CITY OF CHARLOTTESVILLE
"A World Class City"

Department of Neighborhood Development Services

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CRHA MOU Report
November 6, 2011

Pursuant to the initial Memorandum of Understanding (MOU) between the City and CRHA adopted by the City Council on March 7, 2011 and by the CRHA Board of Directors on April 5, 2011, the City and CRHA agreed to allow certain staff (CRHA Redevelopment Director, NDS Grants Coordinator, and NDS Housing Development Specialist) to work together on specific tasks for a six month term. The following is an update on each of these items along with some suggestions for next steps to further the potential for redevelopment of Charlottesville's public housing properties. Various reports and notes related to work products associated with each of these tasks are available for future use and reference; however, due to the voluminous nature of these documents, only summaries are presented herein.

Persons consulted and/or providing input for the preparation of this report include: Melissa Thackston, Amy Kilroy, Jim Tolbert, Aubrey Watts, Randy Bickers, and Kathy McHugh.

Overview of actual work products produced by the effort

Relocation and Financing Plan for Crescent Halls

Relocation - A draft plan for the relocation of residents in Crescent Halls has been prepared and presented to the Redevelopment Committee; however, no formal action has been taken by this group. The relocation plan has not been presented to the CRHA Board outside of those members that attended the Redevelopment Committee meeting. The plan was prepared by the CRHA Redevelopment Director based on applicable HUD regulations, input gathered form the Master Planning process and conditions listed in the Residents' Bill or Rights. It has not been submitted or reviewed by HUD personnel.

The plan includes various demographics about the current population living at Crescent Halls, which indicates that there are many vulnerable residents who will require significant coordination due to physical need and other limiting factors. In addition, the difference between average rents currently paid at Crescent Halls versus market rents in Charlottesville (see below) will require significant "relocation voucher" subsidy from HUD to cover the costs.

There are 98 one-bedroom units with an average rental differential of $539 per unit, which means it would cost an extra $52,822 per month to house current residents in market rate units or an extra $633,864 for a year. Add in an approximate extra $51,828 associated with the 7 two-bedroom units, and the total costs for relocating all Crescent Halls residents for one year would be $685,692. It is not yet known if HUD will cover these costs at 100% along with other relocation cost such as moving and utility setups, which are not reflected in this figure. Accordingly, additional research will need to be done to determine the potential impact of relocation costs on the total cost of redevelopment.

Bedroom Size	Fair market rents for Charlottesville in 2011	Average rent payment in Crescent Halls	Difference
One Bedroom	$787	$248	$539
Two Bedroom	$931	$314	$617

While incremental rehabilitation was envisioned by the Master Plan (i.e., doing five phases with three vertical stacks at a time, or other partial rehabilitation), discussion with other housing authorities during the September 2011 fact finding trip was not promising with respect to undertaking rehab of a senior / disabled facility without relocating all residents during the construction phase. This is something that likely should be further researched, as input and experience is based on limited input; however, specific concerns include those from residents over safety, as well as dust and noise issues during renovations. NDS staff recently met with a local contractor to discuss this issue and were told that the decision to keep residents onsite requires extra construction time and lots of coordination. While initial relocation of all residents to an offsite location will be very expensive, the trade off of extra construction time and need to shuffle residents around will add costs that could ultimately be more expensive than those associated with full relocation. Also, it should also be noted that the level of difficulty will be much greater given the demographics of the resident population at Crescent Halls.

In summary, the relocation planning effort is still in the early stages and there is much work that remains to be done based on final plans for rehabilitation. A determination regarding the relocation approach (partial versus full) will need to be determined (once rehab plans are further along) because it will impact what needs to be submitted to HUD and the amount of vouchers that will need to be requested.

Other considerations that need to be researched include the potential for leasing a portion of the SRO for a period of time, constructing an additional building on the Crescent Halls site, as well as constructing a similar facility at the Levy Lot / Avon garage site to accommodate relocation from Crescent Halls. Adjacent parcels to Levy Lot / Avon garage, such as the former Better Living site, should also be examined to provide more density and parking opportunities.

Financing – The Master Plan (as prepared by Wallace Roberts & Todd dated August 23, 2010) contains two preliminary financing plan scenarios for Crescent Halls; however, both plans (scenario number 5 and 6) indicate $5,756,560 for construction and soft costs. Given that there is no breakdown of unit costs with this estimate, it is impossible to know what is included other than it is based on $56,268 per unit for 103 total units (which is 2 less than the total number of units, as 2 units would be lost to facilitate a new entrance on Monticello Avenue). As such, a round figure of $5.5 million was used (as an approximate budget) to determine how financing could be facilitated in the short run without pursuing outside financing. Following is one scenario that would provide necessary funds (without pursuing outside funding); however, it should be noted that pursuit of: 1) Virginia Low Income Housing Tax Credits, and 2) Federal Home Loan AHP funds as well as other potential funding sources would be advisable to limit encumbrances on CFFP and CDBG program funds.

HUD Capital Fund Financing Program (CFFP):

CRHA can use up to 33% of annual future Capital Fund grants for debt service payments, assuming level CFP appropriations over the term of the debt obligation (up to 20 years).

CRHA Current CFP Allocation = $628,131 (33% = $207,283)

This formula would provide a maximum amount available for annual debt service of $207,283.

HUD CDBG Section 108 Program (HUD 108):

The City can use up to five times the annual allocation of current CDBG funds, with financing limited to a 20 year term. Since this is a loan and not a grant, these funds have to be repaid to HUD. Accordingly, the City's annual CDBG application would be reduced by the amount of debt service shown below. If the City wants to maintain the CDBG allocation, then supplemental funding from the City would be required.

Current CDBG Amount = $480,000 ($480,000 x 5 = $2,400,000)

This amount would provide funds to support annual debt service of $174,528 based on 4% for 20 years.

Estimated Total Cost	**$5,500,000**
Annual Debt Service Required Based on 4% interest rate for 20 year term	**$399,470**
CFFP Available Annually through CRHA	**$207,283**
HUD 108 Available through Charlottesville	**$174,528**
Annual Debt Service Not Covered	**-$17,659**

Conclusion:

Strictly from a regulatory standpoint, Crescent Halls could be financed with CFFP and HUD 108 funds (if supplemented by $17,659 of annual Charlottesville Housing Funds - CHF) which are currently available to CRHA and City of Charlottesville respectively or CDBG funds could be used initially (as a lump sum) to offset the total costs thus reducing the total amount to be financed to $3,100,000, which would require $225,420 in annual debt service payments (meaning that both CFFP and $18,137 of annual CFP funding would be required to service the debt). If the City were to provide $250,000 (based on the proposed budget) as an initial cash contribution, then there would be no additional debt service required from CHF.

From a pragmatic standpoint, there are multiple other considerations to this financing option. Specifically, discussions with the City's bond counsel were held after the initial plan was devised and HUD has been consulted to determine if the 108 loan would impact the City's bankable bond limit which is linked to the City's ability to maintain its triple "A" bond rating. The HUD Richmond office cannot definitively determine if the City will have to pledge additional security (other than future CDBG funds) until further details of the proposed deal are known. Accordingly, it is uncertain as to whether Section 108 is a viable resource or not.

Further, based on information from CRHA, the 33% level for CFFP is considered to be excessively high and would not allow sufficient funding for on-going capital needs. Accordingly, the actual level of CFFP funds (if the program was used) would have to be substantially less than 33%, unless funds for management improvements, administration, and operating expenses (as currently paid from CFFP) can be lowered.

Relocation and Financing Plan for Levy

Relocation - As there are no residential units in place on the Levy Lot / Avon Street garage site, there is no need for a relocation plan other than to note that these properties are a potential resource and could be used for relocation assistance during redevelopment. This site could be used for development of new public housing (ACC or other type of affordable) units in the context of either mixed income and / or mixed use. Please note that this option is mentioned in the section regarding Crescent Halls above.

While the property could also be sold for some type of market rate development, it should be noted that there are a couple of issues with the site that will impede this and impact the potential profitability of such a transaction.

- Both the Levy parking lot on Garrett Street and the former Walker Garage on Avon Street were purchased with CDBG funds from HUD and any use of the properties in a way that does not "principally benefit low to moderate income persons" would mean that CRHA would have to repay funds used for purchasing these sites back to the City's CDBG program, along with any excess amount which would be classified as CDBG program income.

- Environmental testing performed at the time of purchasing the former Walker Garage revealed that there is ground contamination present and that given the topography of the site and prior use for parking Greyhound buses, that pollution of the Levy lot is highly probable. As such, there will definitely have to be some type of remedial effort undertaken to clean up the site prior to use. This is an unknown cost which has not been quantified at this time; however, assistance through EPA and / or the HUD Brownfield's program might be a possible source of funding.

No financing plan has been developed for Levy Lot / Avon Street garage site because final use / disposition of this site is unknown at this time (although low income housing tax credits would be a strong possibility and could include mixed use/mixed income). It should be noted; however, that while an alternative use and / or sale of this land for a market purpose would trigger repayment of CDBG funds to the City, that funds could be reallocated by the City (through its CDBG program) for another eligible use / project to be undertaken by CRHA which could further redevelopment in another way (e.g., proceeds could be used to support rehab of Crescent Halls). Regardless, if CDBG or HOME funds are involved in any aspect of redevelopment, additional relocation benefits (adding expense) could be triggered due to the need to comply with Section 104(d) of the Housing and Community Development Act of 1974, which supplements the URA (i.e., Uniform Relocation and Real Property Acquisition Policies Act of 1970, as amended) when these Federal programs are used. Specifically, if CDBG or HOME funds are involved in any aspect of redevelopment, additional relocation benefits (adding expense) could be triggered due to the need to extend benefits for 60 months rather than 42 months.

Summary of Financing Options for Redevelopment in General

NDS staff has concentrated their research efforts on financing redevelopment, which has produced a detailed report on various sources of financing for this type of project.

The team has focused on the idea of financing redevelopment through public-private partnerships, as the potential for redevelopment during this time of limited Federal funding would be impossible without a strong financial private development partner. The exception to this is the rehabilitation of Crescent Halls which will not require redevelopment and will have to be handled differently (as discussed above).

Any redevelopment scenario must consider four important factors. The first factor is the CRHA commitment (based on the resident bill of rights) to, at a minimum; provide one for one replacement of public housing units. **This means that when redevelopment is completed there must be at least 376 units of public housing (this is the basis for work related to redevelopment).** Because Crescent Halls rehabilitation will likely result in no net change (or a possible loss of 2 units for the proposed entrance on Monticello Avenue) in the number of units, this means that on all the other sites there must be approximately 271 public housing units reconstructed.

The second factor is the ratio of affordable (public housing and other affordable) units to market rate units. Due to information obtained as a result of efforts to contact other housing authorities under this MOU, as well as a review of documentation relative to income mixing, the projections contained herein are based on a different premise from those contained in the Master Plan developed by Wallace Roberts and Todd (WRT). Accordingly, for a mixed-income development, it is recommended that the ratio of market rate to affordable units be no less than 60% - 40% and maybe closer to 70% - 30%, depending upon the local housing market and other site specific factors. Factoring out Crescent Halls this means that to achieve a successful mixed-income redevelopment that between 675 and 907 units will need to be built. This ratio is different from the ratio advocated by WRT in the Master Plan, which envisioned a mix of 1/3 public housing, 1/3 tax credit units, and 1/3 market rate units; however, the research done pursuant to the MOU indicates that a mix with more than 40% "affordable" housing will make market rate units very difficult to achieve. If there is a desire or need to add tax credit units into the mix, which opens the door to tax credit financing, then the total unit count will need to increase in order to achieve an appropriate ratio, keeping in mind the desire to maintain the 376 public housing units.

This factor has a substantial impact on costs because it increases the number of units required to be constructed; however, there is substantial documentation to support this more conservative market based approach from HUD. The following is a brief overview of information used to inform the calculations used herein and to inform the reader why this report diverges from the WRT recommendations.

The current underwriting guidelines for mixed-income projects (issued as Notice H 97-12 - HUD on March 7, 1997) were initially developed by HUD for FHA, HFA's, Fannie Mae, Freddie Mac, National Cooperative Bank, and the Federal Home Loan Bank of Seattle to provide a basis for evaluating mixed income projects involving public housing or HOPE VI funds. While dated, the guidelines are still being used today and provide support for recommendations contained herein. While no <u>standard</u> income mixing ratio is recommended in these guideline, it is clear that the mix will be influenced by the location and characteristics of individual project and neighborhoods (see section IV A).

More specifically, Notice H 97-12 – HUD states that "the higher the average income in the neighborhood, or in some cases, the more diverse the ranges of income (mixing) already in the neighborhood, the easier it is to attract market-rate tenants to the mixed income project. When the neighborhood is predominantly lower income, the proportion of market-rate units to restricted units in the mixed income project must be higher to successfully attract the market rate tenants."

This approach is supported by HUD's Office of Policy Development and Research (PDR), as discussed in various articles found in Volume 3, Number 2 1997(see article at page 3 and 25 – 26 by Brophy and Smith) of "Cityscape: A Journal of Policy Development and Research" (still referenced on HUD's website as a best practice). Specifically, in an article entitled "Mixed Income Housing: Factors for Success," it is noted that "Mixed income housing works best where there are sufficient units aimed at the higher income renters to create a critical mass of market units and where there are no differences in the nature and quality of the units being offered that are due to the income of the renters." Further, the reader is told that "developers who choose to mix income groups try to avoid the mistake of overloading a project with low income households and jeopardizing the marketability of higher priced units. But there may be circumstances that warrant a more aggressive balance of incomes, such as very strong markets or active student markets."

A 2003 report on Mixed Income Housing and the HOME Program by HUD (Chapter 5) reports that to be effective, mixed income housing must be approached like a market rate development. Further, that sustaining a mix of households in numerous income brackets over time can be difficult, noting that it is more feasible to develop mixed income housing in market rate neighborhoods (i.e., where the percentage of incomes is already weighted toward market rate). The model project cited in this document is known as "The Glen" and is located in Montgomery County, Maryland. The percentages used in this development of 90 units were 61% market rate, 6% at 65% AMI, 11% at 50% AMI and 20% at 35% or less of AMI. The risk with sustainability is "tipping or turning" one way or the other, so readers were advised that the success of The Glen hinged upon maintaining proportions (true to the original mixing percentages) even if it required postponing lower income rentals for a short time until the original proportions could be re-established.

The third factor is that CRHA owns all the land associated with its housing sites. This is the most valuable asset that CRHA brings to the redevelopment table and appraisals for each site are needed so that a market value for this asset can be determined. Unfortunately, given the current economic situation and housing downturn, a development partner may not be willing (or able) to pay the actual worth. This is particularly true in this situation where new units are the primary goal of the redevelopment effort.

Local research has shown that a developer can generally commit $50,000 per market rate unit for land cost at this time and still achieve a reasonable return on investment. This assumes no unusual or extraordinary site development costs, which should be the case with CRHA properties that are currently assessed at $24,971,500. The value of the land asset may be higher or lower depending on the type of partnership and redevelopment goals for a particular site.

Probably the most important and maybe the most intricate part of the redevelopment process is the fourth factor – which is the relocation component. While relocation for Crescent Halls is briefly discussed in this report, relocation of residents for other sites has not been evaluated. Regardless, the expenses associated with relocation will greatly impact the cost and method of redevelopment. Specifics will have to be addressed on a site by site basis, but must be considered when planning each project. Most relocation will probably have to be done on site which will impact both phasing and cost. Relocation must be an important part of any site development plan.

Research shows that public housing redevelopment has the greatest potential for success if public / private partnerships can be created. Unfortunately, since the era of plentiful Federal funding and easy loan deals has passed, the ability to entice a private sector development partner to participate will be very challenging.

Factoring Crescent Halls out of the equation, the redevelopment effort will need to produce a minimum of 271 public housing units. For discussion purposes, this will require a total of 800 new units to achieve an appropriate mixed-income ratio, 271 public housing and 529 market rate units. For this analysis, the assumption is that all of the newly constructed units will be rental and that all of the non-public housing units will be market rate. Other assumptions used are as follows:

Average Monthly Rent Market Units	$ 1,200.00
Average Monthly Rent – Public Housing Units	$ 250.00
Land Value to Developer Per Market Unit	$50,000.00
Average Square Foot Building Cost	$ 120.00
Average Square Foot Market Unit	1,400
Average Square Foot Public Housing Unit	1,000

Using these assumptions the following rental rates and costs can be anticipated from the redevelopment effort:

<u>Rental Rates</u>

Market Rate Units	Monthly	Annual
529@ $1,200	$634,800	$7,617,600
Public Housing Units		
271@ $250	$ 67,750	$813,000
Total	**$702,550**	**$8,430,600**

<u>Costs</u>

Building Cost

Total Square Feet Market Units	740,600
Total Square Feet Public Housing Units	271,000

	1,011,600
Construction Cost	$121,392,000
Site Infrastructure (WRT report)	$ 8,165,000
Demolition	$ 2,000,000
Total Hard Costs	$131,557,000
Soft Costs at 15%	$ 19,733,550
Total	**$151,290,550**

Land value must also be factored into the equation. Using an assumption that the land is worth $50,000 per unit to a developer this would add another $13,550,000 ($50,000 x 271) to the project cost. Because CRHA has clear title to the land, the land value can represent a large part of the CRHA contribution.

In preparing this report, staff interviewed a successful local developer of rental properties and a certified public accountant to determine how a developer would determine an appropriate investment if the project were completely privately funded. A simple rule of thumb recommended was to multiply anticipated monthly rents by 100. The resulting figure is the amount an investor would spend on a project.

Using that analysis and the assumption outlined above a private developer could be expected to invest $70,255,000 in the CRHA redevelopment effort. This leaves a gap in funding of approximately $81,035,000 that must be made up from other sources. Those other sources include the following as viable possibilities:

- Low Income Housing Tax Credits

- Virginia Housing & Development Authority (VHDA) REACH Multi-family
    - SPARC
    - Mixed-Use Mixed Income (MUMI)

- CRHA Capital Funds Program Financing

- CDBG and /or HOME Funds
    - Other HUD programs such as Section 202 or Section 811

- City of Charlottesville Capital Contributions, including possible funding for project-based vouchers (note that this would likely require a tax increase or an additional revenue source)

It is envisioned that this gap will be different on every site and the mixture of funds will be different on every site. The challenge will be to structure a deal on each site that achieves the best unit mix and optimizes the investment from all sources.

The above scenario is based on all rental housing construction. While this could happen, it is also feasible that a number of the units will be sold for homeownership. This will alter the financial mix and bring other sources of funds to the table making it even more important that each site be independently evaluated.

Since the Master Plan is not based on the market rate to affordable mix proposed herein and includes the use of significant HOPE VI funds (which are not a viable source of funding for CRHA) the document is not a reliable source for either probable costs or funding scenarios. Further, it should be noted that HOPE VI is being replaced by another HUD program known as Choice Neighborhoods; however, this program is also heavily based on local need and distress criteria which CRHA will not meet as written at this time. Accordingly, neither program can be relied upon as a viable source of funding.

The above analysis is provided for illustrative purposes only in an attempt to indicate how critical a public/private partnership will be to the success of this effort. Given the extremely low rents generated by public housing no private developer or CRHA can invest the amount of funds necessary and make the project work. Any redevelopment will have to be site specific and be heavily dependent on a market analysis to guide the investment. Individual pro-formas will be required to judge the viability of each proposed project.

Section 3 Policy and Plan

A Section 3 Policy and Plan have been developed and adopted by both the City of Charlottesville and CRHA. A Section 3 Coordinator (Ms. Tierra Howard) has been hired and is employed by the City's Office of Neighborhood Development Services for an interim period of 18 months.

A HUD grant for a Section 3 Coordinator grant was submitted; however, the City was recently informed that the grant (which was lottery based) was not funded.

Section 3 activities are on-going and a Steering Committee has been formed and has held two meetings at this time. Initial focus is going to be on the employment / job opportunities side of the equation.

It is anticipated that the Section 3 program will be in an excellent position to be involved with redevelopment of public housing, as various construction projects move forward. This will be an invaluable tool for the City and CRHA to help Section 3 eligible residents and/or businesses.

Lessons to share from other housing authorities

The following is presented as bulleted points that were noted as a result of a multi-day trip to Aiken, South Carolina; Spartanburg, South Carolina; and Decatur, Georgia, which were visited by the CRHA/NDS team members during the week of September 19th 2011. Due to training, the CRHA Redevelopment Director was only able to attend the visit to Aiken South Carolina. It should be noted that the experience and situation in Decatur Georgia most closely paralleled the situation in Charlottesville and is therefore referenced extensively in the following.

It is VERY important to note that the following is based on the experience / expertise of staff at the above locations and it should not be viewed or interpreted as a recommendation for Charlottesville specifically. This is simply an effort to share with others what staff learned from those persons interviewed during the trip.

Relocation

By dividing a given site into phases for redevelopment, the Decatur Housing Authority (DHA) was able to create "empty blocks" within a site. Components of their efforts included the following:

- Determined number or units to be demolished in Phase 1 (i.e., 60).
- Offered 40 voluntary relocation vouchers to residents of Phase 1 initially and then housing authority wide so that sufficient families could be identified.
- Relocated remaining 20 households into existing vacant units on site.
- Ultimately only 36 vouchers were needed, enabling DHA to redevelop 200 units while displacing a small number of families through voluntary relocation.
- Taking this approach minimized the amount of lost revenue compared to site wide relocation (i.e. rents and HUD subsidy were still being paid on the majority of units throughout the process).

Financing used may make relocation back to a neighborhood difficult for some families (i.e. tax credits that require 60% AMI or less won't allow former residents above 60% AMI).

It is safe to assume that 35% to 40% of families given a voucher will not want to give it up and return to the site after redevelopment.

It is also safe to assume that 15% to 20% of current residents could move out of public housing given strong case management.

Based on what has occurred and is still on-going at DHA, it is noteworthy that not all of their residents will need a public housing unit to return to at the end of redevelopment.

Financing Redevelopment

Sources of funds utilized by Aiken, Spartanburg and Decatur (that are also available to CRHA) include: Capital Fund Financing Program (CFFP), Federal Home Loan Bank of Atlanta AHP funds, Community Development Block Grant (CDBG), Low Income Housing Tax Credits (LIHTC), HOME, Section 8 homeowner funds, Security Federal Bank, and Wachovia.

Regardless of whether a partner is used for development or not, it is important that the public housing authority (PHA) understand how developer fees work so as not to lose out on that source of revenue. Decatur did not use a partner. They acted as developer, general management partner and property manager in order to earn fees for those services.

Setting up financing packages is easier when individual buildings do not mix-incomes. It is easier to mix incomes by mixing buildings (housing differing income levels) on the site, rather than the people in each building.

In order to have a successful mixed income development, the right mix of market, affordable, and subsidized units is important. It should be (at a minimum) 60% market, 20% subsidized, and 20% affordable. Having more than 40% subsidized/affordable will result in building back what you had initially.

Other Sources of Cash Flow for Housing Authorities

Spartanburg purchased an old school (previously an all-Black high school) and renovated it for an office, with additional space for commercial office lease.

DHA has built workforce housing to sale, which allowed profit to be earned and then used for other operations.

DHA also has an income stream (compliance management and property management) not tied to HUD. This allows DHA to pay for predevelopment expenses on new projects without having to financing this cost.

Organizational Structure

Aiken discovered that use of a non-profit (i.e., Community Development Corporation - CDC) is preferable and the organization has been invaluable to redevelopment efforts locally.

Professional development and training allows a lot of in-house capabilities. In Aiken all housing managers have real estate licenses and are certified property managers.

In Aiken, (during the early stages) a LLC was formed. The non-profit CDC held a small ownership and the developer partner was the larger owner. Later the CDC became the sole developer.

Regardless of whether redevelopment is handled by a separate entity, Spartanburg emphasized that it is vital to have the right staff on board at the housing authority and to let the Executive Director know that he/she has the support of the City Manager / Council / Housing Authority Board.

Other Information

Senior and disabled populations should not live in the same building. These two groups of people have very different needs and lifestyles.

Need to strive to incorporate high-end (upscale building materials) features into all units when possible. With future of HUD subsidy unknown, it is in the PHA's best interest for assets to be marketable and resalable.

Use a firm / individual with proven track record of tax credit success and accounting/auditing skills. DHA used the Resnick Group (based in Bethesda Maryland). Aiken used Nehemiah Corporation of America (based out of Sacramento, CA) until capacity to do the work in-house was developed.

Aiken partnered with other small PHA's within the state to undertake a major bond issuance through Fannie Mac. Pooling efforts was an excellent way to lower issuance costs and spread it across a larger number of responsible parties.

Having very aggressive resident services allow a housing authority to reduce average tenure (in Aiken it is 4.5 years) and also allows many families to relocate to market rate or homeownership prior to redevelopment.

Recognize that HUD is not interested in the old type of housing (i.e. Charlottesville public housing sites) or housing model. These units have become extremely expensive to maintain and are no longer market viable.

If steps are not taken to change public housing now – HUD will eventually step in and do it for you and it will not be the same as if you undertake the effort locally.

If you do not have a private sector / market rate presence in redevelopment, you will end up building back what you currently have and this will have no positive long term effect on the neighborhood. You can expect to have to redevelop again within 30 years.

Resident responsibility is extremely important. It is not the City or PHA's responsibility to solve all the problems/ barriers. Strong case management is vital. The PHA should strictly enforce the lease and ensure residents are really doing their required community service. Need to have support services at every site.

A redevelopment plan that does not include specific implementation steps or relies upon HOPE VI is of no use to anyone.

Do not just focus on the residents that are there now, but also on the future residents as well.

Must have the right staff and must take action to eliminate those who are not contributing and / or adding value to the effort. Redevelopment is expensive and the right team of people is extremely important to making it work. There is no room for dead weight in staffing.

A partnership between the City and Housing Authority is vitally important, as they must both be on the same wave length. Public housing needs to be part of the overall fabric of the community as a whole.

Draft Outline for RFP for Crescent Halls rehabilitation and for Levy Avenue development

A Request for Qualifications (RFQ) has been drafted by CRHA's Capital Projects Manager to identify an architectural firm to undertake the: 1) analysis of existing conditions; 2) design development and approval process; and 3) relocation and construction administration processes needed at Crescent Halls. As currently drafted, the work is divided into these three phases, with the understanding that Phase I work will be required if the firm is selected under the current RFQ, while moving forward with Phases II and III will be at the discretion of the Authority.

The RFQ has not been reviewed by the Redevelopment Committee at this time. Accordingly, the RFQ is not ready for public advertisement or distribution at this time. Once approved by the Redevelopment Committee, the RFQ would need to be approved by the CRHA Board.

No RFP or RFQ has been developed for Levy Avenue / Avon Street at this time; however, it should be noted that the City is currently "testing the waters" with a RFP to attract a private development partner for the city-owned Elliott Avenue site that is located nearby and is similarly situated relative to environmental challenges, location within the City and other factors. Hopefully, lessons learned from this effort will help inform future endeavors proposed herein.

Specifically, it is hoped that a mid-sized facility can be constructed at Levy Avenue / Avon Street to include some 60 to 80 units. While such a facility would be most helpful with relocation of residents at Crescent Halls, it is important to also consider long term implications relative to separating the elderly into a distinct facility from younger disabled persons. Any decisions will impact both the ability to do income mixing at the elderly only facility and mean that units for disabled persons will need to be identified at other CRHA properties. Regardless, the need to integrate disabled persons (with mental or physical disabilities) into the general populace is considered to be a standard best practice and ultimately is what CRHA should strive to provide. Further, it is important to note neighborhood concerns at the Levy Avenue / Avon Street site because any future construction of housing on this site would be a change in use that would impact the neighborhood (note that careful attention to design details can help blend units into Belmont and likely lessen neighborhood concerns).

While moving forward is important, it is also vital to do so in a manner that demonstrates that CRHA and the City are working together in a decisive and purposeful way. To do otherwise will reduce confidence and trust from the public housing community and others.

Recommendations for Redevelopment in General (including financing component)

Action Plan – Redevelopment (as a whole) is a very large undertaking and will be very expensive. Due to the complex factors involved, it is difficult to know where to begin the process. As a recommendation for next steps, the following is offered to start the process of renovating Crescent Halls and utilizing the land at the Avon Garage / Levy Lot. Of utmost importance throughout this process is the need to work with CRHA residents to keep them apprised of current efforts and to obtain input relative to any proposed project(s).

1. Develop Request for Proposals (RFP's) for both renovation/rehabiliation of Crescent Halls and for constructing new mixed use development at the Avon Garage / Levy Lot property. Pursue development of the Avon Garage / Levy lot to construct new facilities at this site for relocation and possible long term division of elderly/disabled persons (noting the need to finalize

proposed long term use prior to proceeding). Anticipated that a mixed use project can be done through one or more development partners with a creative use of financing.

2. Determine how to utilize and structure (both from a staffing and board level) the CRHA non-profit (Community Development Corporation) to undertake redevelopment activities. The City Attorney's office has opined that any successful redevelopment model will likely need to incorporate the City, the CDC and the CRHA. Further, no other corporate entities are necessary to move forward with redevelopment (as contemplated herein).

3. Ask City Council to appropriate funding to undertake architectural/engineering work identified through RFP processes (as described at item #1 above). It is suggested to move this forward that the dollars come from the CIP contingency and, if necessary, be paid back from 2013 CHF funds. Note that CRHA currently has $150,000 available for use but that this represents only about half of what is needed to move forward.

4. Develop financing plan for renovation of Crescent Halls.

5. Develop strategic plan to complete redevelopment of all other CRHA properties.

<u>Bill or Rights</u> - The resident bill of rights has been adopted and is included in the CRHA Master Plan. One aspect of the bill of rights is to "provide the first opportunity to live in the new replacement units to those households living in CRHA units at the time the project begins, without having to re-apply or re-qualify." This is reinforced by also requiring that "each displaced household will have the right to choose to return to the redeveloped site or to relocate permanently to another replacement unit." While this has been included for protection of current residents from indiscriminate displacement, it also has the potential to impact redevelopment due to market concerns regarding social dynamics in mixed income neighborhoods.

In order to honor the commitment made by the CRHA Board and the City, it is essential that the Resident Bill of Rights remain in place. Any changes that are deemed to be needed would need extensive community engagement and input.

<u>CRHA Policies</u> - The current Tenant Selection, Assignment and Continued Occupancy Policy (ACOP) for CRHA provides a rental preference for those who "reside in the City of Charlottesville" including applicants who live or work within the geographical boundaries of the City or who have been notified that they have been hired to work in the City. It is recommended that this priority be modified so that persons who are currently employed be given strong consideration/preference also. This would potentially provide a higher amount of rental income and more economically viable neighborhoods.

Designating Crescent Halls or another site for seniors only would separate disabled persons and create a community for older residents which would better facilitate aging in place.

It is noted that a strong resident services component is essential for mixed income success. CRHA will need to expand and strengthen their existing efforts to reach out to all residents, and to coordinate with area service providers to maximize impact and reduce duplicative efforts. It is hoped that this effort can be supported through a recently awarded Family Self Sufficiency grant received by CRHA and a three year resident services coordinator grant received by PHAR.

<u>Green Construction</u> - Given the substantial costs currently associated with utilities, it is imperative that the newly constructed units be built to include cost effective energy efficient technology to the maximum extent feasible. This will lower operating cost for the housing authority as well as the residents and provide a more economically viable model for continued operations. Technology such as solar panels, geothermal HVAC, low flow plumbing fixtures, high efficiency insulation, Energy Star appliances and other

generally available products should be used in all redevelopment and / or rehabilitation that is undertaken as a result of future CRHA efforts. Further, to be consistent with current City policy it is recommended that redevelopment be consistent with the City's Green Building Policy as adopted on September 2, 2008, which would use USGBC LEED standards as the guide for design and construction practices.

Market Analysis - As contact is made with private developers and financing agencies, questions will be asked about market analysis. In order to respond to these questions, it is recommended that an impartial market analysis be done for each housing site, considering both rental and homeownership options within the context of a mixed income, and in some cases, mixed-use environment (also looking at the larger area in a holistic fashion). Market studies can be a very useful tool in helping the City and CRHA determine the market viability of constructing more housing at public housing locations and in helping to secure financing as the project moves forward.

Recommendations for structure to move forward

It is necessary to identify: 1) future governance; 2) personnel responsible for implementation and 3) how to pay for redevelopment. The following provides specific suggestions for initial actions which are needed relative to determining board configuration for the Charlottesville Development Corporation (CDC – the existing redevelopment non-profit), as well as staffing, project management, modification of the CRHA redevelopment committee and marketing.

Board Configuration for the Non-Profit Organization - Although currently governed by the same board as CRHA, the CDC could also be configured so that it is consistent with Community Housing Development Organization (CHDO) and Community Based Development Organization (CBDO) guidelines under HOME and CDBG regulations respectively, so that these funds can be used for new construction efforts.

Community Housing Development Organization (CHDO)

- 33% of the board must consist of 1) low to moderate income residents of the City or 2) representatives of low to moderate income neighborhood organizations located in the City.

- No more than one-third of the membership be appointed by or consist of elected or other public officials or employees

Community Based Development Organization (CBDO)

- 51% of the board must consist of 1) low to moderate income residents of the City, 2) representatives of low to moderate income neighborhood organizations located in the City, or 3) owners / senior officers of private establishments and other institutions located in or serving the City.

- No more than one-third of the membership be appointed by or consist of elected or other public officials or employees

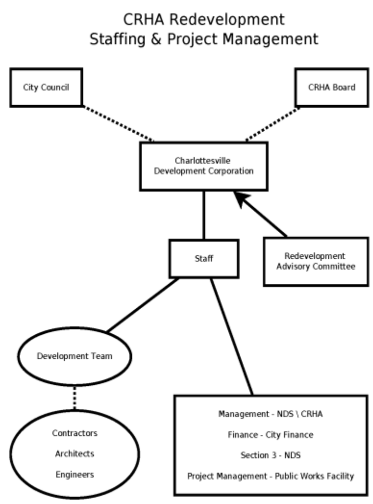
While CHDO and CBDO structures could provide the opportunity for use of HOME and CDBG funds, it should be noted that HOME funds have been obligated for use by the Crossings at Fourth (a Single Room Occupancy -SRO) over the next decade or so. As such, HOME will not be a viable source for CRHA. As to CDBG, these funds can already be used for rehabilitation of housing; however, the CBDO would be required if funds are needed to assist with new housing construction.

A final determination regarding board structure for the CDC would need to be undertaken by the CRHA Board based on recommendations from their legal counsel.

Staffing & Project Management

This effort started off with the realization that there is an overall lack of capacity to move forward and it is of no surprise that all efforts to date only further point to the need for further capacity building in terms of staffing and development of partnerships with both non-profits and for profit entities.

Staffing for the initial redevelopment effort should be provided by a development team consisting of the Director of Neighborhood Development Services, the Housing Specialist, the Grants Coordinator, the Section 3 Coordinator and CRHA staff member to ensure liaison with the Board and Executive Director. This is viewed as a potential short-term arrangement to enable a limited number of redevelopment projects to move forward. These individuals have been providing the bulk of the work under the memorandum of understanding between the City and the Housing Authority and have a good understanding of the rules and obstacles facing the redevelopment process. This approach will also allow the new director to complete the reorganization that is currently underway of CRHA staff and devote effort strictly to managing public housing effectively and efficiently. See the following organizational chart for proposed governance structure.



Consider utilizing the talents of the City's facilities team for actual construction management of redevelopment projects. Using a good project management firm and the expertise of Mike Mollica and Scott Hendrix, projects can likely be done more efficiently than using the current CRHA part-time project management staff.

Redevelopment Committee - It is recommended that the redevelopment committee continue in an advisory role as they have successfully finalized the Master Plan and implementation efforts will need to be more staff driven, but with diverse input from the community. While accountability is important, as well as transparency as it relates to the expenditure of public funds, it is important for the organization tasked with redevelopment to be able to have a good deal of flexibility to identify resources and alternative redevelopment opportunities, including those that would be revenue enhancing.

Closing Summary

CRHA and the City need to be clear and communicate with residents that HUD resources are dwindling and are absolutely **not** expected to increase (or even remain at level funding) from here forward. HUD has been trying for years to transition away from the traditional public housing model by encouraging mixed finance and redevelopment through HOPE VI. Accordingly, the current situation should be expected to worsen if we (as a community) are not proactive and take steps to improve property conditions through local efforts. This effectively means that inaction is not an option and redevelopment is not an all or nothing effort. Success will ultimately be measured by the ability of all parties to compromise and determine what is the best option based on funding availability/options.

It is hoped that the efforts of the MOU team and subsequent report are helpful to those involved with decision making related to redevelopment. As a result of this effort, staff has become acutely aware of how complex redevelopment can be; however, at the same time, staff has also become aware that redevelopment of public housing can positively impact housing (in the City as a whole) in a major way. While gains will mostly be in market rate housing stock, it is important to note that redevelopment will also result in a higher quality of public housing (newer units with improved features including energy conservation) for persons living in these units which have become functionally obsolete at this point in terms of unit size, amenities, lack of air conditioning, washer/dryer hookups, etc… It is not financially feasible to rehabilitate the majority of public housing units because of cost factors. Demolition and rebuilding is preferable and will allow for construction of new units as well as creation of mixed income neighborhoods.