Legislation Text

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# City of Alexandria, Virginia

# MEMORANDUM

**DATE:** MARCH 17, 2021

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

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

#### **DOCKET TITLE**:

Authorization to Temporarily Waive City Loan Residual Receipt Payments to Mitigate COVID-19 Operating Deficits.

**<u>ISSUE</u>**: Authorization to Temporarily Waive the City Loan Residual Receipt Payments to Mitigate COVID-19 Related Operating Deficits.

## **<u>RECOMMENDATION</u>**: That City Council:

- 1) Allow residual receipt payments, otherwise due based on property revenues, to be waived on City affordable housing loans, if requested by nonprofit borrowers, to help mitigate operating deficits related to COVID-19; and
- 2) Authorize the City Manager to execute waiver agreements with borrowers, as appropriate, based on staff's review and recommendation of requests.

**BACKGROUND:** Many of the City's low- and moderate-income households have been disproportionately impacted by the COVID-19 pandemic. These households have faced job losses and struggle to make monthly rent payments. Based on discussions with the City's nonprofit borrowers pursuant to the Asset Manager's annual audit process, some nonprofit borrowers are experiencing an increase in rent losses, partially offset with the City's Emergency Rent Relief Assistance funds and the State Rental Relief Program. Further losses in rent payments could contribute to operational stress on the City's affordable multifamily housing properties, risking borrowers' ability to maintain properties and pay operational expenses. Some borrowers have asked the City to waive loan payments otherwise due, based on property performance in 2019 and early 2020, to provide a cushion to mitigate anticipated deficits through the pandemic response and recovery periods.

**<u>DISCUSSION</u>**: Staff believe that providing loan payment relief for the City's multifamily residual receipt loans during the COVID-19 pandemic period will provide a buffer to support housing stability for tenants and

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owners of the City's affordable housing portfolio, and is consistent with the City's support for nonprofitsponsored housing through creation of an emergency rental assistance funding pool from its allocation of CDBG COVID grant monies. The City's multifamily loans are not amortized (an approach in which the loan principal and accrued interest are paid down over the life of the loan according to an amortization schedule). Instead, borrowers are required to make annual loan payments from property cash flow, typically based on a percentage of residual receipts, as defined in the specific loan documents. It is noted that many affordable housing properties in the City's loan portfolio are not yet at the point where residual receipt payments are being made, as owners must first be paid any deferred developer fees earned as required by the tax credit program. Currently, the City's portfolio includes six organizations that have active residual receipt payment loans in place within 18 properties. Staff estimate that the City could forgo up to \$100,000 through FY 2023 in potential payments if a limited COVID-19 loan waiver authorization is approved.

The waiver option would be extended to eligible multifamily loan borrowers seeking relief based on financial burden due to the COVID-19 pandemic. As part of the City's annual audit process, the Asset Manager will review all financial materials provided by borrowers (in addition to conducting virtual inspections of the properties) and make a recommendation to the City Manager regarding whether a waiver request is appropriate. A waiver determination will be memorialized in a letter to the borrower. Waived residual receipts must be used at the same property that generated residual receipts, and borrowers will not be allowed to evict tenants for nonpayment of rent or charge them a late fee due to nonpayment of rent due to COVID related income loss during the waiver period.

Borrowers may use waived residual receipts for one or more of the following emergency needs:

- Operating deficits that are a result of rent loss due to the economic impact of the COVID-19 pandemic;
- Direct rental assistance for low-income tenants to avoid eviction; and/or
- Other emergency needs caused by the economic effects of the COVID-19 pandemic.

Any portion of residual receipts not utilized during the waiver year shall be remitted to the City by the next residual receipt payment date. Borrowers will also provide a report to the Office of Housing to show how the waived residual receipts were expended to meet eligible emergency needs.

**FISCAL IMPACT:** If the limited residual receipt COVID-19 waiver program is approved, staff estimate that up to \$100,000 in loan payments could be waived. The waivers will not reduce the principal and/or accrued interest amounts ultimately due, and to be paid, to the City.

ATTACHMENT: Organizations with Residual Receipt Loans

## STAFF:

Emily A. Baker, Deputy City Manager Helen McIlvaine, Director, Office of Housing Eric Keeler, Deputy Director, Office of Housing Gypsy Roberts, Chief, Administration Division, Office of Housing Lucinda Metcalf, Asset Manager, Administration Division, Office of Housing