



ARLINGTON COUNTY, VIRGINIA

**County Board Agenda Item
Meeting of October 23, 2010**

DATE: October 5, 2010

SUBJECT: Consideration of the financing of the AHC, Inc. multifamily "Scattered Site" residential housing project.

C. M. RECOMMENDATION:

Adopt the proposed resolution authorizing the Arlington County Industrial Development Authority (the "IDA") to issue up to \$13 million in tax exempt revenue and refunding bonds for the refinancing and renovation of the AHC, Inc. "Scattered Site" housing project.

ISSUES: County Board approval is needed to issue bonds through the IDA. No issues have been identified.

SUMMARY: This is a request to the County Board to approve the action taken by the Arlington IDA at a meeting held October 6, 2010. The Arlington IDA unanimously approved an inducement resolution (the "Arlington IDA Inducement Resolution") for up to \$13 million of Arlington IDA revenue bonds (the "Arlington IDA Bonds") to be issued to assist AHC, Inc. ("AHC") in the refunding of a portion of the Authority's Multifamily Housing Mortgage Revenue and Refunding Bonds (AHC, Inc. Projects), Series 2003, and the refinancing and renovation of four affordable rental communities: Taylor Square Apartments, Key Gardens Apartments, Ashton House and North Ashton House (the "Scattered Site Project).

BACKGROUND: The properties included in the "Scattered Site Project" are all older, garden apartment complexes consisting of nine buildings and 103 units. The current tenant population is predominantly households earning less than 60% of area median income (AMI). Currently, 93 of the 103 units are affordable to households earning at or below 60% AMI. After the project is completed, all of the 103 units will be affordable to households earning at or below 60% AMI for a period of 60 years

AHC acquired Ashton House, North Ashton, Key Gardens, and Taylor Square in separate transactions between 1983 and 1991 and completed minor renovations at the time of each purchase. On August 8, 1995 the Arlington County Board approved the issuance of \$7.5 million

County Manager:

BMD/GA

County Attorney:

[Signature]

Staff: Jason Friess, DMF

31. A.

of revenue bonds by the Industrial Development Authority (IDA Multifamily Housing Mortgage Revenue Bonds, 1995 Series) to refinance the primary debt of the cross-collateralized properties, which also initially included Key Boulevard and Jordan Manor. Jordan Manor was removed from the bond issue and is now being redeveloped as a stand-alone project. Key Boulevard is also not included in this proposal and may also be redeveloped separately by AHC. North Ashton is separately financed with a VHDA loan.

In 2003, the County approved an additional refinancing for these properties using bonds issued by the IDA (IDA Multifamily Housing Mortgage Revenue and Refunding Bonds, Series 2003). This refinancing allowed AHC to complete additional minor renovations. These repairs did not address inefficient central utility systems and other outdated building features that have resulted in continued high operating costs. The pending transaction will finance a substantial renovation of the properties, including the replacement of all major systems (electrical, plumbing, HVAC, roofing) as well as major upgrades to the units (new kitchens, fixtures and finishes, upgraded baths, etc.) and should produce lower operating expenses and stronger annual cash flow. The renovations will also result in all the units meeting the energy efficiency standards for Earth Craft certification, as well as six units being made fully ADA-accessible.

In summary, the financing plan includes the following sources:

- Tax exempt senior debt: IDA bonds to be purchased by Capital One Bank
- Tax credit equity: Hudson Housing Capital
- AHIF and CDBG loans: transfer and re-subordination of Arlington County AHIF and CDBG loans from current ownership entities to a new AHC affiliate
- AHC Seller Note: reinvestment of net proceeds from the sale of properties at current market values
- AHC deferred developer fee
- AHC cash loan
- Interim income: net operating income generated during the construction period

The outstanding 2003 bonds financing the properties will be refunded on or about November 1, 2010 – the date on which they can be redeemed without a prepayment penalty. The bonds financing Key Boulevard will remain outstanding. The new IDA bond issue will be secured by a lien similar to that of the current issue -- a first lien on the properties and a pledge of all revenues generated by their operations. The Borrower will be AHC Limited Partnership-21 – an AHC affiliate established for the sole purpose of owning and operating the Scattered Site properties. The note will be sold through a private placement arrangement with Capital One Bank. The current assumption is that the permanent financing will be fixed-rate; however, subject to market conditions, AHC may choose to utilize a variable-to-fixed rate swap execution to achieve a lower cost of funds. McGuireWoods LLP is bond counsel and has determined that the Industrial Development Authority is authorized to assist AHC with this transaction. There will be customary fees and expenses associated with the issuance of the note including bond counsel fees, bank counsel fees, borrower's counsel fees and a bank commitment fee.

FISCAL IMPACT: There is no financial risk to the County in authorizing the issuance of revenue bonds through the IDA. The issuance of revenue bonds as requested by AHC, Inc. will not constitute a debt or pledge of the full faith and credit of the County. Neither the County nor

the Authority shall be obligated to pay the bonds or the interest thereon or the other costs incident thereto.

RESOLUTION OF THE COUNTY BOARD
OF ARLINGTON COUNTY, VIRGINIA
WITH RESPECT TO INDUSTRIAL DEVELOPMENT AUTHORITY
FINANCING FOR AHC INC.

WHEREAS, the Industrial Development Authority of Arlington County, Virginia (the “Authority”) has considered the application of AHC Inc. (“AHC”) requesting the issuance of the Authority’s revenue bonds in an amount not to exceed \$13,000,000 (the “Bonds”) to assist AHC and AHC Limited Partnership – 21 (“LP-21” and, together with AHC, the “Borrower”), an entity affiliated with and controlled by AHC, in (a) refunding a portion of the Authority’s Multifamily Housing Mortgage Revenue and Refunding Bonds (AHC Inc. Projects), Series 2003 previously issued to benefit AHC, (b) financing and refinancing certain of the costs of the acquisition, construction, renovation and equipping of the following multifamily residential rental housing facilities to be owned by LP-21: (i) Ashton House Apartments, consisting of 28 rental units housed in 3 buildings and located at 5701, 5706 and 5712 North 10th Road, Arlington, Virginia 22205; (ii) North Ashton Apartments, consisting of 9 rental units housed in 1 building and located at 5711 North 11th Road, Arlington, Virginia 22205; (iii) Taylor Square Apartments, consisting of 44 rental units housed in 3 buildings and located at 4235, 4241 and 4245 South 16th Street, Arlington, Virginia 22204; and (iv) Key Gardens Apartments, consisting of 22 rental units housed in 2 buildings and located at 5121 and 5125 Columbia Pike, Arlington, Virginia 22204 and (c) financing costs of issuance, funding of any required reserves and other financeable expenditures (collectively, the “Project”), and has held a public hearing on October 6, 2010;

WHEREAS, Section 147(f) of the Internal Revenue Code of 1986, as amended (the “Code”), provides that the governmental unit having jurisdiction over the issuer of private activity bonds and over the area in which any facility financed with the proceeds of private activity bonds is located must approve the issuance of the bonds;

WHEREAS, the Authority issues its bonds on behalf of the County of Arlington, Virginia (the “County”); the Project is located in the County and the County Board of Arlington County, Virginia (the “Board”) constitutes the highest elected governmental unit of the County;

WHEREAS, the Authority has recommended that the Board approve the issuance of the Bonds; and

WHEREAS, a copy of the Authority’s resolution approving the issuance of the Bonds, subject to the terms to be agreed upon, a certificate of the public hearing and a Fiscal Impact Statement have been filed with the Board.

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

1. The Board approves the issuance of the Bonds by the Authority for the benefit of the Borrower, as required by Section 147(f) of the Code and Section 15.2-4906 of the Code of Virginia of 1950, as amended (the “Virginia Code”), to permit the Authority to assist in the financing of the Project.

2. The approval of the issuance of the Bonds does not constitute an endorsement to a prospective purchaser of the Bonds of the creditworthiness of the Project or the Borrower. The issuance of revenue bonds as requested by the Borrower will not constitute a debt or pledge of the faith and credit of the Commonwealth of Virginia or the County of Arlington, Virginia and neither the faith and credit nor the taxing power of the Commonwealth of Virginia or any political subdivision thereof will be pledged to the payment of such Bonds. Neither the County of Arlington, Virginia nor the Authority shall be obligated to pay the Bonds or the interest thereon or other costs incident thereto except from the revenues and money pledged therefor.

3. This resolution shall take effect immediately upon its adoption.

At a regular meeting of the County Board of Arlington County, Virginia, held on the 23rd day of October, 2010, the following members of the County Board were recorded as present:

PRESENT:

On motion by _____, seconded by _____, the foregoing Resolution was adopted by a majority of the members of the County Board, the votes being recorded as follows:

MEMBER

VOTE

Dated: October 23, 2010

Clerk, County Board of Arlington