



FUNDING
SOURCES

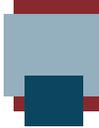


FUNDING SOURCES

INTRODUCTION

Chapter 2 demonstrated a growing demand for affordable housing in Alexandria. The main reason that demand is increasing is the growing gap between market rate rents and sales prices and what those of low- and moderate- incomes can afford to pay. Due to this gap, standard loan institutions will not lend the full amount to acquire or develop affordable housing projects that will have capped rents. Alternative funding sources need to be included in affordable housing deals to close the gap between what the loan institutions will finance and the cost of the project. The previous chapter identified a number of new tools and programs, and modifications to existing ones, that can be used to increase affordable housing options in the city, but the availability of funding sources to support the various programs will play a significant role in the successful implementation of the Housing Master Plan.

Funding will be the most challenging and crucial component of implementation of the Plan. At a time when the affordability gap continues to rise, both public and private resources available for affordable housing projects have continued to dwindle. The City's local resources are limited and are needed to address numerous priorities outlined in the City's Strategic Plan. Affordable housing options are only one priority of the City and it will require a plethora of funding sources to implement the goals identified in Chapter 5. This chapter explores the different funding sources available for affordable housing development and preservation. It provides a synopsis of the inventory of the various local, state, federal, and outside resources available to fund affordable housing efforts. This inventory includes both existing funding sources (i.e., the developer contribution formula and federal funds) as well as potential new sources (i.e., competitive grants).



FUNDING SOURCES

Funding for affordable housing comes from a variety of sources including federal, state, private, and City dollars. This section discusses both the currently available funding sources along with potential resources that may be able to be used in the future. While this section briefly discusses these funding sources it does not provide the specific details on each funding source. Appendix 6 provides a detailed matrix of all currently available future potential funding sources, along with the limitations of each source and program.

FEDERAL FUNDING

Current Sources

The federal government provides a number of grant programs for the purpose of funding affordable housing efforts. The two most popular programs include the Community Development Block Grant (CDBG) Program and the HOME Investment Partnerships Program (HOME). Each year the City receives direct funding for these programs from HUD. CDBG money could also be used to leverage additional funding through the federal Section 108 Loan Program that allows a City to finance up to five times its annual CDBG allocation; however, the City has never used this option, which also requires that the locality's CDBG funds be used to cover any shortfall in a project's debt service payments.

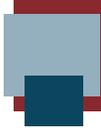
In recent years the City also received funding from HUD's Neighborhood Stabilization Program (NSP), via the Virginia Department of Housing and Community Development (VDHCD), aimed at helping communities and homeowners deal with the foreclosure crisis. The City also used Department of Energy (DOE) funds from the Energy Efficiency and Conservation Block Grant (EECBG) to help low- to moderate-income families with the cost of energy wise home repairs. However, the EECBG program has not received additional funding in subsequent budget years. NSP was funded in both federal fiscal years 2009 and 2010, but due to changes in the allocation formula and the City's recovering housing market, the City did not qualify for funding under NSP 2 or NSP 3.



Another Federal source that funds much of the affordable housing projects throughout the City is the Low-Income Housing Tax Credit (LIHTC). The LIHTC Program is a competitive funding program administered by the Virginia Housing Development Authority (VHDA) aimed at attracting private resources to fund affordable housing in exchange for tax credits. The City has been successful in attracting LIHTC funding for several new construction and rehabilitation projects over the past several years. The New Markets Tax Credit (NMTC) works in a similar fashion as the LIHTC with the goal to attract investment to low-income and impoverished communities, but the City has not utilized this resource to date. The use of NMTC is limited to certain qualifying census tract which could limit the use of this resource in Alexandria. Finally, the Federal Government also allows for the issuance of tax-exempt bonds for affordable housing. Both ARHA and VHDA are issuers.

Potential Future Sources

The Federal Government has a number of other programs that could provide potential funding for affordable housing preservation and production. Several of these programs are currently funded, but they are either part of a competitive funding process or require specific action by property owners. Sustainable Communities Grant and Community Challenge Grants are recently-enacted funding sources that are designed to tie affordable housing to transportation and energy efficiency planning. The funding for this program has been limited. The Federal Government also funds programs like the Historic Tax Credit, and a number of loan programs (Green Retrofit Program for Multifamily Housing, etc.) that allow individuals to receive financing for renovation to existing units. Finally, Congress has created a National Housing Trust Fund that would provide funding for affordable housing preservation, especially for those at the lowest incomes; however, this program has never been funded.



STATE FUNDING

Current Sources

VDHCD and VHDA are responsible for distributing Virginia's resources for affordable housing. VHDA has a number of programs that have been used in City affordable housing projects, including the Sponsoring Partnerships and Revitalizing Communities (SPARC) Program, the Community Homeownership Revitalization Program (CHRP), and the Resources Enabling Affordable Community Housing in Virginia (REACH) Program. The multifamily SPARC Program is a loan product that assists in the construction, acquisition, and/or rehabilitation of multifamily rental housing, while the REACH Program provides assistance for both rental and homeownership housing for persons with disabilities, the homeless population, and homeownership opportunities in distressed communities. VHDA also has the ability to issue tax exempt bonds to fund affordable housing projects which a number of projects in the City have used. VDHCD operates the Affordable Housing and Special Needs (Commonwealth Fund) that provides below market rate loans for the development of rental properties that target special needs populations.

Potential Future Sources

The Virginia Livable Home Tax Credit Program provides a tax credit of up to \$5,000 for the purchase or construction of a new accessible residence and up to 50 percent for the cost of retrofitting existing units, not to exceed \$5,000. The credit may be taken by homeowners, builders, or contractors, but only one credit may be issued for a single construction or renovation project. Currently the state wide allocation of credits is up to \$1 million in any fiscal year, but to date it has not been utilized statewide or within the city. This is an available funding source that can be used to address Goal 5 pertaining to increased accessible housing.

VHDA is exploring the use of Mortgage Credit Certificates (MCCs), which provide first-time low- and moderate- income homebuyers with a federal tax credit for part of the interest on their mortgage loans as a means of expanding affordable homeownership opportunities within Virginia.



A new state Housing Trust Fund enacted in 2012 will become available in FY 2013. Guidelines for the use of the initial \$7 million statewide allocation are still in development, and therefore the likelihood of Alexandria's ability to access and utilize these funds is unknown at this time.

PRIVATE FUNDING SOURCES

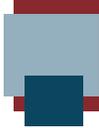
Current Sources

The private sector, including private nonprofit organizations, plays a significant role in the funding of affordable housing. Private developers provide voluntary cash contributions for affordable housing through the development approval process. These dollars are used to increase housing opportunities for low and moderate-income families. In addition, several private developers have included affordable housing plans as part of approved developments that set aside rental or homeownership units to serve individuals of low- and moderate-incomes. Currently, the provision of such units is mandatory only when a project receives additional density or height under Section 7-700 of the City's Zoning Ordinance. However, some developers have voluntarily elected to provide affordable units as an alternative to a cash contribution.

Through the LIHTC and Tax-Exempt Bond programs mentioned above, investors provide funding for a specific project in order to take advantage of the various tax benefits that have been established by the public sector, with such investments used as equity to help fill the financing gap to make the project a reality.

Potential Future Sources

There are also a number of nonprofit entities that invest in affordable housing as part of their mission or that have been formed for the sole purpose of creating affordable housing. The various organizations that could be involved in affordable housing are foundations, Community Development Corporations (CDCs), or development organizations. Foundations often provide funding that has been collected from donors or other sponsors



to help support affordable housing production. CDCs are nonprofit organizations that focus on community improvement in which providing affordable housing could be included. Finally, there are several affordable housing development corporations that were formed for the sole purpose of providing funding to develop and preserve affordable housing options.

There are a number of nonprofit corporations that provide money for affordable housing preservation and/or production. Organizations such as Virginia Community Capital, The MacArthur Foundation, Enterprise Community Partners, and the Home Depot Foundation provide funding for affordable housing projects. While this funding is available, it is highly competitive and limited. Enterprise Community Partners is currently working on funding affordable housing projects in high capacity transportation corridors through its Green Path funding program. This is a partnership the City will continue to explore as part of the implementation of the Housing Master Plan.

The City may also be able to explore the development of a loan consortium that would leverage money from various financial institutions in order to reduce each institution's financial risk. This money could then be coupled with City resources to provide gap financing for affordable housing projects.

LOCAL FUNDING SOURCES

The City dedicates a portion of its real property tax revenues (currently 0.6 cents of the tax rate) for affordable housing. The City Council has also authorized the issuance of general obligation bonds for affordable housing, with the debt service on the bonds to be paid from the dedicated real property tax. However, approximately 0.5 cents of the current 0.6 cent dedication is budgeted to pay for the debt service on previously issued bonds, and the remaining authorized housing bonds are committed to a specific housing effort.

In addition to debt financing, the City also provides General Fund

revenue to match federal grant programs, to support a portion of the Office of Housing's operations, and as a direct allocation to the Housing Opportunities Fund (which also receives allocations of federal HOME funds and Housing Trust Fund monies). The City maintains a Housing Trust Fund which receives contributions from the development community based on a voluntary formula. In addition, the City's Capital Improvement Program (CIP) was used for affordable housing on one occasion.

USE OF RESOURCES

As discussed above funding for affordable housing comes from a variety of different sources and most affordable housing projects use several of these funding sources in order to make the project viable. In most cases, no one entity can fund an entire projects and it take resources from the private, nonprofit, and public sectors to get an affordable housing project off the ground. Below are two examples of how funding sources can be combined to complete affordable housing projects in the city.



New Construction The Station at Potomac Yard: 64 Units

Initiative born out of need for additional fire protection services in the Potomac Yard Area. Developer contributed land and money towards station and housing (\$7.5M cash to HTF) and provided non-covered assistance in predevelopment costs.

Funding for housing included:

- 8.6 M Low Income housing tax credits
- VHDA construction/permanent loans (\$8.35M)
- City grants/loans from HTF an CIP (\$7.9M)



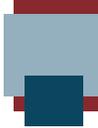
Acquisition and Rehabilitation ParcView: 149 Units, 120 Affordable

Financing for the \$33.5 million project included:

- \$7.9 M 4% Low income housing tax credits \$11.9 M Tax exempt bonds (VHDA)
- \$3.5 M SPARC loan (VHDA)
- \$1.06 M Deferred developer fee (Wesley Housing)
- \$9.0 M City of Alexandria residual receipts loan

City's investment breakdown:

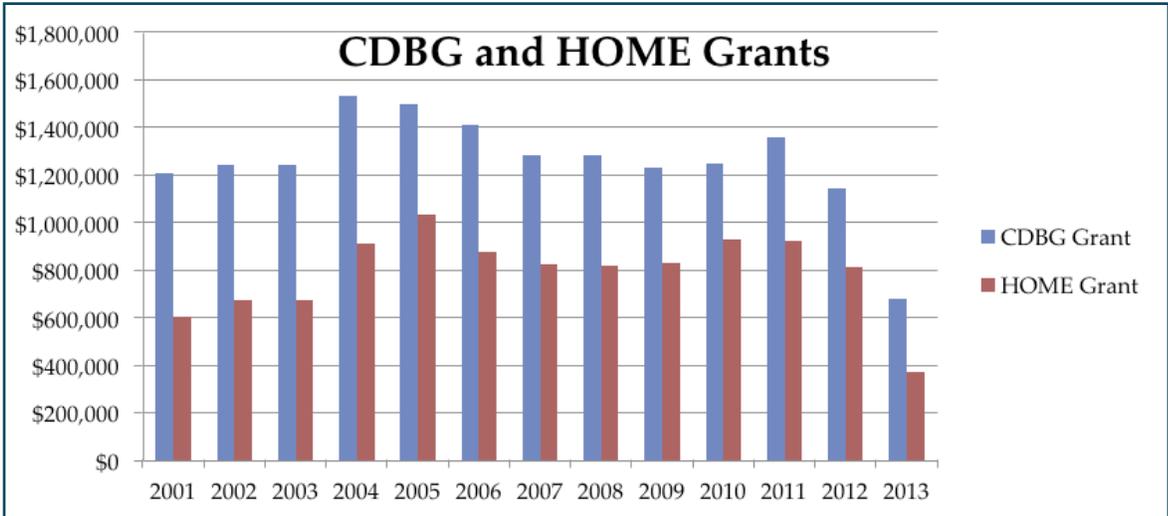
- \$2M general obligation bond funds
- \$4.4M dedicated RE taxes
- \$306K General Fund \$400K Housing Trust Fund (HTF)
- \$109K Recordation Tax
- \$1.5M Program Income



CURRENT FUNDING TRENDS

FEDERAL FUNDS

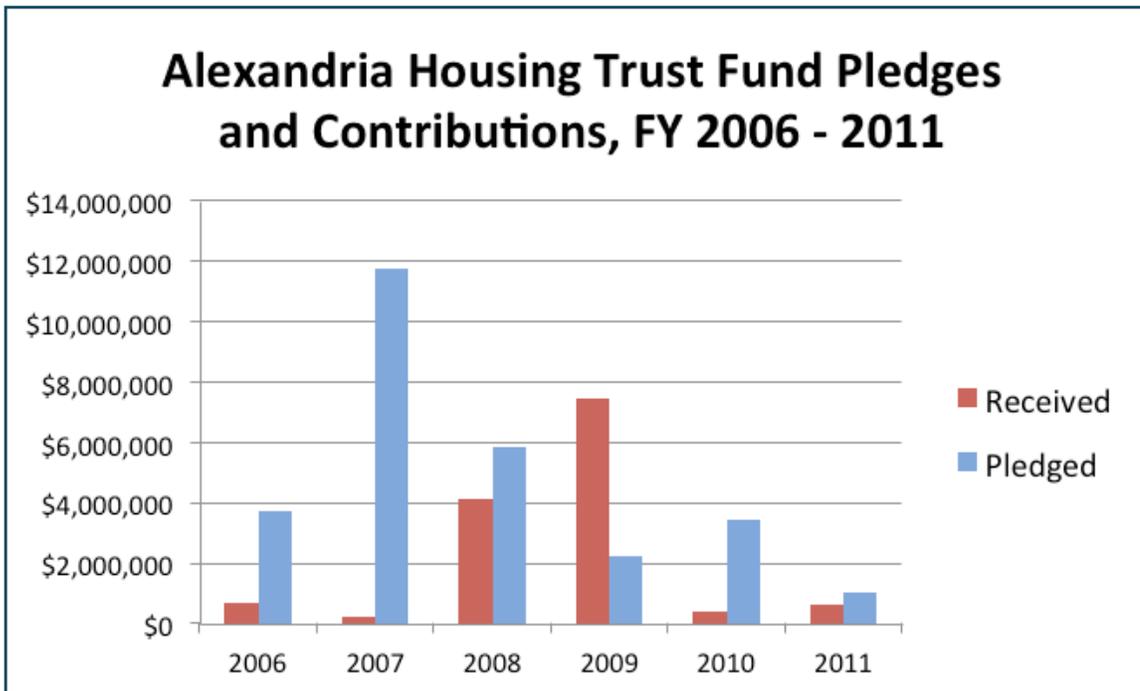
Federal Community Development Block Grant (CDBG) and Home Investment Partnerships Program (HOME) funds have been flat or falling for the last few years. Federal support for ARHA and housing in general are flat or declining. For example, HUD currently (Federal Fiscal Year 2012) provides public housing authorities with only 80% of the public housing operating subsidy for which they are eligible, down from 95% the previous year. The City's CDBG and HOME grants experienced a combined 46% reduction for FY 2013. Historically, these grants have been used to support three major programs: Homeownership Assistance, Home Rehabilitation Loans and the Housing Opportunities Fund, with smaller allocations for the Rental Accessibility Modification, Winter Shelter, Transitional Assistance, and Eviction Storage programs. The Homeownership Assistance and Eviction Storage Programs have already become casualties of CDBG and HOME budget reductions, and are not funded in City FY 2013. Federal budgetary constraints are likely to continue over the next several years and will severely hamper the City's ability to maintain existing programs designed to preserve the affordable housing stock.

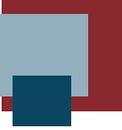


LOCAL FUNDS

Housing Trust Fund Contributions

Developer contributions are placed in the City's Housing Trust Fund to support a variety of affordable housing activities. These funds are dependent on the development plans being completed, so fund levels are directly impacted by the economy. Housing contributions from developers are on an erratic but generally downward trajectory (Figure 2) due to the slowdown in the housing and development market in the past few years. At the same time, an increase in contributions of affordable units has added to the affordable housing stock, but reduced the level of cash contributions to the City's Housing Trust Fund. Prior to 2000, the majority of projects were coming on-line and making contributions within two years of approval; in recent years most projects are taking three years or more, with an increasing percentage taking five or more years. The Housing Trust Fund also receives program income from loan repayments.





CONCLUSION

Funding is the biggest challenge to the implementation of the Housing Master Plan. The chapter has identified several of the existing sources and some potential new sources of funding for affordable housing. However, the reality remains that at a time when the need for affordable housing continues to grow, available funding continues to decrease. To offset the decrease in federal and state funding, the City will need to continue to find additional sources of funding to help implement this plan and at the same time leverage more dollars for every local dollar invested.