



## ARLINGTON COUNTY, VIRGINIA

**County Board Agenda Item  
Meeting of April 24, 2010**

**DATE:** April 8, 2010

**SUBJECT:** Approval of refinancing of note issued for Buckingham Village 3 acquisition

**C. M. RECOMMENDATION:**

1. Adopt the attached resolution approving financing in an amount not to exceed \$36.5 million between \_\_\_\_\_ [bank to be determined – see “Summary” below] and the Industrial Development Authority (“IDA”) to refinance an existing note used to acquire Buckingham Village 3.
2. Authorize the County Manager to execute the required documents, including but not limited to a Support Agreement, and to approve details of the financing as discussed in the attached resolution and described in this report.

**ISSUE:** Should the County authorize the refinancing of an outstanding short-term note originally issued to finance the acquisition of Buckingham Village 3 in order to facilitate its redevelopment and lock in historically low interest rates for a 24-30 month period?

**SUMMARY:** The proposed refinancing will help the developer and lessee of Buckingham Village 3, a partnership of Telesis and National Housing Trust (NHT), to secure more favorable financing to begin redevelopment of the property. The original note with SunTrust Bank, issued in March 2009, included a first deed of trust on the property; the proposed refinancing will not include this requirement, allowing Telesis / NHT to secure better financing terms which will help maximize rent payments to the County.

Under the terms of the refinancing, the IDA will execute a short-term (32 month) note in an amount not to exceed \$36.5 million, covering the refinancing of approximately \$36 million in outstanding debt and other financing costs. The County will provide support to the IDA, by agreeing, subject to annual appropriation, to pay amounts to the IDA necessary for the IDA to pay debt service payments on the note. Funds to pay FY 2010 debt service (estimated at \$1.2 million) on the existing SunTrust note and the new note have been allocated from the Affordable Housing Investment Fund (AHIF) and it is anticipated that AHIF funds will support debt service in FY 2011 (estimated at approximately \$2.2 million) and beyond, as reflected in the proposed FY 2011 budget.

County Manager: BMD/MJS

County Attorney: SM

Staff: Michelle Cowan, Department of Management and Finance

35.

The County is seeking competitive bids on the refinancing, to be received on April 16. A supplemental report with bid results will be distributed to the County Board prior to its April 24 meeting.

**BACKGROUND:** In June 2007, the County Board approved the acquisition of Buckingham Village 3, a residential development on a 5.4 acre parcel, including 16 residential buildings with 140 units of affordable and historically significant housing. The County closed on the \$34.5 million acquisition in March 2009 and simultaneously leased the property to Telesis / NHT for a 75 year term. Over the last year, Telesis / NHT have worked with the County to develop a housing program and a financing plan, and are ready to proceed with the redevelopment of the rental portion of the property this summer.

The County’s initial acquisition financing in March 2009 occurred during extremely difficult and volatile market conditions, particularly for commercial banks. The County was successful in securing financing with SunTrust Bank in a very short timeframe and with favorable interest rates, but the terms included a requirement that the County pledge a first deed of trust on the property (which means that repayment of the SunTrust note would have priority over any other loan). Because the first deed of trust would have priority over any financing that Telesis / NHT could secure via their ground lease interest in the property, the first deed of trust could prevent Telesis / NHT from securing financing in a timely manner or result in substantially more onerous terms. In order to best enable Telesis / NHT to secure financing and to maximize rent payments to the County, the County intended to refinance the note shortly before Telesis / NHT’s execution of construction financing.

The County is also working with Telesis / NHT on modifications to the ground lease to accommodate other changes needed to satisfy their lenders (in particular the Virginia Housing Development Authority) and to better reflect current market conditions for tax credit pricing and commercial bank loan terms. The County is also working on subdivision of the property to accommodate the potential homeownership component of the housing program. The proposed subdivision and modifications to the ground lease will be presented to the County Board at its May or June meeting.

**DISCUSSION:** The proposed primary terms of the refinancing are as follows:

TERM	DESCRIPTION
Amount	Up to \$36.5 million
Security	<ol style="list-style-type: none"> <li data-bbox="461 1495 1427 1640">1. Support Agreement between the County and the IDA stipulating that the IDA will receive annual payments from the County, subject to appropriation by the County Board, in an amount sufficient to pay debt service and fees</li> <li data-bbox="461 1640 1427 1713">2. Pledge of a debt service reserve in an amount equal to six months’ debt service and funded from note proceeds</li> </ol>
Maturity	December 2012
Prepayment Option	At any time without penalty with 30 days notice
Interest Rate	Taxable (rate determined by bids)

	Option of: 1. Variable rate note – London Interbank Offering Rate (LIBOR) plus __ basis points reset on a monthly basis 2. Fixed rate note – ___%
Amortization	Interest only; principal due at maturity

The County is requesting bids for fixed and variable rate interest modes. While staff will not make a final recommendation on interest rate mode until the bids are received and pricing is evaluated, a fixed rate mode is more likely in light of concerns that short-term interest rates will likely not remain at their current lows for the next 2-3 years (the term of this note.) In addition, due to the County's strong bond ratings, the County does not anticipate any detrimental pricing impact due to the exclusion of a deed of trust. Staff's recommendation, including recommended terms, will be included in the supplemental report distributed prior to the Board's April 24 meeting.

Under the terms of the ground lease with Telesis / NHT, the County anticipates receiving rent payments, including lump sum payments upon closing of construction financing (expected this summer) and permanent financing (anticipated in fall 2012). These payments would be used to prepay principal on the proposed note. Upon receipt of the final lump sum payment associated with Telesis / NHT's execution of permanent financing (fall 2012), the County will refinance the proposed note into a permanent long-term financing reflecting the lump sum payments and a resulting lower amount of debt. As noted earlier, the County is currently negotiating changes to the ground lease to better reflect the deterioration in tax credit pricing and other market conditions that will impact the amount of rent payments. The proposed modifications to the ground lease will be presented to the County Board at its May or June meeting.

**FISCAL IMPACT:** Estimated debt service in FY 2010 totals \$1.2 million, assuming conservative short-term interest rates. Debt service in FY 2011 is estimated conservatively at \$2.2 million. All debt service will be paid from AHIF funds.

A RESOLUTION OF THE COUNTY BOARD  
OF ARLINGTON COUNTY, VIRGINIA REQUESTING  
THE INDUSTRIAL DEVELOPMENT AUTHORITY  
OF ARLINGTON COUNTY, VIRGINIA  
TO ISSUE ITS REVENUE NOTE

WHEREAS, the County Board (the "County Board") of Arlington County, Virginia (the "County") has determined that it is advisable, for fiscal purposes and to facilitate the redevelopment of the affordable housing facilities located in the County and known as Buckingham Village 3, to prepay all or a portion of the Industrial Development Authority of Arlington County, Virginia (the "Authority") Revenue Note (Taxable) Series 2009 (the "Series 2009 Note") issued for the purpose of financing the purchase by the County of Buckingham Village 3.

WHEREAS, the County proposes to prepay the Series 2009 Note by undertaking short-term financing through the issuance of a revenue note by the Authority.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNTY BOARD OF ARLINGTON COUNTY, VIRGINIA:

1. Issuance of the Series 2010 Note. The County Board requests the Authority to issue its revenue note (the "Series 2010 Note") in the maximum principal amount of \$36,500,000 to be paid from revenues derived from payments made by the County pursuant to a support agreement or financing agreement (the "Support Agreement") among the County, the Authority and the financial institution whose proposal is accepted pursuant to Section 5 below and an escrow agreement (the "Escrow Agreement") among the County, the Authority and an escrow agent selected by the County Manager and the Director of the Department of Management and Finance, or either of them, providing for the deposit and disbursement of amounts payable by the County pursuant to the Support Agreement. The final maturity of the Note shall be no later than December 31, 2012.

2. Prepayment of the Series 2009 Note. The Board authorizes and directs the County Manager and the Director of the Department of Management and Finance, or either of them, to cause the Series 2009 Note to be prepaid in accordance with its terms (including the giving of any required notice to the holder of the Series 2009 Note) from such proceeds of the Series 2010 Note as may be required to prepay the Series 2009 Note in whole (the "Prepayment").

3. Authorization of Documents. The execution and delivery of and performance by the County of its obligations under the Support Agreement and the Escrow Agreement are authorized. The Support Agreement, the Escrow Agreement and the Series 2010 Note shall be in such form and contain such provisions as the County Manager and the Director of the Department of Management and Finance, or either of them, shall approve, such approval to be

evidenced conclusively by the execution and delivery of the Support Agreement and the Escrow Agreement.

4. Execution of Documents. The County Manager and the Director of the Department of Management and Finance, or either of them, or such officers as either of them may designate, are authorized to execute on behalf of the County the Support Agreement and the Escrow Agreement, and, if required, to affix or to cause to be affixed the seal of the County to the Support Agreement and the Escrow Agreement and to attest such seal. The County Manager and the Director of the Department of Management and Finance, or either of them, or such officers as either of them may designate, are authorized to execute and deliver on behalf of the County such releases, agreements, instruments, documents or certificates, and to do and perform such things and acts, as they shall deem necessary or appropriate to carry out the transactions authorized by this Resolution or contemplated by the Prepayment, the Support Agreement and the Escrow Agreement; and all of the foregoing, previously done or performed by such officers or agents of the County, are in all respects approved, ratified and confirmed.

5. Acceptance of Proposal. The County Manager and the Director of the Department of Management and Finance, or either of them, are authorized and directed to accept a proposal for the purchase of the Note which the County Manager and the Director of the Department of Management and Finance, or either of them, determine to be in the best interest of the County, provided such proposal is consistent with the parameters set forth in numbered paragraph 1 of this Resolution.

6. Nature of Obligations. Nothing in this Resolution, the Series 2010 Note or the Support Agreement or the Escrow Agreement shall constitute a debt of the County, and the Authority shall not be obligated to make any payments under the Series 2010 Note except from payments made by or on behalf of the County under the Support Agreement. The County's obligations to make payments pursuant to the Support Agreement shall be subject to and dependent upon annual appropriations being made from time to time by the County Board for such purpose. Nothing in this Resolution, the Series 2010 Note, the Support Agreement or the Escrow Agreement shall constitute a pledge of the full faith and credit of the County beyond the constitutionally permitted annual appropriations.

7. Effective Date. This Resolution shall take effect immediately.

Adopted this 24<sup>th</sup> day of April, 2010.

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Clerk, Arlington County Board

CERTIFICATE OF THE CLERK  
OF THE COUNTY BOARD OF  
ARLINGTON COUNTY, VIRGINIA

At a regular meeting of the County Board of Arlington County, Virginia, held on the 24<sup>th</sup> day of April, 2010, the following County Board members were present as shown:

PRESENT:

On motion of \_\_\_\_\_, seconded by \_\_\_\_\_, the following Resolution was adopted by a majority of the members of the County Board by a roll call vote recorded as follows:

MEMBER

VOTE

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Clerk, Arlington County Board