

## **RESOLUTION 830 WORKING GROUP**

### **“Positioning Publicly-Assisted Housing for the Future”**

#### **ARHA - Mixed Income Development Financing Resource Sheet**

*There are a variety of funding sources that are typically leveraged to develop a construction budget including tax credit equity, conventional debt, federal sources, PHA sources, private equity, City funds, CDBG and HOME and others. On the operating side, the operating budget typically includes two sources – tenant paid rent and operating subsidy. Operating subsidy may be from public housing subsidy, a voucher or another form of rental subsidy.*

*Common sources of financing are described below:*

#### **HUD FINANCING TOOLS/PROGRAMS**

##### **HUD Capital and Operating Funds:**

- The [Capital Fund](#) provides funds, annually, to Public Housing Authorities (PHAs) for the development, financing, and modernization of public housing developments and for management improvements. The amount allocated is determined by a HUD formula and is based on the size of the PHA’s portfolio. Capital funding has been dwindling on a national level; ARHA receives about \$1M per year.
- [Capital Fund Financing Program](#) (CFFP): a PHA may borrow private capital to make improvements and pledge, subject to the availability of appropriations, a portion of its future year annual Capital Funds to make debt service payments for either a bond or a conventional bank loan transaction.
- [Operating Fund Financing Program](#) (OFFP): PHA’s are permitted to borrow private capital to finance development and modernization of public housing. Under this program, a PHA may use a portion of its Operating Fund reserve balances to collateralize (secure) loan financing and pay debt service and customary financing costs where the financing is used for public housing development or modernization (including public-housing mixed-finance developments).

[Rental Assistance Demonstration \(RAD\)](#): a new HUD tool, but with no money, per se, attached. RAD was created to give PHAs a tool to preserve and improve their properties and address a backlog of deferred maintenance. RAD allows PHAs to convert units from public housing into a Section 8 platform to improve the stability of their income stream (the Section 8-style platform subsidizes tenant-paid rents up to a total capped rent amount). PHAs must sign long-term contracts that, by law, must be renewed to ensure all units remain permanently affordable. ARHA has determined this tool does not work for them because the low rents required of the program are not financially feasible in Alexandria’s expensive rental market based on ARHA’s operating model.

[Project-Based Vouchers \(PBV\)](#): a component of a PHA's Housing Choice Voucher program; no money is allocated for PBV units but a PHA can use its tenant-based voucher funding to allocate PBV units to a project. Projects are typically selected for PBVs through a competitive process managed by the PHA that potentially makes these vouchers available to other developers. Utilizing PBV allows PHAs to carry debt on a property since they guaranty a certain rental revenue stream over time.

[Choice Neighborhoods Initiatives \(CNI\)](#): leverages significant public and private dollars to support locally driven strategies that address struggling neighborhoods with distressed public or HUD-assisted housing through a comprehensive approach to neighborhood transformation. Revitalization plans must focus on three components: housing, neighborhood, and people. Highly competitive CNI implementation grants of up to \$30M have been available for the past 8 years, but the current administration's proposed budget has eliminated the program. Alexandria has a limited number of neighborhoods that might potentially qualify for this program.

[Voluntary Conversion](#): Allows PHAs (with HUD approval) to redevelop poor-performing, high cost PHA assets through another platform (Section 8, demo/disposition, etc.).

[HUD Multifamily Financing Tools: 221d4, 223f](#):

- Section 221(d)(4) insures mortgage loans to facilitate new construction or substantial rehabilitation of multifamily rental or cooperative housing for moderate-income families, elderly, and the handicapped.
- Section 207/223(f) insures mortgage loans to facilitate the purchase or refinancing of existing multifamily rental housing.

## **Tax Credits/Incentives**

[Low Income Housing Tax Credits \(LIHTC\)](#): provides the largest source of financing for affordable rental housing in the U.S. Each year, the LIHTC program gives state and local allocating agencies the equivalent of nearly \$8 billion in annual budget authority to issue tax credits to be acquired by investors to yield dollars for the acquisition, rehabilitation, or new construction of affordable rental housing. There are [two types](#) of tax credits:

- **9% credit**: subsidizes 70% of affordable unit costs and does not require additional federal subsidies. This credit is very competitive – a PHA can only apply once each year and competes against all PHAs in the state. In Virginia, only up to \$2.4M (equivalent to \$24 million) is available annually. Funded projects must serve households with incomes <60% AMI.
- **4% credit**: available through a non-competitive process, but only subsidizes 30% of affordable unit costs so must be paired with other financing tools – e.g., bonds.

**Multifamily Housing Bonds**: used to finance the acquisition, construction, and rehabilitation of multifamily housing for low-income renters. Investors purchase housing bonds at low interest rates because the income is tax-free. The interest savings is passed on to reduce housing costs. Bonds are typically paired with the 4% tax credit; ARHA has the authority to issue bonds itself.

**New Market Tax Credits (NMTC)**: attracts private capital into low-income communities by permitting individual and corporate investors to receive a federal income tax credit in exchange for making equity investments in Community Development Entities (CDEs). Projects typically include non-residential construction (e.g., retail or economic development uses).

**Historic Tax Credit**: for preservation/rehabilitation projects located in a historic district/building. The federal program is an indirect federal subsidy to finance the rehabilitation of historic buildings with a 10 percent or 20 percent tax credit for qualified expenditures. Most state tax credit programs mirror the national program, but often with different percentages.

**Tax Increment Financing (TIF)**: cities use TIF to pair non-residential, tax-generating uses with residential construction (e.g., infrastructure, school construction). A city commits the future increment of tax revenue expected for a project. City must apply for TIF status before committing; the size of district must be big enough to generate revenue to make this application effort worthwhile.

## **Other Tools/Programs**

**Section 108 Loan Guarantee Program**: cities with CDBG funding may use a portion of their CDBG funds to guaranty loans that borrow against future CDBG grant allocations to finance infrastructure projects and related costs. Under Section 108, project costs can be spread over time with flexible repayment terms, and borrowers can take advantage of lower interest rates than could be obtained from private financing sources.

**Energy Performance Contracting (EPC)**: uses cost savings from reduced energy consumption at properties to repay the cost of installing energy conservation measures. Normally offered by Energy Service Companies (ESCOs), EPC allows building users to achieve energy savings without up-front capital expenses. The costs of the energy improvements are borne by the performance contractor and paid back out of the energy savings.

**Housing Trust Funds (HTF)**: HUD will allocate HTF funds by formula annually to states and state-designated entities. A state must use at least 80 percent of each annual grant for the production or preservation of affordable housing through the acquisition, new construction, reconstruction, and/or rehabilitation of non-luxury housing with suitable amenities.

- **Virginia Housing Trust Fund**: Virginia has a small fund that local developers have applied to. It budgeted \$4M for the past 2 years. At least 80 percent of the fund is to be used for short-, medium- and long-term loans to reduce the cost of homeownership and/or rental housing. Up to 20 percent of the fund may be used to provide grants for targeted

efforts to reduce homelessness. In early, 2018 the Carpenter's Shelter redevelopment project was awarded \$1.6 million comprised of national and state housing trust fund monies.

- [City of Alexandria's Housing Trust Fund](#): Alexandria has a trust fund to support affordable housing development, preservation, and expansion. Primary sources are developer contributions, loan repayments and interest.

[Federal Home Loan Bank \(FHLB\)](#): FHLB members use FHLB credit to finance affordable housing and economic development efforts in their services areas. FHLB loans are usually paired with tax credit financing, and provide about \$400-\$600k per project.

[Conventional Debt](#): traditional market rate bank loans; finances affordable units, market rate units and some amenities.

[Program Income](#): if a PHA earns income – e.g., from disposition of land, insurance, developer fee – it must pledge this income to develop additional affordable housing.

[Developer Equity](#): for example, a PHA may use its land as equity to lower acquisition/construction costs. The value of this use may be secured by a seller note that is repaid over time.

[Deferred Developer Fee](#): PHAs and developers can negotiate to use a portion of their developer fee as a source of financing and pay the fee earned through cash flow from operations. Some states cap the fee developers can take out. On HUD-funded projects, HUD caps developer fee at 9%, with justification for up to 12%.

[EB5 Financing](#): allows wealthy immigrants to pledge \$500k or more to invest in a viable business transaction (e.g., tax credits for affordable housing) as a vehicle to get a green card.

[Real Estate Investment Trusts \(REITs\)](#): wealthy local anchor institutions (e.g., university) can seed a real estate trusts structured to create a return on investment.

[Private foundations, other anchor institutions](#): hospitals increasingly acting as LIHTC investors out of concern for connection between housing and health, universities are becoming financial partners to reserve affordable housing for teacher/employees (i.e., “live where you work”).