

Seattle Housing Levy

Operating & Maintenance Program

Technical Advisory Committee, October 16, 2015

The Seattle Housing Levy has long prioritized development of housing for extremely low income and homeless residents. These residents pay very low rents that are insufficient to support building operations. Operating subsidies, and often services funding, are essential to ensure that this housing is well maintained, financially viable, and serves the intended residents well.

The Levy O&M Program is one of several operating subsidies available. O&M has been a component of the Seattle Housing Levy since 1986. Key features:

- **Eligibility:** Housing that has received Levy capital funds and will serve extremely low income residents below 30% of area median income (AMI) is eligible for O&M funding.
- **Funding Amount:** Projects receive a 20-year operating support commitment. Tenants pay 30% of income for rent. Funds are allocated each year to fill the gap between rental income and expenses. Initial award is up to \$2,500 per unit per year, with annual adjustments for inflation.
- **Leverage:** O&M is intended to be used in conjunction with other operating subsidies, since the maximum allocation of \$2,500/unit does not fully fund operating costs. Local O&M funds have helped Seattle projects leverage significant, ongoing federal subsidies through the McKinney program.

2006 Levy Performance to date

Levy O&M funds have been awarded to three projects with a total of 207 O&M supported units. The O&M program is now just shy of its goal of 220 units, and \$2.4 million remains available for a future project. The following table shows the major sources of operating subsidy leveraged by Levy capital and O&M investment.

Project	Units	O&M funding	Other operating sources*
Cottage Grove Supportive Housing Downtown Emergency Service Center	66	\$70,000 in first year \$2m 20-year est.	McKinney (\$500,000/yr) King County MIDD and United Way
Caroline W Apartments Community House Mental Health	44	\$110,000 in first year \$3.3m 20-year est.	King County mental health (\$264,240/yr) State O&M
Interbay Supportive Housing Downtown Emergency Service Center	97	\$215,820 in first year \$6.7m 20-year est.	McKinney (\$940,000/yr)
Total	207	\$12 million	

*First year funding estimate

Summary of Levy O&M Programs

OH now operates O&M Programs from four housing levies. In cases where the original 20-year contracts have expired, investment earnings and reserves allow the O&M Program to continue to provide operating subsidies to the originally funded projects. The lower number of projects in more recent Levy O&M Programs reflects OH's present focus on larger multifamily projects; earlier levies funded many group homes.

Projects that are now past their initial 20-year term are receiving annual contract extensions. In 2022, the first Levy O&M Program, dating back to 1986, is projected to be fully expended. The funding gap in the first year is projected to be approximately \$390,000; the deficit will increase each subsequent year.

Levy O &M Program	Projects under contract	Units supported by O & M	Average subsidy per unit/year*
1986	17	180	\$2,840
1995	15	205	\$2,246
2002	11	241	\$2,034
2009 to date	3	207	\$1,941

*Based on 2014 contracts

Sizing the Next Levy O&M Program

Given the objective to double the size of the Housing Levy, and the limited sources of operating subsidy, the Levy O&M Program is expected to be larger in the next Levy. Sizing the O&M Program will be done in conjunction with setting goals for new 30% AMI units funded through the Rental Housing Program. The funding amount per unit will be based on current operating cost data as well as projected cost increases, particularly the impact of mandatory wage increases.

For both the 2002 and 2009 Housing Levies, the primary source of operating subsidy for 30% AMI housing was project-based Section 8 vouchers from Seattle Housing Authority. SHA committed 500 vouchers to each levy. In practice, many additional SHA Section 8 vouchers were awarded to Levy-funded projects (for example, HOPE VI replacement housing and Sound Families homeless housing). These vouchers represent a significant, ongoing investment by SHA in extremely low-income and homeless housing in Seattle. A voucher payment averages \$8,400 per year. Just the 950 vouchers that will ultimately be counted as "committed" to the Housing Levy represent an \$8 million annual subsidy.

SHA remains committed to supporting the Housing Levy. However, SHA's ability to continue to commit Section 8 vouchers is constrained by federal budget cuts and also by HUD's efforts to limit local decision-making that is available due to SHA's status as a Moving to Work (MTW) housing authority. Housing authorities have been negotiating MTW contract extensions with HUD for the past year and the

outcome of these negotiations is not clear. SHA is prepared to commit additional vouchers to the next levy. But it is expected that the amount of vouchers will be reduced and the use of the vouchers may be less flexible. For example, HUD is likely to limit the term of commitment to 2028, the end of the term of the MTW contract.

The O&M Program as it currently operates provides a relatively shallow subsidy designed to be matched with other operating subsidies. In recent years, O&M has typically been paired with federal McKinney “Bonus funds” to create new permanent supportive housing for chronically homeless adults with disabilities. The availability, priority uses and timing of McKinney bonus funds have varied each year, making these funds challenging to use. Levy O&M has also been paired with King County mental health funding to serve homeless adults and people exiting Western State Hospital.

A small amount of additional O&M funding may be needed to continue funding projects that received 1986 Levy O&M awards, as the 1986 O&M fund balance may be fully expended by 2022. However, other fund sources, such as balances in the other O&M programs, could fund the contract extensions.

Discussion Questions

- What is a reasonable estimate of the amount of O&M needed at a relatively shallow level of subsidy (currently \$2,500/year plus inflation), which assumes other operating subsidies will be available to the project?
- Should O&M also be available at a higher amount, assuming it may be the sole source of operating subsidy for some 30% AMI housing because Section 8 is not available and/or the project is ineligible for homelessness fund sources?
- Are other operating and services fund sources available for new projects?