ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of April 25, 2009

DATE: April 13, 2009

SUBJECT: Allocation of Fiscal Year (FY) 2009 Affordable Housing Investment Fund (AHIF)/HOME funds as a loan to AHC, Inc. to assist with the development of The Jordan Apartments in the Bluemont neighborhood.

C. M. RECOMMENDATIONS:

1. Allocate up to $5,580,000 in FY 2009 AHIF/HOME funds (101.495130.91102), of which $2,000,000 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 AHC Inc. or its designated County-approved ownership affiliate (101.456300.91102), to assist with the construction of The Jordan 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 the addition of an existing $2,220,000 AHIF loan for The Jordan Apartments to AHC, Inc. or its designated County-approved ownership affiliate, to the up-to-$5,580,000 AHIF/HOME loan described above in #1 as long-term financing assistance for the development of The Jordan, under the terms and conditions described in this report.

3. Authorize the County Manager to execute the required documents for a loan for up to $7,800,000 to AHC, Inc. or its designated County-approved ownership affiliate, 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 Sarah Pizzo, DCPHD

BrdRpt-Jordan AHIF 4.15.09

ISSUE: This is a request for Affordable Housing Investment Fund (AHIF)/HOME funds by AHC, Inc. to assist with the development of The Jordan Apartments.

SUMMARY: AHC, Inc. is requesting up to $5,580,000 in Affordable Housing Investment Fund (AHIF)/HOME funds as the second of a two-part loan request to assist in constructing its 90-unit affordable housing apartment complex, The Jordan. The Jordan is part of a joint Site Plan filed by JBG and AHC for the former Peck Chevrolet, Staples, and Jordan Manor Apartments site, which was approved by the County Board in February 2008. On July 8, 2008, the County Board approved a $2,220,000 loan to AHC. This loan consisted of two parts:

1. The rollover of an existing $220,000 County AHIF loan that helped AHC purchase the Jordan Manor apartments in 1990; and,
2. $2,000,000 of additional AHIF loan funds that allowed AHC to relocate Jordan Manor tenants, demolish the complex, and pay off the bond balance on that property. These three activities were a prerequisite to AHC completing the land exchange with JBG that will allow this significantly larger affordable housing program to be developed (from 24 units to 90 units, or a net gain of 66 committed affordable units).

AHC estimates that on or about April 20, 2009 it will complete a land exchange with The JBG Companies and exchange its property where the Jordan Manor Apartments were located with a subdivided parcel of JBG's property at Wilson Blvd. and Wakefield Street. By May 15, 2009 AHC will submit an application for 9% Low Income Housing Tax Credits.

If AHC is successful in obtaining the 9% tax credits this year, this request for up to $5,580,000 in AHIF would provide the gap financing needed to construct the new 90-unit apartment complex. The units will be affordable to households earning up to 50% and 60% of the Area Median Income (AMI). In July 2008, it was anticipated that this second portion of the AHIF request would be for approximately $3.8 million. Decreases in tax credit pricing and increases in interest rates have resulted in a significant additional gap. Additionally, AHC is not requesting the maximum amount of tax credits for which it is eligible in order to make its application more competitive in what is anticipated to be a tight competition year. As a result of these factors, the total of AHC's request is now for an amount up to $5,580,000 in additional AHIF/HOME funds in addition to $2,220,000 already funded for a total of $7,800,000. The County's loan would be part of an overall financing package that totals approximately $31 million, of which the AHIF/HOME portion would be 25%.

Part of the additional gap may be covered by 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 AHIF funding could be reduced to as low as $3,580,000 if the project succeeds in securing grant funds through TCAP and other sources.

BACKGROUND: On February 23, 2008 the County Board approved a joint site plan request of The JBG Companies and AHC Inc. for the Peck Chevrolet, Staples, and Jordan Manor site, with conceptual approval of a 90-unit AHC building. This joint site plan required that a land exchange occur between JBG and AHC. AHC would exchange the land previously occupied by its 24-unit Jordan Manor property for a subdivided portion of the former Peck/Staples site. Since the addition of AHC into the site plan request occurred several months after the initial site plan application was filed, the AHC building design lagged behind the rest of the site plan; the building was approved in concept in February 2008 and a major site plan amendment was approved in July 2008 for the design details of the AHC building.

The site plan included a condition that JBG make an affordable housing contribution of $5,898,846 to the County. It was envisioned that this amount be loaned from the County to AHC in the form of an AHIF loan to help finance the new 90-unit complex. It was agreed in a Memorandum of Understanding (MOU) among JBG, AHC and the County that AHC would request these funds from the County in two parts: an initial request in July 2008 for $2 million for costs associated with the land exchange and a second request for the balance of funds following the exchange. Since the exchange will take place on or about April 15, 2009, AHC is requesting the second portion of AHIF funds to assist in the construction of the new 90-unit complex.

DISCUSSION: This project is the result of an innovative partnership and land exchange between AHC and JBG, which will result in a net increase of 66 affordable units in the Metro corridor just west of the Ballston Metro station.

Pre-Development Work: Following the County Board's July 2008 approval of $2 million in AHIF funds, AHC completed the three tasks for which the funds were allocated. First, AHC relocated its remaining Jordan Manor tenants and gave each household a $300 bonus in addition to the standard relocation payment. AHC then worked with the Arlington County Industrial Development Authority (IDA) and Fannie Mae to retire the outstanding bonds on the property. By the end of February 2009, AHC had completed this transaction and had settled on all legal matters. Following this closing, AHC was able to demolish the Jordan Manor Apartments. Since the property has now been completely cleared, AHC can close on its land exchange with JBG.

Development Plan: Construction of the new complex is estimated to take 24 to 36 months from approval of tax credit funding. If AHC is successful in obtaining a 2009 9% tax credit allocation, construction will start on The Jordan following JBG's completion of the underground garage. The garage covers both the AHC and JBG sites on the block and is currently estimated to be completed by April 2010. The first floor of the JBG-constructed garage that underlies AHC's site will be owned by AHC as part of The Jordan apartment complex. The design of the building will be a four-story, "U" shaped building with a private courtyard for use of the tenants inside the "U".

County Funding Request: AHC is requesting up to $5,580,000 in new AHIF funds. Adding in the $1,994,100 (funded in July 2008 and disbursed in February 2009) and the $225,900 principal and interest balance for the original Jordan Manor Apartments AHIF loan, the County residual receipts loan would total up to $7,800,000.

Because of the volatility in equity pricing and because AHC can seek additional grant or TCAP funding, staff recommends that $2,000,000 of the $5,580,000 be placed in a County-held contingency account while equity pricing is finalized and commitments for all of the sources of financing 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 is paid, and only after review of the project financing demonstrates a need for the contingency funds.

The proposed loan would have a 35-year term at a 3% interest rate and would be secured by a subordinated Deed of Trust and payable from cash flow from the project. If the project is not awarded TCAP funding, for approximately the first ten (10) years, cash flow will be used to pay the deferred developer fee. After the deferred fee is paid, 76 % of the cash flow would be paid to the County for repayment of the AHIF loan. If AHC is successful in obtaining TCAP funding, its total developer fee would be reduced to $900,000 per VHDA's draft TCAP guidelines at the time of this report. If this is the case, staff recommends allowing all of the cash flow from the property in the first 10 years to go to AHC since their developer fee would be reduced by up to $2,100,000. From year 11 on, 76% of the cash flow would be paid to the County for repayment of the AHIF loan and 24% would be paid to AHC.

The total proposed loan of $7,800,000 (of which $2,220,000 has already been approved and disbursed) will equate to a total AHIF/HOME subsidy per unit between $64,444 and $86,666 depending on TCAP and other grant funding. 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 25% with a leverage ratio of approximately 1:3 ($3.30 in funds from other sources for every $1 of County funds).

Proposed Permanent Financing Plan: AHC's proposed permanent financing for The Jordan totals approximately $31 million. The following table displays the differences in sources and uses between the 2008 estimate and current 2009 estimate . The mortgage carrying capacity decreased due to increased interest rates and tax credit equity decreased due to lower credit prices. Construction hard costs, now based on firm contractor bids, decreased approximately $3.65 million to $17.7 million.

Permanent Financing Table

SOURCES OF FUNDS			**USES OF FUNDS**		
	2008 estimate	**2009**		**2008 estimate**	**2009**
First Mortgage	$8,975,000	$7,540,000	Acquisition*	$2,060,541*	$5,940,000*
LIHTC	$13,593,881	$10,765,972	Construction Hard Costs	$21,398,180	$17,720,831
Note for Land Value*	$0	$2,440,000	Construction Soft Costs	$4,132,468	$4,384,141
Capital Contribution*	$0	$1,000,000	Developer Fee	$3,000,000	$3,000,000
Deferred Developer Fee	$1,500,000	$1,500,000			
AHIF/HOME Loan	$6,524,783**	$7,800,000**			

TOTAL SOURCES		$31,044,972	TOTAL USES		$31,044,972

*The “acquisition cost” in 2008 included only pre-development costs, including the payoff of the existing debt at Jordan Manor Apartments, relocation of tenants and demolition of the complex. The “acquisition cost” in 2009 reflects the assessed value of $5,940,000 of the parcel that AHC will obtain from JBG through its land exchange. After subtracting the book value of AHC’s previous Jordan Manor property (derived by adding the $2,220,000 existing AHIF loan and $280,000 of AHC’s land exchange-related expenses), there is a remaining gain of $3.44 million in land value through the exchange. Instead of realizing that gain today, AHC will split that value into a $2.44 million AHC note for the land value and a $1 million AHC capital contribution.

**Loan total includes July 2008 AHIF allocation plus original AHIF loan from Jordan Manor Apartments which had a total principal and interest of $224,783 in July 2008 and $225,900 in February 2009.

Housing Program: The proposed housing plan includes 72 units that are affordable to households earning up to 60% of the area median income (AMI) and 18 units affordable to households earning up to 50% AMI for a total of 90 affordable units. The bedroom mix includes 17 one-bedroom units, and 68 two-bedroom units and 5 three-bedroom units. The table below summarizes the proposed affordable housing program.

Unit Mix and Rents

	Number of Affordable Units		Monthly Rent
Unit Size	60% AMI	50% AMI	w/o utilities
1-Bedroom	14 units		$1,155
1-Bedroom		3 units	$963
2-Bedroom	54 units		$1,386
2-Bedroom		14 units	$1,155
3-Bedroom	4 units		$1,602
3-Bedroom		1 unit	$1,335
Total	72 units	18 units	

Accessible Units: Nine units (or 10% of the project) will be fully accessible to persons with mobility disabilities. These units will have roll-in showers, roll-under sinks, and accessible controls on appliances. Additionally all the units in the property will be visitable and all common areas of the project will be accessible.

Affordable Housing Goals and Targets: The project meets the following Housing Goals and Targets:

- Provides 90 units of committed affordable housing (Goal 3/Target 3C);
- Includes 68 two-bedroom and 5 three-bedroom units for a total of 73 family-sized units (or 81% of the project) (Goal 5/Target 5A).
- Is located in the Metrorail Corridor, walking distance from the Ballston Metro Station (Goal 6/Target 6A).

Schools Impact: Arlington Public Schools (APS) projects the impact on schools as 26 students. APS estimates the breakdown split as 50 % elementary (Ashlawn Elementary School, 13 students), 20% middle (Swanson Middle School, 5 students) and 30% high school (Washington-

Lee High School, 8 students). As such the proposed redevelopment should have minimal impact on any one school.

Housing Commission: AHC will meet with the Citizens Advisory Commission on Housing (HC) on April 16, 2009 for consideration of this request for the second portion of AHIF funding. The Housing Commission will send a separate letter to the County Board with its recommendation for this project. Previously, the Housing Commission has taken two votes on this project. At its February 14, 2008 meeting, the Commission voted 4-0-1 to recommend support of the proposed affordable housing package of the joint site plan, subject to several conditions. At its July 10, 2008 meeting, the Commission voted 7-0-2 to recommend support of the up to $2,000,000 in AHIF funds for the relocation of current tenants, demolition, and payoff of current debt at the existing Jordan Manor complex.

Loan Terms and Conditions: Staff recommends that the County allocate up to $5,580,000 in AHIF/HOME funds, of which $2,000,000 will be placed in a County-held contingency account while commitments for other financing sources are obtained and equity rates are finalized. Staff recommends that the existing $2,220,000 AHIF loan be added to the up to $5,580,000 AHIF loan for a total AHIF loan of up to $7,800,000 to assist with the construction of The Jordan subject to the following terms and conditions:

1. The applicant shall execute 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. AHC, Inc. will apply by May 15, 2009 for an allocation of up to $1.7 million in 9% competitive Low Income Housing Tax Credits excluding a Tax Credit Assistance Program (TCAP) request.

3. The County 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 3%, compounded annually, over a term of 35 years. This loan will be subordinate to the primary mortgage of up to $10,000,000 plus the tax credit funding if necessary. The applicant must secure commitments for all remaining funds listed under the Proposed Financing Plan in this report prior to disbursement of any funds from the County. If JBG builds the garage for The Jordan as is planned, JBG will subtract the cost of the garage, which has been approved by the County, from the anticipated remaining payment to the County (JBG’s outstanding affordable housing contribution to the County is $3,898,846; JBG’s estimate for the garage is approximately $3.3 million). If JBG builds the garage, then the County would reduce its AHIF disbursement to AHC by that same amount. This arrangement is consistent with Condition #68 in approved Site Plan #401. The County will work with AHC to review the timing and cash flow needs for the site utility work. The County recognizes that AHC may return to the County Board at a later date to address this matter.

4. The applicant shall apply for 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. AHC shall apply for the maximum permissible amount of TCAP funding that maintains a competitive tax credit application score. With TCAP funding, the AHIF loan will be reduced in an amount proportional to the amount of current tax credit equity projected in the budget on page 4, subject to approval of the County Manager or his designee.

5. If AHC is successful in obtaining TCAP funding and its total developer fee is reduced significantly (to $900,000 per VHDA's draft TCAP guidelines at the time of this report), all cash flow from the property in the first 10 years will go to AHC. From year 11 on, 76% of the cash flow will be paid to the County for repayment of the AHIF loan and 24% will be paid to AHC for repayment of the land note.

6. If the project is not awarded TCAP funding, for approximately the first ten (10) years, all cash flow will be used to pay the deferred developer fee. After the deferred fee is paid, 76% of the cash flow would be paid to the County for repayment of the AHIF loan and 24% of the cash flow would be paid to AHC for repayment of the land note. The land note will accrue interest at a rate not to exceed the Applicable Federal Rate (AFR).

7. The applicant must comply with the affordable housing set-aside for the rental units as follows: Eighteen (18) of the rental units will be affordable to households earning up to 50% of the AMI; and 72 units will be affordable to households earning up to 60% of the AMI, as set forth in the chart on pages 4-5 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.

8. 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 90 income-restricted units (or a portion thereof) to be rented at levels affordable to households earning up to 80% AMI.

9. The developer will agree to provide nine (9) affordable units for persons with physical disabilities (Type A dwellings as described in the International Code Council / American National Standards Institute's A117 "Standard for Accessible and Usable Buildings") and to fully cooperate with an affirmative marketing program to market these units to households in need of such accommodation.

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

11. 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.

12. 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.

FISCAL IMPACT: The current AHIF/HOME balance for FY 2009 is $7,716,544. Approval of the staff recommendation of an additional $5,580,000 in AHIF/HOME would result in a remaining AHIF/HOME balance of $2,136,544.

Location of The Jordan

The location of the site where The Jordan will be developed is Lot #3 below, which will have a new RPC number of 14053061.