

**DURHAM, NORTH CAROLINA
THURSDAY, APRIL 7, 2011
9:00 A.M.**

Pursuant to the proper notification, the Durham City Council held a special meeting on the above date and time in the Committee Room in City Hall with the following members present: Mayor Bell, Mayor Pro Tempore Cole-McFadden and Council Members Ali, Brown, Catotti, Clement and Woodard. Absent: None.

Also present: City Manager Thomas Bonfield, City Attorney Patrick Baker and City Clerk D. Ann Gray.

Mayor Bell called the special meeting to order.

SUBJECT: SOUTHSIDE PROJECT REVIEW AND ALTERNATIVES ANALYSIS

City Manager Thomas Bonfield commented on the purpose of the meeting.

Larry Jarvis, of the Community Development Department, gave a powerpoint presentation highlighting the following:

Background

- Hayti Urban Renewal and Freeway Construction
- St. Theresa Redevelopment Plan
- Development of Rolling Hills
 1. 1980's North Carolina Mutual Life Insurance Company
 2. 1990's – Southeast Durham Development Corporation
 3. 2003 – Foreclosure

December 2005 Request for Qualifications (RFQ)

- Redevelopment Objectives and Values
 1. Market Driven
 2. Critical Mass
 3. Preeminent Developer

RFQ Responses

- KB Home
- Traditional Neighborhood Development Partners
- McCormack Baron Salazar/Stuever Brothers. Eccles & Rouse

RFQ Evaluation Criteria

- Proven Ability/Significant Prior Experience in Completing Comparable Projects
- Clearly Demonstrated Interest/Vision and Process Statements

April 7, 2011

- Recognition for Excellence within the Real Estate Development Industry
- Financial and Legal Capacity

December 2007 Council Approval of MBS Selection

- Accepted Panel Recommendation to Select MBS and SBER
- Authorized Acquisition of Rolling Hills Property/Resident Relocation
- Authorized the Expenditure of Planning Funds

Goal of the Southside Revitalization Plan

- Transformative in Nature, Resulting in a Central City Housing Market Attracting Residents of All Income Levels

Southside Revitalization Plan Transformative Elements

- Significant development “footprint” (Rolling Hills and Self Help Holdings)
- Affordable, Workforce & Market Rate Housing for both homeowners and renters
- Superior design and construction quality
- 211 mixed-income rental units and 45 homeownership units within next four years

Actions Required to Proceed with Steps to Develop Mixed-Income Rental Units

- Commitment for Gap Financing & Site/Infrastructure Improvements (City)
- Application for low income housing tax credits by May 13 (MBS)

City Commitment to Fund Site Preparation & Infrastructure Costs

- Existing Infrastructure on Rolling Hills – Not Built to Public Standards / Poor Condition
- Development Prerequisites – Site Prep & Infrastructure
- Significant Upfront Expense
- CDBG Section 108 Loan One Possible Means
 1. Maximum Loan Amount - \$740,655.00 Debit Service
 2. 35% of CDBG Entitlement Amount

Southside Project Cost Summary

- Rolling Hills - \$38,983,352
- Southside - \$9,579,540
- Total Project Cost - \$48,562,892 (Of this amount, \$7,793,945 represents CDBG funds using Section 108 loan proceeds or phased over time from annual entitlement amounts)

Alternatives Identified

- Proceed as Planned
- Landbank the Rolling Hills Site
- Development of Rolling Hills by Local Non-Profits

April 7, 2011

Proceed as Planned

Pros

- Achieves Transformative Objective/Creates Linkages
- Paves Way for Whitted School, Heritage Square and Fayette Place
- Addresses Most Significant Affordable Housing Need
- Achieves Mixed-Income Objective
- Reinforces Homeownership Marketing Objectives
- Leaves Door Open for Paying Off Section 108 Loan at Some Future Date

Cons

- Obligates City to Section 108 Loan Debt Service
- Opportunity Cost – Alternative Activities
- Reliance on General Fund if CDBG Program Reduced Significantly

Landbank the Rolling Hills Site

Pros

- Negates Need for Section 108 Loan
- Allows for Future Disposition/Sale When Conditions Change

Cons

- Largest Transformative Plan Element Would be Absent
- Affordable Rental Housing on the Site Would Not be Created
- Would Likely De-rail Plans for the Whitted School
- Would Delay Heritage Square and Fayette Place Redevelopment
- \$950,000 in NSP3 Funds would be Forfeited
- Homeownership Marketing Efforts Adversely Affected
- Linkages Not Created/Ongoing Maintenance Required

Development of Rolling Hills by Local Non-Profits

Pros

- Potentially Less Gap Financing Needed
- If Single Family Detached, approximately 70 to 80 Homes

Cons

- Section 108 Loan Still Required for Site Preparation and Infrastructure (utilization of existing infrastructure not viable)
- Redevelopment May Not Result in Mixed-Income Plan Element

April 7, 2011

MBS vs. Another Developer

- “No Equity Investment” Criticism
 1. Does not take into account the LIHTC Structure
 2. Equity Investment made by limited partners
 3. MBS-Brings Experience, Reputation and Skill Set

- MBS Commitment to Durham and Southside Project
 1. Over \$630,000 in staff time and travel expenses invested
 2. Construction Completion Guaranties to Cover Overruns
 3. Operating Deficit Guaranties
 4. Tax Credit Compliance Guaranties
 5. One Year Lock In on Equity Pricing

- 132-Unit Phase I
 1. Choosing Another Developer Requires New RFQ/Significant Delay
 2. Unlikely that another developer could build proposed project at lower cost
 3. Independent HUD Consultant/Underwriter

Conclusion – Move Forward with Southside/Rolling Hills Plans

- Significantly More Positive Outcomes/Fewer Negative Outcomes
- Transformative Results Achieved
- Momentum for Whitted School, Heritage Square and Fayette Place
- Creation of Significant Mixed-Income, Affordable Housing Resource
- MBS Selection Factors Remain Equally Valid Today

Discussion was held on the possibility of CDBG funds being eliminated in the future by the federal government.

Mayor Bell stated it was a possibility that CDBG funds might not be available in the near future; however, he stated there is still an upside which is the transforming of this neighborhood a \$48 million investment.

Council Member Clement questioned if the city could afford to do both projects [Rolling Hills and Southside]. He stated initially, Rolling Hills was the thrust of the concerns.

Mayor Pro Tempore Cole-McFadden requested information on outstanding loans.

Comments were made on other city projects that have been successful [DPAC, Ballpark, American Tobacco and Eastway Village].

April 7, 2011

Council Member Brown questioned whether McCormack Baron was the best fit for Durham and if the terms were better for them than the city.

Kevin McCormack, President of McCormack Baron, spoke on tax credit investors and how tax credit deals are structured.

Mayor Pro Tempore Cole-McFadden spoke in support of moving forward. She stated the proposal will enhance what NCCU is doing in the area.

Larry Jarvis, of the Community Development Department, stated that HUD hired an independent consultant to review all the financials associated with this project and have stated everything is sound - a very strong project proposal.

It was recommended by the staff that the city move forward with Southside/Rolling Hills Plans as proposed.

Council Member Brown stated we need to look at the reality dealing with the economic times that are being faced by the city. He stated he would support the Southside Project but not Rolling Hills. He spoke on several things the city would be giving up with the Rolling Hills proposal.

Council Member Ali spoke in support of the recommendation. He stated this would add value to our community.

A motion was made by Council Member Ali seconded by Mayor Pro Tempore Cole-McFadden to move forward with the Southside/Rolling Hills plans as recommended.

For clarification, Council Member Ali noted that the motion as stated was a commitment of support from the council to move this project forward and the City Manager can bring back details including a human development plan for this community for council to review and approve.

Larry Jarvis commented on the fair that will held later on this month and the service providers.

Council Member Catotti stated she did see this as an investment in the community - an economic development project and she was more comfortable with up to 35% of CDBG dollars. She stated there is a need for initial public investment, and said at this point - the choice of doing nothing or moving forward, she would support the recommendation to move forward. Also, she said when capacity is available there is a need for a future housing bond due to the huge needs in the community.

Council Member Brown asked where would the monies come from and he suggested an option of a new RFP based upon new data.

April 7, 2011

A motion [friendly amendment] was made by Council Member Brown to vote on Rolling Hills and Southside separately. The motion failed due to the lack of a second.

Council Member Woodard spoke in support of Council Member Ali's motion. He stated more information is needed on the human capital plan and more conversations are needed on the crime and safety issues throughout the Southside/Rolling Hills neighborhoods. He also spoke in support of a future housing bond.

MOTION by Council Member Ali seconded by Mayor Pro Tempore Cole-McFadden to move forward with the Southside/Rolling Hills plans as recommended was approved at 12:30 p.m. by the following vote: Ayes: Mayor Bell, Mayor Pro Tempore Cole-McFadden and Council Members Ali, Catotti, Clement and Woodard. Noes: Council Member Brown. Absent: None.

Mayor Bell thanked the staff for their presentation on this item.

Council Member Clement asked for information on the tax revenue regarding properties purchased by Self-Help.

A representative from Self-Help spoke on the tax revenue for residential and commercial properties they purchased.

There being no further business to come before the council, the special meeting was adjourned at 12:35 p.m.

D. Ann Gray, MMC
City Clerk