Resolution 830 Working Group Module #2: Financing Affordable Housing

January 31, 2018, 8:30am
Charles Houston Recreation Center, 901 Wythe Street

MEETING SUMMARY

Meeting Materials

- Agenda
- Presentation
- Development Case Studies
- Frequently Asked Questions 01.31.2018

I. Introduction and Welcome:

Helen McIlvaine, Director of the Alexandria Office of Housing, opened Module 2 by welcoming the group back and announcing the expansion of the Frequently Ask Questions (FAQ) document that responds to many of the questions and requests for information from Module 1 on January 10, 2018. The FAQ, along with other documents and summaries from both Modules 1 and 2 are available online at: https://www.alexandriava.gov/housing/info/default.aspx?id=98848.

Rhae Parkes, the facilitator for the Resolution 830 Public Consultation process , began the presentation by highlighting the takeaways from Module 1 and reminding the group that its role is to look at the current Resolution 830 language and make recommendations about whether it should stay the same, be updated, or be replaced with a new policy. The intent is to make sure that the policy meets the current reality and balances the need for housing affordability and ARHA sustainability. The City and ARHA will consider these recommendations when making final decisions about the future of Resolution 830.

Ms. Parkes reviewed the key takeaways from Module 1, listed on slides 3-4 before launching a discussion of development structures and financing tools.

II. Discussion of Mixed Income Development Models

When redeveloping their assets, Public Housing Authorities (PHA) have moved away from replacing 100% public housing to developing mixed-income and sometimes mixed-use communities. The affordability mix in these developments is driven by replacement requirements, the market, and the financing available. The structure of these development projects varies considerably depending on housing authority goals and opportunities. Some housing authorities self-develop, others hire private developer partners; some own and manage the assets, others don't. Some convert via the RAD program (a HUD initiative, Rental Assistance Demonstration) and others don't, or are not able to.

Q: Would there be some properties you could not convert to Project Based Vouchers In high rent markets?
A: Tenants typically pay 30% of their household income for rent and voucher subsidy pays the difference, but only up to a cap. A developer might decide that if it can't get a higher rent than the cap permits, this model is not financially viable for that project.

Q: How many vouchers does ARHA have funding for? Are any currently uncommitted?
A: ARHA has budget authority for 1,926 vouchers. Currently, ARHA has about 1,500 vouchers under lease.

Q: Are any supportive services provided or required?
A: Developments that are 100% elderly are required to offer supportive services. In other cases, services are provided based on the ability to fund a supportive services plan.

III. Mixed Income Development Financing

There are a variety of funding sources that are typically leveraged to develop mixed income communities, including Low-Income Housing Tax Credit (LIHTC) equity, conventional debt, federal grant and funding sources, PHA resources, private equity, City funds and loans, includingCDBG and HOME funds, tax increment financing (not used locally) and many others. Often, PHAs and their partners are layering multiple sources in a single transaction. The tax credit program provides the largest pool of funding for multifamily/rental development, but the 9% program is competitive, and the application and priorities vary from state to state. Federal sources such as Choice Neighborhoods which provides up to $30M is highly competitive and has been eliminated from the administration's proposed budget.

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 provided locally.

The City of Alexandria plays an important role in filling a financing gap not covered by other tools. Local funds are very flexible and can be tailored to address local need while other sources may have many restrictions and requirements that can conflict when blending sources together. Local development sources and tools are described in the Alexandria Housing Master Plan.

Q: Is there a risk hierarchy for the various financing sources? Who assumes the risk?
A: Each funding source has its own set of requirements and restrictions, and sometimes they are in conflict. Housing authorities and their developer partners must carefully assess each funding source to determine suitability for their transaction. Risk is typically assumed by the developer partner and the developer fee earned reflects the amount of risk assumed. If a PHA self-develops, they assume all these risks.

Q: Is LIHTC a state or federally funded program?
A: LIHTC is a federal program administered by states, which set the rules for eligibility, credit allocation, etc. However, the equity the credits yield come from investors (institutions or corporations that buy credits as offsets against federal tax liability). For example, ARHA applies to the state for an allocation of credits. These credits are sold to an investor with this "equity" not needed to be repaid if the property is developed and operated as affordable housing. We anticipate less investor activity in the future due to the recent corporate tax reform act which has decreased corporate incentives to participate in the Low-Income Housing Tax Credit program by reducing tax rates/future liabilities.

Q: Who is eligible to use Tax Increment Financing Fund (TIFF)? Is the City a co-developer?
A: A TIFF district is designated by cities and localities to support specific local priorities (such as the production of affordable housing, develop a new school, fund infrastructure upgrades, etc.) A city using TIFF isn't typically a co-partner or co-developer: the locality instead pledges revenues it expects to be generated by future development to pay off bonds or loans undertaken for the development.

Q: When ARHA borrows money from the City, how is it treated?
A: The City has invested in ARHA projects with grants and loans. When the City provided a loan for the Glebe and James Bland projects, for example, the money repaid by ARHA was specifically placed into a special fund earmarked for future ARHA redevelopment projects, and the accrued interest paid went into the Housing Opportunities Fund to support other affordable housing needs.

Q: Is there a way to determine the success/liability of various local financing and regulatory tools used in the past to preserve or produce affordable housing?
A: Success is difficult to measure. Regulatory tools, like bonus density, may only add a few affordable units to a project, but with the estimated cost of developing a new unit at $450K, and the operating cost to subsidize a market rate unit to an affordable rent over up to 40 years, just one unit added through a bonus density is a huge win for the City. We have to determine where the greatest housing need is in the city and how to develop tools to serve that population and location. While loans for affordable development are repaid over a long time, and are subordinate to other debt, eventually, these will create a pool for future loans. Also, the City's loans help leverage other sources – recent projects have leveraged city investment by factors of 5 and 6.

Q: The Joint Task Force released its Final Recommendations yesterday and they included a recommendation to establish a joint capital management council in which project funding decisions can be adjudicated in a central decision-making body, co-chaired by the School Superintendent and City Manager. Should ARHA also be part of discussions like that? Can ARHA sit on this central body?
A: Councilman Chapman responded that he sees value in bringing ARHA to the table in this discussion.

Q: I am concerned that two issues are getting blended in this discussion – 1) what to do with the current ARHA sites that have a limited life span and 2) what to do about the bigger issues of affordable housing in Alexandria.

A: This group needs to think about how the conversation about Resolution 830 fits into the bigger question about affordable housing in Alexandria. Does Resolution 830 allow partners other than ARHA to count toward the 1,150 requirements and/or expand their number? We will examine this question in the next meeting on February 21.

Q: Do we need to incorporate financing into proposed revisions to Resolution 830? What are the costs of maintaining the 1,150 Resolution 830 units?
A: Alexandria is a high construction cost market. Helen estimated that creating a unit costs $450K and rehabbing costs $250K. Costs to subsidize deep affordability over time may also need to be addressed.

IV. Case Studies of Mixed Income Development Projects

Connie Staudinger, Chief Operating Officer for ARHA, reviewed 3 case studies.

Q: For a LIHTC unit, how long is the affordability time period?
A: VHDA has a 30-year requirement on units financed with tax credits. The HUD Housing Assistance Program contract is 40 years.

Q: How do you measure positive outcomes for families – e.g., dwell time? Do different methods of project financing impact the family that lives there?
A: A household can stay in their unit as long as they qualify for it. ARHA has very little turnover and very low vacancy rates (1-2%). ARHA does fund social services programs to support its families.