



May 26, 2021

Ms. Helen McIlvaine
Director, Alexandria Office of Housing
421 King Street Suite 215
Alexandria, VA 22314
By email to Helen.McIlvaine@alexandriava.gov

Re: Request for Increases to City Loans to AHDC for Lacy Court and The Bloom projects

Dear Ms. McIlvaine:

Over the past 18 months AHDC has completed Lacy Court, The Bloom, The Nexus, and the acquisition of Parkstone Alexandria. These four projects have created nearly 500 long term affordable and workforce units for Alexandria's inventory of committed units. During construction, Lacy Court and The Bloom experienced significant cost overruns which AHDC covered to bring the projects to conclusion. This letter summarizes these costs to support a formal request to increase the City loan proceeds for the projects in amount of \$810,000 for Lacy Court and \$1.1 MM for The Bloom.

Lacy Court

AHDC finalized the renovation of Lacy Court Apartments at the end of 2019 and converted to permanent financing in May 2020. Attachment A is a final cost certification for this project that was prepared for Virginia Housing (pursuant to low-income housing tax credit regulations). It shows that not only did AHDC defer all fees for this project (unanticipated when the project budget was finalized prior to construction), but also includes a sponsor loan of approximately \$810,000. This sponsor loan represents the funds AHDC provided to the project to complete the renovation and AHDC is now seeking additional City Housing Opportunity Fund loan proceeds to cover excess costs of the renovation.

The extra costs associated with the Lacy Court renovation were the result of two significant issues that were not identified during due diligence. The first was the presence of significant mold in the units, which exceeded the budget for remediation based on pre-construction investigations, especially impacting buildings two and three at the corner on Commonwealth and Monroe Avenues. During construction, the building was literally demolished down to studs to ensure mold issues were appropriately addressed.

The second issue pertains to the foundation of one building in Phase II of the project. One of the objectives of the proposed substantial renovation was to create accessible units on the ground floor of the 1512-1516 Commonwealth Avenue building. This required demolition of some portions of the concrete foundation to create ramps and adjust slope. During this process that it was discovered that the fill under the building's concrete slab was completely inadequate, impacting the structural integrity of the building. To address this issue, required that work stop and a new structural design be developed which included construction of a subbase and foundation. In addition to project delay, the structural deficiency resulted in significant additional costs related to labor, materials, and time.

The Bloom

The Bloom experienced cost overruns of approximately \$2.1 MM which exceeded AHDC's contingency for the project. Of this amount, AHDC estimates that it can cover approximately \$1.0 MM by deferring the remainder its developer fee proposed for the project. To date AHDC has used \$250,000 from its organization reserves to get the project to

completion and place the building in service at the end of 2020, however, AHDC requests an additional \$1.1 MM in HOF loan proceeds for The Bloom to reimburse the monies that it has expended and cover remaining cost overruns for the project so that AHDC can close out the project and convert to permanent financing in June.

Several factors contributed to the \$2.1 MM in excess cost, but the majority was associated with contaminated/unsuitable soils or street utility conflicts that are identified in Table 1. These costs were unforeseen as the Phase I and Phase II environmental studies and all soil borings came back with no trace of soil contamination during the due diligence period and exceeded the project budget amount and contingency for this work. The second significant factor was caused by unidentified conflicts in the stormwater lines in public streets surrounding the site. During installation of the stormwater line in Fayette Street AHDC identified several major conflicts that required additional engineering work and the replacement or movement of surrounding stormwater lines not part of the project scope. These two factors slowed construction and account for approximately \$1.3 MM of the \$2.1 MM budget overrun.

Table 1. Sitework Cost Overruns

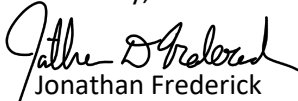
	Project Site	Street	Total
Unsuitable/Contaminated Soils	\$738,141	\$194,154	932,295
Utility Conflicts		\$374,942	374,942
Total	\$738,141	\$569,096	\$1,307,237

Schedule delays caused or amplified by COVID – 19 were the other major factors that contributed to additional costs incurred. Originally the project was scheduled to be completed in June 2020 but was delivered in November: the project suffered some early delays, and due to fallout from COVID -19, lost its ability to catch up as the general contractor reduced its schedule from six days/week to four, and had to shut down production down twice briefly due to COVID -19 positive tests among the work crew, despite COVID protocols onsite. These delays were exacerbated by supply chain issues that resulted in a disjointed schedule.

The completion of Lacy Court and The Bloom were significant accomplishments for AHDC last year. These projects, as well as The Nexus at West Alex and Parkstone Alexandria are fully leased and, with City and state rental assistance, are operating as projected. The additional loan funds sought by AHDC will allow the organization to finalize its 2020 projects and move forward with substantial development opportunities in Arlandria and along Seminary Road.

In closing, I appreciate Housing's consideration of this request and look forward to briefing AHAAC next week, and then City Council. In the meantime, if you or other staff have questions, please contact me at 703-739-7775 or at jfrederick@housingalexandria.org.

Sincerely,


Jonathan Frederick
President

cc: Eric Keeler, Deputy Director, Office of Housing