THE LONG AND WINDING ROAD

A Case Study

About the Development of

Chesterbrook Residences

Prepared by

Chesterbrook Residences, Inc.

Through the Sponsorship of

Virginia Housing Development Authority

June 1, 2008

THE LONG AND WINDING ROAD

A Case Study

Chesterbrook Residences, Inc.

Table of Contents

Acknowledgments……………………………………………………………………i

Foreword………………………………………………………………………….ii

Frequently Used Acronymns…..………………………………..…………………iii

Timeline…………………………………………………………..…………………iv

Chapter 1: The Non-profit Sponsor/Developer….……………………………………..1

Chapter 2: Land Costs and Site Control ...…………………………………………… 6

Chapter 3: Financing the Project……………………………………………………9

Chapter 4: Fundraising, the Capital Campaign…………………………………...15

Chapter 5: The Development Process………………………………………………19
Interviews with Development Team Members

Appendices

A. CRI Q & A
B. Elements of a Market Study
C. Sample Development Consultant Agreement
D. The Final Mile Campaign Materials
E. Closing Checklist from General Contractor
F. teps in a Negotiated Bid Process
G. The Architect's Responsibilities
H. The Decision to Build
I. Comments from CAALF/CRI Members
J. Sample Documents from the Site Plan Process
K. Comments fromWSSI on Development near Streams and Adequate Outfall

Acknowledgments

The Board of CRI wishes to thank the following individuals and organizations for their contributions in making this case study possible.

Financial Support

Virginia Housing Development Authority

Interviewees

Bill Harris, Project Coordinator and Development Consultant
Jim Edmondson, Chairman of the Development Committee of CRI
Neal Nealis, CRI Board Member and its construction monitor
Bruce Nassimbeni, Environmental and Facilities Review Division Director, Fairfax Co.
C. Lee Fifer, Esq., Land Use Attorney, McGuire Woods LLP
Sheri Hoy, Land Use Planner, McGuire Woods LLP
Michael Ballantyne, Vice President, Coordinated Services Management
Frank Graziano, Wetlands Studies and Solutions, Inc. (WSSI)
Logan Schutz, Grimm+Parker, Architect
David Whale, Grimm+Parker, Architect
Ben Plummer, Grimm+Parker, Construction Administrator
Mike Ebrahimi, Vice President, Harkins Builders
Larry Kraemer, Vice President, Harkins Builders
Mike Mallow, Project Manager, Harkins Builders
Judy Seiff, CRI Board Member, TRS
Roland McElroy, Co-Chair of the Final Mile Campaign, LPC
Dick Curry, CAALF volunteer, IPC
Gene Blanchard, CAALF volunteer, LPC

Authors and Editors

Jerry Hopkins, President, CRI
Jane Edmondson, **Secretary, CRI**
Jim Edmondson, CRI Development Committee Chair
Michael Crescenzo, Development Consultant

The Long and Winding Road

Foreword

In late 2000, the National Capital Presbytery (NCP) asked the members of Lewinsville Presbyterian Church (LPC) in McLean, Virginia to explore a seemingly simple and worthy idea: the feasibility of developing an affordable assisted living facility on a five-acre parcel of land owned by Chesterbrook Presbyterian Church (CPC). The church, whose membership was elderly and declining in numbers, was preparing to disband and wanted to leave a gift of some type of affordable housing for the elderly in McLean and Falls Church. NCP (the owner of the CPC property) asked the LPC congregation to lead this feasibility study because of its experience and success in developing the Lewinsville Retirement Residences adjacent to LPC. LPC tapped its wealth of active members, many of whom had experience in real estate development, the law, civic affairs and financing, and found a group of volunteers who agreed to explore this mission-based goal.

The volunteers who called themselves the Chesterbrook Affordable Assisted Living Task Force (CAALF) began a journey that challenged their resolve and their faith commitment. In November 2007, seven years after NCP's request, Chesterbrook Residences opened its doors to the elderly of McLean, Falls Church and the rest of northern Virginia. The journey of the CAALF members and later its formal successor, the Board of Chesterbrook Residences, Inc. (CRI), which had been enlarged to include two other faith communities, Temple Rodef Shalom (TRS) and Immanuel Presbyterian Church (IPC), was long, hard and emotionally draining. It was a journey that was always "two steps forward and one step backward" as obstacles arose from every direction to test the will of the volunteers to persevere.

But persevere they did and many lessons were learned along the way. To assist others in the faith and/or non-profit community who desire to create assisted living facilities for the elderly, the Board of CRI prepared this case study about its experience. Thanks to generous financial support from the Virginia Housing Development Authority (VHDA), CRI can share the lessons learned so others won't have to "wander in the wilderness" for as long as CRI before realizing its goal of opening the doors to a marvelous community asset.

The Long and Winding Road
Frequently Used Acronyms

A&E	Architect
AHPP	Affordable Housing Partnership Program
BOS	Board of Supervisors
BZA	Board of Zoning Appeals
CA	Construction Administrator
CAALF	Chesterbrook Affordable Assisted Living Task Force
CE	Civil Engineer
CM	Construction Manager
CPC	Chesterbrook Presbyterian Church
CRI	Chesterbrook Residences, Inc.
CTPC	Chesterbrook Taiwanese Presbyterian Church
DHCD	Department of Housing and Community Development
FAR	Floor Area Ratio
FC	Fairfax County
FCHRA	Fairfax County Housing and Redevelopment Authority
FCPA	Fairfax County Park Authority
GC	General Contractor
IPC	Immanuel Presbyterian Church
LPC	Lewinsville Presbyterian Church
NCP	National Capital Presbytery
PC	Planning Commission
PFM	Public Facilities Manual
SE	Special Exception
SWM	Storm Water Management
TRS	Temple Rodef Shalom
VDOT	Virginia Dept. of Transportation
VHDA	Virginia Housing Development Authority

THE LONG AND WINDING ROAD

<u>Chesterbrook Project Timeline</u>

Presbytery Action to Make Land Available	January 2001
CAALF Formed to Examine Project Feasibility	February 2001
Land Use Attorney Engaged	March 2001
Land Engineer Engaged for Yield Study	March 2001
First Meeting with District Supervisor	April 2001
Tier 1 Application Submitted	April 2001
CRI Incorporates as Non-Profit	April 2001
Comprehensive Plan Nomination Submitted	October 2001
Market Study Completed	January 2002
Tier 1 Grant/Loan Approved	January 2002
Financial Consultant Engaged	March 2002
Project Coordinator Engaged	April 2002
501(C)(3) Application Submitted	April 2002
Project Architect Engaged	June 2002
Civil Engineer Chosen and Engage by Architect	June 2002
General Contractor Engaged	June 2002
Management Company/Interior Design Firm Engaged	June 2002
Financial Consultant Reports Feasibility	July 2002
CAALF Makes "Go" Decision on Initial Feasibility	July 2002
CAALF Decides to Proceed with SE/Land Use Approval	July 2002
Planning Commission SE Application Submitted	April 2003
Feasibility Reported to Presbytery	July 2003
Recommended Approval by Health Care Advisory Committee	October 2003
CRI Reduces Units To 97 and Also Width Of Building (Accepting Planning Commission Staff Recommendation)	November 2003
CCFP Application Submitted	December 2003
Tier II & Tier III Funding Applications Submitted	January 2004
CRI SE Approved by Planning Commission	February 2004
BZA Approves SE	February 2004
Development Consultant Engaged	April 2004
CRI Receives BOS Land Use Approval and SE	April 2004
Land Lease Executed Between NCP and CRI	June 2004
Tier II Loan Approved	June 2004
CCFP Grant Approved	June 2004
Approval by Board to Submit 202, 811, 232 Apps	June 2004

Approval By Board to Seek VHDA Financing	July 2004
Pre-Development Loan Secured from United Bank	July 2004
Riley Mortgage Engaged as Mortgagor for VHDA Loan	September 2004
Board Decides To Conduct Its Own Fund Raising Campaign	December 2004
Admissions and Residency Policies and Procedures Adopted	December 2004
VHDA Includes CRI Project in Bond Resolution	December 2004
CRI Submits Its Site Plan for Approval	January 2005
Final Mile Capital Campaign Begins	February 2005
CRI Submits Its Architectural Plans for Building Permits	March 2005
Tier III Loan Approved By FCRHA and BOS	April 2005
Section 8 Project Based Vouchers Approved	October 2005
Increased Tier III Loan Amount Approved	November 2005
CRI Closes Its VHDA Loan	November 2005
Repayment of Tier II Grant/Loan	December 2005
Site Plan Approval Issued and Building Permits Released	January 2006
VDOT Permits Secured	March 2006
Tier III Loan Closed with FCHRA	March 2006
Fairfax County Pre-Construction Meeting	April 2006
Groundbreaking	May 2006
Phases I and II Of Site Plan Completed	June 2006
Start Of Construction	July 2006
Approval Of Increase Of VHDA Loan	November 2006
Request To County For Additional Tier III Funds	November 2006
Marketing Begins	January 2007
Replacement Development Consultant Engaged	January 2007
Governor’s Budget Approved with Grant For CRI	March 2007
Request to VHDA for Additional Loan Amount	April 2007
Approval of Increase Of Tier III Funds	July 2007
Approval of Increase Of VHDA Loan	September 2007
Construction over; Use & Occupancy Certificate Issued	October 2007
Occupancy of Chesterbrook Residences Begins	November 2007
Receive Additional Tier III Funds	December 2007
Dedication Of Building	February 2008

Chapter 1

The Nonprofit Sponsor/Developer

Form an exploratory task force. Once the possibility of becoming a sponsor and developer of an assisted living facility or other affordable housing development has surfaced, it is important to create an exploratory team to determine the feasibility of the project of the idea or dream. This exploratory team may be comprised of individuals who understand the conception or dream. Second, some of these individuals, if available in the congregation or congregations, should have some expertise in land development or building accounting, legal, and public relations experience. It is important that each of these participants understands that there may be conflicts of interest if they wish to become the developer, attorney, etc. for the sponsor. If any of the exploratory team or potential exploratory team members wish to have a professional role in the development of the project, then it is better that they not serve as team members, but rather offer their assistance as paid or pro bono advisors to the team. This is very important in maintaining the integrity of the exploratory team in the eyes of the sponsoring congregation(s) and their members and the community at large.

This exploratory team will need two foci. The first is a clear mission statement. The second is a work plan for determining feasibility.

> **CRI Background:** The pastor of Lewinsville Presbytery Church (LPC), acting on behalf of the Session of LPC (which had responded positively to a request by National Capital Presbytery (NCP) that LPC undertake a feasibility study to determine if the back five acres of the Chesterbrook Presbyterian Church might be developed for an assisted affordable living facility and a day center for individuals suffering from Alzheimer's), individually met with about a dozen individuals to ask if they might be interested in becoming members of the task force to undertake the request from NCP. Included among those individuals was an affordable housing developer, a contract lawyer, a tax lawyer, a former member of the local housing authority, a nurse, a community activist, and a number of people for whom the dream was exciting.
>
> (Representatives from the Alzheimer's Family Day Center were included on the task force. However, after six months, it became apparent that there were not funding programs available that would permit the development of the Day Center. Thus, its inclusion was not pursued.)
>
> The task force organized itself. One of the volunteers agreed to be the coordinator for the group acting as the task force's "volunteer" staff person giving his time to attend to task force logistics, attend meetings on the task force's behalf, and undertake certain other research activities. The coordinator spent about 15 – 20 hours a week on task force work.

(In the third year, the initial coordinator moved and one of the other task force members took over this responsibility. Additionally, the pastor of LPC chose a moderator of the task force who was able to work with the coordinator and focus upon preparation for the regular meetings of the task force. The task force adopted as its mission the request from NCP, namely, to determine within 18 months the feasibility of using the offer of "free" land on the Chesterbrook property for affordable assisted living and an Alzheimer's day center. It elaborated upon this task by emphasizing "affordable" because the task force was convinced that the market was and would take care of the need for market-rate assisted living facilities. Unless these units were for people who were not served or greatly underserved, the task force believed that the religious organizations involved should not expend time to compete in a market already adequately served.

It then embarked upon a two-pronged work plan—to learn about assisted living and to determine development feasibility. The first prong required research, both reading and conducting interviews with operators and others knowledgeable about assisted living. The second prong was the exploration of all of the traditional areas that a builder developer would study before deciding to build a structure. The items included engineering studies, planning and zoning restrictions on the land, needs analysis (in this case, affordable assisted living), financing of such a facility, and political and neighborhood reaction. Once the tasks were laid out, members were given assignments to complete and share with the task force for decision making. During the process outside advisors were engaged either on a fee, reduced fee, or pro bono basis.

After the initial meeting of the task force, representatives from other congregations were invited to join the task force. Ultimately four other congregations sent representatives, however, only two other congregations became full, long term participants—Temple Rodef Shalom and Immanuel Presbyterian Church.

Corporate Structure: There will come a time when the exploratory team will be faced with the issue of whether to incorporate as a sponsor/developer or use another entity that already exists. This decision may be rushed by requirements of funding entities rather than determined at the completion of feasibility.

The choices facing the exploratory team about incorporation are very narrow. The first issue is whether the corporation should be profit or nonprofit. The answer to this is easy—nonprofit. Since this entity will be formed by a religious or community organization, and since there are a number of financial advantages available to a nonprofit in developing affordable housing, the only choice is a nonprofit corporation.

One may elect to become one of two types of nonprofit corporation in Virginia. The first type is a membership organization in which there are individual or organizational members. The charter defines who may be a member and what the requirements of membership are. The members elect the Board of Directors. The second type of organization is a no- membership corporation

or a membership organization in which the members have no voting rights. The Board of Directors is a self-perpetuating Board of Directors nominating and electing its successors.

Incorporating as a nonprofit corporation does not result in becoming a nonprofit corporation exempt from federal or state taxes. To become a nonprofit recognized by the Internal Revenue Service (IRS) as an exempt organization, the nonprofit corporation must apply for and be granted this status by IRS. The type of nonprofit exemption needed for a nonprofit sponsor/developer is a 501(c)(3) under the Federal Internal Revenue Code. There is also an exemption process that must be filed with the Commonwealth to become exempt from Virginia sales tax. In addition, exemption from real estate taxes must be granted by the local jurisdiction (county or city).

> **CRI Background:** The task force discovered that the feasibility study would require significant funds to obtain the professional and technical advice and information needed. Fairfax County Department of Housing and Community Development (FCDHCD) and Fairfax County Redevelopment and Housing Authority (FCRHA) offered nonprofit corporations grant/loans of up to $100,000 for feasibility studies for the development of affordable housing. The task force decided to incorporate and seek tax-exempt status to be eligible for a grant/loan. Consequently, it created and incorporated Chesterbrook Residences, Inc. after four months of study--earlier than it might have had the funds not been available. It immediately filed for tax-exempt status from the IRS.
>
> CRI elected to be a membership organization. Originally, the membership was the membership of the LPC which elected the Board of Directors. Several years later, the charter was amended so that each participating congregation or group would be named a member. The member congregations name three representatives to attend the annual meeting at which the Board Members are elected. In addition, NCP as the donor of a 75-year lease on the land to CRI for $1 per year has a designated seat on the Board. Membership remains open subject to invitation and approval by the other membership organizations.

Advocacy Tips: From the very beginning, the Task Force/Board will need to view itself not only as the Sponsor/Developer but as the primary advocate for the development. The advocacy will have three primary targets: the supporting congregations or organizations and their members, the neighborhood and larger surrounding community, and the various appointed and elected boards that will make decisions about land use of the development. With all three targets, the primary preparation is research and reporting decisions about the development with supporting data. Below is a list of advocacy points (with tips included) at which the Task Force/Board will need to take specific actions. Unlike the two sections above, the CRI history will not be presented, but rather only the lessons learned from the process that started with the formation of CAALF to the opening of the doors for residents.

> **Formation of Task Force and Work Plan:** At the conclusion of developing the work plan, inform the supporting congregations/organizations and their members about the

work plan and expected time frame for accomplishing the tasks. This is a good time to recruit new members for the Task Force from the supporting congregations/organizations with the commitment, skills, and knowledge needed to undertake the work of the Task Force/Board.

Going Public Part 1: This is a two-part process. First, contact the appropriate elected and appointed individuals representing the community in which the development is planned (i.e. Member of Board of Supervisors, Planning Commissioner, Housing Authority Commissioner, Health Care Advisory Committee Member, etc). This will enable the Task Force/Board to determine the receptivity of these individuals to the concept. Also, it will allow the Task Force/Board to discover what processes are required by and what resources are available through the local government. Once these local elected and appoint officials are informed of the concept, it is time to determine who are the naturally predisposed elected officials in the jurisdiction and seek their support and assistance. The Task Force/Board will need to identify "champions" among these elected officials who will help publicly and behind the scenes and use their influence with other elected, appointed officials, and departments within the local government. It is always best if the local elected official in which the development will be located is the "champion;" however, that is not always possible.

Going Public Part 2: The second part of going public is to share information about the development with the "neighbors." This sharing can include the leaders and/or members of homeowners associations. Be prepared for opposition. There are two causes of the opposition: not wanting change in the neighborhood and the fear of "affordable" housing. The timing on this is difficult. If the Task Force/Board waits to have the full details of the planned development, it runs the risk of being accused of hiding what is being planned. If it shares the concept early on, the Task Force/Board runs the risk of being accused of not being prepared and not knowing what it is doing because it does not have all the answers. It is probably better to err on the early side, because neighbors will hear about it. It is better to frame the manner in which they hear, even though it is only a concept that you may be sharing.

Listen to all questions raised by both publics. These are issues to which you will want to have the answers when you are at a point of applying for land use changes. It is important to have a special committee that is working specifically on community relations and keeping the above publics informed as the development planning and the building progresses.

Application Submittal: Tthe time between when the application for the land use change is submitted until it is approved by the elected board is the most critical time of advocacy. With the submission of the application, the special committee should have assembled the "story" of what is planned, the process for achieving the development, and the means for assuring that it will be achieved. The most critical tool is to develop a set of facts in a

question and answer format that anticipates every possible question that might be asked about the development. The answers need to be clear, succinct, accurate, and complete. The answers must be agreed upon, known, and understood by all Task Force/Board members and development team members. See Appendix A, CRI Q & A which was first developed March 15, 2002 and updated as needed.

Going Public Again: When the application submittal is ready, begin meeting with elected and appointed officials that will be making the land use decisions that will allow the development to proceed. Meet with each elected official and each appointed official that will be part of the decision making. Task Force/Board Members (2 – 3) and any supporting congregation/organization members who may have a relationship with these officials will need to meet face to face with the official to share the dream and the plan. The architect and attorney will also be a part of those meetings. Simultaneous with these meetings, arrange for meetings with the congregations/organizations to share the plans and to let the members know that they will need to write letters, send emails, and make telephone calls to elected and appointed officials in support of this application. Concurrently, the community relations committee needs to meet with neighborhood and community homeowner's association groups and with community groups that are advocates for affordable housing, the elderly, long term care, etc.

The Campaign: Prior to the hearings at which appointed and elected officials will make decisions on the proposal, develop a well-organized campaign which includes developing the "champions" among the elected officials, preparing suggested letters of support for the development at the public hearing, lining up pro-development speakers for the public hearings, getting articles published in the local newspapers, and whatever else works in the jurisdiction in which the development is proposed. There are never too many letters or public hearing speakers.

After the Development is Approved: Advocacy takes on two forms. One is keeping the supporting congregations/organizations and the neighborhood groups informed of what is happening on a regular basis. The second is to call upon the elected officials who are "champions" when assistance is needed in moving through the bureaucracy that must now approve site plans, building permits, subsidies, etc. Weigh carefully how and when to best to use these "champions" based upon the political sensitivities that often are unspoken but abound.

After the Development is Completed: Celebrate! Acknowledge all who helped in moving the development forward to completion.

Chapter 2

Land Costs and Site Control

Developing any affordable housing is difficult; developing affordable assisted living facilities is extremely difficult without land that is available to the sponsor/developer for “free” or nearly for free. The reason for this is quite simple from an economic perspective. Housing development is a very capital intensive undertaking, and the elimination of any major aspect of the capital costs makes the project more feasible especially if the goal is to develop affordable housing for the elderly. For CRI this was the only goal. A land cost that is $0 or as close to $0 as possible is important for any sponsor/developer anywhere, but it is especially critical in high cost areas such as Fairfax County, where land costs can comprise as much as 30-35% of the capital costs for the project.

CRI was fortunate to have the donation of the land from NCP for $1 per year in the form of a ground lease. This enabled CRI to eliminate the land cost from the capital costs of the project, and it created a “partnership” relationship between CRI and NCP that was necessary for the project’s success, as NCP became as invested in Chesterbrook Residences as CRI was itself. Any potential sponsor/developer that is in the feasibility stage of the development process must know that it will have zero or minimal land costs before proceeding deeper into the feasibility process and the expenditure of funds on that feasibility. Where can this free land come from? It can come from the government via surplus land disposal, from a donor, or in a land swap from a major development project, but the most likely source of the free land in the case where a faith community is the sponsor/developer will be a church or ecclesiastical authority that is committed to the goal of the sponsor/developer. There is no question that without the participation of NCP as the land donor, the doors of Chesterbrook Residences would never have opened in 2007.

Lesson for Sponsor/Developer: Do not undertake the feasibility analysis and the expenditure of funds without a commitment of an available site that will be free or nearly free.

Besides the elimination of a major capital cost, “free land” gives the sponsor/developer an asset that can be used later in the development process as collateral for the loan(s) that will be necessary in the pre-development period to pay for legal fees, mortgage applications, consultants, architectural, and engineering fees as well as loan fees and governmental fees related to water and sewer service as well as many other costs that are part of the overall development budget. Even “grants” and loans from governments, such as the sources of funds CRI received from Fairfax County, were easier to secure because CRI had an asset that could serve as collateral. CRI used its free land which was appraised at nearly $2,000,000 to secure its largest source of capital prior to closing on its construction/permanent financing with VHDA, which was a line of credit with United Bank in the amount of $1,000,000. This line of credit enabled CRI to proceed through the pre-development period quickly and efficiently, as it was always able to pay its bills for the services necessary to get to it construction closing. While there were many issues that delayed the closing of the mortgage loan with VHDA and the start of construction, the lack of capital was not one of them. Such was the relationship that CRI developed with United Bank that the pre-development line of credit was actually increased to $1,200,000. In the end United Bank had extremely secure collateral in the form of the land, which was unencumbered by any mortgages allowing it to be sold easily if the project failed. Further,,the use of private capital to pay for pre-development costs afforded CRI the luxury of

not having to seek other pre-development loan/grants from Fairfax County. (CRI actually used its pre-development loan to pay off two small loans from the County.) This eliminated a time consuming process with many strings attached that would have would have been a detriment to the development process and would have absorbed valuable time of both the CRI Board and its development consultant.

Lesson for Sponsor/Developer: Use the land aggressively to secure private financing for the pre-development costs.

While there is no question that the free land from NCP made the project feasible, there is a difference between free land and real site control. In this area CAALF/CRI did not fare as well. The Chesterbrook Presbyterian Church's (CPC) approximately 9-acre site was divided into three sub-parcels. Parcel A, about 4 acres, housed the church/educational buildings. Parcel C was the undeveloped 5-acre site "behind" the church which was to house the assisted living facility; and Parcel B was a strip of land that bordered Longfellow Middle School and provided the access from Westmoreland St. to the landlocked Parcel C. To navigate the land use process in Fairfax County as efficiently as possible and to have the most options available to deal with County, VDOT and neighborhood issues about the planned facility, CRI needed site control that would allow it the greatest level of flexibility.

CAALF/CRI asked NCP to make certain that the volunteer sponsor/developers would have clear authority to control all three parcels during the entitlement and development process knowing full well that there would be issues to negotiate with County officials during that period. CAALF/CRI proposed to have this clear control over the entire site only until the assisted living facility was built at which time it would relinquish control over Parcel A, the church site. NCP chose not to take this approach and with the encouragement of CPC decided to grant the use of Parcel A to the Chesterbrook Taiwanese Presbyterian Church (CTPC), a congregation that had been without a permanent location for a decade. Further, the assignment of use for Parcel A was ambiguous enough to give CTPC the impression that it held the parcel "free and clear", a reality that never occurs in land use assignments by the Presbytery over its land. The ambiguity was further extended to the control of Parcel B (control staying with NCP and going to neither CAALF/CRI nor CTPC) but which parcel was critical to the development of Parcel C. The lack of clarity over site control caused major issues between CTPC and NCP that took nearly four years, finally being resolved in the courts of the Presbyterian Church; but it also hampered CAALF/CRI in its dealings with the County and VDOT in the land use approval process.

The control dispute also became public and was a sore point when CAALF/CRI was trying to convince the Planning Commission and Board of Supervisors to grant approval for the land use application as some of the neighbors opposed to the project used the church dispute as "evidence" that CAALF/CRI was trying to force the project on the small, minority Taiwanese church. While NCP never wavered in its support for the project and won at all the levels of the ecclesiastical courts in its disagreement with CTPC, the dispute cost time (a year) and distracted NCP from dealing in a business-like manner with CRI on its land lease for Parcel C. NCP left the negotiation of the land lease to its attorneys without direction as to the basic business terms of the deal between itself and CRI. The result for both CRI and NCP was very high legal fees for a land lease in which the two principals had no real disagreements about the deal terms.

Lessons for the Sponsor/Developer:

1. Even if the land is "free," gain unambiguous control of the land during the development process.
2. Make sure that the business terms of the land deal are clear between the principal parties whether it is a long-term lease or outright grant of the land. Input about the terms should be solicited from members of the sponsor/developer's team such as the land use attorneys and business people as well as the business people from the donor institution.
3. The donor institution should delegate as much authority as possible to execute documents that are routine parts of the entitlement (land use approval) process to the sponsor/developer or to a land trust created by the sponsor/developer. This will greatly reduce time delays associated with obtaining authorized signatures for items such as easements, which are central to the land use approval process.

Chapter 3

Financing the Project

A sponsor/developer must be prepared to fill four types of capital needs for the project if it ever expects to move from the goal/mission stage to feasibility to predevelopment to construction and ultimately to a grand opening.

The first type of capital is **seed money**, which will be used for start-up costs such as the initial feasibility analysis, a market analysis and legal fees. This money might be in the form of short term loans, grants or even long-term equity, but the nonprofit sponsor/developer must look to itself and its congregation(s) or organization for this initial capital. This is the most "at risk" money, and there should be few, if any, expectations that it will be recovered or repaid. The willingness of the sponsor/developer and/or its supporters to put up these funds is important for a number of reasons. First, it signals a commitment by the sponsor/developer and its members to the project even if the commitment is only through the feasibility analysis. Second, it signals to others, particularly the public sector, that the sponsor is serious about the project and thus makes initial public support easier to secure. Third, it signals potential development team members that there will be capital for the initial feasibility, and that they will be able to be paid for their services-at least the part that the sponsor cannot convince them to donate. This last factor is very important because once feasibility is established and the team is in place, there is a greater willingness by the development team members to perform work on the expectation that additional capital will be raised in the future in order to pay their fees for work in the pre-development phase.

CRI was very successful in securing seed money for its project. The Session of LPC gave a grant of $20,000 in 2001. IPC and TRS also provided $5000 each in grants. Also in 2001, the LPC Foundation provided a $20,000 loan. In 2003 the LPC Foundation lent the project another $30,000. Eventually the LPC Foundation loans were converted to a grant. In addition a CRI Board member lent the project $20,000 which was later repaid. Also IPC lent the project $5,000 which it forgave at a later date. This seed money enabled CAALF/CRI to undertake the initial studies which established that Chesterbrook Residences was a feasible project. The initial commitment of seed money by the sponsor/developer also secured pro bono legal services from a partner at McGuire Woods, a preeminent land use law firm in Northern Virginia, and reduced costs for some of the initial studies. These professionals involved in the project in its early days saw the motivation and commitment of CAALF and "gave" of themselves to assist the project.

The second type of capital needed for any affordable housing project is the **pre-development capital**. The amount of this capital and the timing of when it is needed have to be determined by the sponsor/developer and its development team by creating a preliminary project budget. The budget and schedule should clearly identify the tasks and the costs of those tasks necessary to move the project through its land use approval stage and to the point where construction/permanent financing applications can be made. In a perfect world the elapsed time between initial feasibility and the land use approval should be a year or less. This allows the sponsor/developer to secure the pre-development capital in stages based on where the project is in the approval process and gives the team members a sense of when their fees will be paid. In

this stage of the development process, there are large costs for architectural and engineering work necessary to secure land use approval and to enable the contractor to accurately price the construction costs. Other costs in this stage could include an appraisal, legal fees, fees for environmental reports, traffic studies, and fees to consultants engaged by the architect as well as fees for your development consultant and pre-construction fees for the general contractor. CRI, which did not have a staff, retained first an experienced assisted living operator as project coordinator and later a development consultant to oversee the predevelopment process. The time commitment at this stage in the process cannot typically be met by volunteers.

At this point in the project, a non-profit sponsor/developer usually approaches its local government for financial support. This support can come in the form of soft loans and/or grants though the amount of this capital usually available is much less than the pre-development budget requires. While the public sector will take some project “risk,” it will not and cannot take the same level of risk that those that provide the seed money take. The sponsor/developer is in the position of having to demonstrate the following:

- that the project is “real, that it has substance and feasibility
- that a development team is in place
- that it is deep into the land use approval process
- that it has a real budget that can be underwritten

Satisfying these requirements from the public sector costs much more than the public sector will ever invest at this stage of the project, so other sources of pre-development capital should be explored to keep the team working and keep the project moving. For the sponsor/developer the best source of the rest of the pre-development capital is a loan from the private sector secured by the “free land” available to the project based on clear site control.

CRI was successful in securing small grant/loans from Fairfax County DHCD through its Affordable Housing Partnership Program (AHPP). CRI was able to receive $50,000 under the Tier I loan program and $50,000 under the Tier II loan program. These loans were only available for affordable housing projects and only certain types of development costs were eligible for funding, chiefly architectural and engineering costs. The difference between the Tier I and Tier II loan funds, if that Tier I project funds did not need to be repaid in the event the project were terminated. On the other hand, Tier II loan eligibility required that the project be past initial feasibility. The Tier II loan had to be repaid regardless of the outcome of the project.

These small loans were not enough to cover all the pre-development costs in this period from initial feasibility to land use approval, but securing Tier I and Tier II financing put the project in the Tier III loan pipeline, which is the AHPP loan program for construction/permanent financing. CRI also applied for and received a two-part commitment of funds in the amount of $505,000 from yet another County program, CCFP. This loan/grant program allowed expenditures for a wider variety of eligible pre-development costs than Tiers I and II. However, the source of these funds to the County were CDBG funds and “committed” the project to have more than 50% of the units available for low-moderate income households at pre-determined restricted rent levels. In the end CRI was only able to draw down $255,000 of these funds due to timing reasons, but still had to meet the household income requirements for the 97 units in the project. (It should be

noted that the second year CCFP funds--$255,000—were converted to Tier III loan/grant by mutual agreement of the BOS, the FCRHA, and CRI due to some technical issues that arose.)

CRI had to use these public financing programs and live with their restrictions, which ultimately had an impact on the rent structure and revenue potential of the project because it was not able to use the "free land" from NCP at this time as collateral for pre-development financing. The time period from initial feasibility to land use approval took almost two years. It took this long because CRI initially decided to seek a change to the Fairfax County Comprehensive Plan to allow greater density than under the existing Plan rather than to go straight to securing a Special Exception under existing zoning. Community issues which resulted in many changes in the plans for the project, and unresolved issues between NCP, CTPC and CRI also added to the time lag. All of this, unfortunately, pushed the project into an election cycle which further delayed the project and ultimately the completion of the land lease between NCP and CRI. It was not until the summer of 2004 that CRI was able to use the land to secure the $1,000,000 line of credit from United Bank to pay for the bulk of the pre-development costs that would carry the project to a construction/permanent loan closing. The delays from initial feasibility to land use approval did not mean less work for the land use attorney and A&E team, but it did mean that they had to work without getting paid in a timely fashion. It also meant that other development team members were not used to their fullest extent because funds were scarce, and that an essential development team member, the development consultant, was not on board during this critical period.

Lessons for a developer/sponsor:

1. **Assess carefully the long-term "costs" vs. short term benefits of small amounts of public financing during the pre-development period.**
2. **Create a pre-development budget after initial feasibility and determine certain/guaranteed sources to fund that budget.**
3. **If there are going to be time delays in the pre-development period, seek additional seed money from the congregation(s)/organization that are undertaking the project.**
4. **Conclude the negotiations around the conveyance of the "free land" early in the pre-development period so you can use the land to secure less restrictive capital and larger amounts of capital to facilitate the pre-development activities.**

The third type of capital that must be secured is the **construction/permanent financing.** While one cannot apply for this financing until the project has secured site control, has completed land use approval and has a real development budget and a nearly complete set of architectural and engineering drawings, it is critical that the sponsor/developer assess the various options available for the long-term financing for the project before it applies to a lender. In some ways securing the long- term capital for the project is much easier than securing seed money or pre-development funds since by this point in the process the project is real and can move to construction once its construction/permanent financing is in place.

CRI explored several sources of construction/permanent financing. As an affordable assisted living facility, private/conventional financing similar to the type that major assisted living developers such as Sunrise secure from the private sector was out of the question given the

income mix and rent structure to which CRI was committed. CRI looked at financing insured under HUD's 232 program and mortgage financing provided through the issuance of tax- exempt bonds by VHDA. It also made preparations to submit an application for the HUD 202 only to discover that the 202 program would not finance a facility that included assisted living... CRI also applied for 49 Section 8/housing choice vouchers from Fairfax County Redevelopment and Housing Authority (FCRHA) to support the rents of the low-income seniors that the development wanted to serve.

CRI quickly decided against the HUD mortgage insurance route because the loan-to-value ratio was too low (the amount that could be borrowed was much lower than the project could actually support), the interest rate was too high and the processing time too long.

CRI was "awarded" up to 49 housing choice vouchers by FCRHA. While the vouchers would insure that the rents of the low-income seniors would be subsidized, an award of "up to" 49 vouchers meant that there could be times when CRI would not be able to have 49 such residents if there were not vouchers available. The permitted rent levels were also significantly below the proposed market rents for CRI and even below the project's "affordable" market rents (rents paid out of pocket but which were less than the true market rents). The CRI commitment to serving low- income seniors and having up to 49 residents with housing choice vouchers had an impact on potential rental income and created a "gap" in project capital sources vs. project development costs. The gap was further exacerbated when the local member of the Board of Supervisors (BOS) interpreted one of the project's Development Conditions to mean that CRI had to have 49 vouchers in hand-- not just to have applied for that number of vouchers. This caused difficulty for the project because by this time in its financing process, CRI had concluded that 44 vouchers were the most it could reasonably accommodate to carry the amount of debt it was seeking. Since rental subsidies come from HUD, there were also realities about the units that had to be met that escalated construction costs beyond those typically faced by a privately-financed assisted living developer. CRI decided that VHDA financing was the best option for the project because the processing time was reasonable, and the interest rates were 1-2% below interest rates on alternative financing, and VHDA was able to combine its mortgage funds with another VHDA program to bring the overall interest rate down even further. CRI decided to pursue the VHDA financing after meeting with VHDA staff who assured CRI that it could meet all the VHDA requirements and get the financing. CRI selected Riley Mortgage as the VHDA loan processor/originator in September 2004. The process went very smoothly since Riley knew VHDA's general requirements and particularly the "red flags" that might arise for VHDA around construction issues. Riley also knew exactly what CRI proposed that VHDA finance from the perspective of borrower and lender. VHDA does not finance assisted living facilities. It finances apartment buildings. This reality meant that certain elements of the construction such as the central kitchen and the health care space would require capital other than VHDA's. VHDA also required that all living units have complete kitchens. Typically assisted living units do not have complete kitchens, particularly stoves and full-size refrigerators. These VHDA construction mandates required by its own program and bond requirements added costs to the project (the kitchens) and eliminated VHDA financing for legitimate project costs (the central kitchen and its equipment and the health care spaces). The HUD rental subsidies, it should be noted also required complete kitchens. Knowing what it could and could not seek VHDA financing for and after analyzing its financial pro forma, CRI sought $10,800,000 in permanent financing from VHDA, later increased to $11,000,000, and ultimately to $11,600,000. There were also non-financial VHDA requirements that CRI had to accept. First, CRI had to abide by VHDA's lease

form and tenant regulations. Second, CRI had to select an income mix for its resident pool (a bond requirement). Third, CRI had to accept the maximum income limits set by VHDA for any potential resident ($135,000). While none of these requirements was onerous, they are reminders that all lenders have conditions that must be followed to secure its financing and that public purpose lenders have restrictions greater than private lenders.

CRI now had its primary mortgage lender in place, and was getting a very good estimate of its construction costs and overall project costs. It knew its revenue potential from its mix of market and low income units. Now it had to balance project sources and uses to identify its long term financing gap. Any affordable housing development can expect a long term financing gap because it sets ceilings on the rents it will collect. CRI calculated its gap and was then able to apply for a Tier III loan in the amount of $1,229,000 from Fairfax County. So in the winter of 2004 CRI had three sources of permanent financing: VHDA, the CCFP funds from the County, and the County's Tier III loan. CRI also made the decision to fund those construction items that VHDA would not finance with equity, as it did not want to process construction draws from two public entities.

Lessons for the sponsor/developer:

1. **Explore all long-term financing options but chose one and pursue it diligently.**
2. **Understand clearly all the programmatic and financial requirements you will have to comply with from your lenders.**
3. **Be as realistic as possible in calculating the financing gap to avoid returning to your lenders, especially your secondary public lenders a second time for more money.**

Once you have identified the long-term sources of financing for the project, it is time to come to grips with the fourth type of capital you will need to secure, **the equity.** If you are fortunate you will need no equity because there is a perfect match between your sources and uses of funds. However, this is extremely unlikely. In a private, market rate transaction, the principal source of equity is investor capital on which a return is expected. When a nonprofit develops affordable housing, the "equity" can be tax-credit sales (if participating in the use of tax-credit financing in conjunction with public housing agency bond financing) or donations or grants from individuals, corporations, foundations, or other organizations. Lenders also consider grant-like debt from the public sector as equity. The amount of equity you must raise is the difference between the long-term financing that is committed to the project and the overall costs of development.

CRI always knew it would have a need for equity capital because of its decision not to borrow construction financing from Fairfax County and because it wanted to raise capital for a Care Fund to subsidize the annual cost of care for its lowest income seniors. Approaches to foundations like Freddie Mac and large corporations in the McLean area did not result in any significant donations. It became clear in early 2005 that the project would need $600,000 to cover its basic development costs so CRI made the decision to undertake a capital campaign to raise the equity needed. Ultimately CRI raised over $1,000,000 in donations from individuals and a few corporations. Despite the successful capital campaign, project costs continued to escalate due to increased construction costs related to post-Katrina market conditions and the passage of time. Demands posed by County staff also increased land development costs. CRI

raised the final pieces of its capital by securing additional long-term financing from VHDA, a grant from the State of Virginia, $190,000, and additional long term debt from the Tier III loan program, $275,000. Having to go back to Fairfax County for more financing under Tier III was a difficult and arduous process and demonstrated clearly the importance of the lesson for a sponsor/developer noted above. The story of CRI's remarkable Capital Campaign, The Final Mile, follows later in this case study.

Lessons for a sponsor/developer:

1. **Always assume you will need more equity, whether actual raised capital or grant-like debt, than your initial budgeting tells you.**
2. **Have a clear plan for how you will raise your equity and when you will do it.**

Chapter 4

Fundraising: The Capital Campaign

As the sponsor/developer the members of the congregation(s) or non-profit organization will need to undertake a capital campaign to underwrite the costs of creating the assisted living facility. The campaign will be needed to raise capital for development costs, an operating reserve for the project and/or a care fund for the lowest income residents of the facility or some combination of all three needs; but whatever the reason a strong sponsor/developer will have to do this.

A capital campaign is not for raising seed money for the feasibility study or to pay for some initial consulting work. Seed money must/should come from the sponsoring congregation/congregations or organizations before the initial feasibility work is undertaken. The ability to raise seed money is one sign of the commitment of the sponsor/developer to the project itself. The financial support from LPC and then TRS and IPC was clear evidence of the commitments of these congregations to the CRI project both from a seed money perspective and an institutional perspective.

There came a time, however, in the CRI project when a substantial amount of equity (non debt) capital was needed for the endeavor. By 2005 development costs had escalated beyond initial projections due to increases in hard construction, land development, and other unanticipated soft costs. CRI did not feel comfortable in approaching VHDA about increasing the mortgage amount by $1,000,000 though the loan-to-value ratio and projected cash flow would have allowed such a request. CRI also did not want to seek additional funding from Fairfax County beyond the amount that the Board of Supervisors was prepared to support based on the original loan request under the Affordable Housing Partnership Program. So CRI decided to undertake a capital campaign to raise the $1,000,000.

Capital campaigns are nothing new for churches and/or non-profits. The issue for CRI was to decide how to undertake its campaign. The Board had two clear-cut choices. The first was to hire a professional fundraising organization. The second was to conduct the campaign itself using volunteers from the congregations. There are pros and cons to both approaches, and in this case the CRI Board chose to run its own campaign. The decision was made after interviews with a number of professional fundraising organizations and debate about the goals of the campaign, who the primary donor targets would be, and what involvement the Board would be required to have.

There were two key factors that led CRI to believe it could successfully run its own capital campaign. First, all three congregations involved with CRI had substantial experience raising funds on an annual basis and for special projects. Second, all three congregations had a number of affluent members who had historically been generous when asked to give.

Could CRI have raised more money in its capital campaign if it had used a professional fundraising organization? Possibly yes. There was a school of thought among some in CRI that there was much wealth to be tapped in McLean and its neighboring communities both from individuals and businesses and that limiting the target audience for the campaign primarily to members of the three congregations was leaving "too much money on the table". However, CRI believed it would be best for the long term viability of Chesterbrook Residences if many members of the three faith communities were "invested" in the project through giving, and CRI decided to concentrate its efforts on them.

It is important to understand that hiring a professional fundraising organization does not mean that the sponsor/developer just sits by and watches the money come rolling in. All of the organizations interviewed were clear that the CRI Board would have to participate fully in the effort to raise funds and CRI was going to be heavily involved in identifying potential large donors; heavily involved in creating "the story" to be sold; and heavily involved in marketing presentations to the large donors. Campaigns run by professional firms set tight time limits for success, and the kick-off date for the capital campaign does not occur until a certain number of large donor pledges are "in hand". In addition, the professional fundraiser has to be paid a monthly retainer and an overall fee based on the campaign's goal. In other words you have to spend money to make money, and to do this you must have money in hand that can be spent on this activity without hurting the on-going development effort.

Issues for the sponsor/developer to consider about a capital campaign:

1. **Be honest with yourself about your capacity to run a capital campaign**
2. **Thoroughly discuss all the goals, including any non-financial goals, such as seeking personal commitment to the fundraising effort.**
3. **Set clear monetary goals for the capital campaign.**
4. **Interview a number of professional fundraising firms before deciding whom to choose or deciding if you want to run the campaign yourself.**
5. **Given the inevitable demands on the campaign volunteers even in a campaign run by a professional firm decide if the time commitment required of the volunteers is worth the cost of the fixed and variable expenses of the professional.**
6. **Determine if your own donor base is strong enough to warrant conducting the campaign yourself.**

CRI's "Final Mile" Campaign:

Once it committed to running its own capital campaign CRI tackled the venture as it did all aspects of the project, vigorously and in an organized fashion. First CRI designated it as the Final Mile Campaign. The idea was that this campaign would raise the money to get the project over

the final mile and to the finish line. The name for the campaign struck a chord because those asked to give understood the connection between the need for the funds and reaching the end of a journey for a project that now was in its fifth year of development.

The campaign was run by one CRI Board member and one member of Lewinsville Presbyterian Church, who had substantial fund raising experience. They recruited members from the sponsoring congregations to serve on a fundraising committee. A graphic designer from LPC contributed pro bono design services for the brochure and other marketing materials, a Powerpoint presentation was created for presentations to donors and large groups, and funds were received from all three sponsoring congregations to offset printing and mailing costs.

The campaign consisted of four phases. Phase One consisted of phone calls followed by one-on-one visits by one or two members of the fundraising committee with people that could contribute or pledge $20,000 and above. At each visit committee members showed the potential donor the Powerpoint presentation and described the benefits of a donation. Naming rights for a resident's room were available for contributions between $20,000 and $29,999. Naming rights for a common area were available for contributions of $30,000 and above. Donors above $20,000 were all eligible to enter a name on the Donor Waiting List for future residency at Chesterbrook. Pledge periods were for three years. Phase One was very successful as 16 families and/or individuals plus one large company made pledges over $20,000. One pledge even involved a two-for-one match from the donor's employer. In this Phase a challenge grant of $200,000 was pledged, which became vital to Phase Two of the campaign. Phase One raised $620,000, nearly 60% of the total raised in the Final Mile Campaign.

If Phase One netted the big money, Phase Two validated CRI's decision to run its own campaign as much for getting congregation members to "invest" personally as well as financially in the project. In this Phase a letter from a clergy member and a Final Mile Campaign flyer were sent to all remaining members of the three congregations. In addition, the committee placed articles in monthly newsletters and announcements about the Final Mile Campaign in weekly bulletins. During this Phase appeals were made to mission committees of the three congregations. The value of having committee members from all the congregations bore fruit in this Phase, as each congregation responded differently to various methods of the appeal, and the personal touch employed by the "local" committee member increased the donor response. CRI used the $200,000 challenge grant received in Phase One to jump-start the campaign in the three congregations. In all 238 contributions were received ranging from a low of $25 to a high of $12,000. All donors who contributed $1,000 were told that they would be listed on a Donor Wall. In this Phase mission and service committees of the three congregations contributed funds, and some continued to do so even after the Campaign officially ended.

Phase Three took the Final Mile outside the three congregations to service organizations and corporations in Northern Virginia via personal presentations and a targeted mail solicitation. This Phase was not as successful as CRI had hoped it would be, netting slightly over $20,000. The one value to this Phase was that a number of the service organizations, such as the local Rotary Clubs, while not participating in the capital campaign became committed to Chesterbrook Residences from a service perspective and made donations for items needed once the facility opened such as a shuttle van.

Phase Four of the campaign was a final mailing to selected congregation members who had not previously contributed. The mailing raised nearly $15,000 from 14 individuals.

When the Final Mile Campaign was officially closed at the end of 2007 a total of $1,080,000 had been raised exceeding the original goal of $1,000,000. Two hundred and eighty three (283) people, corporations and organizations contributed and 98% of pledges had been paid in full. By any standard it was a highly successful endeavor.

Recommendations when running your own campaign:

1. **Set a monetary goal that is reasonable but reachable only with effort.**
2. **Create a fundraising committee of individuals committed to the project.**
3. **Reach out to members of your congregation(s)/ organizations for pro bono services.**
4. **Try to identify a donor who to make a challenge grant as a way to spur interest in the campaign.**
5. **Solicit your major donors first privately; then follow up with a mass appeal.**
6. **Offer naming rights to major donors as a benefit beyond just a tax write-off.**
7. **Actively approach service organizations and corporations in order to establish relationships that might pay off in the long run.**
8. **Attempt to get the project included as an annual budget item by the service and mission committees within the sponsoring congregations.**

Chapter 5

The Development Process: When the Dream becomes a Reality

To this point in the case study we have talked about the essential first steps in the process by the sponsor:

- the mission has been defined
- the organizational structure has been solidified
- initial seed money has been raised from the sponsoring congregations and/or organization, and
- site control has been established over the "free land"

Now the time is ripe to begin the development process. Ultimately the hope is that the dream of creating an affordable assisted living facility or other affordable housing for seniors (the mission/goal) will become a reality when the doors open and seniors begin to be served. However, the dream will only become a reality if the project:

- can be shown to be needed in the marketplace
- can successfully navigate the land use process
- can be designed to meet all regulatory and operational requirements
- is financially feasible after all costs are budgeted, and
- the sponsor can assemble a capable design and development team to shepherd the project from feasibility through construction

In the perfect world even a nonprofit development project should be able to go from feasibility to grand opening in 2 ½ -3 years. But we do not live in a perfect world. So the sponsor/developer must move forward with a clear and defensible development plan, a good development team, sufficient capital and the commitment to carry on even when obstacles are encountered. But the developer/sponsor must also be willing to be honest with itself and have the courage to abandon the effort if the obstacles prove too great to overcome.

The time line in the beginning of this case study shows that the CRI effort began in earnest at LPC in January 2001 and concluded with the opening of Chesterbrook Residences in November 2007. A nearly seven-year development process is not the norm. CRI can be a model for other sponsor/developers in the areas of **personal commitment** by its congregations, volunteers and Board and in **fundraising** as demonstrated by its Final Mile Campaign. It should not be taken as a model in the length of its **development process.** By pointing out the difficulties CRI faced and failed to deal with expeditiously, other sponsors may be able to navigate the process with greater speed and effectiveness.

"Make no small plans" (Daniel Burnham, noted city planner).

"Always do a matter of right project" (Advice from a County official).

"The best time to start a project is nine months after the BOS is sworn in because there is less political risk if a tough project comes along" (Advice from a CRI development team member).

"The review process by the PC and community is designed to reduce density to the point of economic infeasibility; if a compromise is necessary the community will always choose FAR over height" (A comment on the land review process by a CRI development team member).

The four quotes above, three of which pertain directly to the CRI project, highlight the regulatory and political environment a sponsor/developer must navigate to complete an affordable housing project in Fairfax County, but in reality it applies to almost any jurisdiction in the Washington Metro area. Cold, calculated decision making by the sponsor/developer and its team is a necessity if the dream is to become a reality. While it is "good" planning advice to "make no small plans" it is sometimes necessary to be practical in what is planned to avoid or mitigate the obstacles faced in the development process. The fact that a project will provide a "service" to the community; is needed by members of the community, or is sponsored by a church or nonprofit means something but not everything in the politics of the land use process, and sadly means virtually nothing in the regulatory process.

CRI's development process encountered a "perfect storm" of obstacles. Some could have or might have been avoided, but some were not given the timing of the local election cycle and the fact that its construction budgeting and the actual building took place during the housing/commercial development boom in the Metro area and the post-Katrina shortages of materials and labor, which resulted in increased construction costs. This section will examine the stages of the development process in normal circumstances and contrast the norm to some realities of the CRI project.

Feasibility Phase

The first phase, and most important, of the development process is the **feasibility phase.** When this phase is complete, the sponsor/developer should be able to make a "go/no go" decision about the proposed project. If the decision is to "go," the sponsor/developer should know all the issues it will have to deal with, the time it will take, the money it will need, and the development team members it will need to get through the next phase- pre-construction. This phase should be complete in six months but could take one year.

In this phase the sponsor/developer should have five major objectives:

1. Get a very good understanding of the land use and regulatory process.
2. Perform a market study to determine the need for the assisted living facility and achievable rents.
3. Have a very thorough analysis done of the site (starting with a yield analysis) to determine all the land use issues; all the site constraints; the zoning issues, if any; and the Special Exception issues related to the project and its site.

4. Get political “buy in” from the local member of the BOS.
5. Get an initial sense of the economic feasibility of the project.

The resources a sponsor/developer will need in this phase are:

1. About $50,000-$100,000 in seed money.
2. A developer or development consultant to keep the process on track and assist the sponsor/developer in decision making.
3. The services of a land use attorney; a civil engineer (CE), who is familiar with the land use regulations in the County; input from an experienced manager of assisted living faculties and a general contractor (GC) or construction manager; and a Board member who has construction management (CM) experience.

A sponsor/developer can take advantage of the Fairfax County Ombudsman program to gain valuable information about the regulatory process. The person in charge will set up a meeting between the sponsor/developer and site plan and building permit staff to go over all the requirements and examine some of the parameters/limitations of the site in question. If the County is not Fairfax and does not have this service, the other option is to have your local elected official set up a meeting with the jurisdiction’s appropriate County staff to explain the regulatory process and review the site. This step in the feasibility stage costs no money and can really educate the sponsor/developer and its members about the process and the time it will take. It can also raise any “red flag” issues about the site that can help give some context to the “go/no-go” decision. Unless the sponsor/developer has already developed an affordable housing project in the jurisdiction of the site location, this step is a “must do,” even if there are Board members who are experienced in development.

When the CRI project began in late 2000/early 2001, the Board was told that the Ombudsman was available to religious congregations in the building of sanctuaries and religious educational facilities. It was not until after the applications for the site plan were being filed that the County Executive’s office requested the Ombudsman to work with CRI. Consequently the CRI volunteers did not get the benefit of an initial assessment of the site constraints from the County staffers who would eventually review the project’s site plan. Not getting this initial assessment had major implications for project planning, overall construction costs, and the project timeline.

CRI proceeded in this phase of the process using the development expertise of a volunteer to look at financial feasibility using various sources of capital such as tax credits, tax-exempt bonds, taxable bonds, and Section 8 rent subsidies. After consulting with several for-profit and one nonprofit assisted living facility, it was decided that a facility with 100 beds was optimum. CRI did not immediately consult with the property manager it ultimately hired to get an idea of the minimum size facility it believed could be self-sustaining since the size had been determined at the time the property manager was hired. CRI also did not engage a development consultant or a development firm to manage the project. However, it did engage a consultant with nearly 40 years of experience in developing and managing facilities for the aging to advise and assist the Board in being its own developer. In retrospect this was considered an error by CRI’s volunteer developer, who nonetheless spent hundreds of hours on the project. Instead CRI got essentially pro bono legal advice from a partner in a major land use law firm to assist it through the feasibility phase. CRI did get a “yield analysis” done of the site that “projected” the number of

units that could be built on the site absent zoning or site constraint issues; and had a market study done that demonstrated a need for assisted living units in the County. By mid-2001 CRI had made a "go" decision to proceed with a project of 75-100 units plus possibly staff living units (the result of the yield analysis which indicated that a project with a maximum of 147 units plus 10 staff housing units and a 10,000 sq. ft. Alzheimer's day care center was feasible on the site). However, this size project needed a change in the County's Comprehensive Plan, and CRI began to spend the money to facilitate such an application.

An assisted living facility cannot be built in Fairfax County as a "matter of right" or "by right". A Special Exception (SE) is always needed because from a zoning perspective if it is going to be built in a residential neighborhood. It must be built to what the existing zoning will allow on the site. A SE must be secured within that framework or there must be a change to the Comprehensive Plan to build a larger project. Changing the Comprehensive Plan is an arduous and very public process after which the applicant must still go through the land use approval process, another very public process, in order to secure the SE. While a land use attorney might say that all development is political and one can always throw money at the problem to get a solution, this was really not a viable option for CRI given the cost in time and money, of which it had some but not enough. CRI expended valuable time from June 2001 until January 2002 working at a Comprehensive Plan change application to build a slightly larger project without having unambiguous site control, without a realistic appraisal of the site constraints, and in an uncertain political environment.

In McLean any development proposal is public and political regardless of its merits. The CRI project engendered opposition from some of its neighbors and from some powerful members of the McLean Citizen's Association (MCA). In addition, the "buy-in" needed from the local Board of Supervisor (BOS) member was not attainable because the local BOS member, who was very supportive of the project, was set to retire and deferred to the candidate he endorsed who was his appointed Planning Commissioner The opposition saw the BOS race as a way to thwart the project by seeking to elect a BOS member either opposed to the project or so lukewarm in his/her support as to render the project infeasible as it went through the land use process. In January 2002, CRI decided not to pursue the change to a Comprehensive Plan on the "advice" of the Dranesville PC member, who was running for the BOS seat.

Thus CRI had to re-size its project to the FAR available on the site. After considering some thoughts from staff at the local Sunrise assisted living facility and the thoughts of its consultant with years of experience with facilities for the aging, CRI settled on a project of no fewer than 100 units. Thus the final "go" decision in the feasibility stage was to develop a facility with a minimum of 100 units.

This decision was also made based on the advice of its architect (A&E). Since CRI was acting as its own developer, no one was working for CRI on a daily basis (a development consultant) who could push the architect to get other opinions about the site. CRI did not receive a site analysis from a GC about the consequences of building a 100-unit building on this particular site within the existing FAR and height limitations. CRI was not fully aware that during the site plan process that an adequate storm water outfall issue would be raised related to the stream behind the property as a result of prior development that had impacted the stream.; it was totally unaware of the size and number of retaining walls that would be needed to build a 100-unit building; it was not aware of the "right sized" building that would produce a design that would allow for a balanced site; it was also not fully aware of the ensuing political battle yet to come, as

it sought its land use approval. Since Chesterbrook Residences was eventually built and is a beautiful facility for seniors, it could be argued that these unknowns from the feasibility stage were not important because the determination and commitment of the CRI Board and volunteers carried the day and the money needed to complete the facility was ultimately secured. However, it is also important to ask how many developer/sponsors would have carried on in January 2003 if they knew their facility would not open until November 2007 and cost about $2,000,000 more than its first development budget projected? (A survey of affordable housing developers in Fairfax County shows that they are accustomed routinely to such lengthy development periods.)

Lessons for the developer/sponsor:

1. **Do not make the "go/no- go" decision until all the feasibility stage objectives are achieved.**
2. **"Right-size" the facility based on an understanding of the site and its constraints, the market study and the preliminary financial feasibility analysis.**
3. **Have a clear understanding of the political environment in which you will be seeking your land use approval.**
4. **Have your developer or development consultant in place as well as your civil engineer before moving on to the next phase.**
5. **Take the temperature of the congregations, the organization(s) and the volunteers regarding their commitment to the project after getting advice from your land use attorney regarding the time and cost facing you to secure land use approval.**

Pre-Construction Phase

Once the feasibility is complete and the project is a "go", the sponsor/developer enters the **pre-construction** phase. If all the objectives in the feasibility phase have been successfully completed, the journey through this phase should be relatively smooth as long as the sponsor/developer's Board stays committed, the development team is competent and works together, and the financing, both pre-development and long term, can be secured. Ideally this phase should take 12-18 months and be followed immediately by the construction of the building. While there may be unforeseen obstacles that slow down the project's progress, these should be minor and easily overcome. There should be no major obstacles facing the project left over from the feasibility phase.

The primary tasks in the pre-construction phase are the following:

1. Have the entire development team in place prior to starting major work on the architectural plans and the site plan drawings.
2. Review the A&E plans at each step of the way by the GC and management firm before submission to the PC and BOS.
3. Once the A&E plans are through the Design/Development phase, have the GC prepare a construction budget that you are sure is 90% accurate.
4. Prepare the overall development budget and refine a Sources and Uses of Funds analysis.

5. Identify all the sources of the construction/permanent loan(s) needed to finance the project.
6. Work closely with the PC member from your district and the BOS member to minimize any onerous development conditions.
7. Secure the SE from the BOS (land use approval).
8. Continually work with the GC, A&E team, and management firm to value engineer the project to keep costs under control.
9. Submit all loan applications needed to secure the construction/permanent financing. Use a highly experienced loan originator for the first trust (primary) construction/permanent financing.
10. Submit the site plan for approval.
11. Submit the architectural drawings for building permits.
12. Complete all regulatory requirements including all the necessary easements and the Bonds and Agreements documents.
13. Secure your approved site plan, building permits and all other ancillary permits such as Virginia Department of Transportation (VDOT) permits.
14. Have the management company prepare a cash flow analysis to identify the working capital needed during the lease-up period (to cover operational losses).
15. Prepare a plan to raise any needed equity for the project, if necessary.
16. Close on your construction/permanent loans.

The resources a sponsor/developer will need in this phase are the following:

1. The capital necessary to fund all the costs to get to a construction/permanent loan closing. The major costs will include: A&E fees, consultant fees, legal fees, water and sewer fees, interest on short-term loans, loan application fees, loan fees for the mortgagor and lender; permit fees, fees for recordation of easements and the Bonds and Agreements requirements and appraisal fees.
2. A well-coordinated development team working in concert with the sponsor/developer.
3. On-going political support from the BOS member.

If the expected time from this phase to the start of construction is 12-18 months, the CRI experience was a "perfect storm" of obstacle after obstacle that stretched this phase out from January 2003 until May 2006 when construction finally began in earnest. The primary reasons that this phase took so long were the following:

1. The development team was not fully staffed up until April 2004, when the land use approval was finally secured. In addition, the GC and management company were not

fully utilized until late in 2004 when the final parameters of the building were set in stone by the development conditions that were part of the SE approved by the BOS.

2. The lack of closure with NCP on the “free land” and site control pushed the land lease execution to June 2004, thus depriving CRI of the ability to secure a pre-development loan and having the capital to fund the pre-construction costs.

3. The political battles CRI had to fight to secure the PC approval and BOS approval detracted from real site analysis and the development of a more affordable building.

4. Lack of continuity on the design team and weak links on the team led to a failure to overcome the adequate outfall issue as mandated by the requirements of the Public Facilities Manual (PFM). This cost the project 6-8 months of time and about $300,000 in direct costs to mitigate the outfall problem and about $400,000-$600,000 in building construction cost increases due to the delay in the start of construction. In truth, while the reasons above are listed separately, they were all intertwined. As CRI tried to put out one fire, another started; while CRI scraped for money to cover one development cost other necessary development expenditures were delayed for lack of funds; when the project was finally out of the starting gate,, the lead architect and key staff of the CE left the employment of their respective firms hurting project continuity and depriving CRI of the project’s professional institutional memory.

CRI correctly understood that the key fire it had to extinguish, if the project was to eventually succeed, was the opposition to its proposal. So while a Project Coordinator was engaged in late 2001 and this person successfully helped CRI assemble its development team in 2002 (the architect, management company/interior designer, and the GC), this person never saw himself as the development consultant and neither did the team members who took their cues from the CRI Board and volunteers. Once CRI decided a 100-unit project was its minimum size, the battle became joined in the way described by the project’s land use attorney (a process designed to reduce density to the point of infeasibility) and feared by the public official (a battle over development conditions with scant regard for the regulatory issues). On the one side were those who wanted a smaller project or no project at all, and on the other side was CRI that wanted a 100-unit project.

Thus an inordinate amount of time was spent on issues such as the storm water management (SWM) pond and how big it should be (CRI promised to retain 110% of the storm water to ease community “concerns”); tree buffers, when they should be planted and what kind of trees they should be; how many staff could be on duty and at what times; the design of the access road; would the neighbors have the right to have a fence erected by CRI to block views of the building; what percentage of the units had to be low income; would the building cast shadows on the homes on Kirby Court; the nature of the building materials; the number of trees that had to be preserved etc. Valuable A&E time and energy and money were spent “proving” that the 100-unit building was not going to be an eyesore, destroy the environment, and meet the zoning requirements for height and FAR. The aforementioned issues, while real, were the project’s public and political issues. Dealing with these consumed the time of CRI and its volunteers.

In this period of the pre-construction phase, while CRI was rightly focused on the public and political issues, it did not have the resources (time and personnel) to spend the time needed on important site issues since it was still acting as its own developer. Thus not enough time was

spent by CRI and the A&E team on issues of equal importance such as site conditions, basic site "buildability" and the land development costs, regulatory requirements, construction costs for a 100-unit building and overall financial feasibility. CRI's management company (CSM) and its GC believe that their expertise was not fully used during this critical time period as the project moved from feasibility through pre-construction. CSM believes that CRI could have benefited from information about the minimum number of units necessary to produce a self-sustaining assisted living facility (a number 20% less than CRI's research indicated and which CRI decided to build). Likewise, the GC has expressed that CRI did not receive the benefit of its expertise about the impact of building height and/or fewer units on overall construction costs (costs that the GC has suggested might have been $1,000,000 less). If CRI had secured the services of a development consultant or developer early in the feasibility process, there would have been the day-to-day person working with the CRI Board and volunteers who could have more dispassionately looked at the project and its realities; but who could have certainly sought the input of the other team members and brought these suggestions and ideas to CRI. Perhaps if there had been a CRI Board member or volunteer working on the project with CM experience, some of these critical construction issues might have been raised. This is not to say that CRI would have settled for a smaller project with fewer units, but it would have been more aware that the building design as approved was going to cost far more than was originally anticipated.

In April 2004, CRI secured its SE and land use approval. It could now complete its site plan and building plans; hone in on its construction costs; and proceed to seek permanent financing for a 97-unit facility with 109 beds that would have a half floor underground, be strictly height controlled and have to live forever with over 35 development conditions, many of which had nothing to do with zoning and land use requirements. By the time SE process was completed, CRI had learned that there was a great difference between the statutory requirements and code requirements for these processes and what they required a developer to submit for review and what was required for submission to satisfy the "public and political" reality of these processes.

CRI was in a celebratory mood in January 2005 as the site plan was ready for submission to FC for approval, and the building plans were almost ready to be submitted for building permits. All the development team members were now working together on the project though under the constraints imposed by the SE and development conditions. Permanent financing was assured from VHDA and FC was ready to consider CRI's Tier III loan application for secondary financing. The capital campaign was ready to start. Given all the scrutiny the site plan and building plans had gone through in the PC and BOS process, CRI believed that by summer 2005, it would have its site plan approval and building permits and be ready for a September/October 2005 construction start. The celebratory mood was gone by mid-March 2005 as the project's Storm Water Management (SWM) reviewer raised the issue of whether the project met the PFM's adequate outfall requirements related to the stream behind the property. It would take until September 2005 to secure an acceptable engineering solution that would allow the project to finalize its Bonds and Agreements; and take until November 2005 to secure an alternative solution to meet requirements of the landowner, Fairfax County Park Authority (FCPA). FCPA officials would not execute the necessary easements until CRI promised to use its preferred stream control features.

Why did it take so long to secure an acceptable solution? In the end it was fairly simple. The CE on the project had undergone personnel changes from the time it was hired and these people were familiar neither with Fairfax County (FC) requirements nor the County staff. This problem was

exacerbated because the reviewer in question on the project was rigid and uncooperative. In addition, the lead architect left the project to CRI's detriment. The longer the process, the greater is the chance of staff turnover. The leadership void in the A&E team meant that critical things fell through the cracks as the new lead architect was not able to control the CE in a productive way, did not create the checklist of things that needed to be done by CRI and other team members, and did not take control of the adequate outfall issue.

It was not until January 2006 that the site plan was finally released, though it had been approved in December 2005. But another CE failure meant additional delays as the VDOT permits had not been prepared and applied for. In March 2006, a full year after the first red flag on the adequate outfall issue was raised, CRI was finally ready to begin construction. This was a full six months late; the delays had cost the project another $400,000 in construction costs due to increased prices for labor and materials.

Lessons for the developer/sponsor:

1. **Do not submit final site plans unless you are sure that you know all the important site conditions including soil conditions, location of all utilities, location of any existing easements, and any potential SWM/wetlands/stream issues.**
2. **Do not submit your plans for building permits unless you are sure that the plans incorporate all the requirements for an assisted living facility as outlined in the State regulations.**
3. **Use all your development team members to test your assumptions about the project especially during the SE and land use approval process.**
4. **Remember that time is always the enemy in this phase of the development process. Strive to resolve all outstanding issues quickly and amicably. A delay in one area will likely lead to a further delay in another.**

Construction Phase

With all permits in hand the sponsor/developer is ready to enter the third and last phase of the development process, the **construction phase.** The time frame for this phase will be determined by the construction schedule developed by the GC, but the developer/sponsor needs to press the GC for the quickest yet most realistic construction schedule.

The major objectives in this phase are:

1. Make sure that the GC establishes good working relationships with the County and State (VDOT) inspectors. This is especially important during Phases 1 and 2 of the site work.
2. Resolve all change orders and construction issues quickly with the help of the architect to maintain the construction schedule.
3. Maintain continuity of personnel among all the development team members to enhance the construction process.

4. Insure timely delivery of all utilities by getting the appropriate utility companies on board early in the construction phase; insist that the GC work with the developer/sponsor to deal with the utility companies.

5. Do monthly loan draw inspections and pay draw requests in a timely manner.

6. Establish a good working relationship with the lender's construction inspector.

7. Create a simple process for identifying all punch list items after substantial completion; then monitor their completion.

8. Make sure that the GC is getting all final inspections in a timely manner, including the fire marshal approval. (Fire Marshals have wide discretion to approve projects when they are called for the final inspection so it is important to establish good relations with the Fire Marshal for the project.)

9. Secure the Use and Occupancy certificate as soon as it is feasible to do so to avoid problems with your initial occupancy date/opening.

The resources needed in this phase are:

1. A good and experienced construction administrator (CA) from the Architect; and continued involvement on the project by the lead architect.

2. Regularly scheduled construction meetings to review progress and discuss problems.

3. A Board representative on the development team with CM experience. (CRI benefited from such a Board member who spent hundreds of hours on the site)

4. Sufficient contingency funds to pay for change orders based on the approved plans or to fund additions to the approved scope of work.

5. A construction set of drawings and specifications book that reflects all changes made to the site plan and architectural drawings in the approval process and value engineering process and which is turned over to the GC at the start of construction. ("As built" drawings should be prepared by the GC once construction is complete).

Of all the phases in the development process this was the least painful for CRI but still not perfect. The original schedule called for a 14-month construction period, and the GC hoped to be done in 12 months. In reality the actual construction time took 18 months from May 2006 until the end of October 2007. The end of construction is determined when the developer/sponsor receives its Use and Occupancy certificate. Note, however, that punch-out can continue and often does for a month after occupancy, and call backs for warranty items can extend for six months to a year. The major obstacles that impacted the construction schedule for the CRI project were the following:

1. The GC was not able to assign its chosen Project Manager and Site Manager to the project from the outset because of the delays in the start of construction. Real progress did not occur until the chosen team was in place.

2. The County's site inspector was new and very inflexible. His dictates for what could be done on the site to complete Phase 1 (implementation of the Tree Preservation Plan and the Sediment and Erosion control plan) defied logic given site access issues and the size of the site. This caused at least a one-month delay. Similarly his rigidity about what could be done to facilitate the completion of Phase 2 (installation of the SWM pond) caused another one-month delay. Unfortunately this inspector was not interacting with the GC's chosen Project Manager and Site Manager, which only further exacerbated the problems.
3. In late June/early July 2006 the Metro area experienced a 100-year rain and flood, which basically shut down the job for 6-8 weeks and prevented the access road from being completed in the summer of 2006.
4. The need to re-engineer the design of the retaining walls due to faulty CE work thus causing the construction schedule to have to be reworked.
5. Discrepancies between the permit set of drawings and the construction set of drawings that necessitated a continual review and reworking of the plans on the fly.
6. Delays in getting permanent electric power to the site; delays in getting issues with the telephone company resolved in a timely manner.

Despite these obstacles, Chesterbrook Residences was successfully built. The professionalism of the GC, and the very hard work of the development consultant, Bill Harris, and the extraordinary work of the CRI Board member, Neal Nealis, was largely responsible for insuring that the building got built as quickly as possible.

Lessons for the developer/sponsor:

1. **Be flexible and work in close conjunction with your chosen GC to facilitate the delivery of the building.**
2. **Be a problem solver not a problem creator during the construction phase.**
3. **Accept that change orders are a fact of life in construction; negotiate fairly and hard but do not squeeze the GC so much that they lose their commitment to the project.**
4. **Only use political pressure to solve a problem with an inspector as a last resort, because the inspector will remember you went over his head.**
5. **Make sure that your development consultant is managing the development team, not the GC or the architect, because your development consultant should be the one with the "big picture" view.**

Note to the Reader: The pages that follow contain the actual interview information given to the CRI authors from a number of people involved with the project from its beginning through the completion of the building. There is greater detail about the project, "red flag" issues that were observed, and thoughts about how the project evolved. While the interview information was distilled into the previous pages, it is highly recommended that you read the interview notes for insights and information in much greater detail than was able to be included in this section of the case study. (You will note that not all the interviewed parties had the same observations.)

THE LONG AND WINDING ROAD

A Case Study

Chesterbrook Residences, Inc.

Chapter 5

The Development Process

DEVELOPMENT TEAM INTERVIEWS

Michael J. Crescenzo
MJC Consulting
2443 39th St. NW
Washington, DC 20007
202-333-4393
mjc2443@aol.com

202-669-7820 (cell)

MEMORANDUM

To: **CRI Board**

From: **Michael Crescenzo, Consultant**

Date: **February 18, 2008**

Subject: **Interviews**

This is a summation of the interviews I did for the VHDA case study. After you read them we should decide if we want to alter the format of the case study. In any case we should meet and discuss. Basically I asked the CRI interviewees the following questions: when did you get involved in the project, who got you involved, were you involved early enough from your perspective, were there any red flags that you saw during the process, what advice what you offer other groups doing this type of project. I also asked specific interviewees some specific questions related to their part in the project. When I interviewed Jim E. I was looking for background and when I interviewed Bruce Nassimbeni I was looking for perspective about the whole adequate outfall issue. I also have written answers to questions about the outfall issue and stream issues from Frank Graziano from WSSI. I will give these to you when we meet as his answers are less important from a case study structure perspective.

Jim Edmondson: Jim told me that in late 2000 he and Gene Blanchard were called by Gary Pinder about the Chesterbrook Presbyterian Church (CPC) situation. CPC was dissolving and they wanted to turn the church over the Taiwanese Presbyterian Church (TPC), they wanted the back 5 acres to be developed as affordable assisted living, and that all the land and buildings were going to be turned over to National Capital Presbytery (NCP). From this a larger group from Lewinsville Presbyterian Church (LPC) was formed using members that had been involved in LRR as it was the desire of NCP to have LPC facilitate this AAL (affordable assisted living) project. The first work was to explore feasibility of an assisted living project. In early 2001 Lee Fifer of McGuire Woods (MW) was recruited pro bono for legal advice, Jim looked at the financial feasibility exploring use of tax credits, S8, bonds etc. Given that the land was free he was convinced the project was feasible. By June 2001 a marketing study (basically free) had

been done as well as a yield analysis by Dewberry Davis. There had also been some preliminary talks with neighbors. Jim identified three red flag issues that significantly impacted the project.

The first was the lack of clarity about control of the site. NCP did not follow the advice of the LPC people to give total control of the site to LPC during the planning process. This led to

conflict with TPC over the control of Parcel B, the only access route to the larger site, parcel C. Jim said that if there had been unambiguous site control the submission to the PC could have occurred a year earlier than it did. Lesson learned: control over site by development group has to be clear and total.

The second red flag was the impending election cycle beginning in 2003. There were intense local power struggles involving the McLean Citizens Association (MCA) that cast a shadow over the project and gave those neighbors opposed to the project "legitimacy" in the process. Jim cited the radically different voting pattern in the district in the 2003 election that swung the election to someone viewed as less or not supportive of the project. Lesson learned: don't start a project, if it can be avoided, in an election cycle.

The third was the lack of a developer or development consultant working on the project on a daily basis managing the development team and progress. As an aside this was also cited as a problem in this project by all the professionals involved. Jim after putting in 500 hours or so as a volunteer suggested that his firm could take on the developer role but fear of a conflict of interest raised by some CAALF members resulted in a conflict of interest policy that precluded E&G. To remedy this CAALF engaged Bill Harris to help put together the development team. He recommended Grimm+Parker, Harkins and CSM, all of whom were engaged during 2002 and remained with the project through its conclusion but Bill did not see himself as the development consultant but as the guy who knew operations and county things like S8. Thus the project was still being "developed" by a committee under intense pressure to move the project forward while fighting intense political opposition. Jim said that only the intense institutional commitment of LPC and the members of the Task Force prevented LPC from giving up the project. Lesson learned: get a development consultant on board at the beginning.

Given the above I asked Jim how the final development plan was conceived, meaning was it as a result of land use studies and getting outside advice or as a result of politics. Jim told me that the yield analysis showed 147 units could be built on the site along with staff housing. Input from Sunrise suggested that the project should have a minimum of 80-100 units. The thought of using all the allowable FAR on the whole site for the project was shelved due to the control issue dispute with TPC. So in the end the project size got smaller first for FAR reasons then for political reasons. CAALF drew a line in the sand at 100 units (final was 97 with 109 beds).

Result: from initial contact in late 2000 it took until April 2004 to get the land use approval from the BOS.

<u>Bill Harris and Neal Nealis:</u> I focused on the construction process with them but did ask Bill about his early involvement, which he said began in late 2000 when someone asked him for information. After he retired in June 2001 he was asked to work on the project in Fall 2001. He suggested putting a team together and specifically hiring a development consultant. He was instrumental in helping to assemble the CRI team. Neal added that his involvement, which began in spring 2004, came too late and that a person with CM experience should be involved early on so that what is designed to be built can really be built economically.

In speaking about putting together a development team Bill said that a development consultant needs to be on board before plans are finalized and budgets done; then the A&E group needs to be on board. Bill was clear that the architect should be responsible for an activity checklist for

the entire site plan and building permit process as well as the easement process. Bill stressed the need for the architect to engage good subs for CE, MEP, structural. Once construction begins then the lead should rest in the hands of the GC to manage the actual construction.

These are red flag issues identified by Neal and Bill that did/can impact a project:

1. Coordination of utilities for site and their delivery
2. A principal at the A&E firm must be involved throughout the process and the CA should have experience.
3. Make sure that the GC has pre-inspections by the assigned project inspectors. In CRI case HBI did with some inspectors.
4. GC has to have good site people on project.
5. Need for construction drawings and documents to reflect all scope changes either those imposed by County or by budget realties. In CRI project this was not always the case.
6. The construction meeting and change order (CO) process has to be good. In CRI project meeting process was good and CO process OK.
7. The GC has to play the major role in the inspection process and it is good to get the Fire Marshal out sooner rather than later.
8. The architect needs to know all the lender requirements before final drawings are done.

Neal spoke about the need to be clear about all the requirements from County and State that must be met before actual construction work (foundation work) can begin such as having VDOT permits in place; the elements of Phase 1 (the pre-con meeting, the implementation of the TPP and the SWM needs); the elements of Phase 2 (SWM, any access roads, site clearing).

These are the "must know" items for all projects before final plans are completed and submitted. In the CRI project some of these were not known.

1. Real soil conditions
2. The location of all utilities.
3. Any SWM and/or stream, wetland issues.
4. All existing easements.
5. All the assisted living regulations (some team members felt that G+P did not know all of these).

<u>Bruce Nassimbeni, Environmental and Facilities Review Division (EFRD), DPWES:</u> This interview was conducted for three purposes. First, to get Bruce's view about what happened with

CRI. Second, to get his “take” on the process and how to make it work better. Third, to get his recommendations on how another group should proceed to minimize their issues. While Lee Fifer would later say in his interview that Bruce and his staff were “part of the problem”, I found that Bruce was a willing interviewee and a helpful one given his position and his responsibilities. In the end his response to a Lee Fifer would be if people found the codes and requirements complicated and unworkable then the BOS should change them.

In the CRI case he was pretty sure that at the time CRI was before the PC that his department was not involved deeply in the process from the beginning. Today EFRD is involved from the beginning of the PC process to resolve any SWM issues. In the CRI case if there were no adequate outfall issues the site plan approval process would have been 6 months shorter. But he did point out that almost no streams meet adequate outfall requirements and that in 2005 there was a change in the process that made more analysis and numbers required. He acknowledged that his reviewer, Ms. Lewis, had a point of view but even if ER had been involved earlier in the PC process her point of view would not have been accepted since the intent of the code would always trump an individual Reviewer’s interpretation. As an aside Frank Graziano of WSSI has

said that almost any other Reviewer would have approved the project based on the CE’s analysis that the project met the adequate outfall requirement. Knowing this I asked Mr. Nassimbeni what he saw as the problem and why a solution took so long to work out. He acknowledged that there was a communication problem between our CE and his Reviewer but he also pointed out that even if a quick solution had been reached the Park Authority still would have had to sign off. He implied that the CE or its people were not as familiar with FC requirements as they needed to be, and that familiarity and communication were keys to getting projects approved in a timely fashion since the codes were so complicated. However, he also said that in this case that the CE might never have been able to make the numbers work given the problems with the stream.

He was very clear that to make the process work as well as it can that Expediters were not the solution but good CE’s with lots of FC experience were, and that the people involved had to communicate well and work well together to resolve issues. He recommended getting a CE involved on a project even before an architect because the site plan was so critical to the timing of a project.

He also strongly recommended that a project be done “matter of right” and avoid the SE/SP process because then the public hearing process gets into play and then politics and planning become the focal points not code compliance. He used the Metro West project as an example of this. He said that on this project the PC staff focused on land use issues and amenities to satisfy the PC and the public and so the site plan, when submitted, was not buildable from the standpoint of the issues his division deals with. Now the developer is screaming about why it is taking so long to get the site plan approved when no one focused well enough on the SWM and environmental issue during the “public” process.

On the subject of advice for a church group starting this process he offered the following:

1. Use the Church Ombudsman process (Tom Nelson). He will set up a meeting even at the concept stage with site plan staff and building permit staff to go over requirements and

looking at the parameters/limitations of the site in question. CRI did not use this process although we did try to use Tom Nelson once things got bogged down.
2. Develop a project "matter of right" if possible.
3. Hire a CE firm early that is used to working in FC and make sure the CE meets early with his staff to get general advice and identify any major issues early regarding the site.
4. Make sure the architect hired is familiar with the CE hired.

Lee Fifer/Sheri Hoy, McGuire Woods: If Bruce sees the site plan process as one of code compliance, Lee sees it as a mainly political process and views the county officials like Bruce "as part of the problem".

In terms of the CRI project Lee said it could have been built above ground, could have had more units and always was going to have to go through the land use approval process. The main failure in our project was a failure of the local Supervisor to act with leadership given that the project was a high priority housing need for FC. He also said after questioning from me that there could have been an element of personal enmity in this process and there certainly were political ambitions involved. He did allow, however, that given a choice between height and FAR the "community" will always choose FAR rather than height when compromise is necessary. This certainly ended up the case for CRI, at great cost to the project.

Lee said that the best time to start a project through the County land use approval process is nine months after the BOS is sworn in because there is less "political risk" to them when a tough project comes along. Lee said his firm was brought into this project after the architects were involved. This seems later than Jim's recollection but my interpretation of this is that he meant the land use aspect of the firm. I say this because both he and Sheri said unequivocally that the land use attorney should be brought on first to run the project followed shortly thereafter by the CE. The land use attorney's land planning staff will do the due diligence on the site with the CE identifying site constraints, doing site analysis on such issues as noise, traffic, parking and amount of impervious surface. This leads to a conclusion about the how long the process will take. Lee said that $100K should be budgeted for this process with a 30% contingency. He also said the County process is designed to be expensive and detailed which drives up costs early, and this fact makes it political. He suggested getting "buy in" early from the local Supervisor long before the application process is begun. Scrutiny by PC staff and conflict with neighbors has the unstated goal of reducing density to the point of infeasibility from an economic standpoint. Lee also said that in most cases you can fix a land use problem by spending lots of money. Sheri's major point was that after the land planners do the due diligence and give their advice it should be listened to by the client.

I came to the conclusion that in the CRI case that MW would say they needed to be involved earlier with the CE and that the timing was bad from the get go from a political standpoint otherwise CRI would have been approved for more units with a different design.

While I can't disagree with Lee and Sheri as to their observations about the land use process in general and CRI in particular it seems that the course they lay out for a typical church or community group is not generally realistic.

<u>Mike Ballantyne, CSM:</u> This interview was one of the most illuminating if only to learn the breadth of the work that CSM/McNichols Assoc. can do for a non-profit/community group.

CSM was first asked to be involved as a witness at the PC hearings to explain operations of an assisted living facility and how it differs from other senior programs. CSM/McNichols not involved in CRI's initial feasibility studies and the first wave of financial analysis. They got involved after the A&E team was in place. From their perspective this was/is too late to take advantage of their expertise and experience. I took from Mike's comments that they believe they could have brought added value to the project if they had been involved earlier from a design and development perspective. Mike did say that any church, community, non-profit group should get a development consultant working with them very early in process even before getting land use attorney/planner. As a developer I would second that view as initial feasibility work should precede land use planning.

I asked Mike about the minimum number of units for an assisted living project that are sustainable financially. He said that CSM looks at unit numbers in modules of 16 based on staffing requirements. So you would open a new module of 16 units every time 6 units are leased. From a feasibility perspective a 72 unit facility can operate with positive cash flow. Breakeven from an operational standpoint is 36 units but such a facility would have to have an "endowment" or other source of funds to cover unanticipated expenses. CSM was not involved in helping CRI determine the right number of units for the project. I took from Mike's comment here that they might have advised a smaller number of units, and thus a smaller building and lower project costs given the circumstances of this project.

Mike articulated three red flags that popped up from their point of view during the project and they were all A&E related:

1. The low voltage system (security, nurse call and cameras) were poorly specified, and in fact the actual operational systems in these areas came from CSM not the permitted drawings.
2. Some licensure codes not adequately incorporated into construction drawings, the specific example being the unit sizes for the 2 BR units, the 2nd bedroom in 6 units, which necessitated a waiver.
3. The interior design elements (the responsibility of McNichols and Assoc. under contract to G+P) came too late and so there was no real ability to trade off costs. Mike said this was an A&E management issue.

In asking Mike what he would recommend he gave this outline of a course of action. He first recommended a Phase 1 Market Study to determine need, which he said would cost $7-$10K. When I asked him how a church group would know who to go to he reiterated that they should have a development consultant on board by this time, and estimated a cost of $10K-$20K for this person firm in the beginning of the process.. I then asked him if CSM did this kind of work for groups in other places in Virginia and he said yes under McNichols and Assoc. (MA). Basically MA has developed 14-15 Assisted Living facilities in the State. He then gave me an idea of the stages of development involvement and fees charged by MA.

The first Phase is the feasibility phase including the Market Study and putting together the team so a “go/no go” decision can be reached. Ma would select the CE in tandem with the group, and determine if a land use planner was needed. Besides financial feasibility issues this Phase would look at the land use issues and site constraints, and any zoning issues, SE issues. The fee MA charges for this Phase is $15-$20K.

The second Phase is the pre-construction phase which goes from design through closing of financing and securing permits. During this Phase the Architect and GC are selected. The MA fee is $50-$70K.

The third Phase is construction through opening with all facets of this work included. The MA fee is $25-$30K.

When I asked why their fees, about $90K-$120K were so low (CRI spent well over $200K for development consultant fees during the same phases of the project) Mike said it was because part of the deal was a 5 year management contract for CSM once the property opened. I viewed this as a very reasonable approach for church/community/non-profit groups that are lacking in expertise and experience.

In looking back at the CRI process I wondered if this role for CSM/McNichols was ever explored or brought up.

Grimm+Parker (Logan Schutz, David Whale, Ben Plummer): Logan said their first involvement was in 2002 and by 12/02 the number of units was down to 103. In January 2003 they got MA involved for the building program, and G+P were working on the County process, the PC and BOS. From their perspective the number of units and the size of the building was always brokered. They made many presentations to show the neighbors that the shadows would have no impact on them. Their design direction was for an efficient building, good not special. Logan remembered that Bill Harris was fixed on 100 units. Logan allowed that if the building could have been 3 stories it could have been more compact and less earth would have been moved.

When asked about the CE Logan felt that they had been involved earlier than they were and that they and Bill Harris would have gone with AdTec. As for the A&E team Logan and David both said the CE was bad, and it was very laborious to get them functional. The Mechanical, Electrical and Plumbing engineer (MEP) was not responsive to questions based on his drawings. The A&E team was assembled based on type of project, scale of project, and prior assisted living experience. Money played a part in team member selection. Some subcontractors were too expensive and they were asked to pare down the costs.

G+P were adamant that the CE should not be on board before the Architect unless the CE has a great land planning unit so the survey can be done correctly and all site issues can be identified along with site constraints. In their view the Architect and CE should be working together and they said it is not ideal to have the CE working directly for the owner. G+P did allow that the survey performed was not complete (a cost issue) and that an ALTA should have been done not just a review of County records in order to identify utility locations. In addition they said that a complete title search should have been done to identify all easements on the property and the adjoining properties.

I then spoke about the adequate outfall issue and the long time it took to get a solution, and my view that G+P had not been forceful enough in managing that process even though the Architect does not deal directly with the County on the issue. Logan agreed that they might have been more directly involved with forcing the CE to forge a solution with the SWM Reviewer.

They also said that when the final plans are in place that the management company should sign off so that there are no issues later on. While this echoed what CSM said it was not clear if they thought that CSM should have done this to avoid issues that arose during construction.

There are the red flag issues/words of advice to other groups doing this kind of development:

1. Begin in the summertime and in good weather as it impacts the cost and pace of the earthwork.
2. Have every approval in place before construction starts (This echoed Bill and Neal but seemed to absolve themselves from any responsibility for things like the easements, VDOT permits and the bonds and agreement process.)

3. The coordination with the utility companies should be started as early as possible starting with the class of service letter and getting it back from the utility companies. Again they did not specify whose responsibility it is.
4. Make sure all of the lender construction requirements are known. I have same comment as above, and Mike Ballantyne certainly felt that there were requirements not addressed but G+P.
5. If you are using the exemption from sales tax, have a good operational plan in place before construction.
6. Determine the level of "greenness" to be included in project. They pointed out that LEED is very document heavy. Again no specificity about the responsible party.
7. Make sure that the Permit Set of plans and the spec book are identical to the Construction set of plans. David Whale acknowledged that this was a problem in the CRI project.

In assessing the G+P comments I felt that Logan was laying out a role for the Architect that was less team leader of the A&E component with clear managerial responsibilities but rather a role akin to being a contractor working for someone and expecting to be given directions about tasks at all times. While this may be the role Architects now envision for themselves for money, time and/or liability reasons it is not the role clients believe they are hiring an architect for, and it makes the Architect seem less like a professional and more like a tradesman.

Harkins Builders (Mike Ebrahimi, Mike Mallow, Larry Kraemer): This was the best and most detailed of all the interviews. Perhaps because these were the guys that had to construct the building and thus had to deal with the results of all prior decisions, political or otherwise. HBI's basic point was that in order to have a "buildable" product for the best price the GC has to be involved early (pre-design) and stay involved as all questions are considered. They acknowledged that a for-profit developer always has a staff in place that manages the team, the process and is always considering all the variables all the time. That being said it was clear to me that HBI felt it could have contributed much more to the design of the CRI building and its impact on the site (and thus costs) if they had been involved before pre-construction.

From their perspective they really began working on the project in early 2004 almost a year after they were selected. They were not involved in the basic design phase which is where the building footprint, shape and overall design are determined. The typical grade analysis and cut and fill studies they do were not done so it was not possible to design a balanced site. From the HBI perspective the CRI project was not efficient. Examples of the inefficiency were the buried spaces, the retaining walls. They also cited the example of the structural steel studs vs. structural steel. In their work on assisted living buildings there are two models. The Mansion model uses structural steel and the Cottage model uses wood. While there were some cost savings using the structural steel studs they pointed out that few subs can do this work, there is a long lead time, and it is not as easy to build in the field. So this design element introduced an inefficiency into the project that they did have any ability to influence during the design phase.

HBI stated flatly that if the building could have been 5-8" higher the costs would have been $1M-1.5M lower because of the elimination of many of the retaining walls, the exporting of dirt, the buried construction etc. Even if the building height issue was a stumbling block it did not mean that a balanced site should not have been designed even if it meant reducing the number of units. Their main point was that during the critical pre-design stages the developer/sponsor and

the architect look at pro formas, design, the number of units etc. but not constructability, which focus would be the contribution of the GC to the team as the project was progressing.

These are the issues that HBI identified as the ones that needed to be addressed before the final footprint is developed. Note that they also said that the management company needs to be looking at the building as these issues are being addressed:

1. Site access
2. Depth vs. width of units (impacts the structure)
3. The length of the building and the corridors
4. A design that avoids basements and retaining walls
5. Not having single loaded corridors
6. Thorough systems analysis: structural and MEP
7. Locations of the elevators, stairs and trash area

On the issue of the A&E team HBI said that when it is involved with a project it always gives the client recommendations about engineers based on the type of construction. They did say that while HBI had worked extensively with G+P it had always been the Calverton office not the McLean office so there was a lack of prior relationships which are important in any project. HBI said the A&E team needed to be on board the same time as the GC and that all A&E subs but the CE should be under sub-contract to the Architect.

At this point in the interview we discussed some red flag issues that they saw as they got involved:

1. Working in Fairfax County
2. The fact that they would not be working with G+P's Calverton office with whom they had done 36 projects vs. none with the McLean office
3. Working with a Board (group decision making) vs. the more typical project manager situation
4. The lack of clarity about Bill Harris' role
5. The on-going time slippage for the project which caused cost escalations

We then discussed Design Build vs. traditional Owner/GC relationship. HBI said that from a company perspective they would rather have the traditional relationship (less responsibility, liability etc.) but from an efficiency and cost effectiveness basis the Design Build option was better IF the Design Build RFP was tightly written.

We then discussed my issues about the hand-off from the Estimating side of HBI to the Construction side and HBI admitted that their process was not the best at the time due to two factors, the boom years and the lack of a clear start time for CRI's construction. Today their process is as follows. Once a project makes their A list (on schedule to start) a VP and a PM are assigned even while Estimating is still involved. This allows for earlier reviews of the designs and budgets at 30% complete, 60% complete and bid set. There is no question in my mind that if this process had been in place then some of the later cost and scope issues could have been avoided. However, the bottom line from HBI was that even with a process in place that the team must function well together and trust one another. The example Mike Mallow gave of our team

being able to trust one another to solve a tough issue was the tax-exempt issue which had been mishandled in the budget process. As an aside HBI said that this was a nightmare to administer and that if they had to do it again their general conditions would reflect the administrative burden.

Finally we went over, from their perspective, the issues that arose in the construction period on the CRI project. These were:

1. The problems in development team member continuity (all team members)
2. The lack of clear narratives detailing budget changes in construction (HBI internal issue)
3. The failure to secure all permits before the start of construction
4. The lack of a clear overall schedule which included the listing of all permits, easements needed
5. The failure to establish a level of the finished product during the design phase, a process that should be driven by the owner and management company; from the HBI perspective this meant they could never completely buy out the project and get best bids (CSM would agree with this); it costs time and money later on
6. The lack of clarity about the nurse call, security and communication systems (again CSM did agree with this)
7. Time consuming delays based on the decision making process