



## Legislation Text

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### City of Alexandria, Virginia

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#### MEMORANDUM

**DATE:** FEBRUARY 8, 2017

**TO:** THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

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

**DOCKET TITLE:**

Consideration of the Alexandria Housing Development Corporation's Plan to Refinance and Renovate Lacy Court Apartments and to Support its Application for Competitive Tax Credits and Approval of a Resolution Designating Lacy Court Apartments sites a Revitalization Area. [ROLL-CALL VOTE]

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**ISSUE:** Proposed plans from the Alexandria Housing Development Corporation (AHDC) to refinance and renovate Lacy Court Apartments.

**RECOMMENDATION:** That City Council:

- (a) Approve AHDC's plan to refinance and renovate Lacy Court Apartments utilizing competitive tax credits;
- (b) Approve a partial release of \$4.9 million in debt and accrued interest secured by an existing City loan in exchange for the City receiving an equity position through a future right of first option;
- (c) Approve repayment of \$500,000 by AHDC when the renovation is complete;
- (d) Approve provision of a grant of \$150,000 from the City to AHDC to fund a pilot rental subsidy program to create deep affordability for five units;
- (e) Approve a resolution designating the Lacy Court Apartments sites a Revitalization Area pursuant to Section 36-55.30:2A of the Virginia Code; and
- (f) Authorize the City Manager to execute documents related to the tax credit application and the refinancing plan.

**BACKGROUND:** In 2006, at the height of the real estate market boom, nonprofit developer, RPJ Housing, Inc. (RPJ) acquired Lacy Court Apartments for \$10.1 million to preserve it as affordable housing. The purchase included a first trust loan from a private lender of \$3.5 million, and the City provided a subordinate long term loan of \$6.6 million, including nearly \$1.8 of federal HOME funds. Federal stimulus grant funds received by the City in 2008-09, totaling \$500,000, were loaned to RPJ for repairs at Lacy Court, increasing the City's total principal investment to \$7.1 million. Accrued interest on the City loans amounts to \$1.6 million to

date.

In 2011, at the City's request, in order to preserve these affordable units which were at risk of foreclosure, AHDC purchased Lacy Court, and two other Alexandria apartment properties, Arbelo (Bashford Lane) and Longview Terrace (Seay Street) from RPJ when that organization's financial and organizational problems imperiled the portfolio's long term sustainability and put the City's investment at risk. As part of the transfer negotiated by the City, AHDC assumed all of the existing debt on the properties.

AHDC has successfully maintained and operated the properties since the 2011 transfer and, in 2014, with City Council's endorsement, the organization was able to refinance and substantially renovate Arbelo and Longview Terrace using non-competitive 4% tax credits and tax exempt bond financing. AHDC waited until 2016 or later to take advantage of the additional equity potentially available through competitive credits to address Lacy Court's more substantial rehabilitation needs. It now wishes to undertake Lacy Court's permanent refinancing and renovation (estimated as approximately \$100,000/unit) as envisioned when the City first invested in the property's acquisition more than ten years ago.

Lacy Court was constructed in the early 1950's and has never undergone a substantial renovation, thus the scope of work planned now is comprehensive. Lacy Court contains 44 units, including 22 three-bedroom units. Since federal HOME funds were included as part of the City's original financing package, 18 of the units have rents affordable to households with incomes at or below 50% of the area median income (AMI), with the other 26 affordable at 60% AMI. The property is fully occupied, and AHDC is developing a robust tenant relocation plan to mitigate the impact of the project to the households and families that reside at Lacy Court. The City is providing technical assistance for the relocation plan and it will be reviewed by the Landlord Tenant Relations Board.

**DISCUSSION:** The \$14.8 million refinancing and renovation structure proposed for Lacy by AHDC mirrors the same strategy that was approved by City Council in 2014 for Arbelo and Longview Terrace. To enable tax credit investment, it requires that the City release a \$4.9 million portion of the existing debt and accrued interest that cannot be secured on the property based on the current (un-renovated) "as is" value as determined by a third-party appraisal. The debt that can be secured against the property is retained, with the shortfall addressed by AHDC providing the City with a Right of First Option in exchange for partial debt relief. This means that the City will hold an equity position when the property is refinanced at the end of the initial tax credit affordability period in approximately fifteen years. If the property appreciates at 2% a year, in 15 years the City's equity position would be \$3.9 million.

AHDC's refinancing plan for Lacy includes a repayment of \$500,000 to the City when the renovation is completed by deferring some its developer fee and using some of the then-adjusted increased property value to free up equity. To make its application for 9% low income housing tax credits (LIHTC) as competitive as possible, AHDC has requested that the City provide a grant of \$150,000 to AHDC to create a pilot rental subsidy grant program that will serve five households for a five-year period. Rents on five of the 50% AMI units would be subsidized to 30% AMI. As with the Carpenter's Shelter development, creating a pilot rental subsidy program for 10% of the units will allow AHDC to maximize its score on a new point category in the 2017 LIHTC application. This will assist some very low income households that currently reside at the property to remain following renovation, when rents will be reset to tax credit levels.

Applying the 2014 refinancing structure endorsed by City Council to Lacy Court means that \$3.8 million of the existing City loan principal amount would remain secured after the first trust mortgage is repaid:

AS IS VALUE (October 2016)	\$ 7.0 M
First Trust Mortgage (private lender)	- 3.2 M
Outstanding City Loan Amount Secured	\$ 3.8 M

Since approximately \$1.8 million in federal HOME funds were part of the City’s original financing package for the acquisition of Lacy Court, these funds are proposed to remain as part of the secured City loan amount, with AHDC continuing to operate the property subject to all related federal constraints and obligations.

From the City’s total principal investment of \$7.1 million, \$3.3 million of the City’s existing loan principal, along with accrued interest of \$1.6 million will be released and exchanged for a right of first option which assures the City will participate as a full equity partner when the property is refinanced in the future. While its partnership with AHDC practically assures the City’s continued involvement in Lacy Court’s provision of affordable housing, as the holder of a right of first option, the City is positioned legally to control and direct this future refinancing transaction because it can acquire the property outright, subject only to the outstanding debt.

AHDC’s pro forma indicates that the renovated property will result in a significantly improved cash flow due to operational, energy and maintenance efficiencies that will begin yielding residual receipt repayments to the City beginning around Year 5, totaling an anticipated \$500,000 in the ten year period prior to the Year 15 refinancing.

AHDC proposes that following renovation, \$500,000 from the remaining \$3.8 million secured second trust loan will be repaid to the City from refinancing proceeds available due to the adjusted post-renovation value and from AHDC deferring some of its developer fee.

AHDC requests that the City dedicate \$150,000 as a grant to AHDC to fund five rental subsidies. These rental subsidies will enable deep affordability for some units (30% AMI), potentially enable some very low income households to remain, and will help AHDC’s application gain 60 additional points on its application for competitive tax credits.

AHDC has also requested that City Council pass a resolution designating the Lacy Court sites a revitalization area pursuant to Section 36-55.30:2A of the Virginia Code (Attachment 1). This designation has been provided to other recent LIHTC projects such as St. James Plaza, the Gateway at King and Beauregard and Carpenter’s Shelter. The designation, which has been interpreted by the City Attorney as acknowledging that the development or preservation of affordable housing in this location would not likely occur without government intervention and assistance (e.g., City financial support, federal tax credits) will help AHDC gain 10 additional points on the LIHTC application.

It is noted that AHDC will also submit an application for 9% tax credits for the Carpenter’s Shelter redevelopment in March, however, that project will compete in different funding pools than Lacy Court which has been structured to compete within a pool limited to Nonprofit-sponsored projects where the total tax credit amount available is capped. Should AHDC’s application for competitive credits for Lacy Court not be successful this year, it may explore other refinancing and rehabilitation options.

**FISCAL IMPACT:** Release of \$3.3 million of existing debt plus \$1.6 million in accrued interest owed to the City in exchange for Right of First Option, with \$3.8 million of existing debt secured pending repayment of \$500,000 in FY 2019 when renovation is complete. \$150,000 to be provided as a grant to AHDC to create a pilot rental subsidy program. Following the repayment, the secured amount will be reduced to \$3.3 million. The property improvements are anticipated to yield residual receipt payments on the secured amount by FY

2024 resulting in the repayment of approximately \$500,000 over the next ten years (Attachment 2). At that time (Year 15), any remaining debt and accrued interest, as well as the amount currently released will be repaid and/or refinanced and secured to the greatest extent then feasible based on the property's future value.

**ATTACHMENTS:**

- (1) Resolution Designating the Lacy Court Apartments Sites a Revitalization Area
- (2) Chart Showing City Loan Balances and Financial Position

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