

Staff Report

Date: August 20, 2021

To: Directors, Washoe County HOME Consortium

From: Housing and Neighborhood Development Division, City of Reno

Subject: PRESENTATION, DISCUSSION AND POSSIBLE APPROVAL OF A REQUEST BY COMMUNITY SERVICES AGENCY TO DEFER REPAYMENT OF THE HOME LOAN FOR THE DAKOTA CREST APARTMENTS PROJECT AND AMEND THE INTEREST RATE AND OTHER TERMS OF THE HOME LOAN AGREEMENT (For Possible Action)

Clearacre Partners is a Nevada limited partnership between Urban Properties, Inc. and the Community Services Agency Development Corporation (CSADC). In August 1996, Clearacre Partners entered into an amended agreement with the Washoe County HOME Consortium to receive affordable housing funds totaling \$754,339. Located at 446 Kirman Avenue, Reno, Nevada, the Dakota Crest Apartments were built in 1997, with a total of 48 units. Eleven (11) of these are HOME units, three (3) of which are affordable to 30 percent of the Area Median Income (AMI), two (2) are affordable to 45 percent AMI, and six (6) that are affordable to 50 percent AMI and below. The other 37 units are affordable at or below 50 percent of the AMI.

On September 5, 1995, the Consortium provided \$100,000 in City of Reno Redevelopment Agency funds and \$303,000 in HUD HOME Investment Partnerships Program (HOME) funds. Both funding sources are a second position loan at 3% compounding interest for 30 years. No interest accrued until loan payments started, and the loan was to be fully paid off by 2033. Annual payments of \$13,826.24 (principal and interest) were to begin on "September 5, 2003 or at the time the minimum required debt coverage ratio can be maintained while repaying the HOME loan." On August 8, 1996, the Consortium provided an additional \$22,000 in HOME funds at 3% compounding interest for 30 years and \$329,339 in HOME funds at 8% compounding interest for 30 years. This funding was provided as third position funding. Interest on the \$22,000 is deferred until loan payments start. Interest on the \$329,339 is deferred until loan payments start, and was to be fully paid off by 2041. Annual payments of \$12,611.55 (principal and interest) were to begin on "August 30, 2011 or at the time the minimum required debt coverage ratio can be maintained while repaying the HOME loan." It is to be noted that the Debt Coverage Ratio (DCR) is not defined in the loan agreements. As of December 31, 2020, the total deferred interest is \$650,626. To date, no loan payments have been made, as most years have found the project operating with little to negative cash flow due to the deeply discounted rents for this project. Given that the DCR is not defined and the low cash flow, it can be deduced the Partnership does not have sufficient DCR to make payments.

Dakota Crest is regularly monitored/inspected for HOME program compliance. Prior to the pandemic, during which HUD waived monitoring through September 30, 2021, the property was monitored in 2019. During that time, minor repairs were noted, which were corrected within 48 hours of the notice. All tenant files were noted as complete and compliant, and on-site staff were helpful and well versed in all requirements.

On behalf of the CSADC, Leslie Colbrese, Executive Director, has formally requested the following:

- 1) Deferral of repayments to the loan for as long as the project remains 100 percent affordable, and
- 2) 3% simple interest be applied to all funding pools to fall within current HOME Consortium Policies and Procedures recommendations.

This request from CSADC is due to the limited cash flow of the project, as a result of deeply discounted rents, which is placing restrictions on its ability to maintain the property. The deferral of the HOME Consortium debt would allow Clearacre Partners to retain the property and to pursue a different partner that can assist its effort to preserve the property and maintain its affordability status. CSADC and Urban Properties, Inc. are currently in talks with USA Properties Funds, Inc. to purchase Urban Properties 50% ownership interest in Clearacre Partners. Applying the same interest rate across all funding pools will streamline the HOME financing and reduce the debt accumulating on this project, allowing the new partnership to pursue additional funding streams, if needed, to maintain the project.

On August 10, 2021, the TRC reviewed and recommended:

- 1) Deferring repayment of the loan as long as the project remains 100% affordable,
- 2) Revising the terms of the agreement to provide a single, 3% interest rate applied to all funding, and
- 3) To reset the debt owed to the original principal, thus forgiving the accumulated interest of \$650,626.

The TRC also recommends that as a condition of forgiving the current accumulated interest, the deferral of payments to the loan are to be structured for 30 years or for as long as the project remains 100 percent affordable. By forgiving the current accumulated interest and resetting the principal to the original amount loaned, the new total interest would be \$390,578 at the end of the 30 year period. The new total cost of the loan would be \$1,144,917 which is lower than the current total cost of the loan of \$1,404,965 and increasing monthly.

Staff supports deferring the outstanding debt and revising the terms of the agreement to provide a single interest rate applied to all funding as well as amend the debt to only become payable upon the project no longer being 100 percent affordable. Staff also supports resetting the debt to the original principal. The TRC adopted a motion to support this change and if approved by the Directors, staff will revise the documents and complete a new amendment to the HOME Loan Agreement to be signed by all parties.

Possible Motion:

Move to approve revising the terms of the HOME agreement to provide a single interest rate of 3% simple interest to be applied to all funding as well as reset the debt for Dakota Crest to the original principal of \$754,339 with deferral of payments to the loan be structured for 30 years or for as long as the project remains 100 percent affordable.