



## ARLINGTON COUNTY, VIRGINIA

### County Board Agenda Item Meeting of February 22, 2020

**DATE:** February 10, 2020

**DRAFT**

**SUBJECT:** Allocation of \$7,257,000 in Fiscal Year (FY) 2020 Affordable Housing Investment Fund (AHIF) loan funds and an allocation of \$984,000 in Transit Oriented Affordable Housing (TOAH) funds for use by AHC, Inc., or its designated affiliate, for the acquisition of land and development of Arlington View Terrace East (AVTE) located at 1420 South Rolfe Street (AVTE Site). Adoption of a Revitalization Area Resolution per Virginia Code Section 36-55.30:2 for the purpose of obtaining allocation points in support of a Low Income Housing Tax Credit (LIHTC) application.

#### **C. M. RECOMMENDATION:**

1. Allocate \$7,257,000 of FY 2020 Affordable Housing Investment Fund (AHIF) funds (101.495130.91102) to AHC, Inc. or its designated County-approved ownership affiliate (“AHC”) (101.456300.91102), as an AHIF loan to finance the acquisition and construction of real property located at the AVTE Site (Attachment 1). The proposed \$7,257,000 AHIF loan is subject to the allocation of 9% Low-Income Housing Tax Credits (LIHTC) from the Virginia Housing Development Authority (VHDA) to AHC for the AVTE project in 2020 and the approval of final loan documents by the County Board. The financing assistance would be in the form of a subordinated residual receipts loan subject to the loan terms and conditions outlined in this report (Attachment 2).
2. Allocate \$984,000 of FY 2020 Transit Oriented Affordable Housing (TOAH) funds to AHC (336.455100.72402) to assist AHC with the payment of certain County fees and infrastructure costs related to the development of the AVTE affordable housing project. The amount of \$984,000 TOAH Financing, is subject to the County Board’s approval of the final terms and conditions as set forth in the TOAH financing documents.
3. Adopt the attached Revitalization Area Resolution to designate the Arlington View Terrace (AVT) property as a Revitalization Area pursuant to Section 36-55.30:2 of the Code of Virginia, as amended (Attachment 3).

**ISSUES:** There are no known issues at this time.

County Manager:

County Attorney:

Staff: Melissa Danowski, CPHD-Housing Division

**SUMMARY:** AHC is requesting \$7,257,000 in AHIF loan funds and \$984,000 TOAH funds (total \$8,241,000 County funds) to redevelop a portion of Arlington View Terrace (AVT), an existing 77-unit committed affordable (CAF) apartment community near Columbia Pike (Attachment 1). The newly redeveloped building, Arlington View Terrace East (AVTE), currently contains 30 units and will be redeveloped into a new 77-unit building (124 total CAFs at the property).

AHC is also requesting a Revitalization Area Resolution for the purposes of the VHDA tax credit application. According to the [Qualified Allocation Plan \(QAP\)](#) for 2020, VHDA will award application points to LIHTC projects located in a “Revitalization Area” as defined by Virginia Code [§36-55.30:2](#). The proposed resolution will designate the entire AVT property as a Revitalization Area, thereby allowing the new construction CAFs within the site to seek the Revitalization Area points in their tax credit application.

A concurrent Neighborhoods Form Based Code application has been submitted, and AHC is targeting a February administrative approval for the new development. AHC plans to submit a competitive 9% LIHTC application by March 12, 2020 to VHDA. If the County Board approves the allocation of AHIF and TOAH funds and AHC is awarded 9% LIHTC by VHDA in 2020, construction is expected to be completed by Spring of 2023.

**BACKGROUND:** AVT is an existing 77-unit committed affordable (CAF) apartment community, containing seven buildings, that is owned by AHC and located in the Arlington View neighborhood near Columbia Pike. The development was built in 1959 and all existing units are subsidized by a HUD project-based Housing Assistance Payments (HAP) contract. AHC proposes redeveloping one building that contains 30 existing units into a new 77-unit building (124 total CAFs at the property) and is requesting County financing to assist with the acquisition of land and the construction of the 77 new CAFs. Once construction is complete, the existing HAP contract units would be redistributed throughout the property, subject to discussions with HUD. AHC will also be completing a Tenant Relocation Plan for the affected tenants in the 30 units that will be demolished, per the [Tenant Relocation Guidelines](#).

AHC submitted a Fiscal Year (FY) 2020 Notice of Funding Availability (NOFA) application requesting \$6.9M in County financing to redevelop 30 of the existing units into a new 72-unit building (119 total CAFs at the property). They received a staff recommendation to continue the negotiation and public process. Since the time of the NOFA application, AHC has increased the proposed number of new construction units to 77 units (124 total CAFs at the property), added plans for solar energy, and increased the County funding request to \$8,241,000. Of this amount, \$7,257,000 would be in the form of an AHIF loan and the remaining \$984,000 would be provided as a TOAH grant to assist AHC with the payment of certain County fees and infrastructure costs related to the development of the new CAFs. If AHC is successful in receiving an award of additional competitive sources, a portion of the AHIF funds (as much as \$776,000), would be deallocated prior to financing closing, anticipated for Spring 2021.

**DISCUSSION:** The new AVTE building is designed to achieve EarthCraft Gold certification. It will include a solar energy installation that will be used to power the common areas of the

building. Planned building amenities include a landscaped courtyard, fitness room, and a community room.

**Digital Equity:** Low-income residents often cannot afford internet access or can only afford service that provides very low bandwidth or limited service. Recognizing the impact that the digital divide has on low-income households, AHC will be providing free in-unit Internet access to the residents of AVTE. They are exploring options that would utilize ConnectArlington’s fiber optic cable, similar to a free internet program that has been implemented at [Arlington Mill Residences](#), an affordable housing development located on Columbia Pike.

**Affordable Housing Program:** The 77 newly constructed CAFs will be affordable for 75 years. Of the 77 total units, 10% (eight units) will be constructed to meet Uniform Federal Accessibility Standards and American National Standards Institute Type A requirements and two of those units will be accessible for those with hearing/visual impairments. The development will also include eight Permanent Supportive Housing (PSH) units. The PSH unit mix will include six 1-BR units (to include two Type A accessible units), one 2-BR unit, and one 3-BR unit.

The proposed unit and affordability mix is as follows:

Unit Type	30% AMI	50% AMI	60% AMI	Total
Studio	1	0	0	1
1 BR	3	5	6	14
2 BR	2	20	25	47
3 BR	2	6	7	15
<b>Total</b>	<b>8</b>	<b>31</b>	<b>38</b>	<b>77</b>

Of the total 77 units, approximately 10% will be affordable up to 30% of AMI, 40% of the units will be affordable up to 50% AMI, and the remaining 50% of the units will be affordable up to 60% AMI ([Rent and Income Limits for Arlington County Affordable Housing Programs](#)). Over half of the total AVTE development will be composed of family-sized units (81%). In total, the development will add 47 net new affordable housing units to the CAF inventory.

The proposal to construct a new multi-family housing building with 100% CAFs meets several of the Goals, Objectives and Policies of the County Board-adopted [Affordable Housing Master Plan](#) (AHMP), as follows:

AHMP Policy Number	Description
1.1.1	The development will create 77 new construction CAF units (47 net new CAFs) through County financial assistance.
1.1.5	The CAFs will be committed affordable for 75 years.
1.1.6	Approximately 10% of the CAFs will be affordable up to 30% of AMI (8 CAFs) and 40% of the units will be affordable up to 50% AMI (31 CAFs).

1.1.8	The development will add 17 net new 2-BR family sized units and 15 net new 3-BR family sized units to the CAF inventory.
1.1.9 and 3.2.2	The development will create 77 new construction CAFs near the transit corridors (Columbia Pike) providing access to transportation options, consistent with the County’s adopted land use plans and policies.
2.3.2 and 2.5.2	The development will provide eight PSH units.
2.5.3	The development helps to maintain a sufficient supply of CAF units that are accessible for persons with physical and sensory disabilities by adding eight Type-A accessible units.
3.3.1 and 3.3.2	The development will incorporate environmental sustainability practices by obtaining certification for EarthCraft Gold and incorporating solar energy.
3.4.1 and 3.4.2	Affordability restrictions will be in place for 75 years; County loans ensure the financial feasibility of the development.

**Revitalization Area:** Applying for tax credits is a highly competitive process, with points awarded to projects that meet specific criteria. A project is eligible for 15 “Revitalization Area” points if it is located in a Revitalization Area that meets the definition set forth in Virginia Code § 36-55.30:2. To receive the points, a County Board resolution is needed citing the specific statutory criteria (Attachment 3). If the County Board designates the AVT property as a “Revitalization Area,” the designation will be used solely for the purpose of AHC’s LIHTC application, and if AHC is awarded LIHTC, for VHDA financing.

The proposed Revitalization Area is located within the boundaries of the County Board adopted Columbia Pike Neighborhoods Area Plan (the Plan), which calls for an increase in residential density. Part of the Plan’s vision for Columbia Pike is for development to support a diverse, mixed-income community with strong single family and multifamily neighborhoods that support the mixed-use commercial centers. This project meets the definition which cites the area “currently lacks housing needed to induce manufacturing, industrial, commercial, governmental, education, entertainment, community development, healthcare or nonprofit enterprises or undertakings to locate or remain in such area.”

In order to develop affordable housing at this site, it is necessary to provide assistance in the form of an AHIF loan. Therefore, this site would also meet the criteria that, “private enterprise and investment are not reasonably expected, without assistance, to produce housing supporting the needs of low and moderate income persons and families.”

**Development Budget and Financing Package:** AHC plans to finance AVTE with 9% LIHTC. The total development cost is \$38,414,955, of which 5% is acquisition cost, 71% are construction hard costs, 12% is for soft costs and reserves, 7% for the developer fee, and 5% are financing costs. Pending an award of 9% LIHTC by VHDA, AHC’s anticipated financing package for the project will include a VHDA first mortgage (including taxable bonds, REACH, and REACH Plus), tax credit equity, a deferred developer fee, a developer sponsor loan equity contribution, TOAH funds, and the AHIF loan. The proposed sources and uses are as follows:

**AVTE Sources and Uses**

<b>SOURCES OF FUNDS</b>		<b>USES OF FUNDS</b>	
LIHTC Investor Equity	\$ 19,010,099	Acquisition Cost	\$ 1,925,000
VHDA Loans [1]	\$ 9,172,000	Construction/Hard Costs	\$ 27,195,365
County AHIF Loan	\$ 7,257,000	Soft Costs	\$ 3,691,583
TOAH	\$ 984,000	Reserves	\$ 777,987
Sponsor Loan (AHC)	\$ 1,148,100	Financing Costs	\$ 2,060,371
Deferred Developer Fee	\$ 843,756	Developer Fee	\$ 2,764,649
<b>TOTAL SOURCES</b>	<b>\$ 38,414,955</b>	<b>TOTAL USES</b>	<b>\$ 38,414,955</b>

[1] It is anticipated that VHDA will loan the following funds: \$4,400,000 in taxable bond proceeds, \$2,772,000 from its REACH program and \$2,000,000 for its REACH Plus program.

**AHIF Funds Requested:** AHC is requesting \$8,241,000 in total County funds, of which \$7,257,000 would be in the form of an AHIF loan (\$94,247/unit) and \$984,000 would be in the form of a TOAH grant (\$12,779/unit). If AHC is successful in receiving an award of additional competitive sources, described below, as much as \$776,000 in AHIF would be deallocated prior to financing closing, anticipated for Spring 2021. The resulting AHIF loan would be \$6,481,000 (\$84,169/unit). The adjusted County fund request of \$7,465,000 (\$6,481,000 AHIF plus \$984,000 in TOAH funds) increased \$565,000 from the original NOFA application due to the incorporation of five additional CAFs and solar energy.

AHC intends to apply for competitive sources, which include \$500,000 in Federal Home Loan Bank (FHLB) funds and \$1,200,000 in Virginia Department of Housing and Community Development (DHCD) funds (\$1,700,000 total competitive sources). The applications for these competitive sources will be made after a VHDA tax credit allocation. Since VHDA does not allow uncommitted sources on their application, AHC has proposed that AHC and the County share this gap in the interim. On the County side, this means including \$776,000 in the initial AHIF funding allocation. If these sources are successfully obtained, \$776,000 of the County loan would be de-allocated (at closing) to the \$6,481,000 amount.

Meanwhile, AHC increased their initial \$747,100 sponsor loan by an additional \$401,000 to cover a portion of the uncommitted funding sources. If some or all of the competitive funding is received, AHC and the County will de-allocate their increased funding amounts proportionately (66% County, 34% AHC). The AHC sponsor loan will be no less than \$747,100. Also, if AHC receives an award of 9% LIHTC by VHDA, at least \$6,481,000 in AHIF loan funds would need to be allocated due to the 9% LIHTC application rules for receiving tax credit points based on the subsidized funding level. As a result, if AHC is successful in obtaining the entire \$1,700,000 in competitive sources, the use of the additional sources of funding over the combined \$1,177,000 (\$776,000 AHIF loan amount to be de-allocated at closing plus \$401,000 reduction in AHC's sponsor loan) will be determined prior to financing closing. The additional funding sources could be used to achieve deeper affordability levels or other uses to be determined.

**TOAH Funds:** The Columbia Pike Tax Increment Financing (TIF) district was established as a funding mechanism for the TOAH fund, which is intended to promote affordable housing development within designated boundaries of the Columbia Pike corridor. Affordable housing

developers who are applying for LIHTC may put TOAH funds towards infrastructure-related items (like underground utilities, tree preservation, and streetscaping) and County fees (such as Certificate of Occupancy, building permits and tap fees).

The TOAH balance is approximately \$984,000 and these funds would be provided as a grant. AVTE would be the second development to utilize TOAH, the first being Gilliam Place which received \$745,298 in 2017.

**AHIF Terms:** Staff recommends the proposed \$7,257,000 AHIF loan have a 37-year term to be coterminous with the VHDA permanent financing 35-year loan term. During the first two years of the AHIF loan term, which coincides with the construction period, the AHIF loan will accrue interest at a rate of zero percent (0%) per annum. Thereafter, for the remaining 35 years of the term, the AHIF loan will accrue interest at a rate of 1.0% per annum, compounded annually. The AHIF loan will be secured by a deed of trust subordinated to the senior financing and repayable from the AVTE residual receipts. The proposed loan terms and conditions for the AHIF loan for AVTE are detailed in Attachment 2.

**Anticipated Timeline:** Contingent upon County Board approval of the AVTE County financing request, AHC will apply for 9% LIHTC by March 12, 2020 and anticipates notification from VHDA of its award status by June 2020. If AHC receives an award, then County staff will bring forward a request to the County Board for approval of the County loan, TOAH, and subordination documents in Spring 2021. Following construction closing, AHC would begin demolition of the existing apartment building and begin construction, anticipated to be completed by Spring of 2023.

**Existing Public School Students and Student Generation Estimates:** As of September 2019, there were 31 students that reside at the AVT property. This includes 21 elementary school, 11 middle school, and 9 high school students. The distribution of students by school attended is not provided because of privacy reasons.

Arlington Public Schools (APS) projects 71 students at the entire AVT property once the new 77 units are built (124 total CAFs). This projection includes the students generated from the 77 new construction units as well as the students that would continue to reside in the remaining 47 garden apartment units. This development is currently zoned for Hoffman-Boston Elementary School, Gunston Middle School, and Wakefield High School.

- Number of Elementary School Students (K-5) generated: 39
- Number of Middle School Students (6-8) generated: 12
- Number of High School Students (9-12) generated: 20

The above estimates are generated by APS using the housing characteristics presented at the time of the AHIF application and using student generation factors that reflect the 2019-2020 school attendance boundaries. Should these housing unit characteristics or the student generation factors change, then the student generation estimates would also change. APS provides no guarantee that any residential development will continually be served by the same elementary, middle and/or high school(s).

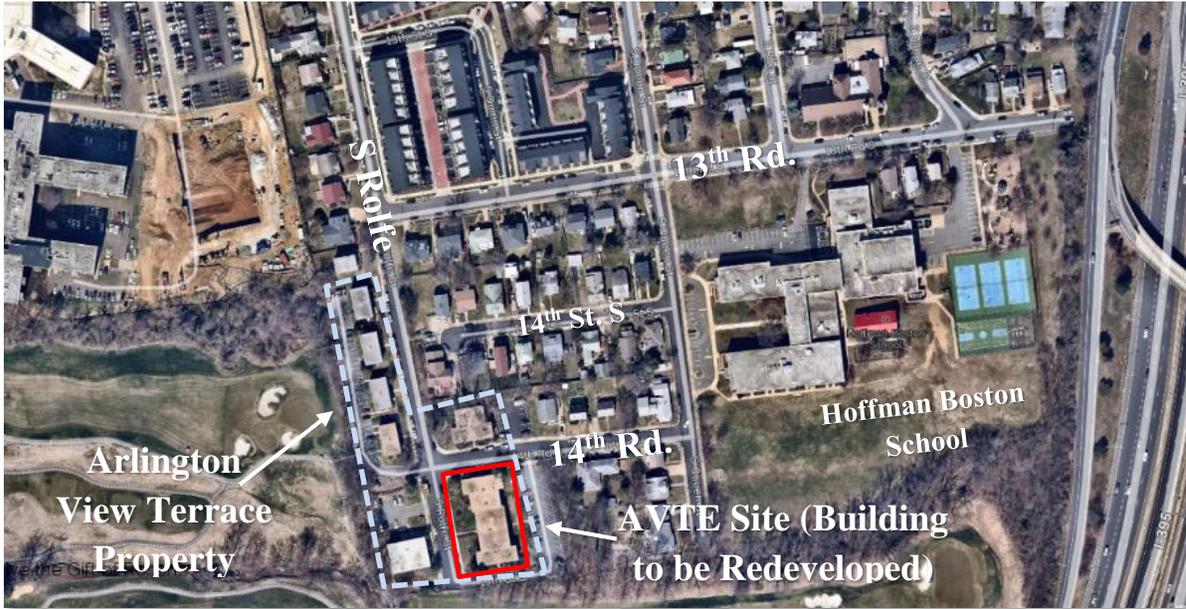
**PUBLIC ENGAGEMENT:**

*Level of Engagement:* Involve

*Outreach Methods:* As part of the Neighborhoods Form Based Code approval process, the proposed development was presented to the Form Based Code Advisory Working Group (FBC AWG) on December 11, 2019 and presented to the Arlington View Civic Association on December 18, 2019. The development was also presented to the Housing Commission as an information item on December 5, 2019, as a “Bricks and Mortar” Housing Commission subcommittee meeting item on January 29, 2019, and as an action item at the Housing Commission’s February 13, 2020 meeting.

**FISCAL IMPACT:** There are sufficient unallocated AHIF funds to support the \$7,257,000 AHIF request. There are also sufficient unallocated TOAH funds to support the \$984,000 TOAH request. In addition, it is anticipated that the inclusion of eight PSH units will have a fiscal impact on the County’s PSH program budget. The full year incremental cost increase to the budget is estimated to be approximately \$140,725 per fiscal year upon project completion and occupancy (anticipated in Spring 2023).

**ATTACHMENT 1**  
Arlington View Terrace East (AVTE) Site  
1420 South Rolfe Street



## **ATTACHMENT 2**

### **Arlington View Terrace East AHIF Loan Terms and Conditions - \$7,257,000**

1. The Applicant for the Arlington View Terrace East AHIF Loan (“Applicant”) shall apply to the Virginia Housing Development Authority (VHDA) by March 12, 2020 for an annual 9% tax credit request. If the Applicant does not receive 9% credits from the 2020 award cycle, the Applicant commits to reapply for 9% credits in 2021.
2. The Applicant shall execute an Affordable Housing Investment Fund Loan Agreement (“AHIF Loan Agreement”) and other related loan instruments, as drafted and finalized by the County Attorney, in a form acceptable to the County Manager and the County Attorney and subject to County Board approval.
3. The Applicant shall include these Arlington View Terrace East AHIF Loan Terms and Conditions when requesting proposals from senior lenders and investors. If any terms are negotiated between the Applicant and other parties that are in violation of these Loan Terms and Conditions, the Applicant must submit a request to the County Board to consider revision of these Loan Terms and Conditions as necessary to conform to the negotiated terms between the Applicant and such other parties.
4. Within 30 days of receipt of final third party debt and equity commitments, the Applicant shall submit a final sources and uses table for Arlington View Terrace East for approval by the County Manager or his designee.
5. The AHIF Loan shall be secured by Arlington View Terrace East, and shall be repayable from the project’s Residual Receipts, as defined in the AHIF Loan Agreement. As set forth in the related promissory note, and subject to an Event of Default (as defined in the AHIF Loan Agreement), the unpaid principal balance of this AHIF Loan shall accrue at: zero interest for the two-year period of time commencing on the date of construction closing; and the below market rate of one percent (1.0%) per annum commencing on the date that is two years after construction closing, compounded annually as called for in the related promissory note. The term shall be thirty-eight (37) years from construction closing.
6. Beginning in the first operating year and each subsequent year during the loan term, the County shall receive fifty percent (50%) of the Arlington View Terrace East Residual Receipts as an annual payment towards the Arlington View Terrace East AHIF Loan.

Residual Receipts as defined in the County Loan Agreement, shall specifically include, but not be limited to, the amount by which gross revenues exceed annual debt service payments, approved operating expenses, payments to replacement reserve, and a priority payment fee of up to \$7,700 for AHC Asset Management and up to \$7,700 for AHC Resident Services, which can be escalated annually at two percent (2%). Any other fees or payments in excess of what is stated here must be paid from the Applicant’s portion of Residual Receipts.

7. The Applicant shall receive a two million, seven-hundred and forty-nine thousand, three hundred and ninety-four dollar (\$2,749,394) developer fee for Arlington View Terrace East. The Applicant shall defer eight hundred thirty-three thousand and six hundred and two dollars (\$833,602) of this developer fee as source of financing for Arlington View Terrace East.
8. The Applicant shall provide a one-million, one-hundred forty-eight thousand and one hundred dollar (\$1,148,100) sponsor loan or equivalent form of equity to Arlington View Terrace East. The sponsor loan or equivalent form of equity will be subordinate to the County loan.
9. If the Applicant secures additional sources of financing up to one million and one hundred thousand and seventy seven dollars (\$1,177,000) prior to construction closing, thirty-four percent (34%) of those proceeds up to four hundred and one thousand dollars (\$401,000) may be applied towards reducing the sponsor loan or equivalent form of equity referenced in Condition #8 above. The remaining sixty-six percent (66%) of proceeds up to seven hundred and seventy-six thousand dollars (\$776,000) shall be used to reduce the AHIF loan for Arlington View Terrace East.
10. The Applicant must comply with the affordable housing set-aside for the rental units in Arlington View Terrace East as follows: eight (8) of the units will be restricted to households earning up to thirty percent (30%) of the AMI; thirty-one (31) of the units will be restricted to households earning up to fifty percent (50%) of the AMI, and thirty-eight (38) units will be restricted to households earning up to sixty percent (60%) of the AMI for 75 years with the unit mix as shown in the table located in the "Affordable Housing Program" section of this document.
11. The Applicant agrees that the affordable rents shall be established in accordance with LIHTC rents as published annually by VHDA for the unit size, minus a utility allowance (if applicable) as per the Utility Allowance Schedule annually approved by HUD for the Arlington County, VA Housing Choice Voucher Program or other manner as permitted by applicable federal regulations and approved by the County or, if such LIHTC rents are not published by VHDA, then in accordance with HUD rent limits set for Arlington County.
12. The Applicant shall create a minimum of eight (8) fully accessible Type A units for persons with disabilities and will fully cooperate with an affirmative marketing program to market these units to households in need of such accommodation.
13. The Applicant will execute an agreement with the Department of Human Services to provide eight (8) supportive housing units with rents affordable to households earning up to 60% of the AMI. These may or may not be the same as the fully accessible units.

### ATTACHMENT 3

#### **RESOLUTION OF THE COUNTY BOARD OF ARLINGTON COUNTY, VIRGINIA DESIGNATING THE ARLINGTON VIEW TERRACE SITE A REVITALIZATION AREA PURSUANT TO VIRGINIA CODE § 36-55.30:2**

**WHEREAS**, pursuant to Section 36-55.30:2 of the Code of Virginia of 1950, as amended, the County Board of Arlington County desire to designate the site of Arlington View Terrace, located at 1420, 1429, 1413, 1407, 1401, and 1327 South Rolfe Street, 1736 14<sup>th</sup> Road South, and 1735 15<sup>th</sup> Street South (the “Area”) described on Exhibit A hereto, as a Revitalization Area;

**WHEREAS**, the proposed redevelopment of Arlington View Terrace East is within the Columbia Pike Neighborhoods Area Plan which establishes goals to stabilize and strengthen single-family and multifamily neighborhoods and support established concepts of vibrant, economically-strong mixed-use commercial centers, and to improve existing housing stock and expand housing options to achieve a housing mix that serves diverse households, preserves affordability for current and future residents, and supports the adopted Housing Goals and Targets and the Columbia Pike Initiative;

**WHEREAS**, the affordable housing development proposed in this Area will provide a critical source of affordable housing for current and future low and moderate income residents whose tenancy and local employment is essential to implementing the goals of the County’s Affordable Housing Master Plan and to the Area’s future economic development and sustainability;

**NOW, THEREFORE BE IT HEREBY DETERMINED as follows:**

The above referenced development is located in a Revitalization Area in the County of Arlington, Virginia. The revitalization area is (i)(2) The industrial, commercial or other economic development of such area will benefit the city or county but such area lacks the housing needed to induce manufacturing, industrial, commercial, governmental, educational, entertainment, community development, healthcare or nonprofit enterprises or undertakings to locate or remain in such area; and (ii) private enterprise and investment are not reasonably expected, without assistance, to produce the construction or rehabilitation of decent, safe and sanitary housing and supporting facilities that will meet the needs of low and moderate income persons and families in such area and will induce other persons and families to live within such area and thereby create a desirable economic mix of residents in such area.

**Exhibit A**

**Arlington View Terrace Area**

