

City of Alexandria
HOUSING MASTER PLAN
FUNDING AFFORDABLE HOUSING

October 7th, 2010

Presented By:

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APD Urban Planning and Management

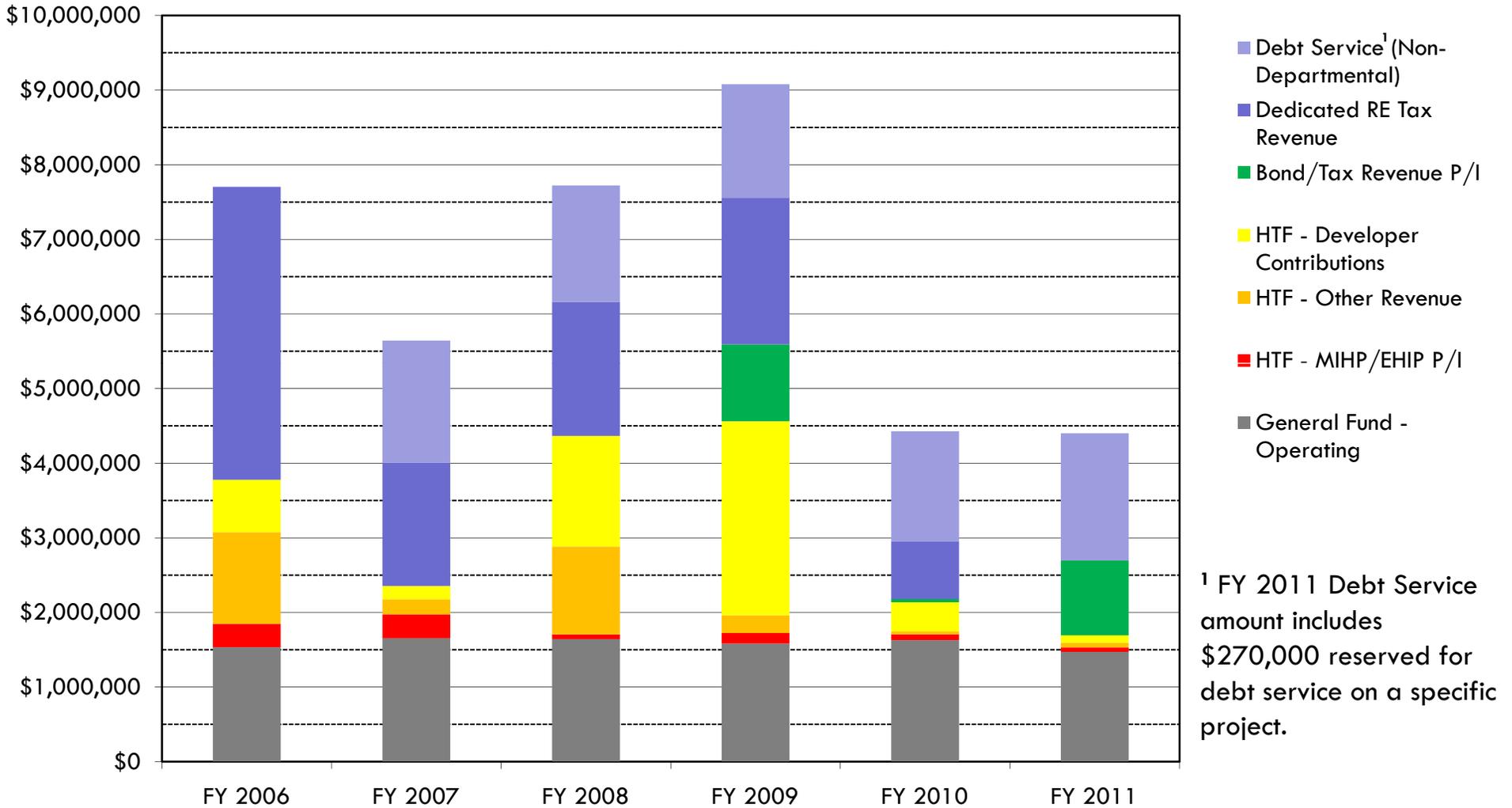
Tom Hart, President

Community Strategies Institute



New Housing Revenues

Dedicated Tax Revenues, General Fund, & Housing Trust Fund



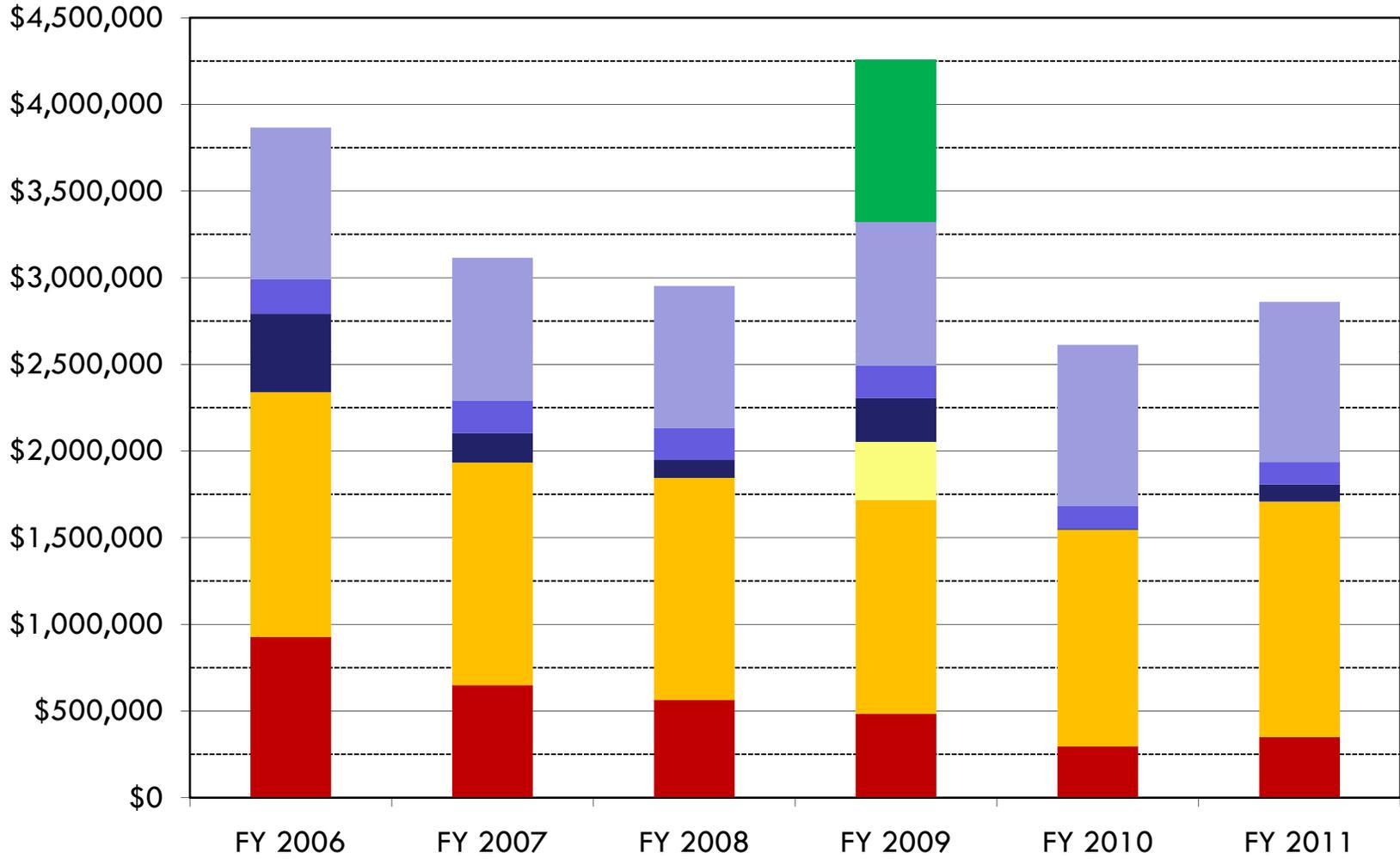
¹ FY 2011 Debt Service amount includes \$270,000 reserved for debt service on a specific project.

FY2006 – \$15M in GO bonds (not shown) issued for affordable housing; debt service for these bonds is shown

FY2008 – Does not include \$6M of developer contribution directly to The Station at Potomac Yard or \$5M in City non-housing funds loaned to ARHA (Glebe Park)

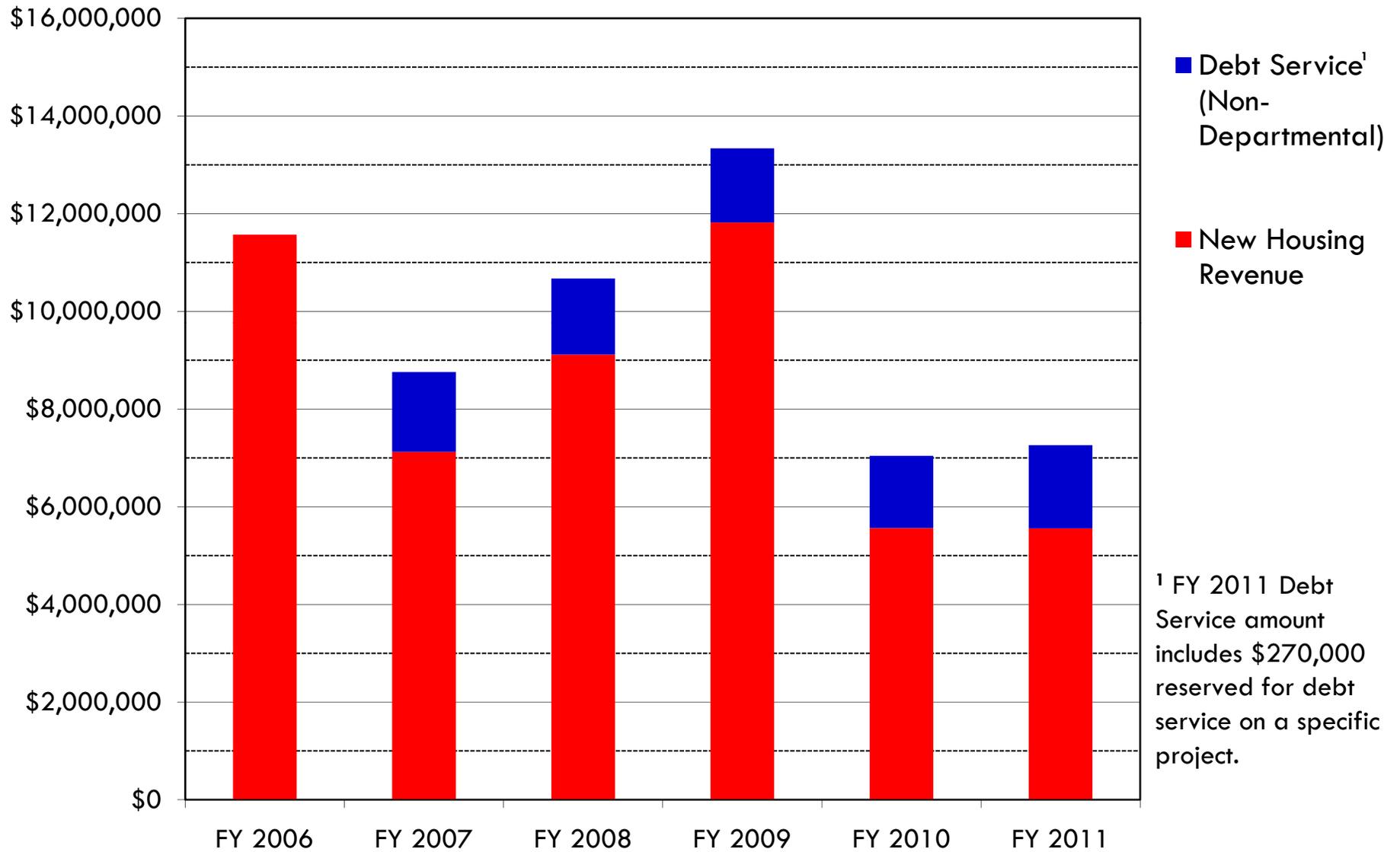
FY2009 – Does not include additional \$1.5M in funding for The Station from developer and \$0.4M from City Capital Improvement Program

New Housing Revenues Federal Grants



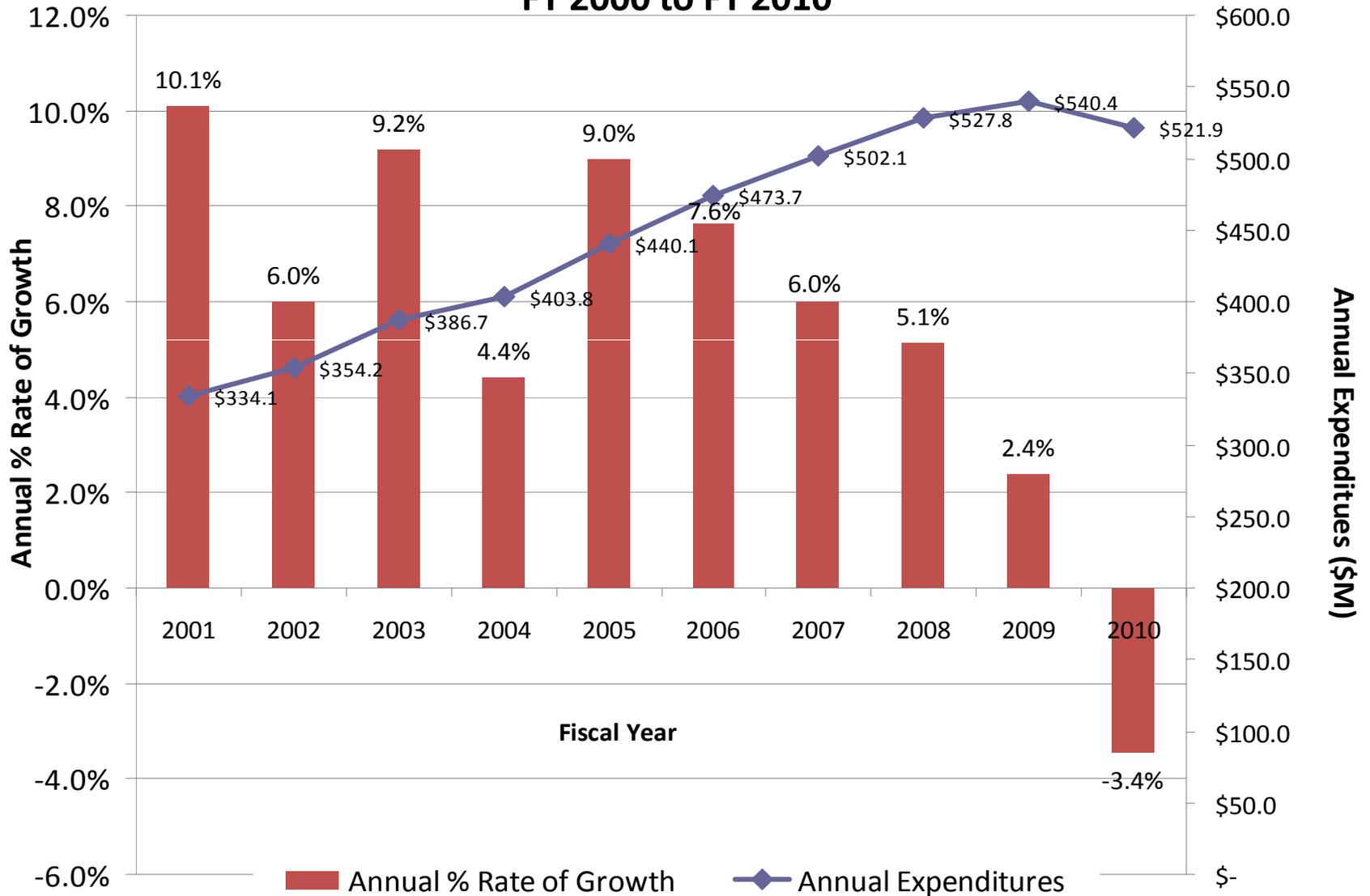
■ CDBG P/I
 ■ CDBG
 ■ CDBG-R
 ■ HOME P/I
 ■ HOME Match
 ■ HOME
 ■ NSP 1

New Housing Revenues All Sources

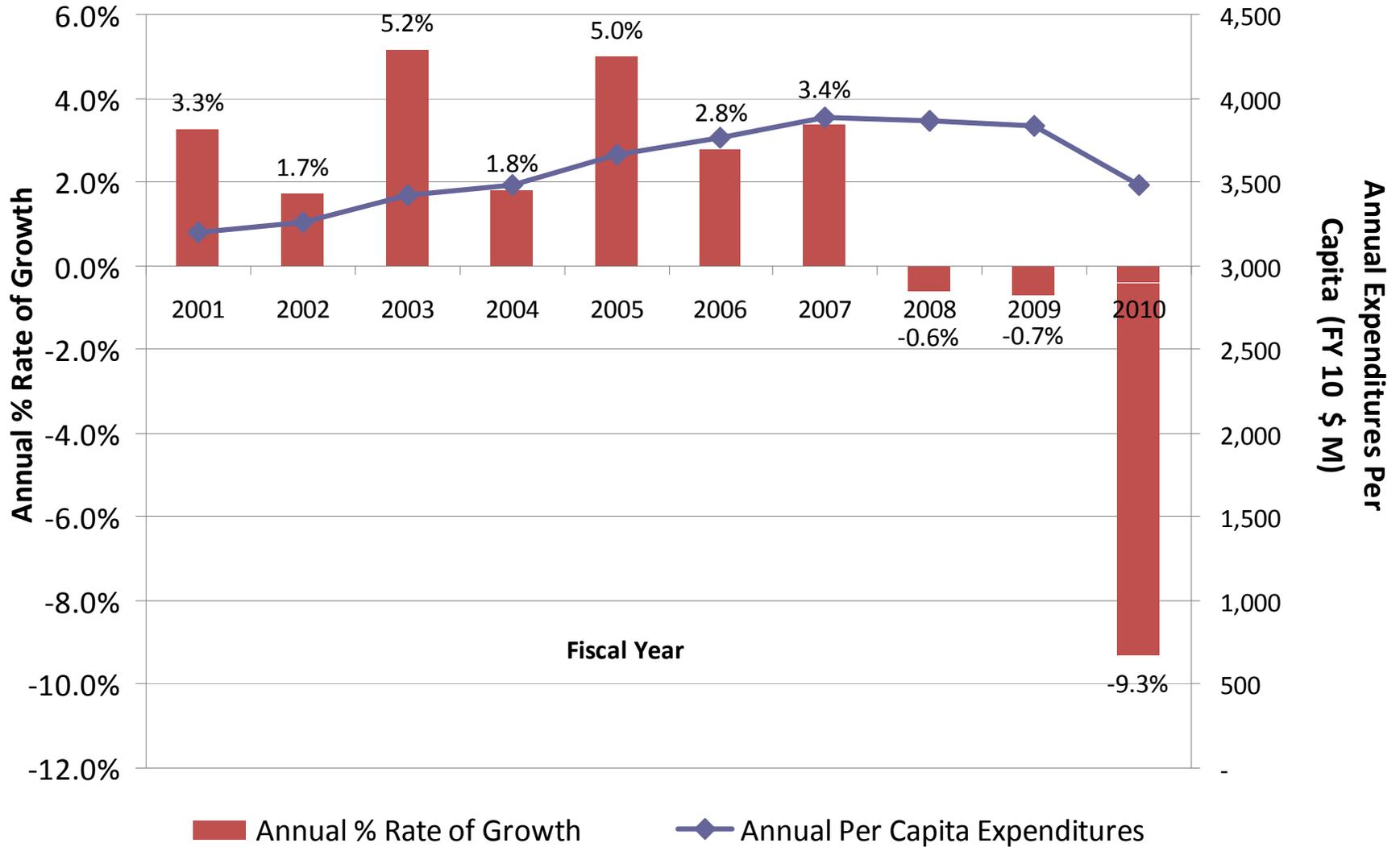


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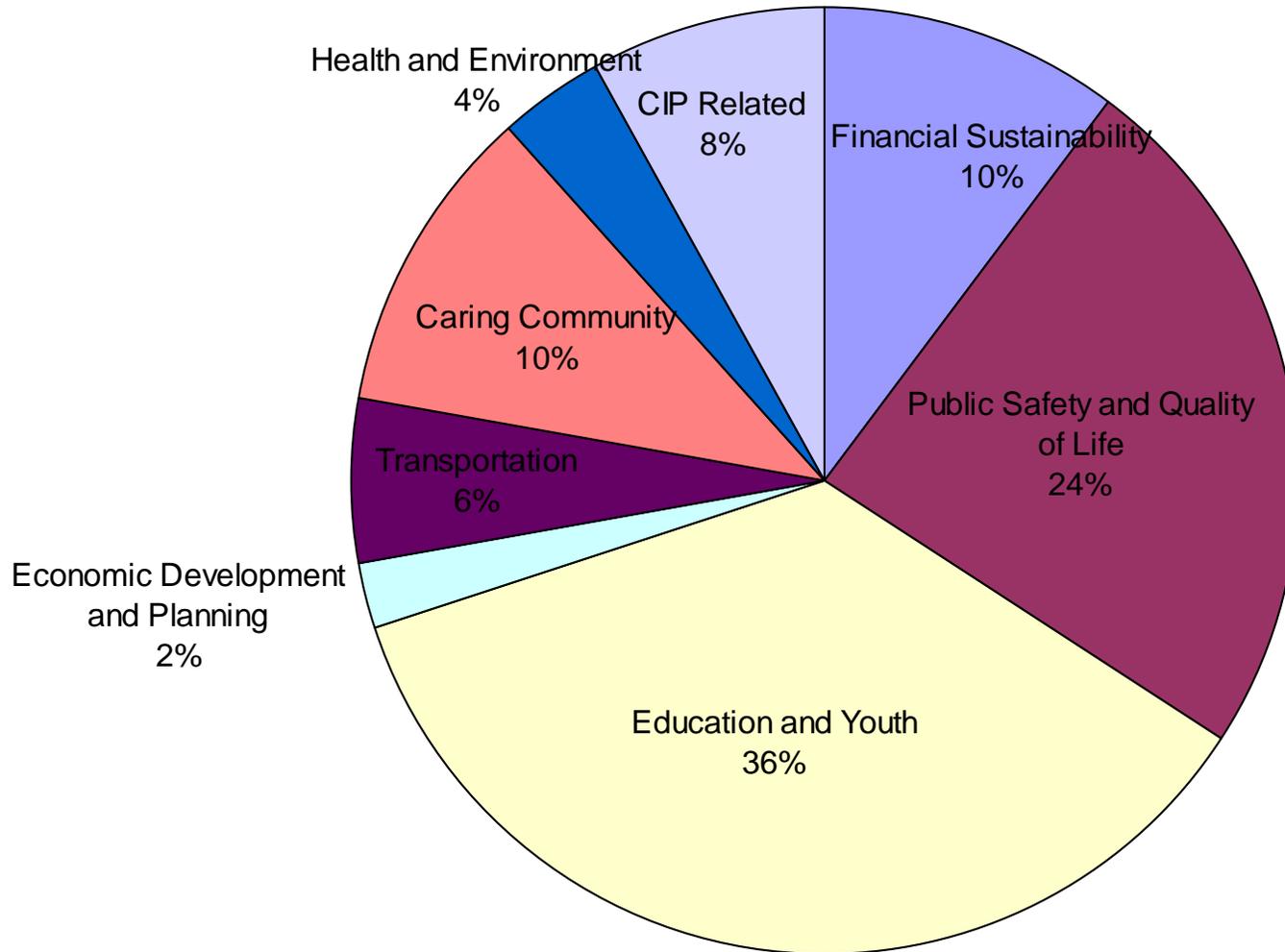
History of General Fund Actual Expenditures FY 2000 to FY 2010



History of General Fund Actual Expenditures Per Capita Inflation Adjusted Basis FY 2000 to FY 2010



FY 2011 General Fund Budget By Strategic Goal Area



Recent General Fund Budget History

By Strategic Goal Area

(\$ in millions)

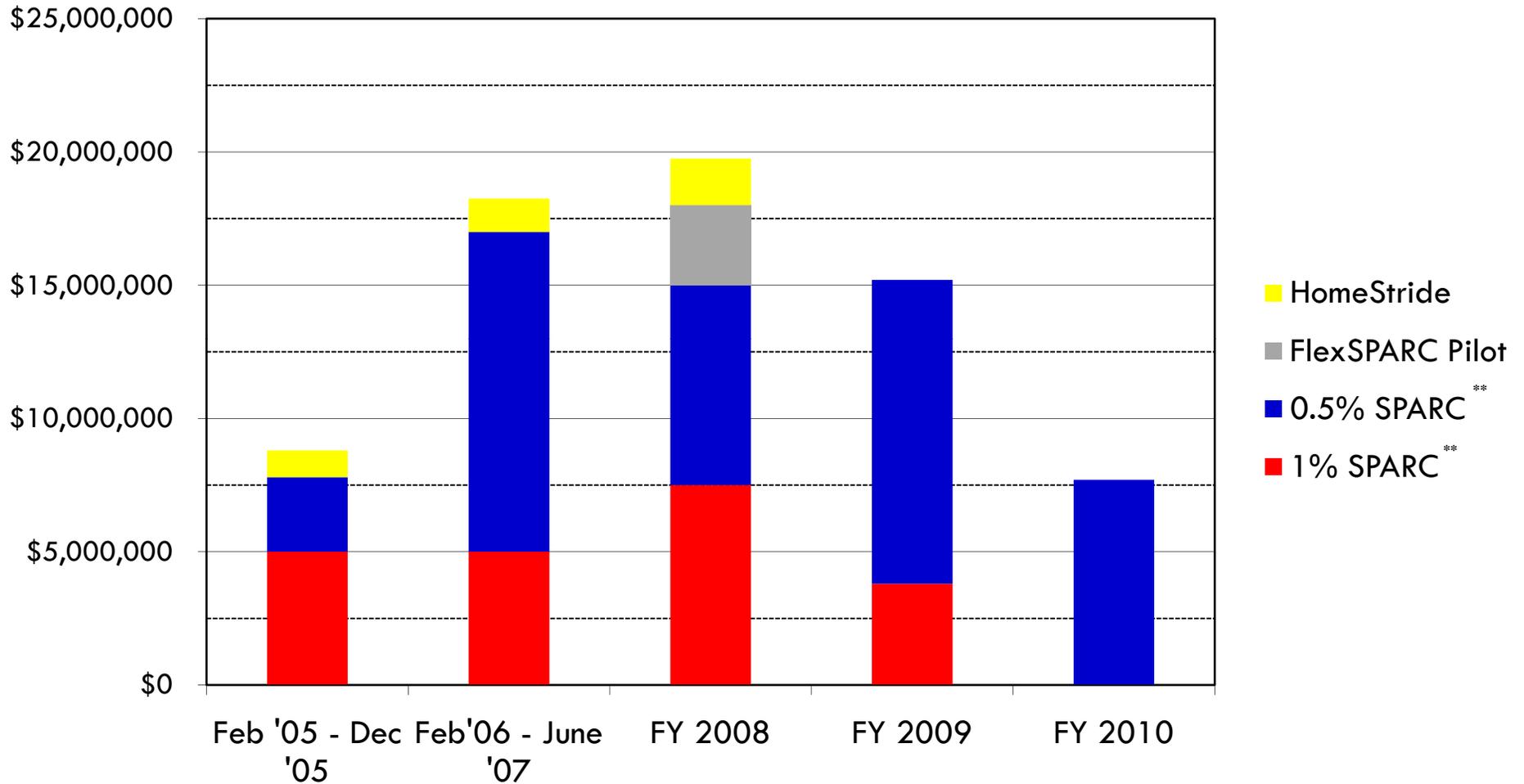
| | FY 2009 | FY 2010 | FY 2011 | % Change FY 10 to FY 11 | % Change FY 09 to FY 11 |
|--|-----------------|-----------------|-----------------|----------------------------------|----------------------------------|
| Goal 1 Quality Development and Redevelopment | \$ 16.6 | \$ 14.6 | \$ 11.4 | -22.0% | -31.1% |
| Goal 2 Health and Environment | \$ 18.4 | \$ 19.3 | \$ 19.7 | 1.7% | 7.0% |
| Goal 3 Transportation | \$ 26.3 | \$ 29.6 | \$ 29.8 | 0.9% | 13.3% |
| Goal 4 Education and Youth | \$ 192.1 | \$ 188.9 | \$ 191.2 | 1.2% | -0.5% |
| Goal 5 Financial Sustainability | \$ 56.7 | \$ 53.5 | \$ 54.8 | 2.5% | -3.3% |
| Goal 6 Public Safety | \$ 126.8 | \$ 127.4 | \$ 126.8 | -0.5% | 0.0% |
| Goal 7 Caring Community | \$ 59.3 | \$ 54.9 | \$ 55.7 | 1.4% | -6.1% |
| Capital Improvement Program Debt Service and Pay-As-You- Go Cash | \$ 44.2 | \$ 41.8 | \$ 42.2 | 0.9% | -4.4% |
| Total General Fund Budget | \$ 540.4 | \$ 530.0 | \$ 531.6 | 0.3% | -1.6% |

CARING COMMUNITY GOAL

- **Includes**

- Housing
- Community Services Board (Mental Health, Intellectual Disabilities, Substance Abuse)
- Human Services
- Office on Women
- Recreation, Parks and Cultural Affairs
- Library

VHDA Allocations to City for Affordable Homeownership SPARC & HomeStride; February 2005 to FY 2010*



* No additional funds allocated for FY 2011.

** SPARC mortgages were provided at either 0.5% or 1% below the interest rate for VHDA's first-time homebuyer program.

LIHTC IMPLICATIONS FOR LOCAL FUNDING

- **Price per credit has dropped substantially**
- **Fewer credits offered in 2010 and 2011**
- **Preservation pool initially created for northern Virginia suspended in 2010 and 2011**
- **Funding formula favors new construction over rehab of existing units**

- **Results**
 - Larger financing gap in funded projects
 - Some Alexandria projects cannot score well competitively

FUNDING VERSUS HOUSING GOALS

- **Affordable Housing Initiatives Workgroup (AHIWG)**
 - Current preservation of market affordable housing goal of 640 units per year for 10 years
 - ParcView project averaged \$75,000 of City investment for each affordable dwelling unit (preserved for 40 years)
 - 640 units X \$75,000 City investment = \$48M annual investment
- **Current Office of Housing budget approximately \$8.3M**
 - Total includes carryover, staffing and operation budget
 - Non-personnel budget approximately \$6.6M
- **There are six additional quantitative AHIWG goals beyond preservation of market affordable**

WHO “FUNDS” AFFORDABLE HOUSING?

- **Private Sector**
 - Developers
 - Investors
 - REITs
- **Non-Profit Sector**
 - Foundations
 - Community development corporations
 - Development organizations
- **Public Sector**
 - HUD
 - VHDA
 - DHCD
 - ARHA
 - City of Alexandria

PRIVATE SECTOR CAPITAL

- **Private sector capital specializing in affordable housing investment**
 - Acquisition and renovation of 3,500 existing residential units for low to moderate income families in Virginia
 - Acquisition and renovation of foreclosed housing through the Neighborhood Stabilization Program
 - NSP consulting firm funded in part by venture capital
 - Socially responsible alternative to high risk, low return business venture
 - Centerline Capital Group/Tiki Barber Foundation
 - Community Reinvestment Fund/ NeighborWorks of America
- **Challenges**
 - Emerging type of investment source
 - Limited funding
 - Highly competitive

PRIVATE EQUITY SOURCES

- **Capital Investment Sources**

- Equity Investors
- Venture Capital
- Institutional Investors
- Real Estate Investment Trusts (REIT)

- **Issues/Concerns with Capital Investment Sources**

- Lower ratio of investment return for each \$1 of tax credit
- Acquisition of non-performing or foreclosed real estate projects is more attractive than investing in new multi-family project
- Fannie Mae and Freddie Mac are no longer players

PRIVATE INVESTMENT SOURCES

- **Banks/Financial Institutions**
 - Provide loans to development entities allowing leveraging of assets
 - Collect principal and interest payments according to loan vehicle
 - Flexible in structure of the deal (i.e. term length)
 - Have become very risk averse on both rental and owner projects
 - Requiring greater downpayment/equity stake
 - More stringent underwriting policies
 - Less than favorable terms of the loan
 - “Hangover effect” for developers remembering “good old days”

NON-PROFIT INVESTMENT SOURCES

- **Community Development Corporations**
 - Revitalization through affordable housing, job creation
 - Also can provide social services
 - Formed by local community residents and operated by a volunteer board
 - Community residents generally are board members
 - Regulated by the IRS and grant makers as any other 501(c)(3) nonprofit
 - Generally location focused
 - Neighborhood vs. citywide
- **Non-Profit Developers**
 - Generally mission focused
 - Special needs housing
 - Faith-based organizations
 - Can be more flexible in financial requirements of a deal
 - Return of investment vs. return on investment
- **Often has limited funding available**
 - Government grants/loans
 - Private donations

PUBLIC PRIVATE PARTNERSHIPS

- **Federal Home Loan Bank Affordable Housing Program**
 - A flexible source of grants and loans designed to help member financial institutions and their community partners develop affordable owner-occupied and rental housing for very low- to moderate-income families and individuals
- **New York City Model**
 - Goldman Sachs; N.Y.C. Housing Development Corporation; N.Y.C. Department of Housing Preservation & Development; BRP Development; Carver Bank; Bedford Stuyvesant Restoration Corporation; Waveland Community Development
- **Challenges**
 - Smaller projects
 - Difficult to underwrite
 - Layer financing
 - Requires patient private developer

ALTERNATIVE PRIVATE FUNDING SOURCES

■ Foundations

- The MacArthur Foundation
 - The *Window of Opportunity* housing preservation initiative
 - Focused on stable, affordable housing with a special emphasis on rental housing
- Enterprise Community Partners, Inc. – The Rouse Companies
 - Provide a variety of predevelopment, green grants and loans for affordable housing projects and community development projects
- Issues and Concerns
 - Funds can be restricted for limited income categories
 - Decision making can be protracted
 - Better suited as 3rd or 4th component of layered financing sources

WHAT PRIVATE SOURCES ARE SEEKING

- **Support, allocated resources, or tax advantages that can be leveraged for a particular project**
- **Local governments to ‘set the table’ with assistance for land acquisition or tax deals, or other supportive measures that help underwrite development**
 - Many government programs are structured to support the production of low-income housing
 - Offer property tax abatements for the construction of new workforce housing and freeze taxes for existing residents **(Modified version implemented by the City)**
 - Property taxes or recordation taxes could be earmarked to pay for a housing trust fund dedicated to financing the construction of moderate income housing **(City of Alexandria already using this strategy)**
 - Local governments exercise control in setting local land use and development regulations which can have significant impacts on housing development costs
 - Especially in the area of land acquisition, site development, and regulatory relief
 - Shovel ready projects!

PUBLIC DEVELOPMENT FINANCE

The process of financing affordable housing projects which could not be undertaken without some kind of financial assistance, usually in the form of government **enhancements**

Investors would not find these projects sufficiently attractive and/or lenders would not deem the projects credit worthy without the use of enhancements (to make better**)**

WHAT ARE “ENHANCEMENTS?”

The use of various strategies to **FILL THE GAP** between total development costs for affordable housing and the total amount lenders and investors will pay for development costs

Financial enhancements include

Equity grants

Tax credits

Loan guarantees

Second mortgages

Other enhancements to reduce project costs include

Tax abatements

Interest rate subsidies

Density bonuses

Reductions in requirements for amenities like parking, etc.

AFFORDABILITY GAP EXAMPLE

54 newly built apartment units at XYZ Project

Total Development Costs = \$7,291,666

Market Rent Rate = \$1,300

HUD Maximum 50% AMI Rent Rate = \$1,036

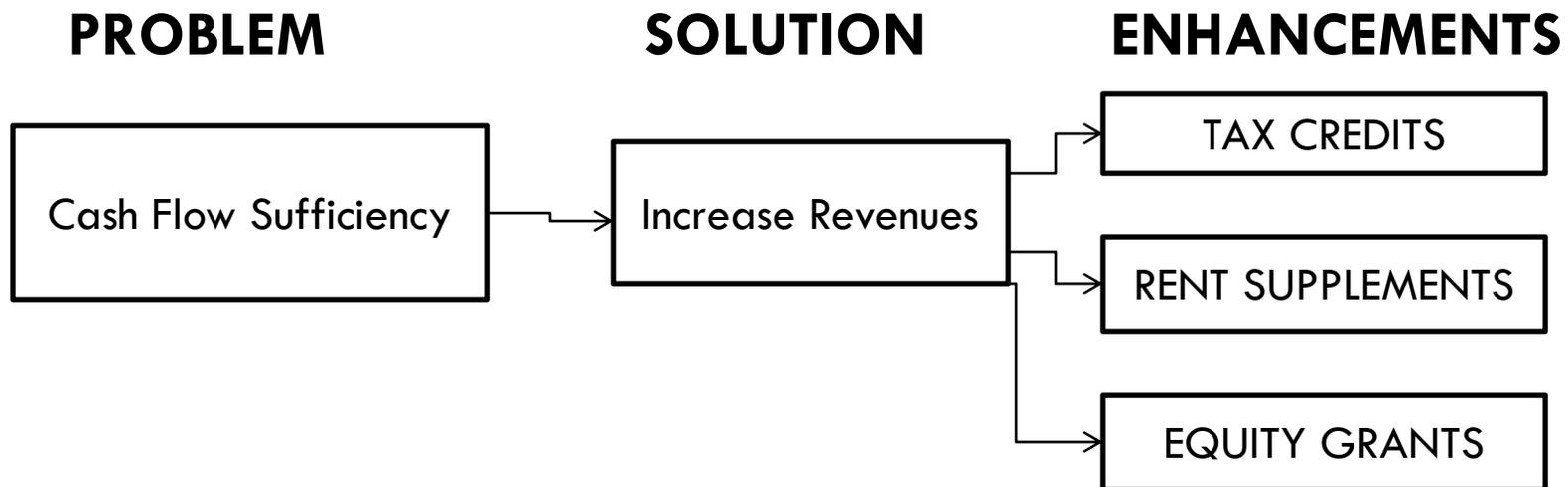
Loss of almost \$300 a month per unit for rent creates a cash flow deficiency that results in a loss of \$2,970,000 in potential financing – this is the GAP

DETERMINING ENHANCEMENT NEEDS

- **Governments Conduct Gap Analyses To Determine The Viability Of Each Project. Reviewing For The Following Gap Types**
 - Cash Flow Sufficiency
 - Cash Flow Predictability
 - Collateral Adequacy
 - Management Ability
- **Depending Upon The Findings Of The Review, Various Enhancements Can Be Offered To Make The Development Feasible And Financially Viable**
 - This is an “Enhancement Analysis”

CASH FLOW SUFFICIENCY

- **Can the project generate enough revenue to cover debt and operating expenses?**



TAX CREDITS

- **Low Income Housing Tax Credits**

- Virginia Housing Development Authority (VHDA) allocates credits based on project costs to applicants who in turn sell the credits to investors at a discount
- Credit amount equal to 9% or 4% of project cost basis

- **Historic Tax Credits**

- Department of Historic Resources allocates federal and state credits for designated historic buildings
- Renovations must follow Department of Interior guidelines or local standards

RENT SUPPLEMENTS

- **Section 8 Vouchers**

- Payments are made to landlords on behalf of eligible tenants who pay up to 30% of their income for their share
 - Tenant may pay more if rent exceeds local payment standards

- **Section 8 Project Based Assistance**

- Contracts are made with building owner who receives payments on behalf of eligible tenants

- **HOME Tenant Based Rental Assistance**

- Can be provided to tenants or owners for a period of two years per each tenant for new construction or rehabilitation projects

FEDERAL EQUITY GRANTS

- **HOME**

- Funding for both rental and homeowner affordable housing
- City and State both have HUD HOME dollars to combine in projects which agree to specific affordability periods
- HOME has very specific requirements which can be rigid
- Offered as grant or amortized/deferred loan

- **Community Development Block Grant (CDBG)**

- Awarded to Alexandria from HUD
- Can pay for infrastructure and hardscape costs of both rental and homeowner projects
- A community based organization must do the homeowner projects.
- Some requirements may make costs increase

STATE EQUITY GRANTS & LOANS

■ **SPARC Financing**

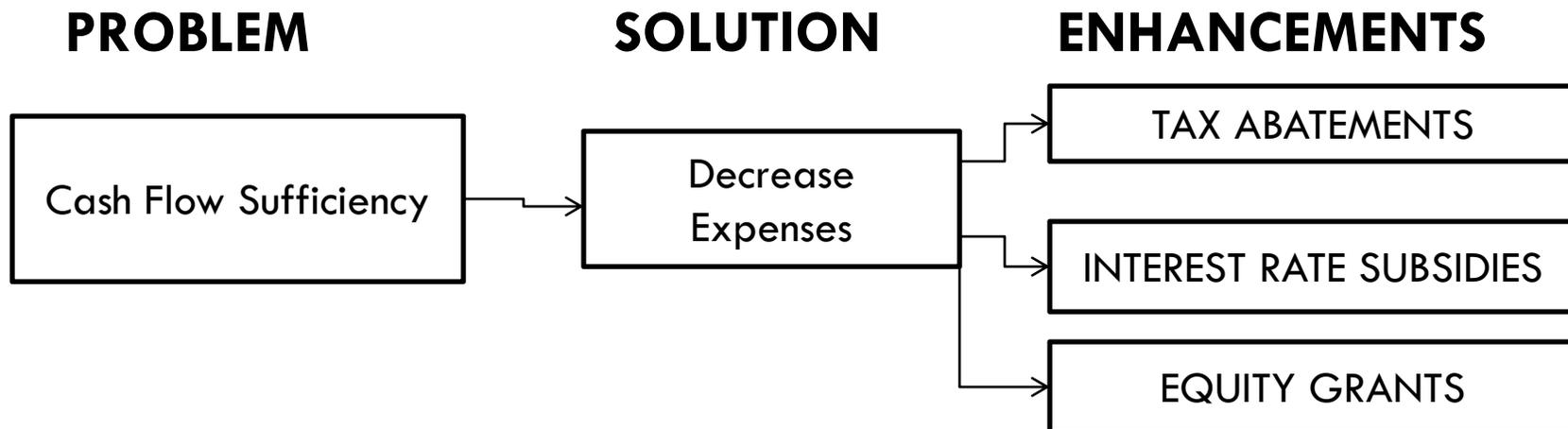
- Can be used like an equity grant because it is structured as an amortized or deferred loan which means that no payments are scheduled or expected until other senior liens are satisfied
- Targeted for special needs housing by VHDA
- SPARC is non-recourse; no developer liability beyond collateral
- Available to non-profit borrowers (track record and balance sheet)
- Single family program different from multi-family program

■ **REACH**

- Virginia provides assistance for both rental and homeownership opportunities for housing for persons with disabilities, homeless families and homeownership in distressed communities
- VHDA offers this assistance as an amortized or deferred loan

CASH FLOW SUFFICIENCY

- Can operational expenses be reduced to improve cash flow?



TAX ABATEMENTS

- **Partial reductions in property taxes for units designated as affordable housing serving very low income households, disabled, elderly or homeless households available to qualified public entities**
- **ARHA receives exemption on some units relating to tax credit leveraging and Resolution 830 units**
- **ARHA pays payments in lieu of taxes on other Resolution 830 units**

INTEREST RATE SUBSIDIES

- **501(c)(3) Bonds issued by Nonprofits**
 - Tax exempt entities which carry a lower interest rate because of the tax exemption from state and federal income taxes
 - Can only be issued by an entity which has qualified under IRS section 501C-3
- **PHA Bonds**
 - Issued by Public Housing Authorities such as Alexandria Redevelopment and Housing Authority (ARHA)
 - These bonds are purchased by investors wishing to received lowered investment returns in exchange for lower tax liability
- **Private Activity Bonds**
 - Issued by qualified local issuers including VHDA, ARHA
 - Carrying the tax exempt status can lower the cost of permanent financing

STATE/DEFERRED BENEFICENT LOANS

- **Affordable Housing and Special Needs (Commonwealth Fund)**
 - VA Dept. of Housing and Community Development will provide below market rate loans and deferred loans for up to \$500,000 for equity in rental projects targeted to special needs
- **Alexandria Housing Opportunities Fund**
 - Include a variety of sources including federal and local funds. Sources include HOME, housing trust fund and city general funds
- **Alexandria dedicated real property tax fund declined in FY2011 to an amount sufficient to pay debt service on General Obligation bonds issued for existing affordable housing projects**

LOCAL BENEFICENT LOANS

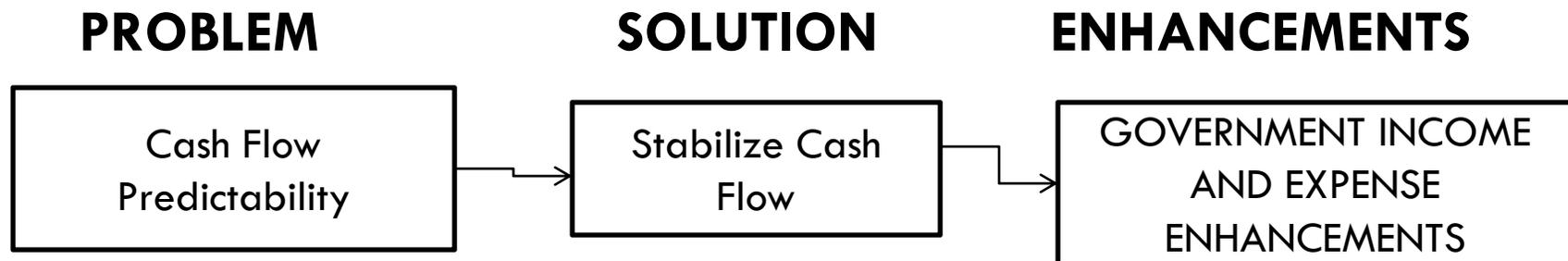
- **General Obligation bonds**
 - Provide long term financing for affordable housing projects
 - Remaining balance of fund will help finance one more project already programmed
 - Currently no plans for new bonds
- **Homeless Funding**
 - Continuum of Care organization (Homeless Services Coordinating Committee) to assist with rehabilitation and support costs of homeless facilities
 - Continuum of Care members may apply for HUD Supportive Housing funds to support new homeless, transitional and permanent housing facilities

OTHER BENEFICENT LOANS

- **Open Door Housing Fund**
 - Provides short and mid-term loans for new construction, property acquisition
 - Not a permanent loan
- **Virginia Community Capital**
 - Non-profit community housing and economic development loan fund that provides short term pre-development loans and long term below market rates
 - Loans range from \$100,000 to \$10,000,000
 - Permanent loans renewed on 5 year term

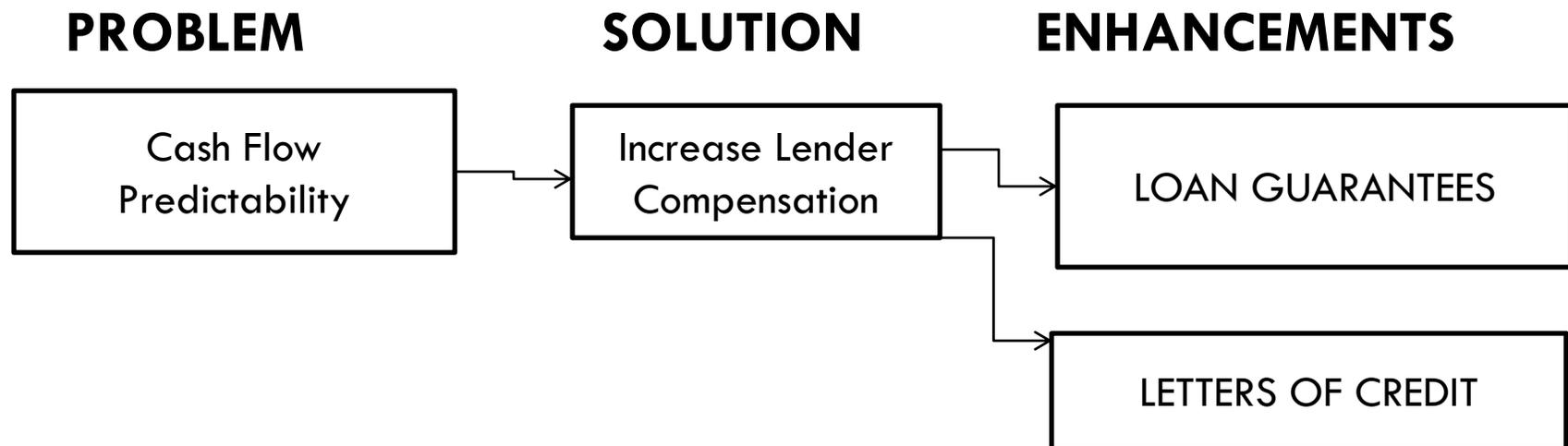
CASH FLOW PREDICTABILITY

- **How do you stabilize cash flow to make a lender feel secure that their loan payments will be made?**



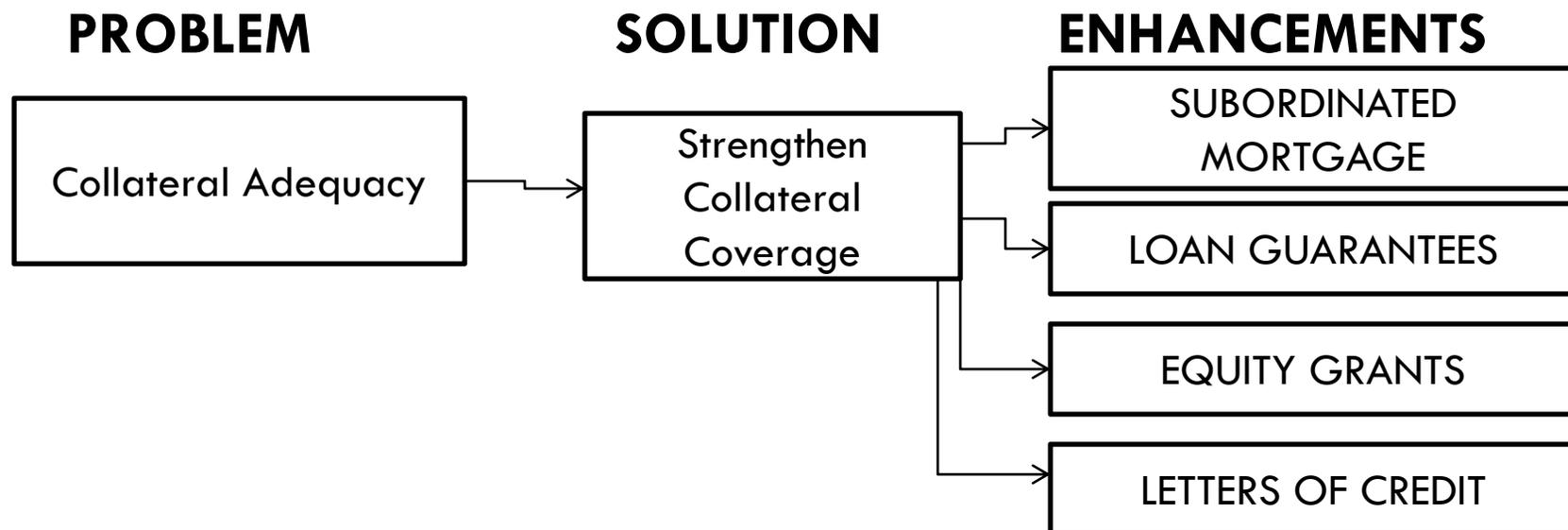
CASH FLOW PREDICTABILITY

- **How do you stabilize cash flow and increase lender compensation to make a lender feel secure that their loan payments will be made?**



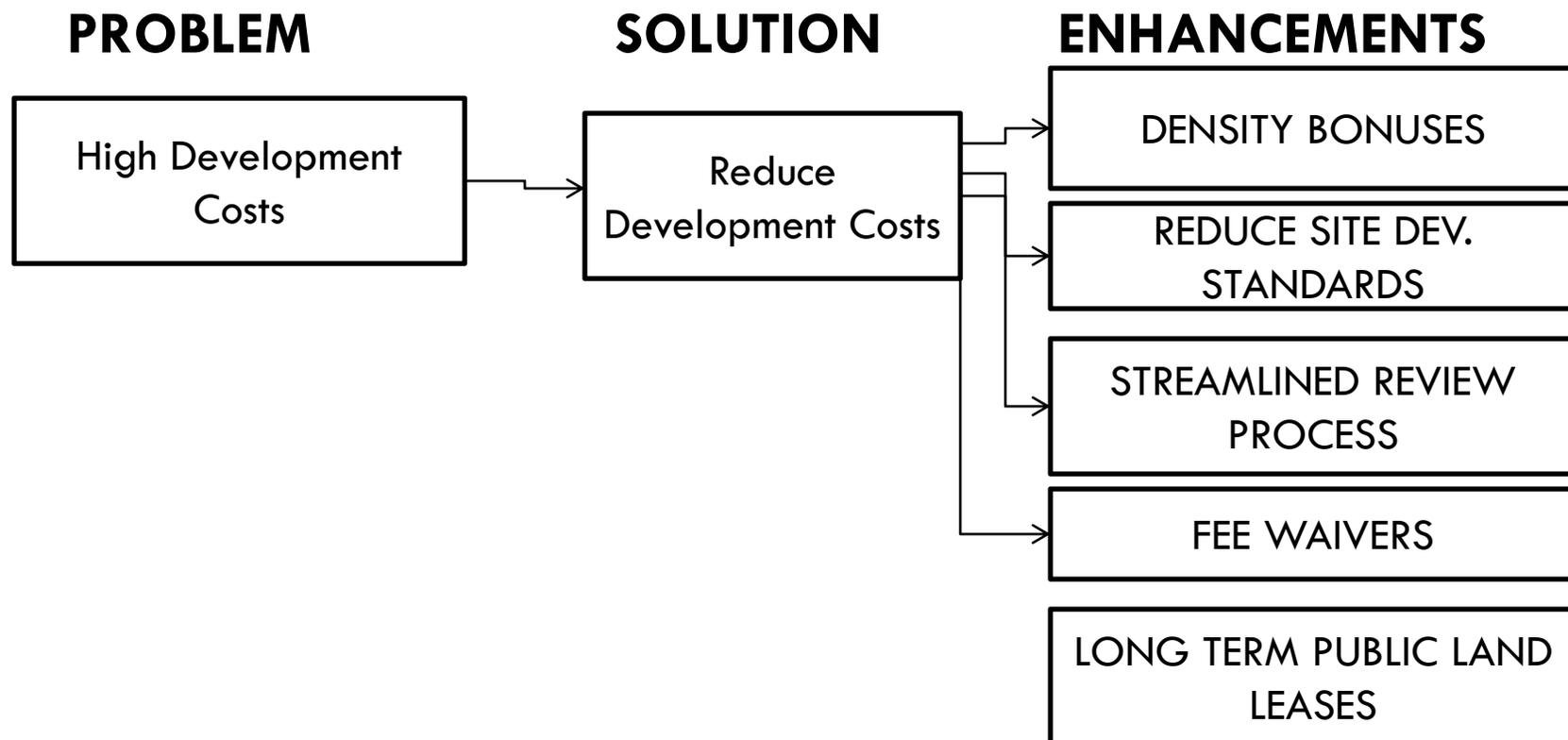
COLLATERAL ADEQUACY

- How do you provide enough loan to value that lenders will provide financing to the project?



REDUCE DEVELOPMENT COSTS

- How do you use government programs to reduce the cost of building housing units?



REALITY CHECK

- **There are no silver bullets to easily solve the challenges of financing affordable housing**
- **As costs continue to escalate and both public and private resources shrink, multi-layered partnerships will be the only way to corral enough resources to provide quality housing at a price that is affordable for lower income families**
- **The public resources and the political will to allocate those resources is essential for providing the type of housing the private market can't finance. Without the public enhancements to make the deals better, there will be few opportunities for households with limited income**

SHARED EQUITY HOUSING MODELS

- **Consists of community land trusts, deed restrictions, and covenants. This particular model included the following**
 - Affordable Set Aside Sales Program
 - Purchase discount provided as long-term equity share
 - Alexandria Homeownership Assistance Program (HAP) and Moderate Income Homeownership Program (MIHP)
 - Provide downpayment and closing cost assistance
 - Requires sharing of appreciation with subsequent buyer upon resale
 - California Community Reinvestment Corporation (CCRC)
 - A front end equity fund for developers
 - Target return to investors is mid-to-low teens
 - Their focus is \$1-3 million dollar investments
 - **Most difficult funding for developers of affordable housing**

SHARED EQUITY HOUSING MODELS

- San Francisco Community Land Trust: What is a Community Land Trust?
 - Resident-ownership of multi-family properties through the Community Land Trust model is one means of stabilizing affordable housing, in perpetuity, for low-income and working class families
 - Supported by local, state, and federal public resources & required strong “grass roots” organizational leadership

EMPLOYER ASSISTED HOUSING MODELS

- **A term to describe a numbers of ways employers invest in home solutions. Employers decide who they want to serve and then contract with local nonprofits**
 - University of Chicago Employer Assisted Housing Model
 - Provides income eligible university and hospital employees down payment assistance to purchase a home in the neighborhoods adjacent to campus
 - Employee Homeownership Incentive Program – Alexandria, VA
 - City will provide up to \$10,000 in deferred payment, second trust financing to purchase home within the City
 - City attempted to create private EAH in the past
 - Partnership with local business to match funds available to employees
 - Ultimately did not take root due to economics of home buying in Alexandria

EMPLOYER ASSISTED HOUSING MODELS

- **Advantages of EAH include**

- Improved employee retention, loyalty and productivity
- Reduced employee commutes, stress, absenteeism, recruitment and training costs
- A benefits package with a competitive edge
- Strengthened financial stability for workers, including foreclosure prevention
- Increased political, business, and community support for housing options
- State and federal tax benefits
- Leveraged state assistance for employees

PUBLIC PRIVATE PARTNERSHIPS

- **Leveraging Multiple Sources of Financing**
 - **Government Agencies and Programs**
 - Use special designations to accommodate for geographic variations in prices
 - Low Income Housing Tax Credit (includes special designation for areas with high construction, land, and utility cost, known as Difficult Development Areas)
 - **Development of Housing Trusts**
 - Dedicate public funds for the production of affordable housing and to help leverage private capital for housing development
 - The Housing Trust of Santa Clara County
 - Donors include: Wells Fargo Bank, Intel Corporation, Fannie Mae Foundation, Hewlett-Packard Company
 - **Non-Profit and Private Developers**
 - Use pre-fabricated housing, green design, and smaller units to reduce the cost of construction and operating costs

PUBLIC PRIVATE PARTNERSHIPS

- **Development of Housing Trusts**
 - Currently used by City of Alexandria
 - Dedicate public funds for the production of affordable housing and to help leverage private capital for housing development
- **Opportunities to expand Trust may include**
 - Open Door Housing Fund
 - Housing loan fund that provides substantially below market interest rate loans to nonprofit and for-profit developers.
 - They have closed 7 loans totaling \$925,000 leading the creation and preservation of 646 units in housing
 - Existing Capitalization
 - In 2003, Federal Government provided a \$500,000 earmark
 - In 2004, Federal Government provided \$400,000
 - National Housing Trust Community Development Fund: \$1 million in loans

PUBLIC PRIVATE PARTNERSHIPS

Example Development Project Numbers

Sources:

LIHTC Equity¹ \$6,500,000

Historic TC Equity² \$2,300,000

Construction Loan \$2,800,000

City HUD 108 Loan \$1,700,000

Cell Tower \$700,000

Total: \$14,000,000

Uses:

Land Cost \$700,000

Construction Cost \$10,000,000

Soft Costs \$3,300,000

Total: \$14,000,000

1 \$907,000 LIHTCs per year for 10 years at \$0.725 per \$1.00

2 \$0.925 per \$1.00

OTHER INNOVATIVE METHODS

- **Paul and Phyllis Fireman Charitable Foundation/Home Funders**
 - An affordable housing development fund
 - Their mission is to create 4,000 mixed income housing units
 - 1,000 reserved for low-income families, about 30% of AMI or below
 - PROJECTS - Egleston Crossing and Ruggles Preservation (Roxbury, MA)

- **New York City Acquisition Fund**
 - Short-term bridge loans to acquire land, which allows time to apply for various subsidies necessary to develop affordable housing
 - The fund is supported through a collaboration of the City's leading financial institutions, ten national philanthropists, and the City of New York

PROJECT EXAMPLES

- **The Station at Potomac Yard – Alexandria, Virginia**
 - 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 LIHTC equity (8.6M); VHDA construction/permanent loans (\$8.35M) and city grants/loans from HTF and CIP (\$7.9M)

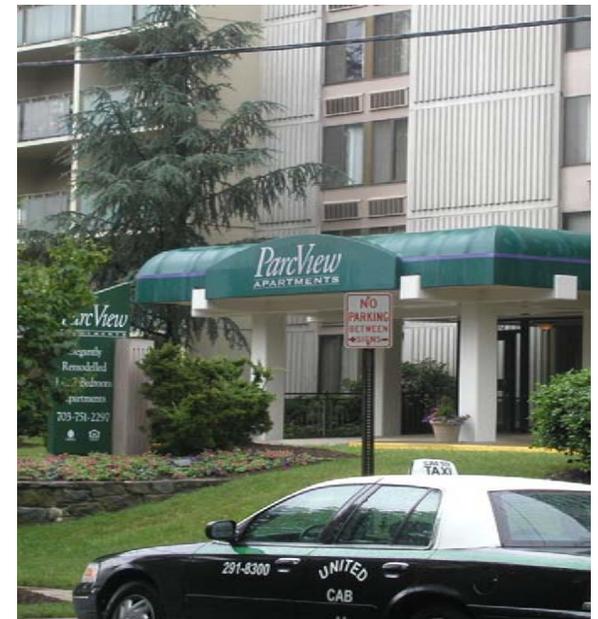
- **California Community Reinvestment Corporation (CCRC) Workforce Housing Fund**
 - CCRC has a membership of 44 participating banks and operates a loan pool of \$281 million. To date, CCRC has funded over \$386 million in mortgages to developers of housing servicing low-income families and seniors throughout California, creating 15,000 affordable housing units
 - The Workforce Housing Fund was created to address the job-housing imbalance
 - The \$30 million equity fund focus is on for-sale and rental housing , as well as special needs housing for senior citizens
 - The fund will also focused on condominium development in particularly high cost areas

PROJECT EXAMPLES

- **San Diego Smart Growth Fund, San Diego Capital Collaborative**
 - San Diego County officials unveiled their public-private \$90 million Smart Growth Fund, designed to help build affordable units for middle-income buyers and renters
 - Was position to leverage \$500 million of residential and commercial development
 - Primary focus was the development of for sale workforce housing, but will support rental, mixed use, and commercial properties
 - Phoenix group founder J. Michael Fried noted that the planned housing will include mostly attached three-to-five-story condominiums, helping stem workers' flight to distant suburbs

PARCVIEW APARTMENTS

- **Previously Landmark Apartments**
 - Originally 159 units; 105 1-bedrooms and 54 2-bedrooms
 - Originally financed through HUD Section 236 program (mortgage subsidy program)
- **Mortgage prepaid by owner to get out of program**
 - HUD provided vouchers to existing residents
 - Property stopped accepting new vouchers around 2003
- **At time of Wesley purchase in 2006, City had interest in keeping affordability**
 - 56 households had vouchers
 - Estimated 37 households were elderly
- **Wesley converted some 1-bedrooms into larger units, reducing total to 149 units**
 - Now 75 1-bedrooms and 74 2-bedrooms
- **As a result of the City's effort, 120 units are now long-term affordable**
 - 29 preserved as market rate to avoid displacement
- **Total development cost = \$225,000 per unit**
 - City investment = \$75,000 per unit for 120 affordable only



PARVIEW APARTMENTS FINANCING

It takes a village...

- Financing for the \$33.5 million project included
 - \$7.9 M 4% Low income housing tax credits (Enterprise)
 - \$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 HOF*
 - \$400K *Housing Trust Fund*
 - \$109K *Recordation Tax*
 - \$1.5M *ARHA loan repayments*

PARCVIEW APARTMENTS FINANCING

Typical Features of City Investments

- **Gap Financing**
 - Only get involved after all other sources available are fully leveraged
- **Residual Receipt Loan**
 - Costs recovered out of project cash flow following pay out of deferred developer fee
- **Long Term**
 - 40+ year committed affordability period required, which is recorded against property
- **Low Interest Rates**
 - Facilitates other investment (VHDA)
- City has “right of first refusal” if property is sold

DISCUSSION QUESTION

What should the roles and responsibilities of the City be in initiating and funding affordable housing?

Should it be a “deal maker” or take a more passive role?

DISCUSSION QUESTION

Looking at the decline in resources available to the City to do affordable housing, to what extent do we need to be more creative with our remaining resources as opposed to focusing more on finding new creative tools to impact affordable housing?

DISCUSSION QUESTION

Should the City provide more funding to implement affordable housing to take advantage of current “bargains” in the down market?

Where should it come from?

DISCUSSION QUESTION

Given the City's partners in doing affordable housing, are these partners sufficient for effecting affordable housing?

Are there other partners we should be pursuing?