

City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 5, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*

SUBJECT: CONSIDERATION OF ALLOCATING HOUSING OPPORTUNITIES FUND MONIES TO BIRMINGHAM GREEN ADULT CARE RESIDENCE, INC., TO REPLACE AN EXISTING ASSISTED LIVING FACILITY

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**ISSUE:** Consideration of a funding allocation to Birmingham Green Adult Care Residence, Inc., (BGACR) to aid in the replacement of its assisted living facility in Prince William County.

**RECOMMENDATION:** That City Council:

- (1) Approve a 99-year, deferred payment loan of up to \$150,000 from the Housing Opportunities Fund to BGACR to aid in the development of a new affordable assisted living facility in Prince William County. The loan would be contingent upon BGACR's continued use of the facility for affordable assisted living, and upon BGACR receiving funding from other participating jurisdictions as well; and
- (2) Authorize the City Manager to execute all necessary documents.

**BACKGROUND:** The City of Alexandria and the Counties of Fairfax, Fauquier, Loudoun, and Prince William own as tenants in common 54 acres of land along Route 28 between the Cities of Manassas and Manassas Park in Prince William County known as Birmingham Green. Two publicly-owned facilities, a 64-bed assisted living facility and a 180-bed nursing home have been developed on 12 of the 54 acres; the remaining 42 acres are undeveloped.

The existing assisted living facility was developed initially in the 1920s and expanded in the mid-1950s. It was operated by the District Home Board until recently when the District Home Board established Birmingham Green Adult Care Residence, a private, nonprofit corporation, to operate the facility. The facility, which serves low income persons who cannot afford typical market rates of over \$3,000 per month, has become obsolete, with most rooms shared by two or more residents.

In May 2002, City Council and the four other participating jurisdictions supported BGACR's application to the federal Department of Housing and Urban Development (HUD) for capital funding and rent assistance to replace the current assisted living facility with a new one. At that time the

application was for a grant of \$8,520,000 for 120 studio units. A more detailed description of the application appears in Attachment I. In late 2002, HUD awarded BGACR \$6,849,000 in capital fund monies from two separate programs to partially fund the development of a 92-unit assisted living facility consisting of two distinct and separately owned but jointly managed buildings, one with 78 units for the elderly and one with 14 units for persons with disabilities, connected by an enclosed walkway. The total development cost for this 92-unit project, which is reduced in scope from the original 120-unit facility, is estimated at \$9,000,000, including an approximate 6% contingency (see attachment II). The HUD award also included project-based rental assistance for the units.

Also in May 2002, City Council and the other four participating jurisdictions approved 80-year leases of portions of the land to allow development of the assisted living facility.

**DISCUSSION:** The need for affordable assisted living is growing. Alexandria now has 38 low-income former City residents who have been placed elsewhere in the state due to the lack of affordable assisted living facilities in Northern Virginia (not including 13 residents at the current Birmingham Green assisted living facility). The City has established an affordable assisted living work group to develop specific proposals for the expansion of affordable assisted living options in Alexandria. However, the need for assisted living for low income Alexandrians at Birmingham Green is expected to continue, even if a new affordable assisted living facility is provided in Alexandria.

BGACR is working to fill the capital funding gap between the HUD award of \$6,849,000 and the estimated development cost of \$9,000,000. A more detailed description of its broader fund raising efforts is included in Attachment I, and a table at Attachment II describes the projected funding sources and uses for the new proposed 92-bed facility.

To assure that the project can go forward, BGACR is applying to all five member jurisdictions for funding. Its goal is to secure commitments of a total of \$1,000,000 from the member jurisdictions to fill a part of its funding gap. BGACR is basing the amount of its requests on each jurisdiction's proportional use of the facility. Over the last ten years, Alexandria has used 15% of the beds in the facility, hence the request for \$150,000. If sufficient other funding becomes available, BGACR will reduce the amount it needs from the member jurisdictions proportionally.

The City's Affordable Housing Advisory Committee considered BGACR's application at its April 5, 2004 meeting, and recommended that City Council approve the request. A copy of the complete application is available in the City's Office of Housing.

**FISCAL IMPACT:** Expenditure of up to \$150,000 in previously appropriated Housing Opportunities Fund monies.

**ATTACHMENTS:**

- Attachment I. Birmingham Green Assisted Living Replacement Facility Equity Financing
- Attachment II. Birmingham Green Sources and Uses Summary

**STAFF:** Mildrilyn Stephens Davis, Director, Office of Housing  
Bob Eiffert, Deputy Director, Office of Housing  
Bruce Johnson, Director, Office of Management and Budget

**Birmingham Green  
Assisted Living – Replacement Facility  
Equity Financing  
Update – Spring 2004**

Background

Since 2001, Birmingham Green has been involved in planning and developing a project to replace the original home-for-adults facility constructed in 1927 on its campus in Prince William County.

With the assistance of ZA Consultants and with the endorsement of the owning localities Birmingham Green made application to the Department of Housing and Urban Development for grant funding from the HUD 202 and 811 programs. At that time, the project was proposed for a unit mix of 120 studio units with an estimated total project cost of \$11,183,105. Potential HUD funding was estimated at \$8,520,000. Equity funds (difference between total cost and HUD funding) were estimated to be \$2,663,105.

The application to HUD, with strong support from the Northern Virginia community and its leadership, was successful in a very competitive application round. Though all 120 units were not awarded, Birmingham Green received all units available in the 2002 round for this region. The estimated total project cost was reduced to \$9,000,000, with a total HUD 202/811 award of \$6,849,000 (76% of the total project cost), resulting in an equity financing need of approximately \$2,151,000 (24% of the total project cost).

The necessity to secure equity funding (or gap financing) is present with virtually all low-income housing projects. At the time of the ZA Consultant report, Low Income Housing Tax Credits were seen as a likely vehicle to use for a portion of the equity funds. Additionally, funds from various housing-related sources were mentioned as options: Community Development Block Grants (CDBG), Federal Home Loan Bank Grant, Virginia Department of Housing and Community Development's Virginia Housing Partnership Fund, HOME Funds and HUD Section 108 funds.

Birmingham Green has committed \$500,000 from its capital reserve account toward the equity needs of the project. Funding (estimated at \$1.65 million) from the aforementioned federal, state and locally administered sources will be necessary to complete the project financing.

Equity (Gap) Funding Applications to Date

An application was made to the Federal Home Loan Bank in 2003 through Birmingham Green's bank sponsor, Wachovia. Though the application scoring exceeded the level necessary for funding in the 2002 cycle of grants, the competition in 2003 was stronger. Funding for the upcoming cycle has been reduced by half making the prospect for a successful reapplication unlikely.

Birmingham Green's application to Prince William County for \$340,000 in CDBG funding did not receive an award although we have been encouraged to reapply in the 2005 cycle.

An application has been made to Loudoun County for \$207,900 in CDBG funds and received a favorable staff recommendation going forward to the Board of Supervisors.

Application has been made to the City of Alexandria for \$150,000 from the City's Housing Opportunities Fund. This application is pending review by the Affordable Housing Advisory Committee.

An application to the County of Fairfax Affordable Housing Partnership Fund in the amount of \$800,000 will be submitted on March 12, 2004.

### State Agency Assistance

#### *Virginia Department of Housing and Community Development*

Funds have recently become available through the Commonwealth's Priority Housing Fund targeting \$5.5 million in grants and/or deferred loans for Housing for Persons with Disabilities, Affordable Housing for Seniors, and Affordable Assisted Living.

Birmingham Green is working with senior officials in the Division of Housing to fashion an application for \$500,000 to \$750,000 from this fund.

#### *Virginia Housing Development Authority*

The Virginia Housing Development Authority (VHDA) is the designated entity in Virginia that administers Low Income Housing Tax Credits.

Low Income Housing Tax Credits, earlier thought to be available for our project, were given a lower priority for equity funding due to the complex nature of using tax credits in conjunction with HUD 202 and 811 funds (mixed financing). Regulatory guidelines from HUD for mixed finance projects were not issued until December of 2003.

Recent meetings with officials at VHDA including an accessible housing expert and the administrator of the tax credit program encouraged an application for tax credits under the non-competitive pool of credits. This is an application that can be submitted at any time as the non-competitive pool is not subject to the March deadline for all other applications.

Additionally, a meeting with Virginia Community Development Corporation (VCDC) will be arranged shortly to further explore the tax credit financing vehicle. VCDC provides access to the private equity market and arranges specialized tax credit counsel necessary to administer the financing.

### Locality Participation

Applications have been made or are in process for housing funds through all localities but Fauquier. [Fauquier may consider a CDBG application in 2005 which, because Fauquier is not an entitlement jurisdiction, would have to come from the statewide pool of funds.] The intent of Birmingham Green has always been to minimize the capital funds needed from our owning localities. However, due to the grant process for the various state and

federal funds we intend to access, it cannot be known at this point the amount of funds that may be needed from the housing funds of individual localities.

Localities, on the other hand, need to be assured that all will participate in an equitable fashion. The formula we have constructed for this process is based upon historic utilization of the Birmingham Green facilities: Fairfax, 45%; Prince William, 20%; Loudoun, 15%; Alexandria, 15%; Fauquier, 5%.

It is our intent to minimize appropriations from localities' individual housing funds. An option for equitable distribution might be for Birmingham Green to agree that all funds received from state and federal sources will reduce the pool of funds needed from the localities.

For example, if Birmingham Green raises \$1 million from state and federal sources (which appears possible), the remaining estimated balance to fully fund the project would be \$650,000. In that case, Fairfax would share 45% of that burden, or \$292,500. If the Fairfax award of funds from their Affordable Housing Partnership fund were \$800,000, we would draw the \$292,500 and release the balance of the authorization back to Fairfax. If Alexandria authorizes an award of \$150,000, their share of the \$650,000 would be \$97,500, and we release \$52,500 of their award back to their Housing Opportunities Fund.

### Private Fundraising

The extent to which Birmingham Green can successfully raise funds from private individuals and foundations is not clear at this moment. Much of the effort to raise the 202/811 equity has been directed to the available (and extensive) state and federal programs identified. Though a private fundraising effort is planned for kickoff in the fall of 2004, a significant amount of planning and organization is necessary. A fundraising campaign needs a vehicle (Birmingham Green Foundation) through which to make requests and a strategically conceived plan of approach. Organizational documents for the BG Foundation are in process.

We have begun discussions with and await a proposal from an advertising/public relations firm in Richmond (Sharon Brooks & Associates) to help develop materials and targeting for a campaign. Materials are important for an approach to individuals and foundations and will give a level of support to those we seek for help with the work of the Birmingham Green Foundation.

Meetings have been held with a few key individuals to begin sorting through our possibilities for BG Foundation board members. The response to the cause and the idea of the foundation has been received in a very positive way. In the near term, we will be focusing on the identification of key community leaders from the localities to engage on behalf of our mission.

Thomas S. Dodson, Director of Development and Community Relations  
March 9, 2004

## Adult Assisted Living at Birmingham Green

### Sources and Uses Summary

	ZA Study 120 units <u>Aug - 01</u>	Budget 92 units <u>Mar - 04</u>
<b>Projected Funding Sources:</b>		
Proposed by ZA Consulting:		
HUD 202	Note (1)	\$6,849,000
Low-Income Housing Tax Credits	Note (1)	
HOME Loans and Grants	Note (1)	
CDBG Loans and Grants (2)	Note (1)	
Loudoun		205,000 (3)
Prince William		300,000 (3)
Federal Home Loan Bank Programs	Note (1)	0
Private Grants and Loans	Note (1)	146,000 (3)
Other Sources:		
District Home Reserves, incl DNH Sale		500,000
Fairfax Affordable Housing Partnership Funds		800,000 (3)
Alexandria Housing Opportunities Fund		150,000 (3)
Fauquier County		50,000 (3)
	<u>\$11,183,105</u>	<u>\$9,000,000</u>
<b>Projected Uses (Budget)</b>		
See accompany page for details	<u>\$11,183,105</u>	<u>\$9,000,000</u>

## Notes:

- (1) The ZA Study only listed possible sources of funding and did not specify amounts that might be secured from any of these sources.
- (2) CDBG funds from Alexandria and Fairfax cannot be used in Prince William County; thus alternate funding sources are being requested from those jurisdictions.
- (3) These funds have not been secured or committed as of the date of this application.

wdk  
3/10/2004

**Adult Assisted Living at Birmingham Green**  
**Development Budget (Uses Summary)**

Based on ZA Study--August, 2001

	<u>120 Units</u>	<u>Cost/Unit</u>	<u>Calculated Cost for 92 Units</u>	<u>Budget Mar-04</u>	<u>Cost/Unit</u>
<b>Construction Costs</b>					
Direct Construction Cost	\$8,829,105	\$73,576	\$6,768,992	\$6,540,500	\$71,092
Site Development Costs	250,000	2,083	191,636	Incl Above	
Hard Cost Contingency				452,300	4,916
<b>Subtotal</b>	<b>9,079,105</b>	<b>75,659</b>	<b>6,960,628</b>	<b>6,992,800</b>	<b>76,008</b>
<b>Architectural &amp; Engineering</b>					
	473,000	3,942	362,664	405,000	4,402
<b>Other Costs</b>					
Feasibility study/consulting	100,000	833	76,636		0
Water, sewer connection fees	941,000	7,842	721,464	721,800	7,846
Engineering Costs				15,000	163
Surveys and borings	20,000	167	15,364		0
Development Consultant's Fee				125,000	1,359
Other/organizational expenses	100,000	833	76,636	14,000	152
Appraisal & Environmental Study				6,000	65
Survey & Cost Analysis				10,000	109
Permits				8,400	
Closing costs/Syndicator	20,000	167	15,364		0
Legal costs	50,000	417	38,364	47,000	511
Cost Certification Audit Fee				14,000	152
Insurance, Title & Recording				76,000	826
Marketing/Lease-up Expenses	20,000	167	15,364	0	0
Furniture, Fixtures & Equipment	380,000	3,167	291,364	250,000	2,717
Sponsor Administrative Salaries				100,000	1,087
Sponsor Pre-development Costs				175,000	1,902
Soft Cost Contingency				40,000	435
<b>Subtotal</b>	<b>1,631,000</b>	<b>13,593</b>	<b>1,250,556</b>	<b>1,602,200</b>	<b>17,324</b>
<b>Land Cost</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Estimated Development Budget</b>	<b>\$11,183,105</b>	<b>\$93,194</b>	<b>\$8,573,848</b>	<b>\$9,000,000</b>	<b>\$97,734</b>

Notes:

- (1) Initially costs of the 92 unit development were based on the costs per unit from the ZA study. One could realistically expect the cost per unit to be somewhat higher for a smaller project.
- (2) Feasibility Study costs are included in the Sponsor's Pre-development costs, along with preliminary engineering studies, legal fees, and costs of developing the HUD applications.

wdk  
3/10/2004