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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 an Increase in an Approved City Loan to the Alexandria Redevelopment Housing Authority (ARHA) for Ramsey Homes from $2 million to up to $3.6 million.

ISSUE: Construction Cost increases at Ramsey Homes and the plan to close the resultant budget gap.

RECOMMENDATION: That City Council approve a permanent loan to the Alexandria Redevelopment Housing Authority (ARHA) of up to $3.6 million for Ramsey Homes which is to be funded from a portion of the proceeds of ARHA's $5 million previous repayment of the City's Glebe Park loan.

BACKGROUND: In February 2017, City Council approved a loan of up to $2 million to pay for offsite infrastructure improvements and other amenities required for the proposed redevelopment of the existing 15-unit Ramsey Homes public housing development into a 52-unit mixed income community (Attachment 1). City Council had previously approved a loan of
$1 million at the time of the DSUP for Ramsey Homes was approved in November 2016. In June 2017, the development received Low Income Housing Tax Credits and ARHA has been working toward a financial closing this Spring, along with the preliminary start of construction. In February, ARHA held an Open House pursuant to the Section 106 process, and it has completed asbestos removal on the site. Demolition and archeological work will begin soon.

DISCUSSION: ARHA's request for the new loan amount (Attachment 2) cites several factors that have impacted its $2.2 million increase in construction project costs. ARHA notes that the price of steel and lumber have increased by over 20% during the year since its tax credit award. In addition, changes in tax credit prices paid by investors (resulting from the lowering of the corporate tax rate in the December 2017 Tax Reform Act) have caused ARHA's tax credit pricing for Ramsey to drop from $1.01 to $0.98. This amounts to $5 million reduction in the tax credit equity for this project. Also, ARHA has less of its own on-hand money available to invest in Ramsey than it projected last year. This is due to delays in the Adkins project which has resulted in ARHA not earning developer fees per the original DSUP schedule.

Besides the additional $1.6 million in funds being requested from the City, to close the gap, ARHA requested additional credits from VHDA and is deferring $310,000 in developer fees. ARHA has begun value engineering the project, which may result in additional savings. Since project numbers may fluctuate until closing, City Housing staff will continue to review the budget and proforma with ARHA on an ongoing basis, and additional City loan funds (out of the amount approved by Council) will only be used as needed.

Attached is a comparison of the Sources and Uses, including the budgets on which ARHA's current request is based and those developed for the 2017 loan request. Loan A is the value of ARHA's sellers note and Loan B is additional ARHA investment in the project (Attachment 3).

The Alexandria Housing Affordability Advisory Committee (AHAAC) considered the request at its May 3, 2018 meeting. To allow the financing and construction of the project to move forward, AHAAC recommended approval of the loan, however the Committee recommended that City Council approve the increase contingent upon ARHA making the new $1.6 million increment a priority repayment. ARHA's Acting Development Director Martin Lucero agreed to present this recommendation to the ARHA Board. He also agreed to return to AHAAC in June to update them on progress in value engineering.

FISCAL IMPACT: The request for up to $3.6 million will require an additional allocation of $1.6 million of Housing Opportunities Fund dollars, from the reservation established with proceeds from ARHA's repayment of $5 million for the City's Glebe Park loan. If all the funds requested are used for Ramsey, a $1.4 million balance from the $5 million reservation will remain for other RFP site projects. If the $1.6 million is a priority repayment, the $2 million balance of the City's loan and ARHA's seller note (Loan A) will share residual receipts on a 50/50 basis, with the City loan having payment priority. As in 2017, ARHA has stated its intention to fully repay any remaining balance due on the City loan when the project is refinanced after expiration of the initial affordability period, around Year 15 following stabilization (estimated to be ~2033).

ATTACHMENTS:

1. February 8, 2017 Docket Memo
2. ARHA Request for Ramsey Loan Increase (April 25, 2018) and Proforma
3. Comparison of 2017/2018 Project Budget - Sources and Uses

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