DOCKET NO. 1

32
6-14-11

City of Alexandria, Virginia

MEMORANDUM

DATE: JUNE 7, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: BRUCE JOHNSON, ACTING CITY MANAGER

SUBJECT: CONSIDERATION OF AUTHORIZATION OF TRANSFER OF OWNERSHIP OF ARBELO, LACY COURT, AND LONGVIEW TERRACE APARTMENTS FROM RPJ HOUSING TO THE ALEXANDRIA HOUSING DEVELOPMENT CORPORATION

ISSUE: Transfer of ownership of three properties to the Alexandria Housing Development Corporation.

RECOMMENDATION: That City Council:

1. Authorize the transfer of ownership of the City-assisted Arbelo, Lacy Court, and Longview Terrace Apartments from RPJ Housing (RPJ) to the Alexandria Housing Development Corporation (AHDC) and approve the assumption by AHDC of RPJ's outstanding loans from the City, with the understanding that a plan for permanent financing will be developed and presented for Council consideration by the end of the calendar year;

2. Authorize the reservation of up to $574,000 of affordable housing funds for disbursement as needed to enable AHDC to cover its due diligence and transactional costs, along with a reserve to cover any unforeseen capital or operating needs for up to 12 months, until permanent financing is secured; and

3. Authorize the City Manager to provide a comfort letter, as described herein, to AHDC's first trust lender, BB&T, and to execute all other necessary documents.

BACKGROUND: In 2006 and 2007 in order to preserve affordable housing, a regional charitable 501(c)(3) organization, RPJ Housing, acquired Arbelo, Lacy Court, and Longview Terrace Apartments in Alexandria to preserve the 119 units in these three apartment complexes as affordable housing. In order for RPJ to pay market prices for these apartments, but keep them affordable, the City provided $14 million in second trust loans which in addition to $9.5 million in private sector first trust bridge loans that enabled RPJ to acquire and operate these units. In return for its substantial investment in the properties, the City placed restrictive covenants on the properties to secure RPJ's repayment, as well as to establish a long term (40-year) commitment to maintain and operate the three properties as affordable housing.

RPJ's long-term plan was to secure permanent financing through the federal Low Income Housing Tax Credit (LIHTC) program to replace the private sector first trust bridge loan and cover the costs of rehabilitating the properties. To date, no permanent financing has been secured for any of the properties, although RPJ made three unsuccessful attempts to obtain LIHTC tax credits for Arbelo. The current bridge loan, which replaced the original bridge loans in 2008, is due in a balloon principal payment of $9.5 million on July 5. RPJ does not have a replacement financing source to be able to refinance the $9.5 million on July 5, and is not current on its obligations to BB&T. As a result, an imminent default on the loan is likely, therefore putting the 119 units of affordable housing at risk.

Property Transfer: RPJ has also suffered a number of other financial setbacks due to its well-publicized March 2010 debarment by the Fairfax County government for actions alleged by Fairfax County related to RPJ-related zoning documents. In addition to losing operating financial support from Fairfax, RPJ incurred major capital expenditures from its cash reserves in order to revert the four-unit property that gave rise to the Fairfax debarment back to a single family property, and to correct code violations flagged by the County during inspections of all RPJ Fairfax properties. A $1 million unsecured line of credit that BB&T provided to RPJ was capped at the amount drawn by RPJ (around $500,000) and not renewed by BB&T. RPJ also has experienced negative cash flow.

RPJ has worked diligently to reduce costs and streamline its operations, and has worked closely with staff from the City, Arlington County, and the Virginia Housing Development Authority (VHDA) to seek potential solutions to its problems. Unfortunately, while it has achieved some successes, RPJ has not been able to secure an extension on its BB&T bridge loan, or to refinance it with a new loan. One lender specifically cited the Fairfax debarment as an obstacle to its willingness to refinance RPJ's Alexandria properties. Fairfax has not lifted the debarment of RPJ. Given RPJ's lack of success in securing new financing or an extension of the current financing, staff concluded that a transfer of ownership is necessary in order to protect 119 units of affordable housing.

AHDC is a 501(c)(3) non-profit affordable housing development corporation incorporated in 2004 as the result of a City initiative. At staff's request, AHDC and RPJ have agreed in principle to a transfer of the properties, AHDC has conducted property inspections and started its due diligence, and AHDC and RPJ are currently negotiating a purchase agreement. AHDC has secured a proposal from BB&T for an assumption and modification of the existing bridge loan for a period of 24 months at a 4.5% interest rate which is less than the current BB&T interest rate on the property of 6.63%. In order to keep its secondary financing in place, the City would need to agree to allow AHDC to assume RPJ's outstanding loans from the City.

Given the looming balloon payment deadline on July 5, the current goal is for AHDC to acquire the properties as quickly as possible. AHDC would utilize its outside management company, Equity Management, Inc. (which manages The Station at Potomac Yard) to manage the properties. Equity is a VHDA-certified management entity with extensive experience managing properties with challenges similar to those in RPJ's portfolio. Attachment 1 provides AHDC's management plan for the properties.

Reserve: AHDC will incur costs in connection with the acquisition of the property. The BB&T bridge loan can remain in place for up to 24 months while AHDC determines the best course of action for securing permanent financing. However, given the age and condition of the properties, the longer they are held prior to rehabilitation, the greater the risk of a major capital expense. There is also a possibility that operating support may be needed, although AHDC projects a positive cash flow.

Staff recommends a reserve of $574,000 of affordable housing monies to accomplish the transfer to AHDC and serve as a reserve for capital and/or operating needs that may occur prior to permanent financing, assuming the properties are held for a 12-month period. While it is currently recommended that all such funding will become additional loans, this may need to be revisited in the future in the context of the permanent financing strategy. The reserve was sized based on the following estimates:

<u>Reserve – Estimate of Components</u>

Loan Assumption Fee	$10,000
Transactional Costs	
•Insurance/Legal	37,000
•Transfer Taxes	67,000
Due Diligence – Acquisition	11,000
Development of Permanent Financing Plan	
•Architect/Engineers	110,000
•Legal/Other	139,000
Operating/Capital Reserve	200,000
Total Reserve	$574,000

Payments for the first three items (to the extent they cannot be accommodated within AHDC's budget) will be disbursed by the City to AHDC based on actual invoices or other documentation of actual needs. The operating and capital reserves will be disbursed on an as-needed basis. AHDC will provide quarterly reports of expenses and requests for any anticipated needs. Unforeseen expenses may be invoiced on an as-needed basis. AHDC projects a positive cash flow from operations, assuming no major unexpected capital expenses occur. Staff is hopeful that the majority of these reserve funds will not be needed, but wishes to reserve a sufficient allocation now in an effort to avoid the need for future allocations. AHDC agrees with the $574,000 sizing of this reserve.

AHDC will consider various approaches to permanent financing (including rehabilitation, 4% LIHTC tax credits, or 9% LIHTC tax credits) of the project, and staff anticipates that a recommendation will be made to Council in the fall concerning the proposed course of action. Different courses of action may or may not entail different levels of additional City gap financing investment.

Comfort Letter: As a condition of its loan to AHDC, BB&T has requested that AHDC guarantee the loan, and that the City provide a comfort letter regarding its commitment to the project. Staff recommends that Council authorize the City Manager to execute a comfort letter.

While staff believes that the acquisition of the properties will ultimately prove to be a benefit to AHDC, staff also recognizes that AHDC would not likely be entering into this transaction under the terms necessary were it not for the City's request. Therefore, staff considers it appropriate that the City similarly protect AHDC's interests by expressing its commitment in a comfort letter to take all reasonable actions to support AHDC's successful operation of the properties during the interim period of up to 24 months before permanent financing is secured. A comfort letter is not a guarantee, but represents a strong statement of policy support, and a willingness to consider future financial support in the unlikely event unexpected issues arise.

The Affordable Housing Advisory Committee will consider these recommendations at its meeting on June 13, and staff will report the results to Council at the June 14 Council meeting.

FISCAL IMPACT: The current recommendation calls for the reserve of up to $574,000 from affordable housing funds currently available in the Office of Housing budget. A permanent financing strategy will be presented for Council consideration by the end of the calendar year once AHDC and City Housing staff analyze the various alternatives

STAFF:
Mark Jinks, Deputy City Manager
Mildrilyn Davis, Director, Office of Housing
Helen McIlvaine, Deputy Director, Office of Housing

ATTACHMENTS:
Attachment 1: AHDC Management Plan for Arbelo, Lacy Court, and Longview Terrace Apartments
- 1a. AHDC Board Members
- 1b. Equity Management II, LLC

Working to make affordable housing a reality in the City of Alexandria.

ALEXANDRIA HOUSING DEVELOPMENT CORPORATION

AHDC MANAGEMENT PLAN FOR ARBELO, LACY COURT AND LONGVIEW TERRACE APARTMENTS

Thank you for the opportunity to share the first year management plan that the Alexandria Housing Development Corporation (AHDC) has developed for Arbelo, Lacy Court and Longview Terrace Apartments, in collaboration with our third party property management firm, Equity Management, Inc. (Equity). Equity manages The Station at Potomac Yard for AHDC, as well as the building's condominium association (which includes the representatives from the Fire Department and General Services as well as AHDC) and is a VHDA-certified management entity with extensive experience in successfully operating rental properties with challenges similar to those in RPJ's Alexandria portfolio.

This management plan is based on our inspection of the properties, including walk-throughs of nearly all 119 units, our review of the tenant files and financial records made available by RPJ, and our discussions with RPJ and with City staff regarding community concerns about the conditions of the properties and other issues. It proposes a number of short, medium and long term measures to address critical health/safety concerns, improve living conditions for residents, prioritize and complete deferred maintenance, maximize operational efficiencies and implement sustainable management practices, as well as build positive relationships with adjacent neighborhoods, through AHDC outreach to civic associations.

In order to be ready to assume operational responsibilities immediately upon transfer of ownership from RPJ, Equity has already set up the property operations, tenant files and budgets within its standardized accounting system, and has leasing, management and maintenance staff on call to be onsite at the properties with 48 hours' notice. At Equity's recommendation, a property management office will be located onsite at either the Arbelo or Lacy properties, to establish a strong management presence, accessible to residents and neighbors.

Based on the favorable bridge loan terms and interest rate offered by BB&T, our initial assessment is that the properties can positively cash flow to support operations and fund strategic improvements pending development of a plan for more substantial renovation and conversion to permanent financing. An operating and capital reserve of $750,000, which is being requested from the City will provide a needed cushion for AHDC to cover potential unforeseen shortfalls or repairs occasioned by major system or equipment failures. In return, AHDC will submit detailed quarterly progress and financial reports to City Council so they will have the information essential to guide future decision-making and investment, should that be necessary.

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AHDC believes that operating the properties over the next twelve to twenty-four months will provide adequate time to stabilize operations, build positive relationships with residents and the community, evaluate all options to achieve long term financial sustainability, develop and refine the appropriate scope of work and budget for rehabilitation, and thoughtfully develop a long term strategy to secure permanent financing. During this period AHDC will also work closely with Equity to develop a temporary relocation plan to minimize disruption for residents when future renovations occur and allow those who are eligible to return to their units.

Transfer of properties/First thirty days

- Activate Equity electronic accounting and record systems for the properties, including tenant files, rent payments, security deposits, and operating budget.
- Establish bank accounts for properties.
- Provide multiple options for residents to pay rent securely and conveniently.
- Identify space at Lacy or Arbelo from which to conduct management and maintenance operations.
- Deploy Equity personnel to properties. Initial staffing includes a full time manager, a full time assistant and two maintenance technicians. Some third party services, such as cleaning and landscaping, for example, which are currently provided by contract, will be maintained.
- Re-bid some service and utility contracts to achieve savings.
- Schedule meetings with residents (including translation services, as needed) at each property within first week to introduce Equity staff, provide contact information for management/maintenance issues, and establish rent payment procedures. Discuss standards for resident behavior in and around property; protocol for use of common areas and laundry room and address any tenant concerns. Emphasize zero tolerance for criminal activity.
- Evaluate status of rent collections and implement system to pursue all delinquencies, including legal action/eviction for nonpayment.
- Inspect and identify any health/safety/code issues requiring immediate resolution and establish processes to address as soon as possible (e.g., comprehensive elimination of bed bugs, including extermination services and resident education).
- Create master list of deferred maintenance issues and timeline/budget to address by priority.
- Meet with APD liaison officers who serve areas where properties are located to identify and address real and/or perceived crime and nuisance issues involving the properties.
- Address issues related to exterior maintenance and appearance of properties, including landscaping, trash storage/pick up (schedule additional bulk pickups, as needed), and assessment of need for additional bike racks.
- Contract for off duty police security patrols around properties.
- Schedule bi-weekly meetings between Equity and AHDC to discuss and resolve any issues at the properties.
- Work closely with the City to review requirements of long term financing strategies and prepare documents as required.

Second through fifth month

- Contact civic associations to introduce AHDC and Equity Management. Provide a point of contact for community concerns.
- Organize a resident social activity at each property (meet and greet) to develop sense of community.

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- Conduct resident survey (bi-lingual instrument) regarding needs and schedule some resident activities, including participation by City agencies which provide services, resources or referrals for low and moderate income households.
- Continue bed bug elimination activities, including education and training to prevent re-infestation.
- Develop a system to identify, respond and track maintenance issues.
- Assess staffing for adequacy and adjust level of staffing/budget, as required.
- Review initial operating budget and adjust following first quarter financial reports to reflect actual revenues and expenses.
- Assemble project team, including architect, engineer(s), general contractor and others to inspect the properties, conduct due diligence and create a unit-by-unit rehabilitation plan and budget.
- Develop preliminary plan/budget for temporary relocation of tenants during rehabilitation.
- Submit first quarter progress and financial report to the City.
- Present options for rehabilitation and permanent financing to City.
- Begin developing next fiscal year operating budget.

Sixth through twelfth month

- Continue all of the regular management and maintenance operations as described above, as well as resident service activities.
- Review service contracts as they expire and explore opportunities to achieve additional savings through re-bid, when possible.
- Submit quarterly progress and financial reports to City.
- Review budgets and financial statements monthly at AHDC-Equity meetings.
- Continue meetings with residents, including updates regarding planned rehabilitation strategies and timing. Discuss relocation options as appropriate.
- Continue outreach to civic associations.
- Complete new fiscal year budget and present to AHDC for review/approval.
- Certify all tenant incomes as leases expire. Execute new leases.
- Conduct marketing and leasing, as appropriate to maintain full occupancy (and/or create strategic vacancies to facilitate rehabilitation, if necessary).
- Conduct audit after initial twelve month operation period.

Although AHDC anticipates moving ahead of this schedule, it has arranged a two year bridge with BB&T in order to have sufficient time to thoughtfully assess and evaluate all permanent financing options and to value engineer the planned rehabilitation based on our experience managing and operating the properties during the initial first year period.

Attached are the credentials of AHDC's Board and a one page summary regarding Equity Management, Inc.

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ALEXANDRIA HOUSING DEVELOPMENT CORPORATION

Board of Directors

Daniel Abramson is President and Chief Executive Officer of Abramson Properties, a real estate development firm in Alexandria that specializes in developing residential projects on urban sites and in historic neighborhoods. He has extensive affordable housing experience including serving on the Board of Directors of AHC, Inc. from 1982 to 1988, and on the City's Affordable Housing Advisory Committee for several years. He also serves as a Trustee of the Inova Alexandria Hospital Foundation, has served on the Virginia State Council of Higher Education and the University of Virginia Board of Visitors. He was also appointed by Governor Kaine to the Virginia Foreclosure Prevention Task Force. Danny is the AHDC Board **President**, serves on the Development Committee, and is one of the five incorporating board members.

Robert Burns is Director of Field Operations for NeighborWorks America, a national nonprofit organization created by Congress to provide financial support, technical assistance, and training for community-based revitalization efforts. Prior to this, he served as City Manager and Assistant City Manager in Ferguson, Missouri, and worked in local government in Kansas, South Carolina and North Carolina. He also serves on the board of the National Community Land Trust Network. Robert is the AHDC Board **Vice President**; he joined the Board in 2004.

Michael Calson is a contract Realty Specialist with the U.S. General Services Administration (GSA) where he is responsible for leasing activities. He has a thirteen year career in leasing and property acquisition, working with a number of organizations including Trammell Crow Corporate Services, ManorCare, Northern Virginia Electric Cooperative (NOVEC) and Prince William County. He has been an active advocate for affordable housing in Alexandria, serving as Chairman of the City's Affordable Housing Advisory Committee, and volunteering with Rebuilding Together Alexandria. Mike serves on the Development Committee and is one of the five incorporating AHDC Board Members.

John Corrado is a partner at Morrison & Foerster in Washington. D.C., with a practice focused on trial litigation in state and federal courts. He is past president of the Northern Virginia chapter of the Federal Bar Association. Prior to joining Morrison & Foerster, Jack was a litigation partner with Hazel & Thomas, P.C., where he was a member of the firm's Board of Directors. He often lectures on topics in Continuing Legal Education, and, earlier in his career, served as an Adjunct Professor at George Mason University School of Law, as well as a philosophy instructor at Duke University. Jack has been an active advocate for affordable housing in Alexandria and is presently a member of the City's Affordable Housing Advisory Committee. A Board member since 2009, Jack is the AHDC Board **Secretary**.

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Megan Glasheen is a Managing Member of Reno & Cavanaugh, PLLC, a law firm that works on affordable housing and community development issues throughout the country. In addition to her practice, she has written extensively on public/private partnerships, mixed income communities, economic development, fair housing, strategic planning and governance issues. Megan is on the governing committee of the American Bar Association Forum on Affordable Housing and Community Development Law and is a frequent speaker at national housing and community development conferences and trainings. Megan joined the AHDC Board in 2004.

Cathy Pharis is a Head of FHA Platform Lending for Wells Fargo Multifamily Capital, where she oversees the origination and underwriting activities of the FHA Group. Although currently focused primarily on FHA lending, she has experience with Fannie Mae and Freddie Mac programs, as well. In addition to her expertise in GNMA and whole loan placements, Cathy has extensive experience in the financing of properties utilizing low income housing tax credits, tax exempt bonds (with a variety of credit enhancement sources), IRP decouplings and other non-traditional funding mechanisms. Her involvement in multifamily lending extends over 25 years. Cathy is the AHDC Board **Treasurer** and one of the five incorporating Board members.

Joseph Ouellette currently serves as Director of Affordable Transactions and Asset Management with Apartment Investment and Management Company (AIMCO), working out of its Bethesda, MD office. AIMCO is one of the nation's largest owners and operators of market rate and affordable apartment communities in the United States. Joe has nearly 10 years of experience in commercial real estate. His expertise is in acquisitions, dispositions, asset management and debt/equity procurement. Joe has worked extensively with syndicated tax credit, government-subsidized, bond and state agency financed, and conventionally financed products for projects located throughout the United States. Joe became an AHDC Board Member in December, 2010.

Joseph Resende is President and a principal owner of The Franklin Capital Group, a real estate investment and development firm specializing in residential rental properties (both affordable and market rate), which is headquartered in Alexandria. Prior to forming Franklin Capital Group in 1996, he practiced law for twenty years in the Washington, D.C. area, with a practice focused on real estate and corporate transactions, investments and finance. He is also active in several trade associations and civic groups, including positions as Director of the National Multi-Housing Council, member of the National Rehabilitation and Housing Association, member of Urban Land Institute, and an Advisor to the Journal of Tax Credit Investing. Joe is a member of the Development Committee and joined the AHDC Board in 2004.

Lindsey Vick is the Director of North American Management's Housing and Community Revitalization Group. She is responsible for the management of all NAMHC's housing and community revitalization programs and services. She has extensive experience working with the U.S. Department of Housing and Urban Development (HUD) and with public housing authorities and housing organizations nationwide, assuring the preservation of affordable housing and the efficient and effective management of public and assisted housing programs. Lindsey joined the AHDC Board in 2004.

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Attachment 1b

Equity Management II, LLC

Equity Management is a firm specializing in the property management of income producing properties in the Mid-Atlantic Region with a diverse background of management experience, including property management, project management and construction and financial management experience. Personalized hands on experience and a good common sense approach to problem solving have resulted in superior management by objective. Equity is currently managing over 12,000 units in 8 States, with 80% of the portfolio consisting of Affordable Housing.

Equity Management has become synonymous with professional management of residential properties with conventional, tax credit and HUD insured experience, lender experience, and the capability of managing successful renovation programs based on tried and true methods. Both asset and property management can be accommodated; Senior Management has over 70 years of experience in all phases of real estate management. Professional designations include Certified Property Manager, Professional Community Association Manager designations with additional educational programs for key staff.

We feature a computerized accounting system which provides a real time data base of all important financial aspects of the project. Up-to-date computerized terminals and sophisticated processing systems allow for much faster closing at month end with error free financial statements that are reviewed by the principals of the company.

We believe the key to any projects success is recognizing that the service levels at each project are of utmost importance in securing resident retention and creating positive referrals. Specialized supervision programs, including the use of roving engineers and marketing professionals allow for the maximum use of staff both in the field and the main office. Emergency service back-up is available through the use of our roving engineers.

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6-14-11

Jackie Henderson

From: The Lantzy's <dllantzy@comcast.net>
Sent: Tuesday, June 14, 2011 11:59 AM
To: Kerry Donley; Del Pepper; Paul Smedberg; Rob Krupicka; William Euille; Frank Fannon; Alicia Hughes
Cc: Jackie Henderson
Subject: More info opposing RPJ council docket item

Dear Mayor Euille and Council Members,

At last night's AHAC meeting, I asked the two members of the AHDC Board, Mr. Corrado and Mr. Caison, and Housing Director Ms. Davis, if there was any consideration given to or plans to potentially sell at some later time, one, two, or three of the RPJ buildings being considered for acquisition. They responded definitively "NO!" Mr. Corrado was adamant, these buildings will not be sold by AHDC.

I want to emphasis, these buildings are in dreadful condition and will never be sustainable, and AHDC itself will never be self-sustaining. Alexandria taxpayers will be on the hook for huge expenses beyond limited tax breaks and charitable organization support.

Also, in these times, I question the market value of the buildings against the size of the loans AHDC wishes to assume.

Please oppose this action.

Sincerely,
Laura Lantzy

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6-14-11

Jackie Henderson

From: The Lantzy's <dllantzy@comcast.net>
Sent: Monday, June 13, 2011 1:33 PM
To: Del Pepper; Frank Fannon; Alicia Hughes; Kerry Donley; William Euille; Rob Krupicka; Paul Smedberg
Cc: Jackie Henderson
Subject: RPJ council docket item

Dear Mayor Euille and Members of Council,

I am a member of the Affordable Housing Advisory Committee. I am writing this email letter as a private citizen. I am OPPOSED to the transfer of ownership of the Arbelo, Lacy Court, and Longview Terrace Apartments from RPJ Housing to the Alexandria Housing Development Corporation (AHDC) and the assumption of AHDC of RPJ's outstanding loans from the City. This action would oblige the taxpaying residents of Alexandria to crippling debit and financial support for AHDC operational and property maintenance expenses. AHDC cannot manage these properties without perpetual assistance from the City. The residents and businesses in Alexandria will suffer the consequences of these monies being unavailable for critical infrastructure, safety, environmental, social services, and other City services.

While I am very concerned about the impact of this crisis on the residents of these three properties, it cannot be left to the taxpayers to bailout RPJ. But these properties should be sold to a group that has the financial ability to manage them. This is the only financially responsible solution.

Sincerely,
Laura Lantzy