



## Legislation Text

File #: 13-0566, Version: 2

### Resolution to Transfer Ownership of 26 Parcels Owned by the City of Ann Arbor to the Ann Arbor Housing Commission (**8 Votes Required**)

The Ann Arbor Housing Commission (Commission) is requesting Council approval of the transfer of ownership of 26 parcels that the City acquired for the Housing Commission to the Commission for one dollar per parcel. Twenty parcels are public housing sites, one parcel is a Turnkey III property which is a lease to own program, and five parcels are vacant parcels intended for use as affordable housing.

The Commission has applied to the U.S. Department of Housing and Urban Development (HUD) to convert its public housing units to project based vouchers under HUD's Rental Assistance Demonstration (RAD) program in order to stabilize its source of operating funds and reinvest in the capital needs of the buildings. HUD funding continues to diminish for public housing, while the voucher program has historically been funded at much higher levels. Separate from RAD, sequestration has had a devastating impact on both the public housing and voucher programs. The impact of sequestration on the Commission's public housing funding is over \$300,000/year less for operations and an estimated \$50,000 - \$75,000 less for capital funding.

If Congress does not change the current sequestration levels of funding, there are three possible scenarios that will impact the Commission's revenue and budget.

- 1. Council does not approve the transfer of City-owned properties to convert public housing units under RAD.** The Commission will annually experience over \$300,000 in operating revenue losses and \$50,000 - \$75,000 in capital fund losses in the Public Housing Program compared to fully-funded pre-sequestration levels. In addition, the Commission will annually experience over \$200,000 in administrative fee losses in the Voucher Program.

- FY 13/14 net operating loss of approximately \$542,000 plus capital fund losses
- FY 14/15 net operating loss of approximately \$542,000 plus capital fund losses

The response of the Commission includes one or more of the following:

- a. The Commission can cut costs by eliminating programs and positions and reducing maintenance.
- b. The Commission can use HUD program operating reserves until the reserves are at the minimal level allowed by HUD or are expended completely.
- c. The Commission can sell properties, as needed and with City Council's permission, to cover operating expenses.
- d. The City can provide over \$500,000/year in financial support to the Commission to continue operating a public housing program and a voucher program.

- 2. Council approves the transfer of City-owned properties to allow conversion to project-based vouchers under RAD and HUD does not change its program rules.** The RAD program rules currently state that conversion to project-based vouchers will occur simultaneously with closing on the financing. Because there are numerous properties, the

Commission is redeveloping the properties in stages over three to four years. This was not a financial problem until sequestration occurred. HUD's program rules state that the rent rates established under RAD will not take effect until the January following conversion to project-based vouchers under RAD. The RAD rent rates are higher than the current sequestration rates. Consequently, the longer it takes to convert a property, the longer the property must operate using sequestration operating subsidies. If the Commission converts the properties in phases, the Commission will lose approximately \$290,000 in revenue in FY 13/14, \$130,000 in FY 14/15 and \$60,000 in revenue in FY 15/16 and will be fully funded by RAD by FY 16/17. In addition, as units are converted to project-based vouchers, HUD will add RAD vouchers to the Commission's Voucher Program, which will generate additional voucher administrative fees. The Voucher program sequestration losses of \$200,000 will be partially mitigated by approximately \$8,000 in additional fees in FY 13/14, \$91,000 in additional fees in FY 14/15, \$166,000 in additional fees in FY 15/16 and \$192,000 in additional fees in FY 16/17 and annually thereafter.

- FY 13/14 net operating loss of approximately \$382,000 plus capital fund reduction
- FY 14/15 net operating loss of approximately \$209,000 plus capital fund reduction
- FY 15/16 net operating loss of approximately \$94,000 plus capital fund reduction
- FY 16/17 revenues exceed expenses

**3. City Council approves the sale of City-owned properties and HUD allows the Commission to convert all the public housing units to project-based vouchers in calendar year 2013.** By converting to project-based vouchers in 2013, HUD will set its baseline voucher funding at pre-sequestration levels starting January 2014. In other words, the impact of sequestration on the operating funds will be removed starting in January 2014 if the Commission converts its units to project-based vouchers in 2013. In addition, the Commission will receive approximately \$192,000 in RAD voucher administrative fees starting in January 2014. Consequently, the Commission will experience budget losses from July to December 2013 due to sequestration, but will experience additional revenues from January to June 2014 due to the RAD conversion, which will result in a net loss of \$124,000 for FY 13/14. However, beginning in FY 14/15, the Commission should experience a revenue increase that will cover all of its operating expenses annually thereafter.

- FY 13/14 net loss of approx. \$124,000
- FY 14/15 revenues exceed expenses
- FY 15/16 revenues exceed expenses

Under the RAD program, HUD requires the Commission to reinvest in the capital infrastructure of the buildings. By converting to project-based vouchers, the Commission can access a myriad of funding sources to reinvest in the buildings that it cannot access as public housing, including loans, grants and tax credit equity. Reinvestment includes mechanicals, unit upgrades, increased energy efficiency, adding accessible units, and exterior improvements.

Some properties will require demolition and new construction due to the condition of the buildings. Large properties which require millions in capital reinvestment will only successfully secure enough funding through low-income housing tax credits (LIHTC), which is the largest source of funding for affordable housing in the country. Smaller properties will not be viable as LIHTC projects and the Commission will make the capital improvements using its existing HUD funding and future revenues.

The IRS, which administers the LIHTC program, requires the equity investor to form a limited partnership or limited liability company with the general partner (the Commission or its subsidiary) and have an ownership interest in the property. The Commission will continue to own the land and this limited partnership will lease the improvements from the Commission for the term of the funding and regulatory requirement. Please see the attached memo which provides additional background information on HUD funding and the LIHTC program. The property will continue to be managed by Commission staff.

Under the RAD program, the Commission expects to increase its housing stock by 20 - 25 units more than the 355 units currently managed by the Commission, contingent on financing and site plan approvals. The total reinvestment is expected to exceed \$48 million and provide hundreds of jobs to local contractors and tenants. The units will be energy efficient which will reduce costs for the Commission and tenants, and 10 to 20 more units in the Commission's portfolio will be accessible and visitable, which will better serve the community

The properties will be redeveloped in phases over the course of three to four years. **Details of each phase are included in Attachment A - Phases Of Redevelopment.** Each property or site described corresponds to one or more separate parcels owned by the City.

### **Phase I**

These properties need moderate to substantial rehabilitation and include enough units to apply for LIHTC. It is difficult to find an investor willing to finance properties that have 20 or fewer units. Therefore, Phase I will include the renovation of Miller Manor, Baker Commons, Hikone, Green Baxter and Maple Meadows. Currently the five buildings consist of 248 units, but as a part of the renovation project three additional units will be added at Miller bringing the total unit count to 251.

The five properties of Phase I outlined above, and shown on Attachment A, will be submitted to the Michigan State Housing Development Authority (MSHDA) as two (2) LIHTC applications in August of 2013. MSHDA is expected to notify applicants by December 2013.

### **Phase II**

These properties require only moderate rehabilitation and are too small to include in a LIHTC application. The rehabilitation of these 28 units will be completed by the Commission using existing reserves and capital funds. Additional funding will be sought from public and private sources if needed.

### **Phase III**

These properties included in Phase III require the greatest amount of rehabilitation; and, it is likely to be more financially feasible to demolish and reconstruct than to rehab them. These properties either have poor site designs (inadequate draining, floodway, etc.), poor building design (lack of accessibility and visitability feature, stand-alone 5 bedroom units with one bathroom) or are functionally obsolete. Each of the following sites is currently being evaluated to determine the most prudent course of action. All tenants who are displaced due to demolition, will be relocated to another unit and maintain their rent subsidy. Existing tenants will have the first opportunity to move back into the new units. In addition, two of these sites (N. Maple and Lower Platt) provide an important opportunity to increase the number of affordable units reconstructed on the sites; as many as 20 to 30 affordable housing units could be created in the City. Phase III properties, as shown on Attachment A, will be included in a LIHTC application to be submitted to MSHDA in 2014.

## Phase IV

Under RAD, HUD recognizes that Housing Commissions need the flexibility to manage their housing portfolios in the most financially feasible way in order to save them. HUD recognizes that some public housing properties cannot or should not be converted to RAD project-based vouchers. HUD allows up to 5% of the units (18 units) to be removed from the public housing program and continued as affordable housing or sold if it is financially infeasible to continue operating the properties as affordable housing.

A limited number of Commission units will be converted to project-based vouchers under this 5% de minimis section of RAD without the RAD restricted rents. This will enable the Commission to maintain the units as affordable housing but increase the total rent for these units to make them financially feasible because they will not be restricted to the RAD rents.

The Commission's scattered site model is expensive to maintain, especially for properties that have three or less units. The Commission intends on selling two single family homes and if needed, one duplex to ensure that the remaining properties are financially feasible to operate. Any units that are sold will be replaced at either N. Maple or the vacant Platt parcels. The single family homes will be offered to low-income homebuyers through the Commission's own homeownership program to ensure that they continue to provide affordable housing to low-income households. The Garden Circle property is a lease to own property under HUD's Turnkey program, not a public housing unit and it will be offered to the existing tenant first and then a low-income homebuyer second.

## In Summary

In summary, the Commission does not currently receive enough funding from HUD and the City to maintain the public housing units in the City of Ann Arbor. HUD has approved the Commission to convert its public housing units to project based vouchers so that it can stabilize its source of operating funds and access private and public funding that it cannot access as public housing units. **The Ann Arbor Housing Commission is requesting Council approval to transfer ownership of 26 parcels that the City acquired for the Housing Commission, to the Commission for one dollar per parcel.** Chapter 8, Section 1:209(3) of Ann Arbor City Code requires that real property that is to be used by the Housing Commission be acquired in the name of the City of Ann Arbor, and that the City Council "may, by resolution, decide to convey or assign to the housing commission any rights of the city to a particular property owned by the City of Ann Arbor which is under the control of the housing commission. . ."

The City will convey the properties to the Housing Commission by quitclaim deed for \$1 per parcel. Each deed will have a deed restriction that ensures that the property will only be used to provide affordable housing. The transfer of each property will not occur until the property has been approved for conversion to project-based vouchers or disposition by HUD, and the Housing Commission has executed a HUD Housing Assistance Payment Contract or other HUD document ensuring HUD oversight of the property for the use of project-based vouchers. The City will reserve any access or utility easement rights, if necessary, or condition each transfer on the Housing Commission providing these easements to the City. If HUD allows conversion of all of the properties in calendar year 2013, the transfers will occur by November 2013; otherwise the transfers will occur in stages, as the properties are converted.

- All Properties that will be redeveloped will have financial, construction, and legal due diligence completed such as an appraisal, environmental assessment, capital needs assessment, energy audit, architectural and engineering analysis and survey conducted prior to transfer.
- The single family and duplex properties that will be sold will have an appraisal and survey conducted prior to transfer.

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Reviewed by: Sumedh Bahl, Community Services Area Administrator  
Approved by: Steven D. Powers, City Administrator

Whereas, Congressional support for public housing continues to diminish while Congressional support for voucher-based housing has historically been more stable and had better support;

Whereas, The U.S. Department of Housing and Urban Development (“HUD”) created the Rental Assistance Demonstration (“RAD”) program to assist public housing authorities to convert public housing to project based vouchers to save them from deterioration and demolition;

Whereas, The Ann Arbor Housing Commission (“Commission”) applied to HUD to convert the City’s public housing units to project based vouchers and was approved by HUD;

Whereas, The impact of Sequestration on the Commission’s public housing is a 82% reimbursement rate from HUD which is a cut of over \$300,000 per year in operating funds and an estimated \$50,000 to \$75,000 per year in capital funds;

Whereas, By converting to project-based vouchers in 2013 under the RAD program, HUD will set the initial project-based rent rates on the 2012 pre-sequestration reimbursement rate, instead of the post-sequestration rate;

Whereas, By converting to project-based vouchers under RAD, the Commission will be able to access grants, loans and Low-Income Housing Tax Credits (“LIHTC”) that are not available for public housing units in order to reinvest in the units;

Whereas, By converting to project-based vouchers the Commission will increase its voucher administration fees by over \$190,000 per year which will help financially stabilize the voucher program and the Commission; and

Whereas, Chapter 8, Section 1:209(3) of Ann Arbor City Code provides that the Council may, by resolution, decide to convey to the Commission any of the City’s rights in property owned by the City of Ann Arbor which is under the control of the Commission;

RESOLVED, That City Council supports the conversion of public housing to project-based vouchers under the RAD program in 2013 in order to preserve and increase the number of affordable housing units in the city;

RESOLVED, That City Council approves the transfer of ownership of Miller Manor, Baker Commons, Hikone, Green-Baxter Court, Maple Meadows, Upper Platt, Hillside Manor, Mallets Creek, South

Seventh, Oakwood, North Maple Estates, Broadway Terrace, White/State/Henry Apartments, Lower Platt and the vacant parcels on Platt and Springbrook (as further described below) to the Ann Arbor Housing Commission by quitclaim deed for \$1 per parcel in conjunction with the RAD conversion and contingent on each deed restricting the use of the property to affordable housing, the Housing Commission or an affiliated entity executing a HUD Housing Assistance Payment Contract or other HUD document securing the project for the use of project-based vouchers, and the reservation of any necessary public access or utilities easements as determined by the Public Services Area Administrator, or the subsequent granting of these easements to the City by the Housing Commission;

<b><u>Address</u></b>	<b><u>Tax Parcel ID Number</u></b>
727 Miller	09-09-29-215-077
106 Packard	09-09-29-430-015
2702 - 2760 Hikone (2742 Packard)	09-12-10-201-004
1701-1747 Green	09-09-23-200-004
800-890 South Maple	09-08-25-402-018
221 - 253 S. Seventh	09-09-29-209-017
1020 - 1042 Pennsylvania	09-09-31-210-007
743 - 749 N. Maple	09-08-24-400-011
2670 - 2680 Main Street	09-12-05-303-122
3681 - 3689 Platt	09-12-11-300-006
3565 - 3585 Oakwood	09-12-02-403-002, 09-12-02-403-003, 09-12-02-403-004
701 - 739 N. Maple	09-08-24-400-002, 09-08-24-421-001
3451 - 3457 Platt and adjacent vacant parcel without address	09-12-11-207-014, 09-12-11-207-060
3440 Platt & 3432 Platt	09-12-10-109-021, 09-12-10-109-020
3435 & 3443 Springbrook	09-12-10-109-018, 09-12-10-109-019
1504 - 1506 Broadway	09-09-21-302-001
1514 & 1520 White, 1521 State, 701 - 719 Henry	09-09-33-318-001

RESOLVED, That City Council approve the transfer of Evelyn Court, Garden Circle, and W. Washington (as further described below) to the Ann Arbor Housing Commission in conjunction with the RAD disposition approval and contingent on the reservation of any necessary access or utilities easements as determined by the Public Services Area Administrator;

<b><u>Address</u></b>	<b><u>Tax Parcel ID Number</u></b>
909 Evelyn Court	09-09-31-214-022
2072 Garden Circle	09-09-30-304-043
805 - 807 West Washington	09-09-29-209-006

RESOLVED, That City Council finds, upon the recommendation of the City Administrator, that fair market rate appraisals for these transfers are unnecessary, as the parcels are currently under the control of the Commission and restricted by HUD for use as affordable housing, and the properties, or any proceeds from sale of the properties, will continue to be used for the public purpose of providing affordable housing;

RESOLVED, That the Mayor and Clerk are authorized to sign a quitclaim deed for each parcel, subject to approval as to substance by the City Administrator, and approval as to form by the City Attorney, and to take any other action necessary to effect such conveyance in accordance with Ann Arbor City Code;

RESOLVED, That each transfer be contingent on the closing of all financing for each transaction in conjunction with the Housing Commission entering into a ground lease with its partners; and

RESOLVED, That the City Administrator, or his designee, is authorized to take necessary administrative actions and to execute any documents necessary to complete this transaction and to implement this resolution.

**As Amended by Ann Arbor City Council on June 3, 2013**