



ARLINGTON COUNTY, VIRGINIA

**County Board Agenda Item
Meeting of May 17, 2008**

REVISED REPORT

DATE: ~~May 1, 2008~~ May 15, 2008

SUBJECT:

Approval of the expenditure of Community Housing Finance Corporation (CHFC) savings funds resulting from the refunding of FAF #414 bonds to provide housing for very low income families.

REVISION EXPLANATION: The report is revised to correct proofreading errors in the original report.

C. M. RECOMMENDATIONS:

1. Approve the allocation of up to \$750,000 of CHFC bond savings funds as a grant to the nonprofit corporation Doorways for Women and Families to help fund the purchase of five apartment units in the Cameron Commons complex at 2036 & 2040 N. Cameron Street, Arlington Virginia 22207. The units will provide decent, safe, and sanitary supportive housing to very low income families who are leaving Doorways' emergency shelter facilities. The exact amount of the grant will be equal to the balance of CHFC funds being held in the Trust and Agency Account number 72402-7092 at the time of closing.
2. Authorize the County Manager to execute the required documents for a grant of up to \$750,000 to Doorways or its County-approved affiliate, subject to approval by the County Attorney.

ISSUE: Should the County approve grant funding to Doorways to purchase an ownership interest in the Cameron Commons Apartments to provide supportive housing to five very low income families who are leaving Doorways' emergency shelter facilities?

County Manager: _____

County Attorney: _____

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

Report Date: May 15, 2008

SUMMARY: Doorways for Women and Families (Doorways) is seeking a grant of up to \$750,000 from the Community Housing Finance Corporation (CHFC) to assist with the purchase of an ownership interest in the Cameron Commons Apartments that will provide access to five dedicated family supportive housing units at reduced rents. Doorways will become a member in a Limited Liability Company that will own the Cameron Commons property along with an affiliate of the Arlington Partnership for Affordable Housing (APAH). The APAH affiliate, a non-profit organization, is currently 100% owner of this 100% affordable property. Doorways clients will be able to lease five of the sixteen units at the property at discounted rents equal to the pro rata costs of operating expenses and replacement reserves. The rents will be affordable to households earning 30% AMI incomes. Doorways will provide supportive services to these residents.

To finance this acquisition, Doorways is seeking a grant of \$750,000 from the CHFC. Doorways will use these funds to purchase a partial interest in Cameron Commons LLC and begin offering rental units to Doorways clients as units become vacant. Doorways would use the CHFC grant as the kick-off to a capital campaign to raise private philanthropic dollars to complete the purchase of their membership interest. Doorways estimates that it will be able to complete the campaign by 2012. The total project budget for the Doorways Cameron Commons partnership is estimated at ~~\$1,277,500~~ \$1,327,500, including soft costs and an interim Tenant Reserve Fund.

BACKGROUND: Funds for the \$750,000 grant are available from the Community Housing Finance Corporation (CHFC), an instrumentality of Arlington County government originally created to provide bond financing for apartment developments assisted under HUD Section 8 New Construction or Substantial Rehabilitation Programs. Local governments were authorized to create such instrumentalities to issue tax-exempt bonds under Section 11(b) of the U.S. Housing Act of 1937, as amended by the Housing and Community Development Act of 1974. The County Board established the CHFC in 1981. The next year CHFC issued bonds which were insured by the Federal Housing Administration for the Summer Hill Cooperative and Colonial Village West Apartments. Because of the high interest rate at that time, HUD provided additional operating funds to the project through a Housing Assistance Program (HAP) contract. When interest rates dropped in the early nineties, HUD and CHFC agreed to refinance the bonds and to split the savings that would accrue as a result of the lower interest rates. The Refunding Agreement signed in 1994 outlined the savings and specified the terms and conditions on how CHFC could spend the funds. The savings were earmarked to provide housing assistance to families earning up to 50% AMI. This housing must be affordable for a minimum of 30 years and must meet all the requirements of the McKinney Homeless Assistance Act of 1988. To spend the funds, the CHFC must obtain the approval of both HUD and the County Board.

In March 2001 the CHFC sent a letter to non-profit organizations inviting them to apply for funds available from CHFC. APAH responded with a proposal to provide housing for Doorways' very low income clients. Since that time, APAH and Doorways have been working with CHFC to devise a feasible plan to use the funds. Before settling on the proposed project, APAH and Doorways considered several alternatives to help Doorways families, from the construction of new units on property currently owned by APAH to buying existing condo units

on the open market to establishing a capitalized tenant reserve fund that would provide rent subsidies to Doorways families over a long term.

APAH currently operates 16 units of affordable rental housing at the Cameron Commons apartment complex at 2036 & 2040 N. Cameron Street, Arlington Virginia through a non-profit affiliate. Twelve units are affordable to households at 50% AMI and 4 units at 60% AMI. Net Operating Income from these restricted rents is not sufficient to cover all operating expenses plus debt service payments and the property operates at a deficit. APAH is willing to sell an interest to Doorways at this property to provide Doorways with long-term ownership of rental units for its clients, without Doorways having to manage the property directly. The rent for these units would be set at 30% AMI which is approximately equal to the cost of operating expenses and replacement reserves, assuming Doorways can obtain grants and contributed funds to raise the required capital contributions. APAH will use the investment funds from Doorways to pay down existing debt on the property and refinance existing notes, resulting in the lower debt service that will stabilize the property and enable the discounted rents to Doorways' families.

The Board of CHFC met several times in Fall 2007 to consider the request by Doorways and APAH to fund the current proposal. On November 27, 2007 CHFC voted to approve the grant request from Doorways pending the successful development of a limited partnership agreement between the parties, and pending approval from both HUD and the County Board. On December 12, 2007 staff submitted a request to HUD for approval to release the funds. On February 1, 2008 HUD replied that the "proposed use of savings complies with HUD's regulations at Section 811.110 of 24 CFR Part 811 and is consistent with the Housing Plan included in the Refunding Agreement which HUD and your agency executed in 1994."

Proposed Affordable Housing Plan

Doorways will become a member of a limited liability company that will control the Cameron Commons apartment complex. The LLC agreement will stipulate that five of the 16 units will be dedicated for use by very low income families who are "graduating" from Doorways' emergency shelter facilities. This housing program will include 3 three-bedroom and 2 two-bedroom units reserved for households at up to 30% AMI. Doorways will provide supportive housing services to the families in the five units which will be spread among the 16 units at the Cameron Commons site. Of the 16 units, 11 are located in a renovated walk-up, brick garden apartment building and 5 units are in a building newly constructed in 2005. The garden building was completely updated, including new roof, windows and systems, in 2005.

In the table below, Proposed Rents, the column labeled "Rent/Mo." represents the rents that will actually be paid. The "Discount/Mo" represents the amount of savings – the value of the discount. The value of the discount is calculated by subtracting the actual rent per month from what the rents would be at two different levels – at 50% AMI and 60% AMI. For example, the "affordable" rent for a two-bedroom unit at 60% AMI is \$1,231 (30% of income minus a utility allowance). Doorways' clients will pay \$566 for that unit. Therefore the discount per month at 60% AMI rents is \$1,231 minus \$566, or \$665.

Proposed Rents

Unit Type	Units	Rent/Mo.	Doorways Discount/Mo (50% AMI rents)	Doorways Discount/Mo (60% AMI rents)
2-Bedroom	2 units	\$566	\$443	\$665
3-Bedroom	3 units	\$650	\$512	\$768
Total	5 units			

CHFC Funds Requested: Doorways is requesting a grant of up to \$750,000 as part of a financing package that totals up to \$1,327,500. The exact amount of the grant will be equal to the balance of CHFC funds being held in the Trust and Agency Account number 72402-7092 at the time of closing. Because the financing plan depends on having no outstanding debt on the units, Doorways will raise matching contributions in the amount of at least \$577,500 to complete the purchase of the partnership interest. Uses of funds include the equity purchase of \$1,272,500, related soft costs of \$30,000, and a tenant reserve fund of \$25,000. The amount used for the equity purchase will be adjusted to balance the total budget depending on the actual amount available from the CHFC account.

Proposed Financing Plan

Doorways will fund the purchase of its membership interest in APAH’s Cameron Commons project using a grant from CHFC and contributions raised from private donors.

SOURCES OF FUNDS		USES OF FUNDS	
CHFC	\$ 750,000	Equity Purchase	\$ 1,272,500
Matching Contributions	\$ 577,500	Related Soft Costs	\$ 30,000
		Tenant Reserve Fund	\$ 25,000
Total Sources	\$ 1,327,500	Total Uses	\$ 1,327,500

The proceeds of the Doorways Initial Capital Contribution of up to \$750,000, corresponding to the amount of the CHFC grant, shall be made as follows:

- a. \$379,000 to repay in full the indebtedness encumbering the Property in favor of the Unitarian Church;
- b. Up to ~~\$257,000~~ **\$267,000** to make a partial prepayment of the indebtedness encumbering the Property in favor of the Virginia Housing Development Authority (“VHDA”);
- c. \$30,000 to pay soft costs and expenses, for example recording fees and transfer taxes, title insurance premiums, lender fees and expenses, and legal fees;

- d. \$49,000 to an operating reserve to pay anticipated losses of the Property in accordance with an Approved Budget; and
- e. \$25,000 to a tenant reserve fund.

DISCUSSION: Doorways has a need for larger, family-sized units for women and children coming out of its emergency shelter facilities. Many of these families have very little income, and no credit or rental history, making it difficult to find rental units in the expensive Arlington market. APAH owns the Cameron Commons apartment complex through an affiliate and currently operates the complex at a non-sustainable operating deficit. APAH has offered to convert some of its existing rental units at Cameron Commons to serve Doorways residents. APAH will use the purchase funds from Doorways to pay off an existing bridge loan to the Open Door Housing Fund, and will pay down part of the principal on VHDA's first trust loan on the property. VHDA has agreed to recast its loan, using proceeds from the Doorways investment, to make the five supportive housing units essentially debt-free. VHDA also agrees to accept Doorways as a member of a new, non-profit Limited Liability Company that will become owner of the property.

The purchase would take place in two phases: the first allowing Doorways access to two units in 2008 (based on the CHFC grant) and the second purchase at conclusion of the capital campaign, estimated at 2012. Doorways will use the CHFC grant to kick off a capital campaign from the community. A Tenant Reserve Fund will allow early occupancy by Doorways families in up to five units at the project. To avoid displacement of current Cameron Commons residents, the Doorways units will be available upon turnover.

The Department of Human Services (DHS) supports the proposal which is compatible with the Arlington County "Ten Year Plan to End Homelessness". Two primary strategic objectives of the plan are to: "rapidly re-house persons who become homeless" and "increase the supply of housing affordable to homeless individuals and families." These objectives call upon all segments of the housing development community to work together to increase the supply of affordable housing units that are available to homeless individuals and families at or below 30 percent of median income. This project directly supports the County's approved strategies under the Ten Year Plan to End Homelessness. Currently the County transitional housing grants program provides rental assistance to 25 families receiving transitional housing services from Arlington County non-profit organizations including Doorways. The Doorways/APAH Cameron Commons program will increase the number of County-supported transitional supportive housing units for families to 30.

This project will enhance existing affordable housing opportunities for very low income families in north Arlington. It will assure supportive housing units affordable to families at 30% AMI for at least 30 years, a very difficult population to serve. The project secures much-needed family-sized units for very low income families and is a creative use of a special source of funds that can only be used for very low income families.

In summary, the project has the following advantages for Arlington County:

- Adds 5 units of supportive housing for homeless families in Arlington County;
- Secures 5 family-sized units for the use of very low income families for at least 30 years;
- Empowers women and families who are abused, homeless or at-risk to live safe, secure and self-sufficient lives;
- Allocates funds that CHFC is under a mandate to spend in a timely way for a worthwhile and cost effective strategy to provide safe and secure housing for a difficult-to-serve population.
- Ensures the future financial stability of the Cameron Commons property.

Affordable Housing Policy

- The proposal increases the number of family-sized units that are committed affordable to very low income families (30% AMI).
- The proposal adds five units of supportive housing for homeless families in Arlington County, increasing the number of families receiving transitional supportive housing services to 30.
- The proposal implements a strategy to rapidly re-house persons who become homeless.

Relocation: No relocation.

Schools Impact: No impact.

Civic Association/Community Process: There is no neighborhood impact because all the units under consideration are already committed affordable units.

Housing Commission: Doorways and APAH will meet with the Citizens Advisory Commission on Housing (HC) on May 8, 2008. This meeting is for information only. The funds are under the responsibility of the CHFC Board which recommends this project for funding. The CHFC will send a separate letter to the County Board with its recommendation for this project.

Loan Terms and Conditions: Approve the allocation of up to \$750,000 in CHFC funds to Doorways or its County-approved affiliate as a grant to assist with the investment in the Cameron Commons complex at 2036 & 2040 N. Cameron Street, Arlington Virginia 22207, subject to the following terms and conditions:

1. Doorways shall become a member of the ownership entity and Doorways or its County-approved affiliate (e.g. the Cameron Commons LLC or “the Company”) shall execute a Program Agreement similar to the generally standard AHIF/HOME Program Agreement for the CHFC grant in a form acceptable to the County Manager and the County Attorney implementing the proposed affordable housing plan contained in this report.

2. The CHFC award shall be in the form of a grant equal to the balance of CHFC funds being held in the Trust and Agency Account number 72402-7092 at the time of closing, up to \$750,000, with annual reporting requirements for a period of at least 30 years.
3. Doorways agrees to raise matching funds through private contributions in the amount of \$577,500 by the end of FY 2011. Doorways shall exercise its option to make the Additional Doorways Capital Contributions by delivering written notice of its intention to the Company not later than September 30, 2010. If Doorways does not deliver such election notice to the Company by September 30, 2010, the Company may, at the discretion of the Managing Member (APAH), offer an interest in the Company to another organization exempt from federal income taxation pursuant to Section 501(a) and (c)(3) of the Code, which has a compatible supportive housing mission, in exchange for a capital contribution equal to the Additional Doorways Capital Contributions not funded. The capital contribution of the new Member would be used for the same purpose as the Doorways Additional Capital Contributions would have been used, i.e. to pay down the VHDA debt. The new Member would be granted a percentage interest in the Company and access to units based on the amount contributed. At the same time, Doorways would lose access to those units.
4. The affordable housing set-aside for the rental units will be as follows: the five rental units will be affordable to households earning up to 30% of the AMI. These conditions are in force for a period of at least 30 years. Doorways agrees that the affordable rents shall be established in accordance with HUD 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.
5. Doorways shall provide supportive services to Doorways residents, including having a social worker available at all times to the Doorways residents and the Property Management staff.
6. Doorways, including any successors in interest, shall provide a purchase option including a right of first refusal to the County or its designee, if APAH and/or Doorways decide to sell the property any time prior to the conclusion of the 30-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 property at 90 percent of its then-appraised fair market value.

FISCAL IMPACT: None. The funds are available only for the purpose of providing decent, safe, and sanitary housing for very low income families for a period of at least 30 years. These funds are the result of a Refunding Agreement with HUD dating back to 1994. CHFC funds are being held in the Trust and Agency Account number 72402-7092. The proposed grant to Doorways would distribute all the funds that are available, and no balances would remain.

Map

