ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of February 12, 2011

DATE: January 21, 2011

SUBJECT: Allocation of Fiscal Year (FY) 2010 Affordable Housing Investment Fund (AHIF) funds as a loan to Community Preservation and Development Corporation (CPDC) to assist with the acquisition of Howard Manor Apartments.

C. M. RECOMMENDATIONS:

1. Allocate up to $6,380,000 in FY 2011 AHIF funds (101.495130.91102) to Community Preservation and Development Corporation (CPDC) (101.456300.91102), or its designated County-approved ownership affiliate (Howard Manor, LLC), to assist with the acquisition and rehabilitation of Howard Manor 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 $6,380,000 to CPDC 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.

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 CPDC to assist with the acquisition and rehabilitation of Howard Manor Apartments.

SUMMARY: CPDC is requesting up to $6,380,000 in funding from the Affordable Housing Investment Fund (AHIF) to assist in acquiring and renovating the 76-unit Howard Manor

County Manager: BMD kma

County Attorney:

Staff: David Cristeal and Marie Randall, DCPHD

BrdRpt-Howard Manor- AHIF 1.21.11

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apartment complex. In March 2011, CPDC will submit an application to the Virginia Housing Development Authority (VHDA) for a reservation of Low Income Housing Tax Credits (LIHTC). The proposed renovation work includes updating electrical, mechanical and plumbing systems; updating kitchens and bathrooms; repairing sidewalks and re-grading the parking lot; removing and abating any hazardous materials; incorporating green building features to meet Earthcraft standards; and adding bump-out additions to increase the number of family-sized units. The tax credits, AHIF loan, additional private first mortgage, and deferred developer fee will provide the financing necessary to complete the acquisition and proposed renovation work by fall of 2013.

BACKGROUND: In June 2010, CPDC executed a purchase contract on Howard Manor Apartments. Since that time, CPDC has analyzed the property and the options available for redevelopment including inspection of the units; inspection of the mechanical, electrical and plumbing systems of the property; review of tenant leases and rent rolls; and completion of the Phase I environmental review.

The property consists of three colonial style, walk-up garden apartment buildings and is located partially on North Cleveland Street and partially on 20th Road North, between Lee Highway and I-66 and within the boundaries of the North Highland Civic Association (see attached map). Currently, the property includes 28 efficiencies, 33 one-bedroom units and 15 two-bedroom units. Rents are affordable to households at approximately 50% to 60% of the Area Median Income (AMI) with monthly rents (including utilities) for efficiencies between $790 and $880, $890 to $995 for one-bedroom units, and $1,140 to $1,360 for two-bedroom units.

In October, 2009, the County Board approved a text amendment to the Arlington County Zoning Ordinance that allows, by use permit approval, additions to and expansion of existing nonconforming buildings or uses, and modification of regulations for those buildings and uses in “RA” districts where the building is proposed to be used for the provision of low- or moderate-income housing. Howard Manor applied for a use permit under this provision which is also being heard by the County Board at this meeting.

DISCUSSION: This project is an opportunity to purchase and improve a multi-family rental property north of Lee Highway and add 76 units to the County’s Committed Affordable Unit (CAF) stock. After renovations, all 76 units will be affordable to households earning up to 60% of AMI for 60 years. The project will create 13 additional family-sized units, eight fully accessible units and four additional units for persons with hearing and vision impairments.

Rehabilitation, Renovation and Bump-Out Plan: CPDC’s proposed scope of work includes significant capital improvements in order to repair, upgrade and modernize the buildings, which were built in 1958, and the surrounding property. The scope of work involves important site work including: site re-grading; new curb cuts for accessibility; repair and/or removal of deteriorated concrete walks; and repair, seal, enhanced drainage and restriping of the parking lots.

CPDC plans to repair, replace and upgrade the mechanical, electrical, plumbing, and structural systems. Specifically, they will repair the storm, sanitary and waste systems; provide new domestic water service; provide new upgraded electrical services and new panels in each unit;

provide all new condensation system with new central air conditioning; remove all existing hazardous materials; and repair and replace existing roofing.

The plan includes a variety of energy efficiency improvements to be incorporated into their scope of work including new energy efficient windows with Low-E glazing, and the replacement of some of the existing doors. The proposal also includes new toilets, sinks and tubs, and new cabinets, countertops, carpet, blinds, and appliances in all of the units. After rehabilitation, the property will meet Earthcraft standards.

The scope of work also includes ”bump-out” additions on some of the efficiency units to provide for additional one- and two-bedroom units. The new two-bedroom units will meet the County’s Housing Target of creating more family-sized units. Currently, the property includes 28 efficiency, 33 one-bedroom, and 15 two-bedroom units. After the renovation, Howard Manor will have nine efficiency, 39 one-bedroom, and 28 two-bedroom units which is an increase of 32 bedrooms.

Tenant Population: The current owner of the property provided CPDC leasing files and from this data, CPDC was able to put together a general profile of the residents of Howard Manor. However, due to the seller’s contract provisions, CPDC will not be able to complete tenant income surveys until they go to settlement on the property. From the information in the leasing files, most tenants have lived at the property for less than three years and half of the households are on month-to-month leases. The average household income is $31,500 with the majority of the households earning between $28,000 and $35,000 annually. Immediately after settlement, but prior to the renovations, CPDC anticipates that there will not be any displacement of tenants. During renovations, all households will have to move at least once while their unit is under construction. CPDC expects that all of the households will be eligible to live at the property once the renovations are complete.

Phase I of the Affordable Housing Plan – Acquisition: After settlement, 90% of the units (or 68 units) would be restricted to households with incomes at or below 60% of the Area Median Income (AMI). According to their Relocation Plan and to minimize any displacement, CPDC will utilize a six-month period to phase in the new income restrictions that will be put in place after the acquisition. Through attrition and based on a review of the current leasing files, CPDC anticipates they will be able to achieve this level of affordability.

Phase II of the Affordable Housing Plan – After-Rehabilitation: After rehabilitation, CPDC proposes that all 76 units will be income-restricted to households at 50% and 60% of AMI. The mix of affordability and bedrooms is as follows:

Unit Size	Size Range	50% AMI	60% AMI	Rents after Renovations* (including utilities)
Efficiency	485 - 515	3 units	6 units	$880 / $980
1-Bedroom	560 - 630	12 units	27 units	$925 / $1,095
2-Bedroom	740 - 815	9 units	19 unit	$1,135 / $1,315
Total		24 units	52 units	

Financing Plan: The costs for this project will be funded with a private first mortgage, tax credit equity, a partially deferred developer fee, CPDC equity, and the proposed AHIF loan. The property has an existing loan for $3.6 million which will be paid off at settlement for closing. CPDC will submit an application for 9% tax credits in March 2011.

Financing Sources and Uses

SOURCES OF FUNDS		**USES OF FUNDS**	
Source	**Amount**	**Use**	**Amount**
Tax Credit Equity	$8,051,561	Acquisition	$9,753,397
First Mortgage	$5,243,157	Construction	$6,688,000
AHIF Loan	$6,380,000	Reserves & Carrying Costs	$1,195,807
Deferred Developer Fee (50%)	$866,720	Other Soft Costs	$1,250,234
CPDC Equity	$100,000	Developer Fee	$1,754,000
TOTAL SOURCES	**$20,641,438**	**TOTAL USES**	**$20,641,438**

County Funding Request: CPDC is requesting up to $6,380,000 in AHIF funds for permanent financing for the project with a 35 year term at a 2% interest rate. The proposed loan would be secured by a subordinated Deed of Trust and payable from cash flow from the project. Beginning in 2013, if renovation financing has not been secured, fifty percent (50%) of the cash flow will go to CPDC and 50 percent (50%) will go to the County as a residual receipt payment. If renovation financing is secured, the County will defer repayment for five years and in year six, the County will split the cash flow with CPDC with seventy-five percent (75%) going to CPDC to pay the deferred developer fee and twenty-five percent (25%) going to the County. Once the deferred developer fee has been fully paid, the cash flow split will be fifty percent (50%) to CPDC and fifty percent (50%) to the County.

In addition, during this phase of the project and prior to any cash flow payments, the County would require that CPDC place $500 per unit per year in replacement and predevelopment reserves, and CPDC will need County approval to utilize the funds in the reserves account for capital repairs. If there is not enough cash flow available to place $500 per unit per year in replacement and predevelopment reserves because of lower than expected net operating income, then CPDC can request that the County review its income and expense statements and waive this loan term. If there are any remaining funds in these reserves at the time of renovation, CPDC may access those funds to assist with financing the rehabilitation of the property with County approval.

Accessible Units: The property currently does not have any accessible units. Prior to rehabilitation, accessible units will not be added due to the grade of the property and the inaccessible configurations of the entrances to the buildings and the units themselves. In the context of the rehabilitation work, CPDC proposes that eight units will be fully accessible to persons with all types of disabilities including mobility, hearing and vision impairments, and four additional units accessible to persons with visual and hearing impairments.

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

- Provides 76 units of committed affordable housing (Goal 3/Target 3C);
- Initially provides 15 two-bedroom units and this will be increased to 28 two-bedroom units during the rehabilitation phase, increasing the amount of family-sized units by 13 units (Goal 5/Target 5A);
- Provides 76 committed affordable units in Neighborhood Service Area E (Goal 6/Target 6A), including the County's Target of locating 60% of new committed affordable units in Neighborhood Service Areas D, E, F.

Civic Association/Community Process: CPDC will meet with the North Highland Civic Association on January 31, 2011. Results of that meeting's project review are forthcoming.

Tenant Relocation Plan/Tenant Landlord Commission: The Howard Manor Relocation Plan was reviewed and tentatively approved by the Tenant - Landlord Commission at their meeting on January 19, 2011. To minimize any displacement, CPDC will utilize a six-month period to phase in the affordability restrictions that will be put into place after the acquisition of the property.

Schools Impact After Renovations: During Phase I - Acquisition, there will not be an impact on schools. After renovations, Arlington Public Schools (APS) projects the impact on schools as an increase of eight students. As such, the proposed renovation should have minimal impact on any one school. APS estimates the current mix as 50% elementary (Key and Science Focus Elementary Schools, four students), 25% middle (Swanson Middle School, two students) and 25% high school (Washington-Lee High School, two students).

Housing Commission: CPDC will meet with the Citizens Advisory Commission on Housing (HC) on February 3, 2011. 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 Board allocate up to $6,380,000 in AHIF funds to assist with the acquisition of the Howard Manor 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 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 $5,500,000 plus 10%.

If the applicant is not successful in securing a reservation commitment for 9% credits during the 2011 application round, then the applicant must reapply during the 2012 application round for 9% credits. The applicant may move forward to purchase the property in order to retain site control, but the applicant must secure a commitment for the portion of the first mortgage or secure a commitment for the assumption of the current mortgage, to purchase the property prior to disbursement of any funds from the County.

3. If the applicant has not secured renovation financing and Howard Manor has adequate cash flow from its net operating income, the applicant will place $500 per unit per year in replacement and predevelopment reserves and the use of these funds for capital repairs and other predevelopment expenses will require County approval.

4. Beginning in 2013, if renovation financing has not been secured, fifty percent (50%) of the cash flow will go to the applicant and fifty percent (50%) will go to the County as a residual receipts payment.

5. In the event that the applicant is able to secure additional sources of funding or equity through the syndication process, then the applicant will split the savings proportionately with the County.

6. The applicant must comply with the affordable housing set-aside for the rental units as follows: Within the first six months after acquisition, 90% of the units or sixty-eight (68) of the rental units will be restricted to households earning up to 60% of the AMI; and the remaining eight units will remain non-income-restricted. After securing permanent financing and after rehabilitation, all 76 units will be restricted to households earning up to 60% of the AMI as set forth in the table on page 3.

   The applicant will agree 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.

7. The applicant will agree to provide eight fully accessible units for persons with mobility, hearing and vision impairments, and four units accessible for 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.

8. 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), the applicant desires to refinance the property and is unable to refinance because the units are income-restricted, the applicant 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.

9. 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 balance of FY2011 AHIF/HOME funds is $16,557,321. Approval of the staff recommendation to allocate up to $6,380,000 in AHIF funds for the acquisition and renovation of Howard Manor Apartments will result in a remaining FY 2011 balance of $10,177,321.

Howard Manor Apartments

2001-2003 North Cleveland Street and 2500-2510 20th Road North
(buildings within cross-hatched parcels #1 and #2)