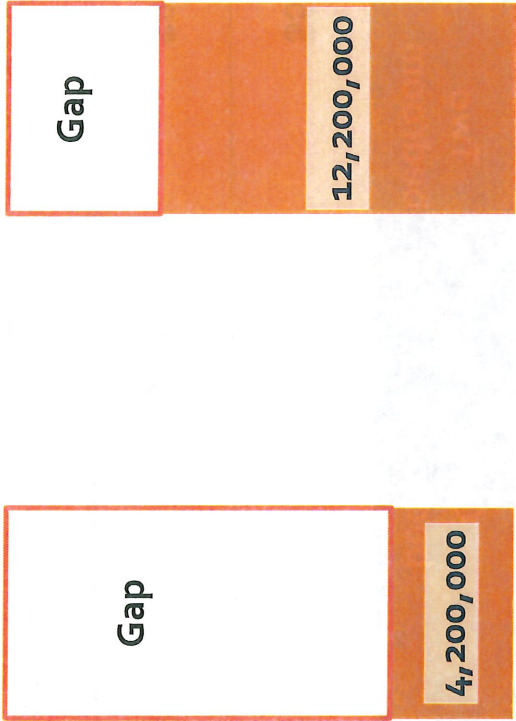
Maximum Affordable Housing Costs (monthly)

AMI	Efficiency	One bedroom	Two bedroom	Three bedroom
30%	\$419	\$449	\$539	\$622
50%	\$698	\$748	\$898	\$1,037
60%	\$838	\$898	\$1,078	\$1,245
80%	\$1,118	\$1,198	\$1,438	\$1,660

Source: HUD 2022

Financing Challenge for Private Development

80-Unit development with \$17.4M cost



Monthly Rent

\$1,800

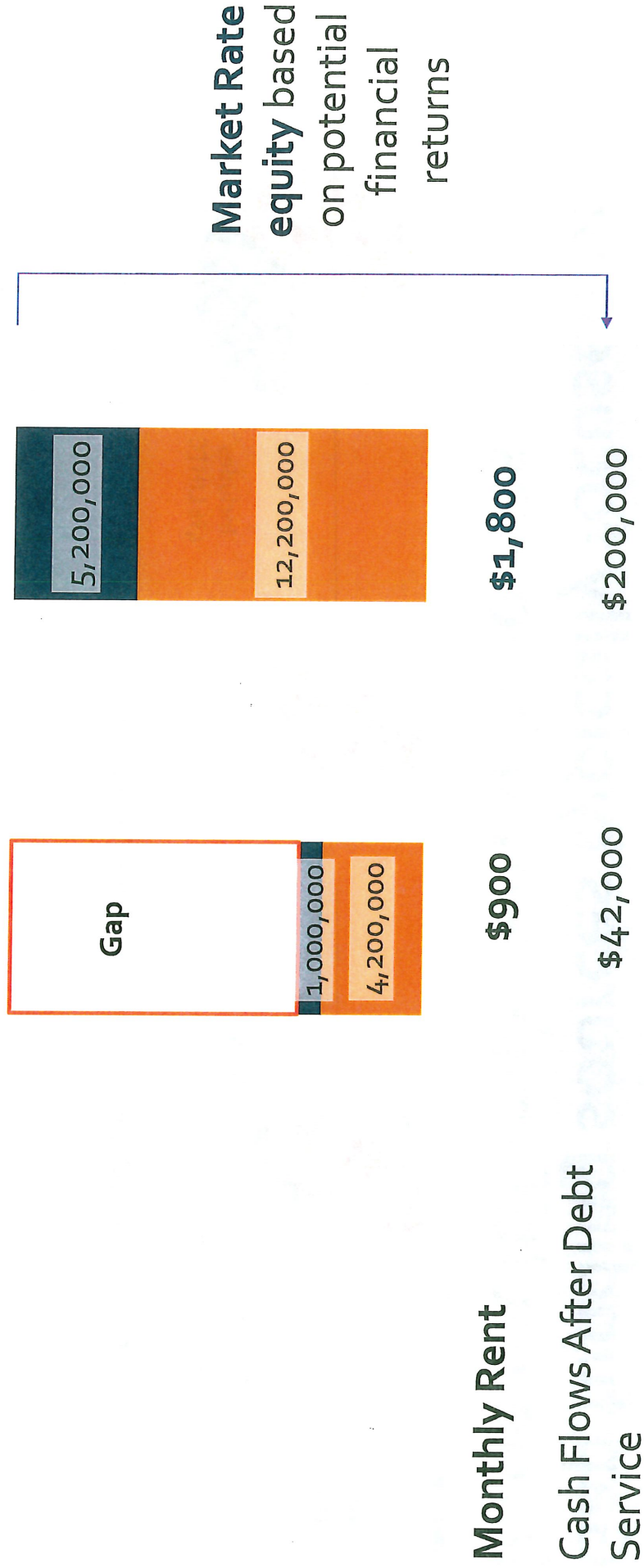
Net Operating Income

\$320,000

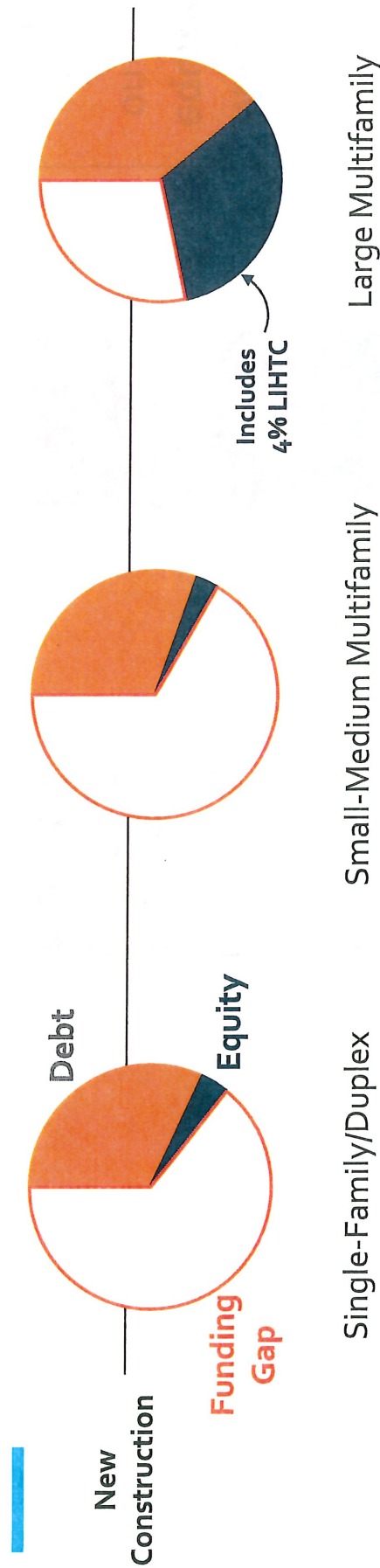
\$965,000

Financing Challenge for Private Development

80-Unit development with \$17.4M cost



Gap funding sources typically focused on large multifamily rental products



Methods for supporting housing production



Demand-side



Supply-side

Public

Public- Private

Private

Rental subsidy vouchers

Credit repair

Down payment assistance

Employer-sponsored down payment

Public housing

LIHTC

"Necessary" subsidy for private development of
LI Housing

Removal of barriers to production

Non-traditional loans

"Mill" housing

Vouchers through public housing authority

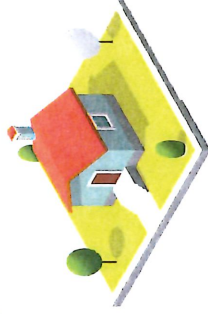


- Tenant typically pays no more than 30% of income
- Program tailored to ELI households

\$2,000



\$1,000



\$2,000



\$1,200



- PHA pays the landlord the difference between tenant payment and rent (up to Fair Market Rent)

Housing Choice Vouchers do not fill gap but do help accommodate ELI households

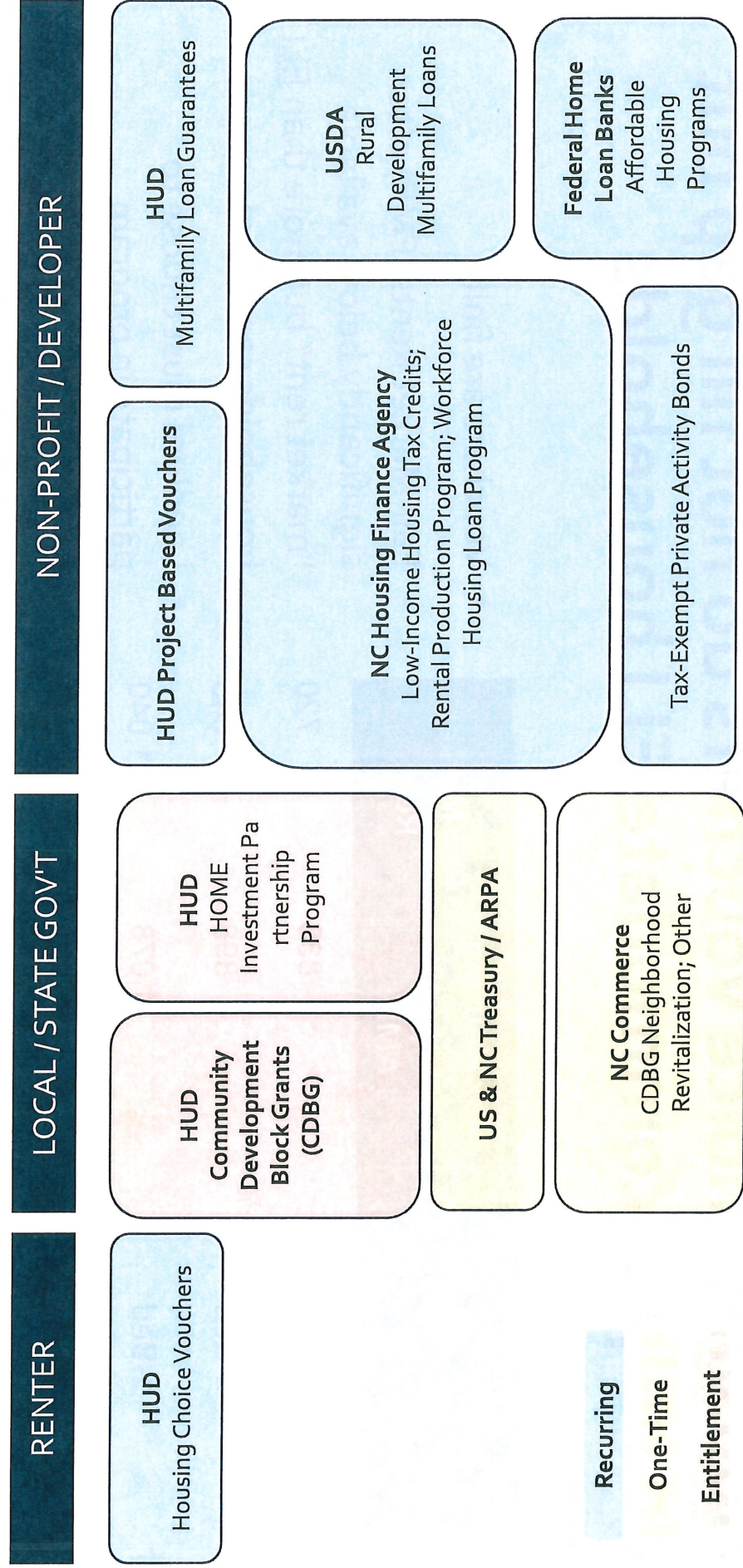
Unit Size	Max Housing Cost at 60% AMI	Fair Market Rent
Studio	838	720
1-Bed	898	845
2-Bed	1,078	1,040
3-Bed	1,245	1,320

- Vouchers are finite
- Fair Market Rents (FMR) often significantly below available “market rent” but more than ELI households can afford
- Landlord must choose to participate in program
- LIHTC developments that serve lower income households most competitive

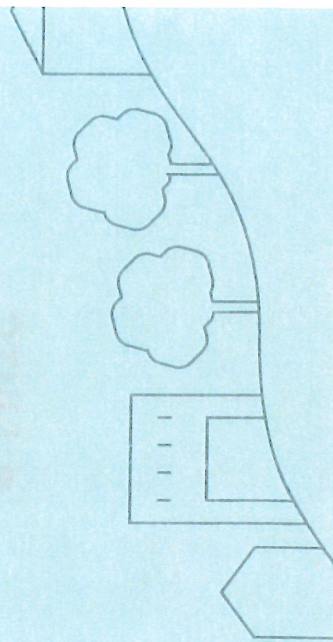
Source: HUD, NCHFA

Average rent for a One-Bedroom unit is \$900, and \$1,300 for a Two-Bedroom

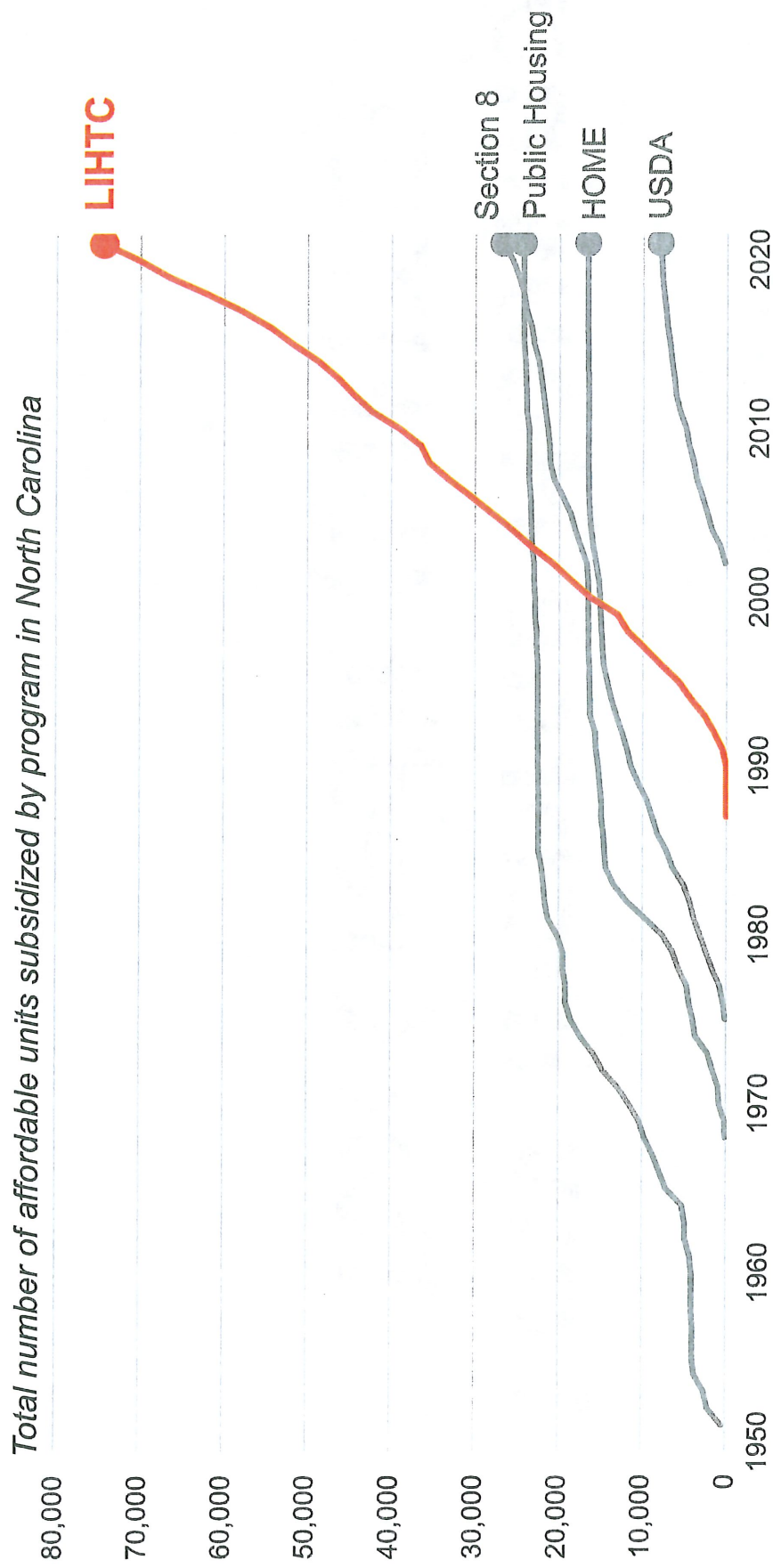
Sample Rental Programs by recipient



Low-Income Housing Tax Credit (LIHTC)



Why are we focusing on LIHTC?



Source: National Housing Preservation Database

Why are we focusing on LIHTC?

LIHTC consistently funds new units in NC every year



Source: National Housing Preservation Database, CoStar Analytics

LIHTC provides equity and an infrastructure for monitoring private development



Low-Income Housing Tax Credit (LIHTC) provides tax credits for acquisition, rehab, or new construction of affordable rental units



Awarded to private developers or non-profits, not local governments



Contributes equity to a project dependent on suitability of site for development:

- 9% (high subsidy, highly competitive)
- 4% (less subsidy, less competitive)



Project remains affordable for 30 years (privately owned and managed) and monitored by NC Housing Finance Agency.



Income requirements: 40% of units @ 60% AMI, 20% @ 50% AMI, all units 20-80% AMI averaging 60% AMI (income-average)

LIHTC Development



Woodlane Street Apartments, Granite Falls
66 Family Apartments



Pond View, Hildebran
60 Family Apartments



Katz Corner, Lenoir
68 Family Apartments

Key Differences: 9% and 4% LIHTC

	9% LIHTC	4% LIHTC
Credit value	70%	30%
Credit award	Highly competitive	Less competitive
Other federal subsidies	None	Volume Cap Tax-Exempt Bonds
Site suitability	Likely requires perfect score to compete	Meet minimum threshold
Maximum units	84 /120 (metro) units	200 units
Costs	Moderate	High
Complexity	Moderate	High
Other critical factors	Deep affordability, HH composition, Max \$1.2M	
		--

Watauga County's need reflected in 9% competitive process

The first tie breaker is the county with the highest number of cost burdened low-income renters per 9% tax credit unit funded over the last 5 years

Second tiebreaker: Lowest average income targeting

	County	Low Income Renters with Cost Burden^	LIHTC Units Funded over Past 5 Years	LI Renters with Cost Burden per unit Funded Over 5 Years
1	Watauga	4,195	0	4,195.00
2	Halifax	3,385	0	3,385.00
3	Richmond	2,930	0	2,930.00
4	Rutherford	2,840	0	2,840.00
5	Sampson	2,775	0	2,775.00
6	Wilkes	2,560	0	2,560.00
7	Pasquotank	2,510	0	2,510.00
8	Lincoln	2,480	0	2,480.00
9	Jackson	2,475	0	2,475.00
10	Franklin	2,355	0	2,355.00

LIHTC Site Suitability

Some examples of site requirements:

- Neighborhood Characteristics
- Proximity of Amenities
- Bus/Transit within walking distance
- Absence of incompatible uses (i.e. landfill, wastewater treatment, adult entertainment, active railroad tracks, electricity substation (active or not), etc.)
- Visibility

<i>Primary Amenities (maximum 26 points)</i>				
Grocery	≤1.5 12 pts.	≤2 10 pts.	≤2.5 8 pts.	≤3.5 6 pts.
Shopping	7 pts.	6 pts.	5 pts.	4 pts.
Pharmacy	7 pts.	6 pts.	5 pts.	4 pts.
<i>Secondary Amenities (maximum 12 points)</i>				
Other Primary Amenity	≤1.5 5 pts.	≤2 4 pts.	≤2.5 3 pts.	≤3.5 2 pts.
Service	3 pts.	2 pts.	1 pt.	0 pts.
Healthcare	3 pts.	2 pts.	1 pt.	0 pts.
Public Facility	3 pts.	2 pts.	1 pt.	0 pts.
Public School (Family)	3 pts.	2 pts.	1 pt.	0 pts.
Senior Center (Senior)	3 pts.	2 pts.	1 pt.	0 pts.
Retail	3 pts.	2 pts.	1 pt.	0 pts.

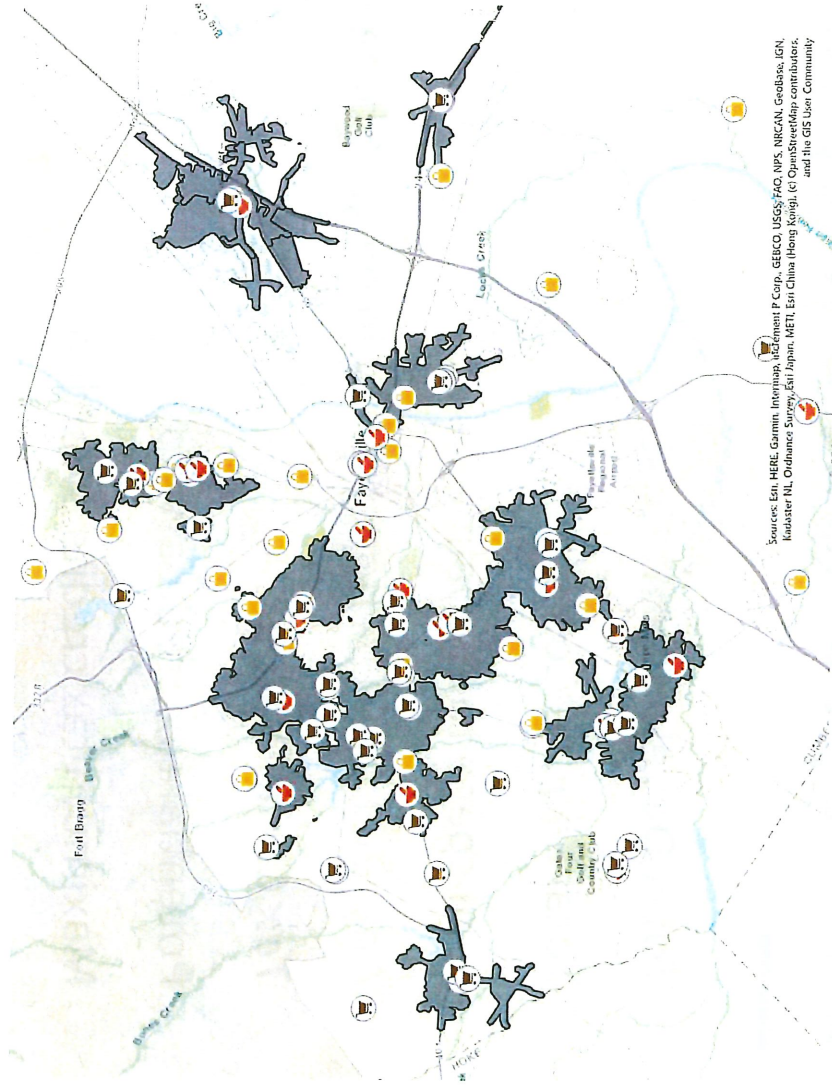
Driving Distance in Miles, Small Town*

<i>Primary Amenities (maximum 26 points)</i>				
Grocery	≤2.5 12 pts.	≤3 10 pts.	≤3.5 8 pts.	≤4.5 6 pts.
Shopping	7 pts.	6 pts.	5 pts.	4 pts.
Pharmacy	7 pts.	6 pts.	5 pts.	4 pts.
<i>Secondary Amenities (maximum 12 points)</i>				
Other Primary Amenity	≤2.5 5 pts.	≤3 4 pts.	≤3.5 3 pts.	≤4.5 2 pts.
Service	3 pts.	2 pts.	1 pt.	0 pts.
Healthcare	3 pts.	2 pts.	1 pt.	0 pts.
Public Facility	3 pts.	2 pts.	1 pt.	0 pts.
Public School (Family)	3 pts.	2 pts.	1 pt.	0 pts.
Senior Center (Senior)	3 pts.	2 pts.	1 pt.	0 pts.
Retail	3 pts.	2 pts.	1 pt.	0 pts.

Source: NCHFA QAP 2023

LIHTC site criteria dictates location

- Competitive 9% LIHTC applications have perfect scores
- Sites in Qualified Census Tracts (QCT) or Difficult Development Areas (DDA) receive 30% boost in tax credits (most relevant for 4% LIHTC)



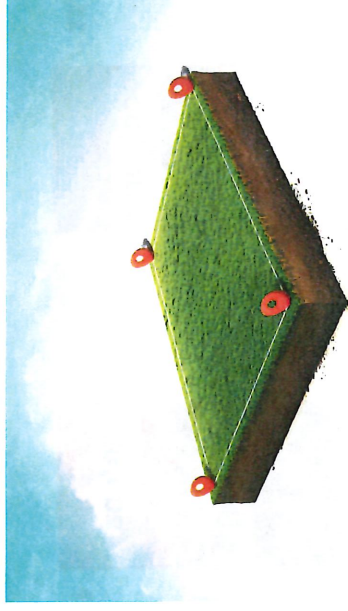
LIHTC provides equity to the deal

Total Development Cost	\$17.4M	\$17.7M
Total Eligible Costs	16.5M	\$16.6M
% of space that qualifies	100%	100%
Any QCT or DDA boosts? Could be 30% boost.	0%	0%
<i>Tax Credit Value</i>	<i>9%</i>	<i>4%</i>
Potential tax credit award	\$1.5M	\$0.7M
Maximum tax credits awarded	\$1.2M	\$0.7M
Rate at which investor buys the tax credits	\$0.87	\$0.87
<i>Investor buys all 10 years of credits upfront!</i>	<i>\$10.4M</i>	<i>\$5.8M</i>

Even LIHTC requires additional funding sources to fill gap



How do you fill the gap?



Remove Costly Barriers to Production

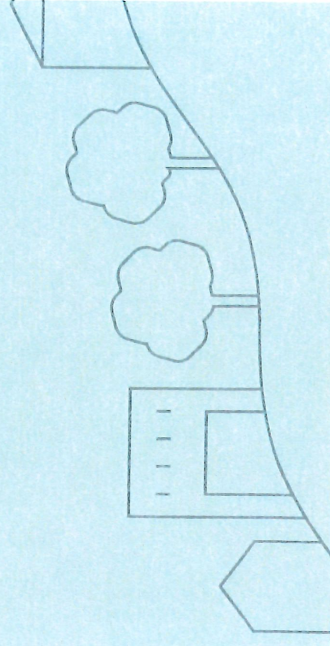
- Address Zoning and Regulations
 - Multifamily location, density, height, parking requirements, etc.
- Expedite permitting and approval

"Necessary" Subsidy

- Reduce Costs
 - Land at below market rate (ground lease or sale)
 - Shared public infrastructure (i.e. parking, roads, etc.)
- Financing
 - Below market loans
 - Grants

Opportunity Sites

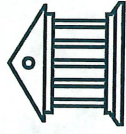
Subtitle Goes Here



Goals

- Housing type
 - Multifamily
 - Single-family/Small-to-medium multifamily
 - Preservation
- Strategies

Feasible LIHTC site selection criteria



Set by NCHFA through the
Qualified Allocation Plan (QAP)



Additional criteria considered



Proximity to amenities



Currently undeveloped with
buildable slopes



Outside of flood zones



Located on existing sewer systems

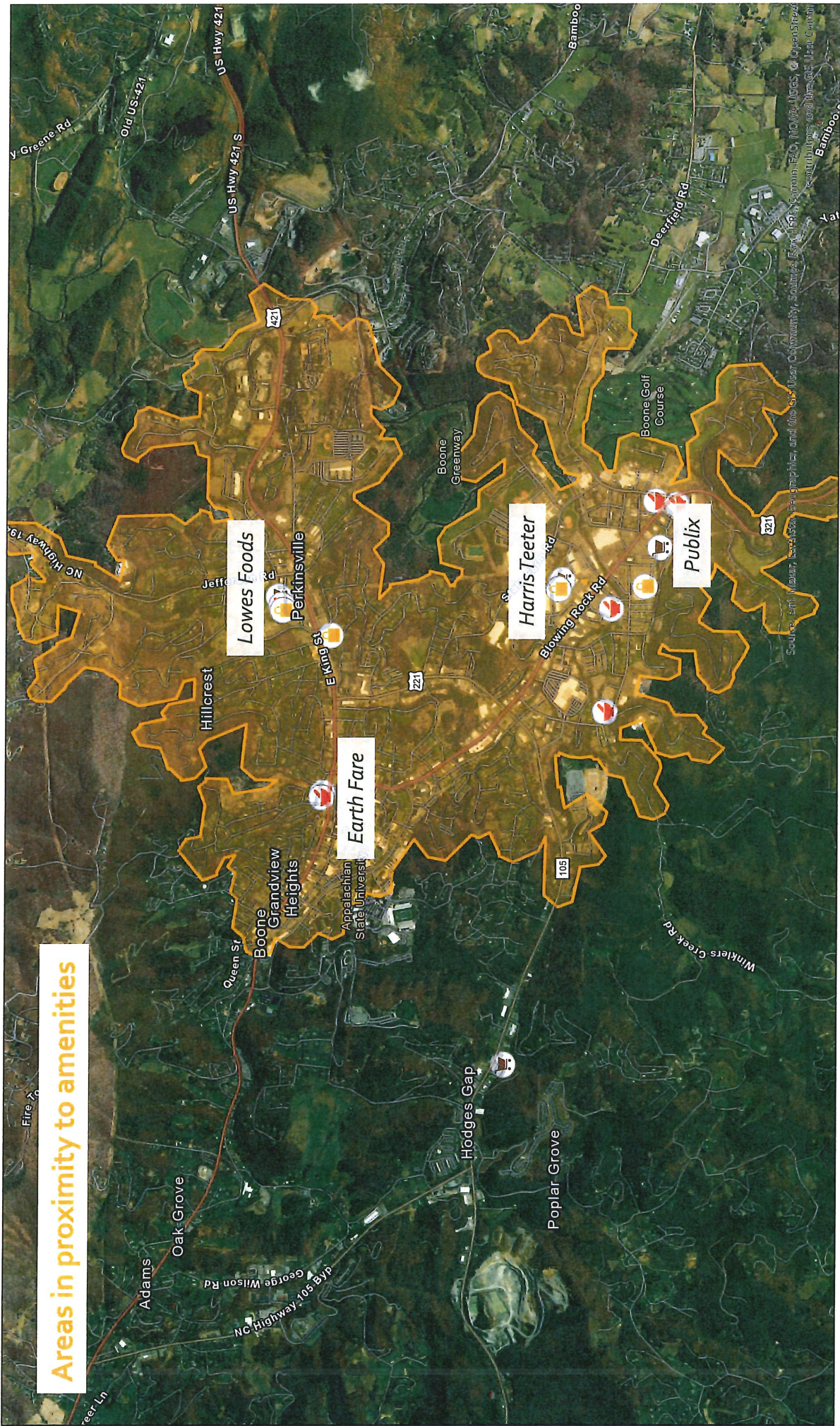


Sufficiently distanced from heavy industrial
sites, railroads, airports, and prisons



Differentiating public versus private
ownership

Areas in proximity to amenities



Feasible site selection criteria for single family infill or small-to-medium multifamily



Outside of flood zones



Currently undeveloped with
buildable slopes

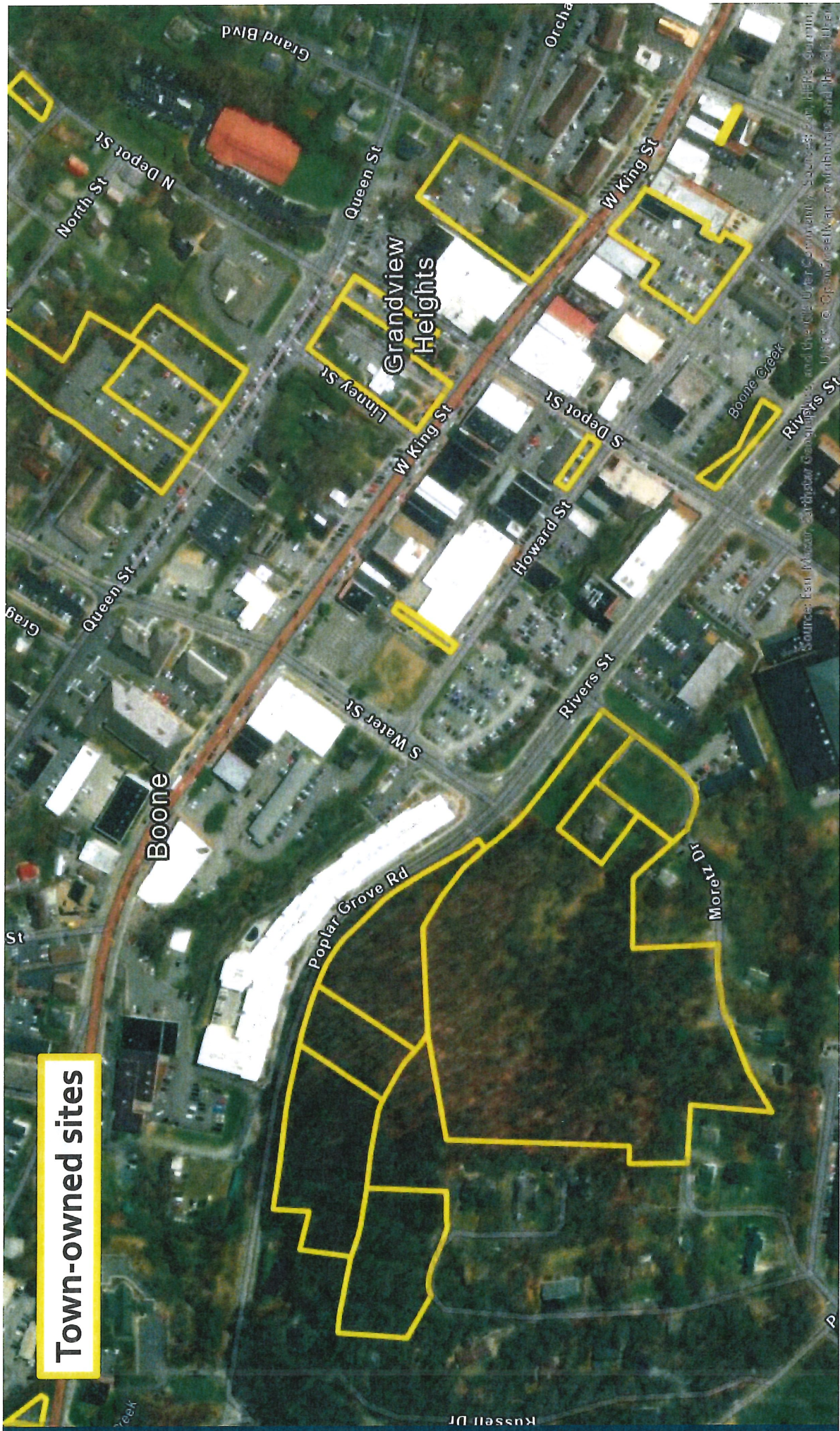


Located on existing sewer systems



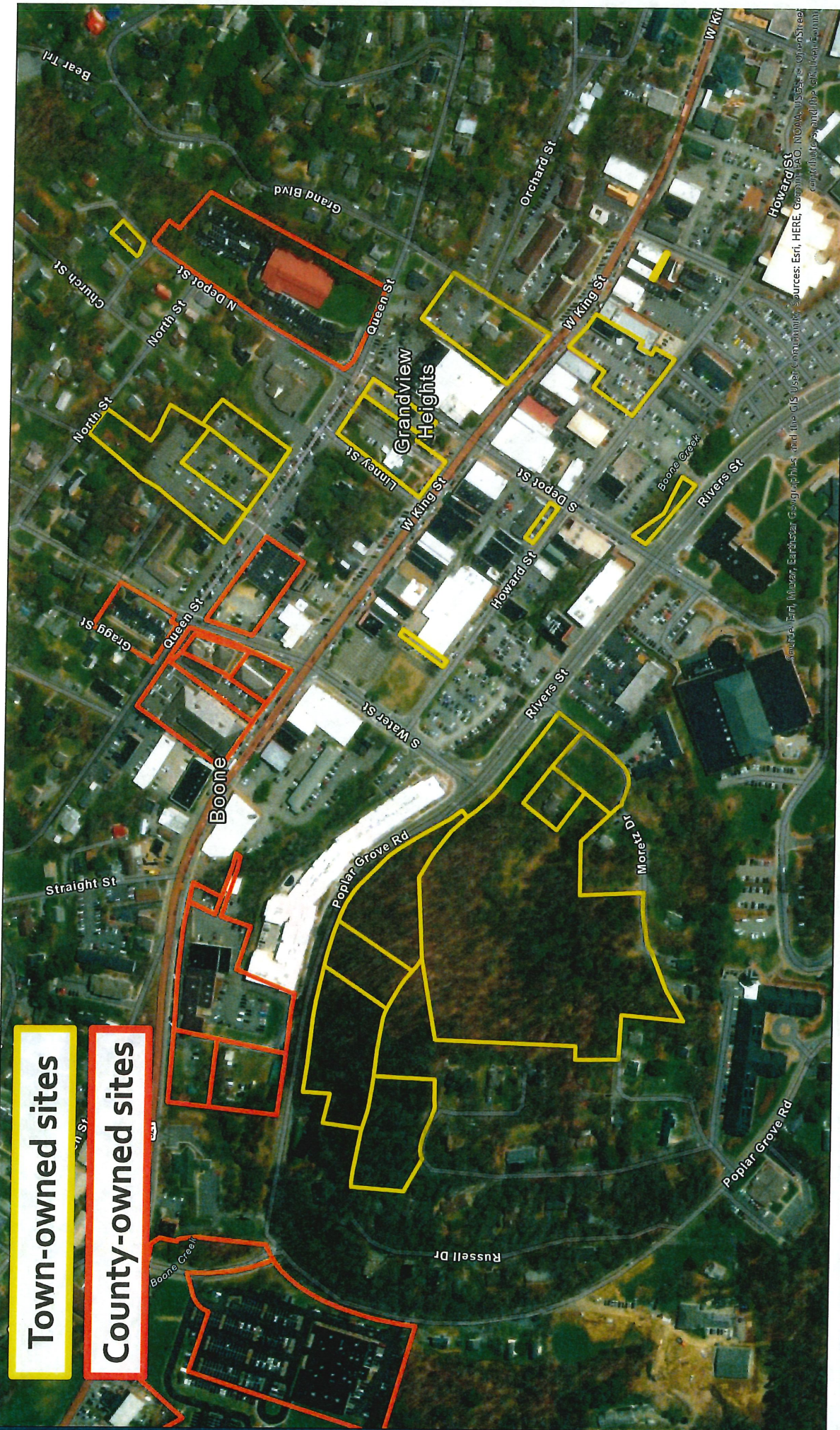
Sufficiently distanced from heavy industrial
sites, railroads, airports, and prisons

Town-owned sites

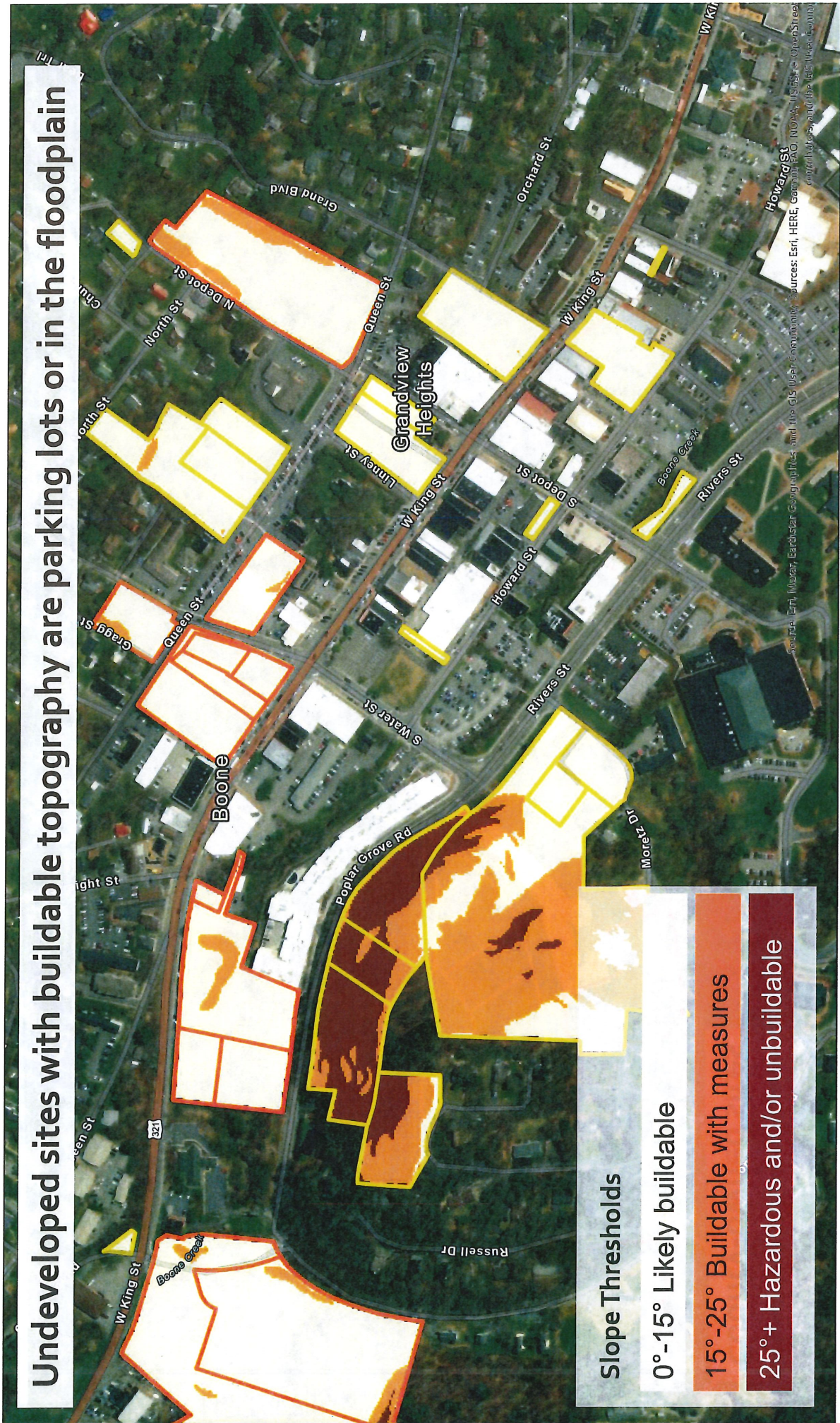


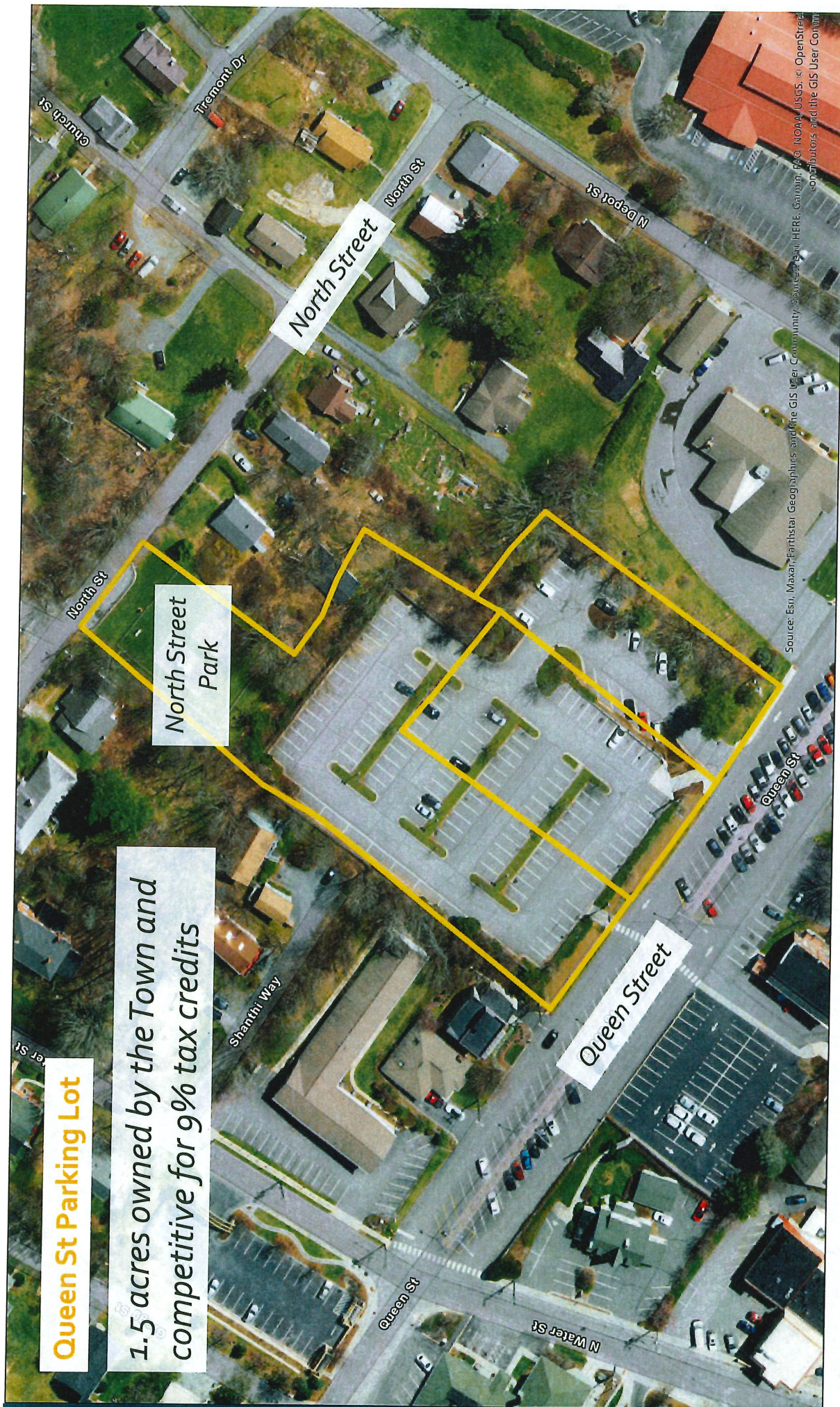
Town-owned sites

County-owned sites



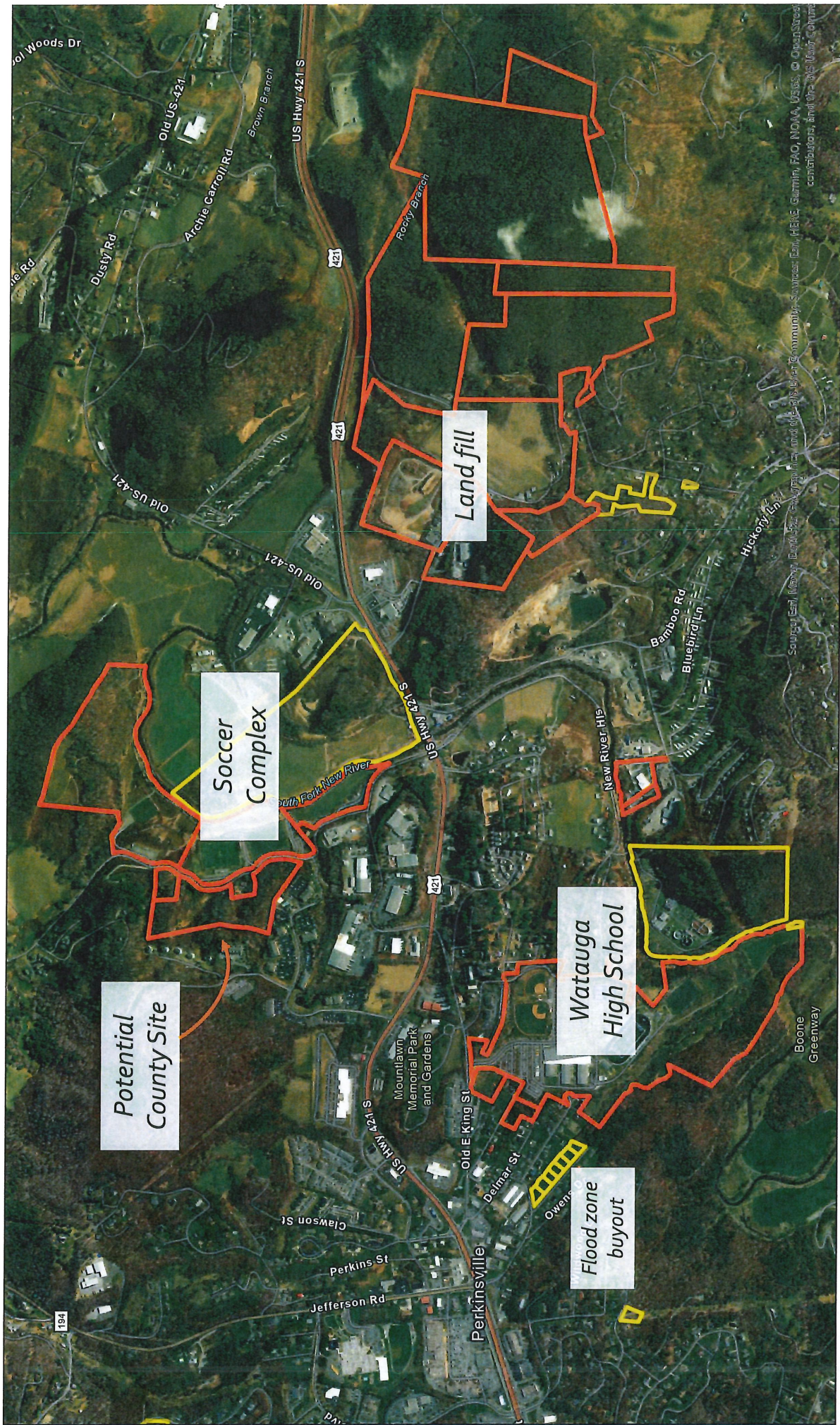
Undeveloped sites with buildable topography are parking lots or in the floodplain

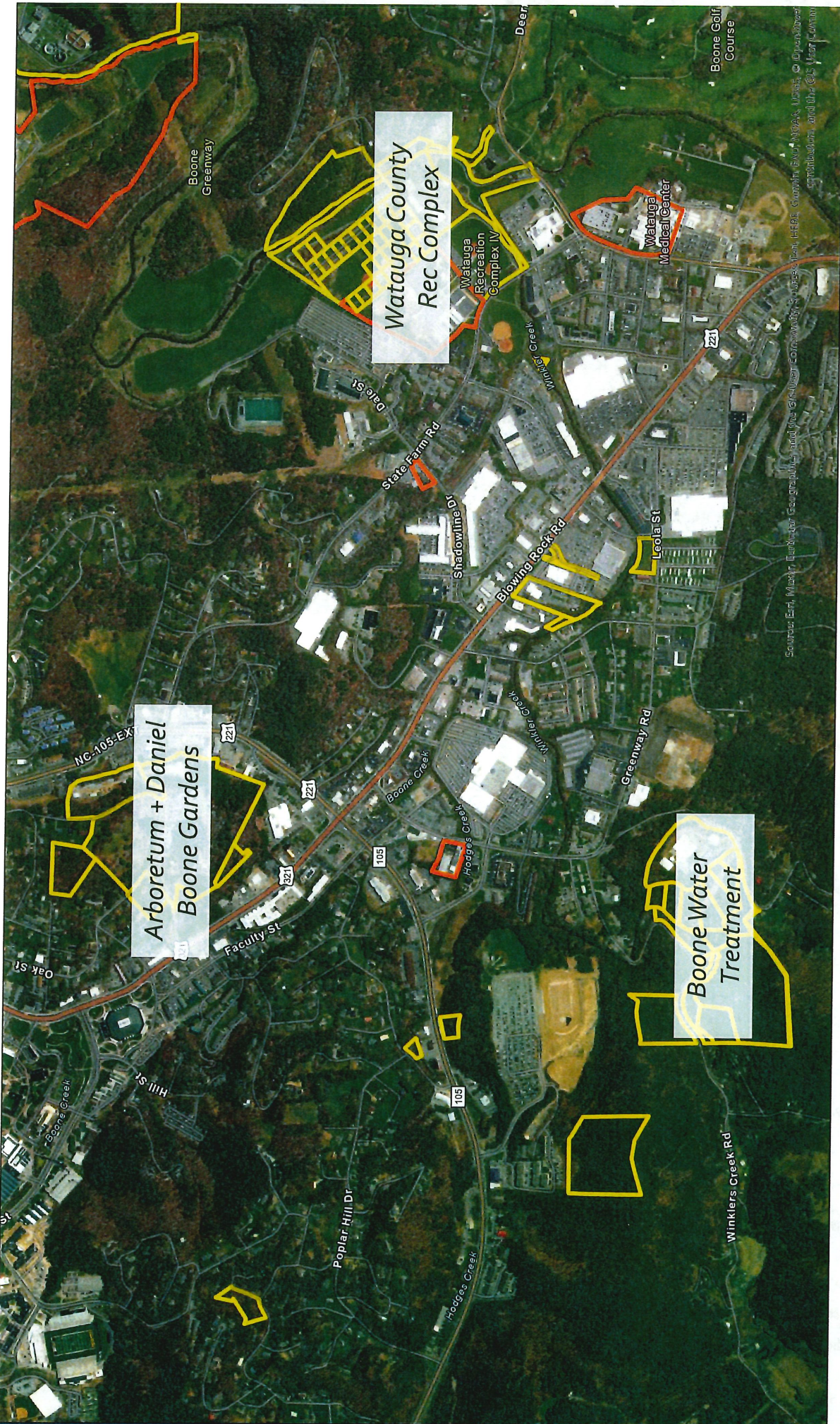




Queen St Parking Lot

1.5 acres owned by the Town and competitive for 9% tax credits





Arboretum + Daniel
Boone Gardens

Watauga County
Rec Complex

Boone Water
Treatment

Westbrook Drive

1 acre owned by the Town and .6
acres owned by local couple.

Town owned parcel

Local private
owner

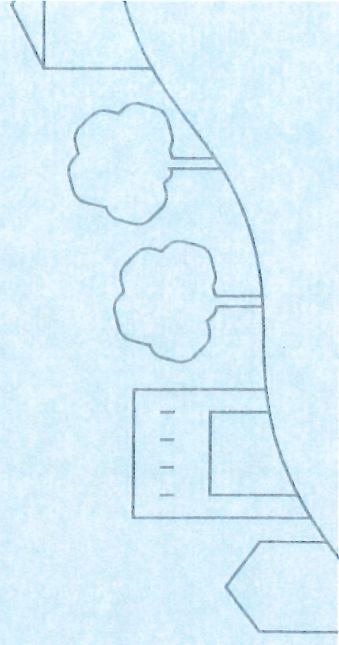
Source: Esri, DeLorme, Garmin, Flynova, Mapbox, OpenStreetMap contributors, and the GIS User Community

Opportunity Site Id Strategies

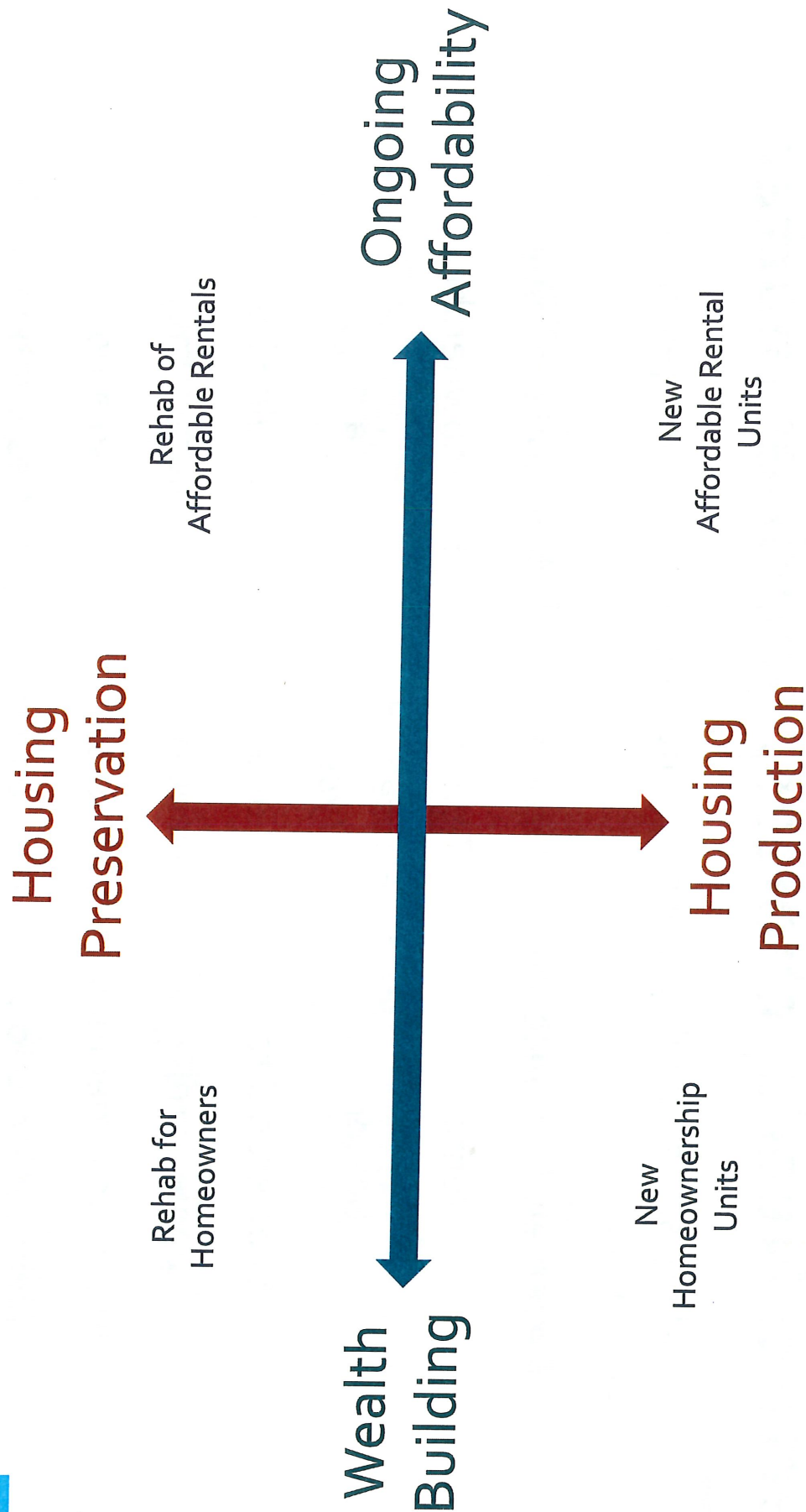
- Evaluate publicly-owned sites based on local goals
- Continue to track opportunities for acquisition in competitive or priority areas
- Develop relationships with property owners
 - Churches
 - Non-profits
 - Individuals

Next Steps for Accomplishing Community Goals

Town of Boone



Strategic Approaches



Tactics: Needs, choices, priorities matter

Funding, site suitability, government role, development partners depend on:

Extremely Low-Income

Income

Moderate Income

Rental

Tenure

Homeownership

Senior

*Household
Type*

Family

Scattered Site

Land

Single Site

Single Family

Density

Multi-family

Access to Amenities

Location

Isolated

New construction

Intervention

Preservation

Immediate Next Steps



Identify housing needs



Define public interest
and priorities



Identify sites suitable
for development or
preservation



Determine potential
public participation

Identify Housing Needs

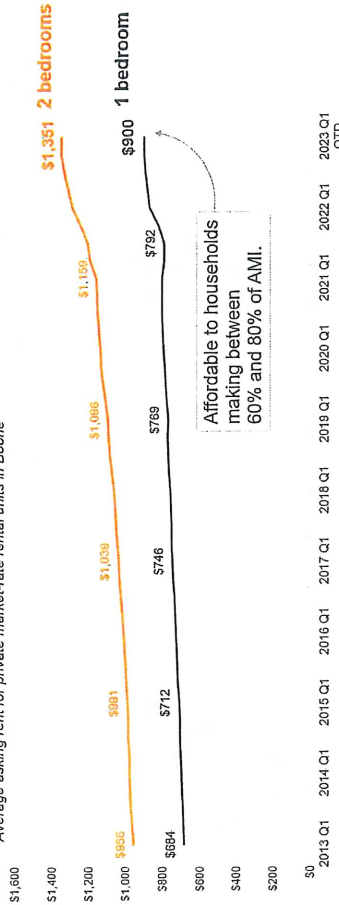
At least 900 non-student LMI renters and 60 LMI homeowners need housing assistance in Boone



Source: HUD CHAS & ACS Microdata (2019)

Since 2021, rents for 1- and 2-bedroom units increased by 15%

Average asking rent for private market-rate rental units in Boone



Source: CoStar & DFI survey of rental properties

What would you say to your constituents about housing needs in the Town of Boone?

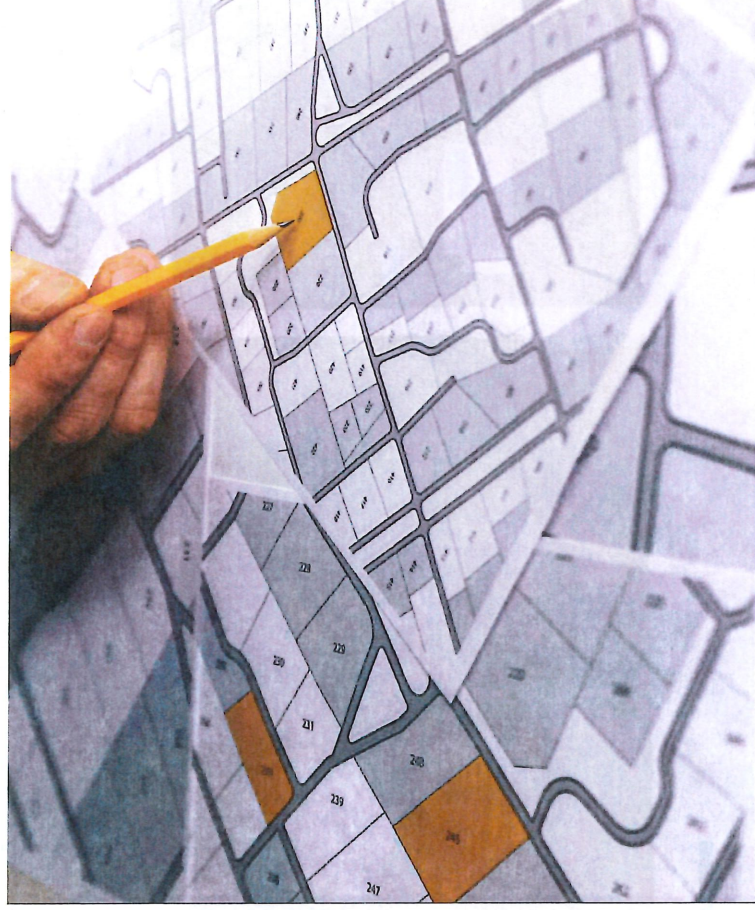
What else do you need to know about housing in your community to make decisions?

Define Public Interests and Priorities



- Develop an engagement strategy appropriate for your community.
- How does the housing data reflect the lived experience of community members? How does it not?
- Given competing needs and public interests, how do you prioritize investments as a community?

Identify Sites Suitable for Development and/or Opportunities for Preservation



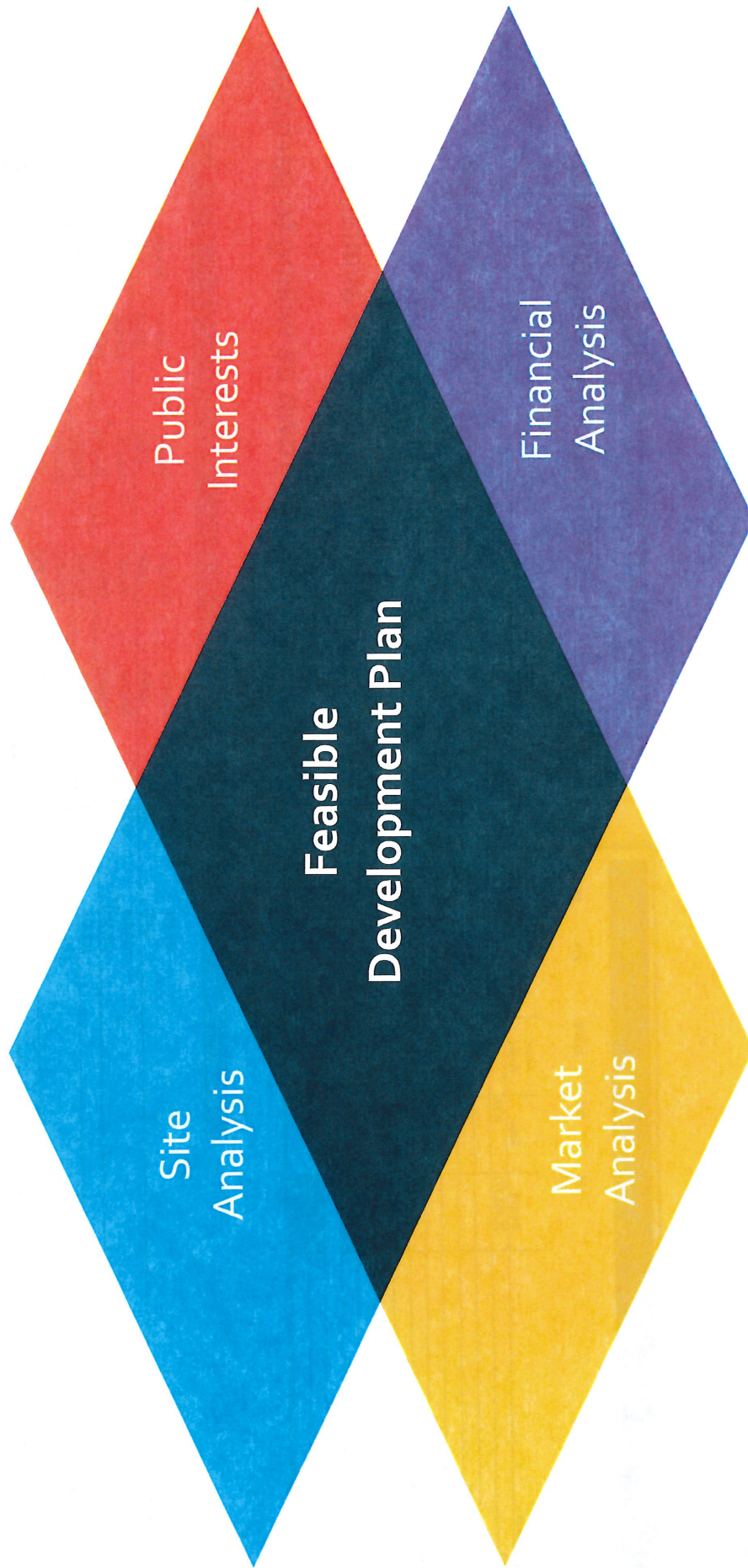
- Review publicly-owned sites. Do you already have control of properties that can meet the public interests?
- Do community partners such as non-profits, churches, etc. control sites that may be suitable? Do the public interests align? Is there a path to development with appropriate sites owned by a private partner?
- Do zoning and regulations facilitate or create barriers to housing development?

Determine Potential Public Participation

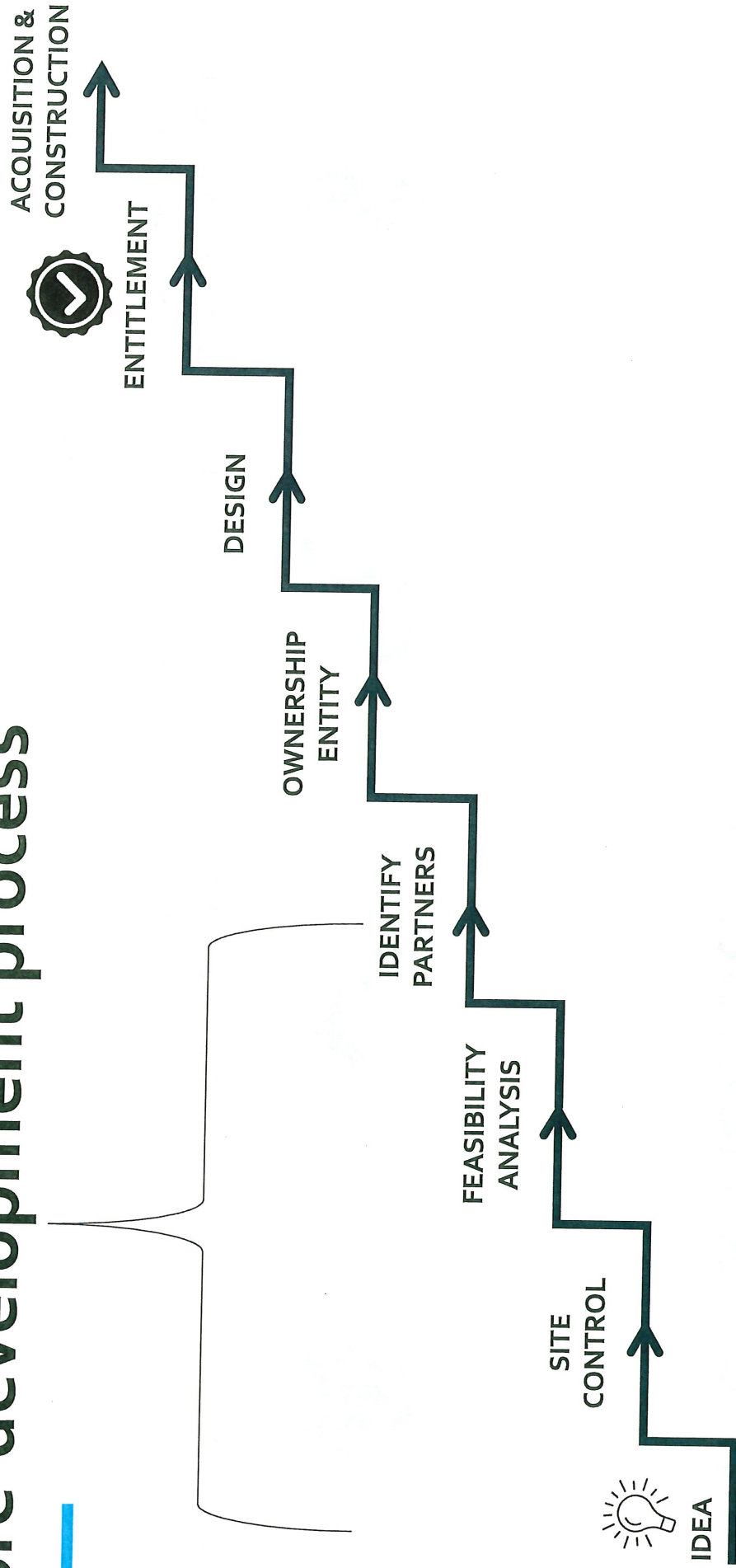
- What are the non-local funding sources available for housing development or preservation in your community?
- What is the gap once *all other sources* are expended?
- What local funding sources are available?
- How else would the Town be willing to participate?

Pad Program	Total Units	Average SF	GSF	Efficiency	LSF
Senior Affordable	48	850	40,800	95%	38,760
Total Acreage	4.4				
Funding Sources	Amount	Rate	Amort Period	Annual DS	Term
Bank Loan	\$1,461,772	4.5%	35	1.15	
RPP Loan					
Local Government Loan					
Other Loan					
RHA Funds					
Workforce Housing Loan					
Federal LIHTC Equity	\$5,905,088				
Historic Tax Credit					
Deferred Developer Fee					
Total Sources	\$5,366,860				
Total Uses	\$5,842,500				
Funding Gap	-\$475,640				

	Year...	1	2	3	4	5	6	7	8
123	Gross Rent	419,616	419,616	419,616	419,616	419,616	419,616	419,616	419,616
124	127 + Other Income	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400
125	128 = Gross Income	422,016	422,016	422,016	422,016	422,016	422,016	422,016	422,016
126	129 <Less> 7% Vacancy Allowance	(29,541)	(29,541)	(29,541)	(29,541)	(29,541)	(29,541)	(29,541)	(29,541)
127	130 = Net Rental Income	392,475	392,475	392,475	392,475	392,475	392,475	392,475	392,475
128	131 - Operating Expenses	(216,000)	(220,320)	(224,726)	(229,221)	(233,805)	(238,481)	(243,251)	(248,116)
129	132 - Replacement Reserves	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)
130	133 = Net Operating Income	164,475	160,155	155,748	151,254	146,670	141,993	137,224	132,359
131	134	1.98	1.93	1.88	1.82	1.77	1.71	1.65	1.59
132	135 Total Debt Service	(83,015)	(83,015)	(83,015)	(83,015)	(83,015)	(83,015)	(83,015)	(83,015)
133	136 = Net Cash Flow	81,462	77,142	72,735	68,241	63,656	58,980	54,210	49,345
134									
135									
136									
137									



Potential local government role in private pre-development process



Immediate Next Steps



Identify housing needs



Define public interest
and priorities



Identify suitable for
development or
preservation



Determine potential
public participation

Questions?

Frank Muraca

muraca@sog.unc.edu

Sarah Odio

odio@sog.unc.edu



SCHOOL OF GOVERNMENT

Development Finance Initiative

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL