

First Amendment of the Development Agreement with KBK Enterprises, Inc



Housing & Community
Services/Wichita Housing
Authority

April 7, 2020



Background



- On March 20, 2019, the Housing Board approved the Development Agreement with KBK Enterprises, Inc. (KBK) to redevelop Wichita Housing Authority's Public Housing properties under HUD's Rental Assistance Demonstration Project (RAD).
- This amendment extends the term of the agreement one year, adjusts the term related to pre-development expenses, removes KBK as property management firm post conversion, and provides the development budget for the senior project.



Analysis



- RAD Project Delays
 - Inadequate rents to support debt service
 - Bank of America withdrawal of Letters of Intent as investor
 - Difficulty securing new investors
 - Regulatory delays related to Lead Paint & Opportunity Zones
 - WHA is currently completing regulatory tasks to restructure the single-family project using various HUD conversion methods and working with multiple community developers and non-profit organizations. Resolution of these issues requires the extension of the agreement.



Analysis



- Pre-Development Cost Reimbursement
 - \$2M Pre-development loan is completely expended
 - Delays have required additional expenses to update the HUD Environmental Reviews and RAD Physical Condition Assessments
 - Architectural and Engineering (A&E) services for more than 350 single family homes is costly.
 - HUD permits WHA to use \$400k in Capital Funds for pre-development expenses.
 - \$112,040 encumber to Gill Group leaving \$287,960 available to reimburse for A&E services received.
 - Capital funds reimbursed to KBK will be repaid by the project at closing.



Analysis



- Property Management post conversion
 - Tax Credit issuers and investors require 5 years experience managing tax credit projects.
 - WHA does not have the required experience.
 - As a solution, KBK offered to establish a property management office in Wichita to manage the properties post conversion.
 - After further evaluating this solution, WHA believes the property and community would be better served with a local property management company with established local employees, contracts, supply lines, and relationships.
 - KBK concurred and will participate in the RFP process to select a local property management company.



Analysis



- Senior Project Development Budget

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• Tax Credit Equity – Affordable Housing Partners	\$ 9,456,344
• HUD 221(d) – Red Capital/ORIX	\$ 8,290,023
• CDBG Funds	\$ 1,154,462
• Seller Note (Acquisition)	\$ 7,300,000
• HOME Funds	\$ 1,113,950
• Public Housing Capital Funds	\$ 1,055,000
• WHA Deferred Developer Fee	\$ 1,337,367
• KHRC Housing Trust Fund	<u>\$ 500,000</u>
• Total Sources	\$30,207,146



Financial Considerations



- The recommended action will permit the projects to move forward. There is no impact to the General Fund as a result of this action.



Recommendations



- It is recommended that the City Council approve the First Amendment to the Development Agreement with KBK Enterprises, Inc. and authorize the necessary signatures.



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