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Title: Consideration of the Release of Contingent Reserve Funds and the Transfer of Community Development Block Grant (CDBG) Funds to Provide a Predevelopment Loan to AHC For a Proposed Affordable Housing Development Near Beauregard.

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Attachments: 1. 14-2624_St. James - Project Location Maps.pdf, 2. 14-2624_St. James- AHC Predevelopment Request Letter 4-3-14.pdf, 3. 14-2624_St. James - AHC Project Summary 4-4-14.pdf, 4. 14-2624_St. James - Total Development Budget and Sources & Uses.pdf, 5. 14-2624_After Items

Date	Ver.	Action By	Action	Result
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City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 16, 2014

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: RASHAD M. YOUNG, CITY MANAGER /s/

DOCKET TITLE:

Consideration of the Release of Contingent Reserve Funds and the Transfer of Community Development Block Grant (CDBG) Funds to Provide a Predevelopment Loan to AHC For a Proposed Affordable Housing Development Near Beauregard.

ISSUE: Release of funds from Contingent Reserves and transfer of Community Development Block Grant (CDBG) funds to be used as partial funding for an affordable housing predevelopment loan.

RECOMMENDATION: That City Council:

- (1) Approve a \$460,000 predevelopment loan to AHC, Inc. for its proposed development of a 92-unit affordable housing property on Echols Avenue currently in the development review process,
- (2) Approve the release of \$174,235 in FY 2014 contingent reserves as one part of the source of these loan funds, and

- (3) Approve the transfer of \$285,765 in CDBG monies from the Home Rehabilitation Loan Program as the second part of these loan funds.

BACKGROUND: AHC, Inc. (“AHC”) is a 501(c)(3) nonprofit housing development entity that works regionally to develop and preserve affordable housing. It currently owns and operates approximately 5,000 affordable and workforce apartments in the Washington - Baltimore region and has also sponsored some affordable homeownership projects. AHC is currently 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). This equates to about \$65,000 for a four person household. Jackson Crossing is scheduled to be completed in late summer 2015.

DISCUSSION: AHC now has an option to purchase the St. James United Methodist Church and the Methodist District Building parcels which are co-located on Echols Avenue (see Attachment 1). Working with City staff, AHC has proposed that the three acre site be redeveloped as two multifamily rental buildings, with one building affordable to households at 50% and 60% AMI, and the other building rented at market rates. It is noted that the proposed entrances of both buildings would be on Fillmore Street. A community meeting was held on February 4, 2014 to brief Echols Street neighbors about this proposal. Proceeds from the entitlement, development and/or sale of the market rate building would be used to help subsidize some costs associated with development of the affordable housing.

While AHC’s development concept is still preliminary (and subject to more community dialogue), it projects that the five-story affordable building will include approximately 92 units, including a mix of one, two and three bedroom units, some of which will be accessible. As at Jackson Crossing, AHC would provide a resident services program at this development, such as educational programs for pre-K and school aged children.

AHC’s request at this time is for predevelopment expenses only (see Attachments 2 and 3). A number of zoning and land use approvals are also required. Assuming the necessary development approvals are attained, the anticipated cost of the development is around \$30.6 million, which AHC proposes to fund through a variety of sources, including low income housing tax credit equity and private debt. Besides the “at risk” predevelopment funding currently being requested, in order to complete the project AHC forecasts that it will need approximately \$3.54 million in additional gap financing from the City’s housing trust fund to complete its funding package. This would bring the total City loan support to an estimated \$4 million when the predevelopment monies are added (see Attachment 4). These corollary issues and requested authorizations are anticipated to come back to City Council later this calendar year.

AHC’s exclusive option to acquire the two parcels is secured by a good faith deposit. AHC has requested a City predevelopment loan of \$460,000 to supplement its investment of \$1.25 million so that it can develop the project design, complete architectural and engineering studies and reports, conduct the necessary due diligence to assure the viability and long term sustainability of the proposed development, attain development approvals and secure project financing.

Because concept-stage funding is so difficult to finance (due to the risk that the project might not go forward), the City periodically provides predevelopment funding to assist nonprofit-sponsored affordable housing. If the project is determined to be feasible, attains the necessary development approvals, secures financing and moves forward to construction or rehabilitation, predevelopment funds advanced by the City are recaptured through a loan (or incorporated into a larger permanent loan amount) and are repaid pursuant to the terms of the City loan agreement. If a project does not move forward, the City’s investment of predevelopment funding is usually characterized as a grant or “forgivable” loan. Pursuant to a recommendation in the newly adopted Housing Master Plan, City staff has discretion in evaluating and administratively approving predevelopment loans for

“the greater of \$50,000 or \$5,000 per unit.” While AHC’s request is consistent with this recommendation, Council’s action is needed in this instance to approve a budget transfer of federal Community Development Block Grant (CDBG) funding and to approve the release of the \$174,235 in General Fund contingent reserves set aside by City Council for affordable housing during last year’s City FY 2014 budget process. At this time, all or nearly all of Housing’s unreserved FY 2014 and 2015 affordable multifamily housing funds are projected to be needed to provide the \$3.54 million gap financing for the Fillmore project. The resulting estimated total \$4 million in City assistance equates to \$43,000 per unit.

Housing believes this “all in” programming of its funds over two fiscal years is appropriate due to the project’s proximity to Beauregard and its potential to be a critical affordable housing resource for Beauregard Plan Area residents displaced by redevelopment. In addition, if the project is ultimately approved, AHC has agreed that all 92 affordable units will be made available for Beauregard relocation, and that 46 units will remain dedicated for Beauregard replacement (as units turn over) 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, Southern Towers is instead providing 105 affordable units at no cost to the City for 10 years). The details of the long term arrangement with AHC to provide a preference for Beauregard residents for so long as there is a demand will be worked out before a request for permanent financing approval comes before Council.

Staff believes that the benefits of the City’s investment in this important new affordable housing project outweigh the potential typical predevelopment risks involved. AHC has provided documentation of its anticipated predevelopment budget and estimates that it will have to expend approximately \$1.7 million to get through the development approval process and prepare a tax credit application. As stated above, AHC will fund those costs not covered by the City loan from its own reserves.

FISCAL IMPACT: \$460,000 in Housing funds, consisting of \$174,235 in contingent reserves and \$285,765 in CDBG monies. The CDBG amount will ensure that the City’s required federal spending target is met by the May 2 deadline. Both the contingent reserves and CDBG monies would be placed in the Housing Opportunities Fund (HOF) for this purpose. If the project goes forward, the predevelopment loan will be consolidated with a larger permanent loan and repaid according to that loan’s terms. It should be noted that when AHC acquires this now tax-exempt property and then develops it with its two buildings as proposed, the property will be taxable and add more than \$0.6 million per year to the City’s real estate tax revenues.

ATTACHMENTS:

- (1) St. James Project Location Maps
- (2) AHC funding request, including predevelopment cost detail
- (3) Project summary with current concept plan
- (4) Total development budget summary

STAFF:

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