



TACOMA HOUSING AUTHORITY

RESOLUTION 2012-7-25 (4)

DATE: July 25, 2012
TO: Board of Commissioners
FROM: Michael Mirra, Executive Director
RE: Authorizations to Proceed with Renovation of Stewart Court Apartments

This resolution pertains to THA's property called Stewart Court. It needs some significant repairs to its exterior. It is also losing money in ways that a refinancing could address. The resolution would Staff are developing a strategy to address both problems. It is doing so with the help of THA's asset management consultant, Housing Development Center (HDC) of Portland. Staff will have a full proposal for the board within the next few months. In the meantime, THA has a chance to apply to the state's Housing Trust Fund (HTF) for about four hundred thousand dollars (\$400,000) for this project. That application is due in August. Applications for other funding may be due as well in the next few months. This resolution would authorize the executive director to apply for those funds and to create a limited partnership that would undertake the project. These steps do **not** commit THA to any financing obligation or even to do the project. That commitment would be the subject of further resolutions later this year.

Background

Property description. Stewart Court, located at the corner of Tyler and Center streets, consists of 59 stacked apartments, plus a property management office, parking, and an on-site laundry facility. The complex was built in 1976. THA purchased it in 1995, using tax-exempt bonds.

The target population is 80% or less of Area Medium Income. Currently, the rent structure of the property is governed by loan agreements between THA and the City of Tacoma's Community Redevelopment Authority (TCRA). THA entered into this agreement when the TCRA awarded HOME funds to the project in 2001 – 2003 so that THA could conduct major renovations of unit interiors. Average household income of the current residents at Stewart Court is \$15,398 (<30% AMI for most households).

Buildings are wood-framed with composition roofing shingles. Siding is painted T-111. The complex is in a primarily single-family residential area, which includes some small neighborhood commercial and multi-family residential development. Interior renovations completed in 2003 included the installation of new features: carpet and sheet vinyl flooring, interior doors, casework and counter tops, plumbing and light fixtures.

Operational Challenges. Staff has identified a number of operational challenges at the property for which THA's Asset Management Committee, together with its Asset Management consultant, has explored potential solutions. Principal challenges experienced at Stewart Court include:

- Operational Deficits. Stewart Court currently suffers from significant annual operating deficits (i.e., annual expenses + debt service exceeds total annual income). These deficits are primarily the result of rents that have been set below market levels in order to be affordable to current tenants, and high levels of debt service associated with the original bond commitment made by THA in 1995. For the FY 2011, which was an 18 month period, the deficit was \$35,000 and for the first 6 month period of FY 2012 the deficit to date is \$30,000. (The increased rate of deficits results from a spate of vacancies this year.)
- Physical Deterioration. Unit interiors remain in excellent condition from when they were renovated in 2003. However, the T-111 siding needs to be replaced, and other exterior repairs are urgently needed. In some areas where the siding has failed, water seepage appears to be contributing to structural dry rot.

Project Description

Preservation Plan. Over the past four months, staff has been working with HDC, THA's asset management consultant, to identify and assess a range of workout solutions to the operational challenges identified above. This work has resulted in the preparation of a preservation plan for the Stewart Court Apartments.

As part of its work to develop a Preservation Plan for Stewart Court, staff's Asset Management Committee, explored three options:

1. Selling the property,
2. Partial Rehabilitation,
3. Moderate rehabilitation and Restructuring of debt service and rental income.

The Asset Management Committee's assessment of these options has been that:

- (1) because of the high amount of debt that would need to be paid-off with any sale of the property, and the low current market value of the property, THA would not realize a net financial benefit from selling the property that would be significant enough to justify the likely displacement of current low-income tenants when a new project owner increases rents significantly to market levels; and,
- (2) using agency funds to complete the highest priority exterior renovations only would not address the structural operational conditions that have resulted in chronic operating deficits.

Proposed Project. The Preservation Plan prepared by staff under the guidance of HDC includes the following project workout strategy:

- Invest an additional \$2 million (approximately) in the property in order to complete highest priority exterior needs and to add features to the property that will improve its marketability;
- Restructure all existing debt (except the City's debt, which carries forward to the new tax credit partnership) into a new financial structure using tax credit equity, a new HTF loan, and a THA loan to the property.
- Sell the property to the tax credit partnership for a price equaling the outstanding principal remaining on the original bond debt tied to the project.
- Phase in rent increases that will gradually enable the property to charge rents that more closely resemble market rents for the area.

ORB Architects is currently conducting a Capital Needs Assessment for Stewart Court. The Capital Needs Assessment will help staff to determine what the final scope of renovations at the property will be, and will help to finalize the development budget that is submitted to the HTF in August. Staff is also working on a marketing strategy that will help the property to raise rents as close to market levels as possible.

The estimated Total Development Cost for the project is \$5,390,000. The financing structure for this project is expected to include, but is not limited to, the following sources of permanent financing:

Source	Amount (est.)	Notes
(4%) Tax Credits	1,320,000	Investor Selection in December
Tax-Exempt Bond	2,025,000	Lender Selection in December
Housing Trust Fund	480,000	Ap. Due in August; award notice in November
THA MTW Loan to Project	292,000	Authorized in 2012 Capital budget (Reso. 2011-7-27(2))
GP Loan to Partnership for Acquisition	1,273,000	Proceeds from sale of property to Partnership
Total	5,390,000	

Project Schedule. The implementation schedule for the project described above for Stewart Court is driven by an invitation from the Housing Trust Fund to submit a Stage 2 application to finance renovation needs by August 29 of this year. The terms of any HTF funds awarded to the project in 2012 requires that all financing be committed to the project by March 31, 2013, and that construction begin by June 31, 2013.

Return on Investment. THA's permanent financial commitment to the project will be approximately \$1.2 million in MTW funds. In exchange for this investment, the permanent financing secured for this project will pay off the remaining balance of bond debt that THA holds on the property (approx.. \$1.3 million). In addition, annual operating deficits ranging from \$60,000 to \$112,000 are projected to turn into annual operating surpluses of \$30,000 - \$60,000.

Proposed Resolution

The purpose of the Resolution coming to the Board today is to seek the Board's authorization to apply for funding needed to complete the renovations needed at Stewart Court and to restructure

capital financing. Approval of the proposed Resolution does not commit THA to accept financing, nor does it commit THA to execute any specific project plan. Those commitments would be the subject of further resolutions later this year.

Stewart Court has been included in the state Legislature's list of projects prioritized for Housing Trust Fund awards in 2012. These funds come with aggressive deadlines: a final Stage 2 application to the HTF must be submitted by August 29, all financing needed to complete the project must be committed by March 31, 2013, and construction must begin on the project by June 30, 2013.

Recommendation

Approve Resolution 2012-7-25 (4) authorizing Executive Director or his designee to apply for capital funding in connection with the renovation of THA's Stewart Court Apartments, and to create a tax credit partnership for the project.



TACOMA HOUSING AUTHORITY

RESOLUTION NO. 2012-7-25(4) (Renovation of Stewart Court Apartments)

A RESOLUTION of the Housing Authority of the City of Tacoma authorizing the Executive Director to apply for capital funding in connection with the renovation of THA's Stewart Court Apartments, and to create a tax credit partnership for the project.

WHEREAS, the Housing Authority of the City of Tacoma (the "Authority") seeks to encourage the provision of long-term housing for low-income persons residing within the Authority's area of operation; and,

WHEREAS, RCW 35.82.070(2) provides that a housing authority may "prepare, carry out, acquire, lease and operate housing projects; [and] provide for the construction, reconstruction, improvement, alteration or repair of any housing project or any part thereof . . ."; and,

WHEREAS, RCW 35.82.070(5) provides that a housing authority may, among other things and if certain conditions are met, "lease or rent any dwellings . . . buildings, structures or facilities embraced in any housing project"; and,

WHEREAS, RCW 35.82.020 defines "housing project" to include, among other things, "any work or undertaking . . . to provide decent, safe and sanitary urban or rural dwellings, apartments, mobile home parks or other living accommodations for persons of low income"; and,

WHEREAS, the Authority has an opportunity to apply for funding for the renovation of its Stewart Court Apartments, which Apartments contain a total of 59-units of housing affordable to low-income households, and which Apartments are in urgent need of certain exterior and other renovations (the "Project"); and,

WHEREAS, the development of the Project will further the Authority's mission; and,

WHEREAS, financing for the Project will require several sources of funds, including low income housing tax credits and a Housing Trust Fund loan; and,

WHEREAS, THA will need to create a tax credit partnership in order to select a tax credit investor, and to apply for financing needed for the Project;

WHEREAS, authorizations from the Board to apply for capital financing and to create a tax credit partnership do not commit the agency to accept financing, nor do they commit the agency to carry out renovations at Stewart Court;

NOW, THEREFORE,

Resolved by the Board of Commissioners of the Housing Authority of the City of Tacoma, Washington as follows:

1. Apply for Funding. The Executive Director or his designee is authorized to apply for funding needed to complete the Project. Sources of funding include, without limitation: Low-Income Housing Tax Credits, the Washington State Housing Trust Fund, Pierce County affordable housing funds, and funds administered by the City of Tacoma's Community Redevelopment Authority.
2. Tax-Credit Partnership. The Executive Director is further authorized to participate in the creation of a tax-credit partnership needed to seek and select a tax-credit investor, and to secure tax credit financing for the project.
3. Acting Officers Authorized. Any action required by this resolution to be taken by the Executive Director of the Authority may in his absence be taken by the acting Executive Director of the Authority.
4. Ratification and Confirmation. Any actions of the Authority or its officers prior to the date hereof and consistent with the terms of this resolution are ratified and confirmed.
5. Effective Date. This resolution shall be in full force and effect from and after its adoption and approval.

ADOPTED by the Board of Commissioners of the Housing Authority of the City of Tacoma at an open public meeting this 25th day of July, 2012.

Approved: July 25, 2012



Janis Flauding, Chair