

City of Alexandria, Virginia

MEMORANDUM

DATE: April 20, 2004
TO: HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*
SUBJECT: BUDGET MEMO # 62: TENANT AND WORKERS SUPPORT COMMITTEE
REQUEST FOR \$300,000 LOAN TO ACQUIRE 3801 MT. VERNON AVENUE

ISSUE: Consideration of the Tenants and Workers Support Committee's (TWSC) proposal for a \$300,000 ninety-nine year, interest free, loan, secured by a second Deed of Trust, to help finance a multi cultural community center located at 3801 Mt. Vernon Avenue for the Arlandria and Lynhaven neighborhoods.

RECOMMENDATION: That City Council not provide the requested loan to TWSC to help fund the purchase of a building to house the proposed multi cultural community center. With limited exceptions, the City has not provided grants or loans to non-profit organizations for capital purposes. Instead, financial assistance has been directed, almost exclusively, to assisting non-profits with their operating costs. Moreover, prior capital grants or loans have been limited almost exclusively to housing, economic and historic preservation purposes, and almost all of these grants and loans have utilized federal funds, rather than City general funds. If this TWSC request is granted, similar ad hoc capital requests will undoubtedly come from similarly situated non-profits seeking assistance with their capital needs¹.

Alternatively, if Council wishes to provide assistance to TWSC for this purpose, we recommend that it provide the loan on a deferred principal and interest basis. (See below for additional, proposed terms and conditions.)

BACKGROUND

¹ If Council wishes to move into the area of capital grants and loans, then we believe it should do so via a competitive program, open to all non-profits and with a specific criteria, similar to the Community Partnership program.

This memorandum is in response to the request of the former City Council that staff evaluate the TWSC proposal, and of Council Member Andrew Macdonald that staff identify possible sources of funding to assist TWSC in buying a building which will house their offices, other space to be rented on the open market, as well as a multi cultural community center in the Arlandria and Lynhaven neighborhoods.

The TWSC proposal was first described in a memorandum to City Council from then Mayor Kerry Donley dated June 18, 2003 (Attachment 1). It referred specifically to a different site which TWSC has since determined is not a viable option. TWSC has now entered into a contract to purchase a new site located at 3801 Mount Vernon Avenue for \$1.2 million.

The building to be acquired would be used for three purposes (1) as administrative office space for TWSC (750 to 850 square feet); (2) as a community multi-purpose room and teen lounge (700 to 800 square feet); and (3) as commercial office rental space (about 1700 square feet). The community center activities planned by the TWSC would be a child care center, a teen program, a health education program with screenings, and information and referral on various human services programs.

TWSC has requested this loan to fund part of their capital costs only. A bank (BB&T) has agreed to a 25 year loan to TWSC of \$820,000. The loan will be interest free for the first 2 years. During that period TWSC will pay down \$210,000 in principal in two separate payments, after which the loan will carry interest at a rate of prime plus 1 percent. At today's rates this equates to an interest rate of 5.0 percent. TWSC has obtained an estimate of renovation costs of approximately \$84,000 and is planning to raise \$100,000 for this purpose. TWSC plans to raise \$25,000 as an immediate capital reserve for any major structural repairs or improvements that might be needed in the future and to pay \$271 dollars in the first year, escalated annually by inflation of approximately 2.2 percent, to this capital reserve fund.

The annual building costs (operating, maintenance and debt service, exclusive of any capital reserve payment) start at approximately \$66,000 a year, and rise to approximately \$88,000 a year in year 10. These costs will be carried mostly by rental income earned from leasing approximately half the building to commercial tenants. The remainder of the operating costs of the building would be covered by TWSC in the form of implicit or explicit rental payments.

FINANCIAL ANALYSIS

Although TWSC is a well-established non-profit organization with a successful fund-raising history, there remains some uncertainty about the ability of the TWSC to operate and maintain this property over time. There are three types of uncertainty: (1) the uncertainty of achieving the estimated rental revenue from renting half of the property, (2) the uncertainty of TWSC being able to cover the remaining operating, maintenance and debt service costs of the building (the building costs) with independent funding from its own operating budget, and (3) the uncertainty of any major, unexpected capital repairs or improvements.

TWSC supplied a detailed analysis of the prospective cash flow and operating costs of the building prepared by Jon Dapogney, a financial consultant to, and member of TWSC (Attachment 2). The Office of Management and Budget and other City staff reviewed this analysis and has the following observations:

Reliance on Rental Income: The majority of the building costs will be paid by rental income. The percentage of estimated, available rental revenue ranges from 59 percent to 78 percent of building costs in the first three years. This range is due to the fluctuation in debt service and rental payments from the repayment of some principal and the expiration of a below market lease of space to the current owner of the property. Thereafter, the ratio of available rental revenue to these building costs ranges from 72 percent to 75 percent.

Initially, the financial analysis shows a small surplus in all but 2 of the first 10 years of the loan assuming a \$27,000 rental payment by TWSC itself for its space in the building. After costs and rent stabilize in years 4 through 10, the financial analysis shows a net surplus of between approximately \$3,500 and \$6,600 a year.² Should the space to be leased be vacant for more than ordinary periods assumed in the financial analysis, the amount of building costs that would have to be covered by TWSC would increase from the approximately \$22,000 a year assumed in the financial analysis.

Reliance on Grant Funding for TWSC: The ability of TWSC to cover these costs through its explicit or implicit rental payments requires an examination of their operating budget. The TWSC operating budget for the period July 2004-June 2005 provided to the City shows expenses of \$689,183, and includes \$25,000 in rental expenses for their current offices in Alexandria and on Leesburg Pike, as well as the establishment of \$48,083 in operating reserves. Sixty-one percent of the organization's expenses are dedicated to salaries.

For the same period, July 2004-June 2005, the projected revenue is \$691,000, of which \$614,000, or 89 percent, is from grants including \$56,000 in City grants. The remaining \$77,000, or 11 percent, is from contracts and service agreements as well as members dues and donations. TWSC acknowledges that 2003 was a "difficult" one financially and that it spent down its operating reserves in 2002 and 2003 and had to furlough 2 full-time staff and institute employee cost sharing on health insurance. Nevertheless, TWSC is optimistic on future grant possibilities given (1) its recent receipt of national awards and recognition from the Ford Foundation and the Robert Wood Johnson Foundation, (2) its expanded services putting it into "new funding streams" from additional grant sources, and (3) the visibility and growth expected

²It should be noted that the cash flow for the building improves after the third year when the current landlord's rental payments to TWSC increases to market rate. However, at this time, debt service costs also will change. Under the terms of the first loan, which is interest only for the first two years, a principal payment of \$105,000 is due July 31, 2005 and another principal payment is due July 31, 2006. At that time, TWSC is obliged to pay both interest and principal payments for the remainder of the 25 year term of the loan.

from opening the subject facility itself on Mt. Vernon Avenue.

The TWSC operating budget does not include \$25,000 to establish a building reserve fund in 2004. TWSC has indicated it proposes to raise this sum from donors.

Attachment 3 provides a list of potential grant funding sources provided by TWSC.

Funding Unexpected Capital Repairs or Improvements: In addition to the initial \$25,000 capital reserve fund contribution, the financial analysis provided to the City shows a yearly payment to this fund of \$271 escalated by inflation, an amount equal to approximately \$0.05 a square foot per year. General Services has indicated that \$0.15 per square foot per month is a more realistic capital reserve payment, but an initial \$25,000 reserve, if acquired by donation, would represent an adequate amount of protection against any extraordinary repairs. We note that an independent appraisal report made available to the City notes that the building is in good overall condition, particularly given the age of the property. A walk through by a City code enforcement official identified several Building Code issues based on proposed uses (handicapped accessibility, exits, and mechanical systems) that the applicant appears to be able to solve with the \$100,000 in renovation funds discussed above. A special use permit is required and Planning and Zoning Department staff is examining these issues in preparation for a docket item scheduled for June 12, 2004.

POTENTIAL SOURCES OF FUNDING

If City Council should choose to fund this \$300,000 loan in a non-competitive fashion, it would have to do so through the City's Capital Improvement Program (CIP). Either (1) the cash capital contribution in the CIP would have to be increased by \$300,000 with an offset of savings in the operating budget during the Add/Delete process, or (2) some other CIP project planned for FY 2005 would have to be deleted, or (3) Council would have to use some of the contingent reserve.

RECOMMENDED TERMS AND CONDITIONS OF ANY LOAN

Should Council choose to approve this loan we recommend that the Council direct the City Manager to seek the following conditions to be negotiated as part of the Second Deed of Trust that we believe would be necessary to protect the city's interests. They are as follows:

- A. Principal and deferred interest will be due at the earlier of (1) the expiration of the 99 year term of the first loan (unless forgiven), (2) the sale of the property by TWSC or its subsidiary, or (3) the cessation of TWSC as a non-profit and the transfer of its assets (or its subsidiary's assets) to another entity. The interest rate proposed to be charged should be the true interest rate paid when the City borrowed funds in January 2004, 3.74 percent, as this represents the effective cost of this loan to the City.

- B. TWSC would attest that their financials are accurate.
- C. TWSC will provide income and expense and reserve reports to the City on a semi-annual basis for the first five years of the loan, and thereafter on an annual basis if the City Manager requests such a reports to continue.
- D. The second Deed of Trust to be held by the City will be known to the holder of the first trust (BB&T).
- E. A cross default provision which will state that any default of the first Deed of Trust constitutes a default of the City's second Deed of Trust and grants the City the right to foreclose under its second Deed of Trust.
- F. TWSC will bear any and all relocation costs required by HUD for the use of EDI (Economic Development Initiative) funds.
- G. That the property will be continuously used as a community center to serve the Arlandria and Lynhaven communities unless City Council approves a different use in the future by appropriate resolution.
- H. TWSC will maintain the property and all fixtures & systems in good working order and pay the real estate taxes in full and on time.
- I. A portion of the site will be rented to provide ongoing income to TWSC and that the same amount of commercial square footage on the ground floor will be maintained.

Staff: Meg O'Regan, Special Projects Coordinator
Bruce Johnson, Director, Office of Management and Budget

Attachments

EXHIBIT NO. 1

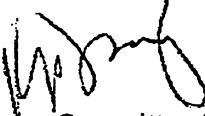


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Kerry J. Donley
Mayor

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DATE: June 18, 2003
TO: The Honorable Members of City Council
FROM: Mayor Kerry J. Donley 
RE: Tenants' & Workers' Support Committee (TWSC)
3308 Mt. Vernon Avenue

About a year ago we attended a community meeting in Arlandria sponsored by the Tenants' & Workers' Support Committee (TWSC), where this group and a number of citizens expressed their desire to have a community center in Arlandria which would address the needs of citizens in that area. Specifically, they requested that a portion of the former Datatel site be granted to them for such a building. At the conclusion of that meeting, I committed to initiate a dialogue, together with the City Manager, with the TWSC about their specific proposal, and to explore concerns about a community center and how it might be established in this part of the community.

During the past months the City Manager and I have held a number of meetings with various representatives of the TWSC to discuss their issues. We directly addressed the matter of the Datatel site, and after considerable discussion, we did not concur with the proposal of a community center at this site, since it would adversely affect the approved redevelopment plan for this area, which is the product of considerable work by neighborhood stakeholders. In the meantime, both the Planning Commission and the City Council have formally approved both the redevelopment plans for the Datatel site and the necessary amendments to the Master Plan.

TWSC then embarked on a search and evaluation of other sites in the immediate area where a center might be feasible. Some sites were rejected for the most part due to availability and zoning considerations. One site remains potentially viable and, I believe, subject for further review and analysis.

Attached is a description of a site located at 3308 Mt. Vernon Avenue which potentially could serve as a community center for the neighborhood. Additionally, there is a TWSC description of programming which could be provided at the center for nearby residents. Proposed programming would include community health promotion, teen activities, parental education, computer training, human services, and workforce development. Admittedly, the list of programming is ambitious, but I feel it warrants further analysis to determine what services truly can be housed at such a facility and what services can efficiently be delivered at this center.

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

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The new building that TWSC proposes to construct will house not only these services, but also the offices of the TWSC. The community center is proposed to comprise approximately 1700 square feet, and the TWSC offices are proposed to occupy approximately 1300 square feet. However, our attention and involvement should be focused solely on the community center portion and its proposed programming.

As further outlined in the attachment, the City is being asked to take on a financial role in the acquisition and construction of the facility. It is requested that the City provide Second Deed of Trust financing for the proposed building. According to the pro forma provided by the TWSC, the total cost of acquisition and construction is \$787,500, and the various financial sources would be as follows:

| | |
|------------------|--|
| \$105,000 | Downpayment by TWSC |
| 155,000 | Capital Fundraising Campaign |
| 227,500 | Commercial Loan - First Deed of Trust |
| <u>300,000</u> | <u>City of Alexandria - Second Deed of Trust</u> |
| \$787,500 | Total Proposed Financing |

It should be noted that our discussions with the TWSC have been conducted under the premise that none of the operating costs of the facility would be borne by the City, and would be entirely the responsibility of the TWSC. Additionally, the City has not been asked, nor should it consider, to act as an endorser or guarantor for any financial component of the transaction.

Recommendation: I recommend that the City Council request that the City Manager undertake a further analysis of this proposal, and return in the fall with a recommendation for consideration by the new City Council. At this stage of the consideration of the project, I support it as a way to build a multi-cultural, multi-purpose center in the Arlandria community. I view the City's involvement in this project similarly to the role we play in our homeownership programs where we act as a lender for acquisition of real property in a structured transaction which might not otherwise occur without our participation.

While I am asking for your preliminary approval and request for further analysis by our staff, our action tonight in no way obligates the next City Council, which takes office on July 1, 2003. There are still a number of issues which must be resolved, such as further engineering and potential zoning variances, and an assessment of programming and the financial viability of the transaction (both construction and operating). Your approval would likely enable the TWSC to keep the location under contract and allow us to continue to work constructively toward a community center in Arlandria.

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Fiscal Impact: Possible loan to the TWSC in the amount of \$300,000 for site acquisition and construction of a community center in Arlandria. No participation in operating expenses is envisioned as part of this proposal. The loan to the TWSC is proposed to take the form a Second Deed of Trust at 0% for a term of 99 years.

Attachments

cc: Phil Sunderland, City Manager

Appendix C: Capital campaign donors and revenue projections

| <u>Confirmed Financial Sources</u> | | |
|--|------------|----------------------------|
| | Amount | Date Approved |
| TWSC Building Fund: | \$ 105,000 | 9/03 |
| HUD Economic Development Funds: | \$ 98,500 | 1/04 |
| Eugene and Agnes Meyer Foundation: | \$ 75,000 | 11/03 |
| BB&T Bank – loan commitment: | \$ 820,000 | 1/04 |
| <u>Pending/Requested Financial Sources</u> | | |
| | | Expected Notification Date |
| City of Alexandria | \$ 300,000 | 5/04 |
| Morris and Gwendolyn Cafritz Foundation | \$ 75,000 | 6/04 |
| <u>Projected Grant Requests</u> | | |
| | | Date of Request |
| Kresge Foundation | \$ 250,000 | 4/15/04 |
| Philip Graham Fund | \$ 75,000 | 5/1/04 |
| Mark/Catherine Winkler Foundation | \$ 50,000 | 4/04 |
| Collis-Warner Foundation | \$ 50,000 | 4/04 |
| Clark-Winchcole Foundation | \$ 25,000 | 4/04 |
| Washington Forrest Foundation | \$ 25,000 | 5/04 |
| <u>Projected Donations</u> | | |
| | | Expected by |
| Individual Donations | \$ 50,000 | 12/04 |
| Business/Corporate Donations | \$ 25,000 | 9/04 |
| In-kind Donations | \$ 25,000 | 9/04 |