

**CITY OF CHARLOTTESVILLE, VIRGINIA
CITY COUNCIL AGENDA**



Agenda Date:	June 20, 2016
Action Required:	Approval of Resolution
Presenter:	Kathy McHugh, Housing Development Specialist
Staff Contacts:	Kathy McHugh, Housing Development Specialist
Title:	Allocation of Charlottesville Affordable Housing Fund (CAHF) for Virginia Organizing - \$264,484

Background:

The City has received a request for CAHF assistance from Virginia Organizing (VO) for \$264,484 to provide funding for the purchase of an existing multi-family property located at 300 Carlton Avenue (a.k.a. Carlton House). This facility will provide 10 affordable efficiency style rental units targeted for leasing to individuals and/or couples at 50% AMI or less. A copy of the application narrative is attached hereto and supporting attachments, while not attached (due to the number and size), have been reviewed by staff to inform their evaluation and recommendation.

For the purpose of providing CAHF funding to a qualified non-profit organization, VO will serve as the grant recipient and owner of the property, as well as a lender into the developer entity (a.k.a. Carlton, LLC) providing a loan of \$270,251 to leverage CAHF funds (completing funding for the purchase price and proposed renovations). The membership of Carlton LLC will include VO, Murray + Co, LLC, and the Building Management Company (BMC). This entity will develop and operate the Carlton House in compliance with City CAHF guidelines (tracking and providing data on tenant income, rental rates, etc...) over the 15 year compliance period.

Discussion:

Staff has thoroughly reviewed this request and worked diligently with the applicant over the past year to ensure that the proposed approach aligns with our funding objectives / criteria / priorities, while providing the City with a viable means to ensure affordability over the 15 year compliance period. To this end, both the applicant and the approach to the project have been revised / refined during this time to address concerns raised by staff relative to meeting the "Objectives for Use of Charlottesville Affordable Housing Fund and Criteria / Priorities for Award of Funds (Housing Policy 1 – adopted by Council on 10/20/14). Staff specifically wanted to ensure that funding was being provided to a viable project as well as an organization with administrative capacity and resources that would enable it to sustain over the term of the City's deed of trust.

As to oversight of the City's interest during the 15 year compliance period, the CAHF dollars

will be awarded as a grant to VO; however, a Deed Of Trust (DOT) will be placed on the Carlton House property that requires it to be used as a supported affordable rental property (incorporating rent restrictions as detailed below) over a 15 year period. The DOT will provide for an annual reduction ($1/15^{\text{th}}$ of the total) to be forgiven for each year of compliance during the 15 year term; however, for example if they decide to sell the property in 10 years, they would owe the City \$88,161.33 ($\$264,484 - (10 \times \$264,484/15 = \$176,322.67) = \$88,161.33$). If the property is maintained as a supported affordable rental property over the full 15 year compliance period, the DOT would be forgiven at the end of the 15 year term.

In addition, City staff has also reviewed zoning and building code options to support a change in use that would allow up to 20 residents. To this end, the City's Zoning Administrator advises that the property is zoned B-2 and that the proposed use would be classified as a by-right use. Likewise, the City's Building Official has inspected the property and advised of requirements necessary for a change in use to allow the applicant to utilize the property as proposed. Specifically, the current Certificate of Occupancy classifies this building as I-2 (institutional use); however, as proposed, the use would change to R-1 (hotel or motel) and would be subject to the 2012 Virginia Rehabilitation Code, requiring that the follows modifications be made:

- a) New smoke detectors in sleeping rooms and corridors.
- b) Exit signs and emergency egress lighting must operate properly.
- c) Fire alarm: at least one manual fire alarm box is required and this alarm must activate upon sprinkler waterflow. This to be installed in a common area.
- d) Sprinkler system is required and must be maintained. Alarm, supervisory and trouble signals must be automatically transmitted to a 24 hour supervising station.
- e) Fire rated self-closing door to remain installed at top of interior stairs between floors.
- f) Accessibility: at least one accessible building entrance, at least one accessible route from building entrance to primary function area, signage complying with Section 1110 of VA Construction Code, accessible route from accessible parking space to accessible entrance. (A hard surfaced accessible parking area and route to the building will be required.)
- g) Guardrails at front ramp need openings reduced so a 4" object cannot pass.
- h) Building address must be visible from street.
- i) Maximum of two occupants per guestroom.
- j) Non-operating fire alarm devices must be removed.

The applicant understands the need for these modifications and upon funding approval by the City will acquire the property and make these changes promptly to enable the issuance of a new Certificate of Occupancy within 90 -120 days. Moving forward the project will seek to address a need in the City for affordable *boarding house* type rental units, where tenants vary in residency from short to longer terms depending upon their needs.

Although limited to only 10 units, this proposed project will help the City with its goal of increasing supported affordable housing stock to 15%. Specifically, it will create 10 additional supported affordable units that don't currently exist. While the current owner leases 9 units (current office will be converted back into a residential unit) at \$714/month or \$166.60/week, this rent is not considered to be "affordable" at \$52 more than the current HUD Fair Market Rent of \$662 for an efficiency unit. Under the proposed project, the rent would be based on 95% of the HOME Low or High rents (depending upon income level of the tenant) which is consistent with the City's Affordable Dwelling Unit procedures. This would lower current rents to \$628.90 / month, based on rentals to persons at 50% AMI or less (meaning renter income would need to be \$28,000 or less for a single and \$32,000 or less for double occupancy). Even though HOME rents are revised annually and are subject to

change, rents at Carlton House would continue to be subject to this 95% limitation throughout the 15 year compliance period, allowing for rents to be adjusted for market variables.

This proposed project will also leverage other resources to stretch the City's housing investment. Specifically, this project will include a \$270,251 loan from VO to be amortized over a 30 year term with 4.25% interest on the unpaid principal balance. This means that the City will provide 49.5% of the project costs and the applicant will provide the remaining 50.5%.

Given that this is an on-going concern and the proposed renovations can be accomplished in a relatively short period of time, this project ranks high for "readiness" while also filling a need for housing stock that is targeted to very low income persons. Accordingly, this project aligns with multiple objectives of City Housing Policy 1 and is an excellent candidate for use of CAHF assistance.

Alignment with City Council's Vision and Strategic Plan:

Approval of this agenda items aligns directly with the City Council Vision for Charlottesville to provide quality housing opportunities for all. The proposed action also aligns with the Strategic Plan at goal 1.3 which speaks to increasing affordable housing options.

In support of the Council Vision and Strategic Plan, the Comprehensive Plan is also a benchmark by which CAHF proposals are reviewed. Specifically applicants must clearly achieve one or more goals/objectives of the current Comprehensive Plan. To this end, it should also be noted that this proposal also meets a number of goals / objectives of the Comprehensive Plan. These include:

2.1 Preserve and improve the quality and quantity of the existing housing stock through the renovation, rehabilitation and/ or expansion of existing units as a means of enhancing neighborhood stability.

2.5 Promote the use of rapid rehousing and permanent supportive housing options by providing support to programs and organizations serving the homeless and near-homeless populations, as well as those with challenges that would otherwise prevent independent living.*

3.1 Continue to work toward the City's goal of 15% supported affordable housing by 2025.

3.6 Promote housing options to accommodate both renters and owners at all price points, including workforce housing.

4.2 Continue to fund programs that provide assistance to those unable to afford market rate housing options in the City.*

4.3 Promote long-term affordability of units by utilizing industry strategies and mechanisms, including deed restrictions and covenants for their initial sale and later resale and the use of community land trusts.

8.7 Encourage the incorporation of green sustainable principles (e.g. LEED, EarthCraft Virginia, Energy Star, etc.) in all housing development to the maximum extent feasible both as a way to be more sustainable and to lower housing costs.

Community Engagement:

There has not been any specific community engagement or public input on this proposal; however, as noted above this proposal aligns well with the Objectives for Use of Charlottesville Affordable Housing Fund and Criteria / Priorities for Award of Funds (Housing Policy 1 – adopted by Council on 10/20/14) which was developed by the City’s Housing Advisory Committee through an extensive process taking several months, with all meetings open to the public.

Budgetary Impact:

The proposed grant will require \$264,484 in previously appropriated CIP funding from currently unallocated CAHF funds, with a 15 year deed of trust to be recorded against the property. Should the property cease to be used as supported affordable rental housing during the 15 year period, a pro-rata repayment to the City would be required, based on an allowance for an annual reduction of the grant amount (calculated as 1/15th of the total grant).

Recommendation:

The proposed project is targeted toward creation of new supported affordable rental units that would not otherwise exist in the market. The proposed cost of \$26,448 per housing unit is consistent with other investments made with CAHF money and the risk to the City is limited by use of a deed of trust to be secured by the property. Based on these factors and the need to further supported affordable housing, staff believes that this request merits consideration by City Council.

Staff therefore recommends approval of the attached resolution, based on the following conditions:

1. Development of a written grant agreement specifying allowable uses of funds and incorporating reporting and accountability measures per Housing Policy 1, as well as consequences for non-compliance.
2. Receipt of a satisfactory agreement for Carlton. LLC assuring that the funding will be used for purposes of the CAHF.
3. Purchase of the property and modifications to the property within 90 – 120 days as outlined herein to achieve a new certificate of occupancy for a R-1 use.

Alternatives:

Council could elect not to fund this request and/or to reduce funding below the requested funding; however, the project would not be able to move forward and the potential for securing these units (for the next 15 years) would be lost.

Attachments: