City of Alexandria, Virginia

MEMORANDUM

DATE: SEPTEMBER 5, 2018

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

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

DOCKET TITLE:
Consideration of a $700,000 Increase to the City Loan to Alexandria Housing Development Corporation (AHDC) for the Gateway at King and Beauregard Affordable Housing Development.

ISSUE: Consideration of additional City loan funds of $700,000 for Alexandria Housing Development Corporation's (AHDC) 74-unit Gateway affordable housing development.

RECOMMENDATION: That City Council approve additional loan funds of $700,000 bringing the total permanent City loan amount for the AHDC Gateway affordable housing development project to $6.2 million.

BACKGROUND: At its November 14, 2015 public hearing, City Council approved a loan to AHDC of "up to $5.5. million" for a 74-unit affordable housing building that is part of the Gateway at King (now branded "West Alex") mixed-use development which also includes market rate apartments, a Harris Teeter grocery store and other office and retail space. The loan amount included a previously authorized predevelopment loan of $350,000.

The City closed on its permanent loan to AHDC in February 2018. Construction of the project has been ongoing since early Summer 2017, with the Prime Developer performing site work, excavation, and construction of the underground parking garage and a ground level retail center that provides the podium upon which AHDC will build its apartments. The full financial closing for the transaction (tax credits, construction and permanent first trust debt) will take place when the podium is delivered in mid-September.

Due to recent escalations in construction costs in Virginia and the D.C. Metropolitan area, and uncertainty regarding the pricing of materials in the future due to tariff issues, a shortfall in the construction budget of approximately $700,000 has emerged which cannot be addressed through steps already taken to mitigate the cost issues (including value engineering, additional Virginia Housing Development Authority soft loan funding and AHDC maximizing the developer fee it defers). In order to keep this project moving forward, AHDC has

requested additional City support.

DISCUSSION: Construction costs are rising at unprecedented rates. The structuring of this project (where the full financial closing could not occur until a condominium regime was established at "substantial completion" of the first condominium unit) has resulted in cost inflation that cannot be addressed through non-City sources which are now fully leveraged. The additional loan amount means that the City's per unit investment will increase from $74,324 to $83,784. This new per unit amount is consistent with what the City is seeing in other tax credit projects underway or in the pipeline throughout our area. Increasing the City's loan to close the gap will keep construction of the Gateway project on track and preserve the more than $27 million in committed non-City (public and private) dollars committed.

FISCAL IMPACT: $700,000 from the Housing Opportunities Fund to be added to the existing permanent residual receipts City loan. The 1% increase in Alexandria's meal tax to generate funds for affordable housing purposes that was approved by City Council as part of the FY 2019 Capital Improvement Program is providing the funding needed to meet this unanticipated requirement for additional gap-closing financial support.

ATTACHMENT: AHDC Request for Additional Loan Funding for the Gateway Apartments Project, including Source & Uses and Proforma

STAFF:
Emily A. Baker, Deputy City Manager
Helen S. McIlvaine, Director, Office of Housing
Eric Keeler, Deputy Director, Office of Housing

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