Briefing to ARHA Redevelopment Work Group

9-28-17

Current State of Public and Affordable Housing

Household Needs

# of Low-Income Households (<= 80% AMI)	Nationally [1]	Regionally [1] (VA, DC, MD)	Alexandria [2]
Total # of Families	15,891,000	699,000	21,990
No Assistance	10,841,000	471,000	18,280
W / Assistance	5,050,000	228,000	3,874

Households Served via HUD Programs

Program	Nationally [1]	Regionally [1] (VA, DC, MD)	Alexandria *[2]
Housing Choice Vouchers	45.89%	47.44%	49.01%
Public Housing	21.11%	17.02%	19.85%
Project-Based Section 8	24.32%	27.64%	31.11%
202/811 (Elderly/ Disabled)	3.19%	3.50%	0.00%
USDA (Rural)	5.49%	4.40%	0.00%

* Percentage reflects ARHA's HUD maximum voucher/ unit availability, not actual families served

Housing Trends

Operating Fund

Decreasing

Capital Fund

Decreasing

Section 8 funding

Mostly level

(TBV, PBV, PBRA)

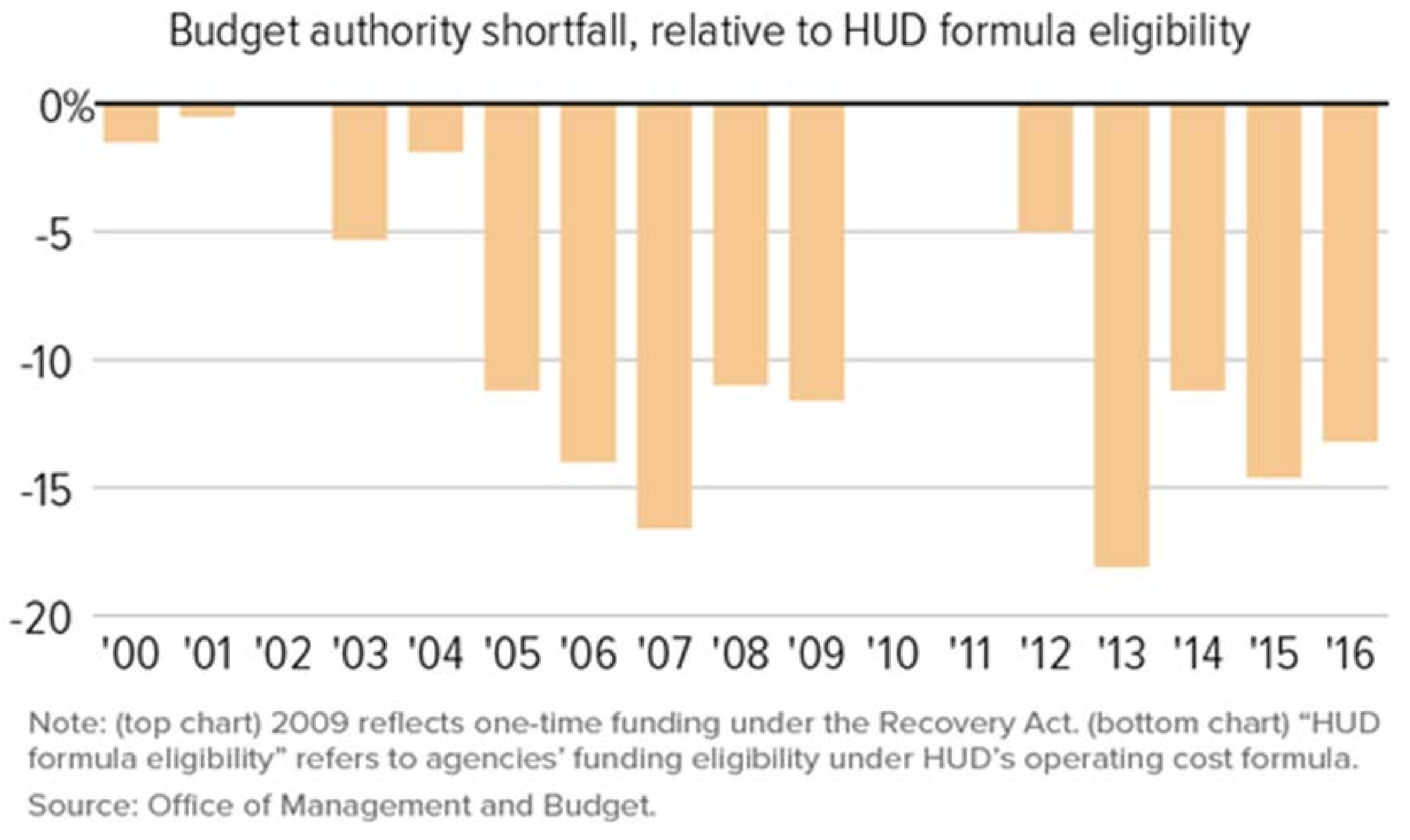
Number of Public Housing units

Decreasing

Operating Funds

- Appropriations by Congress not sufficient to fund 100% of Op. funds [1]
- From 2005 to 2009, proration ranged from ~83% to ~89%
- In 2010, the operating fund proration level was over 100% due to $4 billion in stimulus capital funding provided in FY2009 by the American Recovery and Reinvestment Act (ARRA)
- Proration levels since: [2]

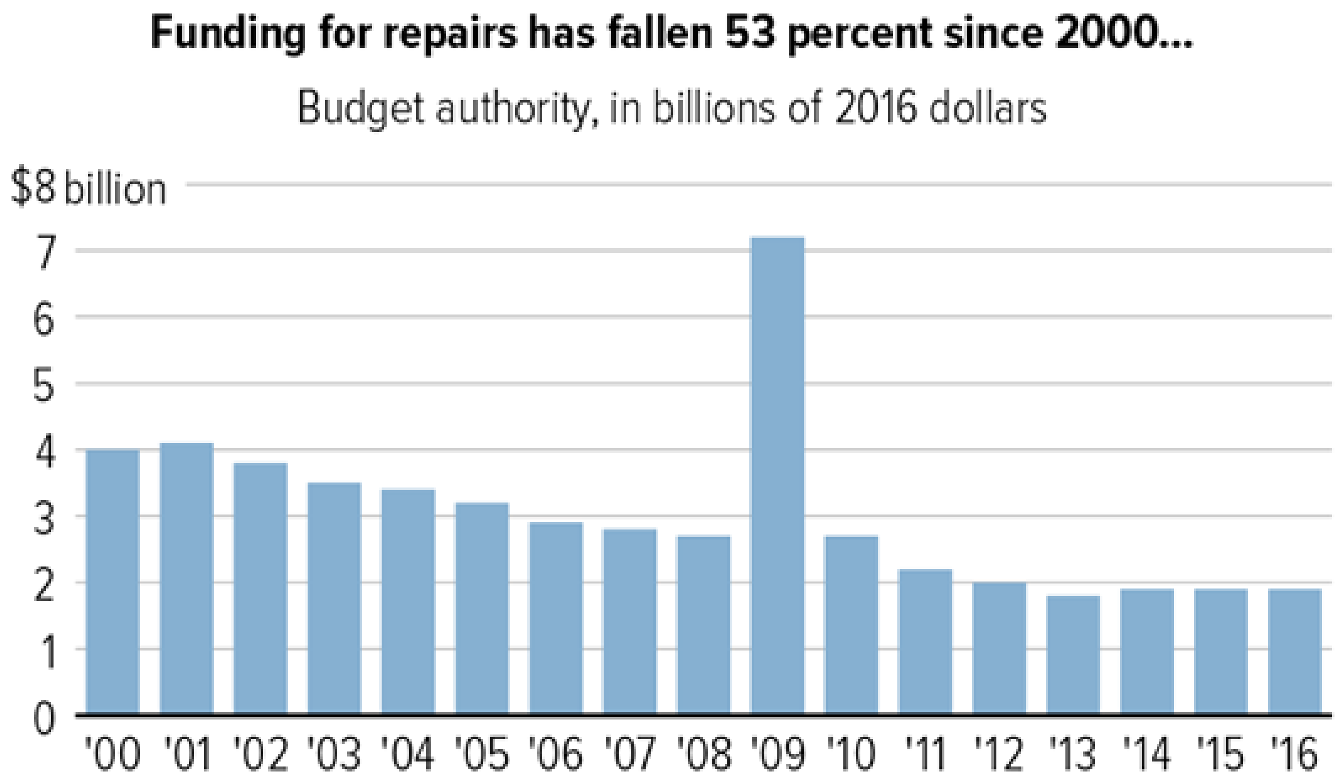
2011	95%	2014	89%	2017	92%
2012	95%	2015	85%		
2013	82%	2016	82%		


Budget authority shortfall, relative to HUD formula eligibility
0%
-5
-10
-15
-20
'00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16
Note: (top chart) 2009 reflects one-time funding under the Recovery Act. (bottom chart) "HUD formula eligibility" refers to agencies' funding eligibility under HUD's operating cost formula.
Source: Office of Management and Budget.

Capital Funds

- Capital funding has declined 53% since 2000 by nearly a billion dollars, to just \$1.9 billion in 2016, a level far below the amount that agencies need simply to cover new repair needs that accrue each year. [1]
- HUD estimates the projected annual accrual of needs is at least \$3.4 billion per year on average over the next 20 years
- As a result, the backlog of needed repairs — which HUD estimated in 2010 to be some \$26 billion — continues to grow.

Public Housing Funding Has Fallen Far Behind Need

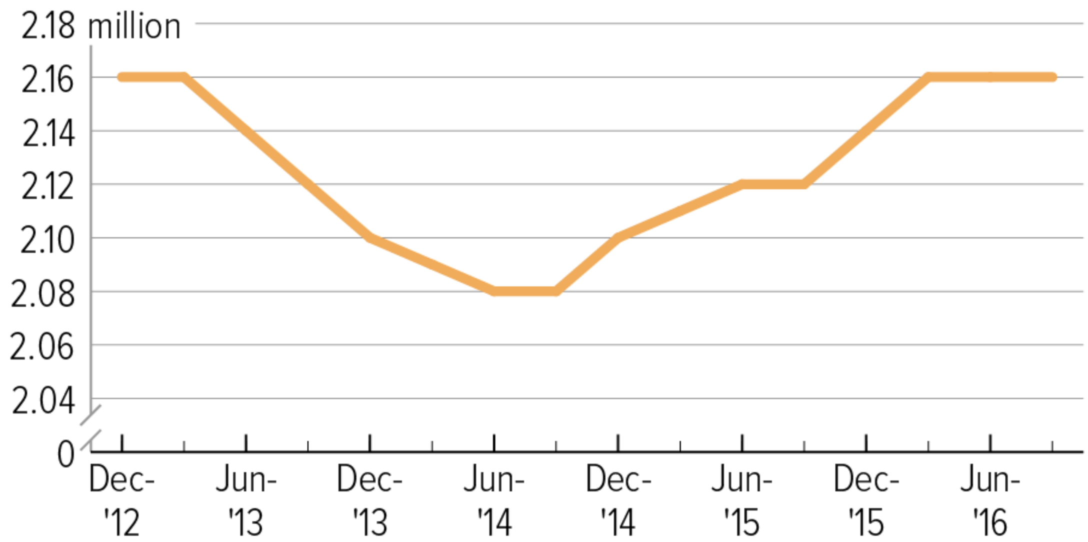


Section 8 (TBRA, PBRA, PBV)

- In nine of the past ten years Congress has provided adequate housing voucher renewal funding (HAP) [1]
  - In 2013, sequestration cuts were implemented for tenant based HCV
  - Is not true of Administrative fees, which have seen a steady decrease
- Funding has been mostly restored to pre-sequestration levels and new voucher set-asides for specific populations (ex: Veterans) have resulted in nearly all vouchers being restored
- However, rent costs in most jurisdictions have risen and the funding levels support fewer voucher users

Housing Agencies Have Reversed Sequestration Cuts in Housing Vouchers

Number of families using housing vouchers



Note: Figures exclude an estimated 58,000 new "tenant protection" vouchers issued to families since December 2012 because the tenants' existing federally-assisted housing, such as public housing units, had been demolished or otherwise eliminated. The replacement support did not represent a net gain in families assisted. Sequestration refers to the across-the-board funding cuts that were implemented in March 2013 in accord with the Budget Control Act of 2011.

Source: CBPP analysis of Department of Housing and Urban Development data

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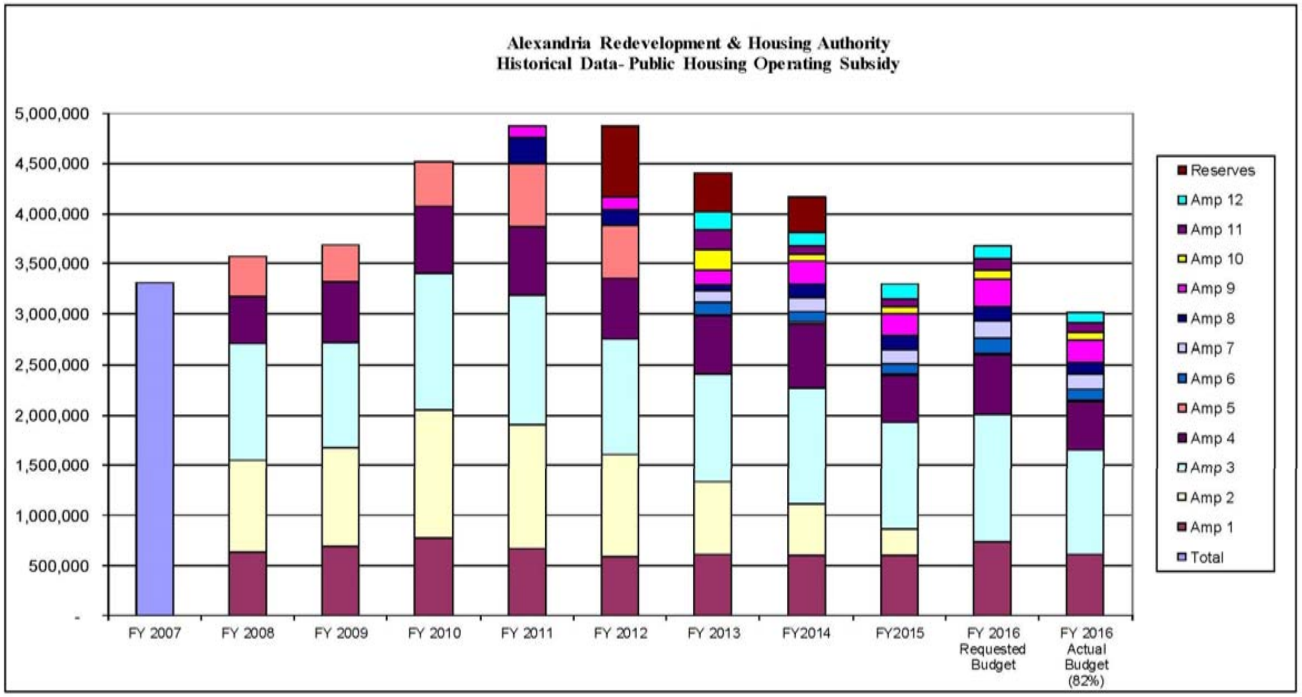
Number of Public Housing Units Decreasing

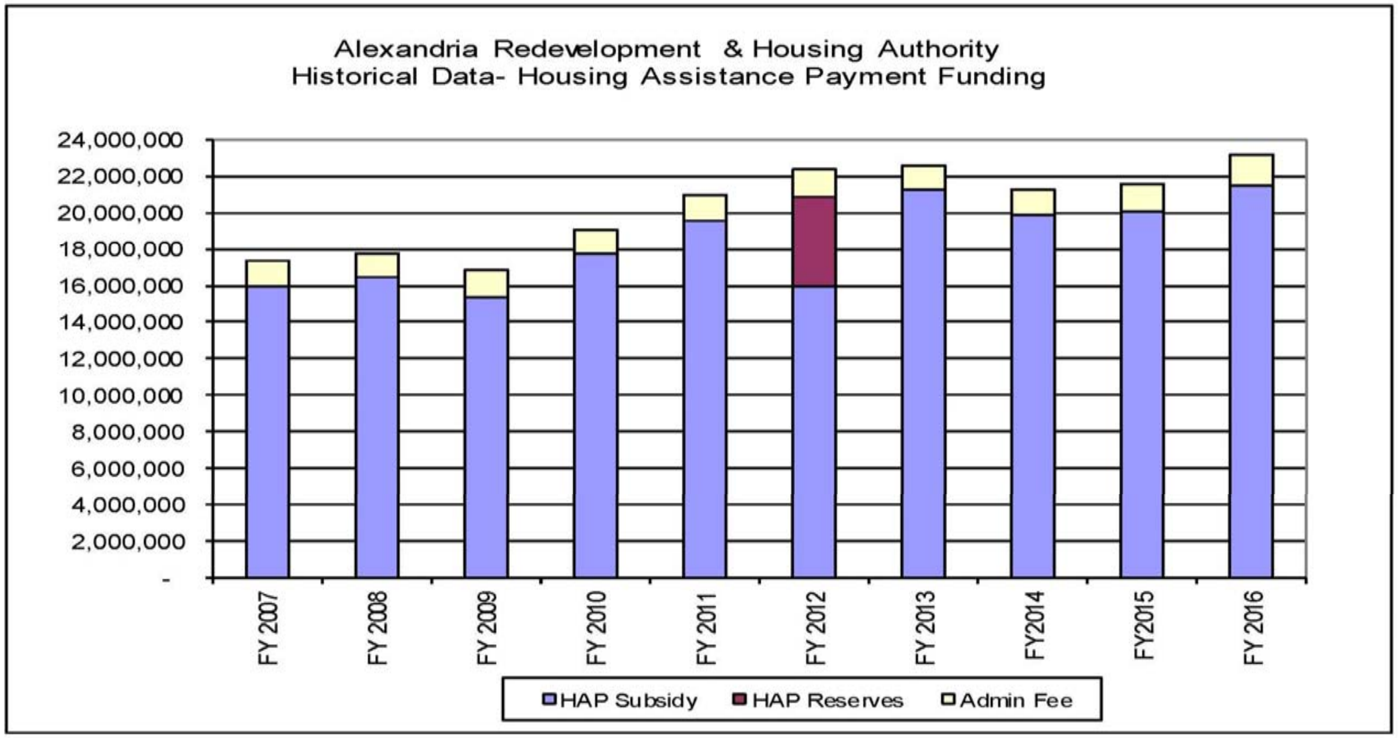
- HUD estimates that between 1990 and 2010, 300,000 units of affordable public housing were lost, primarily due to lack of investment in capital repairs [1]
  - Continued chronic underfunding of capital repairs results in approximately 10,000-12,000 units lost on an annual basis
    - PHAs are demolishing with HUD approval (demolition, disposition, and conversion)
    - Congress has not always required 1 for 1 replacement (HOPE VI) and has not appropriated funds for new replacement units
- HUD has been actively pursuing demolition/ disposition activities as a "management strategy"

ARHA Trends



Source: ARHA presentation 11/2016 [1]

ARHA Trends



Source: ARHA presentation 11/2016

White House Proposed FY2018 Budget

- The FY2018 Budget proposes to exacerbate these funding trends. [1]
- On May 23, 2017, the White House released its FY18 budget. The budget includes steep cuts in funding for affordable housing programs, totaling $6.8225 billion in cuts to HUD programs from actual FY17 funding levels.
  - Operating funds would be cut by 11.3%
  - Capital funding would be slashed by a whopping 68%
  - HCV would be cut by 11.6%, or an estimated 256,900 fewer vouchers nationwide
  - Tenant rent share would be increased to 35%

House/ Senate Proposed FY2018 Budgets

- Both the House [1] and Senate [2] rejected the WH budget proposal and proposed budgets with higher funding levels.
- The Transportation/ HUD (THUD) bill has now passed through the full appropriations committee in both chambers but has not yet been brought to the House or Senate floor for consideration.
- September 8 – Congress approved a Continuing Resolution (CR) to continue funding federal programs at FY17 levels.
- The FY18 budget is dependent on raising the funding cap; if Congress is unable to come to an agreement that raises the caps, then appropriations bills including THUD would face the $516 billion domestic discretionary cap set by the Budget Control Act of 2011.

Legislative/ Administrative Trends

- Small Area Fair Market Rents (suspended 8/17) [1]
- AFFH - Carson has announced HUD will "reinterpret" the rule[2]
- Choice Neighborhoods - unsure if will continue under administration
- Section 3 and Public Private Partnerships [3]
- Tax reform/ corporate tax rate decrease - impacting tax credit pricing [4]
- Section 8 voucher program
  - Provided new funding for special purpose vouchers (ex: VASH) - last few years
  - Streamlined PBV rules (HOTMA 2016); Eased TBV inspections (HOTMA 2017) [5]
- MtW Expansion [6]

Congressional Proposals

- S. 3384 (2016) – Bill to create MIHTC (middle income housing tax credit)
  - Has not been reintroduced in 2017 but could be, along with a number of other tax credit related bills [1]
- S. 548 – Bill to increase LIHTC authority by 50% (2017) [2]
  - Broad bipartisan support
- S. 435 – Two Generation Economic Empowerment Act – bipartisan bill to address generational poverty and emphasize cross-sector collaboration (2017) [3]

Regional/ Local Trends

- Alexandria reports losing 90% of market rate affordable units between 2000 and 2017, with a current inventory of only 1,749 apartments — roughly 454 studios, 699 one-bedroom units, 472 two-bedroom units and 122 three-bedroom units. [1]
- The average median income in Alexandria — currently $46,380 for a one-person household and $66,180 for a four-person household — has risen 33 percent since 2000, while the average rent of a studio is up 87 percent, a one-bedroom unit 94 percent, a two-bedroom unit 95 percent and a three-bedroom unit 85 percent.
- In Alexandria, approximately 2/3 of all households at or below 80% AMI are rent-burdened (paying more than 30% of their income for housing) [2]

Future of Public Housing

Public Housing

- Voluntary Conversion [1]
  - Removal of developments from public housing and converting to tenant-based or project-based vouchers; may only be undertaken only where it would be beneficial to the residents and e surrounding area, and would not have an adverse impact on the availability of affordable housing in the area
- Section 18 [2]
  - For units that are obsolete with no ability to rehab
  - HUD encourages PHAs to consider alternatives such as RAD, Choice, mixed finance rehab, CFFP, and voluntary conversion before Section 18

Public Housing

- Rental Assistance Demonstration (RAD) [1]
  - In 2012, Congress authorized the *Rental Assistance Demonstration (RAD)* to test a new way of meeting the large and growing capital improvement needs of the nation's aging public housing stock, and to preserve projects funded under HUD's "legacy" programs.
  - Nearly 74,000 PH units have been converted.
  - Cap has been increased three times to 225,000, which is fully obligated and another 48,000 on the waiting list. [2]
  - Has support from current administration and HUD leadership. [3]
  - Used by PHAs to develop/ redevelop current public housing through a mixed income model.

Rental Assistance Demonstration (RAD)

- Can be used in a variety of ways
  - Convert in place – rehab of existing units
    - Results in property remaining 100% subsidized
  - Transfer of Assistance (TOA) – subsidy is “transferred” to another property via a HAP contract for a specific number of units
    - Can be to an existing property
    - Can be to a new construction property
    - Can aid in deconcentration of lower-income units
 - Demolish/ reconstruct on same site (mixed finance development) – subject to site and neighborhood restrictions

Rental Assistance Demonstration (RAD)

- Pros
  - More stable funding platform
  - Removal from Public Housing program and regulatory oversight/ administration
  - Leverage for private equity
  - Bypass HUD SAC disposition process
- Cons
  - Not financially beneficial for all properties/ cities (rents not high enough to capitalize debt)
  - Layered funding = overlapping regulations (ex: LIHTC vs. RAD PBV)
  - Could impact PHA staffing levels

Rental Assistance Demonstration (RAD)

- Challenges
  - Fair Housing issues
  - Site/ Neighborhood standards
  - Perception of “privatization”
- Opportunities
  - Can leverage significant up front private equity for rehabilitation or new construction
  - Is flexible – small TOA contracts to large TOA contracts, can be coupled with other funds and can be used in privately owned/ developed projects

Affordable Housing Development

Mixed Income Development

- Defined loosely as diverse types of housing for a range of income levels.
- No standard ratio of ELI, affordable (workforce), and market units
  - All units managed as a single project under a single property mgmt. entity
  - Allows for cross-subsidization of deeply affordable/ subsidized units
- Focus should be on true integration, which looks different for everyone depending on financing, local and regional market, community tolerance
  - Research shows that properties with the most diverse income mixes have higher investments in resident support services and higher impacts for residents [1]
  - Moving families from higher-poverty areas to lower-poverty neighborhoods may reduce intergenerational poverty and generate positive returns for taxpayers [2]

Mixed Income Development Models

Selling off land and hard assets

- PHA sells property (land and buildings)
  - Generates most upfront income
  - Loses asset for future development
  - Threatens long term affordability since PHA no longer has any control

Selling hard assets but keeping land

- PHA sells buildings but retains land
  - Typically through ground lease structure
  - Can use land as equity
  - Retains first right of refusal
  - Can structure many ways to ensure ongoing revenue

Project-Basing vouchers into private property

- PHA project-bases vouchers into private property
  - HAP contract with private owner ensures affordability
  - Owner receives contract for guarantees rent
  - PHA receives no revenue benefit but can improve budget and voucher utilization

(Re) Developing and retaining all ownership

- PHA owns, develops, and/or manages affordable property
  - Structured many different ways
  - PHA can receive developer fee, property revenues, other fees such as bond costs
  - Administratively, most complicated but provides most long term rights to PHA

Mixed Income PH Developer Models

PHA Responsibility

Minimum ← → **Maximum**

Private Developer

- Development:
  - Developer
- Ownership:
  - Developer
- Property Management:
- Developer's Agent

Fee-Based Developer

- Development:
  - Developer
- Ownership:
  - PHA (after occupancy)
- Property Management:
  - PHA

PHA Partners with Private Developer

- Development:
  - Developer is Managing General Partner
- Ownership:
  - Partnership
- Property Management:
  - Partnership's Agent

PHA as Developer

- Development:
  - PHA Affiliate
- Ownership:
  - PHA Affiliate
- Property Management:
  - PHA Affiliate (or Agent)

Developer responsible for all development services including design, construction, and construction/ permanent financing

PHA in capacity-building role learning from private developer and/or program manager

PHA Development Tools

- Formula Funding Available
  - Capital Fund Program/Demolition and Disposition Transitional Funding
- Other Tools from HUD
  - Capital Fund and Operating Fund Financing Programs
  - Energy Performance Contracting
  - RAD
- Other Resources to Pursue
  - 9% and 4% Tax Credits/ Private Debt or Housing Bonds
  - FHLB AHP, Housing Trust Funds, HUD MF products (221d4 and 223f)
  - Project-Basing of Housing Choice Vouchers
  - HUD Competitive Grants (CNI)

City of Alexandria Development Tools

- City Tools
  - Section 108 Loan Guarantee Program
  - CDBG
  - HOME
  - TIF
  - Density bonuses and parking reductions
  - Housing Opportunities Fund/Pre-development Funds
  - Tax Exemption and Fee Waivers (exclusive for ARHA-owned units)

Other Tools/ Ideas

- Raise equity by Condo-ing (selling) market rate units [1]
- Decrease construction costs by eliminating parking structures/ lots in car free affordable housing [2]
- Use below-market debt funds[3]
- Use of private equity vehicles [3]
- Use of real estate investment trusts (REITs) [3]
- EB-5 financing [3]
- New Market Tax Credits

Promising Practices

- Montgomery County, MD: RAD Conversion in a High-Cost Area [1]
  - Used value of land to finance construction of new affordable housing of which it retains ownership
- Cambridge, MA: Combining RAD and Moving to Work [2]
  - Implemented RAD to convert all 2,133 PH units in three phases using 4% LIHTC and tax-exempt bonds; CHA will retain ownership and management of all properties converted
- King County, WA: Statewide Acquisition and Preservation Effort [3]
  - Six PHAs and 1 City partnered to purchase a portfolio of nine privately-owned S8 assisted properties to preserve affordability; used tax exempt loan and housing preservation grant

Promising Practices

- Austin, TX: Market Rate Acquisition and Subsequent Affordability [1]
  - PHA partnered with equity investor to acquire market rate properties (with unrestricted funds); a ground lease structure allowed them to convert 50% of units to 80% AMI units; no subsidy or HAP contract
- Baltimore, MD: Combining RAD and FHA [2]
  - PHA sold a 191-unit public-housing high-rise to a for-profit developer and retained ownership of the land with a ground lease; units were completely remodeled. Financing included FHA loan and LIHTC