ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of July 8, 2006

SUBJECT: Additional Fiscal Year (FY) 2007 Affordable Housing Investment Fund (AHIF) allocation to the Arlington Partnership for Affordable Housing (APAH) to assist with the development of the Rosslyn Ridge II Apartments.

C. M. RECOMMENDATIONS:

1. **Allocate up to** $4,500,000 in FY 2007 AHIF funds (101.91102) to APAH or its designated County-approved ownership affiliate, as short term financing assistance for the Rosslyn Ridge II Apartments. This financing assistance would be in the form of a subordinated loan subject to the terms and conditions outlined in this report.

2. **Authorize the County Manager to approve the ownership affiliate, if any, and to execute the required loan documents for a loan up to** $4,500,000 to APAH or its affiliate, and authorize and direct the trustees for the County’s Deed of Trust to execute the required loan subordination documents 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 financing or program revisions that are necessary to remove any ambiguity or inconsistency or which improve the County’s financial security, financial position, or enhances the housing program and which changes do not adversely affect the County financially, prior to execution of the County’s financing documents.**

4. **Adopt the attached Resolution that will allow the Virginia Housing Development Authority requirement for income limitation and annual income certification to not apply to the market-rate units in the project.**

ISSUE: Should the County make an additional $4,500,000 FY 2007 AHIF allocation to fund a portion of the increased construction costs on the Rosslyn Ridge II Apartments?

SUMMARY: APAH is requesting an additional $4,500,000 in AHIF funds, as short term financing (up to 5 years) for Rosslyn Ridge II, to cover a portion of the development cost increase.

County Manager: ____________

County Attorney: ____________

Staff: Betts Abel, Winsome Craig, David Cristeal, CPHD, Housing Division

Report Date: 7/3/2006
On July 10, 2004, the County Board approved an AHIF loan of $1,800,000 to assist with redeveloping the existing 22-unit apartment complex into 238 rental units. The project has been delayed for two years because of a lawsuit and APAH’s inability to complete it without 3rd party backing. The lawsuit has been settled and APAH has retained Paradigm Corporation as its partner. APAH is ready to move forward but needs additional funds to cover the cost increase of $11.4 million (16 percent). The proposed County allocation would be the first time that the County would lend a project additional AHIF funds before the construction process begins.

The rationale for recommending the bridge loan request is based on the substantiated cost increase, the need for a short-term loan to cover the Low Income Housing Tax Credit (LIHTC) equity pay-in (three to five years), and the developer providing six additional affordable units after project stabilization. The affordable two- and three-bedroom units provided in this project are badly needed in an area near the Rosslyn Metro Station. Finally, the County will have a representative on the Board of Directors of the ownership affiliate.

**BACKGROUND:** On July 10, 2004, the County Board approved an AHIF loan of $1,800,000 to assist with redeveloping the complex. APAH plans to redevelop the 22-unit apartments into 238 rental units, increasing the housing stock in the highly developed Metro corridor. APAH received density from the adjacent Hillside Park through the site plan that was also approved by the County Board on July 10, 2004.

**DISCUSSION:** The redevelopment of Rosslyn Ridge was proposed to start in September 2004 but the project was delayed for two years because of a lawsuit and APAH’s difficulty financing the development on its own.

The lawsuit was eventually resolved, after which APAH sought lending and equity providers for the project per the Virginia Housing Development Authority (VHDA) requirements for a development guarantor. APAH needed a financially capable partner in order to move forward on such a large-scale project. During the spring of 2006, APAH worked out an arrangement with Paradigm to be the 3rd party/development partner that will ensure that the project is successfully completed.

Approximately $5 million will be required to cover the financing gap until tax credit equity is fully brought into the project during years three to five. APAH requests $4.5 million from the County and the additional $500,000 will be provided by Paradigm, if needed. APAH plans to repay the County loan within five years. The interest rate on the loan would be 4 percent. The County will receive approximately $664,000 in interest payments from APAH over the term of the loan.

Paradigm will supply a $4.1 million letter of credit required by VHDA and cover any cost overruns, as necessary. Furthermore, Paradigm will guarantee project completion, operations and compliance as required by the equity partners and VHDA. Paradigm would be the General Contractor and the Property Manager for the development. At project stabilization (about 5 years) when all guarantees have been met and any loans to the APAH-Paradigm partnership from Paradigm have been paid, APAH76 intends to buy out Paradigm’s position.
The total development costs increased from $58.1 million in 2004 to $69.5 million in 2006, an increase of $11.4 million. Soft costs increased by $3.9 million because of higher predevelopment costs, lease-up costs and deferred development fees. Hard costs increased by $7.5 million, from $33.1 million to $40.6 million. This amounts to 18 percent of the costs or $30,000 per unit. The higher hard costs include increases for ceramic/quarry tiles, roofing, windows and blinds (50 percent increases); masonry (33 percent increase); concrete (10 percent increase), and earthwork/excavation (23 percent increase). The figures are based on actual bids received by Paradigm in 2004 and 2006.

**Proposed New Permanent Financing Plan**

The new financing for Rosslyn Ridge II is based on receiving $42.6 million in tax-exempt bonds from VHDA as the primary mortgage, and secondary funding of $3.5 million from VHDA, 4 percent LIHTC of $7.2 million as equity, and long-term County funds of $1.8 million. $8.5 million of developer’s fees and the remaining $5.2 million for County park land density value will be deferred and paid from the project’s cash flow. Construction (hard and soft) costs total $62.3 million and APAH’s land cost plus the County’s park land density value total $7.2 million. See Permanent Financing table below.

**Permanent Financing 2004 and 2006 - Sources and Uses (in millions)**

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<td>VHDA Bonds</td>
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<td>Land Acquisition APAH</td>
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<td>Deferred Developer Fees</td>
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<td>Interim Income</td>
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<td>APAH Land Value Equity</td>
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<tr>
<td><strong>Total Sources</strong></td>
<td><strong>$58.1</strong></td>
<td><strong>$69.5</strong></td>
<td><strong>Total Uses</strong></td>
<td><strong>$58.1</strong></td>
<td><strong>$69.5</strong></td>
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APAH previously received $1.8 million in a long-term County loan. The additional $4.5 million in short-term AHIF funds will increase the total County loan amount to $6.3 million. This amount represents a total AHIF per unit subsidy of $66,316 for newly constructed units based on 95 affordable units. In addition, APAH has paid the County $15,000 and will pay the County $485,000 within 14 days after settlement and $5.2 million over time for the County park land density value, as agreed to in the site plan conditions approved in July 2004.

New Affordable Housing Plan: In 2004 the County Board approved 95 units of the 238 units in the project as affordable units for families earning up to 60 percent of the area median income (AMI). The affordable period will be for 60 years. Among the affordable units, five units will be maintained as fully accessible to persons with physical disabilities. The developer has agreed to provide six additional affordable units (three one-bedroom and three two-bedroom units) after the project has achieved a debt service coverage ratio of 1.15 to 1.

Proposed New Housing Plan: (43 percent of the units @ 60 percent AMI)

<table>
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<th>BR Size</th>
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<th># of Market Units</th>
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<td>4</td>
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</table>

101 units 137 units

Housing Commission
On June 29, 2006, the Citizens’ Advisory Commission on Housing reviewed Arlington Partnership for Affordable Housing’s proposal for additional funding for Rosslyn Ridge II. The Housing Commission recommended approval of the funding and will send a letter to the County Board with its recommendation.

Loan Terms And Conditions
Staff recommends approval of a $4.5 million loan to APAH or its designated County approved ownership affiliate, as a bridge loan for the redevelopment of Rosslyn Ridge II Apartments subject to the following terms and conditions:

1. This financing assistance would be in the form of a subordinated deferred interest loan to be secured by the property. This loan will be made at an interest rate of 4.0 percent compounded, annually, over a maximum term of five years. This loan would be subordinate to APAH’s primary and secondary financing of approximately $47 million, and Paradigm’s partnership loan, if any.
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 applicant must secure a commitment from VHDA for construction and primary financing with terms acceptable to the County Manager.

4. The applicant must comply with the affordable housing set-aside for the rental units as follows: Ninety-five (95) rental units would be affordable to households earning 60 percent or less of AMI for 60 years.

5. The developer or its designee will agree to provide five affordable units for persons with physical disabilities and to fully cooperate with an affirmative marketing program to market these units to households in need of such accommodation.

6. A letter of credit of up to $4.1 million for the construction completion guarantee must be secured by Paradigm as managing general partner.

7. The developer or its designee agrees to increase the number of affordable units from 95 to 101 (adding three one-bedroom and three two-bedroom units) as such units become available to rent within 90 days after the project has achieved a debt service coverage ratio of 1.15 to 1 according to the tax credit investor requirement estimated to occur between three and five years after the start of construction.

8. A representative of the County will be designated to serve as a voting member on the Board of Directors of the ownership affiliate.

**FISCAL IMPACT:** The adopted budget of the FY 2007 AHIF/HOME fund is $5,648,618. Approval of staff recommendation in an amount of up to $4,500,000 from the AHIF would result in a remaining FY 2007 AHIF/HOME balance of $1,272,508. This balance will increase when repayments of AHIF/HOME funds for FY2006 are appropriated as part of FY2006 budget close-out.
RESOLUTION

WHEREAS, the County Board of Arlington County ("County Board"), Virginia, desires to make the determination required by Section 36-55.30:2.B of the Code of Virginia of 1950, as amended, in order for the Virginia Housing Development Authority to finance the economically mixed project (the "Project") described on Exhibit A attached hereto;

NOW, THEREFORE, BE IT HEREBY DETERMINED as follows:

(1) the ability to provide residential housing and supporting facilities that serve persons or families of lower or moderate income will be enhanced if a portion of the units in the Project are occupied or held available for occupancy by persons and families who are not of low and moderate income; and

(2) private enterprise and investment are not reasonably expected, without assistance, to produce the construction or rehabilitation of decent, safe and sanitary housing and supporting facilities that will meet the needs of low and moderate income persons and families in the surrounding area of the Project and will induce other persons and families to live within such area and thereby create a desirable economic mix of residents in such area.
EXHIBIT A

The Project known as Rosslyn Ridge consists of 238 apartment units, of which 95 (40 percent) will be affordable to households with incomes no more than 60 percent of area median income.