



Legislation Text

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File #: 18-7178, Version: 1

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City of Alexandria, Virginia

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MEMORANDUM

**DATE:** JANUARY 3, 2018

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

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

**DOCKET TITLE:**

Consideration of a Loan of up to \$9 Million to AHC, Inc. (AHC) to Develop 113 Affordable Rental Housing Units in Partnership with the Episcopal Church of the Resurrection (ECR); A Grant of \$350,000 to Fund a Pilot Rental Subsidy Program to Create 12 Deeply Affordable Units at the Property; and to Approve a Resolution Designating the ECR Site A Revitalization Area Pursuant To Section 36-55.30.2A Of the Virginia Code.

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**ISSUE:** Consideration of a loan of up to \$9 million to AHC, Inc. (AHC) to develop 113 affordable rental housing units in partnership with the Episcopal Church of the Resurrection (the “Church” or “ECR”); a grant of \$350,000 to fund a pilot rental subsidy program and to approve a resolution designating the ECR site a Revitalization Area.

**RECOMMENDATION:** That City Council receive the following recommendations, discuss the proposed loan at the January 9, 2018 Legislative Meeting and schedule this for adoption at Council’s January 20 meeting after Council acts on the proposed Development Special Use Permit for:

- (a) Approve a permanent loan to AHC of up to \$9 million for development of 113 affordable units;
- (b) Approve a grant of \$350,000 to fund a pilot rental subsidy program to create 12 deeply affordable units;
- (c) Adopt a resolution (Attachment 2) designating the ECR site a Revitalization Area pursuant to Section 36-55.30:2A of the Virginia Code; and
- (d) Authorize the City Manager to execute documents related to AHC’s tax credit application and the City’s loan as required.

**BACKGROUND:** AHC and the Episcopal Church of the Resurrection are collaborating to redevelop the Church's 2-acre property located at 2280 North Beauregard Street in the Beauregard area. As part of the redevelopment, the Church will construct a new church building on the southern portion of the site to continue its ministry, food pantry, and other community services. AHC will have a 65-year ground lease with the Church with an option to extend. AHC will construct an affordable housing building with 113 units.

The project meets several City housing needs articulated in the Housing Master Plan (HMP), including collaborations with and among nonprofit partners, deeply affordable subsidized units, location of affordable housing development near transit, accessible housing and family-sized units. This project is also one of three leveraged projects envisioned in the Beauregard Small Area Plan to help fulfill the City's pledge to provide 800 committed affordable units.

In 2015, City Council approved predevelopment funding to assist AHC with legal, architectural, engineering and other professional costs, and the project concept has evolved significantly since that time. AHC's pending development proposal includes a mix of one, two and three-bedroom apartments, including 12 fully accessible units. 12 units will be affordable at 40% of the Area Median Income (AMI), 45 units at 50% AMI, and 56 units at 60% AMI (Attachment 1). The affordable building will be subject to a ground lease with the Church, and the units will be committed as affordable housing for 65 years.

In addition to an onsite property management office, the building will feature a laundry facility, a community room, landscaped open space, and 80 underground parking spaces consistent with the City's parking standards for affordable multifamily development. As is standard with all new affordable housing developed in the City, the apartments will be constructed to meet third-party certified energy efficiency standards. The proposed building design is consistent with the 2012 Beauregard SAP and its associated Urban Design Standards and Guidelines and has been endorsed by the Beauregard Design Advisory Committee.

**DISCUSSION:** During the FY 2018 budget and real estate tax setting process, City Council reserved an allocation of \$4.3 million in City General Fund dollars out of the 3-cent increase in the real estate tax rate initiated by City Council to supplement Housing's projected on-hand Housing Trust Fund monies in anticipation of an \$8.4 million loan request from AHC for the project. This included then-anticipated infrastructure costs and a developer contribution to the Beauregard Fund for non-housing improvements and amenities pursuant to the Beauregard Small Area Plan.

A loan of up to \$8.4 million was approved by AHAAC at its December 7, 2017 meeting, although it was explained to the Committee during the presentation that the amount requested of City Council might be higher to take into account a then-pending estimate from Dominion Energy for costs related to the undergrounding of utility equipment and lines located on the site. Based on Dominion Energy's subsequent \$900,000 preliminary estimate, staff recommends that an additional \$600,000 be included in the potential loan amount, if needed for AHC to complete the full undergrounding. The estimate will be refined as the undergrounding work is engineered in greater detail if AHC gets tax credits. With regard to its transaction with the Church, AHC's planned prepayment of a ground lease with ECR will cover costs for construction of a new church building. Other funding for the projected total development cost of \$45 million is anticipated to come from \$23.8 million in low income housing tax credit equity (AHC will apply for competitive 9% credits in March 2018), \$10.5 million in first trust loan funds, and \$500,000 in developer funds (to be repaid after the City's loan is satisfied). AHC will also defer approximately \$1.7 million of its developer fee. According to AHC's proforma, repayments on the City loan are projected to begin around Year 3 with major repayment likely to occur around years 15 and 30.

If successful in obtaining 2018 tax credits, the project would be completed by mid-2021, providing an important affordable housing resource for Beauregard area residents. As has occurred with other tax credit projects, City Council is requested to approve a Resolution to designate the ECR site as a Revitalization Area (Attachment 2). This designation has been interpreted to signify that, without City financial assistance and tax credits, affordable housing development is not likely to occur in this area as it is redeveloped. The Resolution will help AHC attain additional points on its application.

It is noted that, in addition to the loan request, AHC has also requested a grant of \$350,000 to fund rental subsidies for 12 units to serve some very low-income households and significantly increase the competitiveness of AHC's low income housing tax credit application. Staff recommends that the City provide grant funds consistent with the rental subsidy pilot program created in 2017 that underwrites assistance for a five-year period subject to renewal based on funding availability. These grant monies would come from the Housing Trust Fund.

**FISCAL IMPACT:** The \$9 million loan includes predevelopment loan funds provided. The permanent loan will be derived from the Housing Opportunities Fund, which includes the Housing Trust Fund (including a \$466,000 affordable housing contribution paid by AHC to the City), federal HOME dollars, dedicated revenue, and City General Fund monies, including the allocation earmarked as part of the FY 2018 City budget process. An additional \$350,000 in grant funds will be allocated as described above. City loan dollars for development of the project will be drawn down by AHC at various project milestones to be outlined in the permanent loan agreement.

**ATTACHMENTS:**

- (1) HUD Income and Rent Limits for 40%, 50%, and 60% AMI
- (2) Resolution Designating the ECR Site as a Revitalization Area

**STAFF:**

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