

## MEMORANDUM

**To:** Marla Y. Newman, Community Development Director, City of Winston-Salem  
**From:** Marcia Perritt, Associate Director, Development Finance Initiative  
**Date:** March 17<sup>th</sup>, 2022  
**Re:** Proposal to Provide Pre-Development Services to the City of Winston-Salem

### UNC-Chapel Hill Development Finance Initiative

The UNC Chapel Hill School of Government (SOG) established the Development Finance Initiative (DFI) in 2011 to assist local governments and their partners in North Carolina and beyond with achieving their community economic development goals. The SOG is the largest university-based local government training, advisory, and research organization in the United States. DFI partners with communities to attract private investment for transformative projects by providing specialized finance and real estate development expertise.

### Request for Technical Assistance

The City of Winston-Salem requested technical assistance from DFI in January 2022 to attract a private development partner to a 34-acre site, currently co-owned by the City in partnership with a nonprofit organization that ceased operations several years ago, located between Old Greensboro Road and U.S. Highway 421, as well as a 5-acre site owned by the City and located along Peters Creek Parkway.

The City intends to obtain full ownership of the 34-acre site, which has been the subject of prior planning and visioning efforts. A leading concept developed through that visioning process included a mix of single family and multifamily residential, both affordable and market-rate, as well as a conference center. The City of Winston-Salem would like to reconsider that vision and other feasible potential development scenarios, in alignment with the City's community development goal of promoting mixed-income housing development.

The 5-acre site was recently acquired by the City and is located next to the Kingstree neighborhood. This area is a community and economic development priority for the City, as outlined in the City's 2017 South Suburban Area Plan. The City would like to explore the potential for mixed-income, preferably single family, residential development on this site.

While the prior visioning work completed for these sites is helpful in gaining consensus among key stakeholders for a general development concept, to make the concept become a reality, it

should be tested through feasibility analysis and brought to the market—that is, the concept should be proven in a way that would satisfy developers, investors, and lenders that the vision is feasible given current market and development conditions. DFI proposes to conduct this necessary feasibility analysis and create a market-feasible programs of development for both sites, while regularly seeking feedback and engagement with City of Winston-Salem officials and community stakeholders. Once market-feasible development programs have been endorsed by the City Council, DFI will identify development partners with the experience and track record to make the vision for these sites a reality within the context of the actual market in Winston-Salem.

### **Scope of Services**

The following Scope of Services outlines the pre-development activities that DFI would conduct to support the City of Winston-Salem in attracting private investment to both the 34-acre and 5-acre sites (each a “Project”), and executing the City’s community economic development goals as they relate to each Project:

1. Conduct a community scan, which is an analysis of market-relevant demographic and socioeconomic data, as well as a review of current and historic plans, visioning documents, studies, research, development proposals, conceptual renderings, notes from public input sessions, and other materials relevant to each Project;
2. Collect and analyze relevant data for a parcel analysis to understand current market conditions (sales trends, vacancy, land use, ownership, and underutilization) for each Project;
3. Conduct a market analysis to assess the demand for development, to include an evaluation of market feasibility and demand drivers for different uses for each Project including commercial, multifamily residential, affordable housing, and home ownership;
4. Establish guiding public interests for each Project in collaboration with the City;
5. Perform a site constraints analysis to determine what the sites can actually support given current conditions and other limitations and to test fit potential development programs for each Project;
6. Conduct a financial feasibility analysis, preparing a financial model (i.e., development budget, operating cash flows, sources of capital, etc.) for each Project to determine financial feasibility for private partners and scale of public investment, if necessary;
7. Evaluate options for financing and structuring public participation in each Project, if necessary, including use of development finance tools (tax credits, district designations, etc.);

8. Support City staff in community engagement efforts to solicit public input related to the Projects, as necessary;
9. Propose feasible private development programs for each Project and request City's approval;
10. Prepare a solicitation for development partners and assist City with developing criteria to inform the City's selection of eventual partners;
11. Actively market and discuss the solicitation with qualified development partners (for-profit or non-profit) with the goal of receiving competitive proposals from qualified developers who are capable of accomplishing the City's approved development programs;
12. Support City officials in development partners selection process by carrying out due diligence of potential partners, preparing investment summaries, and evaluating solicitation responses using City's criteria;
13. Support the City in negotiating deal points with the development partners selected to execute the approved development program pursuant to the solicitation. Deal points include development parameters for public-private partnerships and milestones, which are typically memorialized first in a non-binding memorandum before being finalized in a development agreement; and
14. Support the City through the point that the above-referenced development partners close on financing for the project, by regularly evaluating changes proposed by the development partners to pro forma financials and public participation options, in order to verify developers' assumptions about revenues, development costs, operating expenses, and debt and equity structuring as market conditions evolve.

This Scope of Services does not include services that require a licensed broker or licensed attorney to perform. In addition, the scope does not include tasks associated with site planning expertise from architects or engineers, nor does it include site preparation expenses such as land survey, soil samples, and environmental testing (if such services are required, DFI will advise the City to obtain such services from third parties).

The scope does not include a refresh or update (supplemental data collection and subsequent updated analysis) that could be required in the event that, for reasons beyond the control of DFI, (i) the development solicitation process is not commenced within one year of the Effective Date, or (ii) more than one solicitation for development partners must be created and/or marketed.

The fee accounts for efficiencies gained from utilizing virtual meeting tools rather than in-person meetings.

## **Deliverables**

Deliverables include presentations, summaries, and other documentation intended by DFI to be delivered to the City regarding the above Scope of Services.

## **Timeline**

The timeline for completing Activities 1-9 for both Projects is estimated to be 16 months from commencement.

DFI intends to help the City attract private investment into the Projects (Activities 10-14) as quickly as possible and in a way that maximizes overall value and serves the public interests.

## **Fee**

The flat fee for the above Scope of Services is \$181,300. The flat fee is payable over two installments of \$90,650 each, over two fiscal years if desired.

The City fee would cover only part of DFI's cost of services, with the balance being "at risk," to be paid as a fee from each successful project. DFI's pre-development services will not only assist the City in accomplishing its goals but will also benefit the ultimate private developer(s) by eliminating predevelopment work, risk and expense. In order to minimize the City's costs, we require each Project to pay for the value of that benefit in the customary way, as a portion of development costs. If the City is successful in executing a Development Services Agreement with a private partner, DFI will receive a Development Services Fee. This Development Services Fee paid by each Project would be 1% of total project costs.

This arrangement benefits the City in several ways. It aligns DFI's interests with the City in terms of finding developer(s) for the Projects and attracting private investment. It also ensures the Projects themselves pays for a significant share of the City's costs associated with the pre-development work. And it gives the City ongoing support from DFI throughout negotiations with the developer(s) and during the full life span of development in the Projects (i.e. DFI has "skin in the game"). There is no guarantee that a developer will be identified, so the consequences for DFI are clear—DFI will get the bulk of its fee only if there are developer(s) for the Projects who successfully execute agreement(s) with the City.