



ARLINGTON COUNTY, VIRGINIA

**County Board Agenda Item
Meeting of April 19, 2008**

DATE: March 31, 2008

SUBJECT: Allocation of Fiscal Year (FY) 2008 Affordable Housing Investment Fund (AHIF) funds to assist with the rehabilitation and refinance of Columbia Grove Apartments at 1010 S. Frederick Street.

C. M. RECOMMENDATIONS:

1. Acknowledge the receipt of a loan repayment in the amount of \$1,309,183 (101.357000.91102.MONR.0665.0000) and appropriate that amount to the FY 2008 Affordable Housing Investment Fund (AHIF/HOME) (101.495130.91102).
2. Allocate up to \$3,000,000 in FY 2008 AHIF/HOME funds to Arlington Partnership for Affordable Housing (APAH) or its designated County-approved ownership affiliate (101.456300.91102), of which \$450,000 will be placed in a County-held contingency account while other financing sources are pursued, to assist in the refinancing and renovation of Columbia Grove Apartments. This financing assistance would be in the form of a subordinated residual receipts loan subject to the terms and conditions outlined in this report.
3. Authorize the County Manager to execute the required documents for a loan of up to \$3,000,000 to APAH or its County-approved 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.
4. 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: Should the County provide Affordable Housing Investment Fund (AHIF) funds to Arlington Partnership for Affordable Housing (APAH) for the rehabilitation and refinance of this 210-unit apartment building?

County Manager: _____

County Attorney: _____

Staff: Sarah Pizzo, David Cristeal, Maureen Markham, CPHD, Housing Division

Report Date: March 31, 2008

SUMMARY: As anticipated when APAH purchased this 210-unit property in 2003, it is requesting rehabilitation funds following a five-year “Buy and Hold” period. APAH purchased the property with \$4.7 million of the County’s federal HOME and CDBG funds and a five-year commercial mortgage. While no funding was provided at the time for rehabilitation work, the County directed APAH to return in 2008 with a refinancing and redevelopment plan. APAH is seeking up to \$3 million in AHIF to assist in rehabilitation and refinance of the property. APAH’s renovations will include a new parking lot with 50 additional spaces, unit upgrades, new roofs where needed and variety of life safety improvements. APAH’s current Citibank mortgage is due in May 2008, but APAH is seeking an up to six-month extension which would be facilitated by the County’s commitment of funds. In May 2008, APAH will apply for 9% tax credits from Virginia Housing Development Authority (VHDA’s) first-come first-served preservation pool¹. The County’s commitment of funds would allow APAH to secure other permanent financing in the event that APAH does not receive these 9% credits. Permanent financing would then be from VHDA or private sources if those terms are superior to VHDA (such as a lower interest rate).

BACKGROUND: Columbia Grove is an 8-acre, 210-unit property built in 1954 and located in the Columbia Forest neighborhood just off of Columbia Pike (see attached map). APAH purchased the property in 2003 with the intention of developing a rehabilitation plan toward the end of the five year holding period.

Existing Unit Mix and Rents: As shown in the table below, 41 units are currently restricted to households earning up to 50% of the area median income (AMI) and 64 serve households earning up to 60% of AMI. Of these units, eight serve very-low income households under a long-term contract with the County’s Department of Human Services. Rents are subsidized by \$530,318 that was allocated to APAH by the County Board on April 24, 2004 from the one-time Local Public Assistance Cost Allocation Plan (LPACAP) Supportive Housing Fund. An additional six units of the units are leased to Fellowship Health Resources, a local non-profit that provides supportive housing under contract with Arlington County. Of the non-restricted units, one unit is currently used as an office and the remaining 104 units serve mostly 60% - 80% of AMI households.

Affordability	1-Bedroom		2-Bedroom	
	# units	Rent without utilities	# units	Rent without utilities
50% units	20	\$850	21	\$1,015
60% units	32	\$1,025	32	\$1,225
Non-restricted Units	53*	\$1,050**	52	\$1,295**
Total	105*		105	

*One of the one-bedroom units is currently used as the office.

**Non-restrictive rents as of the date of this report.

¹ The noncompetitive preservation pool for 9% credits is a set-aside up to 15% of VHDA’s per capita credit amount of which 10% is set aside for preservation of existing non-elderly developments providing affordable housing in Arlington, Alexandria, Fairfax or Falls Church. The remaining 5% is available for any area of the state.

Proposed Unit Mix and Rents: APAH is proposing to commit an additional 25 units to be income-restricted and affordable to households earning up to 60% AMI (20 one-bedroom and 5 two-bedroom). APAH will also extend the affordability period on all 130 income-restricted affordable units for up to 60 years per loan condition #6.

Affordability	1-Bedroom		2-Bedroom	
	# units	Rent without utilities	# units	Rent without utilities
50% units	20	\$850	21	\$1,015
60% units	52	\$1,025	37	\$1,225
Non-restricted Units	33*	\$1,050**	47	\$1,295**
Total	105*		105	

*One of the one-bedroom units is currently used as the office and an additional one-bedroom unit may be used for community space.

**Non-restrictive rents as of the date of this report.

Rehabilitation Plan: A portion of the County’s \$4.7 million original loan in 2003 was intended to assist with the construction of an additional parking lot. The property, with 168 parking spaces, has fewer parking spaces than units and parking is extremely limited in the area. When APAH obtained bids in 2003, the bids were significantly higher than anticipated and there was not adequate funding for the parking lot. Therefore, the County never released this portion of funding (roughly \$94,000). These funds are intended to be disbursed as part of its comprehensive redevelopment plan described below, which includes adding 50 additional spaces in a new parking lot.

APAH completed a Property Needs Assessment in August 2007. At least \$4 million in capital improvements, including an expanded parking lot, life safety upgrades and other improvements are needed to improve the property and secure long-term financing per VHDA requirements.

Per the recommendations in the assessment, APAH plans to make the following site, ground, and building improvements:

- creation of a new parking lot with 50 additional spaces;
- kitchen and bathroom upgrades (new cabinets, countertops and fixtures), installation of bathroom vents for all units and carpeting;
- new 30-year roof shingles for any roofs needing replacement;
- a variety of life safety improvements such as exit signs and hard wired smoke detectors; and
- soil erosion enhancements and tree trimming.

APAH is planning to engage a Green Building/Energy consultant to look at ways to make the project more energy efficient and create more green features within the existing dollars and scope.

County Funds Requested: With its five-year commercial mortgage due in May 2008 as a balloon payment, APAH has researched numerous options for refinancing given the complexities of the current ownership structure. APAH purchased all of the stock of Columbia Grove, Inc in 2003 in order to acquire the property. This allowed APAH to compete with other potential purchasers during a competitive time in the market. As a result of its ownership structure being a

corporation, there is an impending corporate tax liability which could be triggered with some types of change in ownership entity. After extensive research, APAH has been advised by its tax credit counsel and its accountant that they can apply for non-competitive 9% tax credits relating to rehabilitation expenditures without triggering a sale of the property to a new entity.

APAH is requesting up to \$3,000,000 in AHIF with a 2% interest rate for up to 35 years, secured by a subordinated deed of trust and payable from the residual cash flow. Currently, there are three possible financing scenarios which could be leveraged with a new AHIF loan:

- Scenario 1: 9% tax credits from VHDA’s preservation pool for rehabilitation purposes only, coupled with VHDA taxable debt and VHDA SPARC/REACH funds;
- Scenario 2: 4% tax credits for rehabilitation purposes only, coupled with VHDA tax-exempt debt and VHDA SPARC/REACH funds; or
- Scenario 3: VHDA SPARC/REACH funds and VHDA taxable debt only.

Preferred Financing Plan: The preferred financing is Scenario 1, which would utilize 9% tax credits, VHDA SPARC/REACH funds and \$2.527 million in AHIF. The sources and uses table for this scenario is shown below.

Scenario 2 with 4% tax credits would result in more VHDA debt, less tax credits and \$3 million in AHIF. Scenario 3 would result in a lower rehab budget with no tax credits, VHDA taxable debt and \$3 million in AHIF.

Scenario 1 – 9% Tax Credits

SOURCES OF FUNDS:		USES OF FUNDS:	
VHDA Taxable Debt	\$ 11,500,000	Loan Payoff	\$ 13,370,000
VHDA SPARC and REACH mortgage	\$ 3,500,000	Continue HOME and CDBG Loan	\$ 5,450,000
Existing HOME and CDBG loan	\$ 5,544,000	Const./Hard Costs	\$ 5,049,000
New AHIF loan	\$ 2,527,000	Const. Related Soft Costs	\$ 155,000
Existing Reserves/Cash	\$ 400,000	Closing Costs	\$ 662,000
Deferred Developer Fee	\$ 264,000	Other Soft Costs	\$ 1,419,000
9% Tax Credits	\$ 2,370,000		
Total Sources	\$ 26,105,000	Total Uses	\$ 26,105,000

DISCUSSION: Columbia Grove is a large, important property in Arlington County’s affordable housing portfolio, providing low-income, supportive and workforce housing. In order to secure and rehabilitate this affordable property for the long term, APAH needs up to \$3 million in gap financing. The property was initially financed under a “Buy and Hold” strategy and with APAH’s five-year commercial mortgage coming due, the property needs to be refinanced to ensure its long-term stability and to maintain quality, affordable housing for more than 200 households.

The proposed scope of rehabilitation work can be completed with residents in place. The conversion of 25 units from non-income restricted to income-restricted/rents affordable to households earning 60% of AMI would occur as they turned over. This will prevent any displacement of current residents.

It is likely that the incomes of households at this property will not change significantly by restricting an additional 25 units with rents affordable to and occupied by households earning 60% AMI. It will, however, allow APAH to provide more affordable rents to households at this income.

The commitment of 25 additional units with rents affordable to households at 60% of AMI serves a growing need as more market units in the Columbia Pike neighborhoods become less affordable to households at that income level. In 2000, 9,850 units in Neighborhood Service Areas F and G (which comprise the Columbia Pike neighborhoods) were affordable to households earning 60% of the median income. By 2005, 5,100 units were affordable to 60% of AMI, or a 48% reduction. During the same time period of 2000-2005, all but 15 of the 500 committed affordable rental units added in these neighborhoods were due to preservation and commitment of units that were previously market affordable. The 210 units in Columbia Grove were already counted in this total as all units meet the definition of committed affordable units². The 15 new construction committed affordable rental units were added as a result of a site plan project (Io Piazza).

To summarize, the project has the following advantages for Arlington County:

- Financially secures a 210-unit property (of which two units may be used for office and community space) for the long term through VHDA and County financing;
- Rehabilitates all units, improves the site and adds 50 parking spaces in a new lot; and
- Commits 25 of the previously non-restricted units as affordable units restricted to households earning 60% of the AMI.
- Even with the additional \$3 million AHIF, this remains an efficient use of County funds (e.g. the subsidy/130 income restricted units = \$62,084/unit, or \$38,344/all 210 units).

Affordable Housing Goals: Columbia Grove Apartments meets several of the County Board adopted Housing Goals and Targets, as listed below:

Goal 1. Support for persons with disabilities through 14 supportive housing units (8 of which are committed under a 30-year contract with the Department of Human Services and 6 of which are under a year-to-year contract with a local supportive housing provider contracted with Arlington County);

Goal 2. Safe and decent housing through renovation of all units, improving their livability and increasing their lifespan);

² Committed affordable units (CAFs) include all units wholly owned by nonprofits, except any units planned to serve households with incomes above 80% of median family income.

Goal 3. Maintain the supply of affordable units (the AHIF loan agreement will ensure affordability for a total of 130 units for up to 60 years per loan condition #6); and

Goal 5. Increase the number of units with two or more bedrooms (5 additional two-bedroom units will become restricted to households earning 60% AMI or less).

Goal 6, Target 6A: All 210 units in the property (located in Neighborhood Service Area (NSA) F) were counted as committed affordable units (CAFs) in FY 2003 because they all meet the CAF definition³. There will therefore be no impact on this target (the target is that 15% of new committed affordable housing produced or preserved should be in NSAs F & G.

Supportive Housing Plan: This project has 14 units of the supportive housing inventory.

Schools Impact: There are currently 83 students of Arlington County Public Schools at Columbia Grove. Since the difference in non-restricted rents and rents affordable to 60% of AMI is roughly \$25-\$75, it is anticipated that the school impact of restricting an additional 20 one-bedroom units and 5 two-bedroom units as affordable to households earning 60% of AMI would be minimal. Overall, for the next school year Arlington Public School's staff project an increase at Abingdon Elementary School and Wakefield High School, a decrease at Gunston Middle School and a slight decrease at Kenmore Middle School.

Civic Association/Community Process: APAH met twice with the local Columbia Forest Civic Association and the association met a third time with residents present to discuss the project. While the association did not formally vote on APAH's plans, some neighbors expressed support for the rehabilitation plans subject to the completion of the long-promised expanded parking lot. Parking is extremely limited in the area and the property lacks a 1:1 ratio of parking spaces to units. It is anticipated, however, that the Civic Association president will write a letter opposing the 25 additional income-restricted units since this increase was not anticipated in 2003.

Housing Commission: APAH will meet with the Citizens Advisory Commission on Housing (HC) on April 10, 2008. The Housing Commission will send a separate letter to the County Board with its recommendation for this project.

Loan Terms and Conditions: Allocate up to \$3,000,000 of AHIF funds to APAH or its designated County-approved ownership affiliate to assist with the refinance and rehabilitation of Columbia Grove Apartments as described in this report, subject to the following terms and conditions:

1. APAH agrees to apply in May 2008 to the Virginia Housing Development Authority (VHDA) for noncompetitive 9% tax credits relating to rehabilitation expenditures to be incurred to improve the Project. If APAH receives this allocation, the County's AHIF loan is not expected to exceed \$2,600,000. In the event that APAH does not receive the 9% credits commitment from VHDA by September 2008, APAH will pursue one of two alternate scenarios:
 - 4% tax credits for rehabilitation in conjunction with tax-exempt bonds or

³ Committed affordable units (CAFs) include all units wholly owned by nonprofits, except any units planned to serve households with incomes above 80% of median family income.

- refinancing solely with VHDA taxable debt or other private debt if more favorable terms than VHDA can be located.

In any event, the AHIF loan to APAH will not exceed \$3,000,000. The final scenario and budget shall be subject to approval by the County Manager before all funds can be disbursed at closing.

2. The applicant shall execute a generally standard AHIF Program Agreement and loan instruments for the County loan in a form acceptable to the County Manager and the County Attorney.
3. The loan amount of up to \$3,000,000 in AHIF shall 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 two percent (2%), compounded annually over a term of 35 years. The loan may be subordinated to all other debt listed in the proposed financing plan as shown on page 3 of this report.
4. The applicant must secure all commitments of remaining funds to complete the development budget prior to disbursement of any funds from the County.
5. The affordable housing set-aside for the rental units will be as follows:
 - 4 one-bedroom and 4 two-bedroom HOME program units affordable to households earning up to 50% of the AMI;
 - 16 one-bedroom and 17 two-bedroom non-HOME units affordable to households earning up to 50% of the AMI;
 - 16 one-bedroom and 16 two-bedroom HOME program units affordable to households earning up to 60% of the AMI; and
 - 36 one-bedroom and 21 two-bedroom non-HOME units affordable to households earning up to 60% of the AMI, as set forth in the chart on page 3 of this report, and per the commitment term outlined in condition #6.

The developer agrees that the affordable rents shall be established in accordance with the HUD HOME and non-HOME rent limits set for Arlington County. Rents shall not exceed the established affordability level for the unit size, minus a utility allowance (if applicable) as per schedule annually approved by HUD for Arlington's Section 8 Housing Choice Voucher Program or approved Section 42 utility allowances.

6. The term of affordability shall be 60 years. However, if at any time in year 35 or later (but prior to the end of the full 60-year commitment period), APAH desires to refinance the property and is unable to refinance because the units are income-restricted, APAH may return to the County Board with a request to consider a recommendation to allow the 130 income-restricted units (or a portion thereof) to be rented at levels affordable to households earning up to 80% AMI.
7. The AHIF/HOME Agreement between the County and APAH or its designated ownership affiliate shall include an Affirmative Marketing Plan in substantially that form as required by HUD for the federal HOME program and including, at a minimum, the elements specified in the Developer's final Affordable Housing Plan and Affirmative Marketing Plan.

8. The applicant, including any successors in interest, shall provide a purchase option including a right of first refusal to the County or its designee, if APAH or its affiliate decides to sell the property any time prior to the repayment of the approved County loan, 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, less outstanding principal on County loan.

FISCAL IMPACT: Approval of the staff recommendation to appropriate \$1,309,183 to AHIF/HOME in FY 2008 will result in an AHIF/HOME balance of \$3,730,010. Approval of the staff recommendation to allocate up to \$3,000,000 in AHIF/HOME funds for the Columbia Grove project will result in a remaining FY 2008 balance of \$730,010.

**Location of Columbia Grove Apartments
1010 S. Frederick Street**

