Planning the Next Housing Levy

Rental Housing Program / Portfolio Preservation

1) Current Levy Program

The largest Levy program provides approximately $14.7 million annually in capital funds to support production and preservation of affordable rental housing. Levy funds serve low-income, vulnerable people in communities throughout the city, and leverage other public and private investment for housing development and operations.

- The program funds new construction or acquisition/rehabilitation to preserve housing, and the housing serves eligible residents for a minimum of 50 years.
- A large proportion of housing has rental assistance and/or operating subsides attached to the housing, and provides supportive services for residents with special needs.
- The program also funds critical repairs and building upgrades for housing previously funded by the City.
- Physical inspections and annual compliance reporting ensures that the housing is well maintained, serves the intended income-qualified resident population, and is financially viable.

2) Trends/Issues for Future Program Development

Performance

- In the first five years of the levy, 1,971 units were funded, exceeding the 7-year goal of 1,670 units. In addition, five portfolio projects with 410 units received funding for building improvements.
- The Program committed 60% of funding to units that will serve households below 30% AMI, as required by the levy ordinance. This target is becoming more difficult to achieve, due to limited 9% tax credit equity for capital funding and limited operating subsidies. The goal has been achieved, in part, by investing levy 30% AMI funds in essential improvements to portfolio projects that serve homeless and other extremely low income (ELI) households.

Leverage trends

- The high level of production is largely the result of leveraging significant capital investment -- $3 of other capital funds for each City dollar. The primary leverage source is tax credit equity, accounting for more than half the total investment in all projects combined (residential costs only). Competition for limited 9% credits, which have historically funded ELI and homeless housing that cannot support debt, is growing within King County.
- In both the 2002 and 2009 levies, almost all housing serving households below 30% AMI were subsidized with SHA project-based Section 8 vouchers, or with federal McKinney homeless funds matched with Levy O&M or other local sources. In recent years HUD rules for McKinney funds have become more difficult to predict and therefore to attach to capital projects. HUD also eliminated the 202 and 811 programs that

were sources of capital and operating subsidies. In addition, uncertainty about HUD changes to Moving to Work has delayed SHA's ability to commit Section 8 vouchers to a future levy.

- A Medicaid benefit for permanent supportive housing is anticipated in the next few years, which would be available to both existing and new buildings. The benefit will not fully fund on-site services, however, and will not cover building operating expenses.
- Homelessness policy changes, reflected in the new CEH Strategic Plan, are directing local homeless dollars toward short-term "crisis response" interventions such as rapid rehousing. King County operating funds are expected to provide ongoing funding for existing housing, but likely not fund new homeless housing other than outside Seattle. United Way funding for existing projects is not expected to be renewed.

Housing project types and financing

- As a result, the Program is now funding more 4% tax credit projects, with units at 50% and 60% AMI that are capable of covering required debt. King County lodging tax revenues will be available soon for some of these projects. If Section 8 or other operating subsidies are available, a percentage of units at 30% AMI can be included. Creative approaches will be needed, and should be explored, to achieve lower rent levels with no, or limited, operating subsidy.
- The vast majority of buildings in OH's portfolio continue to pass physical inspections. This is not necessarily an indicator of the capital needs, since the combination of acquisition and rehabilitation of older buildings along with length of service providing affordable housing will inevitably lead to the need to address capital needs. The lack of cash flow in buildings that serve ELI residents means there are limited options to address capital needs other than additional public subsidy.

3) OH Preliminary Direction

- Address continuum of housing need from 0-60% AMI. Remove 60-80% AMI funding option which has not been used.
- Continue to prioritize supportive housing for chronically homeless people; continue to work to align critical capital, operating and services resources necessary for sustainability of this housing.
- Encourage mixed income buildings (up to 60% AMI) that provide a proportion of units affordable for extremely low income and, as feasible, homeless families and individuals.
- Include more family-sized units in new construction projects.
- Continue to fund projects throughout the city to increase choice and opportunity for low-income residents, including people of color.
- Continue to prioritize locations with good transit service, and to evaluate project locations for suitability for residents, such as safe access to school for family housing.
- Continue to support projects that contribute to community development efforts and prevent displacement.
- Continue to support preservation of portfolio projects through the Rental Housing Program.
- Do not include a separately funded bridge loan program. Adapt bridge lending policies to either seize on sites in a competitive market and/or capture long-term opportunities that align with City priorities.

4) Strategic Questions and Research

Rental Production and Preservation

- What is a reasonable and achievable estimate for production of permanent supportive housing, given reliance on 9% tax credits, Section 8 and McKinney bonus funding?
- What program changes would help achieve a reasonable amount of units at 30%/40% AMI in buildings primarily serving 50/60% AMI residents?
  - What is a reasonable amount of lower rent units, given that these buildings will likely not have services or enhanced property management?
  - What is the cost of buying down rents via increased capital investment and/or shallow rent subsidy?

Bridge lending policies

- Should the current bridge loan program be continued, providing short-term (up to 2 years) financing in advance of a permanent award to enable sponsors to seize upon competitive market opportunities that do not align with the NOFA cycle?
  - Should OH continue its program given that other bridge financing sources are available, and OH invests in an outside bridge lending program?
  - Are there modifications that can occur so bridge loan awards to not appear to give advantage to borrowers outside of a competitive NOFA cycle for a permanent award, to continue the competitive nature of the NOFA?
  - When making bridge loans OH secures the property with a 50-year regulatory agreement requiring affordable housing be ultimately built. If early due diligence discovers feasibility challenges to development, it is difficult for OH, as a traditional permanent lender, to extract itself from the commitment to the property for development. Are there program changes that can be made to accommodate the need for flexibility at this early stage?

Portfolio preservation

- What is the proper balance of resources between new production and the need for reinvestment in the OH portfolio?
  - Given the limited leverage funding available, should a higher OH funding percentage (currently a maximum of 50%) be permitted for portfolio projects?
  - Should housing serving extremely low-income residents be prioritized?
  - Should supplemental funding for portfolio projects continue to be awarded via the same NOFA as for new projects?