Mixed-Income Production

Innovating with Public Housing Authorities

center *for* public enterprise

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Today's Constraints

- Affordable housing production **limited by subsidies** from Congress
  - Low-Income Housing Tax Credits (LIHTC), Project-Based Vouchers, Bond Volume Cap
  - Political constraints make it **unlikely these programs will expand in near term**
- Public Housing Authorities **subject to so-called "Faircloth Rule"**
  - "Faircloth" caps number of Section 9 homes HUD will subsidize
- Total housing production (especially market rate) **subject to investor confidence**
  - Recessionary risk ➔ **less investment in housing production**
  - Lower housing production ➔ **construction job loss, lower wages, higher housing costs**

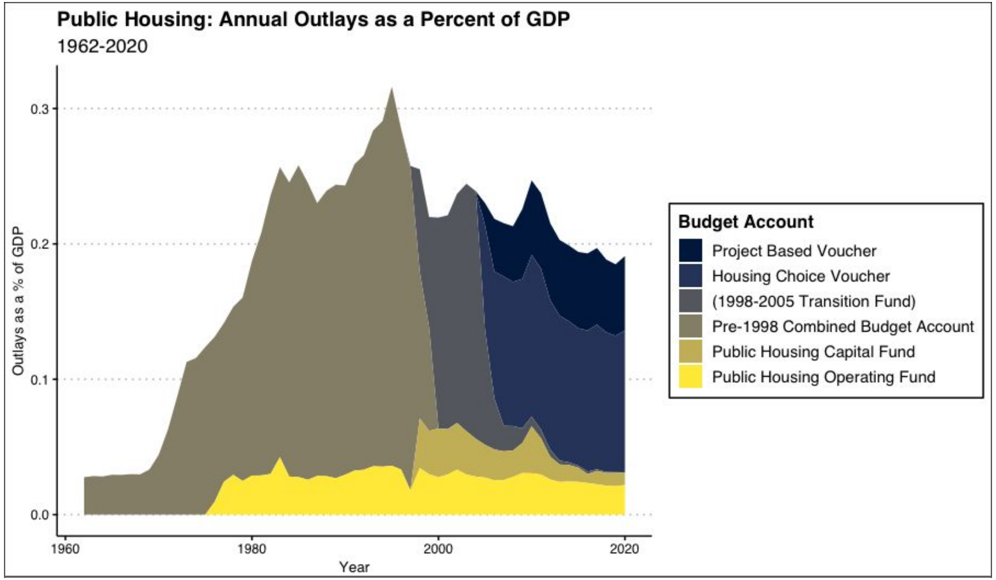
Rhode Island

% of Renter Households with Cost Burden	
AT EXTREMELY LOW INCOME	75
EXTREMELY LOW INCOME TO 50% AMI	72
51% TO 80% AMI	37
81 TO 100% AMI	12

% of Renter Households with Severe Cost Burden	
AT EXTREMELY LOW INCOME	57
ELI TO 50% AMI	27
51% TO 80% AMI	4
81 TO 100% AMI	1

Source: National Low Income Housing Coalition. "The Gap".

National Trends for PHAs



White House Office of Management and Budget (OMB) Public Budget Database

- Following 1980s-90s reforms, **capital and operating funding for Public Housing declined significantly**, in part as PHAs converted properties from Section 9 to Section 8.
- Today, most PHAs are focused on **voucher delivery and asset management**.
- Some PHAs use the authorities granted to them as public enterprises to **deliver housing through innovative production and preservation programs**.

Montgomery County, Maryland's PHA

- In Maryland, Montgomery County's Housing Opportunities Commission serves as the county PHA.

- In 2019, HOC developed an innovative revolving investment pool, called the Housing Production Fund. The **county contributes about $3 million per year** to the fund.

- The fund provides **low-cost construction period investment** to mixed-income developments. This allows mixed-income projects to be underwritten with:
    - **No LIHTC or Bond Volume Cap**
    - **No Vouchers**
    - **No State or Federal Grants**

Housing Opportunities Commission OF MONTGOMERY COUNTY

Renderings of Hillandale Gateway, funded by the HPF.

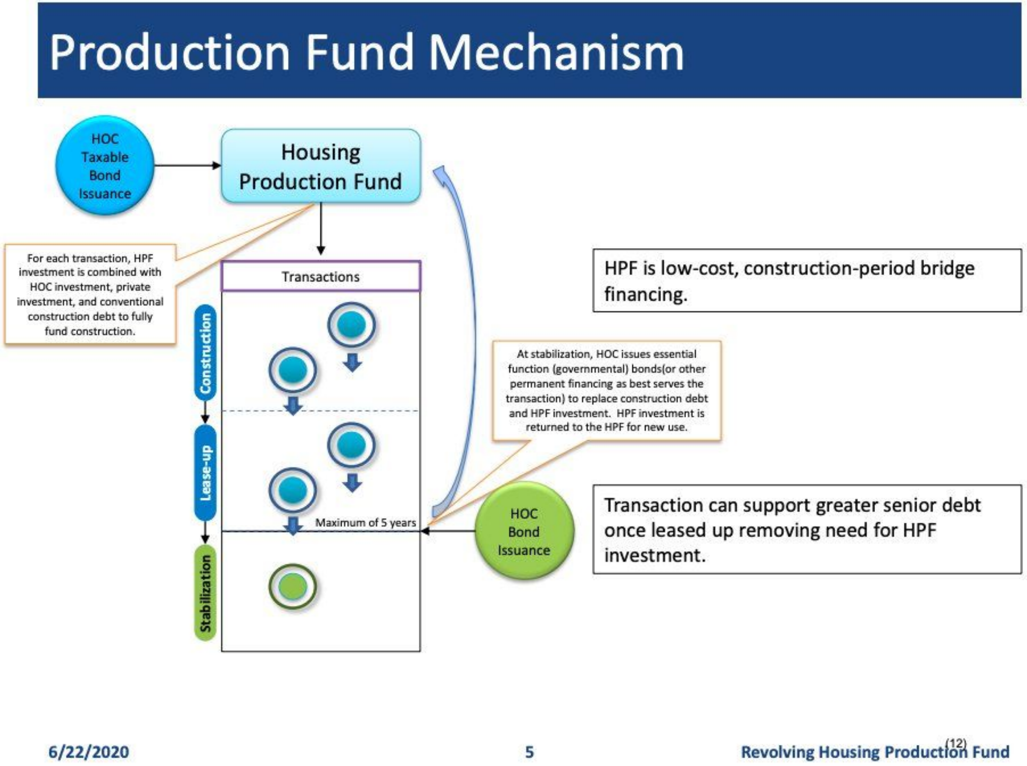
HPF Basic Mechanics

- HOC **issues taxable municipal bond** against $3 million per year appropriation to **capitalize $50 million fund**.

- Projects funded with
  - **conventional construction loan**
  - **small developer equity contribution**
  - **HPF investment**

- At lease-up, permanent financing **replaces HPF investment**, which revolves back into fund.

- Private development partner, if any, exits.

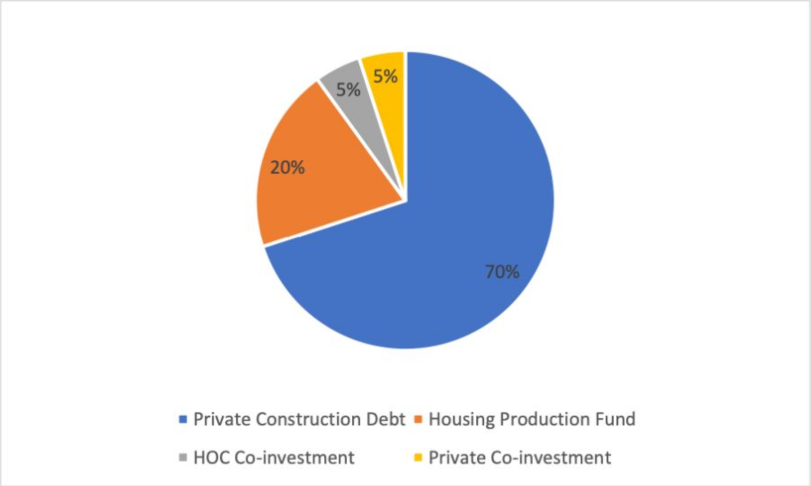


Capital Stack and Ownership

P3 Ownership

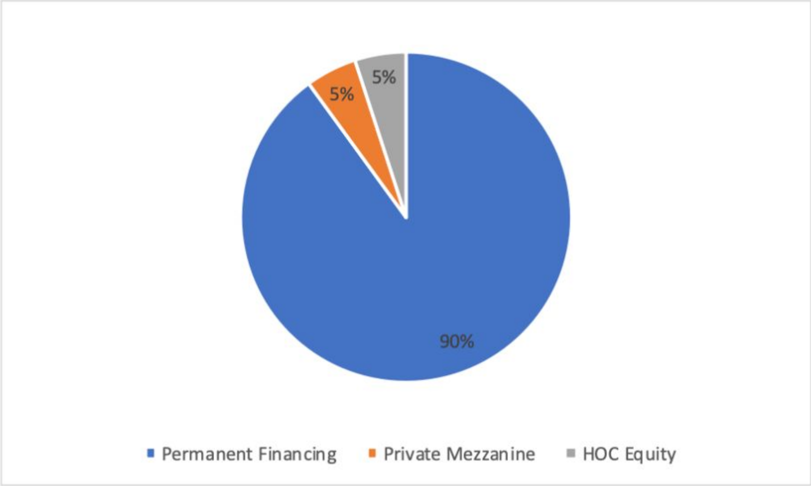
Construction (Years 0-2)

Lease-up (Years 2-4)



HOC Ownership

Stabilized Operations (Years 4+)

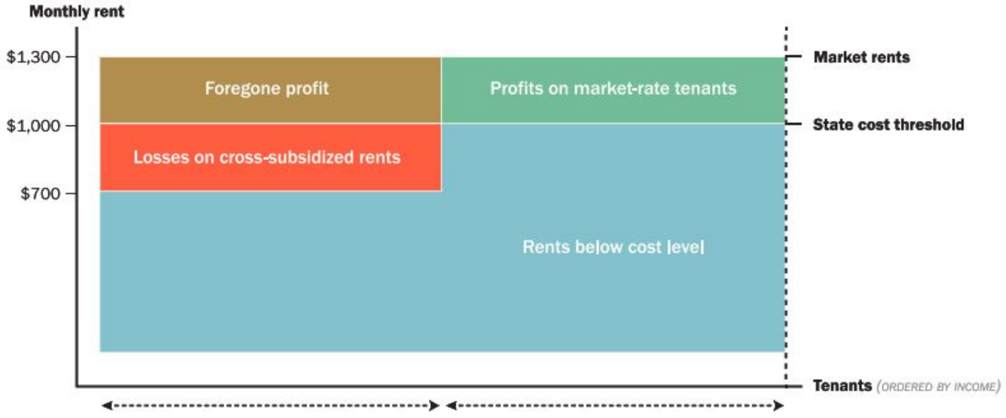


Mixed-Income, Cross Subsidy

- A range of incomes can be supported with cross-subsidized projects.
  - HOC provides a mix of **Very Low-Income** (50% AMI), **Workforce** (65% AMI) and **market rate** units.

- Growth in **market rents can be reinvested** into the the project (or the broader portfolio)
  - As cashflows increase, **subsidy can be widened or deepened**.
  - **Investments in new projects** can be facilitated by properties with strong cashflow.

Simplified cross-subsidy model



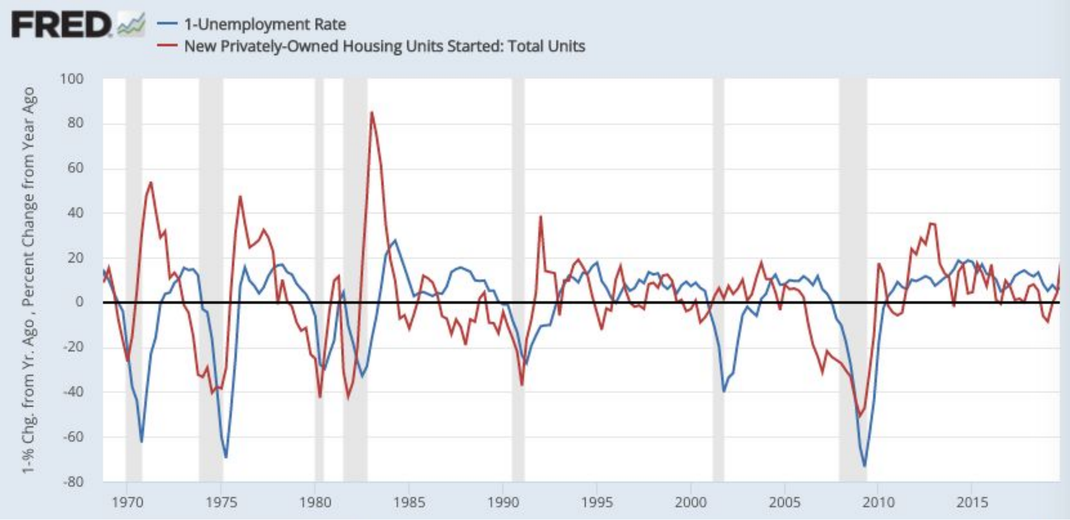
Economic Stability: Housing Costs and Construction Jobs

- As far back as economic data exists, **housing production and the business cycle are tightly linked:** falling housing production goes hand-in-hand with job loss and lower wages.

- Growing public sector capacity to participate in housing production can have **counter-cyclical** impacts.
  - Already, HOC in Maryland helped “save” one private project that was at risk of not being built.

- Research indicates that countries with a public sector that is more active in housing production may have benefitted from **more housing cost stability** during the housing financial crisis.

Housing production and unemployment



Many Local PHAs, or a New Agency?

- The question of how to structure agencies to build mixed-income public housing has come up across the country.
    - A bill in the California legislature would **establish a new state agency** to develop housing across the state.
    - A ballot initiative in Seattle would **establish a local Public Development Authority** to build housing.
    - Montgomery County, on the other hand, just **makes use of its existing PHA**.
- There are **tradeoffs** to both approaches. A higher-level agency could:
    - **Facilitate coordination** between public organizations.
    - Have access to **more, and cheaper, financing** (e.g., better bond rating)
- **Best of both worlds?** A state agency that:
    - Operates revolving fund
    - Co-develops properties with local PHAs
    - Statewide construction bids, as opposed to project-by-project?

Considerations for State Leaders

- Generates new low-income housing **without** using scarce and competitive resources
  - Thus, helps **free up scarce resources for highest-need** groups

- Two key pieces to making these models work:
  - **Revolving capital fund**
    - Small, ongoing investment (e.g., annual capital budget appropriation); or
    - Large, one-time investment (e.g., capitalize fund with ARPA surplus)
  - **Passionate and talented PHA staff empowered to innovate**

- Other factors that could improve production capacity and affordability mix:
  - **Cooperation with other public agencies** who own developable land (transit, schools, utilities)
  - State expansion of tenant subsidy programs
  - Public lending facilities (e.g. public banks) and/or interest rate subsidies