

Minutes
RHA Repositioning Committee Meeting February 8, 2021
11:00 AM

Committee Present: Eric Braun, Arne Morris, Gregg Warren (late), Wayne Felton
Absent: Bahati Mutisya

RHA Board Commissioners Present: Joe Whitehouse, Yolanda Winstead,

RHA staff: Liz Edgerton, Laura McCann, Jennifer Morgan, Donna Perez, Gwen Wall

Visitors: Naomi Byrne, EJP Consultants; Rhae Parkes, EJP Consultants.

Commissioner Braun said Commissioner Warren would be late to the meeting and he was asked to start the meeting.

Commissioner Braun asked for introductions from EJP. Mr. Felton introduced Rhae Parkes and Naomi Byrne with EJP. RHA staff has been consulting with EJP for the past four months on the RAD conversion and the Heritage Park redevelopment.

Rhae Parkes is in Washington DC. She said EJP is a small consulting practice that works principally with housing authorities across the country. The core of EJP's work is about affordable housing—from master planning to the implementation of plans.

Naomi Byrne is a former Executive Director and she has been with EJP for a few years. She had previously worked at several housing authorities - both large and small.

Commissioner Braun asked which housing authorities Ms. Byrne worked for. She said they were mainly in Texas - Austin, Georgetown, Texarkana, Pittsburgh, and Forth Worth.

Commissioner Braun welcomed Ms. Parkes and Ms. Byrne and thanked them for attending the meeting.

Approval of January 22, 2021 Minutes

Commissioner Braun suggested waiting to approve the minutes at a future meeting when more commissioners are in attendance.

Role of EJP in RHA RAD Conversion Process

Mr. Felton said when staff originally talked to the Board about the RAD conversion, one of the suggestions was to have another entity look over everything to make sure it worked financially for RHA. As the conversion progressed, staff contracted with EJP to provide an overview to make sure everything worked and was being completed and that the conversion would be sustainable. The Heritage Park redevelopment was also included in the contract—whether it would be a RAD conversion or Section 18. EJP has been involved with this around the country and they were recommended to RHA.

RAD Update

Mr. Felton said the inspections for the Critical Needs Assessment (CNA) were completed last week. Those inspections are the driving force behind the RAD conversions. What they find will determine how much money is needed in replacement reserves. Because RAD contracts are 20 years, HUD is looking 20 years out to make sure PHAs have the money to maintain these properties.

Dominion Due Diligence did the inspections and Jennifer Morgan is working with them to get the final report. Once RHA gets the CNA, staff can determine the financial plan (which is due in May). Before the financial plan is submitted, staff must have a concept call with HUD. The plan is to close on the properties in November or early December. Closing at the end of the calendar year helps ensure there is no funding gap.

Commissioner Braun asked if these properties that were inspected are the properties that were in better shape and believed to have less capital needs. Mr. Felton said that is correct. He said staff did the portfolio application which included all RHA developments. With that portfolio application, PHAs must convert at least 25% of their portfolio within the first year. Since RHA had 16 developments, at least four needed to be converted. Staff expanded the CNA to include seven to ensure there would be at least four. This also gives a head start to the next three properties. With the RAD conversion, RHA can pull out at any time (it is not obligated to convert all of the properties).

Commissioner Braun said if RHA is doing the CNAs for seven properties, is it feasible to close on all seven properties? Mr. Felton said it would depend on what comes back. The first four (Terrace Park, Berkshire, Meadowridge, and Valleybrook) do not have asbestos. The other three (Mayview, The Oaks, and Stonecrest) have some form of asbestos. They will be more expensive to abate. Staff's thought is that RHA won't convert those at this time. However, they will be the next hurdle because all of the other properties have asbestos in them. RHA's newer properties don't work with RAD because they won't cash flow very well. Part of that is because they are newer properties and get less Capital Fund (and their rents are cheaper).

(Commissioner Warren joined the meeting.)

Commissioner Braun said in the HUD videos, HUD is encouraging PHAs to convert all of their properties to RAD. He asked if the plan is to wait until the end to convert those newer properties to see if they will work (or will they never work with RAD). Mr. Felton said if they don't cash flow, he doesn't see why RHA would convert those properties. At some point, if the RAD rules change, those properties may work with RAD.

Commissioner Warren asked if it will be a problem converting the newer properties to RAD since they will eventually be owned by CAD. Mr. Felton said Walnut Terrace, Capitol Park, and Chavis Heights are not solely owned by CAD. With Walnut Terrace, CAD owns 147 affordable market rate units and RHA owns 145 public housing units. The units that would be converted to RAD would be the public housing units.

Commissioner Warren asked if that is true with Chavis Heights and Capital Park as well (with a mixture of market rate and public housing units). Mr. Felton said at Capital Park there are 60 public housing units and 59 CAD units. Carousel Place has 27 CAD units and 117 public Housing units.

Commissioner Warren asked if the CAD-owned properties are eligible for RAD. Mr. Felton said they are not subsidized so they are not eligible for RAD.

Rhae Parkes added that, over time, any number of things might shift and as staff continues to re-evaluate the tools that are available, RHA would get the opportunity to adjust. If RAD doesn't work, there might be other tools that might work (if the goal is to convert the entire portfolio).

Commissioner Braun asked if the end goal is to convert all of the properties. He said it seems that having the units in several different programs would be overly complicated. Mr. Felton said it all depends on the money—it needs to make sense financially (the properties must be sustainable with the funding that RHA will receive). The converted properties will no longer get Cap Fund money—it will all be rolled up into a HAP payment.

Rhae Parkes said Section 18 is economically better for some PHAs than RAD. It is not uncommon for housing authorities to have a blend of programs because converting all of the properties to RAD will take some time.

Naomi Byrne said it is rare to see a PHA that deliberately only converts one or two properties and still retains public housing for other properties. One of the biggest benefits of converting to RAD is getting out of the administrative work that comes with public housing. With a lot of PHAs, the end goal is not only conversion for cash flow but conversion to get out of the administrative work that comes with public housing.

Commissioner Warren asked if EJP has some options about Heritage Park and whether the Section 18 blend utilizing as many 4% credits as possible to achieve this development would be the best route. Ms. Parkes said they have talked with staff about Heritage Park. The short answer about the 4% route is “yes” because it is non-competitive and NCHFA has a pool of money that is available. However, with the 4% credits RHA will need to come up with more gap financing.

Commissioner Braun asked if it would be better to do a straight Section 18 (if it meets obsolescence) rather than a blend. Ms. Parkes said “yes” because Section 18 rents are better than RAD rents. If the property cannot meet obsolescence then the blend is the better way to go.

Ms. Byrne said HUD has verbally indicated that they are looking more closely at PHAs using obsolescence because they don't want PHAs claiming obsolescence and then putting tenants back into those units.

Commissioner Warren asked if Section 18 is off the table if the property does not meet obsolescence. Ms. Park said RHA could still do the blend pathway. Mr. Felton said the preferred option is Section 18. The additional options are either a blend or all RAD.

Commissioner Warren asked if Dominion will be able to meet the obsolescence test. Mr. Felton said the hope is that the property can meet obsolescence. Staff will be able to make decisions on the properties have Dominion is finished with their report.

Commissioner Braun said HUD wants to make sure that the Section 18 evaluators have a clear understanding of what they need to look for. He wants to ensure Dominion knows what to look for relative to Section 18. Mr. Felton said all of that was put into the RFP. Jennifer Morgan said Dominion is very skilled and familiar with the Section 18 process. They have a specialist on staff who works directly with the Special Applications Center at HUD. They have done many obsolescence tests with many different housing authorities.

Commissioner Warren asked if there is an ETA when they are going to do Heritage Park. Ms. Morgan said Dominion is ready to do the first kickoff call as soon as the contract is issued (it was signed today). They will work RHA into their schedule as soon as they can – the contract end date is April 15th (which includes finalizing the report).

Commissioner Morris asked about 9% tax deals. Commissioner Warren said Wake County is so competitive that RHA would need a perfect site score to get 9%. It is unlikely that RHA would be able to get a 9% tax deal.

Commissioner Morris asked for Ms. Park's opinion. Ms. Park said she works out of Durham and they have receive two 9% tax credit deals. She agrees that RHA would need a perfect score at the preliminary application stage. She hasn't studied RHA's plan to determine whether it would score well so she can't answer that question.

Commissioner Morris asked if there are percentages in between 4% and 9%. Ms. Park said there is no interim credit percentage between 4% and 9%. Ms. Park said it's not just the plan – it's the phase. Heritage Park is assumed to be a phased development so each phase should be looked at for its financing strategy.

Commissioner Braun said it's unlikely that RHA would hit a perfect score for a 9% tax credit deal. Commissioner Warren said he's skeptical that RHA will hit it but it would be easy to determine. He's done it for other people and he'd be happy to draft a quick scoring sheet for people to look at. Wake County is highly competitive and not all deals are accepted – even with a perfect site score.

Commissioner Warren asked if EJP has seen any housing authorities that have done a good job with conversions utilizing phasing. Ms. Park said a lot of housing authorities are doing whole-scale master plan and she would be happy to provide PHAs across the country to contact and see how they're doing. The emphasis is on looking at preservation of affordable units and growing the portfolio with un-subsidized units.

Commissioner Braun said he is also interested in PHAs that also have a mixed-use component. Ms. Park said there is currently a question mark on non-residential use (due to the COVID pandemic). However, she will send examples of things that are applicable to RHA's plans.

Heritage Park Update

Commissioner Warren asked if anyone had questions or concerns about the agreed-upon development principles. Highlights of those include:

- 1 to 1 replacement of public housing units. (Ms. Park said RHA should stay flexible on the subsidy type).
- Up to 80% AMI assuming some income averaging on tax credits.
- A mix of income levels in the various buildings. Mr. Felton said by nature of the tax credit deal the property ends up with a mix of incomes in the building. Commissioner Warren said with the 4% deals, the income targeting is not as restrictive as the 9% deals.
- Some internal corridors with elevators.
- Some units with breezeways.
- One senior building.
- Childcare center.

Ms. Park asked why some of the design elements were so specific (i.e. corridor buildings). Commissioner Warren said RHA wants to get more density on the site. This is a high-value property in downtown Raleigh and RHA wants to make sure it is utilized.

Ms. Park suggested one of the design principles should be that RHA is looking to maximize density on the site. She said it is implied but not stated.

Commissioner Braun said they should be careful about saying “maximize” because this will still be low-density for the amount of property. There will be pressure to put more units on the site. RHA will be increasing the density – but not *maximizing* the density.

Ms. Park asked why the limit on density. Mr. Felton said it is from a management perspective – keeping the property manageable. The high density, low-income housing around the country is where most of the problems occur.

Ms. Park asked how RHA is approaching the financing for the stand-alone childcare and community buildings. Mr. Felton said staff has not looked at financing yet for the child care or community buildings. The possible out-parcel sale could be used to fund those buildings, if needed.

Mr. Felton asked if RHA should be so specific with the “1 to 1 replacement of public housing units” item on the list. Commissioner Whitehouse said it’s important to make sure there is at least a minimum amount in terms of replacing what is there today.

Commissioner Warren said community advocates are going to be looking for RHA to replace 122 units with at least the same number serving very low income people. That is an underlying principle that RHA needs to hold firm to.

Ms. Park said that is one of the goals that RHA needs to be specific about. With RAD, it’s a given that you must replace all of the affordable units. Having as much clarity as possible is important.

Structured Parking

Commissioner Warren said all of the recent plans have omitted structured parking, due to the committee's discussions about this issue.

Commissioner Braun asked how much parking should be on the site – given that this will be transit-emphasis area. Commissioner Whitehouse said staff should look at all of the properties to determine what the parking requirements are as well as taking into account how many of the potential clientele will be using transit.

Commissioner Warren mentioned that Larry Zucchini was going to check on the parking at Washington Terrace.

Commissioner Warren suggested that structured parking is not something that RHA wants to pursue due to the cost of construction and maintenance. Commissioner Whitehouse agreed. Commissioner Braun said he agrees. It could potentially be addressed in the future with the out-parcel if needed.

Commissioner Warren asked if the committee would like to meet before the full RHA Board Meeting. Mr. Felton said he thinks it would be helpful for the Board discussion as well as the meeting with the residents.

The committee agreed to meet again on February 12th to continue with the open agenda items.