

THE FULL COSTS OF WILDEN SENIOR HOUSING **By Linda S. Neighborgall**

Recently a City Council majority voted to increase the real estate tax rate from \$1.07 to as much as \$1.30 -- 19% or more -- and also approved a \$2 million loan to the Falls Church Housing Corporation (FCHC) to develop the Wilden, a publicly-assisted senior housing project. Some members who voted for this deal are seeking reelection this May. It is left to City voters to decide whether the Wilden is the right project, at the right time, in the right place, at a reasonable cost; and whether in approving the project the Council majority was acting in the best interests of the City and its taxpayers.

The Wilden project was justified as necessary to increase affordable housing in the City. However, the Wilden deal will result in a *decrease* in available affordable housing if FCHC's Winter Hill property is sold; and the Council majority did not require that all of the proceeds from any sale be used to repay the loan. Over the long term, the Wilden deal will also tie up affordable housing funds that could be used to create needed workforce housing.

City government officials consistently referred to the cost of the Wilden as a \$2 million loan and downplayed its real costs to City taxpayers. As the Wilden moved toward approval, many felt that the Council never presented a clear, comprehensive explanation of the complex financing deal or the project's actual costs. I've sifted through dense and often confusing, contradictory City documents, and it looks to this layman like the Wilden is far costlier than its proponents let on publicly. In fact, as explained below, the City's "loan" to the FCHC is structured more like an outright grant and appears unlikely to be repaid. This probably explains why the loan is euphemistically referred to in some City documents as a "permanent loan".

Costs to City Taxpayers of the Wilden Affordable Housing Project

\$ 3,080,000. The City will borrow **\$2 million** for a term of 15 years and turn it over to the FCHC and its agent CC South Senior Apartments (hereafter collectively FCHC) to build the Wilden. The City will issue a bond in that amount, which it is legally required to pay off, with interest amounting to an additional **\$1,080,000** over the term of the bond.

- This is money will not be available to use for other financial needs and will negatively impact the City's future borrowing ability.
- Even if FCHC repays the City -- an uncertainty, as shown below -- because of the way loan repayment terms are structured the \$2 million will lose about **\$1.4 million** in purchasing power over its term.

\$ 532,000. The City will borrow this additional amount from a pre-existing, City-managed housing fund to cover the first 2½ years of debt service. This loan from one City fund to another will remain outstanding for 15 or 16 years, after which time the City will transfer \$532,000 back into the pre-existing housing fund. Thus, this money will not be available to earn interest or for other housing-related uses for that period. As well, this additional loan will lose about **\$340,000** in purchasing power during its 15-year term.

\$ 500,000 - \$550,000. The City will allow FCHC to defer payment of utility connection fees, interest-free, during construction until a certificate of occupancy is issued for the completed building. That means that these costs will be absorbed by the general fund until FCHC pays the City back. Without the deferral, the City would have the revenue from utility fees that could be applied to other City needs. The deferred revenue will lose purchasing power over the time of the deferral.

\$ 25,000. The City will pay legal and other costs associated with the \$2 million loan, in this (estimated) amount.

Lost tax revenue: **\$ 74,000 per year** during construction; **\$167,000 per year** beginning in 2012, and likely to increase over time. The commercial property (350 S. Washington) that will be demolished to make way for the Wilden has paid real estate taxes of about \$35,000 per year. The combined effect of the demolition of 350 S. Washington and the projected lost tax revenue from the tax-exempt Wilden means that the city will lose tax revenue of at least \$167,000 annually over the life of the Wilden building (est. 30-40 years -- the exemption is for 15 years and is renewable.)

Offset: The Fiction. City cost projections assume that a new commercial building will be paired with the tax-exempt Wilden and that tax receipts from the new building will partially offset the Wilden's revenue drain. This is a fiction. Costs associated with the Wilden are unique and determinable. The fact that a new building might be erected does not change that. The Wilden will cost what it costs; and any new revenue from any other source, however welcome, does not reduce the Wilden's costs. Is this the City's development policy – canceling out new revenue with tax-exempt projects?

\$ 40,000 per year, the subsidy for City services to the Wilden, including police, fire, general government, refuse collection recreation and parks, etc.

Between \$148,000 and \$253,000 per year, costs related to the post-Wilden conversion of FCHC/Winter Hill properties from senior housing to a mix of assisted housing beginning in 2017, depending on the mix of income-eligible residents, and during its continued operation as tax-exempt subsidized housing. N.B.: This cost must be compared to the current cost of services there, a figure not apparent from documents in my possession.

Lost Opportunity Cost. Locating this residential, tax-exempt building in the middle of a targeted business district permanently eliminates any possibility of consolidating this property with the surrounding land into a comprehensively planned, tax-producing commercial city center.

Loan Repayment Details; Contract Provisions Mitigating Against Loan Repayment

The financing agreement establishes something more like a grant or outright gift, rather than a loan. It's complicated, but here's how it appears to work.

First, the definitions of two terms in the financing agreement must be understood:

-- "*available cash flow*," defined as "the difference between project [income] and *Senior Payments*";

-- "*Senior Payments*" means, in essence, that the City's right to be repaid by FCHC is limited by the Wilden's operating expenses and is also subordinate to (less than the rights of) 6 other creditors with a higher legal priority to any *available cash flow*. In other words, the City is 7th in line for repayment. Moreover, once the FCHC pays the Wilden's operating costs and the 6 high-priority creditors, only 50% of any remaining *available cash* can be used to pay the City.

The agreement specifies that repayment by FCHC will be made from "*available cash flow*," as defined above. Bear in mind that the Wilden is a low-income, tight budget, non-profit venture

that, by definition, is not likely to have much in the way of “available cash flow.” This appears to be a pretty big obstacle against repayment to the City by FCHC.

And here’s the real kicker: The financing agreement provides that during the 15-year term of the loan, if FCHC does not have enough *available cash flow* to make scheduled debt service payments to the City, the debt service will be paid from the City’s general operating fund, that is, the taxpayers. A City document notes that if the City general fund gets stuck for any FCHC debt service payments, such moneys “**could be** [but presumably may not be] returned to the general fund upon full loan repayment. This ambiguity is not addressed in the [financing] Agreement.” (Emphasis added.)

The City, not the FCHC, is legally required to repay the loan annually. According to the financing agreement, and assuming that FCHC has any “*available funds*” left after all other expenses and priority debt obligations, FCHC will pay debt service to the City annually in stipulated amounts.

Assuming that FCHC actually makes the annual payments stipulated in the financing agreement, the City is legally required to pay debt service in far greater amounts than the money it will receive from FCHC. The difference between the City’s required payments to bondholders and the scheduled FCHC debt service payments to the City is shown on the following chart (starting in year 2012, when the \$532,000 loan from the existing City housing fund has been consumed). By 2026, the City will have paid out **\$ 2,913,000** on the principle and interest of the loan; FCHC will have paid **\$ 868,749** to the City.

Year	City’s legal repayment obligation to Bondholders	Projected FCHC repayments to City, only if cash is available
2012	\$ 66,667	\$ 31,406
2013	264,000	34,764
2014	254,667	38,148
2015	245,333	41,558
2016	236,000	46,441
2017	226,667	51,910
2018	217,333	55,393
2019	208,000	58,887
2020	198,667	82,388
2021	189,333	62,389
2022	180,000	65,894
2023	170,667	68,400
2024	161,333	72,902
2025	152,000	76,395
2026	142,667	79,874
Subtotal	\$ 2,913,000	\$ 868,749
Final payment	166,667	2,211,251
TOTAL	\$ 3,080,000	\$ 3,080,000

Once the loan is fully repaid by FCHC to the City, if it is ever repaid, the City is obligated to return to the pre-existing affordable housing fund the **\$532,000** it borrowed to cover the cost of the first 2 years of debt service on the Wilden loan. Note, too, that FCHC’s final payment of \$2,211,251 assumes FCHC refinancing of the Wilden property in year 16 with the final payment paid from the proceeds. Recent experience in both the housing and commercial real estate markets suggests that such an assumption may be risky.