

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 5, 2007

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #37: ALEXANDRIA HOUSING DEVELOPMENT CORPORATION BUDGET

This budget memorandum responds to the following inquiry from Councilman Krupicka:

“Could staff comment on the budgeted funds to support AHDC and what the intended plans are for that money? How does this impact other non-profit housing developers?”

The proposed budget notes a planned Housing Opportunities Fund allocation of up to \$450,000 for the Alexandria Housing Development Corporation (AHDC), to include any monies remaining in the organization’s budget at the end of FY 2007. AHDC’s adopted FY 2008 budget request, adopted after staff’s submission of the foregoing figure, is \$441,500. It includes the following:

Services provided by Housing Opportunities and Concepts, AHDC’s development services provider. These costs are in lieu of salary and benefits for an Executive Director.	\$154,000
Strategic planning	7,500
Part-time administrative staff person	15,000
Pre-development costs	200,000
Office rent (in the event the current free rent arrangement is terminated)	20,000
Furniture and equipment	2,500
Professional services	25,000
General office expenses	4,500
Insurance	<u>3,000</u>
TOTAL	\$441,500
Less expected carryover	<u>(\$141,500)</u>
Net City expected cost for FY 2008	\$300,000

The Affordable Housing Work Group report that resulted in the creation of AHDC (Attachment I) envisioned that the new organization would have its start-up and

operating expenses initially funded by the City until it develops its own sources of revenue. For that reason, the City has paid AHDC's operating costs beginning in FY 2005, although it does not pay such costs for other non-profit organizations. This funding of AHDC's operating costs in its early years is similar to how Arlington County front-funded one now very successful Arlington Housing Corporation (AHC, Inc). To date, AHDC's operating costs are funded from the General Fund portion of the Housing Opportunities Fund (HOF). The HOF has received a budget of \$1,000,000 per year, funded with \$300,000 from the General Fund, \$400,000 from the Housing Trust Fund, and \$300,000 from the federal HOME program. New allocations each year are limited to what is needed to bring AHDC's funds up to the budgeted level, and for that reason, staff does not expect the new FY 2008 allocation to exceed the new \$300,000 General Fund allocation to the HOF, and in fact expects it to be less than that figure.

The allocation of City monies for AHDC's operating budget, in addition to reducing the HOF monies available to fund projects sponsored by other entities, has generated requests from other non-profit housing development organizations for similar funding. However, with the exception of AHDC, the City generally does not fund operating expenses for non-profit organizations. Instead, the City's financial assistance to other non-profit organizations has generally been limited to project-specific development and pre-development expenses. (There were specific exceptions in 1996 and 2000, respectively, where Housing Trust Fund monies were used to address extenuating circumstances faced by Carpenter's Shelter for the payment of rent on its previous facility and Community Lodgings to supplement its transitional housing operating budget.) This policy has been based on a desire to ensure that the funds spent by the City result in the actual acquisition, rehabilitation, or construction of affordable housing units, and not just organizational support.

The basis for the exception for AHDC is that the City is, in essence, AHDC's parent organization. It is extremely difficult for a new organization to succeed if the entity responsible for its creation does not bear the responsibility for assisting it during its initial years until it can support itself independently. A memorandum from then City Manager Phil Sunderland prior to the establishment of the Affordable Housing Work Group estimated the period of time necessary to reach this stage to be five to seven years.

In order to move toward independence, AHDC must begin developing projects and earning project development fees. AHDC's first development fee is likely to come from The Station at Potomac Yard, the 64-unit affordable and workforce housing project to be located above the planned Potomac Yard Fire Station. If that project is successful in receiving funding under the Low Income Housing Tax Credit program, the project budget calls for AHDC to receive a development fee of \$1.75 million over time, with the first installment of \$450,000 to be paid in the fall of 2007. Should this occur, AHDC will not need the portion of its FY 2008 that has not been spent by the time these funds are received.