ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of January 26, 2008

DATE: January 17, 2008

SUBJECT: Approval of the Affordable Housing Program for the Arlington Mill Project and Allocation of Fiscal Year (FY) 2008 Affordable Housing Investment Fund (AHIF) funds as a loan to Public Private Alliances (PPA) for the Arlington Mill Affordable Housing Program.

C. M. RECOMMENDATIONS:

1. Approve the Affordable Housing Program at the mixed-use redevelopment project at Arlington Mill subject to the terms and conditions described in this report.

2. Appropriate up to $3,090,000 in proceeds from the upfront lease payment by Public Private Alliances (PPA) or its affiliate from the land lease conveyed by the County to Public Private Alliances for the residential component of the Arlington Mill mixed-use redevelopment project (101.357000.91102), to the Affordable Housing Investment Fund (101.495130.91102).

3. Allocate in the form of a conditional commitment, up to $3,090,000 in FY 2008 AHIF funds to PPA (101.456300.91102) or its designated County-approved ownership affiliate, as financing assistance for the development and construction of approximately 61 affordable apartments at the Arlington Mill project. This financing assistance would be in the form of a subordinated, residual receipts loan subject to the terms and conditions outlined in this report.

4. Authorize the County Manager to approve the ownership affiliate, if any, and to execute the required loan documents for a loan of up to $3,090,000 to PPA or its 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.

5. Authorize the County Manager to designate one or more County representatives to serve as voting members of the ownership affiliate.

County Manager: ______________

County Attorney: ______________

Staff: Ken Aughenbaugh, Housing Division, DCPHD
Michelle Cowan, Budget Division, DMF

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 necessary to remove any ambiguity or inconsistency or which improve the County's financial security, financial position, or enhance the housing program and which changes do not adversely affect the County financially, before or after execution of the County's financing documents.

ISSUE: Should the County use up to $3,090,000 from the capitalized land lease payment from PPA for the development of 61 affordable apartment units at Arlington Mill by loaning the upfront ground lease payment back to PPA as an AHIF loan?

SUMMARY: The applicant is requesting a loan of up to $3,090,000 in AHIF funds as long term financing to assist with the development of 61 units of affordable housing at Arlington Mill, a mixed-use, mixed income project including a new County community center and a mixed-income residential apartment complex of approximately 203 total units. The County AHIF assistance will be generated through the use of the upfront, capitalized value of the developer's land lease payments and will need no additional AHIF funds from the annual AHIF allocations provided from the County general tax support. This project is also the first time that the County will have affordable housing on County-owned land which would ensure virtually perpetual control by the County. The affordable housing component is summarized as follows:

- 61 residential rental units affordable to households at or below 60% of the Area Median Income (AMI). For a household of four people, 60% of the AMI currently translates to an income of approximately $57,000/year. This report focuses on this component and the associated funding request.

- 10 of the 61 affordable units would be reserved for supportive housing clients identified by the County's Department of Human Services and these units would be further subsidized through the use of project-based Section 8 Housing Choice Vouchers.

PPA is also applying to the Virginia Housing Development Authority (VHDA) for a competitive allocation of 9% Federal Low Income Housing Tax Credits, and the primary financing vehicle (first trust loan) is currently anticipated to come from VHDA, as well. In addition, staff is also pursuing other cost-effective primary financing options in the event that primary financing cannot be obtained with VHDA. The build out of the site plan and the affordable housing components contained within, may take up to 2 years during which bridge loan financing may be required from a private lender prior to VHDA or an alternative permanent financing being put into place. Companion reports on proposed Form Based Code modifications, the Concept Plan, and the Land Lease Option for PPA to lease the site from the County are also on this County Board agenda for consideration. Additional matters relating to the affordable housing program are discussed in those companion reports.

BACKGROUND: Staff recommends that the County Board utilize the upfront land lease payment to support the creation of approximately 61 affordable housing units. This is accomplished by depositing the land lease payment into AHIF and lending it back to PPA. Because PPA is submitting a tax credit application to VHDA that is due by February 15, 2008, staff is recommending that the County Board approve this loan at this time so that the developer can submit a complete tax credit application. A companion Board Report further details the development aspects of the project, including the private market housing component and community center component. The County is facilitating this process through the use of a public/private partnership in order to achieve cost savings and in order to achieve another County priority—affordable housing.

The County is seeking to maximize the number of affordable housing units while structuring a financing plan that is self-supporting with no new County AHIF assistance beyond the value of the ground lease. Based on these parameters, the current plan calls for approximately 30% of the total number of units to be available to households at or below 60% of the Area Median Income level (AMI) by:1) utilizing Low Income Housing Tax Credits, 2) utilizing the present value of a capitalized lease payment from PPA, and 3) utilizing primary financing offered through VHDA. The residential component of the project includes a total of approximately 203 residential units which would help to support the affordable program through the up-front land lease payment.

DISCUSSION: The affordable housing program described in this report is a result of a number of meetings with the Arlington Mill Steering Committee, general community meetings and charrettes and Arlington Mill Review Committee meetings and discussions.

The proposal includes an affordable housing program based on several key financial parameters:

- No new County AHIF funding will be needed for the affordable housing program;
- The affordable component will need to achieve maximum leverage of the value generated by the land lease to the developer;
- The project will need to win a competitive Low Income Housing Tax Credits allocation of approximately $8 to $10 million in order to support the number and mix of units; and
- The project will be able to obtain primary financing from VHDA including low interest rate financing through VHDA's SPARC and REACH programs.

Proposed Affordable Housing Program/options:

The proposed housing program is extremely sensitive to the tax credits and lease values as described above. In summary the program will consist of the following:

- Approximately 30% of the units (61 of 203) are affordable to households at or below 60% of area median income.
- This final number of market rate units could increase slightly depending on the final plan parameters and funding resources available for that component.
- Thirty (30) units, or nearly 1/2 of the total number of affordable units (61) are 2-BR or 3-BR family sized units.
- Five (5) studio and five (5) 1-bedroom units would be used in a supportive housing program sponsored by DHS.
- By way of comparison with the affordable rents, the rents on the estimated 142 market rate unit rents would range from $1,500 to as much as $3,000 per month. (See table below)

Rents and Income Levels for the Affordable Housing Program:

Number of Units	Unit Type:	Maximum Rents at 60% of AMI	Maximum Income by Household Size at 60% of AMI
5	Studio/Efficiency	$993	$39,720 (1 pers.) to $45,360 (2 pers.)
16	1-bedroom	$1,064	$39,720 (1 pers.) to $45,360 (2 pers.)
30	2-bedroom	$1,277	$45,360 (2 pers.) to $56,700 (4 pers.)
10	3-bedroom	$1,475	$51,060 (3 pers.) to $65,760 (6 pers.)

The applicant has agreed to work with the County's Department of Human Services (DHS) to set aside up to 10 of the units available to its supportive housing consumers, and to focus the code-required number of fully accessible units for the entire project in the affordable housing program. In addition DHS will provide up to 10 project-based Section 8 Housing Choice Vouchers to assist the supportive housing consumers. The applicant has also agreed to place all of the required accessible units among the affordable unit package.

County Funding Request/Financing Plan: The applicant requests a County loan of up to $3,090,000 at an annual interest rate of 3.5% for 35 years, secured by a subordinated deed of trust and payable from residual cash flow. This request for County funding is necessary to keep the rents affordable for 67 years and to leverage other public and private funds for the 61 tax credit units. The applicant would use several public and private sources to finance these units, including the requested County AHIF loan. The total cost of the affordable portion of the apartment building is approximately $20.8 million. In addition to the County's loan, the affordable units would be financed by a 1st trust mortgage from VHDA or an alternative taxable mortgage, equity from the sale of tax credits, and a deferred portion of the developer's fee. The Sources and Uses table below summarizes the proposed financing plan.

Sources and Uses of Funds:

Sources:		**Uses:**	
1st Trust	**$6,325,000**	**Land acquisition**	**$928,500**
Tax Credit Equity	**$10,312,000**	**Hard Construction Cost**	**$14,445,000**
County AHIF Loan	**$3,090,000**	**Soft Construction Cost**	**$4,793,000**
Owner Deferred Fee	**$1,073,000**	**Contingency**	**$633,500**
Total:	**$20,800,000**	**Total:**	**$20,800,000**

Relocation: No residential units currently exist on the site so no residential relocation will be a factor in this project.

Schools Impact: Arlington Public Schools (APS) staff is preparing an analysis of the projected impact on area schools enrollment based on the post redevelopment unit mix including the addition of affordable and market rate apartments.

Affordable Housing Goals: The proposed affordable housing program of 61 affordable tax credit units that meet several of the County Board adopted Affordable Housing Goals and Targets as follows:

- Goal #1 – Balanced assistance – housing for families with children and persons with disabilities (e.g. units with 2 or more bedrooms and efficiencies)
- Goal #3 – Loss of Affordable housing – increase the supply of housing, and affordable housing in particular (e.g. affordable housing in residential site plan projects)
- Goal #5 – Family sized units (2 or more bedrooms)

In addition, if implemented, the proposed affordable housing program meets the initial objective of making full use of the capitalized lease payment to support the affordable housing program without requiring any new General Fund AHIF dollars.

Community Process:

Arlington Mill Review Committee: The Arlington Mill Review Committee has held 4 public meetings on the project in order to gather stakeholder input. Though no votes were taken on the various components of the affordable housing program, the Committee's input ultimately shaped the resulting affordable housing program.

Housing Commission: The Citizens' Advisory Commission on Housing met on January 17, 2008 and voted to support the applicant's request for an AHIF loan of up to $3,090,000 to support the 61 affordable tax credit units, including the 10 supportive housing units. A letter from the Commission has been sent to the County Board reflecting their position.

Tenant-Landlord Commission: The Tenant-Landlord Commission did not review this proposal since it does not involve residential relocation.

Timing: Future Critical milestones include:

- January 26 or 29, 2008 - County Board meeting to approve housing program, financing, development concept and lease option.
- February 15, 2008 – Tax Credit Application Submission Deadline
- April 2008 – Tax Credit Awards announced

CONCLUSION: If all components of the affordable housing program are implemented in the context of the proposed redevelopment, there will be an additional 61 affordable units added to the Columbia Heights West community, which is facing a large decrease in units available at or below the 60% of median income affordable level.

The recommended County loan of $3,090,000 represents $50,656 per unit in County loan subsidy for each of the 61 tax credit units. The per-unit cost in this project is difficult to compare to the average recent AHIF per-unit loan amount ($80K to $102K on recent projects) due to the land lease approach. Staff concludes that this project presents an opportunity to secure affordable housing on the Columbia Pike Transit Corridor at reasonable costs.

Loan Terms and Conditions (also see conditions in the planning report)
Approve a loan of up to $3,090,000 to Public Private Alliances (PPA) or its designated County approved ownership affiliate, as project financing assistance for the development of the 61 affordable tax credit units at the Arlington Mill redevelopment project subject to the following terms and conditions:

1. The County Board's commitment of the AHIF loan to PPA and the obligation of the applicant to provide the 61 tax credits units is conditioned upon 1) PPA or its affiliate providing a minimum of $3,090,000 to the County for the capitalized value of the land lease and, 2) PPA or its affiliate securing an allocation of 9% federal low income housing tax credits. In the event that PPA does not receive the 9% tax credit allocation, it will submit a revised AHIF funding request for the 61 units utilizing tax-exempt financing and 4% federal low income housing tax credits for consideration by the County Board.

2. The applicant shall execute a generally standard AHIF/HOME Program Agreement and loan instruments for the County loan in a form acceptable to the County Manager and the County Attorney.

3. This financing assistance would be in the form of a subordinated residual receipts loan, secured by a deed of trust, and repayable from the cash flow of the property. This loan will be made at an interest rate of 3.5% compounded, annually, over a term of 35 years and will be subordinate to PPA's primary financing, construction financing and partnership loans, in aggregate, up to $18,000,000.

4. The applicant agrees that the affordable housing plan shall require units to remain affordable to households earning 60% or less of the AMI for a term of 67 years from the placed in service date as indicated in VHDA Form 8609.

5. The applicant agrees to provide, subject to the priority list favoring residents with disabilities, at least 4 affordable units as accessible to persons with physical disabilities as described in the American National Standards Institute "Accessible and Usable Buildings and Facilities" (ICC/ANSI A117.1-2003) and Type A units as described in the current applicable Accessible Standards as adopted by the Virginia Uniform Statewide Building Code. The applicant agrees to market the accessible units to persons with disabilities for a period of 60 days. If after 60 days, the applicant is unable to rent the unit(s) to persons with disabilities, then the applicant agrees to provide the units to income eligible residents. The applicant agrees to market these units to households in need of such units as part of the applicant's Affirmative Marketing Plan.

6. The applicant, its designated ownership entity, heirs or assigns shall provide a purchase right of first refusal to the County or its designee, if the applicant decides to sell the 61 tax credit units separate from a sale for both the tax credit and market rate units in the property at any time prior to or at the end of the 67 year commitment period, 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 tax credit units for the amount of the outstanding debt, exit taxes and allowable typical and reasonable transaction costs.

7. The applicant agrees to provide, subject to the priority list provided by the County's Department of Human Services (DHS) and favoring neighborhood residents and normal application criteria, up to 10 of the 61 tax credit units at 60% of the AMI to (DHS)'s clients. If DHS is unable to provide 10 ready and qualified residents when the units come on line, the applicant or its affiliate may provide any remaining units at a later time based on availability. The provision of these units shall occur through one of two mechanisms: the applicant or its affiliate shall utilize federal Housing Choice Project-based Vouchers or utilize DHS' Project-based Supportive Housing Rental Assistance Program to subsidize the rents of DHS clients for a term of 30 years. This condition is subject to the availability of such vouchers or sufficient appropriated rental assistance funds.

FISCAL IMPACT: Assuming approval of the proposal before the Board at the January 26, 2008 meeting to provide $2,960,000 in AHIF/HOME funds to the AHC, Inc. (AHC) to assist with the construction of the Macedonia Apartments, the current unallocated AHIF/HOME balance is $2,423,027. Approval of the staff recommendation to appropriate up to $3,090,000 to AHIF/HOME in FY 2008 will result in a balance of $5,513,027. Approval of the staff recommendation to allocate up to $3,090,000 in AHIF/HOME funds for Arlington Mill project will result in a remaining FY 2008 balance of $2,423,027.