

City of Alexandria, Virginia

MEMORANDUM

DATE: DECEMBER 12, 2003

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *ps*

SUBJECT:: CONSIDERATION OF ALLOCATION OF CAPITAL IMPROVEMENT PROGRAM AND HOUSING TRUST FUND MONIES TO THE ALEXANDRIA REDEVELOPMENT AND HOUSING AUTHORITY (ARHA)

ISSUE: City assistance in the financing of the redevelopment of the Samuel Madden Homes Downtown redevelopment project.

RECOMMENDATIONS:

- (1) That Council approve the allocation of City funds and new loan of \$2,775,440 to the Alexandria Redevelopment and Housing Authority (ARHA) from the City's Capital Improvement Program Fund (\$1,735,583) and the City's Housing Trust Fund (\$1,039,857) in order to assist in funding an escrow account during the construction of the 52 on-site public housing units of the Samuel Madden Homes (Downtown) redevelopment project;
- (2) That the above \$2,775,440 loan be contingent upon, and subsequent to, the planned repayment of \$1,037,777 by ARHA to the City from two prior related loans; and
- (3) That the loan from the City to ARHA include a condition that when the tax credit proceeds are received for the on-site units that all of the tax credit funds are first applied to repay the City's loan prior to the application of the tax credit funds for other purposes.

BACKGROUND: In September 2001, Council agreed to provide up to \$3.5 million to assist ARHA with potential shortfalls related to the redevelopment of the Samuel Madden Homes Downtown (SMHD) (52 units) and associated replacement housing (48 units). At that time a specific budget for the project was unknown and the availability and amounts of federal low-income tax housing tax credits (which provide capital funds) were also unknown. In making its decision, Council funded the up to \$3.5 million obligation out of \$2.0 million in Housing Trust Fund monies and \$1.5 million in City Capital Improvement Program (CIP) Fund monies. These funds were contemplated to be loaned to ARHA if needed, and repaid to the degree project

finances permitted. If the project required City funds to close a funding gap, then those loans, or a portion thereof, would convert into grants.

As ARHA has structured its business deal for the redevelopment of the 52 on-site units and its plans and finances for its 48 off-site units, it has been looking at ways to minimize the public cost of the overall project, while at the same time creating 100 quality new public housing units. This is important to the City government since, for every dollar which improves ARHA's redevelopment financing, a dollar is saved and repaid to the City.

In order to provide assurance that sufficient funds will be on hand to pay for construction costs of the 52 on-site units, an escrow of \$10.8 million dollars is needed by the construction lender (Wachovia Bank). ARHA is depositing the \$8.0 million land sale proceeds to be received from the developer into the escrow, but it needs \$2.8 million more to fully fund the escrow. There were three options considered: tax credit proceeds, borrowed private funds, or borrowed City funds.

- A. If tax credit proceeds were received before construction and used to fund the \$2.8 million portion of the escrow, the total amount of tax credit proceeds to finance the 52 units would drop by an estimated \$0.3 million, from \$5.3 million to \$5.0 million. This drop is due to standard industry-wide recognized issues related to construction and income tax sheltering risk, as well as net present value calculations. If the tax credit proceeds were received after construction at the time the units are substantially completed, then the amount of tax credit dollars would be maximized at \$5.3 million.
- B. If privately borrowed funds were used to fund the \$2.8 million portion of the escrow, a loan (or letter of credit which would be drawn down during the construction process) would need to be negotiated and the \$2.8 million borrowed during the construction process. The estimated interest costs of a bank loan is estimated at \$0.4 million. A loan of this nature would also complicate what is already a very complicated and unique transaction due to the private-public-tax credit provider nature of this project's finances, and require revisions to the negotiated contract documents.
- C. If the \$2.8 million were borrowed from the City by ARHA, then the above costs and loan complications would not arise.

As the City had planned to provide up to \$3.5 million in funding for this project, use of these funds as a loan to ARHA for purposes of funding the escrow seems appropriate. ARHA informally approached the City last month as it was about to submit its financing plans to submit to HUD, and asked if the concept of the City funding the escrow seemed acceptable and City staff agreed, subject to City Council approval. ARHA has now formally requested the funding,

and has indicated that, subject to HUD approval, it projects to close on the business deal for the redevelopment of the on-site units by the close of the calendar year.

Of the \$3.5 million, the City has already used some \$2.5 million for the:

- purchase and readying of the Reynolds Street property for off-site development at a cost of \$0.7 million,
- demolition of the SMHD units and preparation of the site for redevelopment of the 52 on-site units at a cost of \$0.7 million, and
- deposit of \$1.1 million as a requirement at the beginning of the condemnation proceedings for the purchase of the Whiting Street property for off-site units.

The above uses of the \$3.5 million have drawn down the City funds to \$1.04 million (see the attached chart for a detailed accounting). ARHA intends on repaying \$1.04 million out of HUD capital grants and other funds, which would build the City funds back up but only to a \$2.08 million level. Since ARHA needs \$2.8 million for the escrow agreement, this leaves a \$0.7 million shortfall. It is proposed that the City increase its allocation from the City CIP Fund by another \$0.7 million to eliminate this shortfall. This would increase the total overall City outlay to \$4.2 million.

At this point, using what it indicates are conservative and cautious projections, ARHA staff states, barring any unforeseen circumstance, that it will be able to repay the City \$2.8 million. This would leave the net City support after the \$2.8 million loan is repaid at \$1.4 million. If ARHA's income from the redevelopment project is greater than now projected (such as from higher gross sale proceeds of the 100 on-site market units), then the City's support would decrease on a dollar-for-dollar basis.

To date it has been planned that any repayment from ARHA would proportionately benefit the City CIP Fund based upon the relative support both of those funds provided to the SMHD redevelopment financing. Because it is proposed that the City CIP Fund support be increased by \$0.7 million, staff recommends that when ARHA repays the City that the City CIP Fund receive the first \$0.7 million of the funds, with the City CIP Fund and the Housing Trust Fund then being repaid on a basis proportional to their contribution to the remaining ARHA loan balance. This proportionality has been the repayment allocation plan to date. Since ARHA conservatively contemplates it will have \$2.8 million available to repay the City, that represents sufficient funds to more than repay the additionally requested \$0.7 million.

FISCAL IMPACT: The actions recommended in this report will result in an additional \$0.7 million in City CIP Fund resources being utilized. The source of the \$0.7 million in the City CIP Fund would be the Market Square renovation account where the project has been delayed. These

Market Square funds would need to be restored in FY 2005 or FY 2006. Repayment from ARHA should be no later than FY 2006.

ATTACHMENT: Proposed Use of City Funds for SMHD Redevelopment

STAFF:

Mark Jinks, Assistant City Manager

PROPOSED USE OF CITY FUNDS FOR SMHD REDEVELOPMENT

	<u>Housing Trust Fund</u>	<u>City CIP Fund</u>	<u>TOTAL</u>
FUNDED TO DATE	\$2,000,000	\$1,500,000	\$3,500,000
Purchase and Ready Reynolds Street Property	(656,110)	(40,000)	(696,110)
Demolish Samuel Madden Homes Downtown Units and Clear Land	(377,532)	(284,805)	(662,337)
Whiting Street Land Purchase Condemnation Deposit	(627,000)	(473,000)	(1,100,000)
CURRENT BALANCE	339,358	702,195	1,041,553
Planned ARHA Repayment	700,499	337,278	1,037,777
ADJUSTED BALANCE	1,039,857	1,039,473	2,079,330
Additional Funds Needed	-	696,110	696,110
PROPOSED NEW LOAN AMOUNT	\$1,039,857	\$1,735,583	\$2,775,440

12-12-03