



FULFILLING THE PROMISE

Meeting the Production Goal of Arlington's Affordable Housing Master Plan



December 2017

However, **it is clear that the current level of AHIF funding will not be sufficient to support the development of enough housing to meet the AHMP goal.** Based on recent projects developed in the County, it is estimated that each new affordable rental unit has required an average AHIF subsidy of about \$85,000 (see text box below). The current AHIF allocation of \$13.7 million, plus the additional funds from loan repayments and developer contributions, suggests an annual loan availability of \$25 million. Therefore, the AHIF is positioned to support the development of approximately 294 units annually at this funding level, about half of the number of units that are needed to meet the AHMP goal.

Recent data from the County highlights the growing urgency. *According to the FY2016 Arlington County Affordable Housing Indicators report*, between 2011 and 2016, the County added an average of only 224 net new CAFs (Figure 1), a pace that is far below what is needed to achieve the goal laid out in the AHMP.

In addition, the County is losing market affordable housing rapidly. In 2000, there were nearly 20,000 MARKs affordable at or below 60 percent of AMI. By 2016, that number was less than 3,000. If these trends continue, the supply of MARKs affordable to households at 60 percent of AMI could disappear completely in the years to come (Figure 2).

Our coalition has come together to make recommendations for specific tools the County could implement to achieve the production goal

of the AHMP. We have included case studies with project-specific development cost information. In addition, we have highlighted other communities—both here in the Washington DC region and across the country—that have implemented innovative and progressive approaches similar to the strategies we recommend. From the District of Columbia and the City of Alexandria to San Francisco, Denver and Seattle, there are examples of communities that have had tangible results with the strategies we include here. Arlington could focus on these approaches, building on its already robust experiences and strategies, in order to meet its production goal.

We are not necessarily recommending that the County implement all of the strategies outlined in this report. **We are presenting a set of possible alternatives to get to the goal of creating 585 net new CAFs annually through a combination of cost containment strategies and increased dedicated funding.**

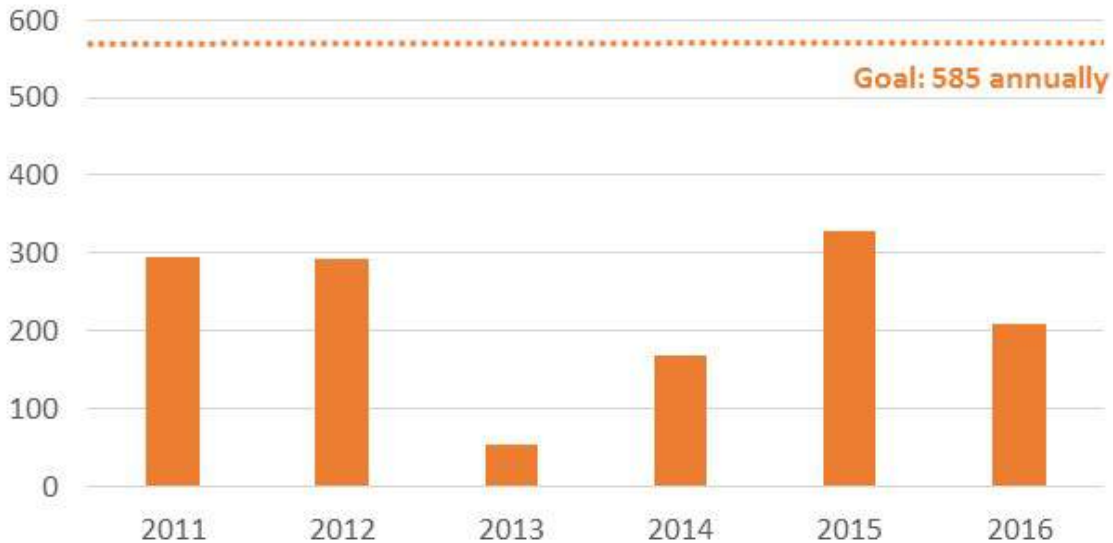
We understand that all of these strategies involve trade-offs for the County. Even the recommendations that do not have a direct cost could have indirect costs in terms of lost revenue or new demands on other revenue sources. However, we are committed to working with the County to fulfill the promise of the Affordable Housing Master Plan and making the choice to support the creation of more housing options. We hope that this report offers helpful direction on next steps for County staff analysis and focus.

Calculating the Average AHIF Subsidy

The average AHIF subsidy for projects developed over the 2010 – 2017 period was \$76,315 per unit, which includes rehabilitation projects as well as new construction. The four developments applying for AHIF loans under the current Notice of Funding Availability (NOFA) requested an average of about \$102,000 per unit from the AHIF. This analysis uses an \$85,000 per-unit AHIF subsidy to estimate potential impacts of strategy recommendations, but these potential impacts will vary depending on the actual per unit AHIF subsidies in the future.

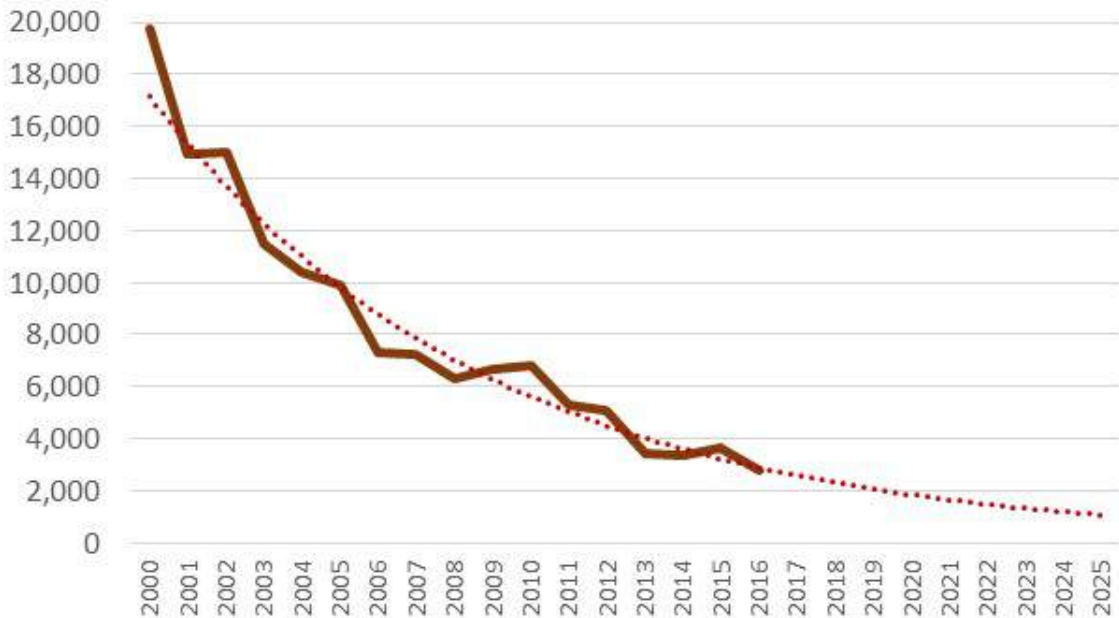


**Figure 1. Net Change in CAFs
At or Below 60% AMI**



Source: FY2016 Arlington County Affordable Housing Indicators

**Figure 2. MARKs
At or Below 60% AMI**



Source: Arlington County Affordable Housing Study, Interim Data Report; FY2016 Arlington County Affordable Housing Indicators; trendline projection (2017-2025)



Fulfilling the Promise Recommendations for Reducing Costs and Expanding Resources to Meet the Production Goal of Arlington's Affordable Housing Master Plan		
	CAFs (units)	AHIF (millions \$s)
Affordable Housing Master Plan Annual Goal	585	\$49.7
Current Potential Annual Production (estimated)	294	\$25.0
Estimated Annual Production Gap	291	\$24.7
Potential Strategies	Added CAFs (units)	AHIF Savings (millions \$s)
1. Reduce Site Plan Conditions for New Affordable Housing Construction Eliminate or reduce site plan conditions for new housing construction that includes affordable units.	44	\$3.7
Implement reduced parking minimums for affordable housing projects.	52	\$4.4
2. Waive Permit and Tap Fees for Affordable Housing Projects Waive or reduce fees for new housing construction that includes affordable units.	16	\$1.4
3. Reduce Use Permit Conditions for Rehabilitation Projects Streamline the Use Permit process, allow for continued nonconforming conditions, and reduce conditions for affordable housing rehabilitation projects.	19	\$1.6
4. Modify Bonus Density Policy Allow a cash contribution under the County's density bonus policy and set the contribution rate to reflect market prices.	76	\$6.5
5. Pursue Community-Serving Real Estate Opportunities Prioritize the co-location of affordable housing and public facilities. Streamline the process for small public sites. Facilitate more density in sector plans and site plans where nonprofit owners offer discounted land for affordable housing.	35	\$3.0
6. Offer Property Tax Abatements/Exemptions Revive and improve the County's current property tax exemption policies and consider ways to more comprehensively exempt affordable housing developments from the full real estate property tax obligation.	44	\$3.7
Estimated Impact of Potential Strategies	Up to 286	Up to \$24.3M
Depending on whether the proposed strategies are adopted, there will likely be a need to Expand AHIF Funding Sources to meet the goal of 585 CAFs annually. New or shifted AHIF resources could include <ul style="list-style-type: none"> • Increased Dedicated Recordation Tax • Dedicated Grantor's Tax • New Tax Increment Financing • Revenue from General Obligation Bonds • General Appropriations 	Between 5 and 291 CAFs	Between \$0.4M and \$24.7 M



Potential Strategies and Case Studies

The following case studies illustrate the impact of each of the recommended strategies on achieving Arlington County’s production goal for affordable housing. Most of the examples are drawn from projects developed within the County. Others highlight examples from other places in the Washington DC region and across the country. Some of the case studies demonstrate the significant impact that could be achieved with the robust use of approaches already recommended in the AHMP Implementation Framework. Others suggest new innovations and progressive strategies that could augment the County’s existing toolkit to meet the visionary production goal adopted by our community.



1. Reduce Site Plan Conditions for New Affordable Housing Construction

New affordable residential projects generally are subject to the same site plan conditions as market-rate projects, including utility undergrounding, tree preservation and replacement, other landscaping, curb and gutter improvements, public art, sidewalk design and improvements, and Earthcraft/LEED certification. They also generally are subject to typical parking requirements as established under the zoning code.

The conditions that are part of Arlington’s site plan process add considerably to the cost of development, often accounting for millions of dollars of project costs. By reducing these requirements, developers would be able to either build more CAFs as part of the project or could request a smaller AHIF grant, freeing up more AHIF dollars for other projects.

Parking requirements are another major driver of the cost of developing affordable housing. It is estimated that the cost of underground parking is approximately \$45,000 per space. The County’s Multifamily Residential Parking Study recommended reduced amounts of required parking for multifamily residential projects in Arlington’s two Metro Corridors. On November 18, 2017, the County Board approved guidelines—though not requirements or expectations—to standardize the practice of allowing less parking at residential projects in the corridors. Reduced parking at affordable projects well-served by transit would reduce the overall project costs and the required AHIF subsidy needed.

Recommendation: Eliminate or reduce site plan conditions for new housing construction that includes affordable units. Implement reduced parking minimums for affordable housing projects.

Case Study: Union on Queen

Union on Queen is a new mixed-income, multifamily community of 193 apartment residences developed by The Bozzuto Group and Wesley Housing Development Corporation. Forty percent (78 units) are designated as affordable for households earning 50 and 60 percent of AMI. The remaining 115 units are market-rate apartments.

The total cost of development was \$77.6 million which included \$6.8 million from the AHIF to support the development of the affordable units. The 78 CAFs rent for an average of \$1,100 per month while the market-rate units have rents of about \$2,500 per month.

The project was approved under the County’s site plan process and included a set of site plan conditions, including undergrounding utilities and a separate contribution to the County’s underground utility fund, a contribution to the County’s public art fund, and enhanced design features. The total cost of complying with this small set of site plan conditions was \$1.9 million.

At the same time that Union on Queen was under construction, a by-right market-rate development was being built in the same neighborhood. Because the project did not go through the site plan process, there were no utility undergrounding requirements, requirements for contributions to County funds supporting utility undergrounding or public art, or other public contributions required

Therefore, the market-rate project that included housing affordable only to high-income households did not provide any community-serving benefits while the development with 78



Typical Site Plan Conditions

Utility undergrounding and contribution
Tree protection and replacement
Landscaping standards
EarthCraft/LEED certification
Pavement, curb and gutter improvements
Sidewalk design and improvements
Temporary circulation plan for vehicles and pedestrians
Bike storage requirements
Public art contribution
Documentation of historical artifacts

CAFs was responsible for nearly \$2 million in community-serving improvements.

In a project like Union on Queen that includes CAFs, waiving the utility undergrounding and public art requirements, the developer could have built an additional 22 CAFs on-site or could have requested less money from AHIF allowing the development of those 22 additional CAFs elsewhere in the County.

In mixed-income buildings, the County could pro-rate the reduction in site plan conditions. In the case of Union on Queen, therefore, the pro-rated reductions could have resulted in a savings of \$760,000, potentially supporting the development of an additional nine (9) CAFs in the County.

Potential Annual Impact

Assuming that two 100-percent CAF projects are built each year, eliminating just a small set of site plan conditions could result in the construction of an estimated **44 additional CAFs each year**. The annual impacts would be less for mixed-income projects where the reduction or waiver would be pro-rated based on the number of affordable units.

Reducing parking minimums on two projects could contribute to at least another **52 additional CAFs per year**. This assumes a type 100-unit project parked at 0.5 spaces per unit

instead of 1.0 spaces per unit, at a cost of \$45,000 per parking space.

If affordable projects were exempted from additional site plan requirements (see text box above) those savings would translate into an even greater number of additional CAFs. Furthermore, if affordable housing projects were offered an expedited review process, along with a more limited set of site plan conditions, then that time saving would lead to additional cost reduction that could result in the delivery of even more CAFs.

Implementation

Several County departments are involved in the conditions related to site plan approvals, including the Departments of Community Planning, Housing and Development; Environmental Services; and Parks and Recreation. These departments could develop a modified list of site plan conditions that would apply to affordable residential projects. The conditions list could include prorated reductions in conditions for mixed-income projects depending on the number of affordable units included as part of the project.

As part of this refined list of site plan conditions for affordable housing projects, the County could consider ways to expedite the development review and approval process to make it easier to deliver affordable units.

Examples from Other Communities

A number of communities throughout the country waive certain requirements for projects that include affordable housing, including communities throughout California, the City of Minneapolis and several other cities in Minnesota, and the City of Santa Fe, New Mexico. In our region, Frederick County, Maryland exempts affordable housing developments from impact fees.



2. Waive Permit Fees for Affordable Housing Projects

New affordable residential projects are required to pay the same fees market-rate projects do related to rezoning requests, site plan approvals and amendments, administrative changes, as well as use permit fees, fees for administratively-reviewed permits and requests, fees for building permit review and certificate of occupancy. The Inspection Services Division (ISD) and Department of Environmental Services (DES) also levy fees on new construction and redevelopment.

The wide set of fees associated with the development process in Arlington increase significantly the cost of development. By waiving some or all of these fees, overall costs would be decreased and affordable housing developers would be able to either build more CAFs as part of the project or could request a smaller AHIF grant, freeing up more AHIF dollars for other projects.

Recommendation: Waive or reduce building permit, sewer and water, zoning review and other fees for new housing construction that includes affordable units.

Case Study: Columbia Hills

Columbia Hills Apartments consists of two adjoining, eight-story buildings with 229 committed affordable units including 13 Type A-accessible units and 10 units designed for permanent supportive housing. There are 180 units affordable to households at 60 percent of AMI, 39 units affordable at 50 percent of AMI, and 10 units affordable at 40 percent of AMI.

The total project cost was \$91.1 million (approximately \$398,000 per unit) which included \$18.5 million from the County's AHIF (about \$80,786 per unit).

For the Columbia Hills project, fees for building permits, sewer and water, and zoning review, along with other fees totaled \$700,947 for 229 units or \$3,060 per unit. If all of these fees had been waived for this affordable project, it would have reduced the costs of development, freeing up resources for the development of eight (8) additional CAFs.

Potential Annual Impact

The building permit and related fees for the Columbia Hills project are typical for affordable housing projects of this size. Assuming that two CAF projects are built each year, waiving the building permit fees could lead to the construction of **16 additional CAFs** annually. Reduction of fees could be associated with a smaller number of additional CAFs.

Implementation

At the direction of the County Board, the County Departments that are responsible for setting the various building and permit fees, including the Departments of Community Planning, Housing and Development and Environmental Services, and the Inspection Services Division, can develop a modified fee schedule or list of fees for affordable housing projects that reduces those costs.

Examples from Other Communities

The City of Austin, Texas provides fee waivers (in addition to expedited permitting) for transit-oriented, affordable housing. Austin's sliding scale fees are based on the portion of the development's units priced for households earning less than 80 percent of AMI. Waived fees include building permit fees, water/waste water capital recovery fees, and construction inspection fees.^{vi}



Lessons from California for Reducing the Costs to Build Affordable Housing

The State of California offers several examples for how local municipalities can reduce the cost of development to encourage the production of additional affordable units. The State actually requires that municipalities analyze whether the amount of fees levied on affordable housing developers creates a constraint on their decision to develop and/or the decisions about which income groups to target. The state provides a tool to help local communities judge the level of fees imposed and to assess the need for a waiver or reduction. Many communities across the state **waive building permit fees** for affordable housing developers, including Long Beach, Sacramento, and Monterey, among others. San Diego is among the most recent California cities considering waiving all fees on 100 percent affordable projects. Other communities, including Los Angeles, **waive other types of fees**, such as park and open space fees, which helps to reduce the overall cost of development.

In addition, the State of California has passed other measures designed to promote the development of affordable housing. Under a new law, passed in September 2017 (SB35), local municipalities are required to offer **expedited review for affordable housing projects** that are consistent with local zoning and land use plans.

In 2015, a California state law (AB744) mandates that all local jurisdictions reduce **parking requirements for affordable housing projects** that are located near transit. For 100 percent affordable projects that are within one-half mile of a major transit stop, the maximum is set at 0.5 parking spaces per unit.



3. Reduce Use Permit Conditions for Rehabilitation Projects

Rehabilitation of existing market-affordable or naturally occurring affordable apartment buildings and preserving their long-term affordability is an essential strategy for increasing the number and quality of CAFs in the County.

Arlington has a process in place to streamline the review process for rehabilitation projects. In 2009, as part of an effort to facilitate the renovation of existing garden apartment projects that were nonconforming as to zoning provisions (e.g., parking, setbacks), the County created a zoning tool to approve renovations of these projects through a special exception Use Permit.^{vii} In effect, the tool enabled the Board to approve the “as-is” nonconforming conditions plus modest improvements (e.g., playgrounds) and additions (e.g., bump-outs to create family sized units) to create affordable housing with a term of 60 years of affordability. In practice, however, this zoning tool added conditions that significantly impacted project costs.

Recommendation: Streamline the special exemption Use Permit process, allow for continued nonconforming conditions, and reduce Use Permit conditions for committed affordable housing rehabilitation projects.

Case Study: Buchanan Gardens

Although the Buchanan Gardens project was technically eligible for the amended zoning process described above, the rehabilitation project did not ultimately benefit from the tool.

In 2012, a renovated Buchanan Gardens opened with 111 units affordable to families earning between 50 and 60 percent of AMI with units guaranteed affordable for 60 years. The renovation and “bump-outs” of some units at

Buchanan Gardens created long term affordable housing for 111 families, and created new family-sized units (33 two-bedroom, 22 three-bedroom and one four-bedroom units). The investment in Buchanan Gardens greatly improved conditions at a property that had had limited investment since it was constructed in 1949, which was a benefit to the larger community as well as the residents.

APAH was the developer on the Buchanan Gardens renovation project. The total cost of the redevelopment project was \$31.6 million, which included \$7.7 million from VHDA, as well as \$11.7 million from the AHIF.

Under the modified Use Permit process for rehabilitation projects like Buchanan Gardens, the project should be exempted from certain requirements to enable the rehabilitation to move forward. However, in the case of the Buchanan Gardens project, many of the use permit conditions were the same as those applied to new construction high-rise residential projects and did not offer any relief. For example, the project required extensive site work including tree preservation and relocation, utility replacement and relocation, undergrounding of utilities, firetruck turnaround, new paving, stormwater management, Earthcraft certification, parking and transportation management.

These requirements added to the cost of the project. For the Buchanan Gardens redevelopment project, the requirements for infrastructure improvements totaled \$1.65 million above what was budgeted under the original proposal that assumed reductions to requirements.

If these conditions were not placed on this rehabilitation project—as was intended by the 2009 zoning amendment—then APAH would have requested \$1.65 million less from the AHIF and those funds could then have been used for



another project in the County to potentially produce an additional 19 CAFs.

Potential Annual Impact

Assuming that there is one affordable rehabilitation project in Arlington every year, implementing the 2009 zoning amendment as written could result in an estimated **additional 19 CAFs** built in Arlington each year.

Implementation

The Departments of Community Planning, Housing and Development; Environmental Services; and Parks and Recreation have the authority to implement the provisions developed as part of the 2009 zoning amendment. For rehabilitation projects that lead to the development and/or preservation of CAFs, staff could ensure that qualified projects are allowed nonconforming uses and an expedited development review process. In addition, staff can ensure that these rehabilitation projects are not subject to a full slate of site plan-like conditions.

Buchanan Gardens Infrastructure Costs – Use Permit Versus Site Plan Conditions

	<u>Original Budget</u>	<u>Post Site Plan</u>	<u>Diff</u>
Earth Work	\$108,406	\$319,329	\$210,923
Storm/Site Utilities	\$572,254	\$924,414	\$352,160
Roads & Walks	\$184,052	\$734,073	\$550,021
Site Improvements	\$40,885	\$225,246	\$184,360
Lawns, Plantings & Trees	\$69,592	\$425,138	\$355,547
Infrastructure Costs	\$975,189	\$2,628,200	\$1,653,011
Infrastructure Costs per Unit	\$8,785	\$23,677	\$14,892



4. Modify Bonus Density Policy

Under the County’s bonus density program, proposed developments can receive additional density above what the General Land Use Plan (GLUP) specifies if affordable housing is included as part of the project. The County Board can approve up to 25 percent additional density and a six-story height bonus for residential projects that provide affordable housing beyond what is required under the Affordable Housing Ordinance (AHO). Currently, the additional affordable units under the density bonus program must be constructed on-site.

Allowing developers to provide a contribution to the AHIF instead of creating on-site units could lead to the development of significantly more CAFs. The contribution to the AHIF can be leveraged with other tools (e.g., LIHTC, other subsidies) to not only produce more units but more unit-years, as the County will receive up to 60 years of affordability versus only 30 years for the on-site units.

The key is to establish a cash contribution rate for the density bonus program that reflects the true cost of providing a unit. The fee schedule under the County’s base AHO is lower than the cost to construct the additional units on-site, as evidenced by the fact that nearly all market-rate developers take the cash out option under the base AHO. This recommendation does not suggest modifying the base AHO cash contribution level, but rather suggests creating a contribution option under the density bonus program and tying that contribution level to market conditions.

This approach would work because many market-rate developers clearly value the opportunity to make a cash contribution and avoid the compliance and operational nuances of affordable housing that are not part of their core business model. Including CAFs in every project receiving a density bonus is complicated

for the developer of the market-rate building. Furthermore, it is more difficult to connect individuals and families with services when they live in scattered site locations.

An argument in favor of requiring on-site units is that it results in affordable units being distributed through the County and promotes economic integration. While research has documented strong evidence of the importance of economic integration at the neighborhood level, there is no broad research support for the value of income integration within specific buildings.^{viii} One option is to ensure that the contributions are dedicated to the production of affordable units in the same area of the County where the contribution was made. Unused funds could be redirected after two years (or some other limited amount of time) in order to prevent those funds from being idle if there is no available land or affordable deals in that area.

Recommendation: Allow a contribution to AHIF under the County’s density bonus program and set the cash contribution rate to reflect market prices.

Case Study: 2201 N. Pershing Drive

There are several projects that were approved for a GLUP amendment with required on-site affordable contributions. The 2201 N. Pershing Drive project is one recent example that demonstrates the increase in committed affordable units and in “unit-years” that could have been generated under this recommendation to modify the bonus density policy.

The 2201 N. Pershing Drive project was completed in 2012 and includes 190 residential units and 33,495 square feet of commercial space. In exchange for additional density, the County required the developer, Arlington Pershing, LLC, to provide 18 affordable units on-site.



From a valuation perspective, the cost of providing the units on-site can be calculated as follows:

Annual revenue for a market-rate one-bedroom unit: \$27,600 (\$2,300/month x 12 months)

Annual revenue for an affordable one-bedroom unit: \$14,400 (\$1,200/month x 12 months)

Difference in annual revenue market rate – affordable unit: \$14,400

Value of that difference @ 5 percent cap rate = \$264,000 per unit

Therefore, in this example, the developer should be indifferent between building an on-site unit and contributing \$264,000 to the AHIF. (The relative value of making a contribution over providing on-site units could be even greater, as the market-rate developer may also assign a value to removing the compliance and other requirements associated with administering the CAFs.)

If the developer of the 2201 N. Pershing Drive project had made a cash contribution in lieu of 18 on-site units at \$264,000 per unit, that would have resulted in \$4.752 million to the AHIF that could have facilitated the development of 56 CAFs off-site, or 38 additional CAFs above what the developer provided on-site.

Potential Annual Impact

Several projects have been approved recently for rezonings/GLUP amendments with an on-site affordable housing requirement. Under this recommendation, the County could achieve an **estimated 76 additional CAFs over a typical year** (assuming two projects like the 2201 N. Pershing Drive project each year).

Implementation

The County's density bonus policy is a Board-adopted policy. Therefore, making changes to the density bonus program—specifically to allow

a cash contribution and to set the level of that contribution—would need to be done as part of a public process leading to County Board approval. (Note that this recommendation does not suggest changes to the County's base Affordable Housing Ordinance so there is no need for state approval.)

County staff could begin by surveying developers and others to design an appropriate cash contribution level as part of the density bonus policy, setting those fees to realistically reflect market conditions. A task force could also make recommendations for how to ensure that the cash contributions lead to development of CAFs in such a way that geographic distribution of affordable units is encouraged.

Examples from Other Jurisdictions

San Francisco provides an example of a trade-off between providing on-site units and an in-lieu fee that is more consistent with market conditions. An AvalonBay project is currently under construction in San Francisco. In compliance with San Francisco requirements, 14.4 percent (or 49 residential units) of on-site units would be affordable, or an in-lieu fee would be paid. AvalonBay opted to make a \$26 million contribution to the city's affordable housing fund rather than build on-site. The per unit fees—ranging from \$198,000 to \$521,000 depending on bedroom size—are calculated by the city to reflect the household incomes and market rate rents in San Francisco.

In Seattle, \$27 million of in-lieu contributions has led to the development of more than 600 affordable housing units that would not have been built without this funding. Nearly all of the units have been built in the same neighborhoods as the market-rate buildings.^{ix}



5. Pursue Community-Serving Real Estate Opportunities

The cost of building housing in Arlington County is very high, and a major driver of development costs is the cost of land. It is estimated that the cost of land can be more than \$100,000 per unit for multifamily rental projects in Arlington.

Community-serving real estate includes land owned by government entities (e.g. local government, school district, transit agency) or nonprofit organizations (e.g. houses of worship, civic organizations). The use of community-serving land increases opportunities for the production of more affordable housing with less need for direct public subsidy. By providing land free or at reduced costs, affordable housing developers can deliver more units on-site or can request less money from AHIF for the project, freeing up resources to support the development of additional CAFs in other parts of the County. The impacts are even greater when density increases are allowed on targeted sites.

Co-locating housing with public facilities, such as libraries, community centers, parks, fire stations and schools is increasingly being seen as an efficient way to expand affordable housing options while at the same time enhancing community resources. There are also significant benefits to residents of affordable housing who can have easy access to community amenities, such as community centers and libraries.

A successful public land and co-location policy involves a transparent process that balances competing interests in the publicly-held properties. However, the urgency for affordable housing and the production goal set out in the AHMP suggest that affordable housing should be a priority in decisions about the use of public land and facilities.

Nonprofits, including faith, civic, housing and other community minded organizations can also

support affordable housing in Arlington by providing their land at a reduced price. Recent examples of faith-based partnerships include the Macedonian (Macedonia Baptist Church), VPoint (Church at Clarendon), and Gilliam Place (Arlington Presbyterian Church-APC).

Nonprofit housing providers also have played a key role by land banking their older garden apartment properties and securing increased density for their sites, along with discounted land. Since 2013, housing partners AHC, APAH and Wesley Housing have developed or are proposing over 600 net new affordable units at five locations—the Shell, Union on Queen, Columbia Hills, the Berkeley and Queens Court—that take advantage of nonprofit-owned land.

The County should continue its practice of working closely and creatively with nonprofits to maximize the density available from their land holdings and to leverage these discounted land sites. This should involve working closely with the owners and encouraging them to participate in Sector Plans where more density may be allocated, as was provided under the Columbia Pike Neighborhoods Plan and the Western Rosslyn Area Planning study. New Sector Plans, such as the new Lee Highway Study, should intentionally reach out to the existing nonprofit owners and encourage their sites as future, higher density, affordable housing properties.

Recommendation: Prioritize the co-location of affordable housing and public facilities. Streamline the public process for small public sites. Facilitate more density in sector plans and site plans for infill development where nonprofit owners offer discounted land for affordable housing.

Case Study: Arlington Mill

Completed in 2014, the Arlington Mill project is the first and only private/public partnership in Arlington co-locating affordable housing and



public facilities. The Residences at Arlington Mill is a four-story, 122-unit property with 100 percent affordable apartments (13 units at 30 percent AMI, 26 at 50 percent AMI, and 83 at 60 percent AMI). The residential building is built on County-owned land alongside a new County-built community center with a shared parking garage that serves as the foundation for each building.

The nonprofit developer, APAH, received the land at a discount. The estimated value of the land was \$7.5 million and APAH paid \$1.5 million, a discount associated with the public land valued at \$6 million. The total project cost was \$30.9 million (\$253,300 per unit) which included \$8.87 million from VHDA in the form of a first mortgage and \$22.0 million in tax credits.

The Residences at Arlington Mill received no funding from the AHIF. For APAH, the deeply discounted land eliminated the need for financing from the AHIF, and actually enabled APAH to return a portion of its tax credit award to the state—a first in Virginia. The discounted 75 year ground lease provided certainty to the financial package.

Without the land lease it is estimated the cost per unit would have been \$302,000 (rather than \$253,300), or a total of \$6 million higher. Without the public land, the project would likely have requested \$6 million from the AHIF. Instead, that \$6 million was able to be used to support the development of an estimated 70 additional CAFs in other projects in Arlington. In addition, by lowering the total project cost by \$6.0 million, the public land made APAH's 9-percent tax credit application more competitive, making it more likely it would win a tax credit allocation.

Case Study: The Point at Courthouse (Triangle Site)

AHC Inc. has been exploring opportunities to make use of a small publicly-owned site that is adjacent to its Woodbury Park Apartments project. The small parcel, about 12,000 square feet, is unsuitable for building public facilities, but could be used for the development of about 78 affordable units when combined with nearby land owned by AHC.

In 2013, AHC requested to include the parcel (the Triangle Site) as part of a development proposal. Because the public site was adjacent to AHC's Woodbury Park apartments, it allowed for the prospect for leveraging existing land owned by a nonprofit housing developer to increase affordable housing options. After years, however, there remains no resolution on how best to use this community-serving land, and therefore there has been a missed opportunity to combine a small parcel of publicly-owned land with land owned by a local nonprofit developer to build nearly 80 CAFs in the Courthouse area, less than ¼ mile from the Metro.

The missed opportunities are due, at least in part, to how the County handles its review and assessment of public facilities. The Joint Facilities Advisory Commission (JFAC) process could be streamlined and allow for different levels of community engagement for small parcels that are typically not appropriate for most County uses such as schools or parking facilities

AHC had a successful experience consolidating several small publicly- and privately-owned parcels along Route 1 in the City of Alexandria to build Jackson Crossing. The City made the small parcel available and allowed for an accelerated process for the use of the city-owned land to make the project easier to complete, because AHC controlled the adjacent land, and it was providing community benefits (affordable housing).



Potential Annual Impact

It is difficult to predict the number of publicly-owned sites that might become available in any given year. However, if one publicly-owned site was made available free or at reduced cost for affordable housing every other year, there is the potential for about **35 additional CAFs to be developed annually** over and above what might otherwise be produced.

Implementation

A more assertive public land policy would require support from Department of Community Planning and Housing and Development, Department of Parks and Recreation, the Planning Commission, the Housing Commission, Joint Facilities Advisory Commission, and Arlington Public Schools. Other organizations such as civic organizations, health and education institutions, and houses of worship could also be valuable partners as they often own land in the County and have a community-oriented mission.

The public process should build consensus around the importance of considering the appropriateness of housing on public land. An evaluation of housing options should be part of all public site assessments and the development of public facilities. Through that process, the County should analyze and communicate about the benefits and opportunities associated with co-locating affordable housing and public facilities, such as libraries, fire stations, community centers, and schools.

Examples from Other Jurisdictions

Locally, there are innovative examples of using public land for affordable housing and co-locating housing and public facilities. Arlington has a great opportunity to learn from these examples and build off of these local successes.

Montgomery County helped to facilitate the development of a 149-unit affordable senior apartment building (The Bonifant) co-located with a new public library in downtown Silver Spring. The County provided the land at a deep discount to the Montgomery Housing Partnership through a long-term ground lease. In addition, the County provided \$11.7 million for permanent financing, along with an additional \$1.7 million in operating funds for the units affordable at 30 percent of AMI.

In the City of Alexandria, the Station at Potomac Yard was a joint venture between the City, Potomac Yard Development (PYD), a for-profit development team, and the Alexandria Housing Development Corporation, a local nonprofit, which included the development of 64 units of affordable and workforce housing on top of a new fire station. The land for the fire station and the housing was donated by PYD and the City acted proactively and aggressively to use the land for its original intention, a new fire station, as well as for new rental housing. Despite initial concerns about combining a fire station with residential units, innovative engineering and design measures were put into place to mitigate sounds and vibrations within the mixed-use building.



6. Offer Property Tax Abatements/Exemptions

Local jurisdictions can adopt various types of tax incentives to encourage owners to preserve the affordability of subsidized and unsubsidized affordable rental homes, or to support the development of new affordable housing. Many municipalities use real estate tax exemptions or abatements as an essential part of their affordable housing finance package, helping to reduce the overall cost of development and making it easier to produce more committed affordable units or leading to a reduction in the amount of local trust fund resources that are needed. The tax exemption spreads the anticipated capital subsidy over multiple years, which matches the benefit of providing affordable homes over 30+ years.

In the state of Virginia, it historically has been challenging to offer real estate property tax exemptions or abatements to a specific class of properties and the Virginia Constitution limits the ways this tool can be deployed in Arlington. However, Arlington has implemented property tax abatements in the past that have worked within the existing statutory framework. In addition, the County has the option to petition for a change in Richmond in the types of tax abatements and exemptions Arlington could allow.

Currently, Arlington County Code Section 20-10 offers a partial exemption for some rehabilitated multifamily properties. Section 20-60 of the County Code offers a partial exemption for substantially rehabilitated, renovated or replaced structures in the Nauck Revitalization District.^x However, the implementation of these exemptions has not always been successful (see The Shelton case study below). Furthermore, these provisions do provide for exemptions for property taxes for affordable housing more generally.

Affordable housing projects that receive AHIF funding cycle some of the funding back to the County in the form of real estate taxes. Therefore, adding a real estate tax exemption to a new affordable housing project that is already receiving an AHIF loan could reduce the amount of AHIF required for the project, freeing up resources to support the development of additional CAFs in the County.

Recommendation: Review and improve the County's current property tax exemption policies and consider ways to more comprehensively exempt affordable housing developments from the full real estate property tax obligation.

Case Study: The Springs

The Springs is a 104-unit mixed-income project completed by APAH in 2016. The Springs includes a mix of homes affordable to individuals and families at 40 to 60 percent of AMI, along with market-rate units. As a result of this project, 104 households have quality, new affordable housing located within ½ mile of the Ballston Metro station, close to jobs and good transportation. The Springs also serves a critical need for larger units in Arlington; 80 percent of units are family-sized units.



The Springs (APAH)



The total project cost was \$40 million which included a \$7.8 million AHIF contribution along with \$30.6 million in other state and local funding.

Overall, this project could have benefitted from resources from a real estate tax exemption to the tune of \$1.9 million. In 2017, The Springs paid \$136,000 in real estate taxes. If The Springs were provided a full abatement of these taxes for 30 years, that could have created a larger income stream and would support \$1.9 million in additional debt financing at the actual blended mortgage rate of 4.3 percent over 30 years, assuming a 1.15 debt service coverage. A partial exemption would have a pro rata impact. The real estate property tax exemption would have required a smaller contribution from the AHIF, and an estimated 22 additional units could have been funded by AHIF as a result.

Case Study: The Shelton

The Shelton is a 94-unit building that was completed in 2009 and developed by AHC, Inc. All of the family-sized units in the property are affordable at 60 percent of AMI, and more than 90 families with children have access to stable and affordable housing as a result of this project and the investment by the County, the developer and their partners.

The total cost of the project was \$30.0 million which included \$1.1 million from the CDBG Revolving Fund and a \$4.3 million AHIF contribution.

The Shelton would have benefited from the Nauck Revitalization District tax abatement program however the incentive was not implemented as has been originally anticipated. The Shelton's application for the tax abatement was granted, however, the County increased the assessment of the land from \$2.5 million to \$6.3 million in a one-year period which largely negated the value of the abatement and significantly increased non-controllable per unit

operating expenses. This unexpected increase in the land assessment impacted AHC's ability to produce surplus cash, refinance in the future, and repay County AHIF loans on schedule.

Potential Annual Impact

Assuming two CAF projects annually, this recommendation to exempt real estate property taxes could result in **44 additional CAFs produced each year.**

Implementation

To enact a blanket real estate property tax exemption, abatement or reduction for affordable housing projects, the County would need state authorization, as well as County Board approval. Offering exemptions on a case-by-case basis could potentially be done with County Board authority alone. The Department of Community Planning, Housing and Development, along with the Departments of Real Estate Assessments, Management and Finance and the County Attorney's Office would all have to be involved. State-level community partners, such as the Virginia Housing Alliance, could potentially offer guidance on the state regulatory and legislative implications of enacting this type of policy.

As a first step, the County could convene a working group, to include development partners, as well as state and local representatives and legal counsel, to fully understand the legal framework the County would operate in. A proposal for a property tax exemption/abatement project could be submitted to the State Legislature in 2018 and implemented by Arlington County after approval in late 2018 at the earliest.

There may be other options for providing a real estate property tax exemption or abatement for affordable housing properties. The County currently offers property tax exemptions to low-income senior home owners. An option could be



explored to offer an exemption or refund to the owners of affordable senior rental housing properties.

Examples from Other Communities

In Washington DC, many types of affordable rental housing are exempted from property taxes, including 1) housing owned and operated by a “public charity,” which is typically housing accompanied by supportive services for residents with disabilities or other special needs and 2) all multifamily rental housing owned by a nonprofit and assisted through a federal U.S. Department of Housing and Urban Development

program or financed through the Low Income Housing Tax Credit Program. (These properties are also exempt from all recordation taxes, as well.)

In 2009, the City of Falls Church committed to provide a real estate exemption to a proposed affordable project (City Center South Family Apartments) by Ordinance 1826 passed on December 8, 2008. While the project ultimately was not built, the action by the City of Falls Church provides potential precedent for case by case real estate property tax exemptions in other localities in Virginia, including Arlington.



The Shelton (AHC, Inc.)



7. Increase AHIF Funding

The AHIF is the County's main financing program for affordable housing development. Since the inception of the AHIF program, the County has originated more than \$274 million in loans for affordable units.^{xi} The vast majority of CAFs are produced by the County providing some level of financing to affordable housing providers for the purchase or construction of affordable apartments.

In recent years, the AHIF has been tremendously successful at leveraging non-AHIF resources. As the County notes, every \$1 of funding from the AHIF leveraged an additional \$3.50 of outside funding, making the AHIF a very efficient model for supporting the development of affordable housing.

However, it is clear that the current level of AHIF funding will not be sufficient to support the development of 600 new units each year unless there are significant changes to the cost of delivering units. With current AHIF funding levels, the AHIF is positioned to support the development of just 300 units annually, 300 fewer units than are needed to meet the County's goal.

There are potentially untapped sources of dedicated funding for the AHIF which could position the County to meet its goal of 600 new CAFs annually.

Recommendation: Increase resources to the AHIF, including new or shifted resources from the County's budget.

Potential Annual Impact

At an annual allocation of \$50 million, the AHIF could support the development of 588 CAFs each year. Smaller changes to redirect resources to the AHIF could have a significant impact, and to help close the gap between the number of units

that can be produced given the tools designed to reduce the costs of development and the production goal of 600 CAFs per year.

Increased Dedicated Recordation Tax. A recordation tax is a fee charged to record a mortgage or a deed in the official registry at the time of a home sale or transfer. Virginia levies a recordation tax at a rate of \$0.25 per \$100 of assessed value. Since 2004, the County's portion has been \$0.0833 per \$100 of assessed value.

Arlington currently dedicates 40 percent of its share of the recordation tax to the AHIF (\$0.033 per \$100 of assessed value) while the remaining 60 percent goes to the County's general revenue. The County could allocate the entirety of the local share of the recordation tax to the AHIF to increase resources for affordable housing. In addition, the County could petition the state to increase the share of the recordation tax that goes to the local jurisdiction and/or could lobby to increase the overall state recordation tax to expand potential funding.

In FY 2018, the local portion of the recordation tax in Arlington is budgeted at \$5.3 million, with an estimated \$2.1 million allocated to AHIF. If the full amount of the budgeted recordation tax was allocated to the AHIF, it would create \$3.2 million in additional funds to support the development of affordable housing in Arlington.

While the level would fluctuate annually, dedicating revenue from the recordation tax to expand AHIF funding would increase the number of CAFs produced each year.

Dedicated Grantor's Tax. In addition to the recordation tax, there is a grantor's tax in Virginia, which is a transfer tax paid by the home seller. Currently, the grantor's tax is not allocated to the AHIF. Its dedication could mean \$1.4 million for FY2018 to help facilitate the development of affordable housing. Like the recordation tax, the level would fluctuate annually, but dedicating revenue from the



grantor's tax would increase the number of CAFs produced each year.

New Tax Increment Financing. Tax increment financing (TIF) is a funding tool used by local jurisdictions generally to fund redevelopment efforts and infrastructure. The local jurisdiction defines a TIF district and allocations of real estate property tax revenue are frozen at baseline levels. The additional tax revenue generated as the value of properties in the district increase are allocated to projects in the TIF district.

TIFs can be an important tool for supporting the development of affordable housing because they can create a dedicated funding source for affordable housing in places that are most in need of new or preserved affordable housing—that is, places with lots of redevelopment and/or rent and price appreciation.

The County established the Columbia Pike Financing Area to fund the Columbia Pike Transit Oriented Affordable Housing (TOAH) and has generated resources to help affordable housing projects to help pay for certain infrastructure expenses such as permit and utility fees, streetscape improvements, curb and gutter improvements, bicycle storage facilities and undergrounding utilities. This allocation helps to reduce the overall cost of developing affordable housing, making it easier to build more housing. The Gilliam Place project used approximately \$75,000 from the TOAH to pay for certain fees and infrastructure, freeing up resources to be put back into producing affordable homes

The Columbia Pike TIF was on track to generate \$1 million per year to support affordable housing projects. However, the County Board reset the Columbia Pike TIF for valuation from the CY 2014 assessment year to the CY 2018 assessment year, which will mean no funding will be generated in FY 2018.

The County has another TIF for the Crystal City, Potomac Yard and Pentagon City area which had been funded using CY 2011 district assessments as the base year for valuation. In FY 2018, the County Board also made changes to this TIF, reducing the revenue that will be dedicated to support investments in the TIF district.

Revenue from General Obligation Bonds. The County can also follow the example of other progressive communities around the Country and issue general obligation bonds to fund the AHIF. General Obligation (GO) Bonds are issued by a jurisdiction generally to pay for community improvement projects such as infrastructure, schools and other capital projects, though communities have used GO bonds to finance affordable housing. Unlike revenue bonds, projects funded by GO Bonds do not have to have a revenue source that repays the debt. Rather, the GO bonds are paid off as part of the jurisdiction's general expenditures on interest and debt. Historically, in Arlington, GO bonds have been used for school construction, infrastructure improvements, and land acquisition. As recently as 2016, Arlington used bond financing to acquire land for open space.

In Virginia, municipal debt is limited to 10 percent of the total assessed value of properties, which means that communities need to set priorities for what types of projects receive GO bond funding. (With voter approval, municipalities could approve debt beyond that 10 percent threshold.)

Using bonds for affordable housing in Arlington would put the community in good company with some of the most progressive jurisdictions in the nation and would capitalize on current low rates of borrowing to help facilitate the development of the housing needed to meet the community's goals.



Examples from Other Communities

In the Washington DC region, the District of Columbia stands out as the leader in committing resources to its local housing trust fund. **The District's Housing Production Trust Fund (HPTF) has been funded at a level of \$100 million annually for FY 2016 and FY 2017**, and the mayor has committed to this level of funding for future years. Revenue for the HPTF is from a portion of the city's deed recordation and transfer taxes but additional funding has come from the city's general revenues.

TIFs: There are many example of cities that establish TIF districts and use TIF to issue and repay development by using the increment of increased taxes that result after redevelopment. Increasingly, these TIF resources are used to help finance the development of affordable and/or mixed-income housing.

The City of Atlanta established a TIF policy for neighborhoods impacted by the Atlanta BeltLine project, a multiyear effort to connect 45 neighborhoods via a 22-mile loop of trails, a streetcar, parks and other public amenities. Over the past decade the BeltLine's Tax Allocation Districts, or TADs, have allocated \$13 million to help preserve and develop affordable rental housing and provide down-payment assistance for low- and moderate-income homebuyers in targeted neighborhoods.^{xii}

General Obligation Bonds: The City of Austin, Texas was one of the first communities adopting a general obligation bond for affordable housing. In 2006, voters in Austin approved \$55 million in general obligation bonds to support the acquisition of land for and the construction and renovation of affordable housing, generally targeting households with incomes between 30 and 50 percent of AMI. Austin periodically puts the issue of bonds for affordable housing to the voters, most recently in 2013 when more than 60 percent of voters approved a \$65 million affordable housing bond.

GO bonds have been used elsewhere around the country. Several communities in California have issued bonds to support the development of affordable housing. In November 2015, voters in San Francisco approved a \$310 million GO bond in order to finance the construction, acquisition, improvement, rehabilitation, preservation and repair of housing affordable to low and middle income households. In 2015, voters in the City of Los Angeles overwhelmingly approved a \$1.2 billion GO bond to fund the development of permanent supportive housing for the city's homeless. That same month voters passed similar bond measures in Santa Clara County, Alameda County, and the City of Oakland in California.^{xiii}

The City of Charlotte, North Carolina uses GO bonds for affordable housing, putting the question of the bonds to the voters every two years. Since 2014, the City has authorized \$15 million in affordable housing bonds for each two-year cycle.



About the Project

In mid-2017, a working group of housing practitioners and advocates, worked gathered to review Arlington County's progress on reach the production goals established in the Affordable Housing Master Plan. The team analyzed their collective experience in building and preserving affordable apartments in the County to identify the most productive strategies for creating more, much needed housing. The following individuals served on the working group and participated in the creation of this report:

Susan Ingraham Bell, Independent Planning Consultant
Matt Birenbaum, CIO, AvalonBay Communities, Inc.
Paul Browne, Vice President, Real Estate Development, ~~REDACTED~~
Kelly Eichhorn, CFO, APAH, Inc.
Pat Findikoglu, Housing Advocate
Jay Harris, Principal, Harris Crystal Advisors
Alice Hogan, Social Worker
Nina Janopaul, President and CEO, APAH
Richard Jordan, Managing Director, Potomac Investment Properties
Jonathan Kinney, Shareholder, Bean, Kinney & Korman
John Milliken, Board Chair, APAH
Shelley Murphy, President and CEO, Wesley Housing
Cheryl Ramp, Director of Community Resources and Relations, APAH, Inc.
Carmen Romero, Vice President, Real Estate Development, APAH, Inc.
Stephen E. Smith, Executive Vice President, AHC, Inc.
Michael Spotts, President, Neighborhood Fundamentals, LLC
Wallter Webdale, President and CEO, AHC, Inc.
John Welsh, Vice President, Multifamily Group, AHC, Inc.
Michelle Winters, Executive Director, Alliance for Housing Solutions
Kevin Yam, Managing Director, Iron Point Partners

Lisa Sturtevant of Lisa Sturtevant & Associates, LLC served as a consultant to the Working Group on this project.

