ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of March 14, 2009

DATE: March 12, 2009

SUBJECT: Allocation of Fiscal Year (FY) 2009 Affordable Housing Investment Fund (AHIF)/HOME funds as a loan to the Nauck Development Partners-1, L.P. to assist with the development of Macedonia Apartments in the Nauck neighborhood; Modification of the previously approved Housing Program for the Macedonia Apartments.

C. M. RECOMMENDATIONS:

1. Allocate funds up to $2,855,000 in FY 2009 AHIF/HOME funds (101.495130.91102), of which $2,400,000 will be placed in a County-held contingency account while commitments for other financing sources are obtained, and equity and interest rates are finalized, to Nauck Development Partners-1, L.P. (101.456300.91102) to assist with the construction of the Macedonia Apartments. The financing assistance is in the form of a subordinated, residual receipts loan, subject to the terms and conditions outlined in this report.

2. Approve a modification of the AHIF/HOME Affordable Housing Program approved on January 26, 2008 for the Macedonia Apartments to reduce the number of units affordable to households at 50% of the median income from eight units to six units as described in the Revised Affordable Housing Program below.

3. Authorize the County Manager to execute the required documents for a loan of up to $2,855,000 to Nauck Development Partners-1, L.P, and authorize and direct the trustees for the County's Deed of Trust to execute the required loan and subordination documents subject to approval by the County Attorney.

4. Authorize the County Manager, with the concurrence of the County Attorney, to act as the County Board's representative in approving financing or program revisions that are necessary to remove any ambiguity or inconsistency or which improve the County's financial security or financial position, and which changes do not adversely affect the County financially, prior to or after execution of the County's financing documents.

County Manager: ______________

County Attorney: ______________

Staff: David Cristeal and Maureen Markham, DCPHD

#29--Macedonia Funding

ISSUE: Should the County allocate additional AHIF/HOME funds to cover a portion of the increased costs for the proposed Macedonia Apartments?

SUMMARY: The Bonder and Amanda Johnson Community Development Corporation (BAJCDC) on behalf of the Nauck Development Partners-1, L.P. (Macedonia Baptist Church and AHC) is requesting an additional allocation in FY 2009 AHIF/HOME funds for long term financing for the development of The Macedonia Apartments. The additional AHIF/HOME funds are needed to cover a portion of the gap in financing created by the failure of the project to obtain an allocation of 9% Low Income Housing Tax Credits in 2008. However part of that gap may be covered by funding available soon from the Tax Credit Assistance Program (TCAP), a new program being created as part of the economic stimulus package in the American Recovery and Reinvestment Act.

The Macedonia Apartments Project embodies a collaboration of community-based groups taking pro-active steps to improve their own social and economic condition. It represents a "best-practice" example of self reliance and determination, and helps to build the capacity of those groups within a classic community development framework. The 36 apartments will provide additional much-needed affordable housing units in the Nauck neighborhood for a period of 75 years and contribute to the realization of the vision promoted through the Nauck Village Center Action Plan.

On January 26, 2008 the Board approved an AHIF/HOME loan for the Macedonia Apartments in the amount of $2,960,000 and a grant of $40,000 in DHS Supportive Housing funds. The project partners subsequently applied to VHDA for an allocation of 9% tax credits. However, the project did not score highly enough to receive the 9% credits, leaving a substantial financing gap. The revised financing package proposes the use of 4% tax credits and tax-exempt bond financing through VHDA. If approved, the AHIF/HOME contribution to the project would now total up to $5,815,000. That amount could be reduced to $3,415,000 or less if the project succeeds in securing grant funds through TCAP and other sources. The County's loan is part of an overall financing package that totals approximately $14 million.

In addition to the extra funds at a lower interest rate, AHC and Macedonia are requesting that the County modify one aspect of the affordable housing program that was approved by the Board on January 26, 2008 by reducing the number of units affordable to households at 50% of Area Median Income. The change is necessary to improve cash flow to assure the financial feasibility of the project. The original project included eight units at 50% AMI. Staff is recommending, and the applicant agrees to, a reduction to six units. Finally, the committed affordability period will be modified from 60 years to 75 years.

BACKGROUND: The Macedonia Apartments is a multifamily 100% affordable rental development which will contain 36 total units, including an underground parking garage, office space for the Bonder and Amanda Johnson Community Development Corporation (BAJCDC) and space for a small business incubator. The site is comprised of three parcels along Shirlington Road. The new structure has been designed to fit within the Nauck Village Center Action Plan which encourages mixed-use development and commercial retail on the first floor. The County Board approved the use permit for the project at its September 13, 2008 meeting.

The development represents collaboration between AHC, the Macedonia Baptist Church and the BAJCDC. AHC is the Development Manager for the project. The Macedonia Baptist Church, owner of the property, and AHC are creating the Shirlington Road Development Corporation, which will be the general partner in a Low Income Housing Tax Credit (LIHTC) limited partnership, the Nauck Development Partners-1, L.P. The partners in the Shirlington Road Development Corporation include the Nauck Development Management Corporation, a subsidiary entity of AHC Inc. and the Macedonia Baptist Housing Corporation, a subsidiary entity of Macedonia Baptist Church. The Church will retain long-term ownership of the land which will be leased to the partnership for a fee. Macedonia anticipates that revenue from the land lease will be used to provide social services that may be needed by residents of the project and other members of the community, for example: monthly food distribution through its SHARE program, financial literacy classes and Strengthening the Family Workshops for parents and youth.

On January 26, 2008, the County Board approved an AHIF/HOME loan of up to $2,960,000 at an annual interest rate of 4%, secured by a subordinated deed of trust and payable from the residual cash flow, ***contingent on the successful reservation of 9% tax credit equity***. Loan term #5 specified the affordable housing set-aside for the rental units as follows: "eight of the rental units will be affordable to households earning up to 50% of the AMI; and 28 units will be affordable to households earning up to 60% of the AMI, ***all for 60 years***…" Because the project did not receive an allocation of 9% tax credits, AHC is proposing to re-structure the financing using 4% tax credits and tax-exempt bonds issued through VHDA and to reduce the number of units affordable to households earning up to 50% AMI from eight units to six units. All 36 units would remain affordable for 75 years.

The revised financing package anticipates $2,728,955 in Low Income Housing Tax Credit equity and $3,755,000 in a senior loan financed with bonds through VHDA and includes an AHIF/HOME loan of $5,815,000 at 2% interest, of which $2,400,000 will be placed in a County-held contingency account while commitments for other financing sources are obtained, and equity and interest rates are finalized. In addition, there remains the $40,000 grant from the Department of Human Services to subsidize five Supportive Housing units at the property.

DISCUSSION: The construction of the Macedonia Apartments furthers the County's vision for the Nauck Neighborhood as described in the Nauck Village Center Action Plan. As such, the project has significant community benefits for Arlington County and meets several of the County Board adopted Housing Goals and Targets:

Community Benefits:

- Promotes the revitalization of an underserved Neighborhood Strategy Area
- Helps to actualize the Nauck Village Center Action Plan
- Builds the capacity of Arlington's community-based nonprofit groups

Affordable Housing Goals:

The project:

- Provides 36 units of committed affordable housing in the Nauck Revitalization area (Goal 3/Target 3C);

- Provides five supportive housing units for persons with disabilities, targeted to extremely low income households and subsidized by project-based Housing Choice Vouchers or Local Supportive Housing Rental Assistance (Goal 4/Target 4B; Supportive Housing Plan strategy #2).
- Includes 17 two-bedroom family-sized units (Goal 5/Target 5A).
- Is located in Nauck Neighborhood Strategy Area (Goal 6/Target 6A).

Because of its relatively small size and the cost of new construction in Arlington this project does not score enough points to fare well in the highly competitive 9% tax credit process. Given the anticipated competitive environment in Northern Virginia for 2009 tax credits the Macedonia Apartments is unlikely to be successful in further pursuing 9% credits. However, the project could be eligible for new housing funds available through an economic stimulus program the Tax Credit Assistance Program (TCAP). These funds will be awarded through VHDA to projects that are “shovel ready”. VHDA anticipates that the funds will be available on or before September 30, 2009 and they must be allocated and spent quickly.

The revised financing plan includes 4% rather than 9% tax credits. Four percent credits are awarded to qualified projects on a rolling, open-door schedule. There is a point threshold that is required, but projects do not compete against other projects for the credits. The 4% tax credit program requires that the financing package includes a minimum amount (50% of the total) of tax-exempt bonds as senior debt; this is known as the “50% test”. The cash flow from rents charged must be sufficient to pay the debt service on these bonds. The amount of cash flow is determined in part by the affordable housing program and especially the income target for the units developed. For this reason the number of units reserved for households at 50% AMI will be reduced from eight units to six units. In turn, VHDA has agreed to allow the project to retire a portion of the bonds used for construction at the time of permanent financing which improves cash flow if the replacement funds are a grant or a loan with a lower interest rate than the construction loan. Either a portion of the AHIF/HOME funds or the TCAP funds will be used for this purpose.

AHC also seeks to reduce the amount of AHIF funds required to fill the financing gap by maximizing the amount of tax credit equity that the project can attract from investors. There are several factors that impact the amount of tax credit equity that a project can attract from investors. One of those factors includes a determination of the character of the subordinate financing by a process called “True Debt Analysis.” If there is not a reasonable expectation that a subordinate loan can be repaid by the end of the loan term, then it may be considered a grant rather than “true debt.” Grant funded expenses are not included in the eligible basis for determining the amount of tax credits that a project can receive, thus reducing the potential tax credit income. Furthermore, classifying a funding source as a grant will significantly reduce the financial return to the tax credit investors in multiple ways, which in turn will reduce the amount that they are willing to pay for the credits.

For the reasons above, tax credit equity is maximized when the County’s loan can be considered “true debt.” When the value of the property at loan maturity (35 years) is greater than the outstanding loan balance, including principal and interest, it becomes feasible to pay off the balance through a sale or refinance of the property. In that circumstance the County’s loan can be considered “true debt.” A reduction in the interest rate on the AHIF/HOME loan reduces the amount of the outstanding County loan balance that will remain at the end of the 35 year loan term so that a refinance will be feasible. The original loan was approved at 4% interest for a term of 30 years. Staff recommends a reduction in the interest rate of the AHIF loan from 4% to 2% and an extension of the loan term to 35 years.

County Funding Request: AHC and Macedonia are requesting up to $2,855,000 in additional County funds for a County residual receipts/cash flow loan totaling up to $5,815,000. Because of the volatility in equity pricing and because AHC can seek additional grant or low interest loan funding, staff recommends that $2,400,000 of the $5.815 million be placed in a County-held contingency account while equity pricing is finalized and commitments for all of the sources of financing sources are obtained. The proposed contingency account would only be accessed with approval by the County Manager or his designee at the time when the construction bridge loan from VHDA is paid, and only after review of the project financing demonstrates a need for the contingency funds. The new proposed loan, ranging between $450,000 and $2.855 million is in addition to the loan approved by the County Board in January 2008 for $2.96 million, for a total of up to $5.815 million.

The proposed loan would have a 35-year term at a 2% interest rate and would be secured by a subordinated deed of trust and payable from cash flow from the project. For approximately the first ten (10) years, cash flow will be used to pay the deferred developer fee. After the deferred fee is paid, 75% of the cash flow will be paid to the County for repayment of the AHIF loan.

The additional proposed loan between $450,000 and $2.855 million in AHIF/HOME funds will increase the total County loan amount to between $3.415 and $5.815 million. This amount represents a total AHIF/HOME subsidy per unit between $94,861 and $161,528 for 36 newly constructed units. The proposed County loan is necessary to keep the rents affordable for the loan term and to leverage other public and private funds. At the maximum amount, Arlington County's overall share of this financial package is approximately 40% with a leverage ratio of approximately 1.5 ($1.50 in funds from other sources for every $1 of County funds). Up to 30 units (fifteen 1-bedroom units and fifteen 2-bedroom units) including the six units affordable at 50% AMI will be designated as HOME units.

Proposed New Permanent Financing Plan: The new financing for the Macedonia Apartments includes three loans from VHDA – a first mortgage of $255,000, a Sponsoring Partnerships and Revitalizing Communities (SPARC) loan of $1.5 million and a Resources Enabling Affordable Community Housing (REACH) Multifamily loan of $2 million, $2,728,955 in Low Income Housing Tax Credit Equity, owner funds from interim operating income of $100,000, a $40,000 supportive housing grant from DHS, $543,119 in a deferred developer fee, and up to $5,815,000 in a long-term County loan. AHC and Macedonia shall apply for TCAP and other grant funds which, if obtained, would reduce the amount of the AHIF/HOME loan. Uses of funds include hard construction costs of $9,047,600, a reduction of nearly $1 million from the 2008 estimate and now based on firm contractor bids, soft costs totaling $2,522,478, and a developer fee of $1,357,798. The Macedonia Church is the owner of the land which has an assessed value of approximately $1 million. Macedonia will lease the land to the project at $50,000 annually. Land lease payments of $25,000 begin in Year 1, with 50% of the land lease payments deferred.

These sources and uses are shown in the table below.

Permanent Financing Table

SOURCES OF FUNDS			USES OF FUNDS		
	2008	2009		2008	2009
Land lease value	$1,000,000	$1,000,000	**Land (Lease)**	$1,000,000	$1,000,000
First Mortgage – VHDA	$2,485,000	$255,000	**Construction Hard Costs**	$9,997,478	$9,098,100
VHDA SPARC	$0	$1,500,000	**Construction Soft Costs**	$1,816,617	$1,882,990
VHDA REACH	$800,000	$2,000,000	**Other Soft Costs**	$778,900	$639,488
LIHTC	$7,123,575	$2,728,955	**Developer Fee**	$1,359,300	$1,357,798
Deferred Developer Fee	$543,720	$543,119			
Owner Funds		$100,000			
Arlington County Loan	$2,960,000	$5,815,000			
DHS Supp Hsng Grant	$40,000	$40,000			
TOTAL SOURCES	**$14,952,295**	**$13,982,074**	**TOTAL USES**	**$14,952,295**	**$13,978,376**

Housing Program: The proposed housing plan includes 30 units that are affordable to households earning up to 60% of the area median income (AMI), and six units affordable to households earning up to 50% AMI for a total of 36 affordable units. As described above, this is a change from the 2008 proposal that included eight units affordable to households at 50% of AMI. The bedroom mix includes 19 one-bedroom units and 17 two-bedroom units.

Revised Unit Mix and Rents

	Number of Affordable Units		Monthly Rent
Unit Size	**60% AMI**	**50% AMI**	**w/o utilities**
1-Bedroom	16 units		$1,114
1-Bedroom		3 units	$928
2-Bedroom	14 units		$1,337
2-Bedroom		3 units	$1,114
Total	30 units	6 units	

Proposed Housing for Persons with Special Needs: The Project sponsors propose to commit a minimum of five units to be used by the County Department of Human Services (DHS) Permanent Supportive Housing (PSH) Program using either federal or local project-based rental assistance funding. The sponsors have also committed to providing 5 units (four one-bedroom units and one two-bedroom unit) as fully accessible to persons with mobility disabilities. These units will have roll-in showers, roll-under sinks, and accessible controls on appliances. These five units may be used by persons in the Supportive Housing Program when appropriate, but the fully accessible units are not reserved for Supportive Housing residents. Additionally all the units in the property will be visitable and all common areas of the project will be accessible.

Schools Impact: Arlington Public Schools (APS) projects the impact on schools at 18 students. APS estimates the breakdown split as 50% elementary (Drew, 9 students), 20% middle (Gunston, 4 students) and 30% high school (Wakefield, 5 students) students. As such the proposed redevelopment should have minimal impact on school population.

Civic Association/Community Process: The new structure has been designed to fit within the Nauck Village Center Action Plan, with input from the Nauck Revitalization Association and the Nauck Civic Association. There is no known opposition to the project.

Housing Commission: Macedonia and AHC met with the Citizens Advisory Commission on Housing (HC) on March 5, 2009. The Housing Commission will send a separate letter to the County Board with its recommendation for this project.

Loan Terms and Conditions: Approve an AHIF/HOME loan of up to $2,855,000, of which $2,400,000 will be placed in a County-held contingency account while commitments for other financing sources are obtained and equity rates are finalized. This amount, up to $2.855 million, will be combined with the $2.960 million of AHIF/HOME and the $40,000 DHS grant approved by the County Board in 2008. The total loan of up to $5,815,000 will be made to Nauck Development Partners-1, L.P. to assist with the construction of the Macedonia Apartments subject to the following terms and conditions.

1. The applicant shall execute a generally standard DHS Grant Agreement and a generally standard AHIF/HOME Program Agreement and loan instruments for the County loan in a form acceptable to the County Manager and the County Attorney.

2. This financing assistance will be in the form of a subordinated residual receipts loan, secured by the property, and repayable from the cash flow from the property. This loan will be made at an interest rate of 2%, compounded annually, over a term of 35 years. This loan will be subordinate to the VHDA loan and tax credit funding if necessary.

3. The applicant must secure commitments for all remaining funds listed under the Proposed New Permanent Financing Plan in this report prior to disbursement of any funds from the County. The applicant shall apply for additional grant funds, including funds awarded through VHDA that may become available through the Tax Credit Assistance Program (TCAP), a new program being created as part of the economic stimulus package in the American Recovery and Reinvestment Act, and other grant funds as may be appropriate such as Neighbor Works grants.

4. The applicant must comply with the affordable housing set-aside for the rental units as follows: Six of the rental units will be affordable to households earning up to 50% of the AMI; and 30 units will be affordable to households earning up to 60% of the AMI, as set forth in the chart on page 5 of this report. The developer agrees that the affordable rents shall be established in accordance with HUD rent limits set for Arlington County. Rents shall not exceed the established affordability level for the unit size, minus a utility allowance (if applicable) as per the schedule annually approved by HUD for Arlington's Section 8 Housing Choice Voucher Program.

5. The term of affordability shall be 75 years. However, if at any time in year 35 or later (but prior to the end of the full 75-year commitment period), the project partners desire to refinance the property and are unable to refinance because the units are income-

restricted, they may return to the County Board with a request to consider a recommendation to allow the 36 income-restricted units (or a portion thereof) to be rented at levels affordable to households earning up to 80% AMI.

6. The County Board's commitment of the AHIF/HOME loan is contingent on the completion of the Environmental Review Process and receipt by the County of a release of funds from HUD under 24CFR Part 58.

7. The developer or its designee shall commit a minimum of five of the units for the County Department of Human Services (DHS) Permanent Supportive Housing (PSH) Program using either federal or local project-based rental assistance funding. The Owner shall enter into a PSH agreement with DHS approximately 90 days prior to initial occupancy of the building.

8. The developer or its designee will agree to provide five affordable units for persons with physical disabilities (Type A dwellings as described in International Code Council / American National Standards Institute A117) and to fully cooperate with an affirmative marketing program to market these units to households in need of such accommodation.

9. The AHIF/HOME Agreement between the County and AHC or its designated ownership affiliate shall include an Affirmative Marketing Plan in substantially that form as required by HUD for the federal HOME program and including, at a minimum, the elements specified in the Developer's final Affordable Housing Plan and Affirmative Marketing Plan.

10. The developer, its designated ownership entity, heirs or assigns shall provide a purchase option including a right of first refusal to the County or its designee, if the developer decides to sell the property any time prior to or at the end of the 75-year affordability term, wherein the County or its designee shall have the right, but not the obligation, for a period of up to 180 days, to purchase the property at 90 percent of its then-appraised fair market value. If the owner's appraiser and County's appraiser do not concur on the fair market value of the property, the two appraisers shall select a third appraiser using the industry-standard three appraiser method to determine the fair market value.

11. The project partners understand and agree that AHIF/HOME funds may not be provided to religious organizations for any activity and certify that the partners of the Shirlington Road Development Corporation are secular entities. Furthermore the housing units at the Macedonia Apartments will be equally available to all persons regardless of religion and there will be no religious or membership criteria or preference for tenants of the property.

FISCAL IMPACT: The current AHIF/HOME balance for FY 2009 is $10,571,544. Approval of the staff recommendation of an additional $2,855,000 in AHIF/HOME would result in a remaining AHIF/HOME balance of $7,716,544. The $40,000 grant from DHS is already included in DHS's FY 2009 base budget for supportive housing.

Location of Macedonia Apartments
(crosshatched parcels 2219, 2229 and 2239 Shirlington Road)