

cm(e)
4-8-03

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 8, 2003

TO: COUNCILMAN WILLIAM D. EUILLE
COUNCILWOMAN JOYCE WOODSON

FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*
MILDRILYN STEPHENS DAVIS, DIRECTOR, OFFICE OF HOUSING *msd*

SUBJECT: AFFORDABLE HOUSING INITIATIVES (CDC) (#03-24EW)

This is in response to your request for a plan of action to address the City's affordable housing needs that might include the establishment of a "community development corporation."

We agree with your view that, while the funding the City has allocated for affordable housing provides the "fuel" to power a vehicle that can develop affordable housing opportunities, we lack an "engine" which can utilize the fuel. To that end, for the past couple of months we have been working to develop a proposal for the creation of an Alexandria-based non-profit housing corporation. A draft proposal for the formation of an Alexandria Affordable Housing Corporation is attached, and will be docketed for Council consideration in May.

The proposed housing corporation is independent of the City, although we anticipate the City having significant input into its establishment. Thus, as outlined in the attachment, the proposal has a committee of City staff and other interested parties being formed to address and work toward decisions on a number of matters related to the formation of the corporation. These matters include:

- Definition of the new corporation's mission and the scope of its activities, including the types of housing opportunities it would provide and the individuals and households who would be eligible to participate in those opportunities
- Identification of possible sources of funding for the new corporation, in both the short- and long-run, and possible sources of donated furniture, equipment, supplies, and other items. It is anticipated that the City, at least in the short-run, would provide some operating funds for the new corporation. It also is anticipated that funding will come from local private sources. Within five to seven years, it is expected that the corporation would be largely self-supporting, earning sufficient fees from its projects to cover much of its annual operating costs.

- Discussion of the types of projects, as well as possible specific projects in the City, that the new corporation could undertake in its early years. It is particularly important that the corporation have one or two projects to consider and pursue soon after its formation. City expertise, along with expertise from other housing non-profits, would be available to help the new corporation at this early stage.
- Preparation of an initial year's budget for the new corporation, which would include a summary of proposed expenditures and a description of the sources of funds for these expenditures.
- Description of the backgrounds, experiences, abilities and so forth that should be reflected in members of the new corporation's board of directors.
- Preparation of articles of incorporation for the new corporation, which would be submitted to City Council for its review.
- Filing of the articles of incorporation.
- Solicitation of individuals to serve as members of the new corporation's board of directors. (We anticipate that two ex officio members would represent the City, and would be staff members appointed by the City Manager.)

We believe that the City will need to provide some initial funding for the new corporation. Private contributions also will need to be sought by the corporation. The initial City funding would be used, for example, for staff assistance, office space, if needed, and other non-personnel operating expenses. The City would provide this start-up assistance for a period of up to five to seven years. After this time, we expect the corporation to be able to generate sufficient revenue, including donations from private sources, to cover most of its operating expenses. However, we recognize that some continued financial assistance from the City may be necessary.

We anticipate that the new corporation would seek and obtain assistance early on from an existing organization experienced in assisting fledgling non-profit organizations that would help the corporation develop a capacity to deliver affordable housing. As to financing actual housing projects, the corporation would be expected to seek funding from a variety of sources, including federal and state housing financing programs, with the expectation that the City would provide gap financing from our Housing Opportunities Fund.

We have discussed the establishment of an Alexandria-based non-profit housing corporation with Housing Action, a recently-formed organization of faith-based organizations, non-profit organizations, and others interested in addressing Alexandria's affordable housing needs. It too is interested in the establishment of a housing corporation that will undertake affordable housing activities in the City. We will be further discussing the concept of a housing corporation with representatives of Housing Action, with the expectation that it, City staff and the Council will

work together toward the creation of a single non-profit housing corporation along the lines of the corporation outlined in the attached proposal. As earlier noted, the proposal calls for the Manager to create an exploratory committee, consisting of City staff and community representatives, that would develop a plan for the creation of the corporation, as well as for its early period of operation, and would prepare articles of incorporation for this new entity.

We will formally present this proposal for an Alexandria housing corporation for your consideration at a legislative meeting in May.

cc: The Honorable Mayor and Members of City Council

Attachment

April 8, 2003

**STAFF PROPOSAL FOR THE ESTABLISHMENT OF THE
ALEXANDRIA HOUSING CORPORATION
A NON-PROFIT HOUSING CORPORATION**

Staff is proposing that the City Council consider sponsoring the creation of a non-profit housing corporation, operated by an independent board of directors, to provide affordable housing to Alexandria citizens through the acquisition, and the acquisition and rehabilitation, of existing housing, and the construction of new affordable housing in Alexandria.

Mission and Scope

The proposed organization would be a non-profit housing corporation whose mission would include: (1) to provide affordable ownership and rental housing opportunities for households residing or working in Alexandria primarily with incomes at or below 75% of the Washington, D.C., metropolitan area median income;¹ (2) to raise funds to assist the corporation in providing affordable housing opportunities to eligible households; (3) to work with the City in securing loans and other assistance for households desiring to take advantage of the affordable housing opportunities provided by the corporation; and (4) to educate the public on the benefits of and need for affordable housing opportunities in Alexandria. The types of housing to be provided would include both single family and multifamily housing.

Proposed Structure

The structure of the proposed corporation would be as follows:

- Nonprofit, Section 501(c) (3) corporation housed in Alexandria.
- Governing board of 9-12 citizens representing a cross-section of Alexandria, each with appropriate interests, backgrounds or abilities, including individuals with experience in or ties to:
 - Construction and development.
 - Financing of housing construction and development.
 - Alexandria faith community.
 - Alexandria community and service organizations.
- Executive committee of the board consisting of 3-5 members.
- Initial paid staff of 1-2 employees, with a budget allowing needed expertise to be obtained by contract.
- Early projects could involve partnering with an entity experienced in providing affordable housing.

¹ It is anticipated that, within this income range, the target populations to be served would be families and individuals, elderly persons, persons with physical disabilities, first-time home buyers and renters.

- Property management initially handled with a third-party management company under contract.
- Initial office and meeting space possibly provided by the City or a community organization.

Timeline

The new corporation is not envisioned solely as a City government-driven initiative; rather, it is seen as an initiative of the entire Alexandria community. Thus, discussions involving the City and interested citizens need to occur that address the feasibility and desirability of, and commitment to, forming an affordable housing corporation. Assuming positive discussions, an exploratory committee, formed by the City Manager and consisting of community representatives and City staff, should develop a plan for the creation of the corporation, as well as for its early period of operation. (In developing this plan, the committee would engage in discussions with existing non-profit housing organizations, and organizations whose function is to facilitate the formation and operation of non-profit housing development corporations.)

The following would be the major elements of the plan developed by the committee:

- Definition of the new corporation's mission and the scope of its activities, including the types of housing opportunities it would provide and the households who would be eligible to participate in those opportunities.
- Identification of possible sources of funding for the new corporation, in both the short- and long-run, and possible sources of donated furniture, equipment, supplies, and other items. It is anticipated that the City, at least in the short-run, would provide some operating funds for the new corporation. It also is anticipated that funding would come from local private sources. Within five to seven years, it is expected that the corporation would be largely self-supporting, earning sufficient fees from its projects to cover much of its annual operating costs.
- Discussion of the types of projects, as well as possible specific projects in the City, that the new corporation could undertake in its early years. It is particularly important that the corporation have one or two projects to consider and pursue soon after its formation. City expertise, along with expertise from other housing non-profits, would be available to help the new corporation at this early stage.
- Preparation of an initial year's budget for the new corporation, which would include a summary of proposed expenditures and a description of the sources of funds for these expenditures.
- Description of the backgrounds, experiences, abilities and so forth that should be reflected in members of the new corporation's board of directors.
- Preparation of articles of incorporation for the new corporation, which would be submitted to City Council for its review.
- Filing of the articles of incorporation.
- Solicitation of individuals to serve on new corporation's board of directors.

Although highly optimistic, it is hoped that articles of incorporation could be prepared and presented to Council in late June. If not, the articles would be presented in September.

Initial Operations

As noted, it is expected that City and local private sources would supply nearly all operating funds for the early years of the corporation. The corporation would also need outside expertise in its initial years while it builds its internal housing development and management expertise and capacity.

Initial activities of the new corporation would likely include the following:

- Appointment of full board of directors, preparation and adoption of by-laws, election of officers and completion of other administrative start-up matters.
- Corporation staff focus on the identification of local development opportunities (and review of those identified by the exploratory committee).
- Consultation with City staff regarding City affordable housing programs and activities.
- Discussions with private developers and landowners regarding potential affordable housing projects and generally regarding the provision of on-site affordable housing opportunities in new development projects.
- Board activities to raise private funds for corporation operating expenses
- Gradual development of one or two initial projects, possibly with the assistance of a private development partner with expertise and capacity.
- Management of any corporation's completed projects by experienced property management under contract with corporation.

Over time, more of the development activity, and possibly the management of completed projects, would be brought in house, and an increasing share of the operating budget would be covered with development fees and cash flow from properties in the corporation's portfolio.

Pro Forma Budget and Business Plan

While the ultimate business plan and budget for the new corporation will be developed initially by the exploratory committee and eventually by the corporation's board of directors, the attached pro forma budget is included for preliminary evaluation purposes. The pro forma budget makes several assumptions (and should be viewed as illustrative and subject to change):

1. **Space and Personnel**
 - Donated office space from the City (possibly at the Housing Implementation Division, 2 Herbert Street) in years 1-4.
 - Corporation in leased office space starting in year 5.
 - First year staff of two: Executive Director (salary: \$80,000 or more) and Administrative Assistant (\$35,000).

- Second year addition of Development Director (\$60,000).
 - Fifth year addition of an Asset Manager (\$60,000).
2. Production Volume (actual projects may, of course, differ)
- One 25-unit non-tax credit project each year.
 - One 50-unit tax credit project in years 2 and 4.
 - One 100-unit tax credit project every other year beginning in year 6
 - Full operational budget support from City and private sources during first two years.
 - Reduced but possible continued City operating support in out years. (City also may indirectly supply additional operating support by funding projects which produce a developer fee or cash flow.)
3. Local Financing
- Initial years' operating expenses are anticipated to be \$12,000 to cover initial expenses (e.g., legal and filing fees) of getting started, roughly \$300,000 in year one and beyond.
 - Following initial years, some continued City and private support.
 - In addition to operational support, City assistance for project-specific financing (e.g., from Housing Opportunities and Housing Trust Funds).
 - The amount of the initial and subsequent City contribution will be dependent on the ability to raise private seed grant monies and to generate project fees.
4. Project-Specific Financing
- Primary Financing (federal, state).
 - ARHA (as a conduit to access tax-exempt bonds).
 - VHDA (various programs including 4% and 9% federal tax credits and related tax-exempt bonds).
 - Federal Home Loan Bank Affordable Housing Program.
 - Secondary Financing (City)
 - CDBG, HOME monies.
 - Housing Opportunities Fund/Housing Trust Fund.
 - Private Sector
 - Loans from banks and other institutional lenders.

**HOUSING CORPORATION OF
ALEXANDRIA**

Organizational Year	Year										TOTAL 10 YR BUDGET	
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10		
INITIAL CASH INVESTMENTS:												
Private Seed funding grants	250,000											\$0
City Matching Seed Grant	250,000											\$0
City Operating Support		\$110,000	\$110,000	\$110,000	\$110,000	\$110,000	\$110,000	\$110,000	\$110,000	\$110,000	\$110,000	\$1,100,000
Cash Flow Loan												\$0
Total Investments	\$500,000	\$110,000	\$110,000	\$110,000	\$110,000	\$110,000	\$110,000	\$110,000	\$110,000	\$110,000	\$110,000	\$1,100,000

CASHFLOW ANALYSIS:

Cash Carried Over from Previous Year		495,320	368,765	433,094	252,201	345,759	35,120	327,115	25,309	345,081	34,852	2,662,617
Annual Operating Expense	(12,000)	(267,005)	(334,571)	(328,620)	(337,733)	(467,158)	(463,476)	(476,180)	(489,265)	(502,743)	(516,628)	(\$4,183,378)
Developer Fee Income - Tax Credit Units		0	257,500	0	273,182	0	579,637	0	614,937	0	652,387	\$2,377,642
Developer Fee Income - non-tax credit projects		25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	\$250,000
Cash Flow From Operations		0	0	9,000	18,000	21,000	38,000	39,000	54,000	57,000	72,000	\$306,000
Net Cash Flow	(12,000)	253,315	316,693	138,474	230,650	(75,399)	212,281	(85,065)	229,981	(75,663)	267,613	1,412,881

TOTAL YEAR END CASH BALANCE BEFORE INTEREST INCOME & LOAN ACTIVITY	\$488,000	\$363,315	\$426,693	\$248,474	\$340,650	\$34,601	\$322,281	\$24,935	\$339,981	\$34,337	\$377,613	\$2,512,881
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Interest Income (1.6% on Year End Cash Cash Balance)	7,320	5,450	6,400	3,727	5,110	519	4,834	374	5,100	515	5,664	
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TOTAL YEAR END CASH BALANCE	\$495,320	\$368,765	\$433,094	\$252,201	\$345,759	\$35,120	\$327,115	\$25,309	\$345,081	\$34,852	\$383,277	
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**HOUSING CORPORATION OF
ALEXANDRIA**

PERSONNEL	Organizational Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	TOTAL 10 YR BUDGET	
		Executive Director	\$96,000	\$96,000	\$98,880	\$101,846	\$104,902	\$108,049	\$111,290	\$114,629	\$118,068	\$121,610	\$1,071,274
Administrative Assistant	\$42,000	\$42,000	\$43,260	\$44,558	\$45,895	\$47,271	\$48,690	\$50,150	\$51,655	\$53,204	\$468,682		
Development Director		\$72,000	\$74,160	\$76,385	\$78,676	\$81,037	\$83,468	\$85,972	\$88,551	\$91,207	\$731,456		
Asset Manager					\$72,000	\$74,160	\$76,385	\$78,676	\$81,037	\$83,468	\$465,726		
Total Personnel		\$138,000	\$210,000	\$216,300	\$222,789	\$313,473	\$322,877	\$332,563	\$342,540	\$352,816	\$363,401	2,814,759	
Technical Resources (eg, Consultants)		\$50,000	\$50,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	500,000	
Due Diligence - eg, CNA's, Appraisals (Non-reimbursable Predevelopment Expenses)		\$30,000	\$30,900	\$31,827	\$32,782	\$33,765	\$34,778	\$35,822	\$36,896	\$38,003	\$39,143	343,916	
Other Administration													
Rent		\$0	\$0	\$0	\$0	\$19,138	\$19,712	\$20,304	\$20,913	\$21,540	\$22,186	123,793	
Equipment		\$11,105	\$5,814	\$1,500	\$2,000	\$19,415	\$3,500	\$3,605	\$3,713	\$3,825	\$3,939	58,416	
Legal	10,000	\$10,000	\$10,300	\$10,609	\$10,927	\$11,255	\$11,593	\$11,941	\$12,299	\$12,668	\$13,048	114,639	
Accounting/Payroll/Audit		\$12,500	\$12,875	\$13,261	\$13,659	\$14,069	\$14,491	\$14,926	\$15,373	\$15,835	\$16,310	143,298	
Subscriptions/Miscellaneous	1,000	\$1,500	\$1,545	\$1,591	\$1,639	\$1,688	\$1,739	\$1,791	\$1,845	\$1,900	\$1,957	17,196	
Travel		\$2,000	\$2,060	\$2,122	\$2,185	\$2,251	\$2,319	\$2,388	\$2,460	\$2,534	\$2,610	178,943	
Telephone		\$2,400	\$2,472	\$2,546	\$2,623	\$2,701	\$2,782	\$2,866	\$2,952	\$3,040	\$3,131	27,513	
Office Supplies		\$1,000	\$1,030	\$1,061	\$1,093	\$1,126	\$1,159	\$1,194	\$1,230	\$1,267	\$1,305	11,464	
Postage/Overnight/Courier		\$2,500	\$2,575	\$2,652	\$2,732	\$2,814	\$2,898	\$2,985	\$3,075	\$3,167	\$3,262	28,660	
Voice Mail System(s)		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0	
Printing/Copying	1,000	\$6,000	\$5,000	\$5,150	\$5,305	\$5,464	\$5,628	\$5,796	\$5,970	\$6,149	\$6,334	56,795	
Total Other Admin		\$12,000	\$49,005	\$43,671	\$40,493	\$42,162	\$79,921	\$65,821	\$67,795	\$69,829	\$71,924	758,718	
Interest on Outstanding Loans(6%)													
TOTAL CORE BUDGET:		\$12,000	\$267,005	\$334,671	\$328,620	\$337,733	\$467,158	\$463,476	\$476,180	\$489,265	\$502,743	\$516,626	\$4,417,393

COUNCIL REQUEST TO ROSE 3/6/03 10:06 AM



William D. Euille
Member of Council

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To: Phil Sunderland
From: Bill Euille, Councilman
Joyce Woodson, Councilwoman
Date: February 27, 2003
Re: Affordable Housing Initiatives (CDC)

Phil, it has become apparent that we must take the next steps necessary to ensure that Alexandria develops a responsible plan of action to address our commitment to seeking positive solutions to addressing our Affordable Housing needs.

While our commitment to providing funding already is the "fuel," we must now create the "engine" to drive the outcome.

Therefore, we would appreciate your providing the Council with a "plan" to include partnering with a Community Development Corporation (CDC) for our consideration as soon as possible.

"Home Town of George Washington and Robert E. Lee"