



ARLINGTON COUNTY, VIRGINIA

**County Board Agenda Item
Meeting of September 25, 2010**

DATE: September 3, 2010

SUBJECT: Allocation of Fiscal Year (FY) 2011 Affordable Housing Investment Fund (AHIF) funds as a loan to Wesley Housing Development Corporation ("Wesley") to assist with the rehabilitation of Colonial Village Apartments.

C. M. RECOMMENDATIONS:

1. Allocate up to \$2,500,000 in FY 2011 AHIF funds (101.495130.91102), of which \$1,100,000 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 Wesley Housing Development Corporation, or its designated County-approved ownership affiliate, to assist with the rehabilitation of Colonial Village Apartments (101.456300.91102). 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 \$2,500,000 to Wesley Housing Development Corporation 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 Wesley to assist with the rehabilitation of Colonial Village Apartments.

County Manager:

County Attorney:

Staff: David Cristeal and Sarah Pizzo, DCPHD

2. B.

BrdRpt-Colonial Village- AHIF 9.25.10

SUMMARY: Wesley is requesting up to \$2,500,000 in Affordable Housing Investment Fund (AHIF) funds to assist in the renovation of Colonial Village Apartments. Wesley has owned the property since 1991 and while they have made as-needed repairs in those 19 years, there has never been a comprehensive, substantial rehabilitation. The proposed rehabilitation would address deferred maintenance, moisture and mold issues; improve heating and cooling systems; upgrade bathrooms and kitchens; and add “bump-out” additions to accommodate families with children. In May of 2010, the Virginia Housing Development Authority (VHDA) awarded Low Income Housing Tax Credits (LIHTC) to Wesley to help finance the proposed rehabilitation. In order to fill the financing gap and keep the units affordable, Wesley is requesting the AHIF loan. In order to allow the bump-outs, Wesley is also seeking approval of a Site Plan amendment (agenda item 2a). In the event the amendment is not approved, the loan will not be provided.

BACKGROUND: Colonial Village was built between 1935 and 1940 and is listed on the National Register of Historic Places. It is one of the country’s first garden apartment complexes and the first in the nation to be insured by the Federal Housing Administration (FHA). Wesley’s 162 units—located within the larger master planned development that consists of 1,687 units on 61 acres—is located on two non-contiguous sites: 114 units on North Troy Street and 48 units on North 18th Street. The property consists of twenty-two Colonial Revival style, walk-up garden apartment buildings and is located less than one-quarter of a mile from the Courthouse metro station (see attached map).

Mobil Land Development Corporation purchased the entire complex in the 1970’s and obtained approval of a rezoning of the property and a Phased Development Site Plan (PDSP) to construct two office buildings and additional residential units. Mobil committed to keeping a portion of the units affordable for a period of time, after which a non-profit housing organization would be offered the option to purchase those units. AHC, Inc. purchased 70 units in 1982 and Wesley purchased 162 units in December of 1991. Wesley’s purchase price of \$6.9 million was a below-market price per a formula outlined in a PDSP condition.

Currently, Wesley’s property includes 109 one-bedroom units and 53 two-bedroom units. Existing tenants pay between \$748-\$1,490 for a one-bedroom unit and \$812-\$1,523 for a two-bedroom unit, thus making the units affordable to households earning up to 80% of the area median income (AMI). The lower rents reflect the poor condition of the units.

DISCUSSION: This project is an opportunity to substantially renovate 162 units in order to address deferred maintenance, moisture and mold issues. The project will commit 129 units at rents affordable to households earning up to 60% of AMI for 60 years. The project will create 19 additional family-sized units and 17 fully accessible units.

Rehabilitation and Bump-Out Plan: Wesley’s proposed scope of work includes significant site work (primarily repairing walkways, and making ADA grading improvements as necessary and enhancing exterior lighting); all new windows, new flat roof systems and repair of slate mansard roofs; and full replacement of kitchens and baths including the introduction of mechanical venting in those rooms as well as insulation of the exterior walls (as necessary) to address moisture infiltration issues.

Wesley proposes a variety of energy efficiency and water conservation improvements to be made such as installing new energy star appliances and light fixtures, low-flow plumbing fixtures, and high-efficiency HVAC replacement that will directly and significantly improve the quality of life and reduce the cost of utilities for residents. Wesley expects the project to earn Earthcraft VA and Enterprise Green Communities certifications.

There will be new construction bump-outs on select units to provide for the additional two- and three-bedroom units to meet the County's Housing Goal of creating more family-sized units. Currently, the property includes 109 one-bedroom units and 53 two-bedroom units. Through the renovation, Wesley proposes to add 5 two-bedroom units and to create 14 three-bedroom units, for a revised total mix of 90 one-bedroom units, 58 two-bedroom units, and 14 three-bedroom units.

Tenant Population: The current tenant population includes approximately 65% of households below 60% AMI with the remaining 35% earning more than 60% of AMI. In order to limit involuntary displacement, Wesley proposes to maintain 20% as non-income restricted units and 80% as affordable to households earning up to 60% AMI.

Affordable Housing Plan: After rehab, Wesley proposes 129 units to be income-restricted and affordable to households earning up to 60% of AMI. The bedroom mix of these units will be 72 one-bedrooms, 46 two-bedrooms and 11 three-bedrooms.

Unit Mix and Rents after Rehabilitation and Construction

| Affordability | 1-Bedroom | | 2-Bedroom | | 3-Bedroom | |
|----------------------|-----------|---------|-----------|---------|-----------|---------|
| | # units | Rent | # units | Rent | # units | Rent |
| 60% units | 72 | \$1,164 | 46 | \$1,397 | 11 | \$1,615 |
| Non-restricted Units | 18 | \$1,400 | 12 | \$1,875 | 3 | \$2,175 |
| Total | 90 | | 58 | | 14 | |

Proposed Permanent Financing Plan: The costs for this project will be funded via a new first mortgage, tax credit equity, interim income from the property and the proposed AHIF loan. The existing \$12 million debt on the property is anticipated to remain in place via a ground lease structure where the tax credit partnership will lease the land from a Wesley affiliate by paying the debt service on the mortgage. Wesley will not take out any equity in the property through this transaction and instead will provide seller financing of approximately \$5,000,000. Wesley is proposing to defer \$329,443 of its developer fee.

Wesley applied to VHDA in March of 2010 for competitive 9% tax credits and was awarded an allocation. In addition to the low income housing tax credits, Wesley will utilize federal and state historic tax credit equity.

Permanent Financing Sources and Uses

| SOURCES OF FUNDS | | USES OF FUNDS | |
|---|---------------------|--------------------------------------|---------------------|
| Source | Amount | Use | Amount |
| First Mortgage | \$2,700,000 | Construction Costs | \$ 14,354,198 |
| Tax Credit Equity (LIHTC, state and federal historic) | \$14,834,940 | Soft Costs | \$1,900,670 |
| AHIF Loan | \$2,500,000 | Project Expenses During Construction | \$3,711,611 |
| Deferred Developer Fee | \$329,443 | Financing Costs | \$631,762 |
| Project Interim Income | \$2,753,301 | Developer Fee | \$2,029,443 |
| | | Long-term Reserves | \$490,000 |
| SUBTOTAL SOURCES | \$23,117,684 | SUBTOTAL USES | \$23,117,684 |
| Ground Lease (existing debt on property) | \$12,000,000 | Acquisition Cost | \$17,000,000 |
| Seller Note | \$5,000,000 | | |
| TOTAL SOURCES | \$40,117,684 | TOTAL USES | \$40,117,684 |

Wesley recently received debt and equity proposals from lenders and investors, but is still in the selection and negotiation process. The current first mortgage amount shown above is based on conservative underwriting assumptions, such as VHDA's tax credit application requirement of 7% vacancy when the industry standard is 5% and Arlington complexes run 3%. These conservative assumptions limit the amount of primary debt that Wesley is able to borrow and thus increase the amount of the AHIF loan. If Wesley is able to negotiate more favorable underwriting assumptions, then the amount of AHIF to be disbursed will be decreased.

County Funding Request: Wesley is requesting up to \$2,500,000 in AHIF funds for permanent financing for the project with a 35-year term at a 3% annual interest rate. The loan would be secured by a subordinated Deed of Trust and payable from cash flow. In the estimated first two years following project completion, all cash flow will go to Wesley to pay the deferred developer fee. After the fee is paid in full, fifty percent (50%) of the cash flow will be paid to Wesley and fifty percent (50%) paid to the County as a residual receipts loan payment.

Since Wesley has not yet secured a lender and investor, staff recommends that \$1.1 million of the \$2.5 million be placed in a County-held contingency account while commitments for all of the sources of financing sources are obtained and rates are locked in. The proposed contingency account would only be accessed with approval by the County Manager or his designee after review of the project financing demonstrates a need for the contingency funds. Once financing commitments are finalized and if the contingency funds are not needed, staff would request that the County Board de-obligate those funds so that they will be available for other AHIF pipeline projects.

Accessible Units: The property currently has no accessible units. Wesley has agreed to provide 17 units (or 10%) as fully accessible Section 504 compliant units through accessibility modifications at grade and the installation of an elevator in one building.

Supportive Units: In conjunction with DHS staff, Wesley has committed to provide 17 supportive housing units which will also have Housing Choice Vouchers project-based assistance or the County's equivalent Supportive Housing Project-Based Rental Assistance. This rental assistance will be for DHS qualified households who earn 40% or less of AMI and need supportive housing. The qualified households will pay 30% of their adjusted income in rent and County will provide monthly rental assistance payments up to an agreed upon contract rent that does not exceed the U.S. Housing and Urban Development Fair Market Rent Payment Standard. These 17 units may or may not be the same as the accessible units.

Affordable Housing Goals and Targets: The project will meet the following Housing Goals and Targets:

- Goal 1: Support for persons with disabilities (addition of 17 accessible, supportive housing units);
- Goal 2: Safe and decent housing (all of the units will be substantially renovated, improving their livability and increasing their lifespan);
- Goal 3: Permit no net loss of committed affordable housing, and make every reasonable effort to maintain the supply of affordable market rate housing (the AHIF loan agreement will ensure affordability for 60 years for 129 income-restricted units); and
- Goal 5: Increase the number of units with two or more bedrooms (adds 5 two-bedroom and 14 three-bedroom units).

Civic Association/Community Process: While there is no active Civic Association, Wesley met with the Colonial Village condominium and co-op boards on August 10, 2010 to discuss their project plans. The boards shared concerns over current parking and property maintenance, but expressed their general support for the renovations and bump-outs. Several of the boards' concerns are addressed in the Site Plan conditions (agenda item 2a).

Tenant Relocation Plan/Tenant Landlord Commission: The Tenant-Landlord Commission reviewed and approved the Colonial Village Apartments Relocation Plan at their meeting on September 8, 2010. Wesley will comply with the policies and procedures specified in the Arlington County Housing Division's Tenant Relocation Guidelines (dated January 2009).

Historic Affairs and Landmark Review Board: Wesley presented their proposed bump-outs and site improvements to the HALRB on August 18, 2010 and the Board voted to approve the proposed work. In addition, several HALRB recommendations are addressed in the Site Plan conditions (agenda item 2a). Wesley continues to coordinate with and seek approval from staff and other relevant governmental agencies outside of the County regarding the application for state and local historic preservation tax credits.

Schools Impact After Renovations: Arlington Public Schools (APS) projects the impact on schools as an increase of 19 students. As such, the proposed renovation should have minimal impact on any one school. APS estimates the current mix as 50% elementary (Arlington Science

Focus and Key Elementary School, 9 students), 20% middle (Williamsburg Middle School, 4 students) and 30% high school (Yorktown High School, 6students).

Housing Commission: Wesley presented its project proposal as an information item to the Housing Commission on June 3, 2010 and the Commission will take action on the item at its meeting on September 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 \$2,500,000 in AHIF funds to assist with the rehabilitation of Colonial Village Apartments, of which \$1,100,000 will be placed in a County-held contingency account while commitments for other financing sources are obtained and equity rates are finalized, 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 in the year following the payoff of the deferred developer fee. 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 senior loans of up to \$15,800,000 plus 10% and will be subordinate to VHDA tax credits and/or regulatory use agreement, as necessary. The applicant must secure a commitment for its primary debt prior to disbursement of any funds from the County. The loan will also be contingent upon approval of a site plan amendment which permits the rehabilitation of the property as proposed by the applicant.
3. Within 30 days of final primary debt and equity commitments, the applicant will submit a final budget for approval by the County Manager or his designee. If the contingency funds (or a portion thereof) are deemed unnecessary, staff will seek County Board approval at a later meeting to de-obligate the funds so that they will be available for other AHIF projects.
4. The applicant must comply with the affordable housing set-aside for the rental units as follows: One hundred-twenty nine (129) units shall be affordable to households earning 60% or less of AMI for 60 years.
5. 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 as per the schedule annually approved by HUD for Arlington's Section 8 Housing Choice Voucher Program or approved Section 42 utility allowances.
6. The developer or its designee will agree to a minimum of seventeen (17) fully accessible ADA units for persons with disabilities and to fully cooperate with an affirmative marketing program to market these units to households in need of such accommodation.
7. The term of affordability shall be 60 years from the date of completion. However, if at any

time in year 35 or later (but prior to the end of the full 60-year commitment period), Wesley desires to refinance the property and is unable to refinance because the units are income-restricted, Wesley 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.

8. The applicant, its designated ownership entity, heirs or assigns shall provide a purchase right that is a right of first refusal to the County or its designee at any time prior to or at the end of the 60-year affordability term. If the developer decides to sell the property at any time after the end of the end of the 15-year tax credit compliance period but before the end of the extended use period, the County or its designee shall have the right, but not the obligation, to purchase the property at the minimum purchase price as defined in Section 42(i)(7) of the Internal Revenue Code. If the Borrower should desire to sell or transfer the Property at any time after the end of the tax credit extended use period but prior to the end of the 60-year affordability term, 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. The County's purchase rights shall be subject to the right of first refusal between the ownership entity and Wesley or its designee. Any transfers from the designated ownership entity to a related party purchaser (an affiliate that is controlled by Wesley) shall not trigger the County's purchase rights. The County's right of first refusal after the extended use period for a price less than fair market value shall be subject to the review and approval of the tax credit equity investor and any revisions thereto must be consented to by the County Manager or its designee.

FISCAL IMPACT: The amount of AHIF/HOME funds in the FY 2011 adopted budget, including a one-time adjustment to AHIF, is \$6,228,532. Of this amount, \$2,331,466 has already been allocated per the Board-approved Community Development program and Annual Consolidated Plan, and for Buckingham Village 3 debt service, leaving an unallocated balance of \$3,897,066. Approval of the staff recommendation to allocate \$2,500,000 in AHIF funds for Colonial Village Apartments will result in a remaining FY 2011 balance of \$1,397,066.

Colonial Village Apartments
1702-1734 N. Troy Street and 2105-2115 N. 18th St
(Buildings within cross-hatched parcels #1 & #2)

