City of Alexandria, Virginia
FY 2023 Proposed Operating Budget & CIP
Budget Questions & Answers

April 5, 2022

Question: Please provide the affordable housing project pipeline information presented to City Council at the Tuesday, February 22, 2022, legislative meeting.

Response:
The “housing pipeline” is a term the City has adopted to describe anticipated affordable housing development or preservation projects for which local investment will be needed.

Prior to City Council’s March 2020 endorsement of the target allocated to Alexandria through COG’s Regional Housing Initiative, the pipeline approach was used to sequence and phase affordable housing projects over time, based on resources expected to be available at the local, state, and federal levels. The 2013 Housing Master Plan (HMP) goal of producing or preserving committed affordability in 2,000 units by 2025 assumed approximately 180- 200 units per year being created or preserved through financial partnerships with nonprofit and private developers, through affordable (“set-aside”) units secured via negotiation or regulatory tools embedded in the development and planning processes, or through long term affordability yielded through other housing programs (e.g., home ownership assistance, home rehabilitation loans, rental accessibility modifications).

Projects requiring City funding support would enter the pipeline’s queue by filing development applications with tax credit application deadlines in mind, and concurrently apply for predevelopment funds. While the HMP delegated administrative authority for Housing staff to approve predevelopment loans of up to $5,000 per unit, the practice that evolved incorporated preliminary due diligence by staff, consultation with AHAAC, and consideration/action by City Council. The practice raised public awareness of affordable housing need, enhanced stakeholder engagement, created community-wide ownership of affordable housing successes, and increased public understanding regarding the level of financial support needed to provide affordable housing.

As costs of construction and development increased in recent years, and the extent of the need for deeper affordability was better understood, the City’s per unit level of subsidy for affordable housing rose from approximately $40-50,000 (2013) to $90-100,000+ currently. Ten percent of all tax credit projects have been subsidized to be affordable to households with incomes at 40% of the area median. The pipeline helped forecast affordable housing funding needs and gaps, and while general fund or other City dollars were identified to supplement Housing Trust fund and federal CDBG and HOME monies, as needed, to meet the financial requirements of specific pipeline projects, in 2018 City Council approved a 1% increase in the meals tax rate to create a dedicated funding source for affordable housing that totaled around $5 million annually.

The meals tax funds are deposited in the CIP, both acknowledging affordable housing's role as infrastructure, while also providing some flexibility in how and when housing monies can be expended within the CIP's 10-year framework. To induce the selection of National Landing for Amazon HQ2, in 2019 the City pledged an additional $1 million to the City's dedicated funds for affordable housing. Including remainder monies in the "penny fund" created through a 2005 dedication of real estate tax revenue to service approximately $22 million of general obligation debt authorized for affordable housing, the City has about $8 million available per fiscal year to fund its housing pipeline.

Housing and its development partners have been very successful in leveraging City funds with non-city resources to expand committed housing affordability: besides competitive low- income housing tax credits (LIHTCs), third-party sources accessed in recent years include state and national housing trust fund dollars, Virginia Housing Amazon Impact REACH grant funds (of the $75 million total committed by VH, the City has been awarded more than $27 million), Federal Home Loan Bank grants, JBG SMITH Social Impact Funds, Amazon Housing Equity Funds, as well as federal CARES Act and ARPA grant monies.

To facilitate AHDC's Arlandria project, for example, ARPA grant funds, a HUD CDBG Section 108 loan, as well as new market tax credits (NMTC) and potential Community Development Financial Institution (CDFI) funds – all new sources for Alexandria – are referenced in the proforma as non-city sources to reduce the amount of potential City gap loans. Collaboration, creativity, and support of affordable housing among the Alexandria community and its elected leadership have resulted in the City attaining the Housing Master Plan goal of 2,000 units this month, far ahead of the 2025 horizon, although constructing the approved HMP pipeline projects still requires approximately $123 million in City and non-City gap funds being identified and secured. It is noted that AHAAC monitors progress on the Housing Master Plan by reviewing quarterly reports.

While the connection of housing affordability and economic development framed the City's 2013 Housing Master Plan, informed the joint Alexandria-Arlington response to Amazon HQ2, and was central to the COG RHI, future supply targets must also consider housing's role in a post-COVID recovery after long-standing economic, racial, and social disparities in health and housing stability were laid bare in some Alexandria neighborhoods. Centered in equity, and in expanding housing affordability access throughout the City, a more proactive pipeline strategy is now being implemented to align Alexandria's values and unit commitment with the RHI timeline. The attached 2030 pipeline assumes that Alexandria will maximize affordable housing development opportunities created in CDDs and small area planning processes; continue to invest in deep affordability as a component of most projects; promote affordable homeownership opportunities for low and moderate income households previously marginalized; prioritize options to create housing and housing + care units for seniors and those with special needs when sustainable models can be structured; continue to provide predevelopment loan funding to ensure locationally-efficient projects are able to advance through the development process and be positioned to take advantage of City and non-city resources that become available; and continued investment to strategically preserve housing affordability. Assuming access to non-City resources is successfully secured, Alexandria can meet its RHI target by 2030, when initial workforce growth associated with HQ2 and VTIC was expected to peak, while staying true to its aspirations for a more equitable approach to housing affordability.

In terms of City investment, alternatives that can provide a positive fiscal impact to enhance affordability - but which don't require a cash contribution - should be considered to expand the City's options for support. Possible tools include real estate tax exemption and/or abatements which are time limited and/or tied to specific milestones. Tax policy tools can significantly increase a developer's borrowing capacity decreasing what is needed from the City. Fee relief, including relief from development fees for affordable housing projects, or relief from some infrastructure requirements, also potentially reduces what must be borrowed. There is a foregone revenue and additional costs to the City in other program areas associated with these tools which must be assessed. However, the savings provided may have short- and long-term benefits for project sustainability.

A structured collaboration with ARHA to make some of the project-based vouchers the agency administers available to non-ARHA development would significantly decrease City-funded rental assistance subsidies now provided as a pilot program and make deeper levels of affordability more sustainable across the City's affordable housing portfolio over time. Opportunities to increase dedicated funding sources, participate in a regional funding consortium or develop an ongoing financial partnership with a motivated lender/funder, to provide city guaranties or backstops to enhance partner borrowing and lower its costs, are some examples of other ways the City might provide financial support without an actual outlay of local dollars,

To supplement the pipeline, advances in production and preservation of housing and housing affordability through the development process will continue to need to be catalyzed by refinements to zoning and land use tools, like the ongoing Zoning for Housing Initiative that aims to expand options to potentially increase supply or enable a broader typology of units to enhance affordability. Accessory dwelling units, co-living, bonus height and density enhancements, as well as the Residential Multifamily Zone, which provides a substantial density boost in exchange for production or preservation of deeply affordable units, are being implemented. A future study will review the merits of the City pursuing inclusionary zoning authority from the state based on an assessment of the impact of the 2020 housing contribution policy update in producing more affordable housing. And, as seen in recent affordable housing acquisitions and development proposals, land banking and colocation strategies will continue to offer more efficient and equitable redevelopment options and create a greater future geographic distribution of housing affordability across Alexandria's neighborhoods.

Attachment: Housing Pipeline Through 2030 (March 11, 2022)