



Staff Report

File #: 17-201

Version: 1

Date: 5/8/2017

Item #: 5.a.

TO: Mayor and City Council
THROUGH: Steve Powers, City Manager
FROM: Kristin Retherford, Urban Development Director

SUBJECT:

Affordable housing development at 3350 Portland Road, NE.

Ward(s): Ward 5

Board Member(s): Ausec

Neighborhood(s): Northgate, Highland

ISSUE:

Shall the City Council authorize the execution of a Development Agreement with Cornerstone GP, LLC and Cornerstone Apartments Limited Partnership, consistent with the terms and conditions identified in the related commitment letters and HOME Funding Agreement, to support the construction of a 180 unit affordable housing development at 3350 Portland Road, NE.

RECOMMENDATION:

Authorize the execution of a Development Agreement with Cornerstone GP, LLC and Cornerstone Apartments Limited Partnership, consistent with the terms and conditions identified in the related commitment letters and HOME Funding Agreements, to support the construction of a 180 unit affordable housing development at 3350 Portland Road, NE.

SUMMARY AND BACKGROUND:

On September 26, 2016, the Agency Board and Council took actions to support the planned 180 unit housing development at 3350 Portland Road, NE (Attachment 1 - Map). These actions were the Agency Board's approval of an exception to the North Gateway URA Toolbox Grant Program guidelines, to allow up to \$749,000 in FY 16-17 funding to support the housing construction, \$650,000 in URA funding for related street and sidewalk improvements, and City Council approval of \$300,000 set-aside from the FY 2017-2018 and \$100,000 from the FY 2018-2019 U.S. Department of Housing and Urban Development HOME Investment Partnership (HOME) allocations.

The timing of the financing for the development has evolved since Council and the Agency Board first considered support for the development. For the development to proceed at the state level, the developer needs the City's and Agency's funding commitment letters. To meet the schedule, staff

will use \$300,000 in unallocated FY 16-17 HOME funds, allowing the release of \$400,000 in HOME funds set aside in FY 17-18 and FY 18-19. Under a separate report to the Agency Board, staff is recommending the Agency Board approve a \$100,000 increase in FY 16-17 URA funding to replace the HOME funds.

The developer plans to begin construction of the 180 unit affordable housing development at 3350 Portland Road in June 2017. The development will target individuals and families earning 60 percent or less of Salem's median income (equivalent to \$33,900 or less per year). The 14 acre property, currently owned by the Larry and Jeanette Epping Family Foundation, has been vacant for several years and actively marketed for commercial development.

Without City and Agency assistance, it is unlikely the development will move forward. The developer is pursuing several financial subsidies because the anticipated monthly rents will not generate the revenue needed to cover the development costs. Some of the subsidies, such as Low Income Housing Tax Credits, require ongoing rent and income restrictions, further limiting sustainable operation of the development. The city's current multifamily vacancy rates are between 1% and 1.5% which exacerbates the need for housing, including units that are affordable.

FACTS AND FINDINGS:

Since September, several aspects of the project have evolved:

- **Development entities** - New development entities have formed to address the funding requirements of HOME and Oregon Community and Housing Services. Mountain West Investment Corporation (Mountain West), has formed two new entities that will receive the North Gateway URA and HOME funding and purchase the property. Cornerstone GP, LLC will receive the North Gateway URA grants. Its sole member is Community Resource Trust, which is a non-profit corporation, whose president is Ron Hays. Cornerstone Apartments Limited Partnership will receive the City HOME loan. Cornerstone GP LLC is the general partner in the Cornerstone Apartments Limited Partnership. Mountain West will continue to oversee the construction.
- **Timing and use of funds** - The developer needs to receive funding commitment letters for all City and Agency sources before June to meet the requirements of other financing sources. The initial HOME funding approval included a \$300,000 set-aside from the expected FY 17-18 HOME allocation, and \$100,000 in FY 18-19. To provide a funding commitment before June, staff intends to utilize \$300,000 in existing FY 16-17 HOME funding for the development. The \$300,000 in HOME funds are available in the FY 16-17 budget, and the Urban Development Director has authority under the approved annual plan to approve the grant (Attachment 2 - HOME Funds Commitment Letter). As noted, staff is seeking Agency Board approval for an additional \$100,000 in URA funds to replace the \$100,000 in HOME funds that was set aside for FY 18-19.
- **Development Agreement** - In order to execute the commitment letters, the City and Agency must have authority to obligate the funds in the amounts, and from the sources, indicated in the commitment letters. Staff recommends that Council authorize execution of a

development agreement with Mountain West, Cornerstone GP, LLC, and the Cornerstone Apartments Limited Partnership, which is consistent with the commitment letters and the draft HOME Agreement (Attachment 3). The development agreement will incorporate the HOME commitment letter, the URA commitment letters, and their conditions, and the HOME Agreement.

Annie Gorski
Economic Development Manger

Attachments:

1. Map
2. City HOME Funds Commitment Letter
3. Draft HOME Funding Agreement