



June 17, 2022

City Council  
City of Winston-Salem  
City Hall  
101 N. Main Street  
Winston-Salem, NC 27101

Subj: Choice Neighborhoods

Dear Mayor Joines, Mayor Pro Tem Adams, and members of City Council:

Thank you all again for your continued support of the Choice Neighborhood Initiative. As I have had the opportunity to share with some of you, HUD has recently issued final approval for Phase I demolition - and we are thrilled that, consequently, work at the former Brown Elementary site is now scheduled to begin in the coming days.

As has seemed to be the case with this initiative (and in these unique times), with every success we are faced with another opportunity to overcome an unexpected challenge. To that point, HUD's review and approval process for Phase I took significantly longer than is typical. We were told by HUD that we would receive approval no later than May 4<sup>th</sup>; however, approval was not actually received until June 2<sup>nd</sup> (despite everything having been timely submitted to HUD). Unfortunately, given current market conditions, our General Contractor was unable to hold subcontractor pricing during that period. As a result, at the beginning of this month we were faced with a \$1.4 million gap in Phase I (Phase I had previously been fully funded, despite gaps in future phases).

Thankfully, in the past few weeks we have been able to work collectively with the design, build, finance, and development teams to bring the gap down from \$1.4 million to \$586,000. This has been achieved through:

1. The implementation of a developer fee cap that freezes the developer's fee, resulting in a project savings of \$200,000.
2. The deferral of a portion of the developer's fee, resulting in project savings of \$400,000.
3. The renegotiation of the interest rate on our conventional financing loan with US Bank, resulting in a project savings of \$125,000.
4. The implementation of a fee cap that freezes the General Contractor's fee, resulting in a project savings of \$89,000.

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While the above-identified actions have reduced the gap significantly (from \$1.4 million to \$586,000), they have, obviously, not eliminated it, which means that, while demolition work will begin in the coming days, we will be unable to close on permanent financing and move the project beyond the demolition phase unless we are able to close the gap completely. Our proposed solution, as more fully described below, requires Council action, but does not require additional City funding.

Earlier this year, Council allocated additional funding to the Choice Neighborhoods project; however, the resolution restricted the funding to use within Phase II. If \$586,000 of the funding allocated to support Phase II could be reallocated to Phase I, we will be able to close the gap and proceed with construction at the Brown School site. We anticipate being able to replace the \$586,000 in future phase funds through a debt restructuring (i.e., a refinance into an FHA mortgage, which will allow additional Choice grant funds to replace the City funds being advanced). Again, there will be no increase in City funding for the project, and we recognize that all funding restrictions currently in place for Phase II funding will continue to apply to funds advanced into Phase I.

I wish that this request were not necessary. Unfortunately, while we have made a valiant effort to close the gap in other ways, we have run out of options. Thank you, as always, for your ongoing support, leadership, and commitment to the Cleveland Avenue transformation. I am, of course, more than happy to respond to any questions or concerns regarding the instant request or the project overall.

Sincerely,

Kevin Cheshire

*Executive Director*

*So Much More*