

EXHIBIT NO. 1

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City of Alexandria, Virginia

MEMORANDUM

DATE: JUNE 3, 2002
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*
SUBJECT: CONSIDERATION OF AN INCREASE IN THE VOLUNTARY CONTRIBUTION TO THE CITY'S HOUSING TRUST FUND

ISSUE: Consideration of an increase in the voluntary contribution requested from developers to the City's Housing Trust Fund.

RECOMMENDATION: That the City Council:

- (1) Increase the voluntary contribution to the Housing Trust Fund from \$0.50 to \$1.00 per gross square foot by amending the language in the "Summary of the Affordable Housing Policy with Regard to the Housing Trust Fund" (Attachment I) addressing the Housing Trust Fund contribution as follows:

"It shall be the City's policy that a standard charge of ~~\$-.50~~ \$1.00 per square foot on all new housing and/or commercial development should be paid at certificate of occupancy in the case of office, retail, hotel or rental apartments, and paid at sale to the end user in the case of condominium or single family houses *in developments of five units or more*. If the general assembly so authorizes, this charge shall become mandatory; however, regardless of general assembly action, this remains the City's standard to be negotiated by staff. Staff will prepare administrative procedures for implementing this policy for review by the Affordable Housing Advisory Committee and review and approval by City Council.

In lieu of this charge, a developer may submit an Affordable Housing Plan proposing another means of meeting the affordable housing requirement, e.g., provision of on-site or off-site housing units, or a lesser fee in combination with affordable units, with or without receiving some form of incentive from the City. While selection of the method of compliance with the Affordable Housing Policy lies with the developer, the City encourages developers to provide affordable home ownership *or rental* units, in lieu of a monetary contribution, whenever feasible."

- (2) Apply the increased contribution amount to all development applications receiving final special use permit or site plan approval by City Council and/or the Planning Commission after July 15, 2002.
- (3) Schedule this item for Public Hearing on June 15, 2002. Although a hearing on this recommended Affordable Housing Contribution increase is not required, staff recommends that one be held.

BACKGROUND: In January 1993, Council adopted an Affordable Housing Policy that called for developers of residential and commercial property to contribute, on a voluntary basis, \$0.50 per gross square foot of development to the City's Housing Trust Fund, or to provide affordable housing units on or off-site. In June 1995, Council amended the policy to add the final paragraph in Recommendation 1 above, which encourages developers to provide affordable home ownership units.

In its recent final report, the City's Affordable Housing Task Force recommended that the City conduct further study of the adequacy and appropriateness of Alexandria's \$.50 per gross square foot formula for developers' voluntary contributions to the City's Housing Trust Fund. In February 2002, in adopting the report as amended by staff recommendations, Council approved a staff recommendation that the issue of increasing the standard \$0.50 per gross square foot voluntary developer contribution to affordable housing be considered in the context of forthcoming efforts to establish the appropriate levels for other development fees in the context of the FY 2003 budget deliberations.

DISCUSSION: The Housing Trust Fund contribution of \$0.50 per gross square foot has remained unchanged since it was first established in FY 1993. Since FY 1993, the average rent for a multifamily unit has increased 63 percent, from \$708 to \$1,156. In adjusting for this substantial increase in the cost of rental housing, the original \$0.50 would need to be \$0.82 to be equal in housing value. Assessed values of all residential property have also increased substantially during this time period.

The recommended increase will help regain the housing purchasing power that has been lost since the contribution amount was established, with an additional amount provided to help address probable ongoing increased housing costs in the next few years. It should be noted that the standard contribution amount represents not only the developer's voluntary monetary contribution amount, but also the minimum value of discounts (if provided) for any on-site units. The current contribution amount has never been adequate to result in more than a small number of on-site units. The greatest number of sales units provided under this formula (excluding the City-assisted Stevenson Court project) was 11 units (out of 191) at Summer's Grove (cash was provided in lieu of a planned 12th unit); the highest percentage of units was 17 percent, representing one unit out of 6 units at the Amie-Leigh development.

The majority of developers have chosen to make cash contributions rather than provide affordable units. Particularly in recent years, staff believes this was due in large part to the fact that the formula contribution would yield only a small number of affordable units given the planned sales prices of what is being built. No affordable housing plans with discounted units reached the Council approval stage between FY 1997 and FY 2002. During FY 2002, Council approved two affordable housing plans, one involving rental housing and one involving sales housing, both of which involved discounts that exceeded the current formula contribution. An increase in the voluntary formula contribution is very important, given the City's increased emphasis on obtaining on-site units, when feasible, rather than cash contributions.

The City's Affordable Housing Advisory Commission has reviewed the proposed increase from \$0.50 to \$1.00 and has endorsed this proposal. A staff proposal to increase the contribution amount has also been discussed with the Northern Virginia Building Industry Association (NVBIA) and the Alexandria Chamber of Commerce. In a memorandum to City staff dated May 23, 2002, the NVBIA raised no objection to the proposed increase, but made the following statement:

“While we in the housing industry are committed to providing housing to all peoples, we believe it is imperative that the City bear in mind that contributions to the Fund are, by law, voluntary. Accordingly, in our view, contributions to the Fund must be directed to the effort of providing affordable housing for those for whom it was intended, the public servants and other persons who work in our community and who cannot afford to live in Alexandria without the benefit of subsidies. We acknowledge and support the premise that having people work in the City live in the City makes Alexandria a better place to live by keeping the dollars in the City's economy.”

Staff's response to this statement is that the contributions will continue to be voluntary and the Housing Trust Fund has been and will continue to be administered, to the maximum extent allowable, to benefit persons who either live or work in Alexandria. The City shares NVBIA's desire to provide affordable housing for persons who work in the City. In addition, as articulated in the recent report of the Affordable Housing Task Force, the City's housing assistance goals include assisting and encouraging households who have resided in Alexandria for many years to remain City residents.

Changes Unrelated to Formula Contribution

It should be noted that the proposed revised language for the Affordable Housing Policy also contains two changes unrelated to the matter of the formula contribution. Both are language change updates that reflect current policy. First, the practice of applying the formula contribution only to developments of five or more units, based on a prior administrative decision is now proposed in the written Policy. Second, based on Council actions taken in February 2002 upon the adoption of the Final Report of the Affordable Housing Task Force, the City's emphasis on obtaining on-site units is no longer limited to homeownership units but also includes rental units.

FISCAL IMPACT: This change will result in contributions and/or price/rent discounts double that which would have been received without the change. Providing a precise fiscal impact is difficult. However, as long as the residential construction market continues at its strong pace, the increase in the voluntary contribution from \$0.50 to \$1.00 could increase current Housing Trust Fund income (or housing rental or sales price discounts) from about \$1 million to \$2 million per year.

ATTACHMENT:

Attachment I. City Council Approved "*Summary of the Affordable Housing Policy with Regard to the Housing Trust Fund*"

STAFF:

Mildriyn Stephens Davis, Director, Office of Housing
Mark Jinks, Assistant City Manager

CITY OF ALEXANDRIA, VIRGINIA

SUMMARY OF THE AFFORDABLE HOUSING POLICY

WITH REGARD TO THE HOUSING TRUST FUND

The City of Alexandria supports a broadly based Housing Trust Fund (HTF) that receives revenues from several sources for the purpose of encouraging, increasing and maintaining affordable housing in the City. Monies for the housing trust fund should come from multiple community sources, including but not limited to developer payments, City resources as approved by Council during the annual budget process, and community contributions. The provision of affordable housing is a community responsibility, and just as we all share the benefit of a diverse community, all should share the cost of ensuring this diversity. It is also important that there be a varied source of funding so that funding will be adequate and steady. This policy recognizes the need to focus existing resources, increase some revenues, and formalize the process through which funds are channeled into the HTF.

The actual dollar amounts required and percentages of the total to be raised from various sources will depend on the staff projections of monies available and required and factors of fairness.

A. SOURCES OF FUNDS

1. Development Fees

It shall be the City's policy that a standard charge of \$.50 per square foot on all new housing and/or commercial development should be paid at certificate of occupancy in the case of office, retail, hotel or rental apartments, and paid at sale to the end user in the case of condominium or single family houses. If the General Assembly so authorizes, this charge shall become mandatory; however, regardless of General Assembly action, this remains the City's standard to be negotiated by staff. Staff will prepare administrative procedures for implementing this policy for review by the Affordable Housing Advisory Committee and review and approval by Council.

In lieu of this charge, a developer may submit an Affordable Housing Plan proposing another means of meeting the affordable housing requirement, e.g., provision of on-site or off-site housing units, or a lesser fee in combination with affordable units, with or without receiving some form of incentive from the City.

2. City Resources

On an annual basis in the context of the budget process, the City will consider allocating City resources to the Housing Trust Fund.

3. Community Contributions

Contributions from community entities such as churches, service organizations, business organizations and individuals.

- a. Foundation or grant support
- b. Serve as a clearing house for needs or combiner of resources for more effective utilization of funds.
- c. Serve as a depository and encourager of voluntary contributions by individuals

B. USE OF HOUSING TRUST FUND MONIES

1. General Goals

Proceeds from the Housing Trust Fund shall be used to address the following general goals:

- a. Preserve existing publicly-assisted housing opportunities for the benefit of current and future low income Alexandrians.
- b. Provide rental housing subsidies in accordance with the goals and actions set forth in this Policy.
- c. Provide downpayment assistance for the purchase of condominium or cooperative units in accordance with the goals and actions set forth in this Policy.
- d. Finance, in whole or part, the acquisition and/or rehabilitation of property when necessary to carry out items a, b, or c above.

2. Specific Uses of Funds

Monies from the Housing Trust Fund may be used for any purpose City Council may approve, including but not limited to:

- a. Increase the stock of affordable housing in the City.
 - 1) Support creative and innovative solutions to the provision of affordable housing.
 - 2) Support construction.
 - 3) Support rehabilitation.
 - 4) Support rental subsidies.
 - 5) Support homeless shelter programs.

b. Maintain existing stock.

- 1) Buy down mortgage rates or provide downpayment assistance for homeownership potential for households above 50% of median income who are eligible for VHDA assistance.
- 2) Purchase of affordable units for leaseback to qualified tenants.
- 3) Second trust loans to homeowners or developers building additional units.
- 4) Reconfigure existing stock to meet current needs.

c. Provide funds for homeless prevention.

- 1) Intervention to those who are in affordable housing, but find themselves temporarily in a difficult situation.
- 2) Training for tenants or homeowners on home maintenance, financial planning, etc.

In making recommendations for uses of the Housing Trust Fund, staff will first investigate all reasonable and appropriate state and federal funding alternatives that are not overly restrictive, and will also determine what city resources may be available within the approved budget.

3. Administration of Housing Trust Fund

The City Council has appointed a committee composed of public and private sector representatives to make recommendations to the Council for policies governing the expenditure of HTF monies and oversee the administration of the Fund. The City's Office of Housing will perform the day-to-day administration of the HTF, in accordance with policy guidelines adopted by the City Council. The Committee will include* the Director of the Office of Housing, who will serve in a non-voting capacity.

The composition of the Affordable Housing Advisory Committee is as follows:

25% Construction industry/housing providers

Builders
Realtors
Landlords

25% Users

Tenants
Homeowners
ARHA

25% Community Representatives

Churches
Civic Associations
Interested Groups

25% Commercial Sector

Financial
Employers
Legal

Non-voting advisory City representatives
Office of Housing
Planning Department
Human Services Department

The committee's duties include the following:

- a. Oversee administration of the Fund.
- b. Update and recommend policy and goals to City Council.
- c. Actively seek and influence funding opportunities.
- d. Represent the interests of affordable housing before other City Boards and Commissions.
- e. Review staff recommendations on affordable housing plans.
- f. Appoint from their membership a person to serve as liaison to ARHA.
- g. Serve as the focus for housing advocacy in the City.

C. AFFORDABLE HOUSING PLAN

In lieu of the standard development fee to the Housing Trust Fund, on-site or off-site construction of affordable units or contribution of additional funds to the HTF (above the square foot charge) may be suggested by a project developer in an Affordable Housing Plan. Each affordable housing plan received by the City will be considered on a case by case basis within the guidelines of City zoning policy and with an understanding that the provision of affordable housing may be a desirable goal for the City but that other impacts must also be weighed along with the benefit.

Any approval of an affordable housing plan should include consideration of the following:

- a. How does the plan help the city meet the affordable housing goal
- b. Proximity to commercial districts or public transportation
- c. The effect of the plan on neighboring communities

Off Site: A developer may seek the above benefits in return for provision of a comparable number of units off the site or for additional contributions (above the Square Foot charge) to the HTF. As a general policy "on site" contributions are favored, all other factors being equal.

1. Applicability and Submission of Affordable Housing Plan

An Affordable Housing Plan shall be required in the following circumstances:

- a. The developer proposes to construct on-site or off-site affordable housing, either with or without making the recommended monetary contribution, or

- b. The developer desires incentives from the City. Incentives that might be approved under a City-approved Affordable Housing Plan are:
- 1) Bonus density on a residential project of up to 20% in return for provision of 12.5% of the total project units as "affordable dwelling units."
 - 2) Reduced parking requirements.
 - 3) Setback and height restriction waivers.
 - 4) Utilization of HTF monies to subsidize construction of affordable units, provided the net affordable housing contribution is at least equal to the basic recommended square foot contribution.
 - 5) Fast track processing.
 - 6) Forgiveness of per square foot charge.

The Affordable Housing Plan (AHP) shall be filed, along with the application for a Special Use Permit (SUP), when required, for all developments where an alternative to the square foot contribution is proposed and/or incentives are sought from the City. AHPs for developments not requiring an SUP shall be filed directly with the Office of Housing.

2. Content of the Affordable Housing Plan

a. Nature and Value of Contribution

The nature (on-site housing, off-site housing, monetary contribution, other) and monetary value of the proposed contribution to affordable housing, including a clear explanation of the calculation of value.

b. For Residential Rental and Sales Housing (new, renovated and mixed use):

- 1) The number, size, type and location of proposed affordable housing units and the percentage these units represent of the residential development.
- 2) Market rents or sales prices of the affordable units and the proposed discounts. Calculations are to be based on the affordable housing payment levels in Table I, or subsequent modifications as determined by the Office of Housing.
- 3) The target population and income mix.
- 4) The funding sources and funding commitments.

5) The projected schedule for the build out or renovation of the residential project or component.

6) Specific incentives (if any) desired by the developer.

c. For Commercial developments (alone and in mixed use developments), the AHP shall include the following:

1) The projected schedule for the build out of the project.

2) A copy of an employer assisted housing plan for presentation to prospective purchasers/lessees of the commercial space. The plan shall outline steps the employer can take to assist employees in obtaining affordable housing. In mixed use developments, employers can participate in the affordable housing program offered in the residential development.

3) Specific incentives (if any) desired by the developer.

3. Affordable Housing Plan Review

The AHP will be reviewed by the City of Alexandria's Office of Housing. The Director of the Office of Housing will consult with the Directors of Planning and Transportation and Environmental Services and the City Attorney, as appropriate.

The AHP will be reviewed for compliance with the criteria as established in this policy. As a result of this review, the City will take one of the following actions:

- a. Accept the developer's proposal.
- b. Propose an alternative plan.
- c. Require that the developer pay the required standard fee to the City's Housing Trust Fund.

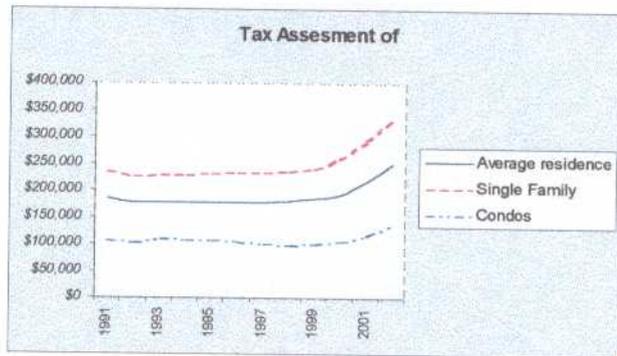
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6-15-02

Honorable Mayor and Members of the Alexandria City Council
City Hall
3100 King Street
Alexandria, Va. 22314

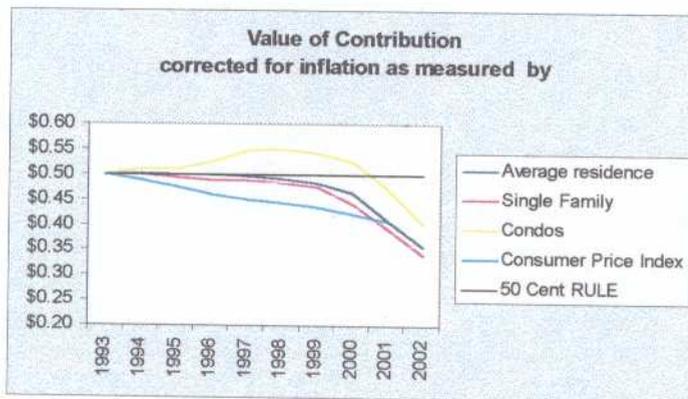
RE: Public Hearing June 15 Item 27;
Consideration of an increase in the voluntary contribution to the City's Housing Trust Fund.

Mr. Mayor and members of the City Council,

I strongly urge you to support the increase in contributions to the Housing Trust Fund. The City Council adopted the contribution level of 50 cents per square foot in 1993. Since then, the cost of housing has increased but the 50 cents has remained unchanged.



Therefore, the real value (the 50 cents corrected for inflation) of the contribution has diminished.



This course of events increases the incentive to pay into the fund rather than providing units on-site. Furthermore, this diminishes the value of the contributions. While endorsing the proposal, I also urge you to consider an indexing rule for two reasons. One it provides a closer tracking of actual housing costs and secondly, provides greater flexibility if the markets were to deteriorate.

Sincerely Yours

Poul Hertel
Poul Hertel

Proposed City of Alexandria Fees
May 22, 2002
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- Phase IV Increase: Effective April 1, 2004 through September 30, 2004, again assuming October 1, 2002 is the effective date, tap fees would increase to seventy-five percent of the proposed fees with payment to be made within 30 days subsequent to lock in the rate.
- Phase IV Increase: Beginning October 1, 2004 and thereafter, again assuming October 1, 2002 is the effective date, tap fees would increase to the full amount of the proposed fees with payment in the usual fashion.

3. Amount of Increase. As members of the community, we certainly want to do our part to maintain Alexandria as a livable city. While we in the development community appreciate the significant investment the City has committed to improving its aging sanitary sewer system, we take exception to the premise that the development community should bear the brunt of these costs. We appreciate the City's desire to "hold the line" on costs by implementing increases that are comparable to similar jurisdictions, however, when evaluating the appropriateness of the proposed fees, we believe it is more pertinent to make a comparison to the fees levied in Arlington County as opposed to the fees levied in jurisdictions of the counties of Loudoun, Prince William and Fairfax. In our view, in the City of Alexandria, the primary source of growth is in-fill, as it is in the case of Arlington County, as opposed to "horizontal" as is the case of Loudoun, Prince William and Fairfax Counties. Assuming a comparison to Arlington County is more appropriate, not comparative analysis, provided to you earlier this month, indicates the proposed fees result in charges that are more than twice those levied in Arlington County. We recommend the City implement a fee structure along the guidelines similar to those applied in Arlington County where the basis of the levy is drainage fixture units.

Scott McBeary

Ken To

Housing Trust Fund Contributions. The recommendation is to increase the proposed contribution from 50 cents per square foot to one dollar per square foot in order to adjust for inflation since the current rate was enacted in 1992. While we in the housing industry are committed to providing housing to all peoples, we believe it is imperative that the City bear in mind that contributions to the Fund are, by law, voluntary. Accordingly, in our view, contributions to the Fund must be directed to the effort of providing affordable housing for those for whom it was intended, the public servants and other persons who work in our community who cannot afford to live in Alexandria without the benefit of subsidies. We acknowledge and support the premise that having people work in the City live in the City makes Alexandria a better place to live by keeping the dollars in the City's economy.

Planning and Zoning Fees. The operations of the Departments of Planning & Zoning and TE&S are supported by the tax dollars generated by the projects our industry develops. Accordingly, it is our view that the fee increases should be limited to the incremental cost of the services provided i.e., the intent should not be to have the fees cover the operating costs of the departments.



**Washington
Gas**

6801 Industrial Road
Springfield, VA 22151

Michael P. Carlin
Director of Public Affairs
(703) 750-5516
(703) 750-5624 FAX