

# Affordable Rental Housing Incentive Program (ARHIP)

## I. Introduction

The Affordable Rental Housing Incentive Program (ARHIP) aims to support the construction or preservation of affordable rental housing units in Albemarle County's Development Areas. The incentive program is supported by an increase of property tax revenue to Albemarle County generated by an incentivized project, and may be provided to affordable housing projects that achieve one or more of the affordable housing objectives outlined in *Housing Albemarle*. All incentive awards are approved by the Albemarle County Board of Supervisors. Incentive awards are disbursed in annual or bi-annual installments only after all real estate property taxes have been paid.

## II. Program Goals

- A. Support the creation of affordable rental housing units;
- B. Support the construction of residential rental projects in which 100% of the residential rental units are provided as affordable housing;
- C. Stimulate the inclusion of affordable rental housing in projects where affordable housing may not otherwise be made available;
- D. Support the preservation of existing units of affordable rental housing through rehabilitation of those units;
- E. Leverage market activities to advance the goals of *Housing Albemarle*; and
- F. Provide transparent and accountable stewardship of public investments.

## III. Fiscal Approach

The ARHIP is supported by the net increase in property tax revenue generated by the project receiving incentive funding. The total amount of incentive funding to be provided each year will be equal to 10 percent of the property's real property tax increment provided that at least 20 percent of the total residential units on the property are provided as affordable housing in conformance with the requirements outlined in *Housing Albemarle*.

Disbursements will only be made if Albemarle County taxes for the project area are paid in full, the Albemarle County Board of Supervisors has approved a rezoning of the project site (if applicable), and the project maintains compliance with the County's affordable housing requirements. The maximum term for the incentive is 30 years from the date a Certificate of Occupancy is issued.

## IV. Program Requirements

Staff consults with applicants to determine whether a prospective project qualifies for funding under the ARHIP based on the eligibility criteria outlined below. If staff determines a project does not qualify for the incentive, staff will not recommend to the County Executive's Office that the project be considered.

Applicants should contact the Albemarle County Office of Housing via email at [ADU@albemarle.org](mailto:ADU@albemarle.org) to establish whether a proposed project qualifies. Qualifying projects may be eligible for incentive funds, but are not entitled to receive funds. The amount of incentive offered, if any, is at the sole discretion of the Board of Supervisors.

Approval of an application under the ARHIP does not grant a project vested rights for development or grant any third-party benefit. The Board of Supervisors reserves the right to set priorities among applications under consideration. The Board may reject an application if it does not provide the information requested, or if circumstances change. The Board may offer other incentives for projects such as infrastructure investment, matching funds, or the like.

Projects falling outside of the incentive program parameters will be considered on a case-by-case basis.

All Affordable Rental Housing incentives are subject to a written and signed performance agreement.

#### **A. Eligible Projects**

To be eligible for an Affordable Rental Housing incentive, the proposed project must meet the following general eligibility criteria:

1. Eligible projects must have proposed new construction, an addition to an existing structure, conversion of an existing non-residential structure to residential units, or the substantial rehabilitation of an existing affordable multifamily structure.
2. Eligible projects must have at least 11 residential rental units.
3. Eligible projects must be located within one of Albemarle County's designated Development Areas.
4. The applicant must own or have site control of the eligible project site.
5. If the proposed project is not a by-right development, an applicant's rezoning application must be approved by the Board of Supervisors.
6. At least 20% of the total residential rental units in the eligible project must be offered as affordable housing as defined under *Housing Albemarle*.

#### **B. Rental Project Requirements**

In addition to the general eligibility criteria outlined above, proposed projects that include affordable units for rent must meet the following additional criteria:

1. **Financial need** - Applicant's pro forma must demonstrate that the tax incentive is necessary in order to provide affordable (as defined below) rental units in the project.
2. **Affordability requirements** - The applicant must make at least 20% of the total number of units in the project available to households with gross incomes no greater than 60% of area median income (AMI) as determined by the U.S. Department of Housing and Urban Development and adjusted by household size.

The maximum rents for affordable rental units must be determined by multiplying the AMI by the factors in the found in the table below for the appropriate unit size for each affordable rental unit provided. The factors include an allowance for tenant provided utilities.

Unit Size	Factor
Efficiency	0.009479
1 bedroom	0.010833
2 bedroom	0.013542
3 bedroom	0.016927
4 bedroom	0.018958
5 bedroom	0.021802
6 bedroom	0.024646

3. **Distribution of Affordable Units** – The affordable rental units must be equally distributed within the development and within buildings. The mix of affordable unit styles, square footage, and number of bedrooms must be equal to or greater than the mix of market rate units. Affordable units may float within an eligible project to ensure the required percentage of each affordable unit type is maintained throughout the compliance period.
4. **Affordability Compliance Period** – Rental units designated as affordable must remain affordable for a period of 30 years. The applicant must record a covenant running with the land in favor of the County, which provides that for 30 years from the date of issuance of the first Certificate of Occupancy for the ADUs that:
  - No ADU may be rented for an amount that exceeds the limits set by the Albemarle County Office of Housing;
  - The covenant is senior to all instruments securing permanent financing; AND
  - The covenant is binding upon all assignees, mortgagees, purchasers and other successors interest.
5. **Consistency with Comprehensive Plan** – The applicant’s project must be consistent with the land use recommendations of the Comprehensive Plan.

## V. Application Requirements

Complete applications must include the following information, and all supporting documentation as described below:

### A. Application Form

The application form must be completed in its entirety, and signed by the applicant. The project information to be provided on the form includes the following:

1. Project name; contact name, title, organization, contact information, and signature;
2. Estimated total amount of incentive funding requested;

3. Total number of residential units broken down by size and unit type;
4. Total number of affordable units broken down by size and unit type;
5. Type of project (new construction, conversion, rehabilitation, acquisition for preservation);
6. Proposed rental prices of the affordable units.

## **B. Project Narrative**

The project narrative should be no more than three pages, and must include the following information:

1. A description of the existing site and use of the existing property including, if appropriate, a justification for the elimination of existing sound and rehabilitable housing.
2. A description of the proposed project including site location, neighborhood characteristics, access to transportation options, community amenities to be provided or that are located within  $\frac{1}{4}$  mile of the project site.
3. A description of the type of construction materials to be used.
4. A description of the accessibility features to be included, or how units may be adapted to meet future accessibility requirements.
5. If the existing site includes occupied residential dwelling units, a description of any relocation support services to be offered to existing residents.
6. A description of how the proposed project will meet the objectives of *Housing Albemarle*.
7. Outline of the project schedule.
8. A description of the ownership structure of the proposed project, and declaration of any mutual identity of interest between the applicant, the construction contractor, or property management company.

## **C. Financial Information**

1. Development budget with detailed project costs;
2. Budget sources and uses;
3. Three different 30-year pro forma operating cash flow scenarios (income and expense analyses)
  - a. Scenario 1: affordable units *without* the incentive– demonstrate 10-year average cash on cash return<sup>1</sup>.

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<sup>1</sup> Cash-on-cash return, or the cash yield, measures the cash income earned on the cash invested in a property.

- b. Scenario 2: affordable units *with* the incentive – demonstrate 10-year average cash on cash return.
  - c. Scenario 3: showing the necessary *increase in unit rents* (from Scenario 1) to achieve the same cash on cash return as with the incentive (Scenario 2).
4. Rent structure, by unit type. If the rent structure has varying rents within unit types (e.g., multiple rent levels for 1 bedroom units), include a roll up of total count by unit type.
  5. Demonstration of how real estate taxes without the exemption were determined.
  6. Demonstration of each component of the applicant's equity including invested cash and any deferred fees.
  7. Economic feasibility, market analysis, or evidence of cost comparisons when appropriate.

#### **D. Supporting Documentation**

1. Conceptual site plan and supporting maps.
2. Initial schematic or architectural drawings of floor plan(s).
3. Documentation of site control and supporting materials including:
  - Property tax printout for all parcels showing tax account numbers and legal descriptions; and
  - Copy of deed
4. Copy of market study provided to senior lender for the project.

#### **E. Additional Information**

Such other information that is reasonably necessary.

### **VI. Application Approval**

#### **A. Review of Program Requirements**

The Albemarle County Office of Housing (ACOH) will determine if applications meet the program and application requirements.

If an application is complete and meets program requirements, the ACOH will work with the applicant to draft a term sheet for the incentive.

#### **B. County Executive Review**

The County Executive will review applications and make recommendations for moving applications forward for public hearing.

#### **C. Final Approval**

The Board of Supervisors has the final approval of all incentive requests. The Board may accept or reject the application, or may approve the application with suggested modifications.

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#### **D. Execution of Agreement**

Following approval of the application, staff will prepare, or cause to be prepared, an ARHIP agreement. The agreement must be fully executed by all parties before incentive funds can be disbursed.

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