

Seattle Housing Levy

Operating and Maintenance Subsidy Programs

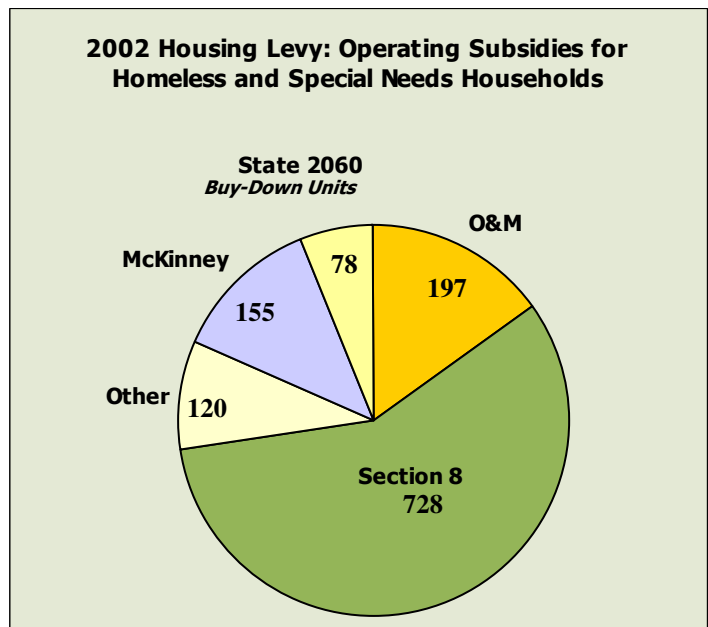
Program Background

The current 2002 Levy has an especially strong focus on homeless and special needs individuals and families, and both the 1986 and 1995 levies made specific provisions for special needs or very low-income housing. About half of the units in the OH housing portfolio are available to persons with extremely low income (<30% AMI). These households range from seniors to extremely hard to serve homeless and special needs populations. Very low-income people are not able to pay much, if anything for rent, yet buildings still need a stream of revenue to pay for maintenance and operations of the building. The Operations and Maintenance fund has provided this operations and maintenance money for some of these very low income or special needs buildings.

The 1986 Housing Levy was the first of three housing levies to include provisions for an Operating and Maintenance (O&M) program, designed to provide financial support for projects serving homeless and special needs populations. The program subsidizes and fills the gap between rental income and operating expenses in order for these projects to be financially viable long term. O&M commitments are made at the same time as capital commitments. The O&M program provides a subsidy commitment for 20 years.

The O&M Trust Fund subsidizes only units in levy funded projects serving extremely low income households with incomes < 30% of median income (approximately, \$16,000 a year.). People whose only incomes are subsidy programs such as SSI receive only \$316 a month for all needs, not just housing. Under the O&M program in previous levies, households pay 35% of their income in rent. Project subsidy amounts vary each year depending on annual expenses and the level of income brought by a variety of sources (rents, parking, commercial space, donations and other fund sources such as McKinney, CDBG, KC Housing and Services Fund-2163, KC RAHP program, State 2060, King County DYS, DSHS, United Way etc.).

The 2002 O&M program supports only a portion of the units set aside for extremely low income special needs. During this last levy



period (2003 to present), 1,278 units for homeless and special needs households with income <30% AMI were funded and supported as detailed in the pie chart above.

Summary of Current Program

The Levy 1986, 1995 and 2002 Operating and Maintenance (O&M) Programs subsidizes extremely low income units funded through the Levy Multifamily Rental Production Program. All approved projects receive a 20-year subsidy commitment. Most projects serve homeless and special needs population with an associated service component. O&M annual subsidy payments are subject to verification of the actual gap between income and expenses, but the payment level generally starts at \$2,000 to \$2,200 per year and is increased by an inflation factor each year.

The O&M Funds are capitalized over the seven years of the levy, and contract commitments are made, factoring in interest earnings and inflation in expenses to assure that there are adequate funds to cover the total 20-year contract commitments. The financial model has not included payments beyond the 20 year point, and the first cohort of O&M projects will reach that point by 2010, so we are at the decision point about extending the O&M contracts.

Number of Projects and Units supported by OMTF

Levy O&M Program	Number of Projects under contract*	Number of Units awarded subsidy	Number of 'Active Projects' eligible for subsidy in 2008*	# of Units receiving 2008 subsidy	Average subsidy per unit/year in 2008
1986	28	258	20	206	\$2,547
1995	24	294	14	200	\$1,694
2002	11	197	5	36	\$2,005
Total	63	749	39	442	\$2,117

* Note: Eight 1986 projects and ten 1995 projects converted to section 8 subsidy. Six 2002 projects are under development; subsidy will begin at 'rent up'".

Per Unit Cost to Subsidize OMTF Units

Project subsidy amounts vary each year depending on fluctuations on annual expenses and the level of income brought by operations (rents, parking, commercial space, donations) and other public subsidy sources (McKinney, CDBG, King County DYS, DSHS, United Way etc.) but generally track at the same rate of inflation. Subsidy amounts also vary according to type of project and the funding environment at the time of awards. For instance, the 1986 O&M had goals for specific special needs projects with fewer funding sources available at the time. The result was smaller projects (13 grouphomes), greater

reliance on O&M and higher per units costs than later Levy programs. In 2008 the average subsidy payment across all three O&M programs (1986, 1995 and 2002) was \$2,117/unit/year.

The 1986 and 1995 O&M Funds are currently operating with a reserve. Both the 1986 and 1995 O&M Trust Funds have reserves in excess of the amounts needed to cover the contract commitments. The Levy Financial Plan for the 1986 levy included a \$2 million reserve, which has since grown. The reserve is also due to the subsidy conversion of 18 projects that began with O&M subsidies, but the sponsors secured Section 8, which offers a larger per unit subsidy. These projects are not eligible for O&M while receiving Section 8, so the remaining O&M commitments will not fully utilize the 1995 Trust Fund. The 'Reserve' is estimated by taking the current fund balances adding a factor of 3% annual interest earnings and subtracting the projected subsidy payments increased for inflation at 5% annually for all 'Active (eligible) Projects'. Based on these assumptions the 1986 O&M program shows a Reserve of \$3.5 million in today's dollars and the 1995 O&M program shows a Reserve of \$3.25 in today's dollars.

Expiring Subsidy Contracts and the Cost of Extending Contracts

Beginning in 2010, the 1986 O&M subsidy contracts will start to expire. By 2016 all but one of the 1986 O&M funded projects will have reached the end of their subsidy period. Many of the early projects are supporting homeless and special needs populations as shown on the attached project list. These projects are operating at a break even level and are especially reliant on O&M subsidy to cover operating costs. To maintain the financial stability of these projects, one obvious option is to utilize the O&M reserve to extend subsidy contracts beyond the 20-year term.

If we utilize the reserve to provide additional year's subsidy for (23) "active" 1986 O&M contracts, we could support these projects through 2018 before exhausting the reserve.

Likewise the 1995 O&M contracts begin to expire in 2018 but could be extended through 2027 by utilizing the reserve funds.

The 2002 O&M program is fully subscribed and has 'booked' full 20-year commitments to 11 projects with a total of 197 units. Currently there is no Reserve in this fund.

Cost of Extending Expiring Contracts

Program Projects/Units including admin*	Total 20-year O&M subsidy for eligible active projects	Cost to Extend expiring contracts	Total Cost of Extended Contracts
1986 O&M <i>23 projects/226 units</i>	\$12,727,043	<i>Through 2018:</i> \$4,289,670	\$17,016,713
1995 O&M <i>14 projects/200 units</i>	\$9,981,509	<i>Through 2027:</i> \$5,242,410	\$15,223,919
2002 O&M <i>11 projects/197 units</i>	\$12,791,513	N/A	N/A

Program Changes to the Current O&M programs

Several changes could enable predictable funding allocations and more efficient administration for future years.

1. Establish a fixed annual subsidy schedule

Currently the O&M programs fund the gap between income and expenses. The program has flexibility on increases originally intended to allow added funding for unexpected reasonable costs. There are also instances where the annual O&M payment is less than the schedule amount due to a bump in fundraising or shift in expenses to a different fiscal year. The unintended consequence is the annual contract renewal results in an inordinate amount of review time and debate over the definition of reasonable expenses, reductions in other subsidy sources, tenant's rents etc.

In most projects there are not significant changes in the projects budgets. After the first full year of operation, the previous years actual income and expenses become the basis for the budget and the actual costs begin to track with inflation and the occasional rate hikes in utilities, insurance etc. Project budgets in a well performing property become relatively predictable.

Since all projects rely on the same Fund for 20 years, our goal is to provide a consistent level of support for all projects. Uncontrolled increases by a few projects can erode the fund for all projects. A fixed limit, not to exceed a 3% to 5% annual increase, would work to ensure a predictable level of support for all projects and reduce administration time spent on aggressive requests. A small reserve would be held for special cases. This change, to control increases, is

especially critical if we set new goals to extend O&M contracts for a maximum number of years.

2. Combine all (1986,1995 and 2002) O&M Programs for more efficient administration

Currently each program has its own trust fund. Contracts were tailored according to the specific Levy (1986, 1995, and 2002) program rules that applied at the time. For instance a project funded with 1995 Levy can only be supported by 1995 O&M subsidy. The advantages of combining all funds into one O&M program are:

- Combining funds will allow flexibility to support all levy projects. As noted earlier the 1986 O&M Fund will be exhausted by 2018 but the 1995 fund will still have a reserve. By combining funds into one fund, projects can be supported regardless of the particular financial constraints of any one particular Levy O&M program. Allowing management of one O&M program across all levy funded projects will provide better flexibility to support the housing goals of all levy funded projects.
- Efficiency in Fund management and reduced administrative time by City staff. Rolling all O&M programs together will simplify accounting and save staff time.

Projections for 2009 Levy O&M Subsidy Program

OH continues to see a need for a levy-funded Operations and Maintenance Trust Fund. Given the high priority on funding housing for homeless and other households with incomes at 15-30% of median income, an on-going operating subsidy is essential to achieve project feasibility. The current operating subsidy level is working, and sponsors have been able to secure other sources such as federal McKinney operating subsidies to supplement O&M.

By structuring the program as a capitalized sinking fund, it does present a renewal challenge when the funding expires. Other operating subsidies such as Section 8 rely on year-to-year appropriations, but since the levy term is typically seven years, that would shorten the time when we would face renewal costs. Overall, the 20 year term seems like a significant period to pre-fund this source, so we would recommend retaining that feature.

A major factor in sizing the amount of O&M needed from the levy will be the availability of other operating subsidies. As shown earlier in the paper, the Section 8 Housing Choice Voucher has been the largest single source of operating subsidy. The Seattle Housing Authority has been a tremendous partner in making resources available for the levy and for other homeless initiatives such as Sound Families and a Committee to End Homelessness program for chronically-homeless. Like other public housing authorities, SHA has experienced flat funding levels for

their Section 8 voucher program, so they have been setting aside a higher share of their Section 8 funds for project-basing over the term of this levy. OH has asked SHA to make a commitment similar to the one they made for the 2002 levy when the SHA Commission agreed to commit 500 vouchers, subject to federal appropriations, to levy-funded projects. We anticipate that SHA will make a decision on their level of participation prior to sizing of the levy O&M program.

The 2002 levy O&M has been fully allocated for contracts that will support 197 units and overall, more than a thousand units have been financed that served homeless with operating subsidy.

1986 Housing Levy			
O&M supported projects listed by date of expiring contracts			
1986 O&M Projects	Expiration Date	Units	Homeless Special Needs Population
Mary Witt	Dec 1, 2010	5	Substance Abuse-homeless
Aridell Mitchell	Dec 31, 2010	6	Youth
Aloha	Jan 1, 2011	66	Multiple Special Needs Homeless
Dolly Austin	Oct 1, 2011	6	Youth
LaBaTeYah	Jan 1, 2012	25	Youth
Miracle Manor	June 1, 2011	6	Substance Abuse
George B	June 1, 2012	8	Chronic Mental Illness
Rose of Lima	Nov 1, 2012	13	Multiple Special Needs Homeless
Linden House	Sept 30 2012	6	Chronic Mental Illness
Ferdinand	Jan 1, 2013	1	Multiple Special Needs Homeless Family
Shelton	Jan 1, 2013	1	Multiple Special Needs Homeless Family
Wright House	Jan 1, 2013	4	Substance Abuse
Ambassador Condos	July 1, 2013	6	Chronic Mental Illness
Hickman House	Oct 1, 2013	9	Domestic Violence
Dove House	Oct 1, 2013	5	Youth
Las Brisas Del Mar	Jan 1, 2015	10	Chronic Mental Illness
Windemere House	Jan 1, 2015	4	Multiple Special Needs Homeless Families
Ravenna Park House	Jan 1, 2015	7	AIDS/HIV
Jordan House	Feb 1, 2015	8	Multiple Special Needs Homeless
Ninth House	Mar 31, 2015	8	Substance Abuse
2500 E Union	Jan 1, 2016	6	Physically Disabled
Coach House	July 1, 2017	8	Chronic Mental Illness
Cedar House	June 30, 2024	8	Homeless Youth 18-24 living w/mental illness
Total: 23 Active Projects		226	

1995 Housing Levy			
O&M supported projects listed by date of expiring contracts			
1995 O&M Projects	Expiration Date	Units	Homeless Special Needs Population
Evanston House	Mar 31, 2018	6	Multiple Special Needs Homeless
Othello House	April 30, 2018	4	Multiple Special Needs Homeless
Bryant House	June 30,2018	5	Homeless Youth ages 18-24
Phinney House	June 30,2018	7	Multiple Special Needs Homeless
Dorothy Day	May 31, 2019	17	Multiple Special Needs Homeless Women
Ravenna-Youthcare	May 31, 2019	8	Homeless Youth
Lewiston Hotel	Sept 30,2019	48	Multiple Special Needs Homeless
Avalon Mutual Housing	June 30, 2020	14	Chronic Mental Illness
Bunkhouse	Mar 31, 2021	24	Multiple Special Needs Homeless
Phinney Place	Dec 31, 2021	8	Chronic Mental Illness
10355 Wallingford	July 31,2023	3	Mentally/Developmentally Disabled
13736 Meridian Ave N	July 31,2023	3	Mentally/Developmentally Disabled
3512 NE 140th	July 31,2023	3	Mentally/Developmentally Disabled
1811 Eastlake	Dec 31, 2025	50	Substance Abuse / Homeless
Total: 14 Active Projects		200	