

*City of Alexandria, Virginia*

MEMORANDUM

**DATE:** MARCH 22, 2007

**TO:** THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

**FROM:** JAMES K. HARTMANN, CITY MANAGER *J*

**SUBJECT:** CONSIDERATION OF SUPPORT LETTER TO THE VIRGINIA HOUSING DEVELOPMENT AUTHORITY FOR THE GLEBE PARK LOW INCOME HOUSING TAX CREDIT APPLICATION (OLD DOMINION PHASE)

**ISSUE:** Letter of support for the recently submitted tax credit application for the redevelopment of the Old Dominion portion of Glebe Park

**RECOMMENDATION:** That City Council authorize the City Manager to execute a letter (Attachment I) to the Virginia Housing Development Authority (VHDA) in support of the application for low income housing tax credits for the Old Dominion phase of the Alexandria Redevelopment and Housing Authority's (ARHA) proposed redevelopment of Glebe Park.

**BACKGROUND:** Glebe Park was constructed in 1945, and purchased by ARHA in 1987 to provide 40 replacement housing units (of the property's 152 units) for the Cameron Valley Homes redevelopment. It is located on two sites: the 800 block of West Glebe Road and the 3900 block of Old Dominion Boulevard (see page 2 of Attachment II). The complex includes nine buildings – one building located on West Glebe containing 56 units, and eight buildings on Old Dominion (six on the east side and two non-contiguous buildings on the west side) containing 96 units. All buildings are 2½-story, brick masonry structures. Forty of the Glebe Park units are public housing, and the remaining 112 units are market affordable units at very low rents.

Although both portions of the development were substantially renovated in 1987 and 1988, the development is currently in need of significant upgrades including repair and replacement of building systems, roofs, windows, exterior walls, and interior finishes. There have been multiple attempts to remediate a persistent mold problem throughout the complex; however, more than 85 units are currently vacant and uninhabitable.

The property's dilapidated condition and escalating vacancy rate have required that ARHA provide infusions of approximately \$500,000 annually in recent years toward Glebe Park's \$6 million mortgage and its operating expenses since the property's revenues are insufficient to meet these obligations. This situation has placed a burden on ARHA's cash reserves. While ARHA is current on the property's mortgage payments, last year HUD required that ARHA

submit a corrective plan to bring all of the vacant units back online or otherwise face potential foreclosure. It is not a certainty that HUD will foreclose as long as debt service payments continue to be paid, although HUD will keep the threat of foreclosure as leverage. ARHA submitted its corrective plan (which included the broad redevelopment plan described below) to HUD several months ago and in the absence of further action by HUD, ARHA believes that HUD concurs with ARHA's proposal to remediate Glebe through staged redevelopment.

Following a competitive Request for Proposals (RFP) process last spring, ARHA selected EYA, its development partner on the very successful Chatham Square project, to provide development services to redevelop the Glebe Park site. Pursuant to its RFP, ARHA offered EYA the opportunity to redevelop other ARHA properties to include a mix of market rate sales and public housing rental units, with some portion of the proceeds from the market units to be used to defray the costs of redeveloping Glebe Park (and, potentially, for redeveloping other ARHA public housing stock). In the fall of 2006, ARHA and EYA unveiled a strategy to redevelop ARHA's Glebe Park, James Bland, James Bland Addition<sup>1</sup> and Andrew Adkins<sup>2</sup> properties into mixed income developments over a ten-year period. In addition to tax credits, proceeds generated from EYA's purchase of land underlying the market rate sales units and from sharing a portion of EYA's profit on sales of market rate units would be paid to ARHA to fund the cost to redevelop all of the public housing units currently located on these sites. Due to the exigent conditions at Glebe Park, it was proposed that this site be redeveloped first.

#### **DISCUSSION:**

The proposed redevelopment of the existing Glebe Park complex has been split into two phases, or projects. The first project, Old Dominion, will develop 28 new and 12 rehabilitated affordable housing units on Old Dominion Boulevard. The second project, West Glebe, includes the development of 48 new units of affordable housing on the West Glebe Road site and the rehabilitation of 12 existing units on Old Dominion. On March 9, 2007 ARHA submitted an application for low income housing tax credits to VHDA for the Old Dominion project.

Selection for the low income housing tax credits (LIHTC), which would provide \$3.7 million in upfront funding, is very competitive and is based upon the ranking that projects are able to achieve through objective scoring of a variety of criteria. LIHTC, although administered by VHDA, is the federal government's prime program for funding the development of low-income housing. The application process allows for a "CEO Support Letter" which, while not required for a project to be selected for credits, can add up to an additional 50 points to a project's score. This is a significant number of points, and potentially could make the difference between whether the project is funded or not funded. If provided, the letter must be submitted no later than March 30.

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<sup>1</sup> In the remainder of this memorandum, James Bland and James Bland Addition are collectively referred to as "James Bland." This property consists of five blocks, or portions thereof, bounded by North Patrick Street, First Street, North Columbus Street, Wythe Street, North Alfred Street, and Madison Street.

<sup>2</sup> For a number of reasons, the redevelopment of ARHA's Andrew Adkins site has been removed, at least temporarily, from EYA and ARHA's redevelopment plans.

The letter provided as Attachment I follows VHDA's mandatory template for the local support letter. The letter is general in nature and does not commit Council to any future legislative action. However, Council should be aware that, should the project receive tax credits, several additional actions will be necessary for the project to proceed. Specifically,

- Approval of land use applications in May 2007;
- Approval of a bridge loan of up to \$3.9 million in May 2007; and
- Possible consideration of additional financial support.

In the event the necessary land use or loan approvals are not provided by Council in May, the tax credit application will be withdrawn. The projects, and the future actions for Council consideration, are described further below.

**Proposed Redevelopment.** The overall redevelopment plan for Glebe Park is summarized in Attachment II. As previously noted, Glebe Park currently consists of 40 public housing units and 112 affordable market units. The 40 public housing units are covered by Resolution 830, which calls for any public housing unit that is lost to be replaced on a one-for-one basis with publicly-assisted housing. The proposed redevelopment eliminates the 112 market rental units, and provides a total of 100 assisted rental units (76 new and 24 rehabilitated) and six market rate for-sale townhouses. The additional assisted units are intended to be a relocation resource for households that will move from James Bland in the next phases of the overall redevelopment plan, and are consistent with the James Bland unit sizes. The following table summarizes the changes in the number of units and bedrooms. As shown in the table, 100 of the 106 proposed units (94%) will be affordable rental units.

	Existing Units	Proposed Units	Existing Bedrooms	Proposed Bedrooms
<b>West Glebe - New Construction</b>	56 ARHA (1 1BR, 52 2BR, 3 3BR)	48 ARHA (10 1BR, 4 2BR, 20 3BR, 14 4BR)	114 ARHA	134 ARHA
<b>Old Dominion – New Construction</b>	72 ARHA (72 1BR)	28 ARHA (25 2BR, 3 3BR) 6 Market Rate (6 1BR)	72 ARHA	59 ARHA 6 Market Rate
<b>Old Dominion - Renovation<sup>3</sup></b>	24 ARHA (24 1BR)	24 ARHA (24 1BR)	24 ARHA	24 ARHA
<b>TOTAL</b>	152 ARHA (97 1BR, 52 2BR, 3 3BR)	100 ARHA (34 1BR, 29 2BR, 23 3BR, 14 4BR) 6 Market Rate (6 1BR)	210 ARHA	217 ARHA 6 Market Rate

The Old Dominion tax credit application calls for the rents to be affordable to households with incomes at or below 50% of Area Median Income (AMI), with some units at 40% AMI. Tax credit rents are set at levels affordable to households at these income ceilings, but not all

<sup>3</sup> Two 12-unit buildings on Old Dominion are proposed for renovation. One of these buildings is part of the first (Old Dominion) phase of development, and the other is part of the second (West Glebe) phase. This table groups them by location rather than phase.

residents will be at the maximum income levels. ARHA plans to provide Housing Choice Vouchers (HCV, formerly known as Section 8) to subsidize the difference between 30% of household income and the allowable tax credit rents.

Both phases of the proposed Glebe Park redevelopment will require certain land use and zoning approvals, including a DSUP for a density bonus due to the affordable housing nature of the proposal, an SUP for parking reduction, modifications of the open space requirements and modifications to the front, rear and side yard setbacks. Development applications for both phases of Glebe Park will be considered by the Planning Commission and City Council in May. If Council does not provide the needed approvals in May, then the tax credit application will be withdrawn. In the event Old Dominion project is successful in receiving tax credits, the application may still be withdrawn, without penalty, until early November 2007, should the project not receive the required bridge loan, or prove infeasible for some other reason.

If the necessary approvals are provided for the Old Dominion project, the redevelopment is expected to begin in November 2007. It is anticipated that the second (West Glebe) phase of redevelopment will be undertaken in 2008, with a tax credit application for that project being submitted in March 2008. As at Old Dominion, the West Glebe residents will be provided with HCVs in order to meet the LIHTC rent standard.

This plan does not provide housing for the tenants of the current Glebe Park market rate units, and ARHA's plans for these residents will be explained in a separate Housing Conversion Assistance Plan to be provided to City staff once it has been adopted by the ARHA Board. The Landlord Tenant Board will hold a public hearing on the plan at either its April or May meetings, depending on when the plan is received.

**Bridge Loan.** Provided that EYA is able to gain the land and zoning approvals necessary to accomplish the proposed redevelopment, it estimates that there will be sufficient funds generated by future land sales to EYA by ARHA and ARHA's portion of shared profits with EYA on the market rate units to fully finance the redevelopment of all of ARHA's aging housing stock at the Glebe Park and James Bland sites. Because the Bland sites cover more than five City blocks and require significant outreach to the affected ARHA residents and surrounding neighborhoods, it is estimated that leveraging community support and gaining the necessary land use approvals to redevelop the various sites for mixed income (market and public housing) cannot be accomplished prior to Spring or Summer of 2008.

Since a portion of the funding to finance ARHA's Glebe Park projects is planned to come from the sale of townhome lots to EYA at the Bland and Bland Addition properties, these proceeds will not be realized unless and until the appropriate entitlements are approved sometime in 2008. However, because Old Dominion must be completed and leased by December 2009, ARHA and EYA consider it imperative to begin construction before the end of 2007 to ensure the project can be delivered on time. Therefore, EYA and ARHA are requesting that the City provide a loan to bridge the anticipated revenue gap resulting during the period pending land use approvals for Bland and Bland Addition and subsequent land sales by ARHA to EYA.

The bridge loan is requested in two phases. ARHA and EYA are currently seeking a City loan of \$3.9 million, to be drawn down in October 2007. This loan is projected by City staff to be repaid in October 2008 provided EYA is assured of being able to proceed with the James Bland project<sup>4</sup>, as EYA is willing to fund the loan at that time using the equity from the Bland property that they are negotiating to buy from ARHA. EYA and ARHA are planning to redevelop Bland into a mixed income project with both for sale and ARHA units constructed on the Bland site. It is EYA and ARHA's goal to have a 1:1 replacement of all current ARHA units which are included in the Resolution 830 unit count. Should Bland approvals not be provided by the City, the bridge loan amount accessed by ARHA through that time would be converted to a permanent loan which EYA is projecting can be paid from Old Dominion's anticipated cash flow over a very long time period if the project goes forward. Under this scenario, loan repayments to the City, if one assumes a no interest loan, are estimated to range from \$11,000 to \$36,000 per year for the first 35 years of the loan, with substantial payments (over \$100,000 per year) not beginning until year 36.

A second bridge loan of \$3.4 million would be needed in October 2008 to fund the gap for the West Glebe project, and could be provided with the funds from the repayment of the first loan. This loan is proposed to be repaid in October 2009 with proceeds from the sale of the James Bland market unit sites.

In the event staff recommends approval of these loans, funding would most likely be provided from general obligation bonds and dedicated real estate tax revenues for affordable housing. However, since all of the \$22.1 million bond authorization has been allocated, additional bonds would need to be authorized in the event the Gunston Hall project, which was approved for bond financing, but cannot proceed due to pending litigation, goes forward.

**Additional Financial Support.** At the request of the City ARHA Redevelopment Work Group and in response to concerns of the surrounding community, six market rate units were incorporated into the tax credit application shortly before its submission, with the result of shifting six affordable units to the James Bland site. The financial effect of this decision on ARHA is not yet known, but includes a lower tax credit amount for the Old Dominion project (due to the reduction in eligible units), and a loss in land value paid to ARHA for market rate units, as the value of land at the Old Dominion site is less than that at the Bland site. ARHA may request that the City compensate them for these losses, once they are quantified.

**FISCAL IMPACT:** There is no financial impact to the City of submitting a support letter to VHDA, but if a tax credit allocation is approved by VHDA, a future loan of \$3.9 million will be needed to be funded through general obligation bonds and dedicated tax revenues for affordable housing, with debt service on the bonds to be paid from future dedicated property tax revenues.

**ATTACHMENTS:**

Attachment I. VHDA Local CEO Support Letter

Attachment II. ARHA Glebe Park Redevelopment Concept

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<sup>4</sup> In addition to tax credit and City land use approvals for the James Bland project, this entails a HUD Disposition Application for the Bland projects and the execution of a Master Developer Agreement between EYA and ARHA.

**STAFF:**

Mark Jinks, Deputy City Manager

Mildrilyn Davis, Director, Office of Housing

Helen McIlvaine, Deputy Director, Office of Housing

Jeff Farner, Division Chief, Planning and Zoning

Patricia Haefeli, Principal Development Planner



OFFICE OF THE CITY MANAGER

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JAMES K. HARTMANN  
City Manager

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March 28, 2007

**TO:** Virginia Housing Development Authority  
601 South Belvidere Street  
Richmond, Virginia 23220-6500  
Attention: Jim Chandler

**RE:** LOCAL SUPPORT

VHDA Tracking Number:	<u>2007-Z-86</u>
Name of Development:	<u>Old Dominion Apartments</u>
Name of	
Owner/Applicant:	<u>Old Dominion Housing Limited Partnership</u>

The construction or rehabilitation of OLD DOMINION APARTMENTS and the allocation of federal housing tax credits available under IRC Section 42 for that development will help meet the housing needs and priorities of the CITY OF ALEXANDRIA. Accordingly, the CITY OF ALEXANDRIA supports the allocation of federal housing tax credits requested by Old Dominion Limited Partnership for that development.

Sincerely,

James K. Hartmann  
City Manager

THE NEIGHBORHOODS OF



# ARHA Glebe Park Redevelopment Concept



REVISED March 13, 2007

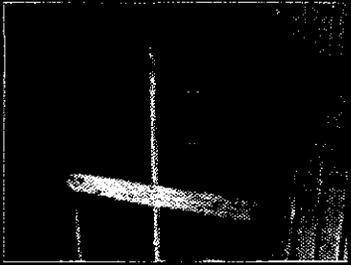
# *Location of Glebe Park Properties*

GLEBE PARK



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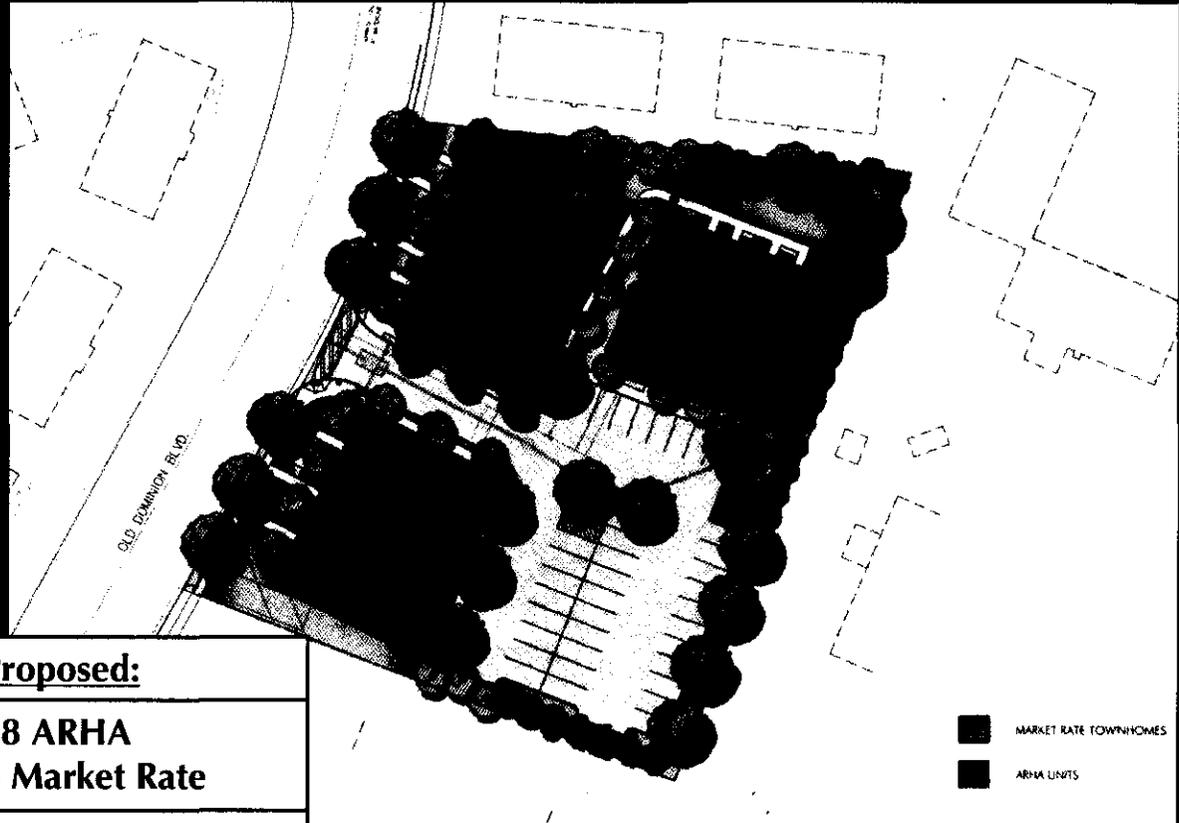
## *Existing Conditions*



- Approximately half the units are uninhabitable
- Significant mold issues
- Declining HUD operating subsidies and rental income
- Substantial Annual losses
- \$6 million outstanding mortgage



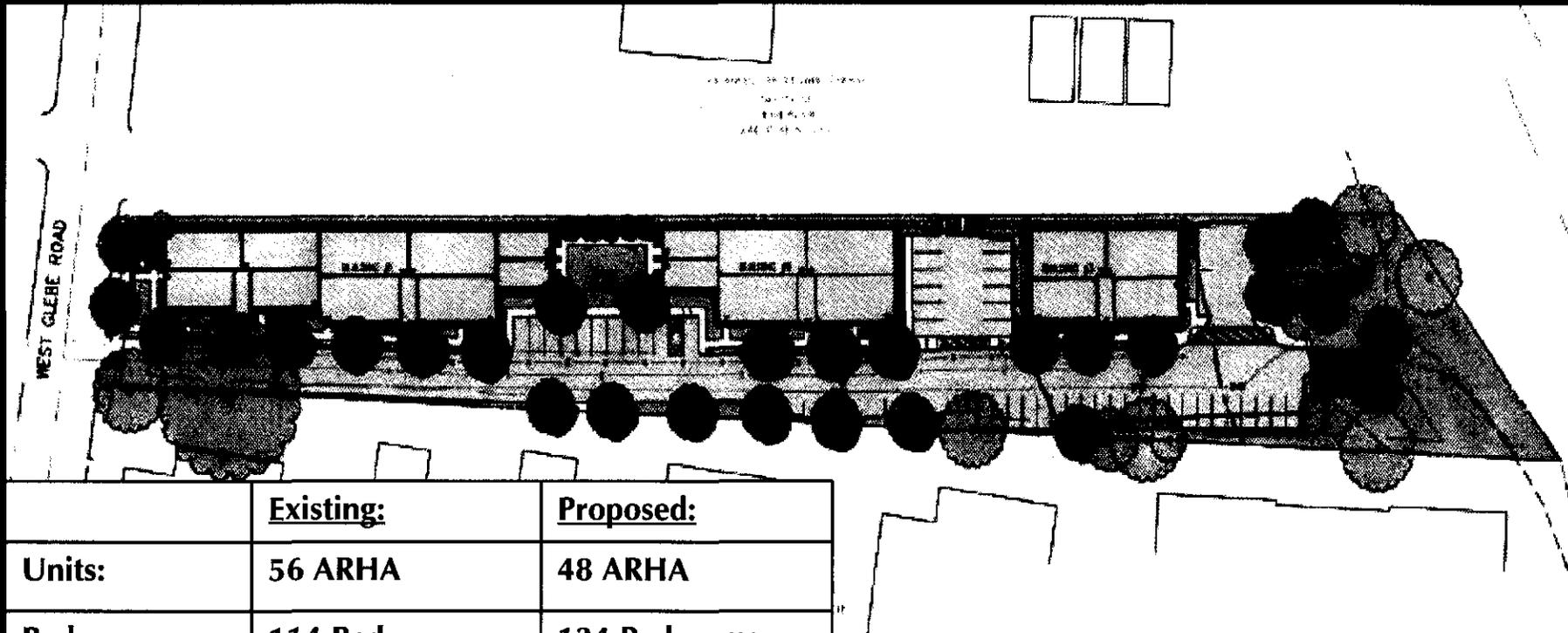
# Old Dominion Boulevard - New Construction



	<u>Existing:</u>	<u>Proposed:</u>
<b>Units:</b>	72 ARHA	28 ARHA 6 Market Rate
<b>Bedrooms Total:</b>	72 Bedrooms	65 Bedrooms
<b>Breakdown of Bedrooms:</b>	72 1-Bedroom	6 1-Bedroom (MR) 25 2-Bedroom 3 3-Bedroom
<b>Parking Spaces:</b>	0 On-Site	39 On-Site
<b>Open Space:</b>	519 S.F./Unit	626 S.F./Unit



# West Glebe Road - New Construction



	<u>Existing:</u>	<u>Proposed:</u>
<b>Units:</b>	56 ARHA	48 ARHA
<b>Bedrooms Total:</b>	114 Bedrooms	134 Bedrooms
<b>Breakdown of Bedrooms:</b>	1 1-Bedroom 52 2-Bedroom 3-3-Bedroom	10 1-Bedroom 4 2-Bedroom 20 3-Bedroom 14 4-Bedroom
<b>Parking Spaces:</b>	57 On-Site	54 On-Site
<b>Open Space:</b>	395 S.F./Unit	514 S.F./Unit

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# *Revised Unit Mix for Glebe Park*

	After Redevelopment		
	Today	After Redevelopment	
	Affordable Rental Housing	Affordable Rental Housing	New Market Rate
West Glebe – new construction	56	48	0
Old Dominion – new construction	72	28	6
Old Dominion - renovation	24	24	0
<b>Glebe Park Total:</b>	<b>152</b>	<b>100</b>	<b>6</b>

# Summary of Glebe Park Proposal

	Existing		Proposed		Change	
	Units	Bedrooms	Units	Bedrooms	Units	Bedrooms
<b>West Glebe – New Construction</b>	56 ARHA 0 MR	114 ARHA 0 MR	48 ARHA 0 MR	134 ARHA 0 MR	-8 ARHA 0 MR	20 ARHA 0 MR
<b>Old Dominion– New Construction</b>	72 ARHA 0 MR	72 ARHA 0 MR	28 ARHA 6 MR	59 ARHA 6 MR	-44 ARHA 6 MR	-13 ARHA 6 MR
<b>Old Dominion - Renovation</b>	24 ARHA 0 MR	24 ARHA 0 MR	24 ARHA 0 MR	24 ARHA 0 MR	0 ARHA 0 MR	0 ARHA 0 MR
<b>TOTAL:</b>	152 ARHA 0 MR	210 ARHA 0 MR	100 ARHA 6 MR	217 ARHA 6 MR	-52 ARHA 6 MR	7 ARHA 6 MR

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MR = Market Rate

ARHA = Alexandria Redevelopment and Housing Authority

# *Benefits of Redevelopment*

- Increases off street parking
- Provides new or renovated housing on all Glebe Park properties
- Reduces ARHA-owned units in Arlandria and adds 6 new market rate units
- Invests a substantial amount of funds to upgrade ARHA communities