



ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of April 22, 2023

DRAFT

DATE: April 10, 2023

SUBJECT: Request for the County Board to: (i) Allocate up to \$3,000,000 in Affordable Housing Investment Fund (AHIF) loan funds for use by Park Shirlington Preservation LP (the "Borrower"), an affiliate of Standard Communities and Foundation Housing (Standard/Foundation), (ii) Allocate up to \$181,640 of AHIF funds for a Tenant Assistance Fund (TAF), and (iii) approval of County loan documents, for a total AHIF loan in the amount of \$34,891,000, to help facilitate the renovation of Park Shirlington Apartments, a 294-unit affordable apartment development located at 4510 31st Street South, that will be owned and operated by the Borrower.

C. M. RECOMMENDATIONS:

- 1. Allocate up to \$3,000,000 of unallocated AHIF funds (101.495130.91102) to Park Shirlington Preservation LP (101.456300.91102), as an AHIF residual receipts loan to help finance the proposed Park Shirlington Apartments renovation project.
2. Allocate up to \$181,640 of unallocated AHIF funds (101.495130.91102) to a Tenant Assistance Fund (101.456300.91102) for eligible households.
3. Approve the updated terms of the following substantially final attached Affordable Housing Investment Fund loan documents:
(a) Affordable Housing Investment Fund Promissory Note,
(b) Affordable Housing Investment Fund Program Loan Agreement,
(c) Deed of Trust, Assignment of Rents and Leases and Security Agreement
(d) Deed of Declaration of Restrictive Covenants (and HUD Rider to Restrictive Covenants), and
(e) Right of First Offer Agreement
(f) HUD Subordination Agreement,
(g) Permanent Supportive Housing Program and Funding Agreement, and

County Manager:

County Attorney:

Staff: Melissa Danowski; CPHD – Housing Division

(h) TAF Reimbursement Agreement

Collectively, the “Park Shirlington County Loan Documents.”

4. Authorize and Direct the County Manager to execute, on behalf of the County Board, the attached Park Shirlington County Loan Documents, subject to approval as to final form by the County Attorney.
5. Authorize and Direct Susan Stout and Karen Grane to act as the Trustees for the County Board and to execute the attached HUD Subordination Agreement, subject to approval as to final form by the County Attorney.
6. Authorize and Direct the County Manager, with the concurrence of the County Attorney, to act as the County Board’s representative in approving revisions to the attached documents, that are necessary to remove any ambiguity or inconsistency or which improve the County Board’s financial security or financial position, and which revisions do not adversely affect the County financially, prior to or after execution of the documents.

ISSUES: There are no known issues as of the date of this report.

SUMMARY: Staff recommends approval of the additional up to \$3.0M AHIF allocation and attached loan documents for a total \$34.89M AHIF loan between the County Board and the Borrower to assist in the renovation of Park Shirlington, a 294¹ unit affordable apartment development located at 4510 31st Street South (Figure 1). This is a follow-up to the County Board actions taken at the [October 15, 2022 County Board meeting](#) that allocated \$2.59M in AHIF to the project, for a total \$31.89M AHIF loan. The timing of finance closing was dependent on receiving a bond allocation, which the project received in February 2023.

Due primarily to rising interest rates, there is an additional financing gap of up to \$6.1M since the time of the October 2022 County Board meeting. County staff recommend an additional up to \$3M allocation to help close this gap. The Borrower will provide the remaining up to \$3.1M, through increasing its seller note to the project.

The Borrower will renovate all of the units on the property utilizing 4% Low Income Housing Tax Credits (LIHTC) from Virginia Housing (VH)². The renovated units will be committed affordable up to [60% of the Area Median Income \(AMI\)](#) for a period of 75 years. The renovation work is expected to take approximately two years from finance closing, which is currently anticipated to occur in late April or May 2023.

¹ One unit is currently being used as the leasing/property management office and will be converted to a residential unit upon renovation completion.

² Virginia Housing was formerly known as Virginia Housing Development Authority.

The staff recommendations also include an additional TAF allocation of up to \$181,640. This is in addition to the \$124,000 TAF allocation approved by the County Board at the July 17, 2021 meeting. Since that time, the 60% AMI levels have increased by 10.3%, which impacts the TAF estimate. Because the tenants would remain on-site during the renovations, the TAF would be used to assist eligible residents in paying any increases in rent for two years following renovations.

Figure 1: Park Shirlington Apartments



BACKGROUND: On November 27, 2017, the County Board approved a [three-year \\$6.0M AHIF loan](#) to Standard Foundation Park Shirlington LLC to help finance the acquisition of Park Shirlington Apartments, a garden-style apartment community built in 1954. The financing agreement included restrictive covenants that income and rent restricted all of the units up to [80% of the Area Median Income](#) (AMI) for a three-year term, upon turnover of existing tenants. The loan term and associated restrictive covenants was subsequently extended to [June 1, 2023](#).

An additional AHIF allocation of \$22.76M was approved at the [July 17, 2021 County Board](#) meeting in support of the proposed renovations and long-term affordability commitments. An additional \$2.59M AHIF allocation was approved at the October 15, 2022 meeting to help support the increased scope of work that included a new building with a community room, clubhouse and leasing office, conversion of the leasing office to a residential unit, solar installation, and inclusion of a digital equity reserve which will provide free in-unit internet to residents.

The County Board also has an Option agreement to purchase the southern parcel (RPC 29-018-003) of Park Shirlington Apartments (the Option). The southern parcel contains 105 units (which includes one unit being used as a leasing office) at a purchase price of \$27.95M. The intention of the Option was for the County to acquire the southern parcel in the event that a long-term affordability plan wasn't finalized before the end of the loan term. The County Board approved the exercise of the Option as well as the necessary \$540k deposit needed to exercise the Option at the recessed County Board meeting on January 26, 2021 to ensure protection if a plan was not finalized. Instead of purchasing the southern parcel, staff recommends proceeding with the proposed renovations of Park Shirlington Apartments and plan to commit all existing units to 75 years of affordability.

In summary, the new total \$34.89M loan includes the existing \$6.0M AHIF loan used to assist Standard Foundation Park Shirlington LLC to acquire the property in 2017, the \$540k deposit used to exercise an Option agreement, the \$22.76M allocated at the July 17, 2021 County Board meeting, the additional \$2.59M allocated at the October County Board meeting, and the up to \$3.0M AHIF allocation request included in this report.

DISCUSSION:

Tenant Assistance Fund (TAF): The staff recommendations include an additional TAF allocation of up to \$181,640. This is in addition to the \$124,000 TAF allocation approved by the County Board at the July 17, 2021 meeting. Since that time, the 60% AMI levels have increased 10.3%, which impacts the TAF estimate. Because the tenants would remain on-site during the renovations, the TAF would be used to assist eligible residents in paying any increases in rent for two years following renovations.

Eligible households are those earning up to 60% of AMI who desire to stay at Park Shirlington Apartments and who do not currently receive rental assistance. There are approximately 80 households who would qualify for TAF assistance because of potential post-renovation rent increases, they have incomes below 60% AMI, and they do not have rental assistance. The TAF funds will be held by Arlington County and administered as an AHIF grant of up to \$305,640 pursuant to a TAF Reimbursement Agreement between the County and Standard. The TAF Reimbursement Agreement includes the following or substantially similar terms:

- The funds for the TAF will be held by the County and disbursed to the Borrower monthly as reimbursement for documented rental assistance payments.
- The Borrower will verify household incomes, determine assistance amounts and invoice the County monthly with rent assistance amounts per household.
- Households must have gross verified incomes not exceeding 60% AMI in order to be eligible for the TAF assistance.
- Households must have been in place in the property when the County approves the new AHIF loan in order to be vested and eligible for the TAF.
- Households which already participate in a rental assistance program (such as Housing

Grants or Section 8 Housing Choice Vouchers) will not be eligible for the TAF since these programs will cover any rental increases.

TAF participant households will pay either the same amount they currently pay, or 35% of gross household income, whichever is higher, toward rent. The TAF will pay the remainder directly to the Borrower. The TAF rental assistance payments for eligible households will continue for up to 24 months after each unit is renovated.

Development Budget and Financing Package: The Borrower will finance the renovations of Park Shirlington Apartments with 4% LIHTC. The total development cost is \$136,826,623. This represents a \$502,218 increase from the budget projected in the October 15, 2022 staff report.

Since October 2022, some anticipated costs (“uses”) increased while others decreased. For example, construction costs decreased by about \$3.1M. This decrease is attributable to updated pricing from subcontractors. The updated pricing removed excess “cushion” that was in the October bids, due to the uncertainties of when renovations would begin. In addition, there were modifications to the construction scope which helped reduce the anticipated financing gap. Examples include carpeting in the bedrooms (as opposed to vinyl tile), repair of a pool fence rather than replacement, repair of existing exterior canopies rather than replacement, and repair of a portion of the roofs (rather than full replacement of all roofs), to name a few. The project will continue to meet VH and County renovation standards.

Although the construction costs decreased, there was an increase in other costs since the October 2022 County Board meeting, including the project and debt reserves (\$1.5M), acquisition costs (\$641k)³ and total developer fee (\$1.28M). For the developer fee, this serves as a contingency for the project budget and is typically sized to reflect the size and complexity of the deal. In this case, the developer fee, which was sized in 2021, is well below what staff would likely size it at today and also below what the tax credit investor is requiring. Specifically, the “cash” developer fee (i.e., what the Borrower would receive at closing) as of the October 15, 2022 County Board meeting was \$1.2M, or about \$4k/unit. This is lower than comparable renovation projects funded with County loan funds since 2016 in which the cash developer fee averages \$19k/unit. As a result, the total developer fee of \$4.28M will allow a cash fee of \$2.5M or approximately \$8.5k/unit, which is still well below the average cash fee for similar projects yet will meet tax credit investor requirements. In return, the Borrower will be responsible for any additional gap of unforeseen costs post-closing and during construction.

There are changes in the project sources since October 2022 as well. The most significant change is a \$7.1M reduction in the senior mortgage, due to rising interest rates. Although LIHTC equity increased by about \$1.4M to help offset this mortgage reduction, there is still a \$6.1M financing gap. Staff recommends an up to \$3.0M additional AHIF allocation to help fill this gap. The

³ The increased acquisition cost is due to changes in the financing structure and increased costs associated with the transaction. The purchase price did not change since the October 2022 County Board meeting and is still \$85M.

Borrower will contribute the remaining up to \$3.1M through an increased seller note to the project.

If there are any improvements in the LIHTC equity available to the project (or other cost savings) prior to closing on the additional up to \$3.0M AHIF loan, the County and Borrower will equally reduce the amount of AHIF and the Borrower's seller note that would be needed for the project. In no circumstance will the Borrower contribute less than a \$3.0M seller loan to the project. In addition, any gap over \$6.1M will be funded directly by the Borrower, and in no circumstance will the additional AHIF needed for the project exceed the up to \$3.0M allocation requested in this report. The updates to the attached loan documents reflect the changes in the sources and uses, the potential for an additional \$3.0M (or less) AHIF amount and the borrower's obligation to help equally fund the gap up to \$6.1M as well as funding any gap over \$6.1M.

The Borrower's financing package for the project will include a first mortgage utilizing the HUD (221)(d)(4) program, 4% LIHTC equity, a deferred developer fee, a seller note, earned interest (due to the IDA bond structure), and the AHIF loan. The Borrower will use Arlington County Industrial Development Authority (IDA) bonds to meet the requirement of utilizing tax-exempt bonds for 4% LIHTC projects, which was approved at the [July 17, 2021 County Board](#) meeting. The sources and uses are as follows:

PARK SHIRLINGTON SOURCES AND USES

Sources	22-Oct	23-Apr	Change
AHIF Loan	\$31,891,000	34,891,000	\$3,000,000
Senior Mortgage - FHA HUD Loan	\$53,787,000	\$46,674,000	(\$7,113,000)
Deferred Developer Fee	\$1,781,282	\$1,781,282	\$0
4% Tax Credit Equity	\$45,865,123	\$47,228,075	\$1,362,952
Earned Interest	\$0	\$173,733	\$173,733
Seller Note	\$3,000,000	6,078,533	\$3,078,533
Total Sources	\$136,324,405	\$136,826,623	\$502,218
Uses			
Acquisition*	\$86,198,000	\$86,839,170	\$641,170
Construction	\$37,233,250	\$34,159,528	(\$3,073,722)
Bond Fees/Soft Debt Fees	\$2,194,455	\$2,308,496	\$114,041
Project & Debt Reserves	\$7,698,700	\$9,238,147	\$1,539,447
Developer Fee	\$3,000,000	\$4,281,282	\$1,281,282
Total Uses	\$136,324,405	\$136,826,623	\$502,218

*The acquisition costs include an \$85M property value and \$1.8M in acquisition-related costs.

AHIF Terms/Loan Document Provisions: Staff recommends an allocation of up to \$3.0M, for a total \$34.89M AHIF loan. Other than the increased AHIF loan amount, AHIF loan terms reflect the AHIF loan terms approved at the October 15, 2022 meeting. The AHIF loan would have a 40-year term, consistent with the term of the senior financing. The AHIF loan will accrue interest at a rate of 0.5% per annum and will be secured by a Deed of Trust subordinated to the senior financing and repayable from the Park Shirlington Apartments residual receipts. Repayments to the AHIF loan will begin once renovations are complete and the property is placed in-service under the LIHTC guidelines. The residual receipts cash flow will be split 50% towards the County in repayment of the County loan and 50% towards the Borrower in repayment of their deferred developer fee and then seller note.

Anticipated Timeline: Contingent upon County Board approval, finance closing on the up to \$3.0M AHIF loan funds is anticipated to occur in late April or May 2023. Renovations will begin this summer and take approximately two years to complete.

PUBLIC ENGAGEMENT:

Level of Engagement: **Involve**

Outreach Methods: The Borrower held a meeting with the residents on June 1, 2022 and June 9, 2022 to inform them of the renovation plans and answer questions. The Tenant Landlord Commission reviewed the Tenant Relocation plan at the June 8, 2022 meeting and at the July 13, 2022 meeting. The Borrower has communicated with the Chair of the Fairlington Civic Association (FCA) to keep them informed of the plans.

Prior to the July 17, 2021 County Board meeting, the proposed renovation was presented to the Housing Commission as an Information Item at its June 3, 2021 meeting, at the “Bricks and Mortar” Subcommittee meeting on June 30, 2021, and as an Action Item on July 8, 2021. The Bricks and Mortar Subcommittee met again on June 28, 2022 to discuss the changes since the July 2021 County Board meeting. The Housing Commission considered the AHIF request that was considered at the October 2022 County Board meeting at the July 7, 2022 meeting as an Action Item. The up to \$3.0M additional AHIF request included in this staff report was considered at the April 13, 2022 Housing Commission meeting as an Action item.

Community Feedback: The Chair of the FCA has indicated support for the renovation plans. The Borrower will continue communicating with the FCA and anticipates attending future meetings to update them on the renovation plans as they progress.

Housing Commission and Tenant Landlord Commission Feedback: The Bricks and Mortar Subcommittee of the Housing Commission voted to approve the staff recommendations by a vote of 7-0-1 on June 28, 2022. At the July 7, 2022 Housing Commission meeting, the Commission voted to unanimously support the staff recommendations by a vote of 11-0. The

Tenant Landlord Commission voted to unanimously approve the Tenant Relocation Plan by a vote of 6-0 at the July 13, 2022 meeting. At the April 13, 2023 Housing Commission meeting, the Commission voted X-X.

FISCAL IMPACT: There are sufficient unallocated AHIF funds to support the up to \$3,000,000 AHIF request as part of this staff report and total \$34,891,000 AHIF loan. There are also sufficient unallocated AHIF funds to support the \$181,640 additional TAF request as part of this staff report.

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