



801 N. Pitt Street #116  
Alexandria, VA, 22314

O: (703) 739-7775  
F: (703) 739-7760

[housingalexandria.org](http://housingalexandria.org)

April 26, 2018  
Ms. Helen McIlvaine  
Director, Office of Housing  
City of Alexandria  
421 King Street, Suite 200  
Alexandria, VA 22314

**RE: Lacy Court City Loan Modification**

Dear Ms. McIlvaine:

This letter is to update you on the status of Lacy Court Apartments and request a modification on the City loan that was approved in February 2017. This modification request would allow for the \$500,000 that was planned to be paid back at the end of renovation to remain in the project as part of the City of Alexandria loan on the property. This request will allow AHDC to continue forward and achieve the renovation that was intended when the City first provided funds to RPJ Housing to acquire the property in 2006.

**Overview**

In January 2017, AHDC requested that the current \$7.1 M loan on Lacy Court Apartments be reduced to \$3.8 M to reflect the current value of property. This request was made in order to create a financeable project for which AHDC would submit a tax credit application in March 2017. In exchange for this loan forgiveness, AHDC agreed to include a right of first refusal for the City of Alexandria at the end of the tax credit compliance period and repay up to \$500,000 in proceeds remaining from the refinancing structure.

In June 2017, AHDC was awarded tax credits for this project and has been diligently working toward getting started on the project. However, due to rapidly escalating construction costs, AHDC is requesting that the \$500,000 originally scheduled to be repaid to the City at the end of the renovation remain in the project as part of the City's loan. The discussion below details the construction costs increases and AHDC's attempts to reduce cost of the project. In addition, I have attached to this letter the most recent sources and uses and 40 year cash flow projection for the property for your review.

**Construction Cost**

AHDC submitted a tax credit application for Lacy Court Apartments in March 2017 based on an estimated construction cost of \$4.3 M that was derived from work with our general contractor. At a cost of approximately \$100,000 per unit this was assumed to be a conservative budget for the renovation. However, to ensure that we were properly estimating costs we had a second general contractor provide AHDC with an estimate. This estimate came in within \$100,000 which allowed us to feel comfortable



801 N. Pitt Street #116  
Alexandria, VA, 22314

O: (703) 739-7775  
F: (703) 739-7760

[housingalexandria.org](http://housingalexandria.org)

we were properly planning for construction costs.

In June 2017, AHDC was awarded LIHTC for the Lacy Court renovation and started to work with our team to refine scope and move our project to construction drawings. As part of this process we added a few items to the scope, namely additional electrical upgrades and the replacement of the sewer laterals from the building to the street. These improvements were estimated to add approximately \$150,000 to the cost of the renovation, but they were necessary and still within the contingency/escalation we had planned for as part of our budgeting. At this time we had our general contractor go back to the market and reprice the project in preparation to start construction. When pricing came back in December 2017 the cost of the renovation had increased to \$5.7M which was significantly above our construction budget. In order to address this cost increase we undertook a value engineering exercise that resulting in savings of about \$100,000 but did not result in a budget that would make the project feasible and AHDC decided to competitively bid the project to ensure we were getting correct pricing.

In March 2018 AHDC provided the construction drawings for the project to four reputable contractors and requested a guaranteed maximum price (GMP) proposal for the renovation. AHDC provided each general contractor four weeks to provide proposals and ended up receiving three bids. The pricing for the bids ranged from \$5.3 M to \$6.1 M and after vetting the low number to ensure the entire scope was included, we decided to move forward with the low bid. While this has helped to solve the financing gap it is still significantly higher than our original budget.

### **Financing Gap**

In order to address the financing gap presented by increased construction costs, AHDC has explored several options. First, AHDC has deferred the maximum amount of developer fee allowed by our investor. Second, we have continued to value engineer the project removing any costs we see as unnecessary. This has proved a difficult task as many of the upgrades anticipated as part of this renovation are basic structure and systems needs that will allow the property to operate in a sustainable manner over the next 30 years. Lastly, we have requested VHDA include additional REACH funding to this project which would decrease the interest rate therefore increasing the amount of permanent debt we can carry. After all these solutions we still have a gap that can be closed by leaving the City's \$500,000 in the deal as part of the final financing solution. It is worth noting that we are currently carrying a 10% contingency on this project which results in approximately \$525,000. AHDC is committed to working with the City to find solutions on this project and commits to any funds not expended on development will be repaid to the City after a 50% deferred fee is achieved.

### **Next Steps**

AHDC is working to move this project to construction as quickly as possible. Currently, one of the three buildings that make up Lacy Court is vacant and we are ready to start construction. We have been working with the City's Planning, T&ES, and Code departments to have permits in hand by June 1. With the approval of permits and the modification to the loan as requested in this letter we would anticipate being under construction by mid-June and completing the renovation by June 2019.



801 N. Pitt Street #116  
Alexandria, VA, 22314

O: (703) 739-7775  
F: (703) 739-7760

[housingalexandria.org](http://housingalexandria.org)

We look forward to working with the City to fulfill the vision of renovating Lacy Court and establishing it as a long term committed affordable housing option in a wonderful neighborhood. We stand ready to answer any questions you have regarding the content of this letter or the project in general.

Sincerely,

A handwritten signature in black ink that reads "Jonathan D. Frederick".

Jonathan D. Frederick  
Executive Director

Cc: Eric Keeler, via email