

Planning the Next Housing Levy
Operating & Maintenance Program Working Paper

1) Current Levy Program

The Operating & Maintenance (O & M) Program provides annual subsidies for buildings that serve extremely low-income residents who pay very low rents that are insufficient to support building operations. Levy funds provide supplemental operating income to ensure that the City-assisted housing is well maintained and financially viable.

- Funds are awarded to housing that has received 2009 Levy capital funds and will serve extremely low income and/or homeless residents below 30% AMI. Funding is typically provided one or two years after capital funding.
- Projects receive a 20-year operating support commitment. Funds are allocated each year to fill the gap between project income and expenses, up to a maximum of \$2,500 per unit per year, with future adjustments for inflation.
- Projects are reviewed in coordination with other funders through the King County Operating, Rent Assistance and Services (ORS) funding round, which allows strategic allocation of federal and local sources as projects come on-line.

2) Trends/Issues for Future Program Development

- The Program has funded 3 projects with 207 units to date; with remaining funds the Program will exceed its levy goal of 220 units.
- O&M is intended to be used with other operating subsidies, since the maximum amount per unit does not fully fund operating costs. Most often O&M funds provide the required local match for federal McKinney funds, resulting in significant ongoing federal subsidy for homeless housing. If McKinney or other operating subsidies are unavailable in the future, a higher per-unit O&M amount would be needed.
- In the current and past levies, the O&M Program was sized to support a small percentage of the anticipated new units below 30% AMI. SHA project-based Section 8 and other sources were the primary operating subsidies. If other operating sources are less available, a larger O&M Program would be needed to produce 30% AMI units.
- O&M programs have been included in the past four housing levies. Due to investment income, the O&M subsidy has been extended for early projects when the initial contract term expired. The 1986 Levy O&M fund, which supports 180 units, will need to be recapitalized in 2022 to continue extending O&M contracts.

3) OH Preliminary Direction

- Continue with current program model with priority for permanent supportive housing. O&M would still be available for other housing serving residents below 30% AMI.
- Anticipate program expansion based on limited Section 8, document recording fee revenues, and other sources of operating subsidy.
- Consider program expansion to support services, including services in units with Section 8 subsidy.
- Plan and budget for renewals beginning 2022.
- Consider new approaches for mixed income housing and for housing that will serve formerly homeless residents moving out of permanent supportive housing.

4) Strategic Questions and Research

- What is amount of O&M subsidy needed? Variables include:
 - Goal for new units below 30% AMI
 - Anticipated other sources of operating subsidy, and whether these sources require additional funds to cover costs and/or local match
 - Ability to include lower rent units in mixed income (up to 60% AMI) projects
 - Need to recapitalize 1986 Levy O&M fund to support existing 30% AMI units, and potential other sources for recapitalization
- Should O&M be permitted to provide additional subsidy for permanent supportive housing that has project-based Section 8 if the rent standard is insufficient to cover the cost of operations and services?
 - Are other service fund sources available for new projects?
 - What is the estimated amount of a Medicaid supportive housing benefit and when would it become available? Are there any potential new sources for operating and/or services (e.g., jail health funds)?
- Should O&M have a higher limit for housing that will serve formerly homeless residents moving from supportive housing to housing with a lower service level (aka, graduation housing) that are ineligible for homeless housing funds? What is the estimated demand for this housing?
- Should OH provide operating subsidy to achieve some proportion of units renting at 30% and 40% AMI in mixed income affordable projects? Tenants would pay rent affordable at 30% or 40% AMI, not based on household income.
 - How does the cost of a rent buy-down (e.g., a 20-year funding commitment) compare to a capital funding approach (increase capital subsidy to reduce debt)?

