EXHIBIT NO. 1

11
5-10-11

City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 5, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: CONSIDERATION OF AN ORDINANCE TO AMEND THE TIER I POTOMAC YARD SPECIAL SERVICES DISTRICT TO EXEMPT ELIGIBLE NON-PROFIT MULTI-FAMILY HOUSING FROM THE DISTRICT'S TAX LEVY

ISSUE: Impact of the Potomac Yard Special Services District tax levy on non-profit affordable housing projects

RECOMMENDATION: That City Council introduce the ordinance, pass it on first reading; and schedule it for public hearing, second reading, and final passage on Saturday, May 14.

BACKGROUND: In December 2010, Council created the Tier I Potomac Yard Special Services District in order to generate a substantial portion of the $497 million in revenues needed to finance the proposed Potomac Yard Metrorail Station costs and debt service. On May 2, Council enacted the planned 20-cent Tier I Potomac Yard Special Services tax levy, which is effective starting with the payment of real estate taxes for the first half of calendar year 2011, and is due on June 15 at the same time that other City real estate taxes are due. At the time the Tier I District was created, City staff stated that there was an issue with the impact of the Special Services District taxes on the non-profit affordable housing project *The Station at Potomac Yard* ("The Station"), and that staff would return to Council at a later date with a proposal to address this impact.

It should be noted that the City's tax policy for some time has been that affordable housing properties owned by non-profit entities will not be granted a real property tax exemption. This means that non-profit housing projects owned by the Alexandria Housing Development Corporation (AHDC), Harambee, Homes for America, RPJ Housing and Wesley Housing are all subject to the City's real property tax. The obligation to pay those taxes was built into the project pro forma when those entities purchased or redeveloped these properties. This is in contrast to the Alexandria Redevelopment and Housing Authority which through State law is tax exempt for properties which it either fully or partially owns. When the draft proposed Housing Master Plan is presented to Council and the community next month for discussion and consideration, there will be an opportunity to discuss the tax policy issue related to non-profit owned affordable housing, as well as many other housing finance options.

In 2006, the City designated AHDC, a local nonprofit housing organization, to act as its development partner for The Station, a mixed-use project combining a fire station, affordable and workforce rental housing, and retail space. Within the residential component of this project, AHDC operates 64 apartments, of which 69% or 44 apartments are affordable (with rents affordable to households with incomes at or below 60% of the Washington, D.C. metropolitan area median income) and 20 are "workforce" apartments (with rents affordable to households with incomes at or below 80% of the area median income). Consistent with AHDC's mission, the apartments will remain affordable at these levels, in perpetuity as long as AHDC owns this property.

To fund a large portion of the residential and retail portions of the building and the associated parking, AHDC was able to leverage more than $8.6 million in low income housing tax credit (LIHTC) equity/private investment from the Royal Bank of Canada (RBC). VHDA and the City also provided additional tiers of loans. Due to the deterioration of the national financial markets at the time the project was delivered, the City also needed to provide various financial backstop guaranties to reduce project risk for the other project lenders. These City guaranties are projected to terminate in about three and one-half years, as project revenues grow to allow AHDC to meet a 1.15 debt service coverage ratio (i.e., revenues exceeding expenses by 15%) and when a $960,000 operating reserve required by RBC is fully funded. Most of this operating reserve is projected to be funded by LIHTC payments which are also contingent on the debt service coverage ratios being met.

Due to market conditions at the time The Station was completed, and a delay in anticipated development of Potomac Yard, many of the revenue assumptions in AHDC's original pro forma have not yet been fully realized. While the affordable units were leased before the end of December 2009, the workforce units were not fully occupied until April 2010, after rent concessions were offered to compete with nearby rental projects. The first floor retail space was finally leased, at a lower price than had been projected, in September 2010, one year after project completion. AHDC has recently entered a leasing arrangement for the spaces in the lower level of the garage with a local automobile dealer to yield some parking revenue, and a cell phone tower lease on the building's roof will help subsidize shared costs of both the City fire station and AHDC.

Since AHDC's revenues have not materialized as planned, it has been a challenge for the project to meet its mortgage and operating expenses. Based on its real estate assessment, AHDC will pay more than $135,000 in annual real estate property taxes in 2011 to the City. While the project expects to break even this year (i.e., meet all of its expenses out of apartment rents and ancillary income revenue), it has not yet achieved sufficient revenue growth to fund the required operating reserve, or to begin to make any payments from residual receipts on the City loan of $1.9 million.

The additional financial obligation potentially to be levied due to the project's location within the Tier I Potomac Yard Special Services District was not anticipated in AHDC's initial business plan for the project, and should an additional financial responsibility be levied (estimated to be around $27,000 per year based on the project's 2011 assessment of $13.5 million) in the early years of this project, a delay in the release of the City guarantee would occur, as well as there would be a delay in the release of LIHTC funding to AHDC to fund the required reserve. Finally, there is some chance that the affordable housing project's long term financial viability could also be put at risk if any of the tax credit equity already invested needed to be repaid because of project non-performance (such as failure to meet the required debt service coverage ratio). Repayment of the City's loan could also be delayed.

It is recommended that tax relief from the Potomac Yard Tier I Special Services District tax levy be provided to AHDC for The Station based on its affordable housing purpose, and financial condition. The proposed ordinance, based on State law needs to be generic as to the benefited party, so it is written to provide Tier I Potomac Yard Special Services District tax relief to any non-profit housing group located in the Tier I district where at least 65% of the units are rented at 60% of the Washington D.C. metropolitan area median income or less. AHDC meets the proposed criteria. This makes the threshold for exemption from the Special Services District levy such that if any other non-profit housing group developed a project in Potomac Yard, the affordable housing element would need to be substantial (basically equal or higher than The Station) before any tax exemption for this type of exemption to be provided. This exemption is not recommended to be perpetual, but will sunset at the end of 2025 soon after all the LIHTC obligations for AHDC's units have expired. AHDC and any other eligible non-profit housing entity would continue to be responsible for normal City real estate taxes.

FISCAL IMPACT: The cost to the General Fund of providing this exemption would be approximately $27,000 per year to the Tier I Potomac Yard Metrorail Station Fund. While this will require other sources to cover this cost until the end of 2025, the amount is de minimis in regard to the overall Potomac Yard Metrorail Station financing. This exemption will also result in the repayment of the City's loan to AHDC not being delayed.

STAFF:
Mark Jinks, Deputy City Manager
Mildrilyn Davis, Director, Office of Housing
Helen McIlvaine, Deputy Director, Office of Housing

EXHIBIT NO. 2

Introduction and first reading: 05/10/2011
Public hearing: 05/10/2011
Second reading and enactment: 05/14/2011

INFORMATION ON PROPOSED ORDINANCE

Title

AN ORDINANCE to amend Section 3-2-189 (TIER 1 POTOMAC YARD METRORAIL SPECIAL SERVICES TAX DISTRICT), Division 1 (REAL ESTATE), of Article M (LEVY AND COLLECTION OF PROPERTY TAXES), of Chapter 2 (TAXATION), of Title 3 (FINANCE TAXATION AND PROCUREMENT), of the Code of the City of Alexandria, Virginia, 1981, as amended, by adding thereto a new Section 3-2-189(g).

Summary

The ordinance exempts certain multi-family rental property owned in whole or in part by a 501-c-3 non-profit housing corporation that leases at least 65% of its units to households with incomes at or below 60% of median income of the Washington, D.C. Metropolitan Statistical Area from the Tier 1 Potomac Yard Metrorail Station Special Services District.

Sponsor

Staff

Mark Jinks, Deputy City Manager
Bruce Johnson, Chief Financial Officer
Laura Triggs, Deputy Chief Financial Officer
Christopher P. Spera, Deputy City Attorney

Authority

Virginia Code §15.2-2400 et.seq.

Estimated Costs of Implementation

None.

Attachments in Addition to Proposed Ordinance and its Attachments (if any)

None.

EXHIBIT NO. 3

ORDINANCE NO. ______

AN ORDINANCE to amend Section 3-2-189 (TIER 1 POTOMAC YARD METRORAIL SPECIAL SERVICES TAX DISTRICT), of Division 1 (REAL ESTATE), of Article M (LEVY AND COLLECTION OF PROPERTY TAXES), of Chapter 2 (TAXATION), of Title 3 (FINANCE TAXATION AND PROCUREMENT), of the Code of the City of Alexandria, Virginia, 1981, as amended, by adding thereto a new Section 3-2-189(g).

THE CITY COUNCIL OF ALEXANDRIA HEREBY ORDAINS:

Section 1. That Section 3-2-189, Division 1 of Article M of Chapter 2 of Title 3 of the Code of the City of Alexandria, Virginia, 1981, as amended, be, and the same is hereby amended by adding thereto new Section 3-2-189(g), to read as follows:

The following is all new language

Sec. 3-2-189 Tier I Potomac Yard Metrorail Station Special Services District Tax.

(g) Notwithstanding Section 3-2-189(f) of the City Code, the special services district levy shall not apply to any multi-family rental property owned in whole or in part by a 501-c-3 non-profit housing corporation that leases at least 65% of its units to households with incomes at or below 60% of median income of the Washington, D.C. Metropolitan Statistical Area. This subsection shall expire at the end of calendar year 2025.

Section 2. That this ordinance shall become effective January 1, 2011, nunc pro tunc.

WILLIAM D. EUILLE
Mayor

Introduction:	05/10/2011
First Reading:	05/10/2011
Publication:	
Public Hearing:	
Second Reading:	
Final Passage:	