

Staff Report

321 STATE AVENUE DEVELOPMENT PROJECT UPDATE

June 11, 2019

The development of the property at 321 State Avenue has been discussed with City Council on at least five occasions since summer 2016. In January 2018, City Council directed staff to construct the extension of Tripp Street with CDBG funds to facilitate development of the site. On March 6, 2018, City Council provided direction for staff to evaluate options regarding how to develop the property with single family homes, detached and attached, with the City acting as the developer for the site. Staff is now prepared to provide a financial update regarding development of Phase II of the property.

Phase I of the development has been completed as of May 2019, which involved the infrastructure improvements for the extension of Tripp Street through the parcel. Those improvements included new asphalt street pavement with concrete curb and gutter, water main installation, storm water improvements, and electric conduit. The funding for this project was part of the 2018-19 CDBG Action Plan Infrastructure Improvements Program. With the installation of Tripp Street now complete, options to proceed with subdivision and home construction are now available.

Subsequent to the direction by City Council in March 2018, the City was notified that it was eligible to receive its first allocation of HOME funds to support affordable housing in addition to the City's CDBG entitlement funds. As part of the 2018-19 CDBG Action Plan, the HOME allocation was designated to provide for the direct construction of homes on the 321 State site, and a small portion of CDBG funds were designated to provide for potential homebuyer assistance. The figures presented in this report are preliminary estimates; City Council action on the Consolidated Plan and Annual Action Plan is required to finalize all the programs and funding for each program.

| 2019-2020 CDBG Anticipated Resource | Estimated Funding |
|--|--------------------------|
| 19-20 CDBG Allocation | \$581,968 |
| 18-19 Anticipated Program Rollover Balance | \$570,000 |
| 19-20 Citywide Program Income* (Village, Morningside, Stafford, 6th) | \$350,000 |
| <i>Less CDBG Program Administration (20%)</i> | <i>-\$116,394</i> |
| Total CDBG Anticipated Revenue | \$1,385,574 |
| Non-CDBG Revenue Resources (GO Bonds) | \$250,000 |
| Grand Total Revenues for Programming | \$1,635,574 |

**Timing of sales of properties and final sale prices not determined*

| 2019-2020 HOME Anticipated Revenue | Estimated Funding |
|--|--------------------------|
| 2019-20 HOME Allocation | \$481,968 |
| 2018-19 Anticipated Rollover Balance | \$747,750 |
| <i>Less Adjustment for CHDO Set Aside 15%</i> | <i>-\$184,795</i> |
| <i>Less Program Administration 10%</i> | <i>-\$120,946</i> |
| Grand Total HOME Anticipated Revenue for Programming* | \$923,977 |

**Local match of 20% required with HOME funds, GO Bonds are planned match*

Staff has prepared a cost estimate to proceed with infrastructure to fully develop the site based on a layout that creates 37 single-family detached lots (Attachment A). This is an option that is similar to prior discussions with market rate homes intended to be constructed on the south side of Tripp Street and affordable housing on the north side. Staff anticipates 19 affordable homes and 18 market rate homes based upon the described configuration.

The describe layout anticipates the highest public infrastructure cost by assuming all public improvements needed to serve the development. This is critical for understanding what CDBG resources are likely needed to support the development of the site. The infrastructure costs assume water, sewer, storm water, and paving to serve individual lots fronting upon the described street segments.

| Project Component | Tripp St. (Utilities) | S. Wilmoth (Utilities) | South cul-de-sac (All) | Manning Extension (All) | Total (2019 dollars) |
|------------------------------------|-----------------------|------------------------|------------------------|-------------------------|-----------------------------|
| Public Improvement Expenses | \$94,024 | \$183,912 | \$396,563 | \$607,821 | \$1,279,444 |

If a component of the north side is able to be developed with some attached single-family homes, it would likely reduce some of the public infrastructure costs, but increase the private infrastructure costs. The attached housing option can be determined through subsequent efforts to identify an affordable housing developer interested in this type of product.

To proceed with home development, staff would begin work to design and construct infrastructure for Wilmoth and the south cul-de-sac during the upcoming fiscal year. Tripp Street improvements may be included if practicable with the other work. This would require funding of approximately \$579,000 to \$664,000 to complete the infrastructure and create a mix of market rate and affordable housing lots. In the following year (FY20-21), it is presumed the City would move forward with construction of the Manning Extension either as a public street with detached home lots or as a single-family attached housing with a development partner.

Once lots are created, there will likely be program income to help fund future improvements from the sale of market rate lots and potentially from affordable housing lots. **Staff does not forecast any lots sales at 321 State Avenue in the upcoming fiscal year to help finance the next phase.** Based on research concerning values of similar lots in the area and Citywide, the projected valued for the 321 State Avenue lots could be in the approximate range of \$45,000 to \$55,000 each.

It is likely that the affordable housing lots would likely have a reduced sales price to subsidize construction of affordable housing. The City may seek a reasonable return of a maximum of approximately \$20,000 per lot, but it may be more or less depending on specific circumstances. Reliance on future lots sales or the use of future CDBG entitlement allocation funding will be needed to complete all of the projected infrastructure costs for buildout of the site.

Construction of affordable housing can begin in fiscal year 2019-20 with the City taking on the responsibility for the construction of the first three homes to be located along Wilmoth Avenue. Staff would work to identify other interested parties for additional lots in the subdivision to minimize future City involvement in home construction.

With the City acting as the developer, HOME funds would be used to construct/purchase the homes (if approved per HUD regulations). Under the HOME regulations, in addition to household income qualifications, there is a maximum purchase price for Ames of \$227,000 (for any size household). There is also a minimum subsidy level (\$1,000 regardless of the home size) and maximum subsidy level (\$248,652 in Ames for a three-bedroom home).

With these caps in place, staff researched housing options and would recommend working with a modular home firm to provide the home product. As the developer, staff would then solicit proposals from modular home builders and with foundation contractors to construct the homes, if needed.

A three bedroom, 1.5-2 baths, modular ranch-style home of 1,100 to 1,300 square feet, including foundation and utilities, could range in cost from \$192,000 to \$198,000 to construct. Modular construction was utilized by the City in the development of 48 homes in the Bentwood Affordable Housing Program in West Ames in 1994-1995. The modular homes were well constructed and the project was able to be completed in a timely manner. Using modular housing would reduce administrative efforts by City staff to coordinate construction compared to site built homes with a general contractor.

Staff also has research some affordability scenarios of what eligible first time homebuyers could afford. Based on a family size of three, the 80% limit is currently \$57,500. Based upon a well-qualified applicant for a FHA/IFA loan, this income level may possibly qualify someone for a purchase price of \$150,000 to \$180,000. Previously staff articulated that a more typical applicant with a lower credit score and higher debt would more likely qualify for a \$130,000 purchase price. **It appears from the current understanding of modular**

home construction costs and home subsidy limitations, the City can financially support the construction of the first three homes next year and could possibly support up to five homes.

| 3-Person Household | Estimated Cost/Subsidy |
|--|------------------------|
| Average Modular Homes Price | \$194,000 |
| Lot value avg. | \$50,000 |
| Average Home Value | \$244,000 |
| Well Qualified Buyer Avg. Purchase Price | \$165,000 |
| Affordability Gap | \$79,000 |
| Typical Low Income Buyer Avg. Purchase Price | \$130,000 |
| Affordability Gap | \$114,000 |

Ideally after the first year, the City would not be directly involved in the construction of homes and individual lots would be built upon by others with City financial assistance. Staff has had conversations with nonprofits about this and there is interest to acquire individual lots. In the event selling individual lots is not possible, the City may have to continue with additional resources in the future to construct homes and find buyers to complete the project. The construction pace planned for the site would be designed to allow for homes to be sold within less than nine months following their completion. There is a caveat to HOME funding that a built structure needs to be occupied and if it is not sold and occupied within nine months, it would likely need to become a rental property to meet HOME regulations.

STAFF COMMENTS:

Starting this next phase of the development of 321 State Avenue is vital to not only meeting the needs identified within our Five-Year Consolidated Plan and Impediments Study on the lack of ownership housing for lower-income households, it also will help the City remain timely in expenditures in for both CDBG funds and newly obtained HOME dollars. Additionally, the investment to allocate all of our 2019-20 grant funding and rollover funds to the 321 State Avenue project is critical as the City enters into compliance deadlines in 2020 for project activity measurements and environmental clearances.

The described approach requires the City to be responsible for developing the site and providing at least three homes in the next fiscal year for low income household purchase. This would be staff’s primary task for the upcoming year. To minimize the use of City resources to complete the overall project, staff would work to make individual lots available to affordable housing developers to construct homes and sell them to low income households. Additionally, the market rate lots would be made available for purchase to any builder. Income generated from the sale of lots will be CDBG program income and can help to finance the later phase of the project. Based upon the financial resources described in this report the City can proceed with the initial construction using HOME funds and the GO Bond funds as a local match, but in future years we would want to use HOME funds to leverage construction of homes rather than fully finance them ourselves.

NEXT STEPS:

The information presented in this report is intended to help define the financial scope of the project and needs for the upcoming fiscal year. **The following next steps are needed to proceed with development of the site; however, City Council is not taking action on each of these tonight. These are administrative steps staff will proceed with, and reports will be returned to the City Council as required to continue with the project.**

1. Prepare subdivision and improvement plans for the site.
 - a. Prepare plans based on single-family detached housing with an option for attached single family on the northeast side of the site
 - b. Construct additional infrastructure along Wilmoth and the south cul-de-sac as described in this report.
2. Prepare a RFP for construction of 3-5 modular homes along S. Wilmoth Avenue.
3. Identify affordable housing developer partners and prepare agreements for the construction and sale of homes for affordable income housing
4. Coordinate a first time homebuyer program to assist in the purchase of the affordable housing units.
5. Prepare documents and agreements for recapture provisions on future resale of the affordable housing units.
6. Plan for the future sale of approximately 18 market rate lots.

If City Council has an interest in alternative design elements from those described in this report or an approach to developing the property, it can provide this direction to staff at this time. It is important to provide direction at this time on how to proceed so the City move forward expeditiously to reach the goal of building affordable housing.

Attachment A

