

**FAIRFAX COUNTY AFFORDABLE HOUSING ADVISORY COMMITTEE  
REPORT OF THE SPECIAL SUBCOMMITTEE  
PROGRESS REPORT - YEAR ONE – FY 2006**

**September 22, 2006**

**Background:** *The Affordable Housing Preservation Action Committee was appointed by the Board of Supervisors in August 2004. The Action Committee's top recommendation was to dedicate one penny of the real estate tax rate to the preservation of affordable housing. In the spring of 2005, the Board acted on this recommendation, generating almost \$18 million in for affordable housing in Fiscal Year 2006.*

*To provide guidance to staff on the use of this investment, the Board appointed the Affordable Housing Advisory Committee, comprised of many of the members of the original Action Committee, but expanded to include additional stakeholders from the real estate industry, non-profit organizations, advocacy groups, financial institutions, employers and employees, business community, and County boards and authorities. The Advisory Committee began meeting on a quarterly basis in late June 2005.*

*An ad hoc subcommittee of the Affordable Housing 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 (see attachment). The subcommittee met on July 24, 2006 and September 18, 2006, to review the FY 2006 investments of the Penny Fund and surrounding issues. This document provides constitutes the progress report for FY 2006.*

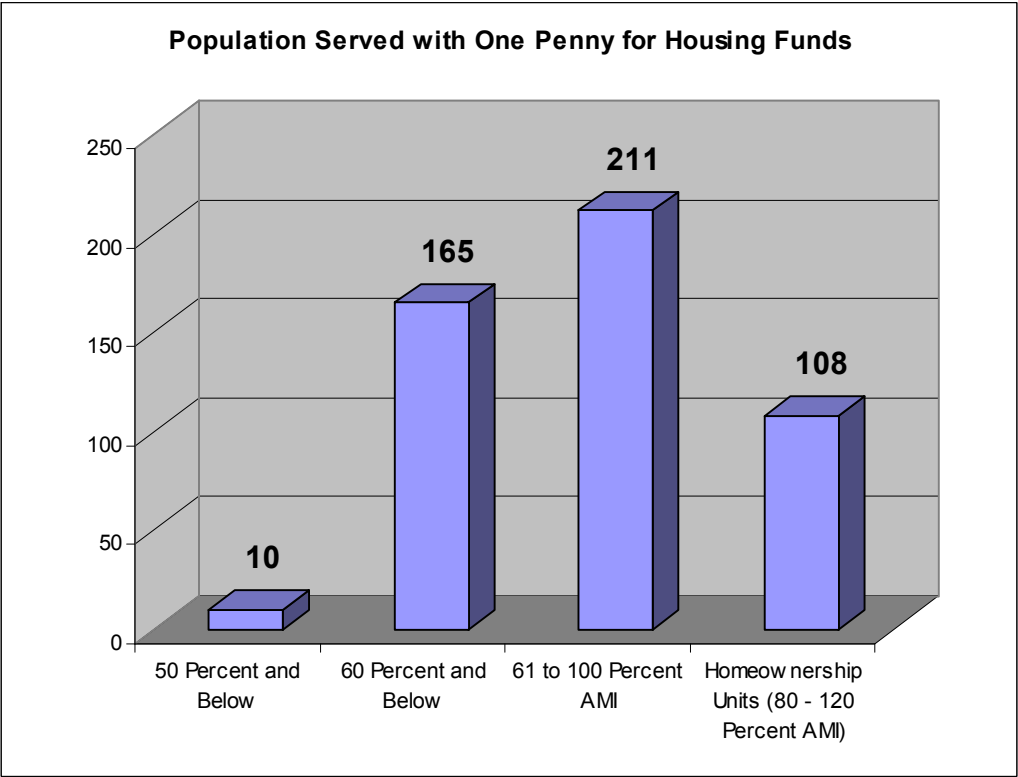
**Summary:** *On November 21, 2005, at the recommendation of the Affordable Housing Advisory Committee, the Board of Supervisors adopted overriding and guiding principles and top priorities for the use of the Penny for Affordable Housing Fund. The special subcommittee of the Advisory Committee finds that the expectations set forth by the Board were nearly all met or exceeded during Fiscal Year 2006. This progress report includes a point-by-point assessment of the progress made by the Department of Housing and Community Development (HCD) versus the Board's overriding and guiding principles and priorities in FY 2006. 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 to address the issue. Similarly, the subcommittee has identified some future actions or recommendations to be considered by the Advisory Committee, HCD and/or the FCRHA that may go beyond the principles, priorities and guidelines set by the Board of Supervisors, but support the intent of the recommendations by the Affordable Housing preservation Action Committee. Those steps are identified below. Overall, the subcommittee finds that the progress made in FY 2006 represents a solid foundation for continued funding in FY 2007 and beyond.*

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

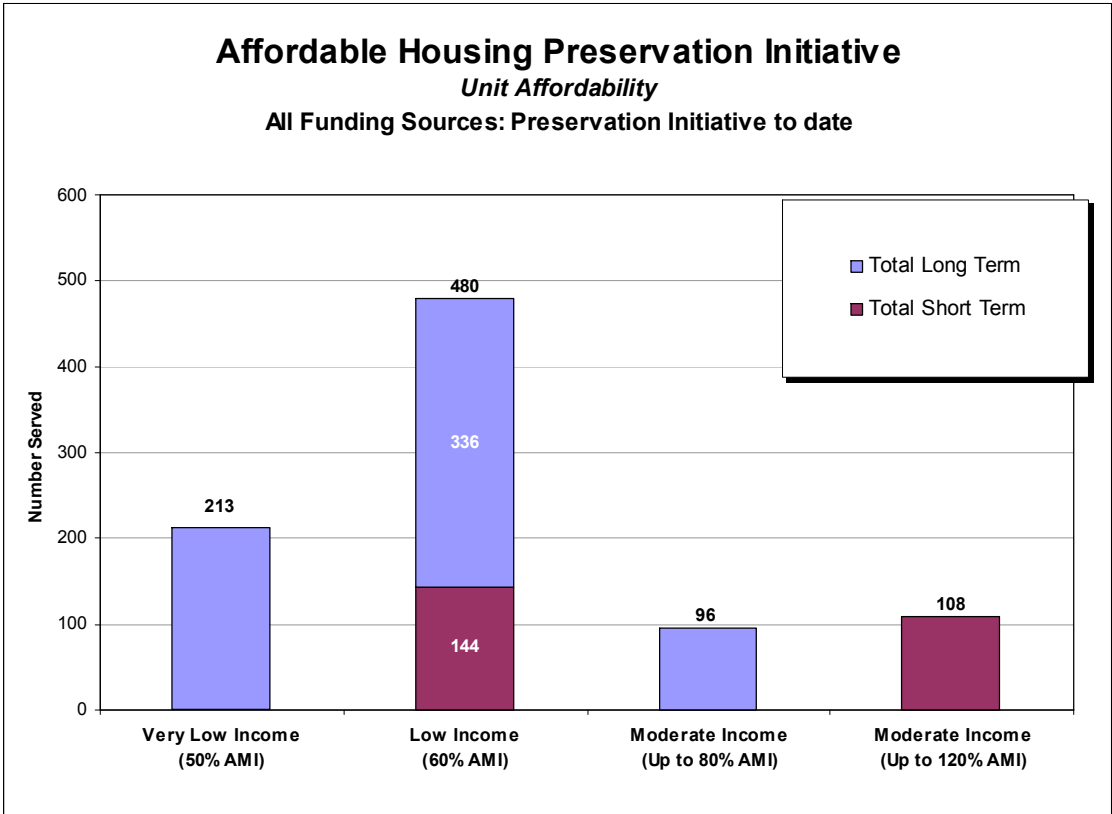
- **Overriding Principle 1:** *Preservation of existing affordable housing is the highest priority.*
  - Progress/findings: The special subcommittee finds that all activities funded by the Penny in FY 2006 preserved existing affordable housing. For example, the Crescent Apartments in Reston (Hunter Mill District) was purchased by the FCRHA using over \$9.4 million from the Penny Fund, which leveraged an additional \$40.5 million in bond funds for the purchase. This purchase alone preserved 180 units, or nearly 20 percent of the Board's goal of preserving 1000 units by the end of 2007.
  
- **Overriding Principle 2:** *The Fund will be fully spent or specifically obligated with the fiscal year in which it is appropriated.*
  - Progress/findings: In FY 2006, 99.2 percent of the funds were either spent or encumbered by Board action (95.1 spent, 4.1 encumbered). Of the remaining .8 percent, the majority is unspent administrative funds and funds reserved for an ongoing preservation project, both of which will carry over to FY 2007.
  
- **Overriding Principle 3:** *The Fund will be opportunity-driven.*
  - Progress/findings: All projects funded through the Penny Fund were new transactions that had not previously been in the pipeline. The projects all represented units which were at risk of being lost to market housing. The risk was acute for the Crescent Apartments, which was part of the Winkler portfolio that was sold in 2006. The Crescent was the only property in a \$2 billion portfolio that was preserved for affordable housing.

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

- **Guiding Principle 1:** *The Fund will be leveraged at least 3:1.*
  - Progress/findings: In FY 2006, the leveraging of the Penny Fund ranged from a low of 3.52:1 to a high of 5:1, with an average of 4.26:1.
  
- **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 Committee is 0 percent to 120 percent of the area median income (FY 2006: \$90,300). The average subsidy per unit for projects in FY 2006 was \$45,826. The income ranges served by Penny Fund in FY 2006 are shown in the chart below:



The income ranges served by all funding sources, for the Preservation Initiative to date, are shown in the chart below:



- **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 4 projects for acquisition and rehabilitation: Madison Ridge, Hollybrooke II, Crescent, and Janna Lee. Acquisition was completed for all projects, except Janna Lee, which is under contract and is expected to be acquired by the end of calendar year 2006. Rehabilitation is underway at Hollybrooke II and is expected to be completed by December, 2006.
  
- **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.
  
- **Guiding Principle 6:** *Loans, deferred loans, grants and other financing approaches will be used.*
  - Progress/findings: Financing approaches included deferred low interest and no interest loans, direct subsidies for a County purchase, and bridge and mezzanine 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](http://www.e-ffordable.org). The newsletter is published bi-weekly and sent to approximately 421 “subscribers” plus HCD staff. In addition, press releases were provided to the media on the Crescent acquisition, which was funded by the Penny Fund. The Preservation Initiative, including the Penny Fund, has received coverage in a wide variety of local and regional newspapers. A televised discussion of the One Penny and affordable housing in general is planned for Channel 16. The County has won 3 national awards, the Governor’s Award, and received recognition from the Council of Governments for the Preservation Initiative. As evidence of this national recognition, HCD staff has spoken to a number of organizations expressing interest in 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 since adoption of this change by the Affordable Housing Advisory Committee and the Board of Supervisors have minimum affordability periods of 30 years. The first project funded by the One Penny which was funded before this

principle was adopted, involved homeownership condominiums where affordability restrictions will be in place for two years.

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

- **Priority 1: Preservation of existing affordable housing.**
  - Progress/findings: A total of 494 units were preserved using the Penny Fund in FY 2006. A total of 897 units have been preserved to date using all funding source since the inception of the Preservation Initiative in April 2004.
  
- **Priority 2: Workforce housing.**
  - Progress/findings: Excluding housing for the elderly, persons with disabilities, and other special needs housing, 846 of the 897 units preserved to date are workforce housing. The subcommittee also notes that HCD has been providing staff support to the Board-appointed High-rise Affordability Panel, which is charged by the Board with making policy recommendations to ensure the inclusion of affordable/workforce housing in high-rise/high-density developments in the County. On February 6, 2006, the Board adopted a general policy and set of guiding principles for the implementation of affordable/workforce housing, which included a policy supporting affordable/workforce housing for families earning a range of moderate incomes up to 120 percent of the Area Median Income.
  
- **Priority 3: Address condominium conversions.**
  - Progress/findings: Four acquisitions directly responded either to the potential conversion of affordable rental housing to condominiums, or the sale of already converted units at market rate. These included:
    - Madison Ridge, where half of the units were preserved as rental and the rest sold as affordable first-time homebuyer condominiums; 216 total units preserved (*Sully District*);
    - The Crescent, where all of the units were preserved as rental; 180 units total preserved (*Hunter Mill District*);
    - ParcReston, where converted units were purchased below-market and returned to affordable rental housing; 10 units total preserved (*Hunter Mill District*); and
    - Hollybrooke II, where converted units were purchased by AHC, Inc. with FCRHA financing and preserved as affordable rental housing; 98 units total preserved (*Mason District*).
  
- **Priority 4: Reduce homelessness.**
  - Progress/findings: While no Penny Funds were used on projects specifically targeted to the needs of the homeless, the FCRHA made several investments of other funds to meet the needs of the homeless in Fairfax County, including:
    - *Homestretch, Inc.:* The FCRHA provided \$875,000 in CDBG funds to Homestretch, for the purchase of six scattered site units to serve as transitional housing for homeless families with children and persons with disabilities.

- *Good Shepherd Housing:* The FCRHA provided a total of \$218,000 in financing for the purchase of two units in the Alexandria area of Fairfax County to be preserved as affordable housing. The units will be rented to low income households (60% or below of the Area Median Income) as part of Good Shepherd's Apartments, Budgeting, Counseling (ABC) Rental Program. This program is designed as an alternative to the homeless shelter for households denied housing in their own name due to poor credit, no credit or low-income.

HCD has also been participating on Deputy Executive Verdia Haywood's Homeless Hypothermia Task Force, which has a goal to identify potential real estate in the community to house the 2006-2007 Winter Hypothermia Program. HCD staff has analyzed real estate and recommended potential sites to the Deputy Executive.

- **Priority 5:** Affordable Housing close to work centers and transit.
  - *Progress/findings:* Most of the units preserved are within walking distance of work centers. For example, the Crescent Apartments are adjacent to Lake Anne commercial area, ParcReston is immediately across the street from the Reston Town Center; and Hollybrooke II is in Seven Corners, within walking distance of bus lines on both Leesburg Pike and Arlington Boulevard. Madison Ridge 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 have been expended on this priority to date. However, it should be noted that progress has been made in identifying sites and engineering analysis are underway to determine the feasibility of residential construction on several sites.
- **Priority 7:** Accessible and special needs housing.
  - *Progress/findings:* Of the 897 units preserved since the inception of the Preservation Initiative, 35 units are specifically for the elderly and persons with disabilities.
- **Priority 8:** Affordable housing and affordable assisted living for seniors.
  - *Progress/findings:* Penny Funds were not expended for these priorities in FY 2006. However, it should be noted that funds from other sources, including the Housing Trust Fund, CDBG and HOME were used for the development of Chesterbrook Assisted Living (*Dranesville District*) and Birmingham Green Assisted Living. Construction commenced on Chesterbrook in 2006 and is expected to commence on Birmingham Green in the fall of 2006. Braddock Glen Assisted Living (*Braddock District*) was completed in 2006; this 60-unit development is currently in the process of leasing up.
- **Priority 9:** Safe housing.
  - *Progress/findings:* No activity to report for FY 2006.

- **Priority 10:** Replacement and preservation of affordable housing in areas undergoing redevelopment and revitalization.
  - Progress/findings: The Crescent Apartments are located contiguous with the existing Lake Anne Revitalization area in Reston. Possible redevelopment of the site as part of the revitalization effort could both preserve the existing affordable housing and potentially add more mixed-income (including more affordable) housing to the site.

**Future issues/considerations:** The Subcommittee, within many of the principles and priorities, identified issues for further consideration by the Advisory Committee. Those issues are as follows:

- **Overriding Principle 1:** *Preservation of existing affordable housing is the highest priority.*
  - Future issues/considerations: Consideration should be given to providing assistance to new construction that represents new units to replace those lost to the housing stock. This is especially true for units that serve seniors, persons with disabilities or special needs, and those with incomes below 50% of the area median income (AMI). These actions should be closely coordinated with agencies that provide supportive services.
- **Overriding Principle 2:** *The Fund will be fully spent or specifically obligated with the fiscal year in which it is appropriated.*
  - Future issues/considerations: Consideration should be given to consider incentives or set-asides to address unmet needs in housing preservation, such as housing for very low income or special needs populations if projects to ensure that these types of projects are brought forward.
- **Overriding Principle 3:** *The Fund will be opportunity-driven.*
  - Future issues/considerations: Consideration should be given to providing more definitive information to both private and nonprofit developers as to what kind of projects might be perceived as better meeting the needs in Fairfax County. This might also involve investing in projects through other mechanisms such as a community land trust. Given the costs of developing units for persons with very low incomes, and the fact that other funding sources are available to support development at 80% of AMI and higher, consideration should be given to using the Penny Fund to support the projects that might otherwise not be built.
- **Guiding Principle 1:** *The Fund will be leveraged at least 3:1.*
  - Future issues/considerations: Consideration should be given to identifying additional sources of funding that can be combined with local Penny Fund dollars that may further increase leverage of efficiency; for example state funds through the Virginia Department of Housing and Community Development or the Virginia Housing Development Authority.
- **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.*

- Future issues/considerations: Consideration should be made to establishing a working goal for assistance that will provide a minimum percentage of units in funded development for households with incomes less than 50% of AMI.
- **Guiding Principle 5:** *Under appropriate circumstances, the Fund may be used for new housing production.*
  - Future issues/considerations: Consideration should be given to providing incentives for new construction that meets the unmet housing needs, if projects are feasible, sustainable and affordable and completed in a timely manner.
- **Guiding Principle 7:** *The activity, status and success of the Fund will be well communicated to the Board of Supervisors and the community.*
  - Future issues/considerations: Consideration should be given to institutionalizing the annual review process. The Advisory Committee will prepare an annual report, present it to the Board of Supervisors as appropriate, and hold a community forum to present the uses, success, and need for policy revision of the fund, if any. The Advisory Committee recommends as well that its members play an active role in continuing to educate the public and policymakers about the continued needs and priorities of the Penny Fund and other recommendations of the Preservation Action Committee and the housing needs of our neighbors.
- **Priority 4:** Reduce homelessness.
  - Future issues/considerations: Consideration should be given to using the Penny Fund for homelessness prevention, including potentially single room occupancy (SRO) housing.
- **Priority 5:** Affordable Housing close to work centers and transit.
  - Future issues/considerations: The use of the Penny Fund should be closely coordinated with the work and recommendations of both the High-rise Affordability Panel and the Planning Commission's Transit Oriented Development Committee.

Other future issues/considerations:

- The 1,000 preservation goal will be met; however, how close are to meeting current unmet housing needs in this community? The preservation goal needs to be evaluated and possibly include an annual goal.
- Consideration should be given to whether the Penny Fund should be a primary source of funds for buying down the costs of developing housing affordable at 50 percent AMI and below.
- With continued strong projected job growth in Fairfax County and the region, consideration needs to be given to how Fairfax County will keep pace in the future, and what role will the Penny Fund play in redevelopment plans. This should include how the Penny Fund can be used to address the needs of service workers and others at the lower end of the income range.



# ATTACHMENT

## “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.