ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of October 15, 2011

DATE: September 23, 2011

SUBJECT: Allocation of Fiscal Year (FY) 2012 Affordable Housing Investment Fund (AHIF) financial assistance as a loan to AHC Inc. (AHC) to support the acquisition and renovation of Magnolia Commons apartment complex.

C. M. RECOMMENDATIONS:

1. Appropriate $1,776,658 in loan repayments (101.357000.91102) to the FY 2012 Affordable Housing Investment Fund (101.495130.91102).

2. Appropriate $2,190,449 in Housing Reserve Fund fund balance (799.359910.72402) to the FY 2012 Affordable Housing Investment Fund (101.495130.91102).

3. Appropriate $4,157,999 from the FY 2011 projected fund balance (101.386000.10301) that remained unspent and unallocated from the prior fiscal year to the FY 2012 Affordable Housing Investment Fund (101.495130.91102).

4. Allocate up to $13,266,315 in FY 2012 Affordable Housing Investment Fund funds (101.495130.91102) to AHC Inc. (101.456300.91102), or its designated County-approved ownership affiliate (AHC Limited Partnership - 22), in the form of a subordinated, residual receipts loan, subject to the terms and conditions outlined in this report, to assist with the acquisition and renovation of Magnolia Commons apartment complex.

5. Authorize the County Manager to execute the required documents for an Affordable Housing Investment Fund subordinated residual receipts loan of up to $13,266,315 to AHC Inc., or its designated County-approved ownership affiliate (AHC Limited Partnership – 22), and authorize the trustees for the County's Deed of Trust to execute the required loan and subordination documents, subject to approval by the County Attorney.

6. 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

County Manager: BMD mma

County Attorney:

Staff: David Cristeal and Maureen Markham, DCPHD

38. A.

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.

ISSUES: This is a request for financial assistance from the Affordable Housing Investment Fund (AHIF) to AHC Inc. (AHC), or its designated County-approved ownership affiliate (AHC Limited Partnership – 22), to assist with the acquisition and renovation of Magnolia Commons apartment complex. No issues have been identified.

SUMMARY: AHC is requesting up to a $13,266,315 subordinate residual receipt loan from the FY 2012 AHIF to assist in acquiring and renovating the 198-unit Magnolia Commons apartment complex. There is currently $5,141,209 available for allocation in the FY 2012 AHIF. The DCPHD Housing Division staff is requesting that the County Board appropriate (i) $1,776,658 in loan repayments the County has received FY 2012, (ii) the Housing Reserve Fund (HRF) balance of $2,190,449, and (iii) $4,157,999 from the FY 2011 fund balance, to the FY 2012 AHIF in order to provide the necessary funding for the requested $13,266,315 subordinated residual receipt loan. The permanent financing package will include a reservation of non-competitive 4% Low Income Housing Tax Credits (LIHTC) through the Virginia Housing Development Authority (VHDA) and $25,000,000 in IDA tax-exempt bonds. Approval to issue the bonds through the IDA is the subject of a separate Board item to be considered on the October 15 Board agenda. The property will undergo a substantial renovation including replacement or upgrades to the existing plumbing, HVAC and electrical systems, new kitchen cabinetry, floors and appliances, upgraded baths, windows and other general unit, common area and site improvements. The renovations will also include the conversion of four units to be accessible to meet American National Standards Institute (ANSI) A117.1 Type A requirements. The AHIF loan, tax credits, tax-exempt bonds, AHC equity contribution, and deferred developer fee will provide the financing necessary to complete the acquisition in 2011 and the proposed renovation work by late 2013.

BACKGROUND: In June 2011, AHC identified this off-market opportunity through a seller from whom they have acquired other properties throughout the years, including Harvey Hall Apartments and condominiums at Arlington Oaks. The seller, CMG LLC, was presented with an unsolicited offer by an investor, putting this market affordable property at risk. The seller is willing to finance the first trust lien on the property on a tax-exempt basis, which provides additional value to offset the lower purchase price offered by AHC, if the bonds can be issued in the 2011 calendar year. AHC has a contract to acquire the property for $35 million with a closing date of November 30, 2011. A recent appraisal by Thorne Consultants, Inc. has indicated an as-is value of the property at $33 million. AHC has performed its feasibility analysis and retained an architect and MEP engineer to inspect the units and prepare a scope of work, development plans and building permit applications. AHC has also engaged an environmental consultant to perform a Phase I Environmental Site Assessment. Follow-up is being conducted to confirm that a previously-identified UST (Underground Storage Tank) has been removed.

AHC met with tenants on July 12, 2011, and subsequently interviewed individual households at the property, in addition to reviewing tenant leases and rent rolls. At its meeting on September 21, 2011 the Tenant Landlord Commission recommended approval of the Tenant

Relocation Plan for the project. On September 20, 2011 AHC met with members of the Columbia Heights West Civic Association. Those attending the meeting were generally supportive of the project.

The property consists of eight colonial-style, three- and four-story walk-up garden apartment buildings. It is located on the north side of Columbia Pike at Frederick Street and extending across 8th Street South. It is within the boundaries of the Columbia Heights West Civic Association and located within the Columbia Pike Land Use & Housing Study area (see attached map). Currently the property includes 65 one-bedroom units and 133 two-bedroom units. Rents are affordable to households at approximately 60% of the Area Median Income (AMI) with monthly rents (including utilities) for one-bedroom units between $890 to $1,025 and $1,100 to $1,250 for two-bedroom units. The current tenant population is predominantly households earning less than 60% of area median income (AMI). AHC anticipates that a substantial number of the current tenants will continue to live at the properties after being required to temporarily relocate during renovation.

The property is currently zoned RA 14-26. No additions to, or expansion of, existing buildings or uses is proposed, and no use permit or special approvals are required. This property was included as a representative site in the recent design charrette conducted as part of the Columbia Pike Land Use and Housing Study (LU&HS) and is also included on Arlington's list of "important" historic resources. Although the accelerated timetable and financing structure preclude implementing any of the design alternatives at this time, the study will be helpful to AHC as they establish long term goals for the property. The proposed plan is consistent with the draft affordable housing goal in the study to retain 100% of the current market rate affordable units that are affordable to households at 60% of Area Median Income (AMI). Acquiring the property now creates the opportunity to achieve a future redevelopment that will expand housing options while preserving affordable housing, incorporating attractive open space and historically sensitive site planning, and utilizing the potential of the Columbia Pike frontage.

DISCUSSION: This project is an opportunity to purchase and improve a key multi-family rental property on the west end of Columbia Pike and to preserve 100% of the Market Rate Affordable units by adding the 198 units to the County's Committed Affordable Unit stock. After renovations, 158 units will be affordable to households earning up to 60% of AMI and 40 units will be affordable to households earning up to 50% of AMI for 60 years. The project will create four fully accessible units.

Renovation Plan: AHC's proposed scope of work includes significant capital improvements in order to repair, upgrade and modernize the buildings, which were built in 1947. The substantial renovation will include the replacement or enhancement of all major systems (electrical, plumbing, HVAC) as well as major upgrades to the unit interiors (new kitchens, fixtures and finishes, upgraded baths, etc.). The renovations include numerous items designed to increase energy efficiency and/or reduce consumption, including Energy Star-rated appliances, low-flow plumbing fixtures, and individual metering of utilities. In addition, four units will be made fully accessible (ANSI Type A units). AHC plans to spend approximately $53,000 per unit for renovations.

Tenant Information: AHC organized a tenant meeting and conducted a tenant survey in July 2011. Of 193 occupied homes, 164 households were interviewed. Based on the households interviewed, AHC estimates that approximately 30% of the households at the property live in over-crowded conditions; one-third of these appear to be extended families, and two-thirds are large nuclear families. Approximately 27 households (14% of those interviewed) may be over 60% AMI, while 60% may have incomes below 50% AMI. About 46% of the households (75) may be severely rent-burdened, paying over 40% of their income toward rent. Given this data and the provisions in the Tenant Relocation Plan, AHC expects that most of the households will be eligible to live at the property once the renovations are complete.

During renovations, all households will have to move at least once while their unit is under construction. To lessen the inconvenience caused to residents AHC will conduct a phased renovation of buildings so that they can relocate as many residents as possible on-site at Magnolia Commons. If residents must be relocated off-site, AHC will target neighboring properties for temporary relocations.

AHC met with the Tenant-Landlord Commission on September 21 to discuss the project; the Commission recommended approval of the Tenant Relocation Plan. Within the budget for the permanent financing for the project is $594,000 for relocation expenses for current qualified tenants. These funds will be used according to the guidelines in the Tenant Relocation Plan that was recommended for approval by the Tenant Landlord Commission at their meeting on September 21, 2011. After the construction period is concluded, the value of any relocation funds remaining will be used for a Tenant Assistance Fund (TAF). The TAF will provide a rental subsidy to households whose incomes are too low to support making the rent payment for the newly-renovated income-restricted units. The TAF will be an integral part of minimizing the displacement of tenants who want to remain at Magnolia Commons, and will also provide some relief for those households who are currently severely rent-burdened.

According to the Relocation Plan and to minimize the inconvenience of the displacement of over-income households, AHC will use the 24-month construction period to phase in the new income restrictions that must be put in place after the buildings are placed in service as a tax credit property. If a household does not qualify to remain at the property post-renovation and is required to permanently relocate from Magnolia Commons, or chooses to voluntarily relocate permanently, and provides written notice, that household will be entitled to receive technical and financial relocation services as described in the plan; for example: assistance in searching for a replacement home, completing applications and other required paperwork, translation services, and relocation payments.

Affordable Housing Plan: One hundred percent (100%) of the units (198 units) will be restricted to households with incomes at or below 60% of the Area Median Income (AMI). Of those units, 40 will have rents set to be affordable to households at 50% AMI. A Tenant Assistance Fund will limit displacement of current residents whose income is too low to allow them to qualify for the newly renovated units.

Table 1

Magnolia Affordability and Unit Mix

Unit Size	Size Range	50% AMI	60% AMI	Rents after Renovations (excluding utilities)
1-Bedroom	560 - 630	13 units	52 units	$893 / $1,092
2-Bedroom	740 - 815	27 units	106 units	$1,047 / $1,286
Total		40 units	158 units	

Financing Plan: The costs for this project will be funded with IDA mortgage revenue bonds placed with the seller, 4% tax credit equity, a partially deferred developer fee, AHC cash equity, and the proposed AHIF loan.

Table 2
Permanent Financing Sources and Uses

SOURCES OF FUNDS		USES OF FUNDS	
Sources	**Amount**	**Uses**	**Amount**
Tax Credit Equity	$14,591,342	Acquisition	$35,000,000
IDA bonds	$25,000,000	Construction	$10,580,755
AHIF Loan	$13,266,315	Soft Costs	$2,740,871
Deferred Developer Fee (50%)	$2,339,511	Developer Fee	$4,679,021
AHC (Foundation Loan)	$500,000	Financing Costs	$3,667,500
AHC Loan 2	$500,000		
Interim Income	$470,979		
TOTAL SOURCES	**$56,668,147**	**TOTAL USES**	**$56,668,147**

County Funding Request: AHC is requesting up to $13,266,315 in AHIF funds for permanent financing for the project with a 30 year term at a 3% interest rate. The proposed loan would be secured by a subordinated Deed of Trust and payable from cash flow from the project. Beginning in 2014 seventy-five percent (75%) of the cash flow will go to AHC to pay off the deferred developer fee, fifteen percent (15%) will go to the County as a residual receipts payment toward the AHIF loan, and 10% will go to AHC to pay off a foundation loan. When the deferred developer fee has been fully paid, projected in Year 13 (2024), the cash flow split will be revised, with fifteen percent (15%) to AHC and eighty-five percent (85%) to the County.

Accessible Units: The property currently has no accessible units. The renovations will create four fully accessible Type A units that include necessary adaptations for persons with all types of disabilities including mobility, hearing and vision impairments.

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

- Converts 198 units of market affordable housing to committed affordable housing units with plans to minimize involuntary displacement of current residents (Goal 5/Target 5B and 5D);
- Reduces the number of households in serious housing need who are paying more than 40% on their income for rent (Goal 6/Target 6A)
- Adds 134 two-bedroom units (67% of project total) to the stock of Committed Affordable housing (Goal 7/Target 7B)
- The project improves the affordable housing stock in the Columbia Pike Planning Area and preserves 100% of the market rate affordable units that are affordable to households earning at or below 60% AMI (LU&HS draft Goal 3.a).

Civic Association/Community Process: AHC met with the Columbia Heights West Civic Association on September 21, 2011. Members of the association had questions about the current and future plans for the property, the new rent structure, and the impacts on current residents. Those attending the meeting were generally supportive of the project.

Tenant Relocation Plan/Tenant Landlord Commission: The Tenant - Landlord Commission reviewed the Magnolia Commons Relocation Plan and recommended approval at their meeting on September 20, 2011. AHC will conduct the renovation in phases to enable relocation of tenants on the property itself as much as feasible. To minimize any displacement, AHC will use the approximate 24-month construction period to phase in the affordability restrictions that must be put into place once the apartments are placed in service as tax credit units.

Schools Impact After Renovations: The proposed renovation should have minimal impact on Arlington Public schools since it will not affect the configuration or number of current units. APS reports that last year there were 208 APS students living in the 198 units of Magnolia Commons. After renovations, and the resulting correction of currently overcrowded units, APS projects a decline in the number of students returning to 135 students: 55% elementary (74 students, mainly Carlin Springs), 15% middle school (20 students, Kenmore) and 30% high school (41 students, Washington-Lee).

Housing Commission: AHC will meet with the Citizens Advisory Commission on Housing (HC) on October 6, 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 $13,266,315 in AHIF funds, to assist with the acquisition and renovation of the Magnolia Commons apartments, subject to the following terms and conditions:

1. The applicant shall execute a generally standard AHIF Loan Agreement and related loan instruments for the County loan in a form acceptable to the County Manager and the County Attorney.

2. The County's 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 as defined in the AHIF Loan Agreement. This loan will be made at an interest rate of 3%, compounded annually, over a term of 30 years. The loan will be subordinate to IDA's senior financing of up to $25 million in long term bonds plus up to $4 million in construction bridge bonds plus 10%.

3. The applicant agrees to provide $1 million in cash equity to the costs of the project. This contribution is in addition to the deferred developer fee. In the event that the applicant is able to secure additional sources of funding or equity through the syndication process, 90% of the savings will be used to reduce the principal amount of the AHIF loan.

4. Beginning in the first stabilized year and during repayment of the Deferred Developer Fee the County shall receive 15% of residual cash flow as an Annual Payment on the outstanding principal and accrued interest on the County AHIF Loan. Subsequently the County shall receive 85% of residual cash flow toward repayment of the AHIF loan until the County loan is paid in full. (Residual cash flow is defined in the AHIF agreement as the amount by which gross revenues exceeds annual debt service payments, approved operating expenses, payments to replacement reserve and allowable priority payments.)

5. The applicant must comply with the affordable housing set-aside for the rental units as follows: Within twenty-four months after acquisition, one hundred and fifty-eight (158) of the rental units will be restricted to households earning up to 60% of AMI; and forty (40) of the rental units will be restricted to households earning up to 50% of AMI per *Table 1: Magnolia Affordability and Unit Mix.* AHC will convert any units occupied by over-income households to income-restricted units at the 60% AMI level as attrition occurs and/or as households qualify so long as underwriting and low income housing tax credit requirements are upheld.

   The applicant agrees that the affordable rents shall be established in accordance with LIHTC rents as published annually by VHDA for the unit size, minus a utility allowance (if applicable) as per the Utility Allowance Schedule annually approved by HUD for the Arlington County, VA Section 8 Housing Certificate/Voucher Program or other manner as permitted by applicable federal regulations and approved by the County or, if such LIHTC rents are not published by VHDA, then in accordance with HUD rent limits set for Arlington County.

6. The applicant agrees to provide four fully accessible Type A units for persons with mobility, hearing and vision impairments, and to fully cooperate with an affirmative marketing program to market these units to households in need of such accommodation.

7. The term for the affordability restrictions stated in Loan Term and Condition #5 above shall be 60 years.

8. The applicant, its designated ownership affiliate, heirs or assigns shall provide a purchase option including a right of first refusal to the County or its designee, if the developer or

its designated ownership affiliate, heirs or assigns decide to sell the Magnolia Commons apartment complex to an unrelated third-party purchaser any time prior to or at the end of the 60-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: Approval of the staff recommendation to appropriate $1,776,658 in FY 2012 AHIF loan repayments and $2,190,449 of the Housing Reserve Fund balance to AHIF will result in an FY 2012 AHIF balance of $9,108,316.

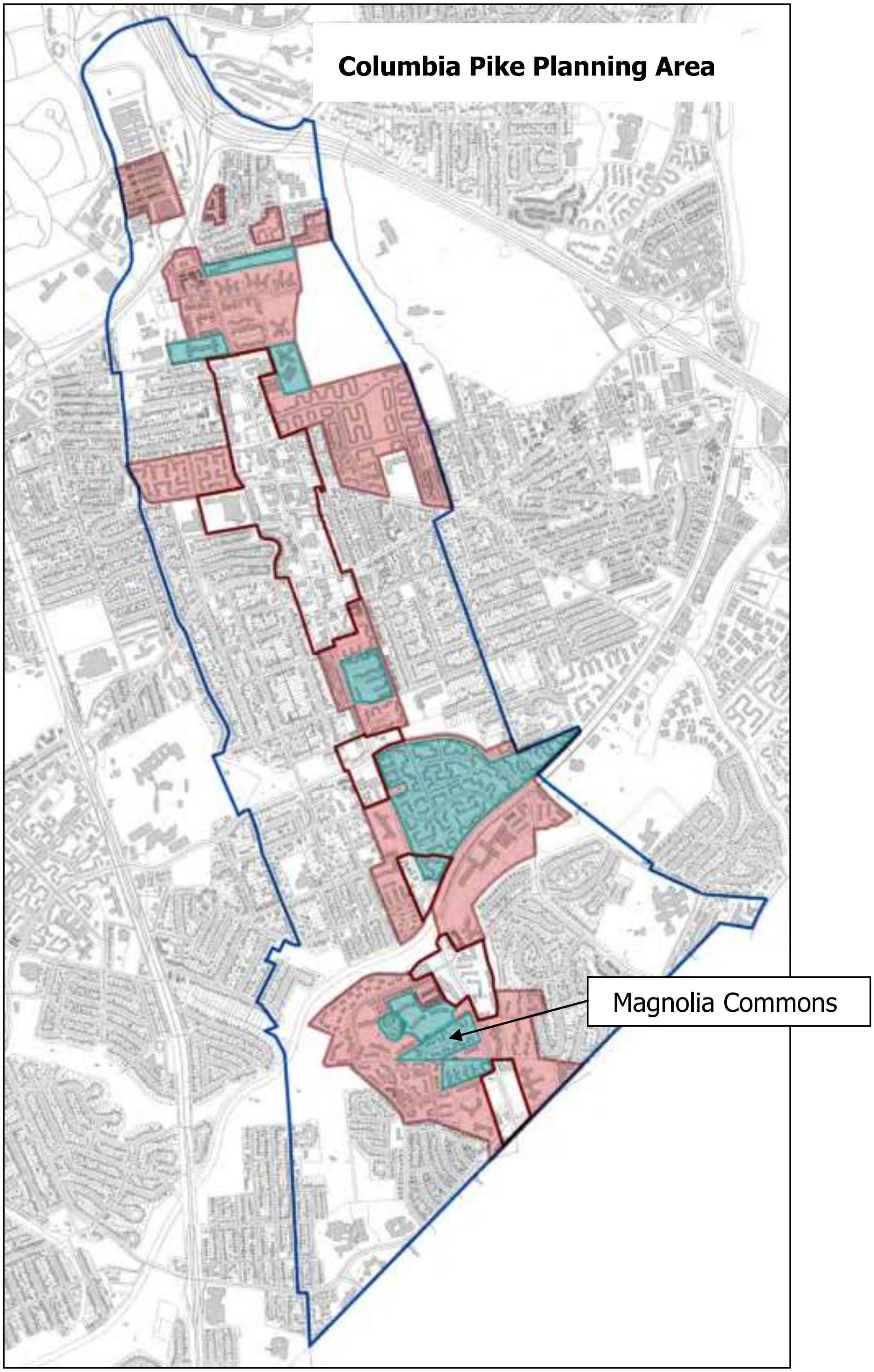
In addition, the anticipated carryover of un-allocated AHIF/HOME funds from FY 2011 is $7,813,297; appropriating $4,157,999 of these funds will provide sufficient resources to fund the staff-recommended allocation for this project. The remaining balance of the FY 2011 carryover funds will be appropriated as part of FY 2011 closeout, to be considered by the County Board at the November 2011 meeting.

Approval of the staff recommendation to allocate up to $13,266,315 in AHIF funds for the acquisition and renovation of Magnolia Commons apartments will result in a remaining FY 2012 balance of $0.After the remaining carryover funds from FY 2011 are appropriated in November, the remaining un-allocated fund balance will be $3,655,298.

Attachment 1: Maps and Figures
Magnolia Commons
October 15, 2011

Magnolia Commons Apartments
5201-5205 8th Street South and 830-858 South Frederick Street

Magnolia Commons - Aerial View


Columbia Pike Planning Area
Magnolia Commons