Attachment 2

ARHA

BUILDING COMMUNITY PARTNERSHIPS

ALEXANDRIA REDEVELOPMENT AND HOUSING AUTHORITY

Keith Pettigrew, *Chief Executive Officer*

April 25, 2018

Eric P. Keeler
Office of Housing
421 King Street, Suite 200
Alexandria, VA 22314

RE: Housing Opportunities Loan (HOF) Application, REVISED April 25, 2018

Dear Mr. Keeler,

Regarding the Ramsey Homes project, we are requesting a modification to the loan from the HOF in the amount of up to $1,600,000 to fund development costs. Ramsey Homes was previously awarded $2,000,000 to fund development and since that time we have continued to work towards finalizing the design and development budget. The financial closing was initially scheduled for December of 2017, however, anticipated changes to the tax laws delayed the approval of the tax credit equity until January 2018. In addition, the required time necessitated by the site entitlement process and our equity investor to study and mitigate the on-site archeology has led to a delay of construction commencement which is currently anticipated to begin in June of 2018.

Several factors have now necessitated the need to seek additional gap financing. In 2017, the LIHTC market saw a decline in tax credit pricing after the enactment of tax reform, which ultimately decreased the corporate tax rate from 35% to 21%, and led to our tax credit syndicator reducing their pricing from $1.01 to $0.98 per tax credit, thereby reducing the amount of the equity pledged for the Development. Construction costs have also continued to rise since submission of our tax credit application, in March of 2017, with a precipitous spike in many commodities over the past few months, given the uncertainty around national trade policy. Since the initial cost estimate from our General Contractor, the price of steel has risen approximately 20% and lumber prices have seen a drastic 28% increase. There were also design changes required to meet code and green building compliance that have increased design and construction cost such as the need to upgrade to a NFPA 13 sprinkler system and upgraded windows to meet higher STC sound ratings, U-factor and SHGC factors required by both EarthCraft and VHDA.

We are also actively working with the design and construction team to Value Engineer (VE) at this point to find cost reducing measures and will continue to do so before executing a Guaranteed Maximum Price (GMP) contract for this project.

Staff has worked on completing tasks toward the Development since August, 2014. The process has culminated in the approval of a Master Plan Amendment, Zoning Amendment from residential to CRMU-M, DSUP, BAR Certificate of Appropriateness, Final Site Plan and Building Permits (pending). Staff has applied for and received 9% Low Income Housing Tax Credit (LIHTC) funding for the Redevelopment, a City Housing Opportunities Fund (HOF) Loan; HUD Replacement Housing Factor grant funds; and an Authority Loan. These funds make up the capital stack for the Development. The funds will be used to fund the hard and soft costs, the financing costs, the acquisition of the land and the developer fee.

Please find enclosed an updated Sources and Uses schedule and a 40 year Pro Forma for consideration by the Alexandria Housing Affordability Advisory Committee (AHAAC).

Please let us know if you have questions as you review this request and the supporting materials. You may contact Martin Lucero at 703-549-7115 ext. 163.

Thank you for your continued support of this Project. We are excited that it will increase the availability of housing opportunities for low income households in the city.

Sincerely,

Keith Pettigrew,
Executive Director and CEO

RAMSEY HOMES
SOURCES AND USES

USES

Contractor Costs	
Unit Structures (New)	7,362,716
Structured Parking Garage	1,464,033
Land Development	1,201,882
Off-Site Improvements	1,034,600
Subtotal	11,063,231
General Requirements	645,619
Contractor Overhead	193,000
Contractor Profit	585,000
Performance Bond	
Hard Cost Contingency	581,948
Subtotal	$13,068,798
Financing Costs	
Construction Loan Origination Fee	82,500
Construction Period Interest	460,514
Capitalized Soft Debt Interest	
Permanent Loan Fees	
Closing Costs- Construction	
Closing Costs- Permanent	
Other Financing Costs	
Sub-Total	$543,014
Soft Costs	
Architecture	632,544
Site Engineering/Survey	245,075
Construction/Developmt. Mgmt	102,880
Structural/Mechanical Study	1,500
EarthCraft/Leeds	23,900
Environmental Study	9,290
Soil Borings	9,960
Traffic Engineer	14,000
Land Use Attorney	145,120
Appraisal	8,500
Market Study	7,000
Legal (Tax and Real Estate)	150,000
Title and Recording	26,000
Insurance during construction	19,225
Organization Costs	20,282
Accounting	28,000
Cost Certification	30,000
Tax Credit Fees	90,658
Relocation Assistance	37,500
Fixtures, Furnishing & Equipment	50,000
History Consultant	423,745
HUD Disposition Fee	4,493
Secial Inspections	171,714
Soft Cost Contingency	10,000
Subtotal	$2,261,386
Reserves	
Operating	200,163
Replacement	18,200
Subtotal	$218,363
Developer Fees/Overhead	$1,884,118
Acquisition Costs	
Land	3,710,000
Building	0
Subtotal	$3,710,000
TOTAL USES	**$21,685,679**

SOURCES

ARHA Equity	1,265.00
Def Developer Fee	310,256.00
HUD RHF	1,034,933.00
LIHTC	12,626,142.00
ARHA Loan A	3,710,000.00
ARHA Loan B	303,083.00
City Loan	3,600,000.00
VHDA Reach Loan	100,000.00
Total	21,685,679.00

TOTAL SOURCES	**$21,685,679**	$0

ARHA
BUILDING COMMUNITY PARTNERSHIPS

ALEXANDRIA REDEVELOPMENT AND HOUSING AUTHORITY

Keith Pettigrew, *Chief Executive Officer*

April 25, 2018

Dear Staff:

RE: 40-Year Proforma for Ramsey Homes Redevelopment

The Alexandria Redevelopment and Housing Authority (ARHA) is presenting a 40-year proforma for the redevelopment project of Ramsey Homes. We are aware that the property's cash flow is not sufficient to cover its debt.

The property is encumbered by two loans; the loans are modeled as indicated:

- an ARHA loan of $3,710,000 at 2% interest annually, and
- a City Loan of $1,100,000 at 2% interest annually.

The ARHA and City Loan are both residual receipt loans, to be repaid with net income after property expenses. At closing, when the loan agreements are negotiated and executed, the City and ARHA will determine the order of the individual loan pay downs (waterfall).

Please note that in June 2016, the project had an estimated total development cost of $17,641,562 with a debt service coverage ratio (DSCR) at 1.30. Due to the increased project costs, the DSCR is now below a 1.0, and if this was to be funded via conventional project financing, the project could not close.

Cash Flow (First Year)

1.	Annual EGI Low-Income Units from (C1)		$586,692
2.	Annual EGI Market Units (from C2)	+	$0
3.	Total Effective Gross Income	=	$586,692
4.	Total Expenses (from D)		$400,385
5.	Net Operating Income	=	$186,307
6.	Total Annual Debt Service (from Page 21 B2)	-	$292,987
7.	Cash Flow Available for Distribution	=	($106,680)

Projections for Financial Feasibility - 15 Year Projections of Cash Flow

Estimated Annual Percentage Increase in Revenue	2.00%	(Must be ≤ 2%)
Estimated Annual Percentage Increase in Expenses	3.00%	(Must be ≥ 3%)

	Stabilized				
	Year 1	Year 2	Year 3	Year 4	Year 5
Eff. Gross Income	586,692	598,426	610,394	622,602	635,054
Less Oper. Expenses	400,385	412,397	424,768	437,511	450,637
Net Income	186,307	186,029	185,626	185,091	184,417
Less Debt Service	292,987	292,987	292,987	292,987	292,987
ARHA Loan Paydown	-106,680	-106,958	-107,361	-107,896	-108,570
Debt Coverage Ratio	0.64	0.63	0.63	0.63	0.63

	Year 6	Year 7	Year 8	Year 9	Year 10
Eff. Gross Income	647,755	660,710	673,925	687,403	701,151
Less Oper. Expenses	464,156	478,081	492,423	507,196	522,412
Net Income	183,599	182,630	181,502	180,207	178,740
Less Debt Service	292,987	292,987	292,987	292,987	292,987
ARHA Loan Paydown	-109,388	-110,357	-111,485	-112,780	-114,247
Debt Coverage Ratio	0.63	0.62	0.62	0.62	0.61

	Year 11	Year 12	Year 13	Year 14	Year 15
Eff. Gross Income	715,174	729,478	744,067	758,949	774,128
Less Oper. Expenses	538,084	554,226	570,853	587,979	605,618
Net Income	177,090	175,251	173,214	170,970	168,509
Less Debt Service	292,987	292,987	292,987	292,987	292,987
ARHA Loan Paydown	-115,897	-117,736	-119,773	-122,017	-124,478
Debt Coverage Ratio	0.60	0.60	0.59	0.58	0.58

	Year 16	Year 17	Year 18	Year 19	Year 20
Eff. Gross Income	789,610	805,402	821,510	837,941	854,699
Less Oper. Expenses	623,787	642,500	661,775	681,629	702,078
Net Income	165,823	162,902	159,735	156,312	152,622
Less Debt Service	292,987	292,987	292,987	292,987	292,987
ARHA Loan Paydown	-127,164	-130,085	-133,252	-136,675	-140,365
Debt Coverage Ratio	0.57	0.56	0.55	0.53	0.52

	Year 21	Year 22	Year 23	Year 24	Year 25
Eff. Gross Income	871,793	889,229	907,014	925,154	943,657
Less Oper. Expenses	723,140	744,834	767,179	790,194	813,900
Net Income	148,654	144,395	139,835	134,960	129,757
Less Debt Service	292,987	292,987	292,987	292,987	292,987
ARHA Loan Paydown	-144,333	-148,592	-153,152	-158,027	-163,230
Debt Coverage Ratio	0.51	0.49	0.48	0.46	0.44

	Year 26	Year 27	Year 28	Year 29	Year 30
Eff. Gross Income	962,530	981,781	1,001,417	1,021,445	1,041,874
Less Oper. Expenses	838,317	863,467	889,371	916,052	943,533
Net Income	124,213	118,314	112,046	105,393	98,340
Less Debt Service	292,987	292,987	292,987	292,987	292,987
ARHA Loan Paydown	-168,774	-174,673	-180,941	-187,594	-194,647
Debt Coverage Ratio	0.42	0.40	0.38	0.36	0.34

	Year 31	Year 32	Year 33	Year 34	Year 35
Eff. Gross Income	1,062,711	1,083,966	1,105,645	1,127,758	1,150,313
Less Oper. Expenses	971,839	1,000,995	1,031,025	1,061,955	1,093,814
Net Income	90,872	82,971	74,620	65,803	56,499
Less Debt Service	292,987	292,987	292,987	292,987	292,987
Cash Flow	-202,115	-210,016	-218,367	-227,184	-236,488
Debt Coverage Ratio	0.31	0.28	0.25	0.22	0.19

	Year 36	Year 37	Year 38	Year 39	Year 40
Eff. Gross Income	1,173,319	1,196,786	1,220,721	1,245,136	1,270,038
Less Oper. Expenses	1,126,628	1,160,427	1,195,240	1,231,097	1,268,030
Net Income	46,691	36,358	25,481	14,039	2,008
Less Debt Service	292,987	292,987	292,987	292,987	292,987
ARHA Loan Paydown	-246,296	-256,629	-267,506	-278,948	-290,979
Debt Coverage Ratio	0.16	0.12	0.09	0.05	0.01