

## City of Alexandria, Virginia

## MEMORANDUM

DATE: DECEMBER 7, 2005

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: ALLOCATION OF ONE-TIME REAL ESTATE RECORDATION TAX REVENUES INTO THE MODERATE INCOME HOMEOWNERSHIP PROGRAM (MIHP)

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**ISSUE:** Allocation of housing monies from the one-time real estate recordation tax revenues into the Moderate Income Homeownership Program.

**RECOMMENDATION:** That the City Council approve the allocation of up to \$780,000 in one-time real estate recordation tax revenues from the Affordable Housing Initiatives account into the Moderate Income Homeownership Program (MIHP), with the stipulation that repayments of loans made from these funds will be returned to the Affordable Housing Initiatives account.

**DISCUSSION:** The Affordable Housing Initiatives account, established by Council in the FY 2006 budget, consists of \$889,815 in one-time real estate recordation tax revenues and \$2,760,185 from the dedicated one-cent on the real property tax. The real estate recordation tax revenues have not been dedicated for affordable housing use on an ongoing basis, and the FY 2006 amount was therefore a one-time added allocation for affordable housing. For the reasons described below, staff is recommending that these monies be used to support the higher than predicted activity this fiscal year in the MIHP program. This higher level of activity has been largely caused by condominium conversions.

In May 2005, Council approved an increase in the MIHP assistance level from \$20,000 to \$30,000 in the overall program, with a \$40,000 assistance limit for resident purchasers of units being converted to condominiums. Council also approved the allocation of an additional \$822,000 to be transferred from Housing Trust Fund revenues received in FY 2006 at a rate of \$1 for every \$2 received, and added that to the previously planned \$668,000 MIHP program. This made a total planned MIHP program of \$1,490,000 for FY 2006.

The current recommendation to increase the MIHP program by \$780,000 from \$1,490,000 to \$2,270,000 is being driven by three factors:

- 1) The demand for assistance is higher than anticipated. At the time of the Council action last week, staff projected a total of 47 MIHP loans for FY 2006. As of November 29, checks have been issued for 21 loans (including six condo conversion loans), and another 27 cases are pending (including 26 condominium conversion loans that cannot be finalized until the units are ready for settlement). In addition to the monies needed for these 48 paid or pending cases, staff anticipates the likelihood of 31 new cases (including an estimated 9 condominium conversion loans) by the end of the fiscal year, for a total of 79 loans.
- 2) The Housing Trust Fund revenue necessary to fund the increase approved by Council in May is not being received quickly enough to meet the demand for loans. Because the \$822,000 approved by Council in May is to be transferred from the Housing Trust Fund at a rate of \$1 for every \$2 in FY 2006 Housing Trust Fund revenue, it requires that the Housing Trust Fund receive \$1,644,000 by fiscal year's end in developer contributions, interest, and/or loan repayments not designated for specific programs. As of November 30, only \$77,047 is available for transfer to the MIHP program on this basis. While staff still anticipates receipt of the expected repayment of the Housing Trust Fund provided bridge loans to the City by the Alexandria Redevelopment and Housing Authority for its just completed Chatham Square project in FY 2006, staff's projection of developer contributions has been reduced based on the actual status of project construction. Although it remains highly likely that most, if not all, of the \$1,644,000 will be received, the timing of payments is not keeping pace with the demand for loan funds.
- 3) The planned amount of \$2,270,000 for this program for FY 2006 was based on loans at \$30,000, whereas an estimated 16 loans (including 14 either disbursed or pending disbursement) are expected to be at the higher \$40,000 level approved by Council for resident purchasers.

As noted above, the currently projected funding needs include 31 new cases in addition to the ones that are currently on hand and awaiting the readiness of units for settlement. While there have been no additional condo conversions filed with the Commonwealth of Virginia since May 2005, staff continues to receive applications from non-resident purchasers and occasional resident purchasers other than those who executed contracts during the 60-day exclusive right to purchase.

In the event that demand exceeds the new projections, or Housing Trust Fund revenues fall short of the amount needed, staff will return with a second recommendation for additional MIHP program funding.

The Affordable Housing Advisory Committee (AHAC) approved the recommended allocation on December 1, and recommended a stipulation that repayments be returned to the Affordable Housing Initiatives account. The Committee also added the language that the allocation be *up to* \$780,000, so that the full amount will not be transferred if the anticipated cases do not materialize. It is their intent that the monies be transferred periodically, only in the amounts needed for a few months at a time. Staff concurs with these Committee recommendations, and have incorporated them into the recommendations for Council action.

As the one-time recordation revenues are not part of the revenues derived from the one-cent in dedicated real estate revenues, it is recommended that these recordation revenues be allocated to MIHP at this time, even though the City has not formally adopted a policy which would outline in detail how the one-cent would be used. Council had received a proposed policy and has asked staff to revisit portions of it as well as to review how the terms “affordable housing” and “workforce housing” should be used in conjunction with defining the City’s housing program. This review by staff, and subsequent review and comment by AHAC, should occur in January with a revised policy coming forth to Council in late January or February.

**FISCAL IMPACT:** The allocation of \$780,000 from one-time recordation revenues for the MIHP program to meet a peak demand in the MIHP program, uses a one-time revenue to fund what may be a unique peak demand in the MIHP program. The allocation of the \$780,000 will leave \$119,815 in one-time recordation revenues set aside for affordable housing, but not yet allocated.

**STAFF:**

Mildrilyn Stephens Davis, Director, Office of Housing

Shane Cochran, Division Chief, Program Implementation Division, Office of Housing