



Legislation Text

File #: 19-1288, Version: 1

City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 7, 2018

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

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

DOCKET TITLE:

Introduction of Requests for a Loan of Up to \$7.65 Million to Wesley Housing Development Corporation (Wesley) for the Fairlington Presbyterian Church Affordable Housing Development, for a Rental Assistance Grant of \$270,000 and for Designation of the Development Site as a Revitalization Area

ISSUE: Provision of loan of up to \$7.65 million to Wesley Housing Development Corporation (“Wesley”) to facilitate development of 81 affordable rental housing units on a portion of the Fairlington Presbyterian Church (FPC) site and other actions to support its planned 2019 application for competitive low-income housing tax credits (LIHTC).

RECOMMENDATION: That the City Council schedule these requests for action at its November 17 meeting, following consideration and a public hearing of various development approvals necessary to enable the project, and:

- (a) Approve a loan of up to \$7.65 million to Wesley (including \$400,000 previously approved for predevelopment) for development of 81 affordable rental units;
- (b) Approve a grant of \$270,000 to provide rental assistance subsidies, pursuant to the City’s pilot program, to help make nine units deeply affordable;
- (c) Approve a Resolution Designating the Project Site a Revitalization Area pursuant to VA Code Section 36-55.30:2; and
- (d) Authorize the City Manager to execute all documents related to the City loan and its support for Wesley’s application for low income housing tax credits.

BACKGROUND: Wesley and FPC have entered into a purchase and sale agreement and plan to create a condominium regime on the Church property at 3846 King Street, to allow Wesley to construct an affordable rental building with 81 units, above an underground parking garage. The new building will be located where there is currently an underutilized surface parking lot. The Church and its tenant, the Potomac Crescent Waldorf

School will continue operations on the site (with the church building another condominium owned by FPC), and Wesley and FPC will own and manage the site in common. Wesley has requested a City loan of up to \$7.65 million to partially fund the development of the affordable project (Attachment 1).

The proposed development meets several needs articulated in the City's 2013 Housing Master Plan (HMP) including collaboration among nonprofit partners, providing deeply affordable, accessible and family-sized units, and locating affordable housing near transit and amenities. The property is already served by multiple bus lines along King Street. Wesley proposes a mix of one, two- and three-bedroom apartments, including nine that will be fully accessible. Nine of the apartments will be also be affordable to households with incomes up to 40% of the Area Median Income (AMI), 35 units will be affordable at 50% AMI and 37 units will be affordable at 60% AMI (Attachment 2). The units will initially be committed to remain affordable for 40 years, although, it is anticipated that, as a nonprofit, Wesley will operate them as affordable units in perpetuity. In addition to an onsite property management office, the building will have a laundry facility, a community room, landscaped open space, and underground vehicle and bicycle parking. Children who live in the project will share the large onsite playground used by students of the Waldorf School. As is standard with new affordable housing development in the City, the apartments will be constructed to meet a third-party certified energy efficiency standard (Attachment 3).

To respond to priorities established by VHDA for tax credit projects, Wesley has requested City grant funding to be used as rental assistance to make nine units deeply affordable (typically subsidizing rents to be affordable for households with incomes at or below 30% to 40% AMI). Wesley has also requested that the site be designated a revitalization area, which will yield some additional points for its application (Attachment 4).

DISCUSSION: City Council approved a predevelopment loan of \$400,000 in June 2017 to assist Wesley in undertaking the legal, architectural, and engineering work, as well as professional studies necessary to advance the development concept, evaluate its feasibility and conduct community outreach and solicit input. Multiple public meetings, tours and open houses have been held, including staff from Planning & Zoning, Housing, T&ES and ACPS, along with the FPC/Wesley development team, to receive comments and answer questions, and many design changes have been incorporated in the project concept to better align the development with interests and concerns expressed by neighbors.

Wesley is now requesting a permanent City loan of up to \$7.65 million, including the predevelopment loan amount, as part of its overall funding package. In addition to the City loan, other funding for the proposed \$38.2 million project is expected to come from low income housing tax credit equity (\$20 million), private or VHDA first trust loan monies (\$9 million), as well as \$1.6 million of developer fee deferred by Wesley. Wesley plans to apply for competitive (9%) credits in March 2019, and if successful in obtaining an award, the project would be constructed for delivery by the end of 2022.

The level of City investment being sought is approximately \$94,000 per unit, which is slightly higher than City Council has considered in recent years. However, because of steep increases in construction costs over the past 12 to 18 months that have necessitated projects coming back for additional funding, in consultation with the City, in its proforma, Wesley has included an escalator for cost projections that are reflected in the "up to \$7.65 million" loan request amount to potentially cover further inflation pending the actual construction start date (Attachment 5).

City staff will remain actively involved in monitoring development costs and Wesley's projections. The practices of requiring developers to seek multiple bids, share cost information on an open-book basis, including from comparable projects elsewhere in the metropolitan area (to allow Housing to refine its cost data base), and

the requirement that an organization's CEO and CFO sign a certification that any circumstances potentially imperiling the City's position be immediately disclosed, are intended to limit financial risk in underwriting. The Office of Housing monitors projects throughout construction and, following completion, reviews property financial statements and tenant records at least annually, in addition to conducting a property inspection.

Besides the loan request, Wesley has requested a City grant of \$270,000 to create rental subsidy assistance for nine deeply affordable units that would serve very low-income households and significantly increase the competitiveness of its LIHTC application. The City has created a pilot program to provide such assistance for tax credit projects it supports: the grant funding is intended to provide subsidy for a five-year period, subject to renewal based on funding availability. Initial grant funds are sourced from the Housing Trust Fund, and it is noted that, in consultation with nonprofit housing providers, Housing and DCHS have developed a system to identify, prioritize and refer eligible households for these rent-assisted units. In the future the City hopes to collaborate with ARHA to discuss the allocation of project-based vouchers it administers that might help achieve deep affordability in lieu of, or in addition, to the planned City grant funding.

As with other tax credit projects, Wesley has also requested that the project site be designated a revitalization area. The designation adds points to the application that make it more competitive in terms of funding priorities set by VHDA. Consistent with the City Attorney's interpretation of the Code Section, staff believes the development of affordable housing at this site provides an economic benefit to the City that would not occur without government assistance, including local financial support and federal tax credits, which complies with the requirements of the designation (Attachment 4).

FISCAL IMPACT: The 2017 predevelopment loan was comprised of Housing Trust Fund monies. The additional \$7,265,000 loan request will be sourced from the Housing Opportunities Fund, including Housing Trust Fund (HTF) dollars, federal HOME funds, dedicated revenue and revenue from the meals tax rate increase. The \$270,000 in grant funds will be allocated from the HTF. Wesley will draw down the loan at various project milestones.

As with City loans to other affordable projects, the loan to Wesley will be residual receipts (paid out of project cash flow) and will be subordinate to the first trust loan and tax credit equity. The loan term is 40 years, with loan repayments planned to begin after Wesley's deferred developer fee is paid out (around Year 12 or so), and/or when the project is refinanced at Year 15, when the initial affordability period tolls and first tax credit investor exits the project. The City maintains a right of first refusal throughout.

ATTACHMENTS:

1. Wesley loan request for \$7.65 million
2. Project rendering
3. 2018 HUD AMI limits and LIHTC rents
4. Resolution Designating the Project Site a Revitalization Area and Attachment A (Site Description)
5. Project 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