

Mayor and Council Communication

DATE: 05/14/24

M&C FILE NUMBER: M&C 24-0435

LOG NAME: 19FWBABERS MANOR- HOME UDAG FUNDS

SUBJECT

(CD 5) Approve Financial Actions in Support of the FW Babers Manor Affordable Housing Development Located at 4400, 4408, 4416, and 4424 Ramey Avenue as Part of the Choice Neighborhoods Implementation Grant for the Cavile Place/Historic Stop Six Area and Consisting of (A) Authorize: (i) Expenditure of \$1,000,000.00 of HOME Investment Partnerships Program Grant Funds as a Loan (ii) Expenditure of \$150,000.00 of Urban Development Action Grant Miscellaneous Revenue as a Loan to Fort Worth Affordability Inc. (iii) Acceptance of Assignment from Fort Worth Affordability Inc., of Contracts and Loan Documents and (iv) Assignment from Fort Worth Affordability Inc. to FW Babers Manor, LP of Federal Grant Obligations; (v) Execution of Necessary Amendments and Extensions to All Contracts and Documents to Facilitate Project Completion; (vi) Conversion of the HOME Investment Partnerships Program Loan from Non-Forgivable to Forgivable Under Specified Conditions; and (x) Substitution of Funding Years; (B) Finding that the Loans Serve a Public Purpose and that Adequate Controls are in Place; and (C) Adopting Attached Appropriation Ordinance

RECOMMENDATION:

It is recommended that the City Council take the following actions associate with support of the FW Babers Manor affordable housing development located at 4400, 4408, 4416, and 4424 Ramey Avenue:

1. Authorize expenditure in the amount of \$1,000,000.00 of HOME Investment Partnerships Program grant funds in the form of a non-forgivable loan to FW Babers Manor, LP (City Project No. 104439);
2. Authorize execution of an agreement with the Housing Authority of the City of Fort Worth, Texas, doing business as Fort Worth Housing Solutions, to allow for the conversion of the non-forgivable HOME Loan to a forgivable loan so long as certain conditions are met, including without limitation the condition that Fort Worth Affordability Inc., the Housing Authority of the City of Fort Worth or an affiliate acquires the project in fee simple or 100% of the interests in FW Babers Manor, LP following the expiration of the Compliance Period. For the avoidance of doubt, the HOME Loan shall not be forgivable unless the project is directly or indirectly owned 100% by Fort Worth Affordability Inc., the Housing Authority of the City of Fort Worth, Texas and/or an affiliate thereof;
3. Authorize expenditure of \$150,000.00 of Urban Development Action Grant Miscellaneous Revenue as a forgivable loan to Fort Worth Affordability Inc. (City Project No. G00066);
4. Authorize the City Manager, or his designee, to execute all related contracts, loan documents, and other documents necessary for lending activities with specified terms;
5. Authorize the acceptance of an assignment to City by Fort Worth Affordability, Inc. of the loan documents for the \$150,000.00 loan to be made by Fort Worth Affordability Inc., to FW Babers Manor, LP for the benefit of the project;
6. Authorize the assignment of the Urban Development Action Grant Miscellaneous Revenue obligations from Fort Worth Affordability Inc., to FW Babers Manor, LP to ensure compliance with applicable federal regulations;
7. Authorize the City Manager or his designee to extend the contracts if such extensions are necessary for completion of the project, and to extend all other required documents for lending activities as necessary for the development of the project;
8. Authorize the City Manager, or his designee, to amend the contracts and other required documents if necessary to achieve project goals, provided that the amendments are within the scope of the project and in compliance with City policies and applicable laws and regulations governing the use of federal funds;
9. Authorize the substitution of current and prior funding years in order to meet commitment, disbursement, and expenditure deadlines for grant funds from the United States Department of Housing and Urban Development;
10. Find that providing a forgivable Urban Development Action Grant Miscellaneous Revenue loan and a non-forgivable HOME Loan that may be converted to forgivable so long as certain conditions are met, serves the public purpose of providing decent, safe, and sanitary housing for low-income residents and that adequate controls are in place through the various loan documents and agreements to ensure the public purpose is carried out; and
11. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the Grants Operating Other Fund in the amount of \$369,576.33, from Urban Development Action Grant Miscellaneous Revenue program income, to support the Urban Development Action Grant Miscellaneous Revenue loan.

DISCUSSION:

The purpose of this Mayor and Council Communication (M&C) is to approve financial actions in support of an affordable housing development in the Cavile Place/Historic Stop Six area as part of the multi-year Choice Neighborhoods Implementation grant.

On October 22, 2019, City Council authorized the City to act as a co-applicant with the Housing Authority of the City of Fort Worth, Texas doing business as Fort Worth Housing Solutions (FWHS) for a Choice Neighborhoods Implementation (CNI) grant from the United States(U.S.) Department of Housing and Urban Development (HUD), adopted a revised Cavile Place/Historic Stop Six Neighborhood Transformation Plan (Transformation Plan), and committed \$39,375,654.00 over a six-year period for various improvements and activities in the Cavile Place and Historic Stop Six neighborhood, subject to receipt of the CNI grant. In spring 2020, the City was notified that the City and FWHS had been awarded the CNI grant (M&C 19-0268). As co-applicant, the City agreed to support FWHS in implementing the CNI Grant and Transformation Plan

by providing resources for eligible activities, including a commitment of \$3,000,000.00 in HOME Investment Partnerships Program (HOME) funds, \$3,250,000.00 in Community Development Block Grant (CDBG) funds, and \$1,110,000.00 in Urban Development Action Grant (UDAG) funds, for a total of \$7,360,000.00 to be awarded over six years.

On June 22, 2021, City Council authorized the expenditure of \$500,000.00 of HOME funds, \$750,000.00 of CDBG funds, and \$360,000.00 of UDAG funds, for a total of \$1,600,000.00, for the first phase of the six-year CNI Grant and Transformation Plan, known as the Cowan Place Senior Apartments (M&C 21-0498 and M&C 21-0499). On February 14, 2023, City Council also authorized the expenditure of an additional \$500,000.00 of CDBG funds in support of the infrastructure improvements for Cowan Place Senior Apartments (M&C 23-0073).

On May 24, 2022, City Council authorized the expenditure of \$1,000,000.00 in HOME funds and \$150,000.00 in UDAG funds for a total of \$1,150,000.00 for eligible activities, for the second phase of the six-year CNI Grant and Transformation Plan, known as the Hughes House Apartments (M&C 22-0400).

The purpose of this M&C is to move forward with the City's part of the third phase and award a total of \$1,000,000.00 in HOME funds and \$150,000.00 in UDAG funds for a total of \$1,150,000.00 for eligible activities.

The Babers Manor Apartments (Project) will consist of a new, affordable townhome rental community. The development will consist of an 80-unit mixed-income family development with 1-, 2-, and 3-bedroom townhomes, including fifty-seven (57) restricted to households earning sixty percent or less of area median income (AMI), nineteen (19) units dedicated as market rate units, and four (4) units reserved for Permanent Supportive Housing (PSH) units for persons experience chronic homelessness.

The Project will consist of fifteen (15) buildings, including four residential building types - comprised of two-and-three-story apartment buildings and two-story townhome buildings. The larger three and two-story apartment buildings will front Ramey Ave. on the north end and the south end of the site, while townhomes will be located in the middle of the site. Babers Manor will feature amenities to serve all residents of the new community, including a clubhouse and playground on the western end of the development. It is anticipated that the construction of Hughes House will commence on or before the third quarter in 2023 and will take approximately 20 months to complete.

McCormack Baron Salazar, Inc. and Fort Worth Housing Solutions (Co-Developers) will co-develop Babers Manor, and FW Babers Manor, LP (Owner), will own the Project. FW Babers Manor, LP is a Texas limited partnership consisting of FW Babers Manor GP, LLC as the general partner (owned by an affiliate of FWHS), Babers Manor MBS SLP, Inc. as a Special Limited Partner (owned by McCormack Baron Salazar, Inc.), and an affiliate of Enterprise as the Investor Limited Partner.

Fort Worth Affordability, Inc. (FWAI) a Texas nonprofit corporation, which is the sole member of FW Babers Manor GP, LLC, and is an affiliate of FWHS, has requested that it be the initial borrower of the UDAG funds (the UDAG Loan Funds) instead of the Owner so that there is less risk that the loan proceeds will be subject to taxation by the Internal Revenue Service. FWAI will execute a loan agreement and promissory note in favor of the City for the UDAG Loan Funds and simultaneously loan the UDAG Loan Funds to the Owner for the development of the Project. To collateralize the loan from the City to FWAI and ensure compliance with federal requirements, FWAI will (1) assign its loan documents (from the loan from FWAI to the Owner) to the City and (2) assign its obligations under the City's UDAG contract to the Owner.

In an effort to further the implementation of the Transformation Plan and aid the infrastructure improvements in support of the Project, staff recommends the following loan terms and conditions:

HOME Loan Terms:

1. Loan term to commence on execution of the loan documents and terminate 40 years after project stabilization. Payment of principal and accrued, unpaid interest will be due 40 years after project conversion, coterminous with final payment date of permanent loan;
2. Interest rate of zero percent so long as borrower complies with all of the terms of the contract and loan documents;
3. Performance of the HOME requirements and payment of the HOME loan, if required, will be secured by a deed of trust and HOME Deed Restrictions on the real property through the affordability period or the loan term, whichever is longer;
4. Affordability period to begin on the date the project status is changed to "Complete" in the Integrated Disbursement and Information System (IDIS) and to continue for 20 years thereafter;
5. HOME loan to be subordinate to any construction/permanent financing and any financing provided by Fort Worth Housing Finance Corporation;
6. HOME-assisted units will be designated according to the HOME regulations with a 20-year affordability period;
7. HOME funds will be provided on a reimbursement basis for eligible costs only; and
8. Development and operation will comply with all HOME Regulations in 24 CFR Part 92 et seq.

The expenditure of HOME funds is conditioned upon the following:

1. Satisfactory underwriting in accordance with federal guidance for use of HOME funds and City policies for funding of HOME units;
2. Compliance with all HOME requirements contained in 24 CFR Part 92 et seq;
3. Construction and permanent financing acceptable to City;
4. Satisfactory completion of an environmental review pursuant to 24 CFR Part 58;
5. Receipt of authorization to use grant funds from HUD;
6. Receipt of acceptable, fully executed loan documents; and
7. Closing on all other financing for the Project.

UDAG Loan Terms:

1. Loan term to commence on the date of execution and terminate 40 years after project stabilization. Final payment of principal and accrued, unpaid interest will be due 40 years after project conversion, coterminous with final payment date of permanent loan;
2. Performance period to begin on the date the project status is changed to "Complete" in the Integrated Disbursement and Information System

- (IDIS) and to continue for 5 years thereafter;
3. UDAG funds to be subordinate to any construction/permanent financing, the City's HOME loan, and any financing provided by the Fort Worth Housing Finance Corporation;
 4. Interest rate of zero percent so long as borrower complies with all of the terms of the contract and loan documents;
 5. UDAG funds will be used for eligible construction costs associated with the new multifamily housing construction;
 6. UDAG funds will be used in compliance with all CDBG requirements contained in 24 CFR Part 570, including but not limited to the Project being located in a CDBG-eligible census tract and accomplishing the public benefit of furthering a CDBG National Objective of promoting activities that benefit low-and-moderate income residents;
 7. Owner must employ or must require property management company to employ the equivalent of at least 2 full-time positions for Central City residents at all times during the performance period;
 8. UDAG funds shall be repaid by FWAI to the extent FWAI receives repayment from Owner;
 9. UDAG funds shall be forgiven if all terms and conditions are met, FWAI has not received any repayment from Owner, and Owner has complied with all City and CDBG regulations and requirements; and
 10. UDAG funds will be provided on a reimbursement basis for eligible construction costs only.

Staff recommends approving the expenditure and execution of contracts and related loan documents with FWAI and Owner in the amount of \$1,000,000.00 in HOME funds and \$150,000.00 in UDAG funds for the construction costs in support of the Project; approving acceptance of the collateral assignment by FWAI to City of related UDAG loan documents, and approving the assignment of the related UDAG obligations from FWAI to the Owner; and approval of an agreement between FWHS and the City memorializing the condition under which the HOME Loan may be converted to a forgivable loan.

Through this M&C, the City Council finds that the Project serves a public purpose by assisting the City in fulfilling its goals under the City's Comprehensive Plan, Choice Neighborhoods Implementation Grant, Transformation Plan, and Consolidated Plan by providing quality, accessible, affordable housing for low- to moderate- income residents and supporting economic development and revitalization, and that the forgivable UDAG loan and the HOME Loan, which may be converted to forgivable so long as the conditions listed above are met, are vital to the financial feasibility of the Project. The Council further finds that adequate controls are in place through the various loan documents and agreements to ensure that the public purpose is carried out.

Approval of this M&C also allows Action Plan funding years to vary and be substituted in order to expend the oldest grant funds first. Appropriations supporting the HOME Loan will come from the annual program appropriation for the funding years against which the loan is booked. A public comment period for the 2022-2023 Action Plan was held from July 1, 2022 to August 1, 2022. Any comments received are maintained by the Neighborhood Services Department.

UDAG Miscellaneous Revenue funds are rental revenues received from the lease of the City-owned parking garage under General Worth Square (City Secretary Contract No. 11085, as amended and assigned). UDAG Funds must be used for projects that meet certain CDBG program requirements, including use in a CDBG-eligible area, qualification as a CDBG economic development project and inclusion of private investment. Annual revenue from the parking garage is approximately \$108,000.00. Currently the City has an appropriated balance of \$613,639.38 in UDAG funds. In addition, the City is in receipt of, but has not appropriated, a total of \$369,576.33 of UDAG Funds from prior years. After funding this loan, and after all funds have been appropriated, the garage rental revenues account will have a remaining balance of approximately \$833,215.71. Adoption of the attached appropriation ordinance will appropriate the prior years' unappropriated revenue of \$369,576.33 for use on this loan and will result in the entire current balance of program revenue being appropriated. Appropriated funds not used for this Project will be programmed to other eligible projects in the future.

In addition to HOME and UDAG funding, the Fort Worth Housing Finance Corporation (FWHFC) approved a resolution in support of the CNI grant and the Transformation Plan on October 22, 2019. The resolution set aside \$1,250,000.00 of FWHFC funds for construction-to-permanent loans for affordable housing development financing and an additional \$1,250,000.00 specifically for the development of Permanent Supportive Housing (PSH). (Resolution No. FWHFC-2019-06). All allocated FWHFC funds for construction-to-permanent loans were used for Phase I or the Cowan Development along with \$225,000.00 of the FWHFC PSH funds. In addition, \$325,000.00 of the FWHFC PSH funds were used for Phase II or the Hughes House Development. A total of \$100,000.00 of the PSH funds are anticipated to be used in support of Phase III or the Project.

FISCAL INFORMATION / CERTIFICATION:

The Director of Finance certifies that upon approval of the above recommendations and adoption of the attached appropriation ordinance, funds will be available in the current operating budget, as appropriated, in the Grants Operating Other Fund Hyatt Regency Parkg Garage Rev project and as previously appropriated in the Grants Operating Federal Fund HOME (PY22/FY23) project. Neighborhood Services (and Financial Management Services) will be responsible for the collection and deposit of funds due to the City. Prior to an expenditure being incurred, the Neighborhood Services has the responsibility to validate the availability of funds. These are reimbursement and fee for services grants.

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