



City of Alexandria

City Council Chambers at
Del Pepper Community
Resource Center
4850 Mark Center Drive
Alexandria, VA 22311

Legislation Text

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City of Alexandria, Virginia

MEMORANDUM

DATE: JANUARY 14, 2015

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK B. JINKS, ACTING CITY MANAGER /s/

DOCKET TITLE:

Consideration of a Loan to AHC for a Proposed Affordable Housing Development Project Near Beauregard and the Designation of the Project Site as a Revitalization Area (Roll Call Vote)

ISSUE: Loan of up to \$5,700,000 to AHC, Inc. (AHC) for a proposed 93-unit affordable rental housing development on Fillmore Street, and a resolution designating the project parcel a revitalization area to induce other project funding, including low income housing tax credits.

RECOMMENDATION: That City Council (a) approves a total loan of up to \$5,700,000 from the Housing Opportunities Fund and other affordable housing fund sources to AHC for the development of 93 new units of affordable housing; (b) approves the attached resolution designating the project site as a revitalization area; and (c) authorizes the City Manager to execute all appropriate documents.

BACKGROUND: AHC is a 501(c)(3) nonprofit housing development entity that works regionally to develop and preserve affordable housing. It currently owns and operates nearly 6,000 affordable and workforce apartments and has also sponsored some affordable homeownership projects. In the City, AHC is constructing Jackson Crossing, a 78-unit multifamily building on East Reed Avenue that will be affordable to households with incomes at or below 60% of the area median income (AMI). Jackson Crossing will be completed in Summer 2015.

As reported to Council in April 2014 when AHC requested and received a predevelopment loan of \$460,000, AHC has an option to purchase two parcels located on Fillmore Avenue. These parcels are currently occupied by St. James United Methodist Church and the Methodist Bi-District office building. AHC has now submitted its request for permanent financing (Attachment 1).

DISCUSSION: AHC is processing a development special use permit (DSUP) application for redevelopment of the three-acre site (captioned The Fillmore on its DSUP application). The project includes construction of

two new multifamily buildings: one, a rental affordable building and the second a market rate condominium building. AHC will develop, own and operate the rental affordable building to serve households with incomes at 50% and 60% AMI. This building will be named “St. James Plaza”. The market rate condominium will be developed by a third party developer. The market rate parcel is under contract, and some \$1.3 million of the proceeds that AHC realizes from the entitlement and sale of this parcel are proposed to be programmed to subsidize costs associated with development of the affordable housing building.

When AHC requested predevelopment funding of \$460,000 last spring, its affordable housing project concept was still preliminary. As plans have been refined, the number of affordable units has increased from 90 to 93, including a mix of one, two and three bedroom apartments, some of which are accessible. AHC has designed ground floor community space of more than 2,500 square feet that will accommodate onsite management, resident services activities, and an all-day pre-K program that will serve approximately 50 children, including some who live in the building as well as some from the neighboring community. AHC is partnering with the Campagna Center to operate the pre-K program. The adjacent market rate condominium building will have 132 units and will offer various resident amenities, including a pool. Seventy (70) underground parking spaces will be provided for residents of the affordable rental building. As at its other affordable properties, AHC will charge residents a reasonable fee to lease parking spaces. It is proposed that 46 of the units be affordable to households with incomes at or below 50% of AMI and 47 be affordable to households at or below 60% of AMI. As is the case for the Jackson Crossing project, there will be a restrictive covenant that requires that all of the units remain affordable for 60 years.

Provision of the City loan is contingent on AHC receiving a number of zoning and land use approvals. The total development cost for the affordable housing building and related infrastructure improvements is estimated to be \$33.8 million. In addition to the \$5.7 million City loan, AHC’s anticipated funding package includes include \$19 million in 9% low income housing tax credit equity, a \$6.5 million first trust loan, \$1.3 million of AHC’s proceeds from sale of the market rate parcel with entitlements; and \$1.3 million of AHC’s deferred developer fee (Attachment 2). The loan is also contingent on AHC securing all non-City funding, including the federal tax credits which are awarded through a competitive process. AHC will submit its application for tax credits to the Virginia Housing Development Authority (VHDA) in early March, and expects to receive notice regarding an award by mid-June. While St. James Plaza is the only Alexandria-based project that will be submitted in VHDA’s 2015 cycle, staff is aware of other Northern Virginia projects that will be competing for credits with St. James Plaza. Housing staff is collaborating with AHC to ensure that the application for St. James Plaza is as competitive as possible under revised scoring criteria being introduced by VHDA this year. Staff notes note that AHC is also exploring other potential means to maximize scoring and the leveraging of competitive tax credits, including a new option to uniquely structure the project with a combination of 9% credits and 4% credits. This alternative, if pursued, would not affect the City loan amount, and the overall project would maintain the affordability requirements the City has already negotiated.

When AHC requested predevelopment funding from the City last April, the permanent City loan amount was projected to be \$4.0 million, including the \$460,000 predevelopment loan. The \$1.7 million increase in the City loan amount - to \$5.7 million - is primarily due to three factors:

(1) an increase in the number of affordable units, from 90 to 93; (2) a significant increase in the number of units that are proposed to be affordable at 50% AMI, from six to 46; and (3) an increase in anticipated general construction costs.

AHC plans to maximize the potential tax credit equity (versus debt financed) by increasing the amount of credits it requests from VHDA, and by deferring more of its developer fee to be paid out of future project cash flow (payouts now run through Year 13 after completion). It will also continue to explore avenues for savings

and efficiencies through value engineering. AHC will continue negotiations with its likely investor(s) to achieve the highest pricing available (\$1.06 per dollar of tax credits is in the current pro forma and tracks conservatively with other like-market deals), and will secure the most advantageous first trust loan financing terms possible from VHDA or another lender. The City will share in any upside that the project might realize should AHC be able to achieve savings or a higher tax credit price, or a lower construction contract amount, if these or any other efficiencies do occur to offset some of the City loan amount requested prior to the anticipated financial closing in late 2015. As a result, the final City loan amount may be somewhat less than the \$5.7 million maximum recommended amount.

As presented in April, AHC will maintain 46 long-term affordable units in the St. James building as a substitute for the long term committed affordable units the City originally planned to buy down at Southern Towers' Berkley Building. With Council's approval in 2013, Southern Towers plans to provide 105 10-year committed affordable units within its property at no cost to the City. Prior to loan closing, staff will work with AHC on the details of an agreement that will establish a preference for Beauregard area residents within these 46 units for so long as there is a demand. Based on income information provided in the 2012 survey of Beauregard tenants, it is anticipated that many of the 50% AMI units could be subject to this preference.

To help facilitate this project, which will provide a critical housing resource for those displaced by future Beauregard redevelopment, the City will be committing the majority of its available affordable housing funding over two fiscal years (FY2014 funds carried forward and FY 2015). The housing funds that will be used for this \$5.7 million loan include \$3.1 million in Housing Trust Fund monies; \$880,000 in federal HOME dollars; \$1.25 million in dedicated tax revenue, as well as the \$460,000 of CDBG and contingent reserve monies provided in the initial predevelopment loan. With the closing of this loan not likely to occur before November 2015 due to the timing of the award of tax credits by VHDA, this mix of housing funds may need to change. If so, staff will return to Council to obtain any needed changes in the funding mix.

Staff recommends that Council adopt a resolution (Attachment 3) designating the parcel that will contain the future St. James Plaza as a revitalization area pursuant to Section 36-55.30:2.A of the Code of the Virginia. The relevant portions of the Code Section state that while economic development of the Area will benefit the City, private enterprise and investment are not reasonably expected to produce the construction or rehabilitation of affordable housing that will meet the needs of low and moderate income persons and families without government assistance to create a desirable economic mix of residents in the Area. Given Beauregard's anticipated economic development, staff and the City Attorney believe this designation of St. James Plaza as a revitalization area is appropriate. The designation will potentially increase AHC's tax credit score.

Three community meetings have been held with neighbors from Echols Avenue and the surrounding community. While some initial concerns were expressed regarding the affordable housing development portion of the project, information provided regarding the value of affordable housing, the future tenant selection and qualification criteria to be used, and property management practices standard for these properties seem to have allayed these concerns.

FISCAL IMPACT: \$5,700,000 of Housing Opportunities Fund dollars and other housing funds as described in this report. The loan is contingent on AHC receiving appropriate land use approvals and securing a full financial package, including an award of competitive 9% low income housing tax credits from VHDA.

The City loan, including the predevelopment loan amount already provided, will be repaid according to the terms of the loan(s). The loan terms are negotiated once the lender and investor are secured. Subject to their requirements, the interest rate on the City's loan typically accrues at 2% rate annually. Because AHC's deferred developer fee must be repaid within the initial 15 year tax credit compliance period, repayments to the

City are currently projected to begin around Years 13-14. It is likely that AHC would refinance the project sometime between Years 15-20 of the City's 40 year loan term, providing a potential opportunity for City loan repayment at that time.

ATTACHMENTS:

- (1) AHC Loan Request
- (2) Project Sources and Uses
- (3) Resolution Designating St. James Plaza a Revitalization Area

STAFF:

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