



ARLINGTON COUNTY, VIRGINIA

**County Board Agenda Item
Meeting of September 17, 2011**

DATE: August 11, 2011

SUBJECT: Creation of a County-held reserve account for Marbella Apartments.

RECOMMENDATIONS:

1. Authorize the creation of a County-held Operating and Latent Defect Reserve Account (OLDR Account), in the amount of \$300,000.00, which shall be held for a period of ten years and, subject to the written approval of the County Manager, drawn down by Marbella Development LLC to fund unforeseen and major (a) capital expenditures, (b) property repairs, or (c) operating expenses related to its ownership and operation of the Marbella Apartments complex located at 1301 North Queen Street, that are not reimbursable by or exceed available funds from Residual Receipts, the Replacement Reserve, or insurance proceeds, pursuant to the terms of an amended and restated Affordable Housing Investment Fund and HOME Investment Partnerships Program Loan Agreement (AHIF/HOME Loan Agreement). The County-held OLDR Account will be funded with Affordable Housing Investment Fund (AHIF) funds previously allocated by the County Board to Arlington Partnership for Affordable Housing (APAH), or its designated ownership affiliate, on May 14, 2011; no new County funds are needed to fund the OLDR Account.
2. Authorize the County Manager to execute an amended and restated AHIF/HOME Loan Agreement between the County and Marbella Development LLC, 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 to authorize the creation of a County-held Operating and Latent Defect Reserve Account (OLDR Account), in the amount of \$300,000.00, for use by Marbella Development LLC to fund unforeseen and major capital expenditures, property repairs, or

County Manager:

County Attorney:

50.

Staff: David Cristeal and Anne Venezia, DCPHD

operating expenses related to its ownership of Marbella Apartments according to the terms outlined in this Report.

SUMMARY: Marbella Development LLC, whose sole and managing member, Rosslyn Development Corporation, is a corporate affiliate of APAH, acquired Marbella Apartments from Briarcliff Manor Associates, L.P. on June 17, 2011 for \$13,000,000.00 with total acquisition costs of \$14,311,000.00 using a loan from the Virginia Housing Development Authority (VHDA), a County AHIF loan, and a County administered HOME Investment Partnerships federal loan. In order to comply with VHDA's financing request that the owner of Marbella Apartments have access to an additional reserve account to fund certain unforeseen and major expenditures and expenses, APAH and Marbella Development LLC is requesting that the County create, fund, and hold an OLDR Account for the benefit of the owner of Marbella Apartments. This OLDR Account will be funded with a portion of the AHIF funds allocated by the County Board on May 14, 2011 to APAH (or its ownership affiliate) to assist with the acquisition of Marbella Apartments. The OLDR Account funds will not be disbursed to the owner of Marbella Apartments without the prior written approval of the County Manager. Further, any funds remaining in the OLDR Account after ten (10) years will be retained by the County. AHIF funds have already been allocated to support acquisition-related costs; no additional funds are needed to create and fund the OLDR Account for the benefit of the owner of Marbella Apartments.

BACKGROUND: On June 17, 2011, Marbella Development LLC, whose sole and managing member, Rosslyn Development Corporation, is a corporate affiliate of APAH, acquired Marbella Apartments from Briarcliff Manor Associates, L.P. for \$13,000,000.00 with total acquisition costs of \$14,311,000.00 utilizing a (a) \$10,080,000.00 first mortgage loan from the Virginia Housing Development authority (VHDA), (b) \$2,775,708.00 County administered HOME Investment Partnerships federal program loan, (c) \$1,255,292.00 County AHIF program loan, and (d) \$200,000.00 equity contribution from APAH. The Marbella Apartments is a 134-unit complex, consisting of twelve (12) three-story brick walk-up garden apartment buildings located at 1301 North Queen Street, just south of Arlington Boulevard – RPC Numbers 17033006, 17033017, 17033252, 17033005, 17033009, 17033003, and 17038006 (see attached map). Marbella Apartments provides the County's CAF portfolio with 134 income-restricted units within 1-mile of two metro stations. These income-restricted units include 14 units affordable at 40 percent of area median income (AMI) and 26 units affordable at 50 percent of AMI. Once Marbella Development LLC purchased Marbella Apartments, the County affordability income restrictions were extended through June 17, 2071 (the the sixtieth anniversary of the AHIF/HOME Agreement effective date).

Pursuant to the AHIF/HOME Loan Agreement between the County and Marbella Development LLC, on June 17, 2011, of the \$1,255,292.00 County AHIF loan provided to Marbella Development LLC for the acquisition of Marbella Apartments, the County placed \$307,850.00 into a County-held contingency account which was to be disbursed to Marbella Development LLC for property-related costs upon written approval of the County Manager. According to the AHIF/HOME Loan Agreement any funds remaining in the County-held contingency account after June 17, 2012 that have not been disbursed to Marbella Development LLC will be retained by the County unless the County Board authorizes \$300,000.00 of this balance to be transferred into a County-held OLDR Account.

VHDA's underwriter requested that the owner of Marbella Apartments have access to an additional reserve account for a period of not less than ten (10) years from the Agreement effective date in order to fund unforeseen and major (a) capital expenditures, (b) property repairs, and/or (c) operating expenses that are not reimbursable by or exceed available funds from insurance proceeds, Residual Receipts (as defined in the AHIF/HOME Loan Agreement), or the primary Replacement Reserve (as defined in the AHIF/HOME Loan Agreement). Staff recommends that the County create and hold this OLDR Account in the amount of \$300,000.00.

DISCUSSION: OLDR Account funds shall be used when Marbella Apartments is enduring unanticipated operational or capital hardship and other funds are not available to offset these costs. As a result, staff anticipates very few, if any, draw requests while this account is active and minimal staff time overall to administer the account. Staff would use the County's purchasing process to manage the account and encumber the funds via a requisition and purchase order. Marbella Development LLC may request funds as needed by submitting an invoice/draw request and supporting documentation to the Housing Division Development Specialist assigned to this Property for staff review. The County Manager-approved draw amount would be disbursed using the County's automated clearing house (ACH) process and added to Marbella Development LLC's AHIF/HOME loan amount. Interest would begin accruing on any draws from the reserve on the date of disbursement and according to the terms outlined in the executed AHIF/HOME Loan Agreement dated June 17, 2011, which shall be amended and restated pending County Board approval of this request.

Any funds in the OLDR account that have not been disbursed to the Borrower as of June 17, 2021 shall be retained by the County and shall remain County funds. Drawn funds shall not be replenished by the County or any other source without further authorization by the County Board. AHIF is already allocated for this reserve; no additional funds are needed. No other loan terms or program elements are impacted by this request.

FISCAL IMPACT: None.

Marbella Apartments

1301 North Queen Street

(Buildings within cross-hatched parcels #1, #2, #3, #4, #5, & #6)

