

# McCORMACK BARON SALAZAR

August 24, 2020

Mr. Scott Farmer, Executive Director  
Mr. Chris Austin, Director of Rental Investment  
North Carolina Housing Finance Agency  
3508 Bush Street  
Raleigh, North Carolina 27609

Dear Mr. Farmer and Mr. Austin,

The Winston-Salem Choice Neighborhoods Implementation (CNI) team including Housing Authority of Winston-Salem (HAWS), City of Winston-Salem and McCormack Baron Salazar (MBS) cannot express enough the appreciation for NCHFA's partnership and the support received through NCHFA's letter of support for the CNI application and Mr. Farmer's attendance at the HUD CNI Site Visit on February 5<sup>th</sup>. This \$30 million grant for the transformation of Cleveland Avenue Homes and the Winston-Salem community will have an extraordinary impact on the lives of the people and families that live there.

We know that our success in Winston-Salem could influence HUD selecting other North Carolina cities in the future, so it is our hope to utilize the funds efficiently and within the given timeframe demonstrating our strong collaborative partnership with NCHFA. HAWS, the City and MBS appreciates NCHFA's interest to work as a team to move this CNI redevelopment project forward with the most efficient and effective use of HUD's \$30 million grant. We commit to keeping NCHFA informed on the project's schedule and development plan.


As we have discussed during our phone conferences, there are several items in the NCHFA draft 2021 Qualified Allocation Plan (QAP) that will prohibit the HUD CNI grant to be used efficiently and effectively. The HUD CNI Grant Award Date for Winston-Salem was April 23, 2020. The CNI grant funding is from the federal Fiscal Year 2018 and 2019. In accordance with HUD's CNI guidelines, the first phase of the redevelopment project needs to be closed within 18 months of the Award Date. The HUD CNI grant for Winston-Salem must be fully expended by September 30, 2026. As a result, the CNI team must create an efficient phasing plan in order to implement this grant fully within 6 years. Our original CNI proposal (and the plan that was presented during the HUD interview in February) showed a development plan across five phases starting 2021. We have since re-evaluated and modified the plan to four phases. (See Attached Project Schedule) In order to complete the transformation plan in four phases, we would like to recommend the changes outlined on the following page:

1. **Multi-Year Set Aside:** Allow for a Choice Neighborhood Application Preference or a multi-year set aside.
2. **Site/Neighborhood Score:** Allow projects with the CNI preference to meet a threshold number of satisfactory points. We do believe we will have the needed site score, but it is impossible to guarantee for the 5-year phasing period. A pharmacy could close, or a neighboring structure could become blighted. We would suggest that we be allowed to use the number of points required for a bond project for this 9% project.
3. **Increase the maximum \$1,200,000 per project LIHTC award cap (per the draft 2021 QAP) to \$1,500,000.** This allows for the phasing plan to change from a maximum of 88 units per phase to a maximum of 120 units per phase and reduce the CNI plan from 5 phases to 4 phases. The total housing development costs across all phases will be reduced \$475,550 and it will reduce the costs related to site preparation and infrastructure by \$349,568 for a total reduction of costs of \$825,118. In addition, this change allows greater tax credit equity to come into each phase of the project and reduce the financing gap on the entire CNI development. The reduction of phases allows for the overall redevelopment to be completed within the grant period as well. The CNI development can support \$5.7m of tax credits in total. Even with a \$5.7m tax credit award, there still remains a financing gap of approx. \$10.2m as it relates site preparation and public infrastructure. The City of Winston-Salem (City) is putting in \$3m of CDBG and \$3m of GO Bonds to help fund site preparation and public infrastructure but this funding isn't enough to cover the entire cost of this work. The City doesn't have any funding to provide to the housing with the exception of allowing current debt on the land be transferred through seller financing. At this time, the City has committed all that they can to this development. The City, Housing Authority of Winston-Salem and McCormack Baron are working diligently to fund the financing gap.
4. **Waive Developer fee maximum per project of \$1,350,000 and allow developer fee to be calculated on the \$13,500 per unit.** As the attached source and use analysis presents, whether there are five or four phases the developer fee in total would still be the same amount. The full development fee is important as CNI developments require a large development team to manage the complicated aspects of this expansive transformation of public housing. McCormack Baron has a comprehensive team internally and externally to help make this a successful CNI project. We dedicate a senior and associate project manager to the development, along with a finance and design/construction manager.

In addition, we make sure we have qualified consultants with specific knowledge to the location and the complicated aspects of a CNI development. A CNI grant requires extensive reporting to HUD through monthly and quarterly conference calls and data/financial reports. The McCormack Baron team has been and will continue to be involved in numerous resident/community meetings working through design, relocation and people supportive services. The hours and dollars that the McCormack Baron team puts into each phase of a CNI development is far beyond a standalone affordable housing development.

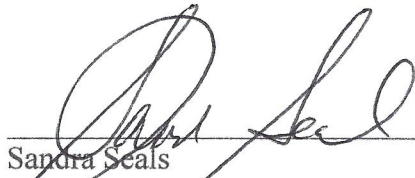
Once again, our sincerest thanks for your partnership and for the consideration of our comments for the 2022 QAP and future QAP's during the CNI grant period. As always, please do not hesitate to let us know if you have questions or need any additional information.

Sincerely,



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Kevin Cheshire  
Executive Director & General Counsel  
Housing Authority of the City of Winston-Salem



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Sandra Seals  
McCormack Baron Salazar  
Senior Vice President, Project Management

## Newside Neighborhood Program Schedule

<b>Task Name</b>	<b>Start Date</b>	<b>End Date</b>
CNI Award	04/23/20	04/23/20
Executed CNI Grant Agreement	04/24/20	06/22/20
Pre-Development Agreement	04/24/20	10/09/20
Negotiate and execute MDA	04/24/20	08/21/20
<b>Phase I</b>	<b>07/13/20</b>	<b>10/31/23</b>
Architecture Selection	07/13/20	09/04/20
Master Planning	08/13/20	11/04/20
Environmental Review	10/12/20	06/23/21
Tax Credit Application Phase I	11/05/20	09/07/21
Housing Design Phase I	11/05/20	09/16/21
Mixed Finance Documents Phase I	05/24/21	01/19/22
Closing	01/20/22	01/21/22
Construction Phase I	01/24/22	05/26/23
Lease-Up and Stabilization	04/01/23	10/31/23
<b>Phase II</b>	<b>09/09/21</b>	<b>09/05/24</b>
Pre-development agreement Phase II	09/09/21	12/01/21
Planning Phase II	10/13/21	12/09/21
Tax Credit Application Phase II	11/29/21	08/16/22
Environmental Review	12/01/21	11/08/22
Housing Design Phase II	06/03/21	05/02/22
Mixed Finance Documents Phase II	02/28/22	12/28/22
Closing	12/29/22	12/30/22
Construction Phase II	01/02/23	05/03/24
Lease-Up and Stabilization	04/01/24	09/05/24
<b>Phase III</b>	<b>09/26/22</b>	<b>10/23/25</b>
Pre-development agreement Phase III	09/26/22	12/16/22
Planning Phase III	10/28/22	12/26/22
Tax Credit Application Phase III	01/04/23	07/26/23
Housing Design Phase III	01/17/22	12/23/22
Mixed Finance Documents Phase III	11/23/22	12/07/23
Closing	12/18/23	12/19/23
Construction Phase III	12/20/23	04/22/25
Lease-Up and Stabilization	03/01/25	10/23/25
<b>Phase IV</b>	<b>09/25/23</b>	<b>09/30/26</b>
Pre-development agreement Phase IV	09/25/23	11/16/23
Planning Phase IV	10/23/23	12/25/23
Tax Credit Application Phase IV	01/03/24	07/17/24
Housing Design Phase IV	08/23/22	08/28/23
Mixed Finance Documents Phase IV	07/18/24	02/12/25
Closing	02/13/25	02/14/25
Construction Phase IV	02/17/25	06/19/26
Lease-Up and Stabilization	05/15/26	09/30/26



Winston Salem CNI

Source & Use Analysis - Estimates Only

PHASING BASED ON REQUEST TO INCREASE TAX CREDIT AWARDS AND \$13,500 PER UNIT DEVELOPER FEE:

	Family Phase I		Senior Phase II		Family Phase III		Family Phase IV		Family Phase V		TOTAL	
Total Units	89		80		117		120		406		406	
Market	21		-		45		52		118		118	
LIHTC	31		14		30		14		89		89	
PBV	37		66		42		54		199		199	

USES OF FUNDS

	Permanent	Per Unit	Permanent	Per Unit	Permanent	Per Unit	Permanent	Per Unit	Permanent	Per Unit	Permanent	Per Unit
<b>ACQUISITION COSTS</b>												
ACQUISITION SUBTOTAL	450,000	5,056	-	-	1,402,751	11,989	1,438,719	11,989			3,291,470	8,107
<b>CONSTRUCTION COSTS</b>												
SUBTOTAL	12,004,000	134,876	12,710,000	158,875	16,277,580	139,125	17,799,240	148,327			58,790,820	144,805
<b>OTHER DEVELOPMENT COSTS</b>												
Other Soft Costs	2,861,700	32,154	3,331,800	41,648	3,772,100	32,240	4,027,000	33,558			13,992,600	34,465
Developer Fee	1,202,000	13,506	1,080,000	13,500	1,580,000	13,504	1,620,000	13,500			5,482,000	13,502
<b>SUBTOTAL</b>	<b>4,063,700</b>	<b>45,660</b>	<b>4,411,800</b>	<b>55,148</b>	<b>5,352,100</b>	<b>45,744</b>	<b>5,647,000</b>	<b>47,058</b>			<b>19,474,600</b>	<b>47,967</b>
<b>TOTAL DEVELOPMENT COSTS</b>	<b>16,517,700</b>	<b>185,592</b>	<b>17,121,800</b>	<b>214,023</b>	<b>19,260,331</b>	<b>164,618</b>	<b>24,884,959</b>	<b>207,375</b>	<b>-</b>	<b>-</b>	<b>81,556,890</b>	<b>200,879</b>

SOURCES

FIRST MORTGAGE	2,417,000	809,000	5,039,000	5,957,000	14,222,000
SELLER FINANCING - CITY OF WINSTON-SALEM	200,000	-	708,627	726,797	1,635,424
CNI FUNDS	2,861,700	2,513,800	3,485,804	4,402,162	13,263,466
TAX CREDIT EQUITY	11,039,000	13,799,000	13,799,000	13,799,000	52,436,000
GAP	-	-	-	-	-
<b>TOTAL SOURCES</b>	<b>16,517,700</b>	<b>17,121,800</b>	<b>23,032,431</b>	<b>24,884,959</b>	<b>81,556,890</b>
TAX CREDIT AWARD	1,200,000	1,500,000	1,500,000	1,500,000	5,700,000

Total Housing Development Cost Reduction by Removing One Phase \$ (475,550)

Total Clean and Buildable Site Reduction by Removing One Phase \$ (349,568)

Total Development Cost Reduction \$ (825,118)

NOTE: Sources and uses above are estimated at this time. These estimates will be further fined as actual proposals for the work are received.