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Title:	Consideration of a Community Development Block Grant (CDBG) Funds Transfer from the Home Rehabilitation Loan Program to the Housing Opportunities Fund to Assist Community Lodgings, Inc. (CLI) with Rehabilitation of Affordable Housing at 607 Notabene Drive.		
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Attachments:	1. 14-3848_City Loan Funding for CLI's Properties.pdf, 2. 14-3848_Letter and Budget for the Housing Opportunities Fund Loan Application from Community Lodgings, Incorporated.pdf		

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

MEMORANDUM

DATE: APRIL 8, 2015

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

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

DOCKET TITLE:

Consideration of a Community Development Block Grant (CDBG) Funds Transfer from the Home Rehabilitation Loan Program to the Housing Opportunities Fund to Assist Community Lodgings, Inc. (CLI) with Rehabilitation of Affordable Housing at 607 Notabene Drive.

ISSUE: Funding request for up to \$300,000 in gap financing to renovate 607 Notabene Drive.

RECOMMENDATION: That City Council:

1. Approve up to a \$300,000 in gap financing from the Housing Opportunities Fund (HOF) to Community Lodgings Inc,;
2. Approve a budget transfer of \$300,000 in Community Development Block Grant (CDBG) funds from

the Home Rehabilitation Loan Program to the Housing Opportunities Fund; and

3. Authorize the Acting City Manager to execute all necessary documents.

BACKGROUND: Community Lodgings, Inc. (CLI) is a local non-profit organization, established in 1987, to preserve affordable housing, provide transitional housing for the homeless, and to help families become self-sufficient through counseling and supportive services programs. CLI owns and operates a 28-unit rental property in the three buildings located at 3908, 3912 and 3916 Elbert Avenue, as well as two rental properties at 607 (6 units) and 612 Notabene Drive (10 units). Four residential units at 607 Notabene Drive were converted in 2006 for use as a Learning Center. All of CLI's properties are older, garden-style apartments, built in the early 1940s and are located in the Arlandria section of the City. CLI currently operates 14 units of transitional shelter for the homeless and 30 units of affordable housing.

The City has previously provided funds in the form of loans and grants to assist with CLI's initial purchase and rehabilitation of these properties, most recently in 2012. CLI has an excellent history of financial management: four loans have been repaid; the remaining two loans are current on their payments. City loan funding for CLI's properties is summarized in Attachment 1.

DISCUSSION: In its current request, CLI is asking that the City provide gap financing of up to \$300,000 for the substantial renovation of 607 Notabene Drive. As it did with the successful 2012 renovation of 612 Notabene, CLI is again working with HomeAid Northern Virginia which builds and renovates homeless shelters, transitional houses, food banks, medical clinics, counseling centers, and other facilities that help homeless people gain stability and "a roof over their heads". HomeAid leverages the resources of the homebuilding community and its corporate partners to conduct major renovations to shelters and homes to provide safe, stable and new living arrangements for previously homeless persons. HomeAid's partners and resources help to significantly reduce the construction costs to care provider organizations, thereby allowing them redirect those dollars back into programs and services for these homeless families and individuals. As in 2012, it is anticipated that through HomeAid's donated labor, supervision and materials and through ongoing fundraising and private financing initiatives, CLI will be able to leverage the City's investment by 2:1 or greater.

The renovation plan for the 607 building (which is comprised of 6 units, including two 1-bedroom, two 2-bedroom, and two 3-bedroom apartments) includes new windows, doors, an HVAC system replacement, an electrical and plumbing upgrade, a new roof, unit modernization with bathroom and kitchen upgrades (including new appliances, fixtures, and cabinets), common area updates, and new flooring. The project schedule shows CLI starting rehabilitation in August 2015, with construction completed in November 2015. This timeline will allow CLI to relocate current residents temporarily into other units it owns. The projected per unit cost for the renovation is \$139,167 in hard and soft costs, of which the requested City investment will be \$50,000 per unit.

The preliminary estimated total cost of the rehabilitation is \$835,000 for construction and demolition costs, architectural fees, and insurance with \$250,000 being donated. At this time, the sources for the project include \$250,000 in cost savings from HomeAid (due to donated labor and materials), \$250,000 in financing from private sources (TD Bank, Bank of America, and JP Morgan), \$35,000 in CLI Operating Reserves, and the proposed \$300,000 loan from the City. CLI anticipates the private financing will be replaced with grant funding (applications are pending).

CLI's equity position in the property will still be very strong. The 2015 assessed value of the Notabene property is \$1,193,374, so even with debt from the existing mortgage of \$104,102.30, additional loans totaling

\$250,000 from TD Bank, Bank of America, and JP Morgan, and the proposed \$300,000 City loan, the LTV (loan to value) ratio will be just 55%.

As a condition of grant funding in 2006 for window replacement at the Elbert Avenue Apartments, the City required CLI to conduct a third party capital needs assessment. All of the work items that were identified in that assessment are being addressed in this renovation, replacement of the roof and the HVAC system with a more energy efficient building system. Another long-term goal of the City-mandated assessment process was to review CLI's viability and its capacity to address ongoing funding needs to maintain its properties. Over the past few years, CLI has built up reserves for these properties to cover ongoing maintenance and repair needs and has also established a replacement policy at turnover of units. It is noted that the Fifer Learning Center, which is located in 607's first level and was built out by HomeAid in 2006, does not require renovation at this time. It is not part of the planned residential rehabilitation.

With the nature of CLI's programs targeting very low income households, the constrained revenue stream that can be achieved at the Notabene Drive properties limits cash flow available for major repairs and renovations. CLI has developed partnerships with various community groups and businesses which over the years have provided volunteers to perform improvements and minor renovations at its properties and will continue this practice, as needed.

Staff is proposing that federal Community Development Block Grant (CDBG) funds be transferred to the HOF to be allocated for this project. The City typically uses CDBG to fund its home rehabilitation loan program and homeownership assistance. Currently there is an excess of federal funds (which need to be "spent down" in the near term) due to recent, unanticipated repayments of some mature rehabilitation loans. Since rehabilitation of multifamily rental property serving low- to moderate-income households is an eligible use of these federal funds, the CLI project provides a fortuitous opportunity to deploy the excess CDBG balance. Given 607's small number of units, and its future limited cash flow because of the population served, staff did consider recommending that the CDBG funds be provided as a grant, however, the advantages to making the investment as a loan, on favorable terms as described below, prevailed.

Staff recommends that up to \$300,000 in gap financing be provided in the form of a no-interest loan to CLI. The new gap financing loan is not a typical interest bearing loan with a set repayment schedule, but will have a term of repayment if the property at 607 Notabene Drive ceases to operate as affordable housing; under those circumstances, the City will retain the right of first refusal to purchase the property. Since the City HOF monies identified for this project are federal CDBG monies, CLI will need to comply with federal regulations including affordability restrictions, rent and occupancy requirements, tenant income eligibility requirements, and property standards inspections. Additionally, all units at 607 Notabene Drive will be affordable to persons at or below 50% of AMI. In 2015, this equates to no more than \$54,600 for a family of four.

FISCAL IMPACT: Up to \$300,000 in CDBG monies will be allocated from the Housing Opportunities Fund. \$300,000 in CDBG funds will first be transferred from the Home Rehabilitation Loan Program from excess program income received during FY 2015 to the Housing Opportunity Fund.

ATTACHMENTS:

Attachment 1. City Loan Funding for CLI's Properties

Attachment 2. Letter and Budget for the Housing Opportunities Fund Loan Application from Community Lodgings, Incorporated

STAFF:

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