

Staff Report

321 STATE AVENUE DEVELOPMENT UPDATE

December 12, 2017

The City Council, at its July 11, 2017, meeting, provided direction to staff to proceed with development of a 37-lot subdivision at 321 State Avenue in partnership with J-Corp, Inc., as the developer of the site. The development concept includes platting of 37 lots as Phase 1 of development of the site with an option for a second phase of development in the future for a total of 43 lots. The planned subdivision will include a minimum of 20 affordable homes (18 in the first phase) to be constructed for low and moderate-income households and 17 market rate homes. J-Corp Inc. will be the developer for both the affordable and the market rate homes and they will be the builder of the all of the affordable low and moderate income homes. **In addition to providing the land for the subdivision that was purchased for \$550,000, the City has budgeted \$550,000 for public infrastructure and the developer has committed to \$400,000 for a total of \$950,000 earmarked for public improvements costs associated with this subdivision.**

On November 14, 2017, City Council was presented with bids on constructing the required public infrastructure for development of 321 State Avenue that totaled \$1,196,833.26. The City Council choose to accept the report of bids, but delayed a decision on whether to award the contract until December 19th due to a \$246,833 gap between the budgeted funds for the project and the lowest bidder's response. **In addition to the \$246,000 gap, there was no contingency included with the project estimates, which staff believes should be budgeted as an additional \$100,000. Therefore, the total gap between budgeted costs and the proposed bid with contingency is \$346,833.**

OPTIONS:

Staff considered three options to proceed with the project and reduce the financial gap. They included 1) changing the subdivision layout, 2) additional funding from the developer, 3) additional funding from the City, 4) additional funding from both the developer and the City.

Option 1 - Redesign

Staff believes that a redesign of the project would not substantially lower the total costs for infrastructure. The most significant costs in the low bid are related to site grading and utility infrastructure extensions to serve the new homes, which is necessary to serve all the homes. Not extending Tripp Street through the site and relying on a cul-de-sac access only may reduce the costs to some degree for paving. Based on estimated costs in the low bid package, staff estimates it may save between 50k-100k to not extend Tripp Street and modify the layout of the subdivision. There could be a reduction in total buildable lots as a result of a redesign as well. Not extending Tripp Street would also be inconsistent with City goals of connectivity for streets. Staff does not believe changing the Tripp Street extension is desirable for the project even though it would lower total costs somewhat. **If City Council wants to pursue this option of redesigning the site without a Tripp Street connection, it should reject the bids and ask the developer to redesign the subdivision layout and then proceed with a new bid package for the project in the Spring.**

Option 2 - Developer Funds

To close the financial gap, staff discussed additional funding with the developer along with the use of additional City funds. The developer did not offer to include additional money for the project. The developer commitment to the project will be maintained by assuming the costs for preparing of development plans, paying for the site work to build homes, financing the construction of homes, and contributing \$400,000 for the cost of public infrastructure.

Option 3 - City Funding

Staff revisited budgeting for the financial gap with the use of Community Development Block Grant funds. Since the City Council review in July of the proposal, staff has an updated accounting of its current rollover balance and potential sources for additional program income to direct to the 321 State Avenue project. The City has identified approximately \$96,000 of additional rollover (unspent) funding from the prior year that was not included in the approved Annual Action Plan. These funds could be planned to augment the \$550,000 currently earmarked for 321 State Avenue infrastructure. **This would leave an additional \$250,000 financial gap.**

Due to constraints on meeting the timeliness test for expenditures and projecting program income over the course of a year, staff cannot verify that another \$250,000 would be available in the current fiscal year to cover the remaining gap. Staff believes additional funds beyond the \$96,000 may be available for programming in the future, but this cannot be known at this time.

To ensure that complete funding is identified prior to initiating the project, staff has identified unobligated General Obligation Bond proceeds to assist in covering the costs of public improvements for streets, water, and sewer. To pursue this option, the **City Council will need to designate \$250,000 of these unobligated funds be reserved for use with the 321 State Avenue Project.**

Under this option, the total City investment in the project will be \$896,000 for infrastructure. Based upon producing 20 single-family detached LMI homes in Phase 1 and Phase 2, the individual subsidy per home is approximately \$72,300 when accounting for land costs plus infrastructure (\$550,000 land + \$896,000 infrastructure). In addition to this direct subsidy to reduce the initial sales price of the LMI homes, the City will also provide first time homebuyer financial assistance principally with loans of up to \$26,500 that are to be repaid with interest to the City. Closing cost grants of approximately \$3,500 may be part of the first time home buyer assistance package as well. **When accounting for closing costs assistance and development costs the direct subsidy that would not be repaid to the City would be approximately \$75,800 for each LMI home.**

If the City Council is comfortable with the identified General Obligation Bond funds and CDBG funding outlined in this option, the City Council can provide direction to staff to continue with the project and consider awarding a contract for construction of the project at its December 19th meeting along with finalizing a development agreement with J-Corp. If the City Council does not want to add additional funding to the project, it should direct staff to end negotiations on a development agreement with J-Corp and prepare to reject the infrastructure bids. Staff would return to City Council in January to explore other options for the property if the City Council chooses not to proceed with the project.

DEVELOPMENT AGREEMENT

Staff has been in negotiation with J-Corp on finalizing a development agreement for 321 State Avenue based upon the subdivision design and updated RFP response from July 2017. A draft agreement has been provided to J-Corp for their review and comment and the primary requirements for the City and developer are summarized below.

The Agreement includes provisions for cost sharing of the infrastructure improvements, including financial security and payment by J-Corp for their share of improvements. As mentioned earlier, the developer is responsible for development plans costs, building construction, and for \$400,000 of public infrastructure costs. Assuming Option 3 is pursued, the City is responsible for \$896,000 of public improvements. In addition, the City is obligated to fund a first time homebuyer program for the current fiscal year with the City Council's discretion to fund it in additional years depending upon future federal

funding. The City will also maintain ownership of the land during the development process and release lots to be sold as homes are completed.

The agreement contemplates an initial phase of development of 18 LMI homes with the City Council option to increase it to 20 LMI homes in Phase IIa or with additional funding to add attached single-family off the Manning Alley as part of Phase IIb. J-Corp is obligated to build houses consistent with their response to the RFP and the exhibits attached to the agreement with base prices of between \$128,000 and \$155,000. Staff in consultation with J-Corp and an identified homebuyer can modify the designs to meet the income limits of a specific household, but in no event is it expected there would be a home sales price below \$110,000. Potential construction costs savings may include modest reductions in overall homes sizes, no enclosed garage, or changes to the finish out of basements.

J-Corp is not required to build speculative houses for LMI households in advance of the City identifying a qualified buyer. J-Corp is only obligated to construct homes once the City has identified buyers and must start construction within 30 days of such notice. The developer may receive ownership of market rate lots once the first two LMI homes are sold and then may obtain an additional market rate lots for each sold LMI home on a one for one basis. The developer expects to profit from the sale of the market rate home lots and a limited amount from the construction of each LMI home. The developer's total profit is expected to be approximately \$300,000 based upon the earlier pro forma from July. **All lots, both LMI and market rate, will be restricted to "owner occupied" housing through recording of a covenant prior to the sale or transfer of the property to another owner besides the City.**