



ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item Meeting of February 20, 2010

DATE: February 3, 2010

SUBJECT: Allocation of Fiscal Year (FY) 2010 Affordable Housing Investment Fund (AHIF) funds as a loan to the Arlington Partnership for Affordable Housing (APAH) to assist with the rehabilitation of Buchanan Gardens Apartments.

C. M. RECOMMENDATIONS:

1. Allocate up to \$4,332,000 in FY 2010 AHIF funds (101.495130.91102) to the Arlington Partnership for Affordable Housing (APAH) Inc., or its designated County-approved ownership affiliate, to assist with the rehabilitation of Buchanan Gardens 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. Authorize the County Manager to execute the required documents for a loan for up to \$4,332,000 to APAH or its designated County-approved ownership affiliate, subject to the terms and conditions outlined in the report 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.
3. 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.

ISSUE: This is a request for Affordable Housing Investment Fund (AHIF) funds by APAH to assist with the renovation of Buchanan Gardens Apartments.

SUMMARY: APAH is requesting up to \$4,332,000 in Affordable Housing Investment Fund (AHIF) funds to assist in the renovation of Buchanan Gardens Apartments. On December 29, 2009, APAH purchased the property utilizing \$7,100,000 in AHIF funds as a portion of the acquisition financing. Since the purchase, APAH has conducted tenant surveys and verified their

County Manager: BMD

County Attorney: SAM

Staff: David Cristeal and Marie Randall, DCPHD

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incomes and worked with their architect and engineer to devise an appropriate renovation plan for the property. In March 2010, APAH will submit an application to the Virginia Housing Development Authority (VHDA) for a reservation of Low Income Housing Tax Credits (LIHTC).

In order to complete the renovations that are described in this report and submit a competitive application for the 2010 tax credit round, APAH is requesting up to an additional \$4,332,000 in AHIF to complete the second phase of the project.

BACKGROUND: On November 14, 2009, the County Board approved two actions:

- APAH's Use Permit application. The development, permitted in accordance with the Zoning Ordinance, is part of an overlay district called the Voluntary Coordinated Housing Preservation and Development District (VCHPDD), for the purposes, among others, of permitting additional density on the site in recognition of the development's long term commitment to the provision of low and moderate income housing. The development is part of the County's affordable dwelling unit program because it is comprised of committed affordable units for a period of 60 years.
- APAH's request of up to \$7,100,000 in AHIF for acquisition of the property.

At that time, Housing Division staff and APAH had structured this project into two phases because of two significant uncertainties. The first was that APAH would not be able to obtain accurate and thorough tenant information until APAH owned the property. While the previous owner had provided APAH rent roll information, the owner did not allow APAH to conduct surveys of the individual households. The second uncertainty was that VHDA would not complete their Qualified Application Plan (QAP) process for the 2010 tax credit round until December 2009 and consequently, APAH would not know how competitive their application would be if new requirements were added or if scoring the applications would be different than in the 2009 round.

Completion of the first phase has allowed APAH to purchase the property and obtain more accurate information about the tenants living at Buchanan Gardens. Since December 29, 2009, when settlement on Buchanan Gardens Apartments occurred, APAH has been completing tenant surveys and certifying household income in order to confirm household income, size, number and age of children and other characteristics about its current tenant population. Simultaneously, APAH's architect and engineers have comprehensively reviewed the property and its systems and have proposed a renovation plan to correct any property deficiencies, increase the energy efficiency of the systems of the property, and meet the needs of the current and future tenant population through the addition of bump-outs (i.e. add 2- and 3-bedroom units).

Also during the first phase, VHDA completed its QAP process. During the process, APAH and Housing Division staff commented on the proposed changes to the QAP and how those would not only affect Buchanan Gardens, but Arlington in general. In early December, the QAP was approved by the VHDA Board of Directors and the scoring for different categories of the application was finalized. With this definitive information about the application, scoring process and potential applicant list that was published in late January, APAH and staff believe that Buchanan Gardens will have a competitive application for the 2010 tax credit round. Consequently, APAH will submit an application to VHDA by the March 12 deadline.

DISCUSSION: This project is an opportunity to renovate a newly acquired multi-family rental property in the Columbia Pike corridor and preserve 111 committed affordable units. This acquisition furthered the County's goal within the Columbia Pike Land Use and Housing Study of preserving affordable housing in the Columbia Pike corridor. The property consists of 11 colonial style, walk-up garden apartment buildings and is located on Buchanan Street, one-half block north of Columbia Pike and within the boundaries of the Barcroft School and Civic League (see attached map).

Tenant Information: Since settlement on the property, APAH has been surveying the current tenants and will complete all of the surveys and income certifications of the tenants by March 1, 2010. At this time, preliminary survey information shows that the residents at Buchanan Gardens are mostly low income (at or below 60% of the Area Median Income (AMI)), non-English speaking households. Approximately half of the households are families with children. APAH and staff have been exploring many options for these residents that have expressed interest in remaining at Buchanan Gardens once it is renovated. Within the budget for the permanent financing for the project is \$300,000 for relocation expenses for current qualified tenants. These funds will be used according to the guidelines in the Tenant Relocation Plan that was tentatively approved by the Tenant Landlord Commission at their meeting on September 16, 2009. In addition, \$200,000 has been included in the budget for a time-limited Tenant Assistance Fund (TAF). The TAF will provide a short-term rental subsidy to households whose incomes do not support making the rent payment for the income-restricted unit without paying more than 35% of their monthly income. The TAF will be an integral part of minimizing the displacement of current qualified tenants who want to remain at Buchanan Gardens.

Proposed Permanent Affordable Housing Plan: Currently, the property includes 82 one-bedroom units, 28 two-bedroom units, and one three-bedroom unit. Rents are affordable to households at approximately 50% to 60% of the Area Median Income (AMI) with monthly rents (including utilities) for one-bedroom units between \$835 and \$1,015, \$925 to \$1,325 for two-bedroom units and \$1,395 for the three-bedroom unit. Through the renovation, APAH proposes to nearly double the number of family-sized units than they proposed in November. The proposed permanent affordable housing plan includes 55 1-bedroom units, 33 2-bedroom units, and 23 3-bedroom units through the use of bump-outs to increase the number of bedrooms and the size of the units. Of these units, 11 of the one-bedroom units will be restricted to households with incomes at or below 50% of AMI while the remaining units will be restricted to households with income at or below 60% of AMI.

The renovation would include the modernization and increased energy-efficiency of the systems and finishes and the creation of new office and community space. The energy-efficiency aspects of the renovation allow the project to receive the Earth-Craft designation by VHDA and include new efficient windows, new insulation, and individually controlled electric and gas options.

Unit Mix and Rents

Unit Size	Current Unit Mix	Current Average Rents	Proposed Unit Mix	Proposed Rents* (plus utilities)
1-Bedroom	81 units	\$950	55	\$890-\$995
2-Bedroom	29 units	\$1,230	33	\$1,195-\$1,265
3-Bedroom	1 unit	\$1,395	23	\$1,475
Total	111 units		111 units	

*Utility allowances would add \$73 for 1-bedroom units, \$88 for 2-bedroom units, and \$104 for 3-bedroom units.

Proposed Permanent Financing Plan: APAH purchased the property on December 29, 2009 and is in the process of securing financing for the renovation and stabilization of the property. As part of the proposed permanent financing plan, APAH will apply to VHDA for tax credits, secure a first mortgage through VHDA, defer a portion of their developer fee and utilize interim income from the property in addition to their request of up to \$4,332,000 in AHIF from the County (see table below).

Permanent Financing Sources and Uses

SOURCES OF FUNDS		USES OF FUNDS	
Source	Amount	Use	Amount
First Mortgage	\$7,900,000	Acquisition Costs	\$13,205,000
Total AHIF Loan	\$11,432,000	Renovation Costs	\$10,451,775
Tax Credit Equity	\$10,330,087	Construction Soft Costs	\$1,594,875
Deferred Developer Fee	\$1,034,329	Financing Costs	\$1,282,045
Interim Income	\$300,000	Reserves, Soft Costs & Fees	\$4,462,721
TOTAL SOURCES	\$30,996,416	TOTAL USES	\$30,996,416

While \$4,332,000 is the maximum amount of AHIF being proposed at this time, staff and APAH believe that if certain favorable financial trends continue, there may be cost savings realized which would be split equally between the County and APAH. Currently, VHDA requires their loans to be underwritten at a seven percent (7%) vacancy rate. This decreases the amount of debt that Buchanan Gardens is able to borrow. If that guideline returns to a five percent (5%) vacancy rate before settlement on the permanent financing, the amount of the VHDA first mortgage could increase which in turn, would permit the amount of the AHIF loan to decrease. Additionally, through staff review of other Arlington and Northern Virginia projects, it appears that investors are willing to pay more for tax credits for projects in Northern Virginia, and specifically Arlington. If that continues, APAH will be able to generate more equity and consequently, the amount of AHIF required would proportionately decrease (i.e. a \$.05 increase in tax credit pricing would decrease the AHIF loan by approximately \$600,000).

County Funding Request: APAH is requesting up to \$4,332,000 in AHIF funds for permanent

financing for the project. The proposed loan would be added to the original \$7,100,000 and the combined loan would have a 35-year term at a 2 % interest rate. The loan would be secured by a subordinated Deed of Trust and payable from cash flow from the project with fifty percent (50%) of the cash flow paid to APAH for the deferred developer fee and fifty percent (50%) paid to the County as a residual receipt payment.

Accessible Units: The property currently does not have any accessible units. APAH proposes that, through the renovations, six units will be fully accessible to persons with disabilities with mobility impairments and three units which will be accessible to persons with disabilities with visual and hearing impairments.

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

- Provides 111 units of committed affordable housing (Goal 3/Target 3C);
- Provides 33 two-bedroom and 23 three-bedroom units during the Permanent Financing phase, increasing the amount of family-sized units by 26 units over APAH's 2009 AHIF request (Goal 5/Target 5A).

Civic Association/Community Process: At their meeting on May 7, 2009, the Barcroft School and Civic League (BSCL) adopted a resolution in support of the purchase of Buchanan Gardens by APAH and their application to the County for financing for the project. In the resolution, the BSCL also noted that previous BSCL neighborhood conservation plans have identified concerns about the poor state of the property and recommended improvements. The purchase and renovation of Buchanan Gardens will address the recommended improvements in their neighborhood conservation plans.

Tenant Relocation Plan/Tenant Landlord Commission: The Buchanan Gardens Relocation Plan was reviewed and tentatively approved by the Tenant Landlord Commission at their meeting on September 16, 2009. To minimize any displacement, APAH has utilized a six-month period to phase in the affordability restrictions that were put into place after the acquisition of the property in December. APAH subsequently went before the Tenant Landlord Commission at their meeting on January 20, 2010 to update the Commission on discussions with the residents. APAH will schedule a meeting with the Commission 60 days in advance of the first notice to vacate.

Schools Impact After Renovations: **During the first phase, there will not be an impact on schools. After renovations,** Arlington Public Schools (APS) projects the impact on schools as an increase of 5 students. As such, the proposed renovation should have minimal impact on any one school. APS estimates the current mix as 50% elementary (Barcroft Elementary School, 37 students), 20% middle (Kenmore Middle School, 15 students) and 30% high school (Wakefield High School, 22 students).

Housing Commission: APAH will meet with the Citizens Advisory Commission on Housing (HC) on February 16, 2010. The Housing Commission will send a separate letter to the County Board with its recommendation for this project.

Loan Terms and Conditions: Staff recommends that the County allocate up to \$4,332,000 in AHIF funds to assist with the acquisition of the Buchanan Gardens Apartments, subject to the

following terms and conditions:

1. The applicant shall execute a generally standard AHIF Program Agreement and loan instruments for the County loan in a form acceptable to the County Manager and the County Attorney.
2. The County financing assistance will be in the form of a subordinated residual receipts loan, secured by the property, and repayable from fifty percent (50%) of 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 primary mortgage of up to \$7,900,000 plus 10%. The applicant must secure a commitment for the first mortgage and a reservation commitment for low income housing tax credits prior to disbursement of any funds from the County. If the applicant is not successful in securing a reservation commitment for 9% credits during the 2010 application round, then the applicant must reapply during the 2011 application round for 9% credits.

The applicant agrees to a plan for a proportionate split on all cost savings during the financing period when interest rates are locked in and the tax credits have been purchased by an investor. This will be completed prior to settlement and no funds will be disbursed to APAH or its designated County-approved ownership affiliate until the County has approved the plan.

3. The applicant must comply with the affordable housing set-aside for the rental units as follows: One hundred (100) units shall be affordable to households earning 60% or less of AMI for 60 years. Eleven (11) units shall be affordable to households earning 50% or less of AMI for 60 years.
4. 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 or approved Section 42 utility allowances.
5. The developer or its designee will agree to a minimum of six units accessible for persons with mobility impairments and three units accessible for with persons with visual and hearing impairments and to fully cooperate with an affirmative marketing program to market these units to households in need of such accommodation.
6. The term of affordability shall be 60 years. However, if at any time in year 35 or later (but prior to the end of the full 60-year commitment period), APAH desires to refinance the property and is unable to refinance because the units are income-restricted, APAH may return to the County Board with a request to consider a recommendation to allow the units (or a portion thereof) to be rented at levels necessary for the financial feasibility of the refinance.
7. The applicant, 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 35-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 FY2010 balance of AHIF funds is \$11,469,219. Approval of the staff recommendation to allocate up to \$4,332,000 in AHIF funds for the Buchanan Gardens project will result in a remaining FY 2010 balance of \$7,137,219.

Buchanan Gardens Apartments
926 S. Buchanan St.
(Buildings within cross-hatched parcels #1 & #2)

