

City of Alexandria, Virginia**MEMORANDUM**

DATE: MAY 6, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

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

SUBJECT: CONSIDERATION OF A CITY BRIDGE LOAN TO ENABLE THE REDEVELOPMENT OF GLEBE PARK TO PROCEED

ISSUE: Bridge loan of City housing funds to complete the funding plan for the Glebe Park project.

RECOMMENDATION: To complete the \$23.1 million in funding needed to finance the overall Glebe Park redevelopment, that Council approve a bridge loan to the Alexandria Redevelopment and Housing Authority (ARHA), in the amount of \$1,440,000 from currently available affordable housing funds, to be repaid as described in this memorandum.

BACKGROUND: ARHA and its development partner, EYA, received approval of Development Special Use Permits for the West Glebe and Old Dominion (collectively, "Glebe Park") projects in October 2007, and were subsequently awarded federal low-income housing tax credits (worth \$9.8 million) for both portions of this project in 2008. The redeveloped Glebe Park will include 84 ARHA-owned public housing units (60 new and 24 rehabilitated) costing \$15.7 million, replacing 40 public housing units in the existing Glebe Park property and 44 units from the James Bland property, which is also planned for redevelopment. The Glebe Park project also entails the completion of 10 workforce housing and 8 new market rate units for sale to the general public costing \$7.4 million.

Glebe Park is being redeveloped in order to address serious physical conditions with the existing, old, outdated multi-family structures. The redevelopment of James Bland is interrelated with the Glebe Park redevelopment, as proceeds from the sale of market rate lots at James Bland will provide part of the financing for the redevelopment of Glebe Park and the 44 public housing units have been approved for transfer from James Bland to Glebe Park.

The planned sources of financing for the Glebe Park property are the tax credit equity, ARHA and EYA bridge loans (pending the receipt of proceeds from the James Bland market rate lots), and land sales proceeds from the market and workforce residential units on Old Dominion. The City provided a \$5.6 million loan (\$0.6 million has been repaid with a remaining balance of \$5 million) to pay off the previous mortgage on the Glebe Park property in order to facilitate the

redevelopment. Repayment of this initial Glebe Park loan is likely to be long-term, unless in the medium-term net proceeds from the James Bland redevelopment are sufficient to repay this loan.

In March, EYA informed the City and ARHA that it was unable to obtain a previously planned \$2.3 million in private sector equity loan investment necessary to purchase the market and workforce lots at Glebe Park, because the commercial real estate investment and lending market has nearly totally collapsed not only nationally, but in the Washington, D.C. region as well. That, coupled with the need to sell 18 housing new units in the toughest residential sale market and related difficult bank lending situation in decades, made the raising of this previously planned \$2.3 million of equity nearly impossible. After discussions with the City and ARHA started, EYA was able to identify additional construction lending which then reduced the funding gap by \$0.8 million down to \$1.44 million. Because the absence of these funds would leave a shortfall in the required funding for the development of the Glebe Park units, the City’s affordable housing lending assistance was sought to enable the project to move forward. With 94% of the funds raised for this project, the City’s loan becomes the final funding gap filler, which allows this project to proceed.

The proposed sources for the \$15.7 million budget for the 84-unit ARHA redevelopment¹ are:

Low Income Housing Tax Credit (LIHTC) Equity @ \$0.82	\$ 9,773,632
EYA Bridge Loan for Glebe Park	2,259,883
ARHA Bridge Loan for Glebe Park ²	2,259,883
City Bridge Loan to ARHA (Proposed)	<u>1,440,000</u>
Total	\$15,733,398

In the original proposed budget for the redevelopment of Glebe Park, there was planned to be land sale proceeds totaling \$1.4 million from the eventual sale of ARHA land for the 10 workforce units and the 8 market rate units. Because land sale proceeds are not typically available from a residential construction project until after a construction project is complete and a residence sold, most residential construction projects use private equity, or a bank construction loan, to cover needed cash flow until such time as the units are sold. Given current commercial lending market conditions are very difficult and nearly frozen, an alternate source for the \$1.4 million needed to be identified if the Glebe Park project of 84 units of public housing was going to be able to proceed.

The structure of the proposed loan would be for the City to provide the \$1.44 million as a loan to ARHA for use in financing a portion of the Glebe Park project. ARHA would repay the City from \$1.22 million in planned land sale proceeds from the sale of the 10 workforce and 8 market rate units on currently ARHA-owned Glebe Park property and \$0.22 million from James Bland land sales. The originally estimated land sale proceeds have declined from \$1.4 million to \$1.2 million due to the general broad decline in the residential sales market. If the sales prices of the 18 units in Glebe Park do not meet current projections, then less of the City’s \$1.4 million loan would be paid from Glebe Park sales, and more would be repaid from James Bland sales. For repayments of the City’s bridge loan coming from James Bland sales, which is being done in five

¹ Excludes the \$7.4 million cost of developing the 18 for-sale units.

² ARHA would be borrowing these funds from Burke and Herbert Bank

phases, 25% would come from first phase sales, 25% from second phase sales, and 50% from third phase sales. The third phase sales are projected to be completed by the end of 2013. In the unlikely event based on current projections that the available funds from the first three phases of James Bland are insufficient to repay the balance of the City's loan, additional payment to the City would be made from the fourth phase, including credits to the City toward its purchase of lots for open space, and the fifth phase, until the loan is fully repaid. It should be noted that, in ARHA's Chatham Square development, proceeds to ARHA from its share of market rate sales proceeds in excess of an amount agreed to by ARHA and EYA helped enable ARHA to repay the City's \$3.5 million loan to that development in full. A similar arrangement is proposed for this project, and such additional proceeds (if any) should become available to satisfy the City's loan, if needed, at the end of the fifth phase.

The Affordable Housing Advisory Committee considered this loan at its meeting of April 2. Although a quorum was not present, the majority of the seven members in attendance voted in favor of the loan.

There are various other issues that ARHA and EYA are continuing to work through before settlement of this complex set of transactions can occur on the various loans associated with this project. Settlement of the recommended City loan will occur only upon a determination by the City Attorney that the relevant issues have been satisfactorily resolved. As of this writing, considerable progress has been made toward this end.

The outstanding balance of the prior City loan is \$5 million, with ARHA having used escrow reserves released by HUD to repay \$600,000 of the City's 2008 \$5.6 million loan. The remaining balance will be repaid from James Bland land sale proceeds, after repayment of the ARHA and EYA bridge loans, and from residual receipts of the redeveloped Glebe Park property. Although the City will release its current security interest in the Glebe Park property to satisfy the requirements of the equity investors, the City's investment in the ARHA-owned portion of the property (excluding the for sale units) will remain secured through an assignment of ARHA's security interest. The land sale portion of the payment is currently scheduled to occur at the end of the fifth and final phase of the James Bland redevelopment.

Staff wishes to advise Council of the following forthcoming funding recommendations related to Glebe Park:

Glebe Park Workforce RPO Unit. As part of its approval of the Glebe Park development applications, Council added a condition that one of the workforce housing units be used either for a resident manager or for police use (a resident police officer, or RPO, was specifically discussed). At the time, ARHA representatives stated, and Council accepted, that this would have to be done at no cost to ARHA. In other words, ARHA would still need to receive its land sales proceeds for the unit, which requires that EYA be able to sell it at the established price for such units. Unless a suitable source of non-City funds can be identified, staff will be recommending the allocation of approximately \$350,000 housing monies for the purchase, by the Alexandria Housing Development Corporation, of a two-bedroom workforce unit for occupancy by an RPO. A final funding recommendation will be forthcoming once staff has selected the specific unit and addressed the issue of how the HOA fees and unit maintenance costs will be

paid. The funds staff have identified for this purpose are dedicated affordable housing real estate tax revenues that are now being diverted to become part of the \$1.44 million bridge loan. Therefore, some of the initial repayment of the City's bridge loan would be reinvested to purchase the RPO unit.

Glebe Park Workforce Housing Purchase Assistance. City Housing staff and EYA have reached agreement on resale restrictions to keep the workforce housing units affordable in perpetuity to households with incomes not exceeding 100% of median income. However, because the workforce units do not have discounted prices, Housing staff and EYA are in agreement that, as an inducement to buyers to accept restrictions on their resale of these units, it will be advisable for the City to offer purchase assistance. Following a planned discussion of this matter with the Affordable Housing Advisory Committee at its next meeting, staff plans to recommend that a portion of the FY 2010 Moderate Income Homeownership Program (MIHP) budget be used to provide purchase assistance for the nine workforce units (ten workforce units less the RPO unit) that will be available for purchase at one of the redeveloped Glebe Park sites.

FISCAL IMPACT: In an effort to prevent a \$1.44 million shortfall from derailing a \$23.1 million project with its other funding sources in place, a loan to ARHA of \$1.44 million is recommended, at 2% annual interest, from the following sources:

\$1,032,403	Affordable housing bond proceeds and annual interest
<u>407,597</u>	Affordable housing dedicated tax revenues from FY 2009
\$1,440,000	

STAFF:

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