FAIRFAX COUNTY AFFORDABLE HOUSING ADVISORY COMMITTEE
REPORT OF THE SPECIAL SUBCOMMITTEE
PROGRESS REPORT - YEAR TWO – FY 2007

September 28, 2007

Background: *In May 2005, the Fairfax County Board of Supervisors appointed the Affordable Housing Advisory Committee to assist in prioritizing and monitoring affordable housing preservation initiatives through the Penny for Affordable Housing Fund. The Penny Fund generated a total of $17.9 million for affordable housing in FY 2006 and $21.6 million in FY 2007. A special subcommittee of the Advisory Committee was formed in June 2006 to, among other things, review the progress of the Penny for Affordable Housing Fund directly in relation to the principles, priorities and guidelines recommended by the Advisory Committee and endorsed by the Board of Supervisors on November 21, 2005 (see Attachment 1). The Advisory Committee adopted the Fiscal Year 2006 Penny Fund progress report on September 22, 2006; the report was subsequently presented to the Board of Supervisors Housing Committee on October 16, 2006. The reporting process developed by the special subcommittee in FY 2006 will be continued in subsequent fiscal years. This report represents the fulfillment of that recommendation for FY 2007.*

Summary: *The special subcommittee of the Advisory Committee finds that the expectations set forth by the Board in its November 21, 2005 Penny Fund Overriding and Guiding Principles were nearly all met or exceeded during FY 2007. This progress report includes a point-by-point assessment of the progress made by the Department of Housing and Community Development (HCD) in view of the Board's overriding and guiding principles and priorities in FY 2007. Every case involving the use of the Penny Fund complied with the Board's principles and priorities. In cases where the Board set forth a priority and the Penny Fund was not used, HCD and the Fairfax County Redevelopment and Housing Authority (FCRHA) moved aggressively to apply other resources and take additional steps to address the issue. The subcommittee also reaffirms the recommendations for the use of the Penny Fund adopted by the Advisory Committee on June 22, 2007. Overall, the subcommittee finds that the progress made in FY 2007 represents solid foundation for continued funding in FY 2008 and beyond.*

Analysis: The Board of Supervisors divided their guidance on the use of the Penny for Affordable Housing Fund into <u>overriding</u> and <u>guiding</u> principles, and <u>top priorities</u>. The following is an analysis of HCD's progress in view of the Board's overriding principles:

- ***Overriding Principle 1:*** *Preservation of existing affordable housing is the highest priority.*
  - *<u>Progress/findings:</u>* The special subcommittee finds that all activities funded by the Penny Fund in FY 2007 preserved existing affordable housing. A total of 520 units were preserved using the Penny Fund in FY 2007. The following is a description of each preservation project funded by the Penny Fund in FY 2007:
    - *<u>Janna Lee Village, 319 units, Lee District</u>: Penny Fund investment:* $19 million*. Description:* The FCRHA provided financing for this 319-unit

multifamily development. Janna Lee was acquired and will be rehabilitated by two private limited partnerships; the FCRHA purchased the land and made loans to the two partnerships for the acquisition and rehabilitation of the project. In addition to County funds, tax credits were allocated to the property from the Virginia Housing Development Authority (VHDA) non-competitive pool. The property is now operating under a ground lease between the two partnerships and the FCRHA; the property will remain affordable in perpetuity due to FCRHA ownership of the land.

- *Sunset Park Apartments, 90 units, Mason District:* *Penny Fund investment:* $5 million. *Description:* The FCRHA provided financing for the acquisition, preservation, and rehabilitation this 90-unit project. The development was purchased by AHC, Inc., a regional non-profit affordable housing developer. In addition to the County financing, the project will be financed by VHDA, a seller take-back note and low income housing tax credit equity. The property will remain affordable for 50 years. It should be noted that Sunset Park Apartments was one of three properties specifically cited by the Affordable Housing Action Committee as being at high risk for loss, along with the Crescent and Fairway Apartments. HCD successfully acquired and preserved The Crescent from the Winkler portfolio sale in FY 2006.

- *Hollybrooke III, 50 units, Mason District:* *Penny Fund investment:* $3.1 million. *Description:* The FCRHA financed the acquisition, preservation, and rehabilitation of 50 units at Hollybrooke III Condominiums by AHC, Inc. (In December 2005, AHC purchased 98 units using financing from Fairfax County and the FCRHA.) After the purchase of the additional 50 condominium units, affiliates of AHC will own a total of 148 units in the Hollybrooke Condominium complex making them a controlling majority of the condominium. Minimum affordability period is 30 years.

- *Reston Glen, 40 units, Hunter Mill District:* *Penny Fund investment:* $2.375 million. *Description:* The FCRHA assisted the owner, Fairfield Residential, LLC, refinance and provide funding for rehabilitation of Reston Glen Apartments in the Hunter Mill District. This action resulted in the long-term preservation of 40 apartments at the property. The 200-unit complex is in Reston and was built in 1974. The 40 apartments represent 20 percent of the total units, and will have rent affordable to households earning 50 percent of the area median income (AMI).

- *Legato Corner, 13 units, Springfield District:* *Penny Fund investment: $306,555 Description:* The FCRHA purchased 13 units at the Legato Corner condominium development for its Magnet Housing Program, as part of a partnership agreement with the Fairfax County Public Schools. The Fairfax County Public Schools established preferences for the units for teachers in critical fields such as special education and science and bus drivers.

- *ParcReston, 8 units, Hunter Mill District:* *Penny Fund investment:* $396,000. *Description:* The FCRHA has acquired and preserved an additional eight units of affordable housing at ParcReston in the Hunter Mill District. This is the first of a total of 13 additional units to be purchased at ParcReston. The FCRHA already owns and manages ten units at this site which are part of the Fairfax County Rental Program. The ParcReston units are affordable to households making 50 percent of AMI or below.

- ***Overriding Principle 2:*** *The Fund will be fully spent or specifically obligated within the fiscal year in which it is appropriated.*
  - *Progress/findings:* In FY 2007, 99.14 percent of the funds were either spent or encumbered by Board action (92.86 percent spent, 6.28 percent encumbered). Of the remaining .86 percent, the majority is unspent administrative funds and funds reserved for an ongoing preservation project, both of which will carry over to FY 2008. It should also be noted that a total of $9,902,810 was obligated from the FY 2008 Penny Fund allocation for the preservation of Hollybrooke III ($1,500,000) and Janna Lee Village ($8,402,810).
- ***Overriding Principle 3:*** *The Fund will be opportunity-driven.*
  - *Progress/findings:* All projects funded through the Penny Fund were opportunities that emerged in the market and were at risk of being lost as affordable housing. Eight major multifamily rental complexes were sold in Fairfax County in FY 2007. HCD worked to develop all of these transactions into affordable housing preservation opportunities. Of these eight properties sold, four (Janna Lee Village, Reston Glen, Sunset Park, and Hollybrooke III) were preserved as affordable housing. In addition, HCD developed the rezoning of the ParcReston property into a preservation opportunity via the proffer system, which will ultimately lead to the preservation of a total of 23 units (18 of which have been preserved through FY 2007).

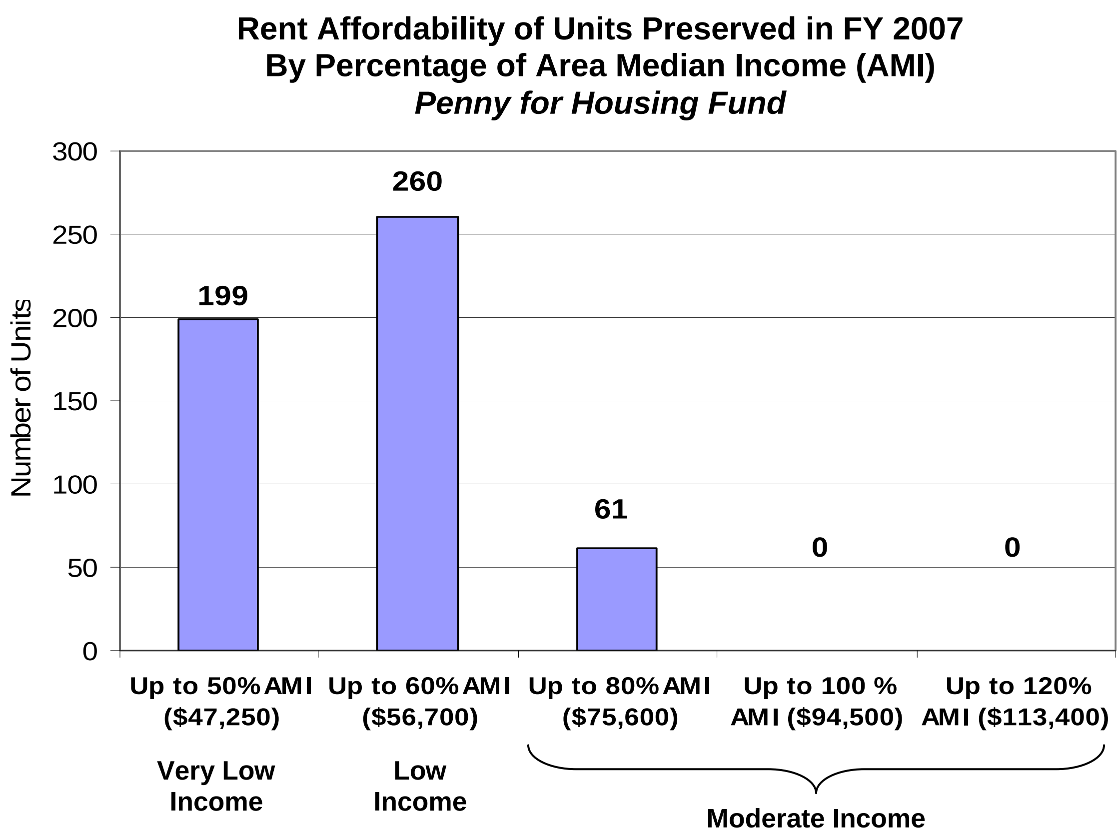
The following is an analysis of progress in view of the guiding principles adopted by the Board:

- ***Guiding Principle 1:*** *The Fund will be leveraged at least 3:1.*
  - *Progress/findings:* In FY 2007, the leveraging of the Penny Fund for the projects listed above was 3.96:1. The average per-unit investment of Penny Funds in FY 2007 was $58,034, compared to $45,826 in FY 2006. (The rise in the per-unit subsidy can be attributed to the larger number of units preserved affordable at 50 percent AMI in FY 2007.) However, these numbers alone do not demonstrate the critical importance of leveraging to the success of the Penny Fund.

    The preservation of affordable housing is often a highly complex financial undertaking, involving a variety of funding sources, each with their own particular requirements and limitations. Out of the 1,412 units preserved under the Board's Affordable Housing Preservation Initiative as of the end of FY 2007, 1014 units were preserved in transactions that included the Penny Fund. One example of the importance of leveraging the Penny Fund in FY 2007 was the preservation of the Sunset Park Apartments, a 90-unit development in the Mason District. Sunset Park was acquired by AHC, Inc., a non-profit affordable housing developer. In addition to $5 million from the Penny Fund, the project was financed by VHDA, a seller take-back note and low income housing tax credit equity totaling more than $21.3 million – a leverage of more than 4 to 1. Sunset Park will be affordable for a minimum of

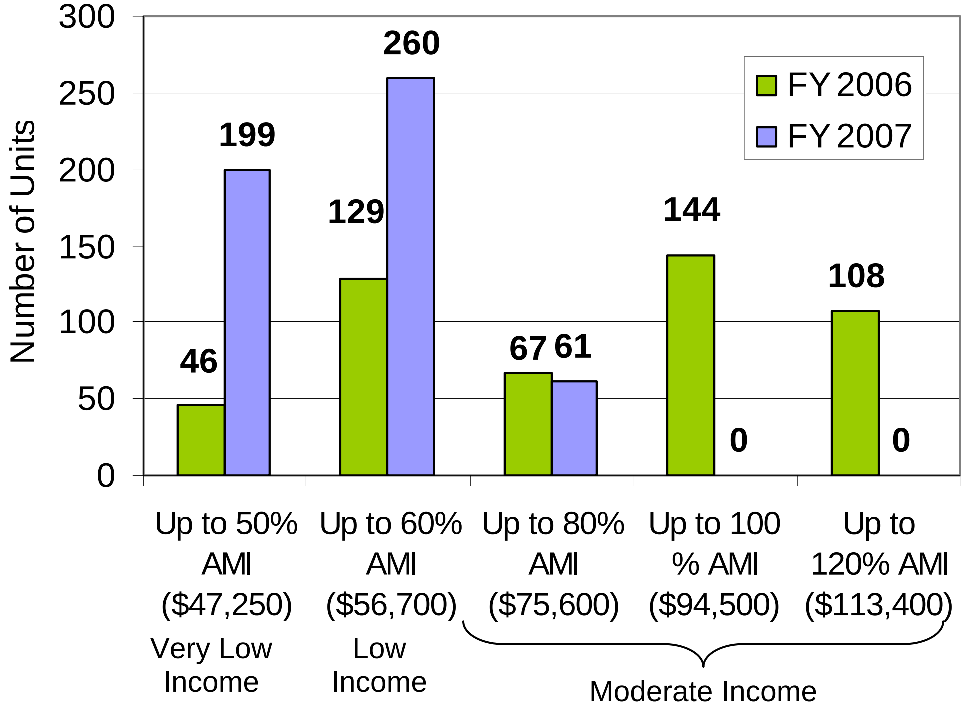
50 years; 18 of the units (20 percent) will be affordable at 50 percent AMI, and 72 of the units (80 percent), will be affordable at 60 percent AMI. Like all of the other transactions involving the Penny Fund, the preservation of the 90 units at Sunset Park would not have been possible without the leverage of non-county capital. It should also be noted that the Board of Supervisors leveraged the FY 2007 Penny Fund allocations with FY 2008 Penny Fund. In total, $9.9 million of the $22.7 million FY 2008 Penny Fund allocation was committed to preservation projects which closed in FY 2007, including the preservation of Hollybrooke III ($1.5 million) and Janna Lee Village ($8.4 million). In addition, $3 million in FY 2008 Penny Fund resources have been committed to debt service on the Crescent Apartments.

- ***Guiding Principle 2:*** *Projects can be expected to range in affordability. Projects serving a lower income may be eligible for an above-average subsidy, while those serving a higher income eligible for a lower subsidy. The affordability range will be set by the Advisory Committee.*
  - *Progress/findings:* The affordability range set by the Advisory Committee is 0 percent to 120 percent of AMI (FY 2007: $94,500). The average Penny Fund subsidy per unit for projects in FY 2007 was $58,034. The income ranges served by Penny Fund in FY 2007 are shown in the chart below:



The special subcommittee finds that very significant progress was made in FY 2007 in terms of the preservation of housing affordable to lower income households. The following chart compares the rent affordability of units preserved using the Penny Fund in FY 2006 and FY 2007:

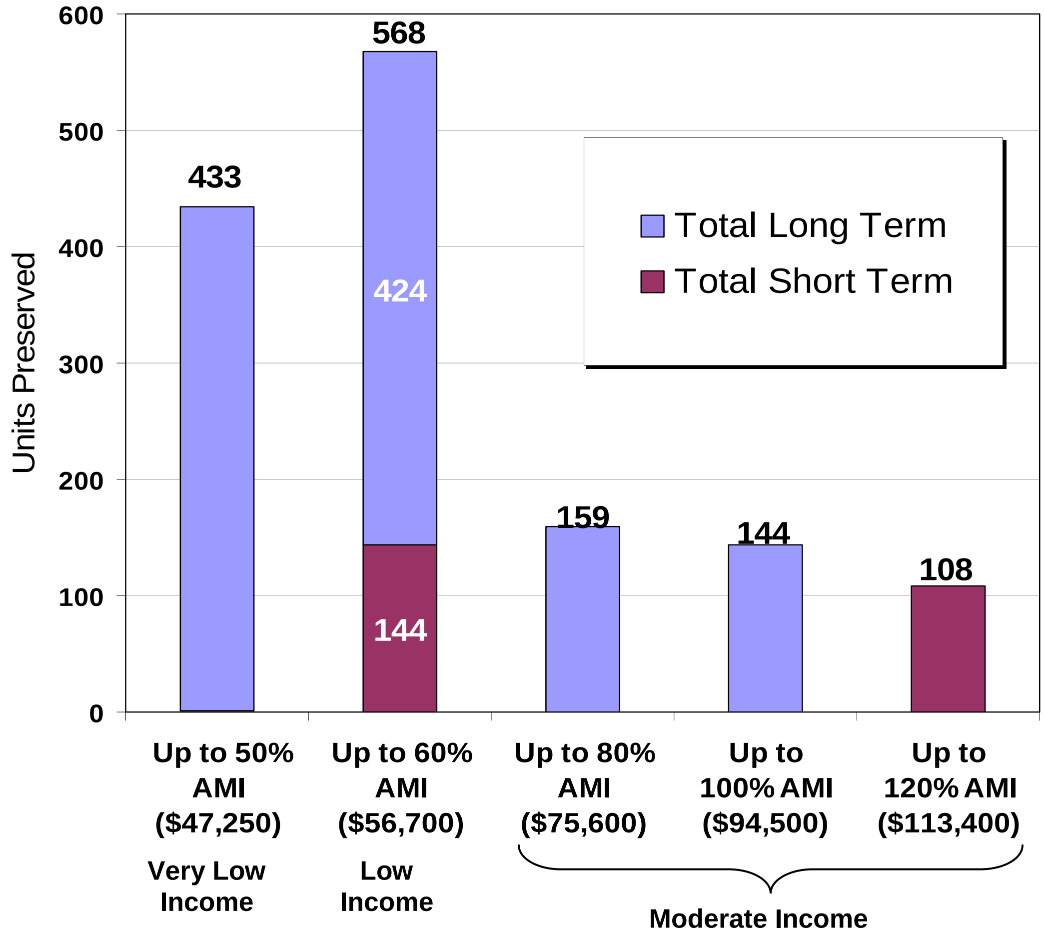
Rent Affordability of Units Preserved; FY 2007 Compared to FY 2006
By Percentage of Area Median Income (AMI)
Penny for Housing Fund



Note: The 108 units preserved at up to 120 percent AMI in FY 2006 were for homeownership.

A total of 1412 units were preserved through the Affordable Housing Preservation Initiative through the end of FY 2007. A total of 1001 units – or about 70 percent of the total – were affordable to households earning up to 60 percent of AMI, including 433 units – about 30 percent of the total – affordable at up to 50 percent of AMI. The income ranges served by all funding sources, for the Preservation Initiative through the end of FY 2007, are shown in the chart below:

Rent Affordability of Units Preserved, April 2004 through FY 2007
By Percentage of Area Median Income (AMI)
All Funding Sources



- ***Guiding Principle 3:*** *All projects are expected to be feasible, sustainable, affordable, completed in a timely manner, and meet threshold standards set by the Department of Housing and Community Development.*
    - *Progress/findings:* The Penny Funds were used in six projects for acquisition and rehabilitation: Janna Lee, Hollybrooke III, Sunset Park, Reston Glen, ParcReston and Legato Corner. Each project was underwritten by HCD and reviewed by the County Financial Advisor for feasibility. All projects were completed in a timely manner.
- ***Guiding Principle 4:*** *Allocations from the Fund will be spent on capital expenditures.*
    - *Progress/findings:* All funds expended or encumbered, except 2.5 percent set aside by the Board for administrative costs, were spent on capital expenditures.

- ***Guiding Principle 5:*** *Under appropriate circumstances, the Fund may be used for new housing production.*
    - *Progress/findings:* No funds were used for new construction in FY 2007. The Board of Supervisors re-emphasized its policy to use the Penny Fund for preservation.
- ***Guiding Principle 6:*** *Loans, deferred loans, grants and other financing approaches will be used.*
    - *Progress/findings:* Financing approaches using the Penny Fund included deferred low interest and no interest loans, direct subsidies for County purchases, and bridge financing.
- ***Guiding Principle 7:*** *The activity, status and success of the Fund will be well communicated to the Board of Supervisors and the community.*
    - *Progress/findings:* Activities, status and successes of the Fund are reported regularly in the on-line newsletter at www.e-ffordable.org. The newsletter is published bi-weekly and sent to over 500 "subscribers" including the Board of Supervisors, the FCRHA, and County staff. The Preservation Initiative, including the Penny Fund, continues to receive coverage in a wide variety of local and regional newspapers. At the end of FY 2006, the Advisory Committee provided a status report to the Board of Supervisors, and subsequently determined that there should be an annual report to the Board on the progress of the Penny Fund.
- ***Guiding Principle 8:*** *The Fund should be used to finance permanent or long-term affordability; the minimum affordability period should correspond to the Fairfax County Affordable Dwelling Unit (ADU) Ordinance.*
    - *Progress/findings:* All projects funded by Penny Fund resources in FY 2007 have minimum affordability periods of 30 years, which corresponds to the ADU ordinance affordability period.

The following is an analysis of progress in view of the top priorities adopted by the Board:

- ***Priority 1:*** *Preservation of existing affordable housing.*
    - *Progress/findings:* A total of 520 units were preserved using the Penny Fund in FY 2007. A total of 1412 units were preserved through FY 2007 using all funding sources since the inception of the Preservation Initiative in April 2004.
- ***Priority 2:*** Workforce housing.
    - *Progress/findings:* 1378 of the 1412 units preserved through FY 2007 are workforce housing. The subcommittee also notes that on June 22, 2007, the Advisory Committee voted unanimously to support the recommendations of the High-rise Affordability Panel, as received by the Board of Supervisors on April 30, 2007, which will establish a new policy to encourage the development of workforce housing by the private sector.
- ***Priority 3:*** Address condominium conversions.
    - *Progress/findings:* All six transactions using the Penny Fund in FY 2007 directly responded either to the potential conversion of affordable rental housing to condominiums, the sale of already converted units at market

rate, or the potential “repositioning” of affordable rentals in the rental market.

- ***Priority 4:*** Reduce homelessness.
    - <u>*Progress/findings:*</u> While no Penny Funds were used on projects specifically targeted to the needs of the homeless, the FCRHA and the County continued to utilize other resources to invest in the needs of the homeless in Fairfax County, including:
        - *Homestretch, Inc.:* The FCRHA provided $200,000 in Community Development Block Grant (CDBG) funds to Homestretch, for the purchase of a unit to serve as transitional housing for a homeless family. *(Providence District)*
        - *Katherine K. Hanley Family Shelter:* Construction of the Hanley Shelter, which will provide temporary housing to approximately 20 families and serve as a key resource in the effort to end homelessness in Fairfax County in ten years, was completed in FY 2007. *(Springfield District)*
        - *Transitional Housing/Hanley Shelter Campus:* The FCRHA is also preparing for the construction of six units of transitional housing on the campus of the Hanley Shelter. As of the end of FY 2007, the conceptual design for the units had been completed. Construction is anticipated to be completed in FY 2009. *(Springfield District)*
        - *Partnership for Permanent Housing:* The Fairfax County Partnership for Permanent Housing program was established in FY 2007. The five-year demonstration pilot is designed to assist homeless families achieve self-sufficiency and secure permanent housing in the form of homeownership. Families selected for the program benefit from services provided though a unique, interdisciplinary partnership between county agencies and their non-profit partners. The program is for homeless families currently residing in Fairfax County homeless shelters or transitional housing units. At least one adult in household must be steadily employed, or able to demonstrate a history of regular employment and/or enrollment in educational or job-training courses. Households must have incomes that are 60 percent of AMI or less. HCD budgeted $323,000 in Home Investment Partnership (HOME) funds for homeless Tenant-based Rental Assistance (TBRA) in FY 2007. Of the 25 program positions available, 23 families have been approved for participation and 14 families have been issued TBRA vouchers by HCD. HCD has also made funds available to support five TBRA vouchers for homeless individuals who have participated in the county’s hyperthermia shelter program. Four applicants have been approved for participation. Their applications for TBRA vouchers are being processed by HCD staff as of the end of FY 2007.

- ***Priority 5:*** Affordable Housing close to work centers and transit.
  - *Progress/findings:* Most of the units preserved using the Penny Fund are within walking distance of work centers or major transit corridors. For example, ParcReston is immediately across the street from the Reston Town Center; and Hollybrooke III is in Seven Corners, within walking distance of bus lines on both Leesburg Pike and Arlington Boulevard. Legato Corner is located in the job-rich western part of the county.
- ***Priority 6:*** Affordable Housing on surplus public land.
  - *Progress/findings:* No Penny Fund resources were expended on this priority in FY 2007. However, it should be noted that significant progress has been made regarding the development of affordable/workforce housing on the campus of the Fairfax County Government Center. "The Residences at the Government Center" will be 100 percent affordable/workforce housing aimed at incomes ranging from 50 percent to 100 percent of AMI. It will include 200,000 square feet of residential space and a 6,000 square foot multi-use community facility. As of the end of FY 2007, Fairfax County was in the process of evaluating proposals from prospective developers in response to a Request for Proposals (RFP) issued earlier in the year.
- ***Priority 7:*** Accessible and special needs housing.
  - *Progress/findings:* Of the 1412 units preserved since the inception of the Preservation Initiative through the end of FY 2007, 34 units are specifically for the elderly and persons with disabilities. It should also be noted that three units at the Audubon public housing property *(Lee District)* and one unit at the Penderbrook Fairfax County Rental Program (FCRP) property *(Providence District)* were made accessible in FY 2007.

    The FCRHA's adoption of a new Universal Design policy represented another critical achievement in FY 2007 regarding accessible and special needs housing. The new policy states that all new multifamily residential structures built by the FCRHA will incorporate principles of universal design. Also, multifamily structures renovated by the FCRHA will, to the maximum extent feasible, incorporate the principles of universal design. In addition, the FCRHA's new Universal Design Policy is also designed to encourage the incorporation of universal design in projects that are built by developers who seek funding from Fairfax County's Affordable Housing Partnership Program (AHPP). The FCRHA will recommend that the Board implement the new policy by amending the requirements of AHPP.
- ***Priority 8:*** Affordable housing and affordable assisted living for seniors.
  - *Progress/findings:* Penny Funds were not expended for this priority in FY 2007. However, it should be noted that progress continues in the new construction of senior housing, including:
    - *Chesterbrook (Assisted Living):* Chesterbrook will provide 97 units (85 one-bedroom units, 12 two-bedrooms) of assisted living in the McLean area. Fifty-five units have been specifically designated for low-income residents: 44 units allocated for low-income residents who qualify for Section 8 vouchers, five units being reserved for those seniors who qualify for Virginia's auxiliary help program and

six units to be rented for $2,500 to $2,800 per month (including food and other services), depending on the unit's size and number of residents per unit. Fairfax County is providing $1.8 million in grants and loans; VHDA will provide the bulk of the financing with $11 million in bond funds, with the remaining $860,000 coming from three local religious congregations. The Fairfax County contribution used Housing Trust Fund resources (Fund 144); the FCRHA is also providing the project with project-based Section 8 vouchers. As of the end of FY 2007, Chesterbrook was under construction; the project is expected to be completed October 2007. *(Dranesville District)*

- *Birmingham Green (Assisted Living):* This facility was under construction as of the end of FY 2007. Birmingham Green is located on 54 acres of land owned by five local jurisdictions: the Counties of Fairfax, Fauquier, Loudoun and Prince William and the City of Alexandria. The current facility includes a 180-bed nursing facility built in 1991 and a 64-bed assisted living facility built in 1927. The new construction includes 92 units with 77 units of assisted living and 14 units for persons with disabilities. One unit will be targeted for community space for the residents. The assisted living units will be leased to seniors with extremely low incomes and in need of assistance with the activities of daily living. Fairfax County is paying a proportion of the total cost of the new facility based on the County's use of the current facility – about 45 percent of the beds at Birmingham Green are occupied by Fairfax County residents.
- *Lewinsville:* As of the end of FY 2007, design documents were nearly completed. Site plan submitted for permitting in June 2007. The project has been expanded to include 60 new units of assisted living, construction of 22 units of independent living (to replace 22 existing units on the site), expansion of the existing senior center, and two adult day care center, including a privately-run Alzheimer's day care. *(Dranesville District)*
- *Olley Glen:* In FY 2007, the FCRHA approved partial financing in the amount of $1,891,476 for the development of Olley Glen, subject to the approval of the Board of Supervisors. The new construction will include 90 units of independent senior living affordable to low-income elderly on the Little River Glen senior housing campus, which already includes 120 units of independent living, a senior center, adult day health care and the Braddock Glen Assisted Living facility. Construction of Olley Glen is expected to begin in April 2008 and be completed in FY 2010. *(Braddock District)*

- ***Priority 9:*** Safe housing.
  - *<u>Progress/findings:</u>* No resources from the Penny Fund were expended in FY 2007, although the County initiated a new strike team to address code enforcement and over-crowding.

- ***Priority 10:*** Replacement and preservation of affordable housing in areas undergoing redevelopment and revitalization.

- *Progress/findings:* The Janna Lee Village Apartments are located next to a portion of the existing Richmond Highway revitalization district *(Lee District)*. The Sunset Park apartments are located in the Bailey's Crossroads revitalization district *(Mason District).*

- ***Future issues/considerations:*** The special subcommittee reaffirms the revised recommendations to the Board of Supervisors, as amended and approved by the Advisory Committee on June 22, 2007 (Attachment 2). In addition, the special subcommittee has the following comments:
  - ***Overriding Principle 3:*** The Fund will be opportunity-driven.
    - *Comments/findings:* The special subcommittee notes that the Department of Housing and Community Development (HCD) and the FCRHA aggressively pursued opportunities in the market with significant success. However, it is important to also recognize the lessons learned from opportunities that were pursued but did not come to fruition. For example, after considerable analysis, Fairfax County submitted an offer on an apartment complex in the Braddock District during FY 2007. The Board of Supervisors strongly supported this effort by allowing staff to aggressively pursue the purchase through a competitive bidding process. However, the County elected not to purchase the complex when the market pushed the purchase price to tens of millions of dollars beyond the appraised value. The effort clearly demonstrated that demand for multi-family complexes in Fairfax County continues unabated, with properties commanding record prices. The rising prices continue to be driven by large amounts of capital aggressively competing to acquire the few apartment properties that have come to the market, with prices that are returning historically low yields to their purchasers. This competition is making the preservation of affordable rental properties, particularly when attempting to maximize the number of units affordable to very low income households (below 50 % AMI), increasingly difficult.
  - ***Guiding Principle 1:*** The Fund will be leveraged at least 3:1.
    - *Comments/findings:* The special subcommittee applauds the Board's willingness to commit future allocations of the Penny Fund to emerging preservation opportunities in the market, as was the case with Hollybrooke III and Janna Lee Village. The special subcommittee views this as an important component of leveraging the Penny Fund, and critical to the Fund's continued success in responding to new preservation opportunities. The special subcommittee also recommends that the Board of Supervisors explore other creative ways to leverage future allocations.
  - ***Priority 4:*** Reduce homelessness.
    - *Comments/findings:* The special subcommittee recognizes the preservation of affordable housing as a critical component in the prevention of homelessness in Fairfax County. The subcommittee recommends that, to the maximum extent feasible, the Affordable Housing Preservation Initiative be coordinated with other critical homelessness and housing-related efforts, including the 10-year plan

to end homelessness in Fairfax County and the ongoing work of the Implementation Committee to Prevent and End Homelessness, the Single Room Occupancy (SRO) task force report, and others.

- ***Priority 6:*** Affordable Housing on surplus public land.
  - _Comments/findings:_ While recognizing the significant progress represented by the potential development of the "Residences at Government Center", the special subcommittee urges Fairfax County to be more aggressive in identifying surplus and underutilized land for affordable housing. The special subcommittee finds that, given the market conditions in Fairfax County, the use of public land is likely one of the most feasible ways to produce the large numbers of affordable units that are needed now and in the future.
- ***Priority 9:*** Safe housing.
  - _Comments/findings:_ The special subcommittee appreciates the importance of code enforcement in terms of neighborhood preservation. However, it is important to examine and continue to direct resources to the root cause of overcrowding: the lack of affordable housing stock in Fairfax County. The special subcommittee believes that overcrowding can be significantly reduced through market and publicly-supported production of innovative housing solutions such as Residential Studio Units (RSUs). The special subcommittee also recommends that Fairfax County identify and provide appropriate assistance to persons displaced by enforcement actions.
- ***General Observation:*** The special subcommittee notes that in order to respond to preservation opportunities in FY 2007, a large portion of FY 2008 funds needed to be earmarked in advance. As a result, 44% of FY 2008 funds will be spent or obligated by the end of the first quarter. The number of additional units preserved in FY 2008 therefore will likely be significantly less than prior years as a result.

  The tremendous success of the Penny Fund in FY 2007 is striking particularly in light of the unprecedented conditions in the multifamily housing market in Fairfax County. While the County was successful in preserving four of the eight multifamily projects that sold during the fiscal year, the other four were not preserved because the prices were unsustainably high in the context of affordable housing preservation. This, coupled with the continued loss of affordable housing due to "repositioning" of rental properties (and attendant rent increases) in the market, demand that the County continue and expand its investment in affordable housing preservation.

ATTACHMENT 1

"One Penny for Housing" Flexibility Fund (Fund 319)
Overriding and Guiding Principles

Endorsed by the Board of Supervisors on November 21, 2005

Overriding Principles

- **Preservation of existing affordable housing is the highest priority.**
- **The Fund will be fully spent or specifically obligated with the fiscal year in which it is appropriated.**
- **The Fund will be opportunity-driven.**

Guiding Principles

In addition to the overriding principles, the following principles will guide the use of the Fund:

- The Fund will be leveraged at least 3:1.
- Projects can be expected to range in affordability. Projects serving a lower income may be eligible for an above-average subsidy, while those serving a higher income eligible for a lower subsidy. The affordability range will be set by the Advisory Committee.
- All projects are expected to be feasible, sustainable, affordable, completed in a timely manner, and meet threshold standards set by the Department of Housing and Community Development.
- Allocations from the Fund will be spent on capital expenditures.
- Under appropriate circumstances, the Fund may be used for new housing production.
- Loans, deferred loans, grants and other financing approaches will be used.
- The activity, status and success of the Fund will be well communicated to the Board of Supervisors and the community.
- The Fund should be used to finance permanent or long-term affordability; the minimum affordability period should correspond to the Fairfax County Affordable Dwelling Unit (ADU) Ordinance

Top Priorities

- Preservation of existing affordable housing
- Workforce housing
- Address condominium conversions
- Reduce homelessness
- Affordable Housing close to work centers and transit
- Affordable Housing on surplus public land
- Accessible and special needs housing
- Affordable housing and affordable assisted living for seniors
- Safe housing
- Replacement and preservation of affordable housing in areas undergoing redevelopment and revitalization.

ATTACHMENT 2

AMENDED RECOMMENDATIONS TO THE BOARD OF SUPERVISORS FROM THE FAIRFAX COUNTY AFFORDABLE HOUSING ADVISORY COMMITTEE

JUNE 22, 2007

Background: *At its meeting on April 30, 2007, the Board of Supervisors received recommendations from the Fairfax County Affordable Housing Advisory Committee regarding modifications to the Overriding and Guiding Principles for the One Penny for Affordable Housing Fund. During the Board's discussion of the recommendations, Board members raised a number of concerns, particularly regarding the Advisory Committee's proposed position on using the Penny Fund for new construction. The Board directed the staff to review the Advisory Committee's recommendations and return with further information.*

This document is a product of the Advisory Committee's efforts to be responsive to the Board's concerns. The Special Subcommittee of the Advisory Committee, which drafted the original recommendations, reconvened and amended the recommendations with the assistance of staff. The revised recommendations were discussed and approved by the Advisory Committee on June 22, 2007.

The Advisory Committee now respectfully submits these revised recommendations to the Board of Supervisors for your consideration.

Revised Recommendations: The following are the revised recommendations of the Affordable Housing Advisory Committee:

1. **New affordable housing goal.**

   <u>*Advisory Committee Recommendation:*</u> That the Board of Supervisors adopt a goal of preserving an additional 1,750 units using the Penny for Affordable Housing Fund, serving a range of low and moderate incomes, by the end of Fiscal Year 2011.

   <u>*Discussion:*</u> *The original Affordable Housing Preservation Initiative goal of preserving 1000 units by the end of 2007 has been exceeded, almost one year ahead of schedule. The Advisory Committee urges the county to continue to "seize the mission" of affordable housing, and is recommending the new goal of preserving 1,750 additional units to that end. This new recommended goal is based on projected needs information from a study prepared by the George Mason University Center for Regional Analysis vis a vis the resources anticipated to be available through the Penny Fund allocation through FY 2011. Attachment 1 shows an analysis of how the proposed goal was developed.*

2. Increasing the number of households earning 50 % of the Area Median Income (AMI) and below that are served using the Penny for Affordable Housing Fund.

Advisory Committee Recommendation: That the Board of Supervisors establish a guideline for the use of the Penny Fund that, in general, 50 % of the units preserved should be affordable at incomes 50 % of the Area Median Income (AMI) or below.

Discussion: *Maximizing the number of households served earning 50 % of the AMI and below is a critical goal. However, setting aside a specific dollar amount within the Penny Fund for an income range has a number of potential drawbacks. First, having a set-aside of any kind reduces the County's flexibility and the ability to respond quickly to market opportunities. Second, funds could go unspent if opportunities to serve a specific income range do not become available. Similarly, determining a specific amount of subsidy per unit based on income served could be problematic given location-based costs and fluctuations in pricing.*

A study by the George Mason University Center for Regional Analysis, commissioned by the Department of Housing and Community Development (HCD) and presented to Advisory Committee, shows that in order to support job growth in the County, a total of 12,000 rental units will be needed between 2005 and 2010 for households earning up to 120 % of AMI. Table A shows a breakdown of the rental units needed by income range, the units preserved using all funding sources to date, and the net rental units needed. Table B shows this information with the need projected to 2025.

Table A: New Rental Units Needed, by Income, 2005 - 2010

Income as percentage of AMI	Rental Units Needed	Units Preserved to Date	Net Rental Units Needed	Units Needed as % of Total
50 and below	6,000	389	5,611	52%
50 to 80	3,500	718	2,782	26%
80 to 120	2,500	252	2,248	22%
TOTAL	12,000	1,359	10,641	100%

Sources: George Mason University; DHCD

Table B: New Rental Units Needed, by Income, 2005 - 2025

Income as percentage of AMI	Rental Units Needed	Units Preserved to Date	Net Rental Units Needed	Units Needed as % of Total
50 and below	16,000	389	15,611	49%
50 to 80	9,000	718	8,282	26%
80 to 120	8,000	252	7,748	25%
TOTAL	33,000	1,359	31,641	100%

Sources: George Mason University; DHCD

The data shown in Tables A and B shows that rental housing affordable at 50 % AMI and below constitutes approximately 50 % of the need for net new affordable/workforce housing in Fairfax County through the year 2025, with *units affordable up to 80 and 120 % of AMI constituting the other half of the need.*

3. Investments in Single Room Occupancy (SRO)/Residential Studio Units (RSU).

<u>*Advisory Committee Recommendation:*</u> That the Board of Supervisors use the Penny Fund and other resources to invest in the preservation of properties that include or could be used as SRO/RSUs.

<u>*Discussion:*</u> *The Advisory Committee recognizes low and moderate-income singles, particularly those with special needs, as among the most difficult to house. Significantly, aside from the Fairfax County Redevelopment and Housing Authority's (FCRHA) Coan Pond Residences for working singles, there are no other SRO/RSU developments in Fairfax County. This recommendation is intended to encourage the use of the Penny Fund in preservation projects where there is an opportunity to provide SRO/RSU housing. For example, the Advisory Committee recognizes the purchase of old motels as potential preservation opportunities where SRO/RSU housing could be provided.*

It should be noted that the Advisory Committee also reiterates its support for the proposed amendment to the Zoning Ordinance to facilitate the development of SRO/RSU housing in Fairfax County, as stated in Advisory Committee Co-Chair Conrad Egan's January 12, 2007 letter to Board of Supervisors Chairman Gerry Connolly. In addition, the Advisory Committee recognizes the High-rise Affordability Panel's recommendation to consider allowing the development of Affordable and Workforce Housing in Commercial, Industrial, and Mixed-Use Districts through a mechanism such as the Special Exception process as a potential opportunity to facilitate SRO/RSU developments.

<u>**Other Considerations and Recommendations:**</u> The Advisory Committee has the following additional considerations and recommendations for the Board:

- The proposed goal of 1,750 units over the next four years should be revisited annually as a part of the Advisory Committee's annual progress reporting process.

- While the Advisory Committee reiterates its support for the allocation of a second penny for affordable housing, it also recognizes the Board's responsibility to provide for sustainable funding for the preservation initiative. If a second penny is not sustainable, the Advisory Committee recommends that the Board consider other additional funding options, such as a bond issue, to support affordable housing.

- While the Advisory Committee is recommending a four-year goal of 1,750 units, it also notes the estimated shortfall of nearly 9,000 units over the same period shown in Attachment 1.

- The Advisory Committee suggests that the Board consider allowing the Penny Fund to be used for new construction for those populations who are most difficult to serve through preservation if and only if the Penny Funds used are replaced dollar for dollar by another funding source and used for preservation.

The Advisory Committee again acknowledges and affirms the work of the Board of Supervisors-appointed High-rise Affordability Panel. The Advisory Committee recommends that staff explore opportunities within any eventual policy endorsed by the Board to maximize the production of affordable/workforce housing in the County's high-density Development Centers, as identified in the Fairfax County Comprehensive Plan. This could include using the Penny Fund or other resource to make investments in the development of affordable/workforce housing units, to make more new units produced affordable at lower incomes.

The Advisory Committee also had a general discussion about the development of a "toolbox" of options to use the Penny Fund, among other resources, to maximize affordable housing opportunities for households earning 50 % of the Area Median Income and below. The Advisory Committee recognizes that these options require further study and analysis. These options may include a "Care Fund" to provide short-term housing-related assistance to lower-income families, and providing operating support to affordable housing providers as a means to increase unit affordability.

Attachment 1: Rental Housing Needs and Production Goals

Income Range	Units Needed 2005 - 2010	Units Preserved 2005 to 2007	Balance Needed	$77,300,000* Funding To Be Used Based Per Unit Subsidy FY 2008 - 2011	Per-Unit Subsidy	***Affordable Housing Goal FY 2008 - 2011****	***Unit Shortfall 2008 - 2010***	***Percentage of units preserved***
50% AMI and below *(percentage)*	6000 55%	389	5611	$52,980,000	$60,000	***883***	*4728*	*50%*
60 to 80% AMI *(percentage)*	3500 25%	718	2782	$17,660,000 *average*	$30,000 - $50,000 *$40,000*	***442***	*2341*	*25%*
90 to 120 % AMI*** *(percentage)*	2500 20%	252	2248	$6,622,500 *average*	$10,000 - $20,000 *$15,000*	***442***	*1807*	*25%*
TOTAL	12000	1359	10641	$77,262,500		***1766***	*8875*	

*Anticipated amounts available:

FY 2008	$9,200,000	
FY 2009	$22,700,000	
FY2010	$22,700,000	
FY2011	$22,700,000	
TOTAL	$77,300,000	(in 2007 dollars)

**The number of units within each income level preserved are calculated so that the percentage of the total remains constant and the total projected expenditures, based on the average per unit subsidy, stay within $77,300,000.

***Incomes served above 100% of AMI will only be for first-time homeownership or to avoid the dislocation of long-time residents of acquired properties.