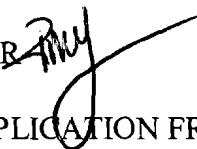


City of Alexandria, Virginia

MEMORANDUM

DATE: JUNE 21, 2012

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: RASHAD M. YOUNG, CITY MANAGER 

SUBJECT: CONSIDERATION OF A FUNDING APPLICATION FROM COMMUNITY LODGINGS, INC. (CLI) FOR A \$300,000 LOAN FROM THE HOUSING OPPORTUNITIES FUND

ISSUE: Funding request for \$300,000 in gap financing to renovate 612 Notabene Drive.

RECOMMENDATION: That the City Council:

- (1) Approve a \$300,000 loan from the Federal HOME Funds portion of the Housing Opportunities Fund; and
- (2) Authorize the City Manager to execute all necessary documents and agreements.

BACKGROUND: Community Lodgings, Inc. (CLI) is a local non-profit organization, established in 1987, to preserve affordable housing, provide transitional housing for the homeless, and help families become self-sufficient through counseling and supportive services programs. CLI owns and operates a 28-unit rental property in the three buildings located at 3908, 3912 and 3916 Elbert Avenue, as well as two rental properties at 607 (six units) and 612 Notabene Drive (10 units). Four of the previous 10 residential units at 607 Notabene Drive were converted in 2006 for use as a Learning Center. The Elbert Avenue property received funding under the Low Income Housing Tax Credit (LIHTC) program, and in 2010 CLI purchased the property from its tax credit partnership and is now the property's sole owner. All of CLI's properties are older, garden-style apartments built in the early 1940s and are located in the Arlandria section of the City. CLI currently operates 14 units of transitional shelter for the homeless and 30 units of affordable housing.

The City has previously provided funds in the form of loans and grants to assist with CLI's initial purchase and rehabilitation of these properties. One loan has been repaid, others have been refinanced, with the original loan terms extended, to improve CLI cash flow, and all are current

on their payments. City loan funding for the properties is summarized below:

Property	Purpose	Original Amount	Source	Current Balance	Final Payment
607 Notabene	Acquisition	\$100,000	HTF	\$ 0	Paid
612 Notabene	Acquisition	\$100,000	HTF	\$ 4,872	07/2014
607 and 612 Notabene	Rehabilitation	\$ 25,000	Low/Mod Housing	\$ 1,344	01/2013
Elbert Avenue	Acquisition	\$300,000	HTF	\$55,772	10/2014
Elbert Avenue	Rehabilitation	\$ 46,512	HOF/HOME	\$49,302	11/2024
Total Amount		\$576,512		\$111,290	

In March 2012 the Office of Housing provided predevelopment funds¹ of \$25,000 so that architectural and engineering services could be completed for CLI's proposed renovation of 612 Notabene Drive. To date, \$15,485 has been expended.

In FY 2012 Community Lodgings shared in a \$23,000 competitive grant provided through the Community Partnership Fund to it and two other organizations, ALIVE and Friends of Guest House, for transitional housing for the homeless. This grant is planned to continue in FY 2013 at the same amount. Since FY 2007 Community Lodgings received \$63,250 a year as a non-competitive grant to provide transitional housing to Alexandrians. This grant was eliminated in the FY 2013 budget.

DISCUSSION: In its current request, CLI is asking that the City provide a loan of \$300,000 as gap financing for renovation of 612 Notabene Drive. CLI is working with HomeAid² Northern Virginia which builds and renovates homeless shelters, transitional houses, food banks, medical clinics, counseling centers, and other facilities that help homeless people gain stability and housing. HomeAid leverages the resources of the homebuilding community and its corporate partners to conduct major renovations to shelters and homes to provide safe, stable and new living arrangements for previously homeless persons. HomeAid's partners and resources help to significantly reduce the construction costs to care provider organizations, thereby allowing them to redirect those dollars back into programs and services for these homeless families and individuals.

The renovation plans for the 10-unit building (6 two bedrooms and 4 one bedrooms) include: new windows and doors, HVAC system replacement, an electrical and plumbing upgrade, a new

¹ Predevelopment fund from the Housing Opportunities Fund are approved administratively. If the City subsequently provides funding for the project, the predevelopment funds are consolidated into the final loan.

² HomeAid is a leading national non-profit provider of housing for the homeless. The organization builds and renovates multi-unit shelters for America's temporarily homeless families and individuals, more than one million of whom are children, while they rebuild their lives.

roof, bathroom and kitchen upgrades (including new appliances, fixtures, and cabinets), common area updates and new flooring. The projected development schedule is for CLI to start rehabilitation in September with construction completed in December. The per unit cost for the renovation is estimated at \$84,200, of which the requested City investment will be \$30,000 per unit.

The estimated total cost of the rehabilitation is \$842,000 for construction costs, architectural fees, and insurance. The sources for the project include \$272,000 in kind savings from HomeAid (from donated labor and materials), the prior \$25,000 predevelopment loan from the City, \$240,000 in financing from CLI private sources and the proposed \$300,000 loan from the City. The original request for a loan of \$500,000 was made in June 2011. In working with CLI and its partners to help leverage third party sources, the request for gap financing was reduced to \$300,000. CLI plans to draw on \$240,000 in private financing through a BB&T equity line of credit. The BB&T equity line will either be replaced with grant funds that CLI has requested from the Freddie Mac Foundation or can be converted into a long term loan which the property will pay off from its revenues.

In any of these scenarios, CLI's equity position in the property will still be very strong. The 2012 assessed value of the Notabene property is \$1,055,985, so even with the existing mortgage debt of \$146,950, an additional loan of \$240,000 in new private funding from BB&T, and the proposed \$300,000 City loan, the LTV (loan to value) ratio will be 65%. This strategy is proposed due to the urgency of the renovation (the building may otherwise become uninhabitable) and the opportunity to leverage donated materials and labor through HomeAid now. The \$25,000 in predevelopment funds were provided to help CLI take advantage of the tremendous opportunity to partner with HomeAid in the renovation so that architectural and engineering services could be completed and HomeAid could develop cost estimates through its network of contractors.

As a condition of grant funding in 2006 for window replacement at the Elbert Avenue Apartments, the City required CLI to conduct a third party capital needs assessment of all of its properties. All of the work items that were identified in that assessment are being addressed in this renovation. Another long term goal of the City-mandated assessment process was to review CLI's viability and its capacity to address ongoing funding needs to maintain its properties. Over the past few years, CLI has built up reserves for these properties to cover ongoing maintenance and repair needs and has also started a replacement policy at turnover of units. Both 607 Notabene and the Elbert Avenue Apartments are in sound shape and can continue to operate for a number of years with standard maintenance.

The 607 Notabene property will be the next renovation for CLI to address in a few years. With the nature of CLI's programs targeting very low income households, the constrained revenue stream that can be achieved at the Notabene Drive properties limits cash flow available for major repairs and renovations. CLI has developed partnerships with various community groups and businesses which over the years have provided volunteers to perform improvements and minor

renovations at its properties and will continue this practice. For example, CLI has partnered with Rebuilding Together Alexandria (RTA) in the past to use that organization's volunteer labor and construction coordination services to renovate some apartments. CLI will continue its program of upgrades for the remaining units at both 607 Notabene and Elbert Avenue, and will continue to look for opportunities to leverage its resources to maintain and upgrade both properties. In keeping with its usual practice, staff recommends that the \$300,000 in gap financing be provided in a low-interest (2% interest) loan to CLI, with payments to be made on a residual receipts basis. Staff further recommends that repayments begin in the fall of 2014, after three of CLI's current City loans are repaid. The new loan, which will total \$325,000 (predevelopment and construction loan amounts) will have a 40-year term, with interest accruing until payments begin. CLI's monthly debt service obligation to the City is estimated at \$1,000. The Affordable Housing Advisory Committee³ approved the staff recommendation for the \$300,000 loan at its June 7, 2012 meeting.

Since the City HOF monies identified for this project are federal HOME monies, it is noted that CLI will need to comply with federal regulations including a 15-year affordability restriction, rent and occupancy requirements, tenant income eligibility requirements, and property standards inspections. The HOME program requires that 8 units be designated as "High HOME" units and 2 units be designated as "Low HOME" units for the duration of the 15-year affordability period.⁴ CLI will have no difficulty complying with either requirement. It should be noted that none of the rents in CLI's portfolio exceed the 60% of median level, which falls well within the "High HOME" maximum of 80% requirement.

FISCAL IMPACT: \$300,000 in Federal HOME monies will be paid out of the Housing Opportunities Fund. Payments are projected to begin in FY 2015. The previously allocated \$25,000 predevelopment loan will be added to this loan.

STAFF:

Mildrilyn Stephens Davis, Director, Office of Housing
Helen S. McIlvaine, Deputy Director, Office of Housing
Eric Keeler, Division Chief for Program Administration, Office of Housing

³ This action was taken as a Committee of the Whole due to lack of a quorum.

⁴ High HOME units must be initially occupied by households whose annual gross income does not exceed 80% AMI adjusted locally and rents are restricted to the HUD published High HOME rents. Low HOME units must be occupied by households whose annual gross income does not exceed 50% AMI adjusted locally and rents are restricted to the HUD published Low HOME rents.