City of Alexandria, Virginia
FY 2025 Proposed Operating Budget & CIP
Budget Questions & Answers

April 4, 2024

Question:
What tools do we have to add funding to development projects that target renters making less than 50 thousand dollars? What is the cost to the City to buy down the cost of units to better support renters at this AMI level?

Response:
Households with incomes at or below $50,000 fall into the 30, 40 and 50% area median income (AMI) ranges, depending on household size.

Tools for providing housing with rents affordable to households at these income levels, typically fall into a handful of categories, including:

(a) **Units produced as replacements for existing public housing**. The existing public housing may include units with rental subsidies from HUD operating contracts. With the new development, these units would continue to be subsidized using project-based vouchers with rents that comport with the fair market rents of other properties in the same zip code. Alexandria Redevelopment and Housing Authority's (ARHA) Samuel Madden Redevelopment is an example of this approach. Approximately 160 units affordable at 30% AMI are anticipated to be produced by ARHA and its development partners. Currently, the site includes 66 public housing units. Another example is the Ladrey Apartments redevelopment. Through subsidy repositioning of public housing contracts at this location, 170 units will be affordable to senior/disabled households once redeveloped.

(b) **Units produced through use of the Residential Multifamily (RMF) Zone**. Substantial density is exchanged for a developer providing a large component of units affordable at 40% AMI. In the case of The Heritage, private development covers the cost of producing 40% units. When nonprofit developers have used RMF in affordable housing development, additional City funds were required to subsidize the cost of building and operating the 40% AMI units.

It is noted that bonus density granted through Section 7-700 results in the mandatory provision of onsite affordable housing (referred to as "set-asides"). However, the Zoning Ordinance sets the affordability level at 60% AMI. While the City may negotiate deeper affordability with a willing developer, the accompanying equivalency analysis would result in fewer units. The one exception is found in the Arlandria-Chirilagua Plan Update, which ties density to the provision of some 50 and some 60% AMI set-aside units in response to neighborhood housing need. Staff will review levels of affordability in the Zoning Ordinance as part of the upcoming Housing Master Plan Update.

(c) **Units produced with low-income housing tax credits**. Through City-supported low-income housing tax credit (LIHTC) development, 45% of the total number of units will be affordable at 60% AMI; 45% will be affordable at 50% AMI; and 10% will be affordable at 40% AMI. This affordability mix maximizes a project's competitiveness for credits. Local (City) support for these projects is usually provided through loans to the nonprofit or private developer involved. The amount of these loans currently ranges from $125-130,000 per unit to cover the gap not met with tax credit equity and mortgage debt.

Important to note is that at the time of the 2013 Housing Master Plan's adoption, city per unit investment in LIHTC housing was around $40,000/unit. This amount has tripled as development costs have risen and the City has sought to create a range of more deeply affordable units in response to local need. In 2013, affordability primarily targeted households at 60% AMI. At 60% AMI, rental revenue is sufficient for a development to carry a mortgage and cover operating and maintenance costs with a relatively small amount of City gap funding. With revenues from units at the 50% AMI level, the debt amount that can be carried is lower, creating a larger gap. At 40% AMI, the revenue generated by a unit does not cover any mortgage debt and barely covers operating and maintenance costs, creating a significant gap to be filled by City and other sources.

(d) **Units developed through the Beauregard Small Area Plan (BSAP)**. The BSAP and its two resulting Coordinated Development Districts created a target and funding plan to achieve 800 new committed affordable units (CAUs). The creation of these CAUs is to be achieved through public-private partnerships and a range of funding sources, including tax-increment like funding yielded through new development. Of the BSAP's 800 CAU target, one half (400 units) were to be affordable at 40% AMI reflecting housing need in the community.

To date, City investment has created around 770 CAUs in the larger Alex West Plan Area, with some affordable at 40 and 50% AMI at The Spire, St. James Plaza, and The Nexus. With revenues yielded through tax increment-like funding, the BSAP will include other affordable housing approaches throughout the future neighborhoods in Beauregard, including a buy down strategy.

(e) **Units subsidized with City pilot rental subsidy grant assistance**. The City's pilot rental subsidy program uses grant support to further subsidize 10% of the total units in a tax credit funded project to enable them to be affordable for 30, 40 and 50% AMI households. With the pilot subsidy funds, rents on tax credit units are written down to be affordable to DCHS-identified households. The City grant funds make up the difference between what the renter can afford and the affordable rent. While intended to expand affordability and make Alexandria projects more competitive for tax credit funding administered by Virginia Housing (VH), the priority points provided by VH for these subsidies have been proposed for elimination in future tax credit application cycles.

In 2023, City Council approved grant funding for The Square at 511 to facilitate conversion of 10 (of 196) units to be affordable to households with incomes up to 40% AMI. This was a potentially unique expansion of the pilot rental program to ensure no displacement of existing Arlandria households occurred.

(f) **Units subsidized with state rental assistance program (SRAP) vouchers**. State funded, but locally administered, SRAP vouchers currently help 10 qualified, very low income, disabled households live independently in Alexandria rental housing by supplementing rents at market rate levels.

<u>Additional Tools to be Explored in Upcoming Housing Master Plan Update</u>

A **local voucher rent subsidy program** has been preliminarily studied and staff are reviewing the consultants' draft report. It is anticipated that further review of this tool will be explored in the upcoming Housing Master Plan update. The demographics to be served by the program would be part of this review.

Inclusionary zoning (to produce mandatory units of affordable housing, potentially at a range of affordability) and **tax exemptions**, are also proposed to be explored in the upcoming Housing Master Plan Update.

Housing has modeled the cost to "**buy down" affordability** upfront from market rate rents and "affordable" rents. The discount formula used reduces by 50% market rent rates by bedroom type. A capitalization rate is then applied to that cost. Based on this formula, the projected cost to buy down affordability for a 40 year period is estimated to range from $280,000 to $400,000 per unit, depending on the submarket and unit type.

A housing needs assessment is currently ongoing to inform Housing Master Plan Update discussions and recommendations. Staff proposes that the findings of the assessment, and recommendations from the upcoming Housing Master Plan Update be incorporated in City Council's future budget discussions regarding possible strategies to buy down and expand affordability.