



Legislation Text

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City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 16, 2018

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

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

DOCKET TITLE:

Consideration of a Modification of the Alexandria Housing Development Corporation's 2017 Plan to Refinance and Renovate Lacy Court Apartments.

ISSUE: Increased constructions cost at Lacy Court Apartments and the plan to close the resultant budget gap.

RECOMMENDATION: That City Council approve (1) AHDC's request to be released from the requirement to repay immediately a \$500,000 portion of the City's loan when the renovation of Lacy Court is completed; and (2) Provide a City grant of \$150,000 to AHDC to fund a pilot rental subsidy program

BACKGROUND: Lacy Court is one of three RPJ properties that the City transferred to AHDC from RPJ Housing, subject to existing City debt, in 2011. AHDC has successfully maintained and operated the property since then. In February 2017, City Council approved AHDC's plan to refinance and renovate Lacy Court. Actions taken by City Council at that time specifically included: *"(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."*

AHDC was awarded tax credits worth \$5.0 million in the 2017 competitive funding round. In addition to securing a first trust lender and investor for the project, since receiving the tax credits, AHDC has completed applications for city building permits; relocated households from buildings that comprise the first of two phases of the renovation; refined the scope of work; and collaborated with its planned general contractor (GC) to

finalize project costs. In December, the GC submitted a final estimate that was significantly higher than the costs provided at the time of AHDC's tax credit application (\$5.7 million versus \$4.3 million). While AHDC continued to work with the GC to value engineer project costs and to identify other efficiencies and savings, the organization ultimately decided to rebid the general contract. Based on the prices received, a different general contractor was selected to proceed based on its \$5.3 million bid.

Besides rebidding the general contract, AHDC has taken other steps to close the now \$1 million increase in construction costs, including deferring the maximum amount of developer fee allowed by its tax credit investor; undertaking additional value engineering; and by negotiating more very low interest financing from Virginia Housing Development Authority's (VHDA) REACH program.

In order that the project budget gap can be closed, AHDC has asked that it be relieved of the obligation to repay \$500,000 at the completion of the renovation, so that this amount, which the first trust lender and investor would underwrite as must-pay debt will not have to be additionally financed during construction. This will fully close the gap, and enable AHDC to move forward with the project's financial closing and begin construction next month. In its modification request, AHDC has reiterated its desire to make some repayment to the City, if financially feasible, when renovation is completed: "...we are currently carrying a 10% contingency on this project which results in approximately \$525,000. AHDC is committed to working with the City to find solutions on this project and commits to any funds not expended on development will be repaid to the City after a 50% deferred fee is received by AHDC."

DISCUSSION: Recent increases in construction costs have hit all building sectors, including affordable housing development. AHDC has worked to mitigate the \$1.4 million gap resulting from higher construction prices by rebidding the general contract, deferring the maximum amount of its developer fee, and by negotiating additional below market financing with VHDA. Releasing AHDC from its 2017 offer to repay the City \$500,000, as requested, will close the gap and allow the project to proceed.

With regard to the \$150,000 rental subsidy grant, staff propose that proceeds from Homes for America, Inc.'s (HFA) upcoming repayment of its 2009 City loan for improvements to Brent Place Apartments be used. Those proceeds are estimated to total approximately \$350,000. It is noted that while the loan for Brent Place is being repaid, the property will remain affordable subject to HFA's non-profit mission and ongoing deed restrictions related to the 2009 loan.

The units at Lacy Court will be affordable for households with incomes ranging from 40-60% AMI. The pilot rental subsidy program will enable 5 units at Lacy Court to be even more deeply affordable. Providing deep affordability in 10% of a development's total units is a priority point item in VHDA's scoring of tax credit projects. While some of the rental subsidy funds will be used to help existing tenants pay rent so they can remain at the property following its renovation, Housing and DCHS, along with AHDC, are developing a coordinated system for referring low- income and special needs households, with high barriers to housing affordability, into the units at Lacy Court as they are available.

FISCAL IMPACT: New City investment will be limited to \$150,000 to be provided as a grant to AHDC for a rental subsidy program. All other 2017 refinancing terms approved by City Council remain in place, including the release of some City debt and accrued interest in exchange for a City Right of First Option. \$3.8 million of existing debt will remain secured.

ATTACHMENT:

AHDC Request for Modification to 2017 Refinancing and Renovation Plan for Lacy Court, including Revised

40 Year Proforma

STAFF:

Emily A. Baker, Deputy City Manager

Helen S. McIlvaine, Director, Office of Housing

Eric Keeler, Deputy Director, Office of Housing

Tamara Jovovic, Housing Analyst, Office of Housing