



ARLINGTON COUNTY, VIRGINIA

**County Board Agenda Item
Meeting of October 15, 2011**

DATE: September 28, 2011

SUBJECT: Consideration of the financing through the Arlington Industrial Development Authority of AHC Inc.'s Magnolia Commons residential housing project.

C. M. RECOMMENDATION: Adopt the proposed resolution authorizing the Arlington County Industrial Development Authority (the "IDA") to issue up to \$32 million in tax exempt revenue bonds for the financing of the AHC's purchase and renovation of the Magnolia Commons multifamily housing property.

ISSUES: No issues currently identified

SUMMARY: This is a request to the County Board to approve the issuance of up to \$32 million in revenue bonds (the "Arlington IDA Bonds") through the IDA. On Tuesday, September 27th, the IDA approved an inducement resolution (the "Arlington IDA Inducement Resolution") agreeing to assist AHC, Inc. ("AHC") in the purchase and renovation of the Magnolia Commons multifamily housing property. These bonds are secured by the net revenues of the project and are not an obligation of the County.

BACKGROUND: Magnolia Commons is a 198-unit, eight-building garden apartment complex located on approximately eight acres adjacent to Columbia Pike. The complex was constructed in the late 1940's. There are 65 one-bedroom units and 133 two-bedroom units. All of the units at Magnolia Commons are currently market-rate affordable. The acquisition of the property by AHC will add the 198 units to the County's non-profit-owned portfolio of committed affordable units. The renovation of the Magnolia Commons apartment complex will improve current living conditions and lay the groundwork for the successful future operation of the property. Furthermore, the property falls within the area of Columbia Pike targeted by the County for redevelopment.

The current tenant population is predominantly households earning less than 60% of the area median income (AMI). After the project is completed, all of the units will be committed affordable units for a period of 60 years: 40 (20%) of the units will be limited to households

County Manager:

BMD/mjs

County Attorney:

[Signature] *[Signature]*

Staff:

38. B.

earning at or below 50% AMI with the remaining 158 (80%) of the units will be limited to households earning up to 60% AMI.

DISCUSSION: The financing plan includes funding from the following sources:

- Tax exempt permanent senior debt: Up to \$25 million in IDA bonds to be purchased by the seller
- Tax exempt construction debt: Up to \$4.0 million in IDA bonds that will remain outstanding only until the completion of construction and project stabilization
- Tax credit equity: Approximately \$14.6 million of 4% Low Income Housing Tax Credits (LIHTC) through the Virginia Housing Development Authority (VHDA)
- AHIF: Up to a \$13.3 million County AHIF loan that will be fully subordinated to the tax exempt bonds
- AHC deferred developer fee of approximately \$2.3 million
- AHC cash loan: A \$1 million loan that will be fully subordinated to the IDA tax exempt bonds and the County AHIF loan
- Interim income: Approximately \$470,000 in net operating income generated during the construction period

The senior IDA bonds will be secured by a first lien on the Properties and a pledge of all revenues generated by its operations. The Borrower will be AHC Limited Partnership-22 – an AHC affiliate established for the sole purpose of owning and operating the Magnolia Commons property. The note will be sold through a private placement arrangement to the property seller. As agreed with the seller/bond purchaser, the permanent financing will be fixed-rate and debt service payments will be interest-only for the first three years. The IDA bonds will have a 17-year term and amortize over 40-years. The tax-exempt construction debt will also be fixed rate and will be paid off in three years following construction completion and project stabilization using equity financing that will be paid-in during the construction period and held in escrow. 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, borrower's counsel fees and a fee payable to the Authority.

FISCAL IMPACT: There is no financial risk to the County in authorizing the IDA to proceed with the bond financing. 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 Owner. The issuance of revenue bonds as requested by the Owner will not constitute a debt or pledge of the faith and credit of the Commonwealth of Virginia or the County, and neither the full faith and credit nor the taxing power of the Commonwealth of Virginia or any political subdivision of the Commonwealth of Virginia or any political subdivision thereof will be pledged to the payment of such bonds. Neither the County nor the Authority shall be obligated to pay the bonds or the interest thereon or other costs incident thereto except from revenues and money pledged therefor.

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 \$32,000,000 (the "Bonds") to assist AHC and AHC Limited Partnership – 22 ("LP-22" and, together with AHC, the "Borrower"), an entity affiliated with and controlled by AHC, in (a) financing and refinancing certain of the costs of the acquisition, renovation and equipping of a multifamily residential rental housing facility known as Magnolia Commons to be owned by LP-22 consisting of approximately 198 rental units housed in approximately 8 buildings containing approximately 148,500 total square feet of space and located on approximately 8.5 acres at 5201-5205 8th Street South and 830-858 South Frederick Street, Arlington, Virginia 22204 and (b) financing costs of issuance, funding of any required reserves and other financeable expenditures (collectively, the "Project"), and has held a public hearing on September 27, 2011;

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 ____ day of _____, 2011, 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: _____, 2011

Clerk, County Board of Arlington

**NOTICE OF PUBLIC HEARING ON PROPOSED
REVENUE BOND FINANCING BY
INDUSTRIAL DEVELOPMENT AUTHORITY OF
ARLINGTON COUNTY, VIRGINIA**

Notice is hereby given that the Industrial Development Authority of Arlington County, Virginia (the "Authority"), will hold a public hearing on the application of AHC Inc. ("AHC"), whose address is 2230 North Fairfax Drive, Suite 100, Arlington Virginia 22201, requesting the Authority to issue up to \$32,000,000 of its revenue bonds, in one or more series, at one time or from time to time, to assist AHC and AHC Limited Partnership – 22 ("LP-22"), an entity affiliated with and controlled by AHC and having the same principal place of business as AHC, in (a) financing and refinancing certain of the costs of the acquisition, renovation and equipping of a multifamily residential rental housing facility known as Magnolia Commons to be owned by LP-22 consisting of approximately 198 rental units housed in approximately 8 buildings containing approximately 148,500 total square feet of space and located on approximately 8.5 acres at 5201-5205 8th Street South and 830-858 South Frederick Street, Arlington, Virginia 22204 and (b) financing costs of issuance, funding of any required reserves and other financeable expenditures.

The issuance of revenue bonds as requested by AHC 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.

The public hearing, which may be continued or adjourned, will be held at 6:30 o'clock p.m., or as soon thereafter as the matter may be heard, on Tuesday, September 27, 2011, before the Authority, in Conference Room A (Azalea Room), at #1 Courthouse Plaza, 2100 Clarendon Boulevard, in Arlington, Virginia. Any person interested in the issuance of the bonds or the location or nature of the proposed project may appear at the hearing and present his or her views. Information regarding AHC's application is on file and is open for inspection at the Authority's office at #1 Courthouse Plaza, Suite 501, 2100 Clarendon Boulevard, Arlington, Virginia 22201 during business hours.

Industrial Development Authority
of Arlington County, Virginia

CERTIFICATE

The undersigned Secretary/Treasurer of the Industrial Development Authority of Arlington County, Virginia (the "Authority") certifies as follows:

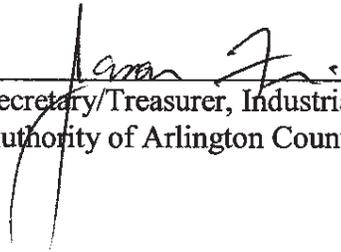
1. A meeting of the Authority was duly called and held on September 27, 2011, at 6:30 o'clock p.m. in Conference Room A, at #1 Courthouse Plaza, 2100 Clarendon Boulevard, in Arlington, Virginia, pursuant to proper notice given to each Director of the Authority before such meeting. The meeting was open to the public. The time of the meeting and the place at which the meeting was held provided a reasonable opportunity for persons of differing views to appear and be heard.

2. The Chairman announced the commencement of a public hearing on the application of AHC Inc. and that a notice of the hearing was published once a week for two successive weeks in a newspaper having general circulation in the County of Arlington, Virginia (the "Notice"), with the second publication appearing not less than seven days nor more than twenty-one days prior to the hearing date. A copy of the Notice has been filed with the minutes of the Authority and is attached as Exhibit A.

3. A summary of the statements made at the public hearing is attached as Exhibit B.

4. Attached as Exhibit C is a true, correct and complete copy of a resolution (the "Resolution") adopted at such meeting of the Authority by a majority of the Directors present at such meeting. The Resolution constitutes all formal action taken by the Authority at such meeting relating to matters referred to in the Resolution. The Resolution has not been repealed, revoked, rescinded or amended and is in full force and effect on this date.

WITNESS my hand and the seal of the Authority, this 27th day of September, 2011.


Secretary/Treasurer, Industrial Development
Authority of Arlington County, Virginia

[SEAL]

Exhibits:

- A - Copy of Certified Notice
- B - Summary of Statements
- C - Inducement Resolution

Summary of Statements

Representatives of AHC Inc., AHC Limited Partnership - 22 and McGuireWoods LLP, bond counsel, appeared before the Authority to explain the proposed plan of financing. No one appeared in opposition to the proposed bond issue.

September 27, 2011

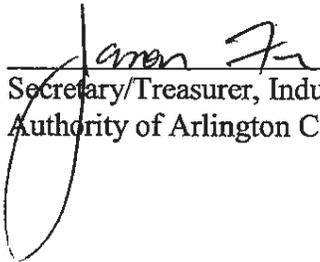
County Board of Arlington County
2100 Clarendon Boulevard
Arlington, Virginia 22201

Industrial Development Authority
of Arlington County, Virginia
Proposed Financing for AHC Inc. and AHC Limited Partnership - 22

AHC Inc. ("AHC") has requested that the Industrial Development Authority of Arlington County, Virginia (the "Authority") assist AHC and AHC Limited Partnership - 22 ("LP-22"), an entity affiliated with and controlled by AHC, in (a) financing and refinancing certain of the costs of the acquisition, renovation and equipping of a multifamily residential rental housing facility known as Magnolia Commons to be owned by LP-22 consisting of approximately 198 rental units housed in approximately 8 buildings containing approximately 148,500 total square feet of space and located on approximately 8.5 acres at 5201-5205 8th Street South and 830-858 South Frederick Street, Arlington, Virginia 22204 and (b) financing costs of issuance, funding of any required reserves and other financeable expenditures (collectively, the "Project"), by the issuance of its revenue bonds, in one or more series, at one time or from time to time, in an amount not to exceed \$32,000,000 (the "Bonds").

As set forth in the resolution of the Authority attached hereto (the "Resolution"), the Authority has agreed to issue its Bonds as requested. The Authority has conducted a public hearing on the proposed financing of the Project and has recommended that you approve the issuance of the Bonds as required by Section 147(f) of the Internal Revenue Code of 1986, as amended, and Section 15.2-4906 of the Code of Virginia of 1950, as amended (the "Virginia Code").

Attached hereto is (1) a certificate evidencing the conduct of the public hearing and the action taken by the Authority, (2) the Fiscal Impact Statement required pursuant to Virginia Code Section 15.2-4907, and (3) the form of resolution suggested by counsel to evidence your approval.



Secretary/Treasurer, Industrial Development
Authority of Arlington County, Virginia

FISCAL IMPACT STATEMENT
FOR PROPOSED BOND FINANCING

Date: September 27, 2011

To the County Board
of Arlington County, Virginia

Applicant: AHC Inc.

Facility: Multi-Family Housing Facility known as Magnolia Commons

1.	Maximum amount of financing sought.	\$	32,000,000
2.	Estimated taxable value of the facility's real property to be constructed in the locality.	\$	25,000,000
3.	Estimated real property tax per year using present tax rates.	\$	237,000
4.	Estimated personal property tax per year using present tax rates.	\$	0
5.	Estimated merchants' capital tax per year using present tax rates.	\$	N/A
6.	(a) Estimated dollar value per year of goods that will be purchased from Virginia companies within the locality.	\$	140,000
	(b) Estimated dollar value per year of goods that will be purchased from non-Virginia companies within the locality.	\$	60,000
	(c) Estimated dollar value per year of services that will be purchased from Virginia companies within the locality.	\$	220,000
	(d) Estimated dollar value per year of services that will be purchased from non-Virginia companies within the locality.	\$	80,000
7.	Estimated number of regular employees on year round basis.		5
8.	Average annual salary per employee.	\$	56,000


Chairman, Industrial Development Authority
of Arlington County, Virginia

RESOLUTION OF THE INDUSTRIAL DEVELOPMENT AUTHORITY
OF ARLINGTON COUNTY, VIRGINIA
AUTHORIZING THE ISSUANCE OF UP TO \$32,000,000
REVENUE BONDS FOR THE BENEFIT OF AHC INC.

WHEREAS, the Industrial Development Authority of Arlington County, Virginia, a political subdivision of the Commonwealth of Virginia (the "Authority"), is empowered by the Industrial Development and Revenue Bond Act, Chapter 49, Title 15.2, Code of Virginia of 1950, as amended (the "Act"), to issue its revenue bonds for the purpose of inducing the location in the Commonwealth of Virginia of facilities used primarily for single or multi-family residences in order to promote safe and affordable housing in the Commonwealth of Virginia and to benefit thereby the safety, health, welfare and prosperity of the inhabitants of the Commonwealth of Virginia;

WHEREAS, the Authority has received a request from AHC Inc., a Virginia non-profit corporation ("AHC"), requesting that the Authority issue its revenue bonds to assist AHC and AHC Limited Partnership - 22 ("LP-22" and, together with AHC, the "Borrower"), a Virginia limited partnership and entity affiliated with and controlled by AHC, in (a) financing and refinancing certain of the costs of the acquisition, renovation and equipping of a multifamily residential rental housing facility known as Magnolia Commons to be owned by LP-22 consisting of approximately 198 rental units housed in approximately 8 buildings containing approximately 148,500 total square feet of space and located on approximately 8.5 acres at 5201-5205 8th Street South and 830-858 South Frederick Street, Arlington, Virginia 22204; and (b) financing costs of issuance, funding of any required reserves and other financeable expenditures (collectively, the "Project");

WHEREAS, such assistance will induce the Borrower to preserve and maintain the Project in Virginia and benefit the inhabitants of the County of Arlington, Virginia and the Commonwealth of Virginia through the promotion of their safety, health, welfare, convenience or prosperity;

WHEREAS, preliminary plans for the Project have been described to the Authority and a public hearing has been held as required by Section 147(f) of the Code and Section 15.2-4906 of the Act;

WHEREAS, the Borrower has represented that the estimated cost of the acquisition, construction, renovation and equipping of the Project and all expenses of issue will require an issue of revenue bonds in the aggregate principal amount not to exceed \$32,000,000;

WHEREAS, (a) no member of the Board of Directors of the Authority is an officer or employee of the County of Arlington, Virginia, (b) each member has, before entering upon his duties during his or her present term of office, taken and subscribed to the oath prescribed by Section 49-1 of the Code of Virginia of 1950, as amended (the "Virginia Code"), and (c) at the time of their appointments and at all times thereafter, including the date hereof, all of the members of the Board of Directors of the Authority have satisfied the residency requirements of the Act; and

WHEREAS, no member of the Board of Directors of the Authority has any personal interest or business interest in the Borrower, the bonds or any of the transactions contemplated therein or has otherwise engaged in conduct prohibited under the State and Local Government Conflict of Interests Act, Chapter 31, Title 2.2 of the Virginia Code in connection with this resolution or any other official action of the Authority in connection therewith.

NOW, THEREFORE, BE IT RESOLVED BY THE INDUSTRIAL DEVELOPMENT AUTHORITY OF ARLINGTON COUNTY, VIRGINIA:

1. It is hereby found and determined that the financing and refinancing of the acquisition, construction, renovation and equipping of the Project will be in the public interest and will promote the commerce, safety, health, welfare, convenience or prosperity of the Commonwealth of Virginia, the County of Arlington, Virginia and their citizens.

2. To induce the Borrower to preserve and maintain the Project in the Commonwealth of Virginia, and particularly in the County of Arlington, Virginia, the Authority hereby agrees to assist the Borrower in financing and refinancing the acquisition, construction, renovation and equipping of the Project by undertaking the issuance of its revenue bonds in an amount not to exceed \$32,000,000 upon terms and conditions mutually agreeable to the Authority and the Borrower. The bonds will be issued pursuant to documents satisfactory to the Authority. The bonds may be issued in one or more series at one time or from time to time.

3. It having been represented to the Authority that it is necessary to proceed immediately with the financing and refinancing of the acquisition, construction, renovation and equipping of the Project, the Authority agrees that the Borrower may proceed with plans for the Project, enter into contracts for land, construction, materials and equipment for the Project, and take such other steps as it may deem appropriate in connection with the Project, provided, however, that nothing in this resolution shall be deemed to authorize the Borrower to obligate the Authority without its consent in each instance to the payment of any moneys or the performance of any acts in connection with the Project. The Authority agrees that the Borrower may be reimbursed from the proceeds of the bonds for all expenditures and costs so incurred by it, provided such expenditures and costs are properly reimbursable under the Act and applicable federal laws.

4. At the request of the Borrower, the Authority approves McGuireWoods LLP as Bond Counsel in connection with the issuance of the bonds.

5. All costs and expenses in connection with the financing and refinancing of the acquisition, construction, renovation and equipping of the Project, including the fees and expenses of Bond Counsel and Authority Counsel, shall be paid by the Borrower or, to the extent permitted by applicable law, from the proceeds of the bonds. If for any reason such bonds are not issued, it is understood that all such expenses shall be paid by the Borrower and that the Authority shall have no responsibility therefor.

6. In adopting this resolution the Authority intends to take "official action" toward the issuance of the bonds and to evidence its "official intent" to reimburse from the proceeds of the bonds any expenditures paid by the Borrower to finance or refinance the acquisition,

construction, renovation and equipping of the Project before the issuance of the bonds, all within the meaning of regulations issued by the Internal Revenue Service pursuant to Sections 103 and 141 through 150 and related sections of the Code.

7. The Authority recommends that the County Board of Arlington County, Virginia approve the issuance of the bonds.

8. No bonds may be issued pursuant to this resolution until such time as the issuance of the bonds has been approved by the County Board of Arlington County, Virginia.

9. 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 of the Commonwealth of Virginia 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 revenues and money pledged therefor.

10. The Authority shall not be liable and hereby disclaims all liability to the Borrower for any damages, direct or consequential, resulting from the Authority's failure to issue the bonds for any reason. The Borrower agrees to (i) indemnify and hold the Authority harmless for any damages, direct or consequential, suffered by it as a result of any action or inaction of the Authority with respect to the issuance of the bonds, (ii) provide for such indemnification in all documents to which the Borrower and the Authority are parties and (iii) provide in such documents that it will forbear to bring any action for such damages as aforesaid.

11. The Borrower, by receiving the benefit of this resolution, has agreed that the Borrower will cause the documents executed in connection with the issuance of the bonds to contain a covenant, in form and substance satisfactory to the Authority and its counsel, substantially to the effect that the Borrower will agree to pay to the Authority a non-refundable closing fee of \$20,000 due upon the issuance of the bonds, an annual administrative fee of 1/8th of 1.00% of the outstanding principal amount of the bonds due upon each anniversary of the closing date for so long as any of the bonds remain outstanding and all of the Authority's expenses, including counsel fees, directly related to the Project and the bonds.

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

CERTIFICATE

The undersigned Secretary/Treasurer of the Industrial Development Authority of Arlington County, Virginia (the "Authority") certifies that the foregoing is a true, correct and complete copy of a resolution adopted by a majority of the Directors of the Authority present and voting at a meeting duly called and held on September 27, 2011, in accordance with law, and that such resolution has not been repealed, revoked, rescinded or amended but is in full force and effect on this date.

WITNESS the following signature and seal of the Authority, this 27th day of September, 2011.


Secretary/Treasurer of the Industrial Development
Authority of Arlington County, Virginia

[SEAL]