

**FAYETTEVILLE CITY COUNCIL
SPECIAL MEETING MINUTES
COUNCIL CHAMBER, CITY HALL
SEPTEMBER 5, 2024
5:00 P.M.**

Present: Council Members Katherine K. Jensen (District 1); Malik Davis (District 2) (departed at 6:22 p.m.); Mario Benavente (District 3) (arrived at 5:08 p.m.); D. J. Haire (District 4); Lynne Greene (District 5); Derrick Thompson (District 6); Brenda McNair (District 7); Courtney Banks-McLaughlin (District 8); Deno Hondros (District 9) (departed 6:22 p.m.)

Absent: Mayor Mitch Colvin

Others Present: Douglas Hewett, City Manager
Lachelle Pulliam, City Attorney
Kelly Olivera, Assistant City Manager
Adam Lindsay, Assistant City Manager
Jodi Phelps, Assistant City Manager
Chris Cauley, Economic and Community Development Director
Jeffrey Morin, Housing Manager
Derrick McArthur
Loren Bymer, Marketing & Communications Director
Pamela Megill, City Clerk
Members of the Press

1.0 CALL TO ORDER

Mayor Pro Tem Jensen called the meeting to order at 5:00 p.m.

2.0 INVOCATION

The invocation was offered by Council Member Haire.

3.0 PLEDGE OF ALLEGIANCE

The Pledge of Allegiance was led by Mayor Colvin and City Council.

4.0 APPROVAL OF AGENDA

MOTION: Council Member Davis moved to approve the agenda

SECOND: Council Member Haire _____

VOTE: UNANIMOUS (8-0)

5.0 ITEMS OF BUSINESS

5.01 Affordable Housing Strategies and Update

Mr. Chris Cauley, Economic and Community Development Director, presented this item and stated the Economic and Community Development Department (ECD) has prioritized Affordable Housing over the past five years, beginning with an Affordable Housing Study started in 2020 and adopted in 2021. Since that time, a variety of new efforts have been launched. This presentation is an update to the prior study and a discussion of next steps for City Council and staff.

The ECD is funded through a variety of federal, state, and local funding sources to increase and improve affordable housing in our City. Governed by federal regulations and North Carolina law, Cities can partner with the private sector to increase the supply and quality of affordable housing.

The ECD has performed analysis of the real estate market, rental market, and most recent census data to show the need for to continue current housing strategies and consider increased funding for those efforts.

All activities discussed within this presentation are federally funded with a local match requirement. Staff salaries are funded through a combination of federal and local funds. State funds are utilized for some housing programs.

Mr. Cauley's presentation included the following: Affordable Housing Definitions, Types, and Benefits; Fayetteville Area Income Information, Ranges, and Limitations; Single Family Housing Analysis, Rental Market Analysis; Legal Constraints from NC State Law; Funding Currently Available, What the City is Currently Offering; and What are the Gaps, Opportunities, and Funding Needs.

Discussion ensued.

MOTION: Council Member Greene moved to accept the report
SECOND: Council Member Banks-McLaughlin
VOTE: UNANIMOUS (9-0)

MOTION: Council Member Hondros moved to excuse Council Member Davis from the remainder of this meeting
SECOND: Council Member McNair
VOTE: UNANIMOUS (8-0)

MOTION: Council Member Banks-McLaughlin moved to excuse Council Member Hondros from the remainder of this meeting.
SECOND: Council Member Thompson
VOTE: UNANIMOUS (7-0)

5.02 Homeownership Program Loan Forgiveness

Mr. Jeffrey Morin, Housing Program Manager, presented this item with the aid of a PowerPoint presentation. Mr. Morin stated the Economic and Community Development Department (ECD) currently offers grants and forgivable loans to help rehabilitate properties for seniors and assist first time homebuyers with downpayment assistance. In the past, both programs operated as loans with lengthy repayment periods. The status of all loans within this portfolio has been reviewed by ECD staff. Staff has determined that the costs of managing the loan portfolio outweighs the benefits to the City's financials and ECD, Finance, and Legal are recommending a broad loan forgiveness program.

The ECD currently offers grants for the emergency repair of the primary residence for low-income homeowners. Typically, these program beneficiaries are seniors on fixed income and the program is offered through Fayetteville Urban Ministry and Fayetteville Area Habitat for Humanity. The ECD also operates a Homebuying HERO program that structures up to \$30k in down payment assistance as a forgivable loan for a maximum of 15 years.

ECD previously offered three (3) different housing loan programs (Mortgage Assistance, Down Payment Assistance, and Rehabilitation Loans) that are no longer in use. Some of these programs carried a maximum term of 30 years and reconciliation of these programs and the loans found discrepancies of various types (variance between loan documents and invoices; unresolved foreclosures, bankruptcies, and deaths; delinquent accounts).

Several years ago, Finance and ECD contracted with a 3rd party loan servicer for loans that required repayment. Some loans were kept inhouse at ECD. A review of all loans has required extensive staff time from multiple departments and will continue to require substantial staff time monthly and annually to keep them up to audit standards.

If forgiveness is granted, staff (ECD, Legal, Finance) will closeout all remaining loans, dozens of low- to moderate-income residents of Fayetteville will have a financial burden removed and now be more financially secure homeowners, and City resources will be freed up from the task of managing and overseeing the no-longer-used programs and

loans.

Loan servicing costs the General Fund \$15K to \$20K per year. Payments received from loans produce an average of \$50K per year in Grant Funds. Forgiving the loans will result in a small General Fund savings and a slight decrease to Grant Funds.

Pursuit of delinquent accounts, past foreclosures, and disputed estates will cost a substantial amount in staff time and legal fees at the expense of taxpayers and low-income homeowners.

The options are as follows:

Instruct ECD, Finance, and Legal to forgive the remaining balance and close out the loans.

Instruct ECD, Finance, and Legal to work with AmeriNat to collect active payments and attempt to collect on delinquent debts through foreclosure, debt setoff, or credit collection.

Instruct ECD, Finance, and Legal to develop an application and policy detailing for a hardship program.

Instruct ECD, Finance, and Legal to take no increased action resulting in remaining delinquent debt, continued staff time to monitor and manage the loans.

Direct Staff to some other action.

Staff recommends that City Council give consensus direction to begin forgiving the remaining balance and closing out loans.

Discussion ensued.

MOTION: Council Member Haire moved to direct staff to begin forgiving the remaining balance and closing out loans.

SECOND: Council Member Benavente

VOTE: PASSED by a vote of 6 in favor to 1 in opposition (Council Member Thompson)

5.03 Section 108 Policy Draft for Development Finance

Mr. Derrick McArthur, Economic Development Manager, presented this item with the aid of a PowerPoint presentation and stated the Economic and Community Development staff have been working for the past year with outside legal counsel from The Banks Law Firm to draft a policy for the City to utilize its borrowing capacity under the Section 108 Loan Program offered through the U.S. Department of Housing and Urban Development (HUD). Essentially, the Section 108 Loan Program allows the City to take on larger Community Development Block Grant (CDBG) funded activities than the City typically has the resources for on an annual basis. This administrative report and attached DRAFT policy are submitted as an informational update to City Council.

The Section 108 Loan Guarantee Program, administered by HUD, provides communities with a crucial source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects. To promote larger-scale economic development, housing, public facilities, infrastructure, and other physical development projects, the City of Fayetteville may consider projects with greater funding needs for financing based on the City's participation in the Department of Housing and Urban Development's Section 108 Loan Guarantee Program. The Section 108 Program enables the City to leverage portions of its CDBG funding to obtain federally subsidized loans of up to five times the City's annual CDBG allocation. The City may then use those funds to assist with the financing of economic development projects which enhance the City's tax base, revitalize its business district, increase housing options, and offer greater employment opportunities.

Local governments must pledge their current and future CDBG allocations as security, however, additional security is sometimes required such as local cash contributions to a sinking fund or legal interest in the property. The City would always secure investment with a mortgage loan agreement, deed of trust, and promissory note at a minimum. Projects should provide sufficient cash flow to repay the loan without any need for current or future CDBG contributions, but public projects can be fully funded with CDBG revenues (i.e. public park or infrastructure. Any project receiving financing under the Section 108 Loan Program must include elements that principally benefit low- and moderate-income persons, aid in the prevention or elimination of slums or blight, or address conditions that pose a serious and immediate threat to the health and safety of City residents.

Issuance of section 108 financing is subject to review by the Local Government Commission and HUD. Projects can accomplish a variety of City goals but are typically led by a private developer. Goals such as:

Economic Development: Supports projects that stimulate job creation and economic growth. Construction or rehabilitation of commercial or industrial buildings, infrastructure improvements, and microenterprise assistance.

Housing: Funds rehabilitation and infrastructure development of low- and moderate-income housing.

Public Facilities or Large-Scale Projects: Enables the development or improvement of public facilities, such as utilities, streets, sidewalks, community centers, libraries, and parks.

Once the policy is finalized, the City may adopt the Policy and develop an application for financing at the staff or City Council level. After adoption, City staff could identify potential projects that meet HUD eligibility such as: grocery stores, housing developments, parks facilities, historic redevelopments, hotels, and business parks. To advance these efforts the City may play a role in the private development process by purchasing property, conducting market analysis or feasibility studies, and developing detailed project requests to secure development partners. Ultimately, City staff would initiate discussion with HUD for Section 108 loan application and approval. This process is lengthy but can allow conditions for development projects that otherwise would not happen due to current market conditions.

The current Fiscal Year 2025 loan authority for the City is five times its annual allocation which amounts to \$8,544,340. According to HUD, every \$1 of Section 108 financing can attract up to \$4.62 in other funding. Financing can be combined with other public/private financing sources such as New Market Tax Credits, Historic Preservation Tax Credits, Low Income Housing Tax Credits, Private Activity Bonds, Opportunity Zone Tax Credits, traditional bank financing, and other sources of funds.

Discussion ensued. Mr. Douglas Hewett, City Manager, recommended not officially adopting Section 108, at this meeting, but wait until the draft has been finalized, and all Council Members are present for the official vote.

MOTION: Council Member Banks-McLaughlin moved to accept the report
SECOND: Council Member McNair
VOTE: UNANIMOUS (7-0)

6.0 ADJOURNMENT

There being no further business, the meeting adjourned at 6:59 p.m.