City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 14, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 103 : POTENTIAL USE OF DEDICATED TAX REVENUE FOR AFFORDABLE HOUSING

This memo is in response to Mayor Euille's inquiry at the March 5 budget work session about the use of the portion of the dedicated affordable housing tax revenues not needed for debt service in FY 2010 ($0.8 million). Specifically, the Mayor raised the issue of using the funding to acquire and re-sell affordably-priced properties in the City.

The Proposed FY 2010 Operating Budget reduces the dedicated one cent of the real estate tax for affordable housing to 0.7 cents, which is sufficient to cover the debt service on all existing affordable housing bonds and the anticipated $8 million in bonds that were anticipated for the Olde Town West project. This memorandum discusses the pros and cons of several potential uses of the real estate tax financed affordable housing funds.

1. Purchase and Resale of Affordable Condominium Units: There are currently several condominium properties in the City where units are available at very affordable prices—in some instances, less than $100,000. Some, but not all, of these units are foreclosures or short sales. The Mayor has suggested the idea of using the $0.8 million proposed to be available in FY 2010 to purchase as many of these units as possible for the purpose of providing affordable homeownership opportunities. Staff does not recommend using these resources to acquire condominium units for this purpose for the following reasons:

Many of these units are already being purchased by moderate income and workforce-income households using City purchase assistance. From the fourth quarter of FY 2008 through February 2009, the Office of Housing has made 29 loans (20 HAP and 9 MIHP) for purchases that involved foreclosures or short sales. Nineteen of these transactions (15 HAP and 4 MIHP) had sales prices below $170,000, the lowest sales price for City-assisted loans in FY 2006, and an additional five loans (three HAP and two MIHP) not involving foreclosures or short sales were also in that price range. In March 2009, the City assisted the purchase of three homes priced at less than $100,000. City purchase assistance is helping to get affordably-priced units into the hands of moderate-income and workforce-income households at less cost than it would take to purchase these units. However, it must be noted that, absent the receipt of additional program income, the Office of Housing will be unable to fund any new HAP loans, other than those currently in process[1] until FY 2010.

Carrying costs could become a problem if the City acquired units and was not able to re-sell them quickly. If the City purchases condominium units, in addition to the purchase price, there are likely to be costs to get the unit into a salable condition, as well as ongoing utility costs. In addition, the City would need to pay monthly condominium fees for each unit until it is transferred to a new owner. Some of the condo fees for bargain-priced are quite high; for example, $571 per month for a two-bedroom Saxony Square unit priced under $100,000.

The federal Neighborhood Stabilization Program (NSP) offers a non-City resource for property acquisition. Council recently approved the submission to the Virginia Department of Housing and Community Development of an application for NSP funds to acquire foreclosed property in the Hume Springs neighborhood. Although the State's criteria for the award of these funds made it difficult to develop a proposal to acquire condominium units, the City now has an opportunity to apply directly to HUD for stimulus NSP funds which may not have the same requirements for a high neighborhood foreclosure rate. However, staff is continuing to explore the criteria for stimulus NSP applications, including whether or not NSP funds could be used to pay condominium fees and other carrying costs. Should the use of NSP for condominiums prove feasible (and should a City application prove successful), the use of NSP monies would provide an alternative to the use of scarce City housing monies.

2. Securing 16 Replacement Units in Connection with the James Bland Redevelopment:
The City has committed to work with ARHA to identify and fund any shortfalls (e.g., after tax credit financing, developer contributions, etc.) associated with the replacement of 16 James Bland units. These units are needed because the City's development approvals allowed only 44 James Bland replacement units to be built on the Glebe Park site, compared to the 60 units originally requested by ARHA and its developer partner, EYA. Although the Council, in approving a $5.6 million loan to pay off the previous mortgage on the Glebe Park property, directed that the loan be made with non-housing resources, it became clear in the March 5 work session that, in light of the City's current fiscal constraints, housing resources are the preferred source of funding for the 16 units.

The actual cost of securing the 16 units will not be known until specific units are identified, and the potential for other funding (i.e., developer contributions, Low Income Housing Tax Credits) is assessed. However, the DSUP for James Bland provides for the City to set aside one million in bonding capacity and 50% of all developer contributions, up to a maximum of $6.4 million. This is based on a cost of $400,000 per unit for 16 units and is based on an estimate for land acquisition and new construction. It is highly likely that the required City investment will be less than this figure, and that this represents a worst-case scenario. However, in order to be certain of having $6.4 million available in the event it is needed, staff has determined that, based on the amount of other monies currently available, it is necessary to reserve sufficient FY 2010 tax revenues to support $5.7 million in bonds (along with approximately $41,000 in FY 2009 tax

[1] HAP funding is also reserved for a loan to purchase a property currently being marketed by the City after having been acquired at foreclosure.

revenues) at this time. As developer contributions are received, the amount of dedicated housing tax revenues reserved for this purpose can be reduced.

<u>3. Preservation of Affordable Rental Housing:</u> The proposed $0.8 million in real estate tax revenues is available because the planned purchase of Olde Town West by Bonaventure, for which Council had previously approved an $8 million loan, fell through shortly before the release of the Proposed Budget. Olde Town West is currently on the market again, and several previous bidders have spoken with Housing staff about the possibility of City support for new bids on the property. In light of the need to reserve monies for the 16 James Bland replacement units described above, Housing staff has informed these bidders that the City cannot provide the same level of support as previously approved, but that staff would be willing to recommend a loan if an affordable deal can be devised with the available monies. However, staff has not yet been presented with a proposal that appears viable.

It has also been brought to staff's attention that another assisted property, The Fields of Alexandria (formerly Crestview Commons) was recently placed on the market. This 290-unit tax credit property must remain affordable through 2012, and could become a market rate property as early as 2013. Virginia Housing Development Authority (VHDA) staff noted in a recent meeting that some tax credit properties are changing hands several years in advance of the end of the tax credit compliance period with the intent that the new owner may be able to convert them to market rents within a few years.

The Fields of Alexandria is only one of several assisted properties (not covered by Resolution 830) staff has identified as being vulnerable within the next five years—over 1,000 such units, in addition to 563 units subject to one-year or five-year subsidy renewals, are listed in the forthcoming report of the Affordable Housing Initiatives Work Group. In light of the losses in market affordable rental housing over the past several years (more than 10,000 units have moved out of affordability since 2000) and a new wave of potential threats to the assisted housing stock, staff would recommend that the available dedicated revenues be used for affordable housing preservation purposes.