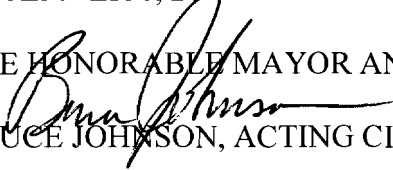


City of Alexandria, Virginia

MEMORANDUM

DATE: DECEMBER 6, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM:  BRUCE JOHNSON, ACTING CITY MANAGER

SUBJECT: CONSIDERATION OF THE ALEXANDRIA HOUSING DEVELOPMENT CORPORATION'S PROPOSED PERMANENT FINANCING STRATEGY FOR ARBELO, LACY COURT, AND LONGVIEW TERRACE APARTMENTS

ISSUE: Proposed permanent financing strategy for three City-assisted properties acquired by the Alexandria Housing Development Corporation (AHDC) in June 2011 from their previous non-profit owner.

RECOMMENDATION: That City Council:

1. Endorse AHDC's plan (Attachment 1) to:
 - a. submit an application to the Virginia Housing Development Authority for 9% tax credits for Longview Terrace in March 2012, and authorize the City Manager to sign a support letter;
 - b. seek a modification of its BB&T bridge loans for Arbelo and Lacy Court, and wait to submit a joint tax credit application for those properties in 2016;
 - c. in the event the 2012 tax credit application for Longview Terrace is not successful, pursue tax exempt bonds and 4% tax credits or an FHA rehabilitation/refinance loan for all three properties.
2. Thank AHDC for its efforts to date in stabilizing the operation of these three properties, as well as in developing the proposed permanent financing strategy.

BACKGROUND: On June 14, 2011, Council authorized the transfer of ownership of the Arbelo, Lacy Court, and Longview Terrace Apartments from RPJ Housing, a charitable 501(c)(3) organization, to AHDC (Attachment 2), which is also a charitable 501(c)(3) organization. The City had previously assisted RPJ's purchase of the three properties in 2006 and 2007 to preserve 119 units as affordable housing. The three properties were subject to a July

2011 private sector balloon mortgage payment which RPJ lacked the financial ability to repay largely due to RPJ's organizational and financial setbacks. The transfer to AHDC was carried out to ensure that the 119 units remained affordable housing, and to protect the City's \$14 million investment in the properties, which was in the form of second trust loans. AHDC's purchase of these three properties, which occurred in late June, kept the housing units affordable and the City's investment in a second trust position to a newly secured loan from BB&T bank.

Because AHDC purchased the properties using a two-year bridge loan as interim financing, and because RPJ had not achieved its goal of getting the properties rehabilitated during its ownership, Council's action in June required that AHDC develop a permanent financing plan for Council consideration by the end of calendar year 2011.

DISCUSSION: The attached report from AHDC, in the form of a letter from AHDC President Daniel Abramson, summarizes the organization's activities concerning the three properties since acquiring them in June (pages 4 to 7 of this package), describes its consideration of rehabilitation and refinancing options (pages 6 to 10), contains financing plan recommendations (page 10), and discusses future considerations for managing and protecting the City's investment in the three properties (page 11).

Since acquiring the properties, AHDC¹ and Equity Management II, LLC, its third party property management company, have worked to improve the financial and physical condition of the properties. They have achieved a positive cash flow averaging \$30,000 per month, and have a balance of more than \$150,000 in the property account. Of the \$574,000 reserve established by City Council to support the transfer and interim capital and operating costs, the only expenditure has been \$213,000 (delinquent property taxes owed by RPJ, studies, transfer fees, and legal fees) incurred at settlement. Numerous deferred maintenance items and aesthetic improvements, noted in Attachment 1, have been completed from the properties' cash flow. A Property and Capital Needs Assessment was secured, and all critical work items noted in the report have been completed. A modest rent increase (within the City's Voluntary Rent Guidelines) has been instituted. Management standards regarding timely rent payment, housekeeping, and resident behavior have been established and enforced. The properties are now considered operationally stabilized.

As discussed in Attachment 1, AHDC's Development Committee established criteria for assessing its long-term strategy for the properties, and reviewed a variety of financing options. Based on this review, AHDC's proposed first step is to apply to the Virginia Housing Development Authority (VHDA) for the award of competitive 9% Low Income Housing Tax Credits for Longview Terrace, the property with the greatest rehabilitation needs, in March 2012. Based on its self-scoring analysis, AHDC believes its application has the potential to be competitive in the non-profit pool. Should the application not be funded in that pool, it would shift into the Northern Virginia pool, where it would compete only with other rehabilitation projects due to VHDA's establishment of a separate new construction pool for Northern Virginia, beginning in 2012. In that event, it would not face the competitive scoring

¹ It should be noted that, during the interim vacancy in AHDC's Executive Director position, Housing Deputy Director Helen McIlvaine has been offered part-time to provide staff support to AHDC as needed, and served a key role in the development of AHDC's proposal.

disadvantage previously experienced by rehabilitation projects in relation to new construction projects.

If the Longview tax credit application is successful, AHDC would repay the BB&T \$3.5 million loan on that property, and seek an extension of the current BB&T bridge loans for Arbelo and Lacy Court, with the intent of submitting a joint tax credit application to VHDA in 2016. Due to chain of title issues, which occurred prior to RPJ's purchase of the properties, AHDC has determined that the application needs to be deferred until 2016 in order to leverage the maximum available credits. BB&T officials have expressed an interest in exploring the possibility of long term financing with AHDC.

AHDC has also identified other options to pursue in the event tax credits are not obtained for Longview Terrace, but these options will result in a reduced scope of rehabilitation. A Longview Terrace tax credit application would yield an estimated \$42,000 per unit in rehabilitation funding. Should the Longview application not be successful, AHDC would then pursue tax exempt bonds and noncompetitive 4% tax credits (\$30,000 per unit for rehab), or an FHA refinance/rehabilitation loan (\$17,500 per unit for rehab), for all three properties. Staff's assessment of the adequacy of these reduced rehabilitation costs will be completed prior to the Council meeting.

In developing these options, AHDC has been responsive to Council's stated desire that the permanent financing strategy require no new City investment. Although no direct City funding is included in any of the funding options, the City's investment will continue to remain long term (as was the case with the City investment with RPJ), and may, in order to facilitate third party financing, have to be captured through a ground lease arrangement in which ownership of the land associated with the properties is transferred to the City, with AHDC owning the improvements (buildings) subject to a lease agreement with a minimal payment requirement. Attachment 1 further notes that AHDC may, in the future, find it necessary to request backstop guaranties from the City, such as were provided for AHDC's The Station at Potomac Yard, to induce third party loans and investment. Should AHDC find it necessary to pursue either of these options, it will return to Council to seek approval of such support.

Staff recommends that Council endorse AHDC's plan of action and authorize the City to submit a support letter, in accordance with VHDA's requirements and deadlines, as part of the tax credit application for Longview Terrace.

FISCAL IMPACT: If AHDC's permanent financing strategy is successful, then these three apartment properties should remain financially self-sufficient from requesting additional City housing funds. At this point in time, a further draw on the remaining reserve balance set aside by Council last June is not contemplated.

STAFF:

Mark Jinks, Deputy City Manager
Mildrilyn Stephens Davis, Director, Office of Housing
Helen McIlvaine, Deputy Director, Office of Housing
Eric Keeler, Division Chief, Housing Program Administration

ATTACHMENTS:

Attachment 1: Letter from AHDC President Daniel R. Abramson

Attachment 2: June 14 City Council Docket Item #32



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

November 28, 2011

The Honorable Mayor and Members of City Council
City Hall
301 King Street, Suite 2300
Alexandria, VA 22311

Re: AHDC report regarding the rehabilitation and refinancing plan for Arbelo,
Lacy and Longview Terrace Apartments

Dear Mayor Euille and City Council:

Thank you for the opportunity to provide City Council with an update regarding AHDC's progress in developing a plan for the rehabilitation and permanent refinancing of the Arbelo, Lacy and Longview Terrace Apartments ("A-L-L").

Background and Summary of Current Operations

When AHDC acquired these properties from RPJ in June 2011, it assumed a first trust \$9.5 million bridge loan with BB&T, as well as subordinate City loans totaling just over \$14 million. The terms of the BB&T financing (24 month term, interest-only at 4.5%) have allowed AHDC to achieve a positive cash flow from property operations which has averaged approximately \$30,000 per month. During AHDC's ownership, operations at Arbelo, Lacy and Longview have stabilized, and there is currently a balance of more than \$150,000 in the property account. Except for the transactional costs of \$213,000 incurred by AHDC at settlement (including delinquent real estate property taxes owed by RPJ, transfer fees and legal fees) drawn from the \$574,000 reserve established by City Council to support the transfer, no subsequent draws have been necessary to meet capital or operating expenses. The \$213,000 expended is memorialized in an amendment to AHDC's Promissory Note secured by Longview Terrace, due to that property's capacity to absorb additional leverage.

Pursuant to the management plan presented to City Council last spring, AHDC has worked closely with Equity Management II, LLC (Equity), its third party property management company, to improve the financial and physical condition of the three properties, enhance the living environment for residents and strengthen relationships with surrounding neighborhoods. AHDC and Equity have a scheduled weekly meeting to discuss operations, prioritize work items and develop guidelines for rent and resident behavior. Among the issues addressed and completed to date are:

- o Implemented plan to resolve all code, life, health and safety issues (including scheduling regular bulk trash pickup service)

- Completed deferred maintenance (e.g., plumbing system repairs, replace aging/failed hot water heaters, serviced boilers, serviced/replaced broken or missing appliances and air conditioning units, replaced washers and dryers to restore all laundry facilities to working order)
- Completed comprehensive bed bug elimination treatment at all three properties
- Reviewed property security and installed keyed entry systems
- Aesthetic enhancements, including new signage (with contact information for management), new exterior entry doors, masonry repairs to stairways and building exteriors, paving of driveways and parking lots, tree trimming and other landscaping improvements, updates to entries, hallways, laundry facilities and common areas)
- Consolidated property operations of A-L-L properties and The Station to achieve maximum efficiency
- Hired four full time Equity staff persons for AHDC's Alexandria properties, including two property management and two maintenance personnel
- Established an onsite property management/leasing office at Lacy Court to serve residents of AHDC's four Alexandria developments
- Created a residential unit for a maintenance staff person at Arbelo
- Established online financial and management records for the A-L-L properties, with Equity's portal accessible to AHDC
- Linked marketing and leasing information on Equity's website regarding A-L-L properties to major online apartment guide resources
- Established online system for residents to report/track service and maintenance calls (tenant-generated requests are resolved within 24 hours), pay rent and/or contact property management staff
- Restored residential unit that was off line for several years
- Strengthened communications and working relationships with ARHA to support voucher holders residing at the properties
- Established and enforced management standards regarding timely rent payment, housekeeping and resident behavior (tenants who can't or won't comply with management expectations--including a few involved with criminal behavior--have been removed from properties by non-renewals or evictions)
- Completed unit turnovers within one week of vacancy so available units can be marketed and re-leased as quickly as possible
- Engaged Dominion Due Diligence, a national engineering firm, to conduct a Property and Capital Needs Assessment (PCNA) and provide a written report prioritizing the scope and cost of critical, midterm and long term work items.
- Completed all critical work items noted in Dominion's PCNA report
- Met with civic association adjacent to Arbelo and with community police liaisons serving the Arbelo and Longview Terrace properties
- Conducted property visits for AHDC Board members, as well as representatives of BB&T, VHDA and other potential lenders and investors

AHDC has continued to solidify its relationship with BB&T. Bank officials have expressed a continuing interest to work with AHDC through the properties' rehabilitation, and potentially, through permanent financing.

As lease renewals occur or as units turn over when residents move out, rents are being increased in conformance with the City's voluntary rent guidelines which cap annual increases. So far, no economic displacement has resulted, despite the fact that RPJ had not raised rents during its tenure. Due to owner-directed non-renewals and evictions, as of December 1 there are six active vacancies in the 119 unit portfolio, reflecting a vacancy rate just above 5%. Even without substantial renovation, apartments are quickly leased at the new rent structure because of the properties' desirable locations and their proximity to schools, transportation, and amenities. Affordability is governed by the terms of the City's loan agreements, including some requirements related to federal HOME funds that were part of the City's financing package for Lacy Court. As a result, there are currently 101 units that have rents affordable to households with incomes at or below 60% of the area median income (AMI); 18 have rents affordable to households with incomes at or below 50% AMI.

AHDC's Progress in Developing a Rehabilitation and Refinancing Plan/Options

Considered Since AHDC assumed ownership, its Development Committee has met bi-weekly to develop and analyze potential rehabilitation and refinancing strategies for the A-L-L portfolio and to provide direction for staff and Equity to help drive the value of the asset pending rehabilitation. The AHDC Directors who participate on the Development Committee are:

Daniel R. Abramson *Danny 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 1982-88 and on the City's Affordable Housing Advisory Committee (AHAC) for several years. Danny is the AHDC Board President and is one of the organization's five incorporating Board members appointed by City Council in 2004.*

Joseph Resende *Joe 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, Joe 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 active in many real estate and affordable housing trade associations. Joe joined AHDC's Board in 2004.*

Michael Caison *Mike is a federal real estate consultant, representing GSA and other clients, with more than thirteen years in the leasing and property management industry. Chairman of the Affordable Housing Advisory Committee since 2009 and a stakeholder for housing interests in the North Potomac Small Area Planning process in 2009-2010, Mike is an active advocate and volunteer for affordable housing. Mike is also an incorporating member of the AHDC Board appointed by City Council in 2004*

Catherine Pharis Cathy is Head of FHA Platform Lending for Wells Fargo Multifamily Capital, where she oversees the origination and underwriting of the FHA Group. With more than twenty-five years in the multifamily lending industry, Cathy also has experience with Fannie Mae and Freddie Mac programs as well as 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 de-couplings and other non-traditional funding mechanisms. Cathy is the AHDC Treasurer, and is one of the organization's incorporating members appointed by City Council in 2004.

Joseph Ouellette Joe is 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 more than ten years of experience in commercial real estate, including expertise 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 a member of the AHDC Board in 2004.

The following criteria provided a framework for the Development Committee's assessment of options:

- Develop an appropriate scope for rehabilitation (with maximum positive impact for the properties' functioning life), to minimize tenant displacement
- Ensure the properties are self-sustaining when rehabilitation and refinancing are complete
- Maximize third party financial participation and private equity (to minimize requirements for new City investment)
- Consider the sale/partial sale and/or conversion of some units to market rate, if necessary, to achieve the best long term strategy for the portfolio's economic viability
- Develop options and alternatives that can be executed prior to June 2013 (when the BB&T loan expires)

So far, the following options have been modeled and analyzed by the Development Committee.

- 9% low income housing tax credits for rehabilitation (\$30,000/unit average) and permanent financing for all three properties (combined in a consolidated application) (2012/2013)

- 9% low income housing tax credits for Longview Terrace (2012) for rehabilitation (up to \$42,000/unit average) and permanent financing¹
- Maintain Lacy and Arbelo with conventional financing (through 2016) and minimal rehabilitation from cash flow, pending a possible 9% LIHTC application in 2016 (see explanation in discussion below)
- 4% low income housing tax credits and tax exempt bonds for all properties (2012/2013) for rehabilitation (\$30,000/unit average) and permanent financing
- 4% low income housing tax credits and tax exempt bonds for Lacy Court and Arbelo only (assuming Longview Terrace successfully receives 9% credits)
- FHA 221 (d)(4) for all properties, for moderate rehabilitation (\$17,500/unit average) with permanent financing
- Refinance to permanent conventional loan with minor rehab financed in the loan (up to around \$12,000/unit), with other rehabilitation to occur as cash flow permits
- Refinance to permanent conventional loan, performing rehab as cash flow allows
- Other executions (Fannie Mae, Freddie Mac), refinancing and critical needs addressed

Although the Development Committee did consider the sale of portions of the portfolio and potential conversion of some of the affordable units to "market" rate, these options actually did not appear to yield significant added value or return money to the City, given the level of first and second trust debt. The properties are not well suited for repositioning due to the constraints of age, condition and lack of onsite amenities which limit the additional revenue that can be generated as a "market" product without very significant capital investment. As affordable rental housing, the 119 units at Arbelo, Lacy and Longview provide a critically needed benefit to the community. The last several months have demonstrated that the properties are physically sound and economically viable.

While there are challenges inherent to all of the approaches, it appears to the Committee that a number of viable alternatives are available. With regard to the competitive 9% credits, although this option facilitates the greatest amount of third party equity to support rehabilitation, competition is stiff for this scarce resource. It is particularly difficult for existing properties with limited opportunities to meet scoring preferences for three bedroom units, multiple bathrooms, community facilities and accessible/universally designed units. Due to a tax credit requirement regarding continuity of ownership, transfers of ownership in the chain of title prior to RPJ's

¹ A 20-unit property adjacent to Longview Terrace has been offered for sale to AHDC. While it is unlikely that AHDC can meet the property owner's sales price expectations, if AHDC were to secure an option to acquire the property contingent on a successful 9% LIHTC application, that property could be consolidated with Longview Terrace in a March 2012 submission.

acquisition of Arbelo and Lacy Court recommend deferring an application in applying for 9% tax credits for these properties until 2016 in order to leverage the maximum credits that might be available. Pursuing interim financing strategies on these properties will also provide time for AHDC to fully explore the potential for redevelopment at these sites.

The non-competitive 4% credit and bond option assures that credits will be awarded, but limits the amount of equity that can be raised, increasing the amount that must be borrowed for rehabilitation. An FHA-financing product also offers certainty and a moderate rehabilitation resource that can be deployed in stages. This option may provide a good tool to manage rehabilitation in a way that would minimize tenant impacts. With current, low interest rates, even though all of the costs of the rehabilitation and financing are included in the loan, projections of cash flow indicate that additional capital investment could be funded, over time, if needed. For the conventional scenarios, the challenges include varying loan to value requirements among lenders, constraints on the additional future net operating income that can be achieved given limited room for rent growth, and limited opportunities for additional operational savings.

In all cases, the scope for rehabilitation established by AHDC will prioritize investment in building systems and infrastructure to extend the properties' useful life and to achieve maximum savings on utilities, minimize administrative costs and/or enhance efficiencies in property operations. The Property Capital Needs Assessment (PCNA) performed by Dominion confirms this approach. From cash flow, AHDC has already been able to address all of the items listed as "critical needs" in Dominion's October report. Focusing on building systems will also yield the potential for energy savings and lessen ongoing maintenance requirements. Desirable, but non-critical improvements (standardizing and modernizing kitchens and bathrooms) would occur over time, as rehabilitation funds are available and/or as property cash flow can support.

Preliminary Recommendations Based on its review of the options available and the criteria established by the Committee regarding long term sustainability, AHDC proposes that it pursue a 9% LIHTC application for Longview Terrace in March 2012. If that application is successful, AHDC will pay off the BB&T first trust loan of \$3.5 million for Longview Terrace, and could then seek a modification of its bridge arrangement on Arbelo and Lacy Court with BB&T until a 9% LIHTC application would be productive in 2016.

If the March 2012 9% LIHTC application for Longview Terrace is not successful, AHDC would pursue a consolidated 4% LIHTC/bond option or an FHA rehab/refinance option for all three properties. Either of these will provide funds to address high priority mid and long term needs as well as modest improvements to enhance livability. AHDC would also seek and compare possible conventional financing options that may be available at that time. With continued successful management of the properties, a strong tenant mix, and a longer established record regarding occupancy, and utility and operating costs, AHDC believes it will also be better positioned to negotiate possible conventional options with local, CRA-motivated lenders. Although the timeline for some financing options may take six months or longer, any of these can be executed

prior to the end of the current BB&T bridge loan in June 2013. In the event of interest rate or financial risk due to changing market conditions in 2012, AHDC believes that it can successfully mitigate short term exposure by working with BB&T or another conventional lender to secure another bridge arrangement.

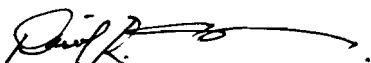
The Development Committee presented this report and its preliminary recommendations to the AHDC Board on November 21, 2011. The Board endorsed the Development Committee's recommendations, including its proposal to move forward with a March 2012 application for 9% competitive low income housing tax credits for Longview Terrace, and to pursue other options for rehabilitation and refinancing pending the outcome of the March application.

Managing and protecting City investment; future requirements Protecting the City's substantial investment in the affordable housing asset provided at Arbelo, Lacy Court and Longview Terrace Apartments is of the utmost importance to AHDC's analysis of all of the rehabilitation and refinancing options considered. While the City's investment will continue to remain long term, at this time no new investment of direct City dollars is projected for any of the options actively being considered, beyond the \$574,000 reserve approved in June. As discussed with City Council previously, managing the level of debt owed to the City in order to facilitate third party financing may require that the City loan amounts be captured through a ground lease arrangement, in which ownership of the land associated with the properties is transferred to the City, with AHDC owning the improvements (buildings) subject to a lease agreement with a minimal payment requirement. Counsel for AHDC and for the City would work through the details of such an arrangement should it be necessary.

While no new direct financial support is anticipated, in the future it may necessary for AHDC to request back stop guaranties from the City to induce third party loans and investment. These guaranties were provided for The Station at Potomac Yard, allowing that project to proceed despite the implosion of the national markets in 2008. Should a back stop guaranty or a ground lease be required, AHDC will come back to City Council to seek its approval. Of course, AHDC appreciates the ongoing technical assistance provided by City staff, and anticipates that such support may continue to be required in the near term to complete rehabilitation plans and permanent financing arrangements.

I will attend the City Council meeting on Tuesday, December 13, 2011 to answer any questions you may have regarding this report or AHDC's plans to rehabilitate and refinance the Arbelo, Lacy and Longview Terrace properties. As always, AHDC appreciates City Council's continued interest in, and support of, the organization's work to develop and preserve affordable housing.

Sincerely,



Daniel R. Abramson
President

MEMO NO. 1

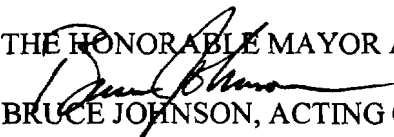
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City of Alexandria, Virginia

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:

Reserve – Estimate of Components

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	<u>200,000</u>
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.

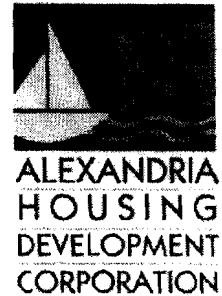
FISCAL IMPACT: The current recommendation calls for the reserve of up to \$574,000 from affordable housing funds currently available in the Office of Housing budget. A permanent financing strategy will be presented for Council consideration by the end of the calendar year once AHDC and City Housing staff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

**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.

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.

- 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.



ALEXANDRIA
HOUSING
DEVELOPMENT
CORPORATION

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

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**.

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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Laurel, MD 20708
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Fax: 301-953-7866
E-mail: emi@equitymgt.com

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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32
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 emphasize, 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

32
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