



ARLINGTON COUNTY, VIRGINIA

**County Board Agenda Item
Meeting of September 8, 2007**

DATE: August 14, 2007

SUBJECT: Allocation of Fiscal Year (FY) 2008 Affordable Housing Investment Fund (AHIF) funds to the Paradigm Development Corporation for the Committed Affordable-Non Tax Credit Unit (CANTU) program to assist tenants at Buckingham Villages Apartments.

C. M. RECOMMENDATIONS:

1. Allocate up to \$1,500,000 in FY 2008 AHIF funds (101.456300.91102) to Paradigm Development Corporation, as funding for the Committed Affordable Non Tax Credit Unit (CANTU) program, subject to the terms and conditions outlined in this report.
2. Authorize the County Manager to approve and execute the program agreement for an allocation of up to \$1,500,000 to Paradigm Development Corporation or its affiliate, 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 program revisions that are necessary to remove any ambiguity or inconsistency which enhances the housing program and which changes do not adversely affect the County, prior to or after execution of the County's agreement.

ISSUE: Should the County allocate up to \$1,500,000 in FY 2008 AHIF funds for the funding of the CANTU program associated with the development of the Buckingham Village Apartments?

SUMMARY: Paradigm is requesting up to \$1,500,000 in AHIF funds, to be utilized as a rental assistance program as part of the development of the Buckingham Village Apartments, a mixed-income apartment complex. The CANTU program is part of the overall Buckingham Village affordable housing program, which is summarized as follows:

- Village 1 - 100 rental units affordable to households at or below 60% of the Area Median Income (AMI). For a four person household, 60% of the AMI currently translates to an income of approximately \$57,000 per year
- The second component, the CANTU program, includes 60 affordable rental units that would be provided at Ballston Park at Historic Buckingham Village for households

County Manager: _____

County Attorney: _____

Staff: David Cristeal and Marie Randall, Housing Division, DCPHD

between 61% and 80% of the AMI. For a four person household, this would currently equate to an annual income of between \$57,000 and \$76,000.

- The third component would include at least 140 affordable units at Village 3, affordable to households at 60% of the AMI as either rental, ownership, or a combination of the two.

BACKGROUND: On June 9, 2007, the County Board approved a comprehensive redevelopment package for Buckingham Villages 1 and 3. That package included Affordable Housing Investment Fund (AHIF) allocations of up to \$7,000,000 for the 100 units of affordable housing in Village 1 and \$150,000 for a Tenant Assistance Fund (TAF) and a Tenant Services and Hardship Fund to help tenants remain at Buckingham Villages or in the nearby community. At that time, although the concept of the CANTU program was approved (for households between 61% and 80% of AMI), the details of the program were to be determined. Since June 9 2007, details of the program have been analyzed and discussed with members of the Housing Commission, the applicant and staff, and the proposed parameters of the CANTU program are contained herein.

DISCUSSION: The previously-approved AHIF loan of up to \$7,000,000 will help fund the development of the 100 affordable units in Village 1, which will serve households earning up to 60% of the AMI. Unfortunately, households earning more than 60% of AMI may be displaced, since they are over-income for tax credit units, but may not be able to afford the rents for new market rate units. Paradigm has obtained a tenant survey indicating a need for affordable units at rents above the tax credit maximum of 60% of AMI levels.

The Community Preservation Committee, working with the community, staff and applicant, developed an option to provide the 60 affordable units affordable to households with incomes from 61% to 80% of AMI. The objective of this program element is to provide affordable units to low to moderate income households that would be otherwise ineligible for tax credit units, making it possible for the households to remain in the community. These households are at risk of displacement and consequently, would benefit from the proposed CANTU program.

Proposed Committed Affordable-Non Tax Credit Unit (CANTU) Program:

In order to meet the objective of preserving a total of 300 affordable units in the context of the redevelopment of Buckingham Villages, two primary options were examined for adding 60 more affordable units to augment the 100 new tax credit units planned for Building A in Village 1, and the preservation of 140 units in Village 3:

1. Providing 60 additional units in Building A of Village 1, with similar terms and conditions of the tax credit units.
2. Providing the units off-site in the Buckingham community, such as through a rental assistance program.

The first option was very expensive since it decreases the number of market rate units from 134 to 74, resulting in a significant loss of operating income. In turn, this increases the financing gap

by roughly \$5.3 million since the property could not afford to support as much debt, and tax credits are not available for units affordable to households over 60% of AMI. Also, this option would only provide the 61% to 80% units for about 5 years, after which the rents for the 60 units would increase to the 80% of AMI level. Because the amount of subsidy required exceeds the AHIF fund balance, this option was not recommended by the Bricks & Mortar Subcommittee of the Housing Commission at their July 12 meeting. Subsequently, the second option was chosen as the more feasible and appropriate option for providing the CANTU units. The details of the second option are further described herein.

Under the second option, the applicant proposes to commit 60 off-site affordable units that would be located at Ballston Park at Historic Buckingham Village (HBP). The current mix of HBP's 512 units is 233 affordable units and 279 market-rate units. The unit mix includes 39 efficiencies, 330 1-bedroom units, 131 2-bedroom units, and 12 3-bedroom units. These 60 units, would come from the 279 market-rate units, and would be available for non-tax credit income qualified households for a period of up to 6 years.

At this time, it is anticipated that in approximately 6 years, AHC, Inc, will purchase Ballston Park at Historic Buckingham Village when the terms of the agreement executed in 1996 provide an option for a non-profit to purchase the property outright. AHC and the County are currently partners along with Paradigm at HBP. In 2013, when the purchase option is exercised, it is anticipated that the AHC and County equity coming out of a financial restructuring may provide enough fiscal support to maintain the existing 233 committed affordable units and continue the 60 CANTU for the foreseeable future.

County Funding: Staff recommends that up to \$1,500,000 in FY 2008 AHIF funds be allocated to Paradigm to provide the subsidy to fill the gap between the market rent and the 30% of the income for rent levels under the CANTU Program as further described below. This request for County funding is necessary for these households since they are over income (over 60% AMI) and do not qualify for a tax credit unit as proposed at Buckingham Villages 1, the Gates of Ballston, or Ballston Park at Historic Buckingham Villages

Determination of Subsidy Needed: Sensitivity analyses were completed to evaluate two different ways the program could be implemented. The County AHIF contribution would provide the funding necessary to subsidize the gap between what the household can pay and the market rent for the unit. The amount of subsidy increases if the households have lower incomes (closer to 60% AMI), or decreases if they have higher incomes (closer to 80% AMI). The estimated costs of the different scenarios are shown in the table below. The estimated total cost is calculated by multiplying the difference between market rents and affordable rents (pro-rata by income level), by 60 units, and finally by six years. See table below:

County Subsidy Required for Sample 2 Bedroom Unit, for 6 years, for 60 units					
Affordable Rent level 30% of hh income for rent	6 Year Subsidy Cost if hh at 80% of AMI	6 Year Subsidy Cost if hh at 75% of AMI	6 Year Subsidy Cost if hh at 70% of AMI	6 Year Subsidy Cost if hh at 65% of AMI	6 Year Subsidy Cost if hh at 60% of AMI
	\$336,960	\$799,200	\$1,257,120	\$1,719,360	\$2,177,280

Rent Structure/Income Levels to be Served

Staff analyzed two different scenarios for calculating the rent to be charged and income levels to be served under the CANTU program.

- The first scenario was rent-based, meaning that a fixed monthly rent for all income levels would be established somewhere near the middle of the range of what is affordable to households earning between 61% and 80% of AMI. Under this approach, households closer to 61% of AMI (lower end of the range) would pay a higher percentage of their income for rent while households closer to the 80% of the range would pay a lower percentage of income for rent.
- The second scenario was income-based and similar to the Section 8/Housing Choice Voucher program where the households pay 30% of their income minus utilities.

After reviewing different rental payment scenarios and how it would affect the households in the program, staff recommends that all rents be set at 30% of the household's income minus a utility allowance. Under this approach, each household will pay the same percentage of income for their rent (30%), similar to the way the federal Housing Voucher and County Housing Grants recipients are subsidized. This approach would allow the rent to fluctuate per unit as needed and provide the greatest subsidy to those who are most in need.

Incremental Program Funding Approach

The allocation of \$1.5 million is anticipated to cover the full 6-year cost of the CANTU program. However, funding would be distributed to the Paradigm Development Corporation by the County annually to subsidize the CANTU units below the market rents. A similar program is currently administered at Ballston Park at Historic Buckingham Village. Under a "Depth Subsidy Reserve" approach, rents would be calculated for the upcoming calendar year by subtracting the affordable (CANTU) rent from the market rent. This result would be multiplied by 12 to determine the amount to be budgeted for the program year.

Paradigm would request the annual subsidy needed from the County funding set-aside at the beginning of the program year. The applicant would submit reports to the County on a monthly basis showing the charges to the Depth Subsidy Reserve Account, and then the process would begin again for the upcoming calendar year.

Relocation Plan: The relocation plan was approved by the Tenant-Landlord Commission on June 9, 2007. Residents of Buckingham Village in occupancy as of that date are now vested and entitled to all services and payments detailed in the plan. On June 15, 2007, 84 households living in Village 1 received their 120-day Notice to Vacate (the portion of Village 1 along Pershing Drive). Paradigm employs relocation consultants that are helping families with the relocation process including assisting households in finding suitable replacement housing. Some of these tenants would be eligible for the CANTU program immediately. Vested tenants with 120 Day Notices to Vacate will receive a relocation payment in accordance with the approved Relocation Plan. Vested tenants, who complete the tenant questionnaire and the priority ranking form, will be ranked on a “Priority List” for the newly constructed committed affordable units. Vested tenants moving from a temporary unit at Buckingham Village or off site to a newly constructed unit will receive a relocation payment as required by the approved Relocation Plan.

Housing Commission: The Citizens’ Advisory Commission on Housing will meet on September 6, 2007. The Commission will send a letter to the County Board reflecting their position.

Affordable Housing Goals: The proposed overall affordable housing program, including the CANTU program, meets several of the County Board adopted Affordable Housing Goals and Targets as follows:

Goal 1, Target 1A and Goal 5, Targets 5A and 5B: The 60 CANTU units would be available to families with children; based on need.

Goal 3, Targets 3B, 3C and 3D : Increases the supply of committed affordable units within $\frac{3}{4}$ mile to the Ballston shopping mall and Metro stop and units in site plan projects (38% of the total units in the proposed site plan are affordable; the standard for the Target is 10% of the units).

Goal 6, Target 6A: the 60 units would be in Neighborhood Service Area (NSA) D (the standard is that 60% of committed affordable housing should be in areas D, E, and F (metro corridor areas)).

In addition, if approved and implemented, the proposed CANTU program meets two of the four original objectives outlined in the MOU between the County and Paradigm (preserving/creating affordable housing goal of 300 units at Buckingham Village and allowing current residents to continue living in the Buckingham area).

Conclusion: If all components of the affordable housing program are implemented in the context of the proposed redevelopment, there will be 300 committed affordable units added to the Buckingham community, which is becoming an extremely difficult and expensive location in which to acquire or develop affordable housing units. The recommended CANTU Program of up to \$1,500,000 would assist in achieving these goals since households that would not qualify for tax credit units, nor are able to pay market rent, would be able to remain in the community and rent at a price affordable for them.

AHIF Agreement Terms and Conditions

Approve up to \$1,500,000 to Paradigm Development Corporation as funding for the Committed Affordable-Non Tax Credit Unit (CANTU) program with the development of the Buckingham Villages Apartments:

1. Paradigm shall execute a generally standard AHIF Program Agreement for the County funds in a form acceptable to the County Manager and the County Attorney.
2. Paradigm must comply with the parameters of the CANTU program as follows: Sixty (60) rental units would be affordable and offered to households earning between 61% and 80% of AMI for 6 years, with rents as outlined in this report.
3. Paradigm will request funding for each program year as needed based on the estimate of funding needed at least one month prior to the beginning of each program year. Such estimates shall be submitted to the County for review and approval prior to disbursement of funds.

FISCAL IMPACT: The Fiscal Year 2008 AHIF balance is \$5,490,715. Approval of the staff recommendation to allocate up to \$1,500,000 in AHIF funds for the Committed Affordable-Non Tax Credit Unit program will result in a remaining FY 2008 AHIF balance of \$3,990,715.