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# City of Alexandria, Virginia

## MEMORANDUM

**DATE:** APRIL 17, 2019

**TO:** THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

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

**DOCKET TITLE**:
Consideration of Additional Loan Funds of up to $940,000 to AHC, Inc. for The Spire

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**ISSUE:** Closing an affordable housing fund gap.

**RECOMMENDATION:** Approve additional City loan funds for The Spire, AHC's 113-unit affordable housing development of $940,000 for a total permanent City loan of up to $9.94 million.

**BACKGROUND:** In December 2017, City Council approved a loan to AHC of up to $9,000,000 (including a previously authorized predevelopment loan of $400,000) for a 113-unit affordable housing building to be developed in partnership with the Church of the Resurrection. The project received competitive (9%) low-income housing tax credits in Spring 2018 and AHC has been working to secure its full financing package, including tax credit equity, the City loan, and a first trust loan. However, due to increases in construction costs, including the projected costs of undergrounding utilities; the complexity and cost of the financing structure involved (which includes a ground lease) and makes Virginia Housing Development Authority (VHDA) lending, including Resources Enabling Affordable Community Housing (REACH) funds, infeasible: and soft costs, the project's overall budget has increased by $2.7 million (6%) since AHC's 2017 loan application. Tax credit valuation has also decreased because AHC reduced the credits in the application than was projected at the time of their initial City loan request to make the tax credit application more competitive. The price per credit they received exceeded the projection, but was based on a smaller credit award.

**DISCUSSION:** AHC had been able to absorb 66% of the cost increase through a recent $1.12 million State and National Housing Trust grant award (competitive process), through increased private loan funding from Freddie Mac; and through a Federal Home Loan Bank loan of $500,000 that provides additional soft funding. Despite AHC's diligence, a gap of up to potentially $940,000 remains to be closed. AHC has requested that the City provide additional financial support so that the project can proceed with construction, as planned, by the end of June.

Staff believes it is critical to keep the project moving forward and preserve the more than $38 million in committed non-City public and private dollars leveraged by the City's investment. The additional loan amount increases the City's per unit investment from approximately $80,000 to approximately $88,000 per unit and aligns with recent levels of City investment in tax credit projects. Staff's analysis of other regional tax credit projects that are currently underway, or in the City's pipeline, indicates that The Spire's costs are consistent with market norms for new construction. Construction costs have been rising about six percent per year in the last two years in the Washington, D.C. Metropolitan region due to a stalled labor shortage, a shrunken sub-contractor market, as well as construction materials price increases driven by increased trade tariffs or the uncertainty of future tariff increases.

AHAAC unanimously approved the additional loan funds for The Spire at its April 4 meeting.

**FISCAL IMPACT:** $940,000 from the Housing Trust Fund portion of the Flexible Homeownership Program (program income from prior homeownership loan repayments) to be transferred into the Housing Opportunity Fund, and Home Investment Partnerships Programs (HOME) funds from a loan repayment.

It is noted that to meet the Episcopal diocese's requirements to retain ownership of the land, AHC will construct the affordable building subject to a long-term ground lease (65-year initial term, with an additional 65-year extension option). As a consequence, in this case the City's security will be the ground lease and improvements (not the fee simple), and as with other affordable housing loans, the City will retain the right to notice and cure in the event of a default, as well as the right to acquire the property, including through a designated nonprofit partner, in the event AHC sells its interest. This scenario is different than in prior loans but is typical of many real estate transactions now. The City hopes to encourage VHDA to adopt a more flexible approach regarding projects involving church property where this could be an issue again: VHDA's inability to lend here has resulted in REACH funds not being available to potentially fill the gap which the City will close with these additional loan funds.

**ATTACHMENTS:**
1. AHC Request for Additional Loan Funding for The Spire, including Sources and Uses
2. Comparison of 2018 and 2019 Sources and Uses

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