EXHIBIT NO. 1

17
5-10-05

# City of Alexandria, Virginia

## MEMORANDUM

DATE: MAY 3, 2005

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: CONSIDERATION OF MODIFICATION OF HOUSING TRUST FUND LOANS TO COMMUNITY LODGINGS, INC. (CLI)

**ISSUE:** Modification of Housing Trust Fund loan on 612 Notabene Drive to reduce CLI's loan payments by $875.94 per month.

**RECOMMENDATION:** That City Council approve the following modification to the Housing Trust Fund loan on 612 Notabene Drive:

| Property | Current Payment | Current Payoff Date | Proposed Payment | Proposed Payoff Date | Monthly Savings |
|---|---|---|---|---|---|
| 612 Notabene | $1,070.44 | October 2006 | $ 194.50 | July 2014 | $ 875.94 |

**BACKGROUND:** Community Lodgings, Inc. owns and operates two 10-unit rental properties at 607 and 612 Notabene Drive, as well as a 28-unit rental property at 3908/3912/3916 Elbert Avenue. Within the Notabene Drive properties, CLI currently has 10 transitional families, down from 14 in the late 1990s.

The City provided CLI with $100,000 in Housing Trust Fund (HTF) monies toward the acquisition and rehabilitation of each of the Notabene Drive properties, and later provided an additional $25,000 in other non-federal monies toward the rehabilitation of both of those properties. The City also provided $300,000 in HTF monies toward the acquisition of the Elbert Avenue property, which received additional assistance under the Low Income Housing Tax Credit program. At one time CLI owned six townhouses, five of which were assisted by the City, for transitional housing purposes. Those properties have been sold, and the City's loans have been repaid. The City loan on 607 Notabene Drive has also been repaid.

**DISCUSSION:** Under the City's loan agreements with CLI for the Notabene Drive properties, CLI is to devote eight of the 20 units to transitional housing. CLI expanded its transitional housing capacity to 14 when it owned and operated six transitional townhouses. When it sold those townhouses, CLI stated its intent to absorb six transitional families into its remaining properties. However, CLI has not been able to maintain 14 transitional families for several funding-related reasons. CLI Board Chair Bonnie Baxley provided the following explanation:

"Historically, there have been only three main sources of funding for the transitional program:

- FSG/SSG allotments have actually had an increase in the past year. This increase, however, has been negligible, relative to the rise in the costs affecting rents, salaries and general operating expenses.
- The Fannie Mae Homeless Walkathon was an important and growing funding source in the early 2000's but has recently been stable or declining since Fannie Mae has changed and tightened the rules and matching offers.
- Community Lodgings' general program operating funds have been used to supplement the above two sources, which do not meet all the expenses of our transitional programs. These funds are raised from the community, churches, businesses, and foundations. Income from these sources has been generally stable, barely keeping up with increased living/operating costs.
- Historically foundation grants have been forthcoming in support of Community Lodgings' programs. But foundation funding for transitional housing programs has been dwindling. We have found that most foundations are especially interested in new programs. Transitional housing—and homeless programs in general—are not new."

The attachment lists all of the debt on CLI's Notabene and Elbert Avenue properties. CLI approached Housing staff with a request that the City consider paying off some of the private debt on the Notabene properties in order to improve the organization's cash flow and enable it to serve more transitional families. Instead, staff preferred to explore options for restructuring the current Housing Trust Fund debt on the CLI properties. In pursuing this approach, staff chose to exclude the small non-HTF loan that is currently being repaid at $169 per month, as restructuring this loan would not produce much in the way of monthly savings.

Although staff explored the possibility of restructuring both the Elbert Avenue and 612 Notabene Drive loan, staff recommends that only the Notabene Drive loan be modified, as any additional cash flow savings on the Elbert Avenue loan cannot be used directly for the transitional program because the benefit must go to the tax credit partnership that owns the property (and in which CLI is the general partner) until CLI becomes the full owner of the property in 2010.

The recommended loan modification would reduce CLI's monthly debt service payments by $875.94 by extending the term of the 612 Notabene loan from October 2006 to July 2014. According to CLI, the cost of supporting one transitional family is $12,000 per year, or $1,000 per month. The reduced debt service associated with the Notabene Drive loan will enable CLI to support approximately one additional transitional family.

This loan modification will help Community Lodgings, to a small degree, with its budget problems. Community Lodgings' income from grant sources has dropped, so it is facing a $100,000 budget gap for FY 2006. Part of that gap might be closed if Community Lodgings is successful in receiving the $20,000 Community Partnership Fund grant is has applied for.

The Affordable Housing Advisory Committee approved this recommendation on April 14, 2005. This action will result in a slight reduction in income to the Housing Trust Fund over the next 18 months (see Fiscal Impact, below), but will not cause a significant impact.

**FISCAL IMPACT:** Modification of the Notabene Drive loan will result reduced revenue of $14,894 over the next 18 months, but a net increase of $2,305 in total loan payments for the life of the loan.

**ATTACHMENT:** CLI Mortgage Debt

**STAFF:** Mildrilyn Stephens Davis, Director, Office of Housing

ATTACHMENT

**CLI Loan Balances as of April 1, 2005**

| Property | Year Pays Out | Balance | Mon. Payment | Lender |
|---|---|---|---|---|
| 607 Notabene | 2022 | $224,148 | $1,292.01 | VHDA (2%) |
| 607 Notabene | 2007 | $10,981 | $574.00 | United Bank (8%) |
| 607-612 Notabene | 2013 | $14,224 | $169.98 | COA (3%) |
| 612 Notabene | 2006 | $19,839 | $1,070.44 | COA (3%) |
| 612 Notabene | 2022 | $221,462 | $1,292.01 | VHDA (2%) |
| 612 Notabene | 2007 | $8,562 | $578.49 | United Bank (8%) |
| Elbert Ave. | 2025 | $686,256 | $3,794.44 | VHDA (2%) |
| Elbert Ave. | 2014 | $207,987 | $2,093.81 | COA (3%) |
| Elbert Ave. | 2015 | $182,676 | $2,076.10 | Provident Bank (6.92%) |

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**Mildrilyn Davis/Alex**
05/10/2005 12:43 PM

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cc Jim Hartmann/Alex@Alex, Michele Evans/Alex@Alex, Mark Jinks/Alex@Alex, Jackie Henderson/Alex@Alex
bcc
Subject Re: CLI Loan

Below are my responses to questions from Councilman Krupicka (attached) on the CLI loan (tonight's docket item #17):

1. In 1991 the City loaned CLI $100,000 toward the purchase of 612 Notabene with the understanding that the property would be used for both low-income permanent and transitional housing. At that time, four of the property's ten units were to be used for transitional housing. Payments were deferred for five years, and the loan was then to be amortized over 15 years at 3% interest. Initially, payments were to be made quarterly, but at CLI's request (and with Council's approval), the payment schedule was changed to monthly. An identical loan was made on 607 Notabene (an identical property), and a subsequent additional loan of $25,000 (non-federal, non-Housing Trust Fund) was made on both properties (jointly) to help address rehabilitation costs. In FY 2000, CLI was behind in its payments to the City, and in June 2000, Council approved a grant to CLI from the Housing Trust Fund of $28,170, of which $12,714 covered loan payments owed to the City, and the remaining $15,456 was disbursed to CLI to support its transitional program. Since that time, CLI has remained current in its payments.

The City also assisted CLI to purchase and rehabilitate 5 townhouses (CLI purchased a sixth on its own) on Edison Street and Wesmond Drive for transitional housing purposes. After a number of years CLI determined that running a transitional housing program in townhouses was not cost effective, and sold those houses, repaying the City's loans (and providing affordable homeownership opportunities in the process). As these houses were sold, the City agreed that the transitional program from the townhouses would be relocated into the Notabene properties, allowing a total of 14 transitional units out of the 20 units in those properties (the original 8-- 4 per property-- plus the relocated 6.)

NOTE: Because CLI used the value of 607 Notabene as extra security for the townhouses, the sales of the townhouses allowed CLI to pay down the loan on 607 much faster than the loan on 612. The loan on 607 has now been fully repaid. The joint loan on 607/612 continues to be repaid on a monthly basis.

2. The City's support for permanent low-income housing has traditionally been in the form of subsidies for acquisition and rehabilitation costs. Costs vary by property, but for the recent Council Work Session with the Alexandria Housing Development Corporation, the AHDC estimated acquisition subsidy needs (based on specific sample properties) at $94,000 per unit for a small (11-unit) property, $29,000 per unit for a medium (36-unit) property, and $60,000 per unit for a large property. Wesley Housing Development Corporation, which has a contract to purchase 41 units in Arlandria, expects to request approximately $20,000 per unit from the City, provided it is successful in receiving 9% credits under the Low Income Housing Tax Credit

program. Based on these figures, the action we are recommending is much less costly than producing a single unit of affordable low-income housing. The City has not provided ongoing rent subsidies similar to the Section 8 program; however, by tonight's meeting I hope to have information on ARHA's average annual Section 8 subsidy per unit. It should be noted that the recommended action for CLI is not an ongoing annual allocation, but is a one-time action that is designed to provide ongoing cash flow for CLI.

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05/09/2005 02:48 PM

To <Mildrilyn.Davis@alexandriava.gov>, <Jim.Hartmann@alexandriava.gov>

cc

Subject CLI Loan

I just read through the docket item for the CLI loan. I have a few questions:

1) What was the original agreement between the City and CLI as it relates to the property and loan in question?
2) For the cost of one transitional unit, how many affordable units would we be able to support? How do you make the trade-off between the two?

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