DATE: JUNE 2, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: BRUCE JOHNSON, ACTING CITY MANAGER

SUBJECT: CONSIDERATION OF AN INCREASE IN THE ALLOCATION OF ADVANCED FUNDING FOR THE ACQUISITION OF UP TO 16 ARHA REPLACEMENT UNITS BY THE ALEXANDRIA REDEVELOPMENT AND HOUSING AUTHORITY

ISSUE: Estimated cost of acquiring 16 replacement units by the Alexandria Redevelopment and Housing Authority (ARHA).

RECOMMENDATION: That City Council:

1. Increase the approved allocation from up to $3.0 million to up to $4.8 million of the originally planned $6.4 million amount previously identified for the purchase by ARHA of individual housing units to satisfy the outstanding agreement to provide 16 replacement housing units for the James Bland redevelopment, subject to the terms and conditions previously approved on February 22 (Attachment 1); and

2. Rescind the previous authorization related to the long term payment by the City of condominium fees for the 16 units, as ARHA has indicated that it no longer needs City assistance with such fees under ARHA’s revised plans.

DISCUSSION: City and ARHA staff have been working together for some time to identify opportunities for the acquisition or development of 16 replacement units needed in connection with the redevelopment of ARHA’s James Bland properties. When Bland redevelopment plans were approved, the number of public housing units at the Bland site were reduced, with the reduced number of units planned to be transferred to the proposed ARHA Glebe Road and Old Dominion Boulevard sites in Arlandria. Council decided to change the housing income mix on the ARHA Old Dominion redevelopment site to include 16 workforce home ownership units in lieu of 16 public housing units. Council then agreed to fund the 16 replacement units in an amount up to $6.4 million (i.e., $400,000 per unit maximum) utilizing affordable housing funds. While a number of multifamily options have been evaluated by City and ARHA staff, no suitable multifamily option has been identified to date.
In prior Council discussions of this issue, Councilman Fannon proposed that ARHA purchase condominium units (which would be less in price than for single family residences). Staff from the City and ARHA have been working on this concept and agreed to pursue the purchase of individual condominium units, with the understanding that some or all of the savings achieved through the purchase of affordable condominium units could be applied toward the payment of condominium fees, which otherwise would be financially problematic for ARHA. Condominium prices are now likely near their low point, so this is an opportune time to be acquiring condo units. The costs of condominiums vary widely, but the targeted average cost is $300,000 or less, which would result in a total outlay of up to $4.8 million which is significantly under the $6.4 million. ARHA’s target acquisition criteria is for two or three bedroom units with at least 1 ½ to 2 baths in low rise buildings (see Attachment 2 for detailed criteria).

On February 22, Council approved expenditures of up to $3 million for the 16 replacement units with the stipulation that no further Council authorization would be required with regard to individual unit purchases, provided the 16 units meet the criteria set forth in the docket memorandum (Attachment 1) and that a second allocation of funding, if needed, would be brought forward for Council authorization for the acquisition of additional purchases, if and when the initial $3 million allocation became fully committed.

Subsequently, at the March 12 Council public hearing, there was discussion about the possibility that all 16 units might be able to be purchased within the $3 million authorization. While there was no official Council action to this effect, in follow-up ARHA and Office of Housing staff conducted separate analyses to determine whether it would be feasible to acquire 16 units meeting the City and ARHA criteria within this amount.

Acquiring 16 units for $3 million requires an average cost of $187,500 per unit, including closing costs and any needed rehabilitation. Based on an analysis of market conditions, ARHA staff has concluded that finding 16 suitable units for an average total outlay of $187,500 is not feasible, as most of the units available in this price range do not meet the established criteria, as they are typically in high-rise buildings or have high condo fees. In addition, units in this price range that do meet the necessary criteria tend to have extensive rehabilitation needs that would raise the all-in costs.

The City’s Housing staff concurs with this conclusion based on its own analysis of condominium units purchased through City homeownership programs in the first three quarters of FY 2011. Of 15 properties purchased with City assistance at prices below $200,000, only seven had the two or three bedrooms required by ARHA. These seven units were in five complexes, three of which were unsuitable as ARHA units due to high-rise construction, high condo fees, or having a high percentage of rental units in the complexes in which those units were located. The other two complexes were unacceptable to ARHA for social reasons.

Council’s February action also authorized the City Manager to enter into a Memorandum of Understanding with regard to a condo fee reimbursement program whereby the City would reimburse ARHA with regard to its net losses associated with the payment of condo fees for the 16 units. However, as explained in the attached memorandum from ARHA CEO Roy Priest (Attachment 2), ARHA has now determined that the most prudent course of action is to use
Tenant Protection Vouchers (Housing Choice Vouchers from a special allocation provided by HUD to assist James Bland residents due to the redevelopment) rather than public housing subsidies in the 16 units, thereby generating sufficient income to pay the condominium/HOA fees without assistance from the City. Therefore, once the units are acquired, there will be no need for the City to allocate additional funds to assist ARHA with condominium fees. This will save the City a significant sum of money (for example, over 20 years an average $300 per unit per month condo fee for the sixteen units could have cost the City over $1.1 million).

On May 18, ARHA and Housing staff presented their conclusions to the City Council/ARHA Subcommittee, which concurred with their findings. The Subcommittee asked that the requested increase from $3.0 million to up to $4.8 million (which equates to up to $300,000 per unit) be docketed for Council consideration, and that ARHA enter into purchase contracts, if possible, prior to the meeting.

As of June 1, ARHA has submitted contracts to purchase four two-bedroom units. Three of these contracts have been ratified and the sales are scheduled to close in June. The average price of the ratified contracts is $254,666, with a range of $240,000 to $274,000. Estimated rehabilitation costs are $5,000 for two of the three properties, and $20,897 for the third. The pending offer for the fourth unit is in the same price range with an estimated $5,000 needed for rehabilitation. This equates to an average purchase cost of about $265,000 for these four two-bedroom units. Three bedroom units will have a higher average cost. As stated in Attachment 2, ARHA hopes to enter into contracts for five additional units before this matter is considered by Council. Based on this experience, ARHA believes it can acquire all 16 units before Council reconvenes in the fall if the Council approved allocation cap approval is increased from $3.0 million to $4.8 million, an average of $300,000 for acquisition (including closing costs) and rehabilitation.

**FISCAL IMPACT:** Expenditure of $3.3 million in currently available Housing monies and up to $1.5 million from general obligation bonds comprises the funding for the recommended $4.8 million allocation. Funds to pay for the debt service on the $1.5 million in bonds will derive from the 0.7 cent dedication of real estate tax revenues included in the FY 2012 approved budget. The $1.6 million remaining unallocated from the $6.4 million amount originally targeted for the 16 replacement units will be available for future affordable housing initiatives.

**ATTACHMENTS:**
Attachment 1: February 22, 2011, Docket Item
Attachment 2: Memorandum from ARHA Executive Director Roy Priest dated May 31, 2011

**STAFF:**
Mark Jinks, Deputy City Manager
Mildrilyn Davis, Director, Office of Housing
City of Alexandria, Virginia

MEMORANDUM

DATE: FEBRUARY 17, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: CONSIDERATION OF ALLOCATION OF ADVANCE FUNDING FOR THE ACQUISITION OF UP TO 16 PUBLIC HOUSING REPLACEMENT UNITS BY THE ALEXANDRIA REDEVELOPMENT AND HOUSING AUTHORITY

ISSUE: Allocation of City housing funds for the purchase by the Alexandria Redevelopment and Housing Authority (ARHA) of 16 public housing replacement units.

RECOMMENDATION: That City Council:

1) Authorize the allocation of up to $3 million of the planned $6.4 million amount previously identified for the purchase by ARHA of individual housing units to satisfy the outstanding agreement to provide 16 replacement housing units for the James Bland redevelopment, with the understanding that:

   a. The acquisition of each of the condominium units by ARHA would require the concurrence of the Director of the Office of Housing that the stated criteria set forth in this memorandum have been met;

   b. There will not need to be any further Council authorization required with regard to these purchases, provided the 16 units meet the criteria set forth in this memorandum; and

   c. A second allocation of funding, if needed, would be brought forward for Council authorization for the acquisition of additional purchases, if and when the initial $3 million allocation becomes fully committed.

2) Authorize the City Manager to execute a Memorandum of Understanding with ARHA in regard to condominium fees for the 16 units consistent with the proposed concepts outlined in this docket item.

BACKGROUND: City and ARHA staff have been working together for some time to identify opportunities for the acquisition or development 16 replacement units needed in connection with the redevelopment of ARHA's James Bland properties. When Bland redevelopment plans were
approved the number of public housing units at the Bland site were reduced, with the reduced number of units planned to be transferred to the proposed ARHA Glebe Road and Old Dominion Boulevard sites in Arlandria. Council decided to change the housing income mix on the ARHA Old Dominion redevelopment site to include 16 workforce home ownership units in lieu of 16 public housing units. Council then agreed to fund the 16 replacement units in an amount up to $6.4 million (i.e. $400,000 per unit maximum) utilizing affordable housing funds. While a number of multifamily options have been evaluated by City and ARHA staff, no suitable multifamily option has been identified to date.

In prior Council discussions of this issue, Councilman Fannon proposed that ARHA purchase condominium units (which would be less in price than for single homes). Staff from the City and ARHA have been working on this concept and have agreed to pursue the purchase of individual condominium units, with the understanding that some or all of the savings achieved through the purchase of affordable condominium units can be applied toward the payment of condominium fees, which otherwise would be financially problematic for ARHA. While the focus currently is on condominium units, other moderately-priced housing units are not precluded from consideration. Condominium prices are now likely at their low point, so this is an opportune time to be acquiring condo units. The costs of condominiums vary widely, but the targeted cost range is no higher than $300,000, which would result in a total outlay of $4.8 million which is significantly under the $6.4 million. ARHA’s target acquisition criteria is for two or three bedroom units with at least 1 ½ bath in low rise buildings (see Attachment 1, page 2, for detailed criteria).

DISCUSSION: In order to purchase individual housing units that are on the market for sale, it is necessary to submit contract offers within a relatively short period of time. ARHA and Office of Housing staff have looked at a number of available condominium and other units in January and identified several units of interest; however, many were under contract to other buyers within a matter of days. In recognition of the need to move quickly, in January the ARHA Board of Commissioners adopted a resolution (attached) authorizing ARHA’s Chief Executive Officer to carry out all necessary functions for the purchase of units meeting parameters set by the ARHA Board. Similarly, given that City funds will be used to purchase the units, staff is recommending that Council give authorization for the expenditure of the first $3 million of the $6.4 million originally planned for this purpose, provided the units meet the criteria described below. ARHA has agreed to these Category 1 and 2 criteria which are described below.

Category 1 units would be deemed to have low impact, and, upon adoption of the staff recommendation, would require only that the ARHA CEO and the Director of the City’s Office of Housing be in agreement that the stated criteria have been met, and that the City Manager and City Council are notified at the same time notification is made to the ARHA Board. The affected condominium association would be notified of the purchase following ratification of the purchase contract. Category 2 units would have a higher level of impact and therefore require additional consultation. Specifically, Category 2 applies to situations in which the percentage of rental units in the complex after the proposed purchase would be such that Fannie Mae and Freddie Mac will not approve mortgages, thereby jeopardizing the ability of current owners to sell their units. However, in a few instances some condo properties may have so many units for sale that they would prefer the units to be purchased and rented and paying condo fees rather than sit empty.
Category 1

- The purchase will not result in ARHA ownership of more than 10% of the units in a single complex where ARHA does not currently own units;
- The purchase will not result in ARHA ownership of more than 33% (one-third) of units in a single complex where ARHA currently does own units, and the condominium association board supports the purchase of the unit(s) in question;
- The purchase will not cause the number of rented units in the property to exceed the percentage limit for Fannie Mae/Freddie Mac approval (currently 30% of the total number of units);
- The property is not within one-quarter mile of Alexandria Crossing or James Bland/Old Town Commons, where previous Council actions have already established the number of replacement units; and
- The total cost of acquisition and rehabilitation of a unit shall not exceed $300,000 for any individual unit if the City pays condo fees (see discussion below), or $400,000 otherwise.

Category 2

- If the number of rented condominium units in a property would exceed the limit for Fannie Mae/Freddie Mac approval of mortgage loans following the proposed purchase, approval by the condominium association board is required before a purchase offer can be made.

Condominium Fees

ARHA’s decision to pursue the purchase of condominium units is based on City staff’s proposal to recommend to Council that some or up to all of the likely savings from the budgeted $6.4 million that is likely to be achieved through the purchase of condominium units would be made available for the payment of condominium fees. What is contemplated is that an annual line item in the Office of Housing’s budget would be established with sufficient funds to reimburse ARHA. If the condo fees range between $300 per month to $400 per month, the total condo fee cost would be between $57,600 and $76,800 per year. However, this may be offset to some degree by net income from ARHA’s operation of these 16 units. The City would then reimburse ARHA its net loss up to the amount of the condo fee. Special condo assessments would also be reimbursed by the City. Over time, the total net amount paid to ARHA for this condo fee reimbursement program would not exceed the balance remaining from subtracting the actual condo purchase amounts for the 16 units from the $6.4 million. If the City paid $3.0 million for the 16 condos and had a cost of $57,400 in annual condo costs, it would be some five decades until the balance of the $6.4 million were fully drawn down. A specific detailed Memorandum of Understanding in regard to the condo fee reimbursement program will be drafted and executed between the City and ARHA.

FISCAL IMPACT: Obligation and expenditure of up to $3 million in affordable housing funds from the Office of Housing budget.

ATTACHMENT: ARHA Resolution No. 490
STAFF:
Mildrilyn Davis, Director, Office of Housing
Mark Jinks, Deputy City Manager
RESOLUTIONS OF
THE ALEXANDRIA REDEVELOPMENT AND HOUSING AUTHORITY ("ARHA"),
AUTHORIZING ACTIONS OF THE ALEXANDRIA REDEVELOPMENT AND HOUSING
AUTHORITY FOR THE ACQUISITION OF SIXTEEN (16) REPLACEMENT UNITS
ASSOCIATED WITH THE JAMES BLAND APARTMENTS REDEVELOPMENT
PROJECT LOCATED IN ALEXANDRIA, VIRGINIA

RESOLUTION NO. 490

WHEREAS, on November 14, 2008, ARHA and GPB Associates LLC entered into an
Agreement of Sale, Purchase and Redevelopment for the sale and redevelopment of Glebe
Park Apartments located at 800 West Glebe Road and 3900 Old Dominion Boulevard in
Alexandria (the "Glebe Park Project"), and James Bland Apartments located at 801 Madison,
808 Madison, 898 North Alfred Street and 918 North Columbus (the "James Bland Project")
Streets in Alexandria, Virginia; and

WHEREAS, prior to redevelopment, the Glebe Park Property was improved by one
hundred fifty-two (152) rental units which were occupied by residents receiving assistance
from ARHA, and the James Bland Property was improved by one hundred ninety-four (194)
rental units which are occupied by resident receiving assistance from ARHA; and

WHEREAS, ARHA acknowledges that the Glebe Park Property and the James Bland
Project each has a unique and special importance to ARHA and to the City because of the
need to comply with the terms of Resolution 830 adopted by the Alexandria City Council on
April 27, 1982, which resolution requires the one-for-one replacement of certain publicly-
assisted housing units in the City of Alexandria (the Resolution 830 Units’); and

WHEREAS, prior to the redevelopment efforts, forty (40) of the Glebe Park Units and
all one hundred ninety-four (194) of the James Bland units are designated as Resolution 830
Units; and

WHEREAS, in the course of the governmental approval process for the Glebe Park and
James Bland redevelopment efforts, the planning efforts resulted in the loss of sixteen (16)
Resolution 830 Units; and

WHEREAS, the Development Special Use Permit for the James Bland Redevelopment
(the "DSUP 2008-0013") includes a condition detailing the commitment of the City to
cooperate with ARHA to identify a suitable site or sites, and plans to make the sixteen (16)
replacement units (the "Replacement Units") available by the time relocation commences for
Phase Two of the James Bland redevelopment but in any event by the completion of the
James Bland Project which is anticipated to occur by 2015; and

WHEREAS,
WHEREAS, the City, as evidence of its good faith commitment, has reserved $1 million in authorized housing bond capacity concurrent with approval of the James Bland DSUP and further pledged to set aside 50% of all new developer contributions for affordable housing once all monies budgeted and previously allocated for use in FY 2009 have been received, which sources of funding (not to exceed $6.4 million was reserved for use for the Replacement Units until such time as the financing arrangements for the Replacement Units are finally determined, and all required funding commitments are secured; and

WHEREAS, pursuant to a direction from the ARHA/ City Working Group staff has been pursuing condominium opportunities City-wide as options for Replacement Units; and

WHEREAS, in order to facilitate purchase of the Replacement Units, ARHA must be able to act quickly once Replacement Units have been identified to place them under contract, the consummation of which would be subject to a process developed by city staff as to public process for acquisition of Replacement Units; and

WHEREAS, the following specific parameters have been developed to provide guidance to staff in the selection of the replacement units:

- Price per unit not to exceed $300/square foot.
- Condominium/HOA fees not to exceed $400/month.
- Entrance to the unit located at street level or off of an open breezeway if an upper floor.
- Consideration of 2 and 3 bedrooms only with at least 1-1/2 baths.
- Percentage of absentee owners to units in the community shall not exceed that limit allowed by FHA for financing such that an existing owner's field of buyers could be unnecessarily limited.
- Attempts will be made to acquire multiple units in each community such that new acquisitions are clustered for ease of maintenance.

and,

WHEREAS, after putting possible Replacement Units under contract and submitting them to the City public process for acquisition, ARHA will need to execute closing documents necessary to evidence and consummate the Closing;

NOW, THEREFORE, BE IT RESOLVED by the Alexandria Redevelopment and Housing Authority that the Chief Executive Officer be authorized and instructed to take all steps necessary and appropriate to acquire and rehabilitate (if applicable) 16 scattered site condominium units as replacement public housing units for the Glebe Park/James Bland redevelopment effort, including but not limited to, placing units under contract and executing all closing documents subject to those specific parameters provided and regular Board updates, and it is further
RESOLVED that the Chief Executive Officer, acting singly, is hereby authorized, empowered, and instructed to enter into, acknowledge, amend, and/or deliver on behalf of the Authority and its instrumentalities any and all such other security agreements, financing statements, notices, requests, demands, directions, consents, approvals, waivers, acceptances, appointments, applications, certificates, agreements, supplements, amendments, further assurances or other instruments or communications, and to take any other action, as may be necessary or appropriate, in either of their sole and continuing discretion, in order to effect the consummation of the transaction described above, and it is further

RESOLVED that the Chief Executive Officer, by electronic mail or otherwise, keep the Board advised on a current basis of actions taken under this authority, affording a 24-hour notice for questions or objections.

Adopted this 1/24/2011.

ATTEST: ALEXANDRIA REDEVELOPMENT AND HOUSING AUTHORITY

By: A. Melvin Miller, Chairman

By: Roy O. Priest, Secretary Treasurer/CEO
DATE: MAY 31, 2011
TO: BRUCE JOHNSON, ACTING CITY MANAGER
FROM: ROY PRIEST, ARHA CHIEF EXECUTIVE OFFICER
SUBJECT: ADDITIONAL ALLOCATION FOR 16 REPLACEMENT UNITS, JAMES BLAND

ISSUE:
During the Development Special Use Permit ("DSUP") process required for the redevelopment of the West Glebe and James Bland sites, 16 of the 234 total units that are protected under Resolution 830 were not able to be put back onto the original sites and as such, the DSUP language called for the units to be replaced elsewhere in the City. The DSUP language further obligated the City to fund $6.4 MM toward replacement of the 16 units (the "Units"). Since DSUP approval in 2008, ARHA staff has been working with the City's Office of Housing to identify an appropriate location for the 16 replacement units ("Units"). As of last fall, the search had not been successful, so, upon a recommendation from Councilman Fannon, ARHA staff and the City Office of Housing staff began looking at available condominium, townhouse and fee simple product on the market in Alexandria.

DISCUSSION:
In a prior action the City Council made available $3MM of the $6.4MM originally obligated through the James Bland DSUP approvals. With this allocation and approval from both the City Council and the ARHA Board, ARHA and City staff began seeking the Units from the product available at the time. The ARHA parameters for seeking were based upon the baseline characteristics and available amenities for the units replaced back onto the ARHA sites. It was determined that the replacement units purchased should meet the characteristics of the units built on site, to the extent possible. Those parameters were as follows:

- all 3-bedroom plans would include 2 full bathrooms and all 2-bedroom plans would include 1-1/2 bathrooms; all designs are open plan;
- the community characteristics should include: Class A or B community (as defined at https://en.wikipedia.org/wiki/Apartments#Property_Classes); swimming pool, exercise rooms, meeting rooms (through free membership to the Charles Houston Recreation Center); Bland Park, and walkable to the metro or other mode of public transportation;
- unit characteristics should include: LEED certified design, full washer/dryer, cable TV outlet in all sleeping rooms and living room;
The $3MM for the 16 Units represents an average acquisition/rehabilitation price of $187,500. In seeking product at the $187,500 price point, it was determined that any purchase would require substantial rehabilitation just to bring the Unit into Class B condition and even then, the community would not be a Class B or even Class C community. As of May 8th there were four (4) units under $187,500. Two of the available units were short sales which the team had decided against because of the length of time it takes to close and the 3rd party influence on the transaction. The other two needed significant work and, even with improvements to the units, the communities were not desirable. It became evident that for any replacement Unit that came close to meeting the parameters set by ARHA and the criteria set by the City, we would be acquiring and rehabilitating that Unit as something closer to a $300,000 price point.

In prior actions of the Council, it was assumed that ARHA would be operating the Units with a HUD subsidy through a Public Housing Program Annual Contributions Contract (“ACC”). Administratively, this HUD ACC would supplement the resident’s portion of the rent which is based on 30% of the family's adjusted household income. This total rental income (household portion plus the HUD ACC) would not be enough to cover Condominium/Homeowner Association fees even though the Units would have no debt service. Given this, ARHA was limiting its search to product below $300,000 such that the total acquisition/rehabilitation effort to replace the 16 Units would not exceed $4.8MM, leaving a balance of $1.6MM to be used as an annual allowance to pay for the difference between the total rent and total expenses. This allowance was to be budgeted annually in the City Office of Housing budget.

Since approval of the $3MM, through its efforts to identify suitable units, ARHA has determined that it can acquire/rehabilitate units at an average cost of $300,000 as originally determined. We have also determined that it is more prudent to occupy the Units with families from the James Bland redevelopment effort who received a Tenant Protection Voucher (“TPV”) from HUD. The TPV would allow ARHA to receive a rent equal to the HUD published Fair Market Rent, thus providing enough rental income to cover expenses. With this revised strategy ARHA would acquire/rehabilitate the Units at a total cost of $4.8MM, occupy the unit with families who hold a TPV or Housing Choice Voucher and the remaining $1.6MM would not be required to fulfill the City’s obligation to replace the Units under Resolution 830.

To date ARHA has made 4 offers and has ratified 3 contracts. The 3 contracts that are ratified will close in June. ARHA has stepped up its efforts and expects to have 3 Units closed and an additional 5 under contract by the time this action is before Council. With this schedule ARHA would need the remaining $1.8MM before Council returns from its summer recess.

RECOMMENDATION:
That the City Council approve an additional $1.8MM in funding for a total amount available to ARHA of $4.8MM to be used to acquire/rehabilitate the 16 Units.

FISCAL IMPACT:
$1.6MM in cost savings for the City.