



ARLINGTON COUNTY, VIRGINIA

DRAFT

**County Board Agenda Item
Meeting of July 16, 2022**

DATE: June 30, 2022

SUBJECT: Request for the County Board to: (i) Allocate \$2,591,000 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), and (ii) approval of County loan documents, for a total AHIF loan in the amount of \$31,891,000, 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 \$2,591,000 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. Approve the terms of the following substantially final attached Affordable Housing Investment Fund loan documents:
 - (a) \$31,891,000 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,
 - (e) HUD Rider/Amendment to Restrictive Covenants,
 - (f) Right of First Refusal Agreement, and
 - (g) HUD Subordination Agreement

Collectively, the "Park Shirlington County Loan Documents."

County Manager:

County Attorney:

Staff: Melissa Danowski, CPHD – Housing Division

3. 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.
4. Authorize and Direct the Trustees for the County Board to execute the attached HUD Subordination Agreement, subject to approval as to final form by the County Attorney.
5. 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 \$2.59M AHIF allocation and attached loan documents for a total \$31.89M 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 [July 17, 2021 County Board meeting](#) that allocated \$22.76 in AHIF to the project. The new \$31.89M loan includes the \$22.76M allocated at the July 2021 County Board meeting, the existing [\\$6.0M AHIF loan](#) used to assist Standard Foundation Park Shirlington LLC (an affiliate of Standard/Foundation) to acquire the property in 2017, a \$540k deposit used to exercise an Option agreement (further explained in the "Background" section of this report) and the \$2.59M AHIF allocation request included in this report. In preparation for an August closing, the County Manager is seeking approval of and authorization to sign the Park Shirlington County Loan Documents.

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 and be completed in 2024.

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.

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 restrict all 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 [February 1, 2023](#). An additional AHIF allocation of \$22.76M was approved at the [July 17, 2021 County Board](#) meeting to help support the renovation program.

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.

DISCUSSION:

Affordable Housing Program: All 294 units will be affordable to households earning up to 60% of the AMI for 75 years. There will be eight units renovated to meet Uniform Federal Accessibility Standards and American National Standards Institute Type-A requirements.

The development will include 15 units as Permanent Supportive Housing Units (PSH), upon execution of a PSH Agreement prior to renovation completion. To avoid displacement of current tenants, the PSH units will be phased in as there is tenant turnover at the property.

The majority of units at Park Shirlington Apartments are family-sized two-bedroom and three-bedroom units (81% of total units), with the vast majority of units being two-bedrooms (223 units). There are 57 one-bedroom units at the property (19% of total units). There are no studio units.

Unit Mix at Park Shirlington Apartments

Unit Type	# of Units	% of Units
Studio	0	0%
1-BR	57	19%
2-BR	223	76%
3-BR	14	5%
Total	294	100%

**Table includes a 2-BR unit currently used as a leasing office.*

Leasing Office/Community Room: As part of the renovation program, a new leasing office and community room will be developed (Figure 2). The existing leasing office will be restored to a two-bedroom residential unit. The new community room will be used to host resident programming, as well as provide residents with a space to use for community gatherings and social events. Over the course of the renovation and construction of the community room, the Borrower will work to understand the needs of the residents to provide tailored programming. Examples could include educational assistance for school-age children, employment and financial stability programming, among other resident service opportunities.

Figure 2: Location of Community Room/Leasing Office and Rendering



Solar Program: The renovation work will include the addition of solar panels on all viable property rooftops, including the new community building (Figure 3). It is estimated that the system will generate approximately 795,000 kWh of electricity in the first year. This represents roughly one-third of the property’s current total annual usage. The electricity expense savings that the solar installation provides will increase operating cash flow, and therefore provide faster payback of the AHIF loan from the County’s 50% share of residual receipts.

Digital Equity: In support of Arlington County’s [Digital Equity](#) program, the Borrower will provide free in-unit internet to qualified Park Shirlington residents for the 15 year LIHTC

compliance period, to be funded through an internet reserve of approximately \$1.3M. The speeds will be at least 30 megabytes per second symmetrical upload and download speeds. If the household desires faster speeds or for whatever reason do not want to participate in the free internet program, they will have the option of paying for internet using the current provider, Comcast, should Comcast continue to service the development.

TAF: Consistent with the County’s TAF Policy, a \$124,000 TAF allocation was approved at the July 17, 2021 County Board meeting for all eligible households at the existing Park Shirlington Apartments.

Because the tenants will remain on-site during the renovations, the TAF will be used to assist eligible residents in paying any increases in rent for two years post renovations. Eligible residents are those who earn up to 60% of the AMI and who are not already receiving rental assistance such as Housing Grants and Housing Choice Vouchers.

Tenant Relocation Plan: The Borrower is required to receive approval of a Tenant Relocation Plan prior to finance closing. The Tenant Landlord Commission reviewed the draft plan at the June 8, 2022 meeting, and the final draft will be considered at the July 13, 2022 meeting. The Tenant Relocation Plan lists the on-site moving assistance all residents will receive when their unit undergoes renovations, such as packing materials, moving assistance, and additional assistance for those that need special accommodations (described in more detail in the “Renovation Process” section).

Over-income Households: Staff is recommending all units be affordable up to 60% AMI for the following reasons:

- The greatest need is for affordable housing for households earning below 60% of the AMI, as demonstrated in the [Affordable Housing Master Plan](#) (AHMP). As of the FY 2021 Annual [Affordable Housing Master Plan Report](#), only 11.6% of the County’s total supply of rental units (market-rate and CAFs) was affordable to those earning up to 60% of the AMI. The AHMP goal is for these units to equal at least 17.7% of the total housing supply by 2040.
- Including a unit set-aside for households earning 60% to 80% of the AMI would result in a financing gap, due to the inability to obtain tax credit equity for units serving households above 60% AMI. Initial analysis provided by the Borrower indicates this could increase the financing gap by at least \$115k per unit above 60% AMI. This gap would potentially need to be filled by additional County funds.

Figure 3: Projected Layout of Solar Panels



It should be noted that the “income averaging” tool allows units affordable between 60% to 80% of AMI to still receive LIHTC equity, as long as other units are offered at proportionally lower income levels. Income averaging was explored for this project, however, as of report writing, the IRS has not provided a final rule that would provide the tax credit investor and Borrower with the assurances they need for it to be a workable solution. Due to the risks associated with that structure in absence of a final IRS ruling, income averaging is not proposed for this project.

Information obtained from the Borrower indicate an estimated 40 households earn over 60% of the AMI, pending final income verifications. The Tenant Relocation Plan, in part, lists steps the Borrower will take to help these households who will need to permanently relocate if they are over the 60% AMI limits as the property undertakes renovations as part of the LIHTC program. These steps include assistance finding comparable housing that meets their needs by providing residents with information about other market affordable and affordable properties in Arlington. The Borrower will also work with other landlords in the area in an effort to obtain leasing priority for Park Shirlington residents. The table below lists a selection of nearby CAF and MARK developments that contain up to 80% AMI units. In addition, 120-day notices and moving cost assistance will be provided.

Nearby Developments with up to 80% AMI CAFS and MARKS

Project Name	Neighborhood	Address
Shirlington House	Fairlington	4201 31st St S
Apex	Long Branch Creek	2910 S Glebe Road
Wingate II	Shirlington	2500 S Arlington Mill Dr
Delancey at Shirlington Village	Shirlington	4220 Campbell Ave
The Citizen at Shirlington Village	Shirlington	3000 S Randolph St
Crystal House	Aurora Highlands	1900 S Eads Street
The Cadence (not yet open)	Buckingham	4333 Arlington Blvd
Knightsbridge Apartments	Buckingham	210 N Glebe Rd
The Spectrum	Claremont	5055 S Chesterfield Rd
Sofi 55 Hundred	Columbia Forest	5500 Columbia Pike
Wildwood Park	Columbia Forest	5550 Columbia Pike
Infinity Apartments	Columbia Forest	955 S Columbus St

Renovation Process: The renovations are anticipated to begin in early fall 2022 and would be phased, with approximately 10 units undergoing renovations at any one time. The Borrower proposes a renovation method that would allow all existing, qualified tenants to remain at the property during renovations. Residents will need to temporarily relocate from their current unit, with all of their furniture and belongings, into a vacant “hospitality” unit at Park Shirlington. The hospitality unit will be comparable to their current apartment.

Residents will be provided with boxes and packing materials to pack up their apartment, and a Renovation Coordinator will schedule, coordinate, and supervise the moving of their packed belongings and furniture from their home to the hospitality unit and then back again using a licensed, bonded and insured professional moving company. Additional assistance such as

arranging for packing and unpacking assistance to elderly residents, residents with disabilities and any other reasonable accommodation requests will be provided. The renovations are anticipated to take approximately three weeks per unit.

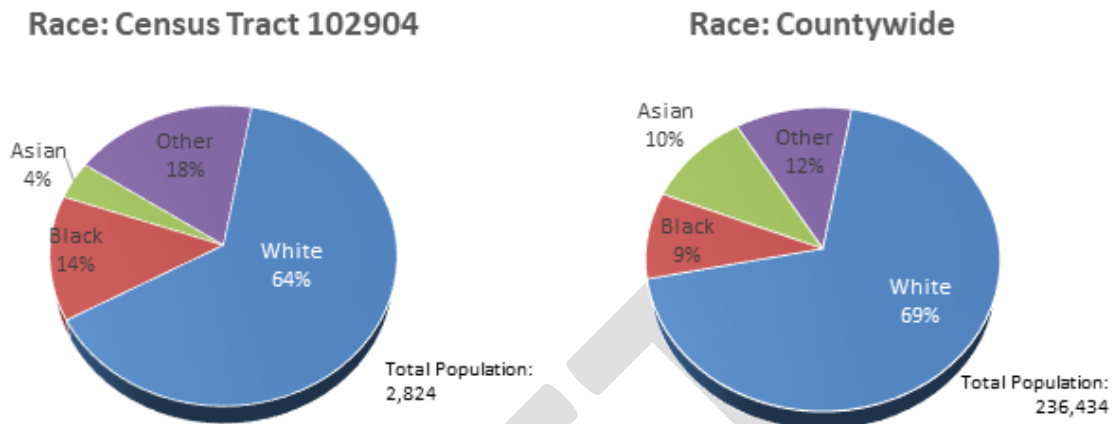
Affordable Housing Goals, Objectives, and Policies: The proposal to renovate and commit 100% of the units to long-term affordability meets several of the Goals, Objectives and Policies of the County Board-adopted AHMP, as follows:

AHMP Policy Number	Description
1.1.1	The project will preserve affordable rental housing through financial assistance.
1.1.2	The project will prevent the loss of committed affordable housing.
1.1.5	The CAFs will be committed affordable for 75 years.
1.1.8	The project will preserve family sized CAF units, including 223 2-BR units and 14 3-BR units.
2.2.3 and 2.5.2	The development will provide 15 PSH units.
2.5.3	The project will create units that are accessible for persons with physical and sensory disabilities by adding 8 Type-A accessible units.
3.3.1	The inclusion of solar panels will increase energy efficiency and advance the goals of the Community Energy Plan (CEP).
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.

Racial Equity: The County Board adopted an Equity Resolution in [September 2019](#). The resolution includes, in part, direction to engage and collaborate with partners to enhance County efforts and commitment to fostering equity, and to apply a racial equity lens for every staff recommended project. Specifically staff asks the questions of 1) Who benefits?, 2) Who is burdened?, 3) Who is missing?, 4) How do we know?, and 5) What do/did we do?

While there is no racial composition data for residents specifically at Park Shirlington, the 2020 American Community Survey 5-year estimate data for racial composition for the census tract where Park Shirlington is located indicates there is a greater racial diversity in this area than in the County as a whole (Figure 4). For example, there is a greater percentage of black (14% versus 9% Countywide) and “other” races (18% versus 12% Countywide). The data also shows that 27% of the population identifies as Hispanic or Latino origin as compared to 15% Countywide.

Figure 4: Racial Composition of Census Tract including Park Shirlington and Countywide
 US Census Bureau; 2020 American Community Survey 5-Year Estimates



Furthermore, 2018 American Community Survey 5-year estimate data for households earning up to 60% AMI within the County (which is the latest data available), indicate about 60% of these households are non-white populations. This includes 25% Latino, 20% black, and 15% Asian.

The renovation program and associated AHIF loan will benefit and enable income-eligible families, in a comparatively diverse area of the County, to continue living in their homes, at an affordable rent. Although households earning above 60% AMI would need to find alternative housing, the Tenant Relocation Plan will include moving costs assistance to help those that may need to move, as well as general assistance and help in finding another residence.

The apartment community will include 15 Permanent Supportive Housing units, that will serve a portion of the population that is at risk of homelessness and may earn well under 60% AMI. In addition, Park Shirlington currently provides housing for very-low income populations, as approximately 34% of residents are currently receiving Housing Grants and Housing Choice Voucher rental subsidies.

According to the latest supply data as part of the FY 2021 AHMP Monitoring report, only 11.6% of the total County supply of housing is affordable to those earning up to 60% AMI. The renovation program and long-term affordability commitment will benefit and help low-income residents, majority of which are non-white populations, be able to stay in Arlington.

Development Budget and Financing Package: The Borrower will finance the renovations of Park Shirlington Apartments with 4% LIHTC. The total development cost is \$136.3M. This represents an \$8.4M increase from the budget projected in the July 17, 2021 staff report. The increase in the total development costs is partly attributable to the inclusion of the new community room/club house and conversion of the leasing office to a residential unit, solar installation, and inclusion of a digital equity reserve, which combined to add about \$4.7M to the budget. Other increases are attributable to general construction cost increases. Project debt reserves, which were further refined according to HUD requirements, also attributed to the increased budget.

Despite the overall \$8.4M increase, the total AHIF loan increased only \$2.59M since the July 2021 County Board AHIF allocation. To make up the remaining gap, the Borrower increased their deferred developer fee from \$1.1M to \$1.8M, and the project will receive additional LIHTC equity of \$5.3M, due to the availability of more credits resulting from increased eligible costs, as well as increased LIHTC pricing. These increases helped offset increased costs as well as an approximately \$200k reduction in the FHA HUD loan, attributable to increased interest rates.

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, 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 PROJECTED SOURCES AND USES

<u>Sources of Funds</u>		<u>Uses of Funds</u>	
AHIF Loan	\$31,891,000	Acquisition*	\$86,198,000
FHA HUD Loan	\$53,787,000	Construction	\$37,233,250
Deferred Developer Fee	\$1,781,282	Bond Fees/Soft Debt Fees	\$2,194,455
4% Tax Credit Equity	\$45,865,123	Project & Debt Reserves	\$7,698,700
Seller Note	\$3,000,000	Developer Fee	\$3,000,000
Total Sources	\$136,324,405	Total Uses	\$136,324,405

*The acquisition costs include an \$85M property value and \$1.198M in acquisition-related costs.

AHIF Terms/Loan Document Provisions: Staff recommends an allocation of \$2.59M, in addition to the \$22.76M allocation approved at the July 17, 2021 County Board meeting to support the Park Shirlington renovations. The existing \$6M loan and \$540k deposit used to exercise the Option would be included in the new \$31.89M total AHIF loan.

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, after any acceptable preferred payments not to exceed \$200/unit, 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.

The project is utilizing a HUD(221)(d)(4) loan structure, which requires a HUD Subordination Agreement. This agreement states that in the event of foreclosure, the associated affordability

covenants would no longer apply. This is different from subordination agreements for other past affordable developments funded with County financing (and not utilizing the HUD(221)(d)(4) structure), which do allow a portion or all of the unit affordability to survive in the event of foreclosure.

The HUD Subordination Agreement is not negotiable. However, there would still be the opportunity for the County Board to cure a monetary event of default under this agreement. Specifically, the HUD Subordination Agreement provides the following subordinate lender rights:

- Right to receive notice of a borrower default within five (5) days after delivery of notice to Borrower (but failure of the Senior Lender to send notice will not prevent Senior Lender from exercising its remedies);
- Opportunity, but not the obligation, to cure either a monetary event of default or a covenant event of default within 30 days following the date of notice of default, or any time prior to an assignment of the senior security instrument from Senior Lender to HUD, whichever date is later.

The HUD(221)(d)(4) structure will enable the developer to claim tax credits on the acquisition, to make the project financially feasible. Given their mission, HUD is not in the business of foreclosing on affordable properties, and if they did, there would still be the opportunity for the County Board to cure a monetary event of default under a HUD Subordination Agreement (under the parameters listed above). For this reason, staff recommends that the County Board approve the Subordination Agreement as attached in this report.

Anticipated Timeline: Contingent upon County Board approval, finance closing is anticipated to occur in August 2022. Renovations would occur shortly thereafter and be completed in 2024.

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 the June 3, 2021 meeting, at the “Bricks and Mortar” Subcommittee meeting on June 30, 2021, and as an Action Item on July 8, 2021. Since that time, the affordable housing program and development budget was further refined. 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 final proposal at the July 7, 2022 meeting as an Action Item.

Community Feedback: The Chair of the FCA indicated initial 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.

Bricks and Mortar Subcommittee/ Housing Commission Feedback: The Bricks and Mortar Subcommittee voted to approve the staff recommendations by a vote of 7-0-1 on June 28, 2022. *[to be further updated once Housing Commission meeting occurs July 7]*

FISCAL IMPACT: There are sufficient unallocated AHIF funds to support the \$2,591,000 AHIF request as part of this staff report and total \$31,891,000 AHIF loan.

DRAFT