

Background

COVID-19 has only exacerbated Rhode Island's persistent housing crisis. Between 2013 to 2017, per Housing RI's analysis of Census data, Rhode Island had 30,000 affordable homes in the state that were available for 50,000 very-low-income households.¹ Similarly, only 11,000 affordable homes were available to 24,000 middle income households in the state. Renters, who are cost burdened as to make only 3 out of 39 municipalities in the state affordable to households making less than \$50,000 annually by 2019, are adversely affected.² The American Recovery Plan's \$1.7 billion in state and local fiscal recovery funds for Rhode Island presents unrivaled opportunities to improve the lives of Rhode Islanders through affordable housing development. Both the law itself and the Treasury's interim final rule give Rhode Island relatively broad latitude in providing relief to those adversely affected by COVID-19, including those needing affordable housing.³

Proposals

Accordingly, Reclaim Rhode Island supports the following proposals:

I. Social services work to maximize use of existing relief programs - \$5 million (\$4 million)

Applicants for prior and current pandemic relief programs have experienced difficulties in navigating application and verification processes, including deficits in documentation corroborating their loss of income or limiting the disbursement of federally granted funds.⁴ To date, only 17 percent of Rhode Island's granted \$200 million in emergency rental assistance has been disbursed.⁵ In support of these programs, \$5 million of state fiscal recovery funds should be appropriated to hire additional well-paid and unionized social service workers and underwriters to buttress existing support for relief applicants and to expedite verifications.

II. Catchment program for nonqualifying persons - \$20 million (\$20 million)

The Housing Help RI and Rent Relief RI programs have provided rent relief and utility assistance to tens of thousands of qualifying households throughout the pandemic. However, those that may not qualify for or have been denied are still vulnerable to further rent debt and to eviction. As part of ongoing rent relief, \$20 million of fiscal recovery funds should be appropriated for a supplementary relief program for those affected by COVID-19 earning up to 80% of median income that do not qualify for Rent Relief RI or similar relief. As with RentRelief RI, this program should be operated by and funded through RIHousing.

III. Legal services aid for renters - \$10 million (\$2 million)

The pandemic, even with eviction moratoriums, has created significant legal challenges for tenants who are most acutely affected by employment disruption or illness. Moreover, right to counsel

¹ Rhode Island's Housing Production, RIHousing, February 5, 2020, <http://www.rilin.state.ri.us/commissions/Shousing/commdocs/RIHousing%20-%20Senate%20Housing%20Commission%20-%2002-05-20-presentation.pdf>, p.15. See Census PUMS data.

² 2019 Housing Fact Book, HousingWorksRI, n.d. https://www.housingworksri.org/Portals/0/Uploads/Documents/2019%20Pages/HFB2019_compressed.pdf, p. 9

³ Ibid., p. 16

⁴ Ahlquist, Steve. "Governor Unveils New Eviction Diversion Program, but Will Landlords Allow Tenants to Utilize It?" *UpriseRI*. July 11, 2020. <https://upriseri.com/2020-07-11-evictions/>.

⁵ "Rent Relief RI - Data Dashboard." RIHousing. RIHousing, August 10, 2021. <https://www.rihousing.com/rent-relief-ri-dashboard/>.

programs have proven successful elsewhere.⁶ \$10 million in state fiscal recovery funds should be appropriated to and controlled by RIHousing for a legal services fund for tenants earning 80% of median income or less facing litigation and other legal action from landlords due to the coronavirus pandemic. By consolidating rental assistance and legal services assistance, RIHousing's operation of the program should avert additional administrative burdens on participants and increase participation.

IV. Mediation aid for renters - \$10 million (\$2 million)

The defunct Safe Harbor Housing Program, which allowed tenants and landlords to mediate disputes in advance of eviction proceedings, helped reduce eviction filings in Rhode Island in 2020 but became defunct once monetary rent relief became available.⁷ The lapse in mediation, even with rent relief available, reduces opportunities for neutral discussions of repayment and leasing between renters in arrears and their landlords. Moreover, having a nonprofit administered program added an additional layer of abstraction from broader rental assistance work and placed further administrative burdens on applicants amid the early mesh of programs.⁸ Accordingly, \$10 million of fiscal recovery funds should be appropriated for a state-operated mediation assistance fund for coronavirus-impacted tenants earning 80% median income and below. Like the aforementioned legal services aid, mediation aid should be funded through and administered by RIHousing to ensure housing stability is prioritized and assistance is delivered effectively.

V. Capitalization of building - \$195 million (\$220 million)

RIHousing estimates that \$100 million in private and public housing development is needed to reach production and preservation goals, including through Low Income Housing Tax Credits, or LIHTCs.⁹ Given the scale of housing need and the state's limited permanent housing funding, maximizing the full value of those credits is of paramount importance. To that end, \$195 million dollars of fiscal recovery funds ought to be appropriated for the capitalization of a state corporation devoted to affordable housing construction. The corporation would acquire land, issue tax-exempt private activity bonds to cover construction costs, and sell tax credits worth 4% of the affordable units' value to generate a revolving fund to cover development costs and additional affordable units. These credits, around 9% or 4% of eligible costs of the percentage of affordable units being developed, over a decade would represent 70% and 40% of a project's equity respectively. As the 9% credits are limited and cannot be used with other federal subsidies,¹⁰ projects involving 4% credits would represent the bulk of credits sold from bond-financed projects, including the rehabilitation of existing housing.¹¹ In the interest of sustainability,

⁶ Steinkamp, Neil, et al. *The Economic Impact of an Eviction Right to Counsel in Baltimore*. Stout Risius Ross, May 8, 2020, p. 8. https://bmorerentersunited.org/wp-content/uploads/2020/05/Baltimore-RTC-Report_FINAL_5.8.2020.pdf.

⁷ Mulvaney, Katie. "Evictions, Bankruptcies Were down in RI over Calamitous Year. But What Lies Ahead?" *The Providence Journal*, December 24, 2020. <https://www.providencejournal.com/story/news/courts/2020/12/24/evictions-bankruptcies-held-steady-2020-ri-what-lies-ahead/4027643001/>.

⁸ Rudin, Sophie. "'Hurry up and Wait': Rent Relief Programs Struggle to Deliver Aid to Low Income Tenants" *The Public's Radio*, September 21, 2020. <https://thepublicradio.org/article/-hurry-up-and-wait-rent-relief-programs-struggle-to-deliver-aid-to-low-income-tenants>.

⁹2022 *Rhode Island Qualified Allocation Plan*. RIHousing, September 16, 2021. <https://www.rihousing.com/wp-content/uploads/2022-Final-QAP-ATT-C-1.pdf>.

¹⁰ Mark P. Keightley, *An Introduction To The Low Income Housing Tax Credit*, Congressional Research Service (Washington, DC, 2021), pp. 1, 4. <https://crsreports.congress.gov/product/pdf/RS/RS22389>

¹¹ Ibid.

both new and rehabilitated units should be fully electrified and at least meet zero net energy or passive house standards. Construction and renovations to those standards would both address concerns of environmental justice for residents and demonstrate those standards' viability at scale. Rents from state-owned units would sustain themselves while creating greater stability for renters. This new corporation should be part of a statewide coordinated housing strategy implemented within a fully-fledged, meaningfully funded Department of Housing and Community Development outside of the Executive Office of Commerce with a dedicated staff and active involvement by Rhode Islanders facing the greatest housing need.

Additionally, whenever possible, the units should be built in federally-designated qualified census tracts, in difficult development areas, and/or on state land where environmental concerns allow. While the need for the proposed housing is widespread, the significant spread of the designated areas above statewide should provide a large number of viable sites. The state-built units should also be mixed-income social housing, with 50% of units intended for renters earning up to 60% of median income and the remainder market-rate. Creating market-rate units in the development will allow for cross-subsidization of units using revenues collected above the operating cost. With a graded increase in resident income and consistent, resident-developed rules for on-site facilities and resident behavior, these developments should encourage better social integration and avoid the isolation seen in publicly supported mixed-income developments elsewhere.¹² In sum, social housing development is an opportunity to produce public housing at a reduced subsidy cost while reducing residential segregation.

High standards cannot be limited to the units themselves. The significant cost savings gained in noncontracted work, worker misclassification, payroll tax fraud, and cash wage payments can leave workers unprotected and underpaid while passing on savings of up to thirty percent to contractors and subcontractors. The University of Massachusetts's Labor Center's 2015 investigation into wage theft and worker misclassification revealed extensive throughout the building trades in Massachusetts and involving job sites in Rhode Island, including a community development corporation's affordable housing efforts in Worcester which saw the general contractor's misclassification, noncontracted labor, and tax fraud hinder workers' just and lawful compensation as well as quality workmanship.¹³ To avert the above, the corporation should undertake feasibility studies on project labor agreements that would govern all contractors and subcontractors involved in building and renovating housing. Additionally, building trade apprenticeships should be included in contracts in furtherance of existing efforts to community members and Rhode Islanders generally.

VI. Technical assistance for affordable housing - \$10 million (\$8 million)

Continuing efforts to build affordable housing will require support for projects' technical aspects, including sustainable development. Accordingly, \$10 million of fiscal recovery funds should be allocated to technical assistance for the creation of further housing units.

VII. Incentives to PHAs for Faircloth to RAD maximization - \$10 million (\$10 million)

The Faircloth to RAD (Rental Affordability Demonstration) program allows for public housing authorities to significantly increase the supply of affordable housing without exceeding the Faircloth

¹² Dukmasova, Maya. "The Problem With Mixed-Income Housing." *Jacobin*, May 21, 2014. <https://www.jacobinmag.com/2014/05/the-problem-with-mixed-income-housing/>.

¹³ Juravich, Tom, Essie Ablavsky, and Jake Williams. Working paper. *The Epidemic of Wage Theft in Residential Construction in Massachusetts*. University of Massachusetts College of Behavioral and Social Sciences Labor Center, May 11, 2015. https://www.umass.edu/lrrc/sites/default/files/Wage_Theft_Report.pdf, pp. 10, 28-33



How to Fund a Public Developer

Grants are great, but it's not game over if we can't get them



Paul E Williams

Oct 18, 2021



I wanted to do a short post today (sorry, it actually turned into a long one) on what I think is seen by many people interested in public development of housing as a significant hurdle, but that I think is perhaps less of an issue in the grand scheme of things: paying for it. If you're establishing a public sector developer, the biggest hurdle in most places is going to simply be getting a bill that creates the authority for your new entity to buy land and build lots of apartments on it. People hate new apartments.

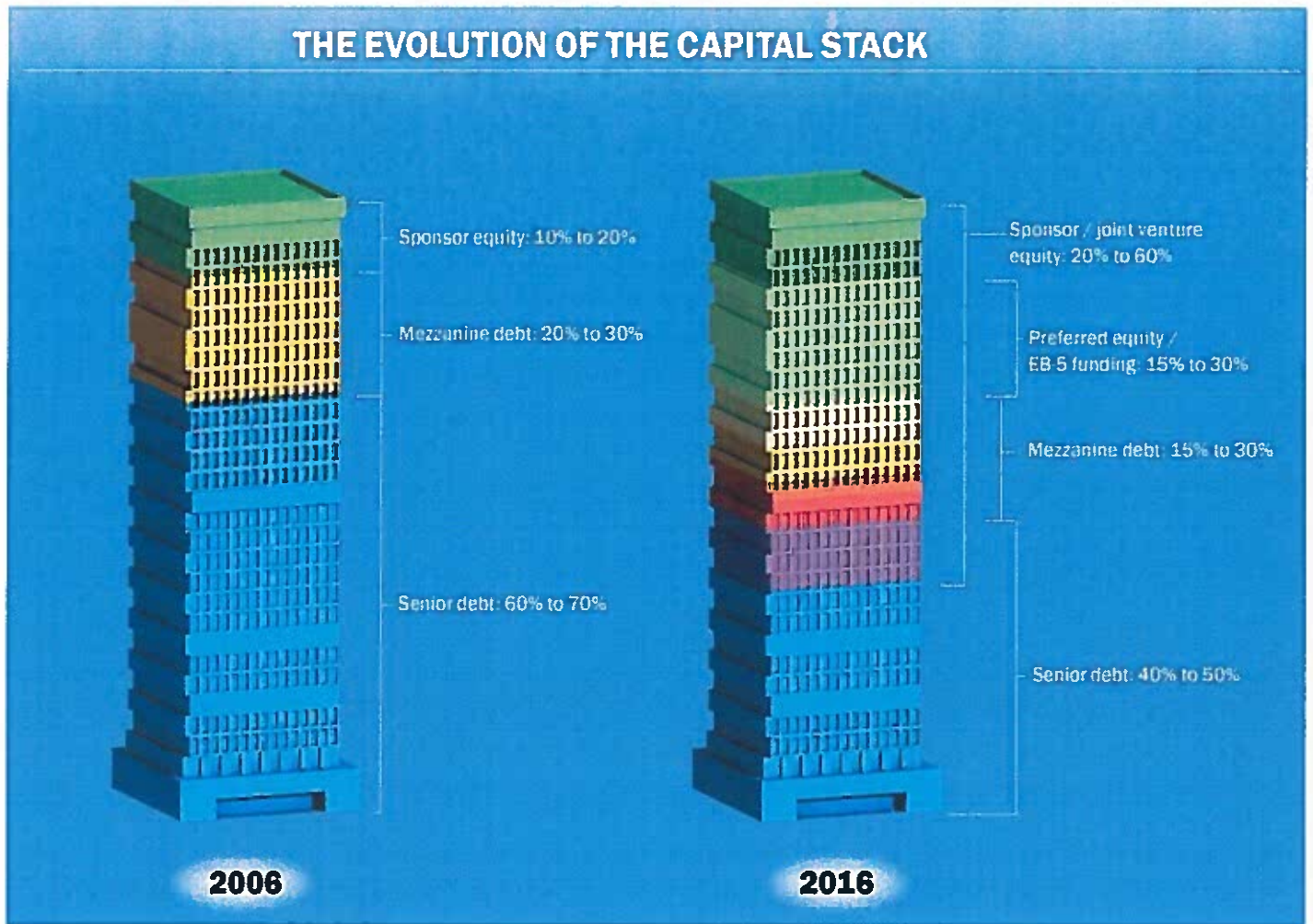
In an [article this summer](#) for *Noema* I touched on the question of "paying for it" in much broader strokes, but it's important to get down to brass tacks when you're proposing a new government sponsored enterprise or public authority that's going to have a capital budget and is going to have an accounts receivable division with real people (who have lawyers) on the other end of the line. No matter which way you slice it, building housing is very expensive.

So below is an overview of a few ways I think about these issues.

The capital stack

Whether you're a small community development corporation or you're The Related Companies, L.P., when you want to build some apartments, you've got to put together a big stack of money to make it happen. Among the many different types of developers, this capital stack is remarkably similar: equity, debt, and if you're a CDC, hopefully some grants.

In the wake of the housing financial crisis, financing for housing development did get more complex, as this visualization from *The Real Deal* demonstrates. The share of senior debt (i.e., the one who gets paid first if something goes wrong) has gone down, generally, and more complex arrangements of equity investments and mezzanine debt structures have developed, spreading some of the risk around.



Source: [The Real Deal](#)

Equity: Equity is when someone hands you a bunch of money in exchange for a stake in the ownership of the building-to-be and typically a claim on some of the rents that will be collected. It is a much riskier investment (if the project falls apart, for example) so it comes with a higher return. On the market side, returns on equity investment can be at or above 15%—quite high, relative to many other sectors of the economy.

Debt: Debt is when someone hands you a bunch of money that you have to hand back to them over a number of years, typically with some interest payments on top of that. Debt is much less risky for the investor. If the development fails, guess what: the developer is still on the hook, since they took out a loan. The debt investor typically does not have a claim on the rents, but will need to know what rents you intend to charge so they can see you'll be good for the money once the building goes up.

Grants: Grants are easy and great. You just get money from the government who says “build some apartments” and maybe gives you some rules about what you can use the money on, like hard construction costs.

What's the right mix for a social housing developer?

A big question for advocates of a social housing developer is how ought these projects be funded. This becomes all the thornier as one investigates the budgets and politics of states where such developers are most urgently needed. Looking at the types of funding available, grant funding is clearly pretty ideal in a political vacuum. If the State of New York could just hand the New York Housing Corporation a couple billion dollars a year without any expectation of repayment, that corporation would be in great shape.

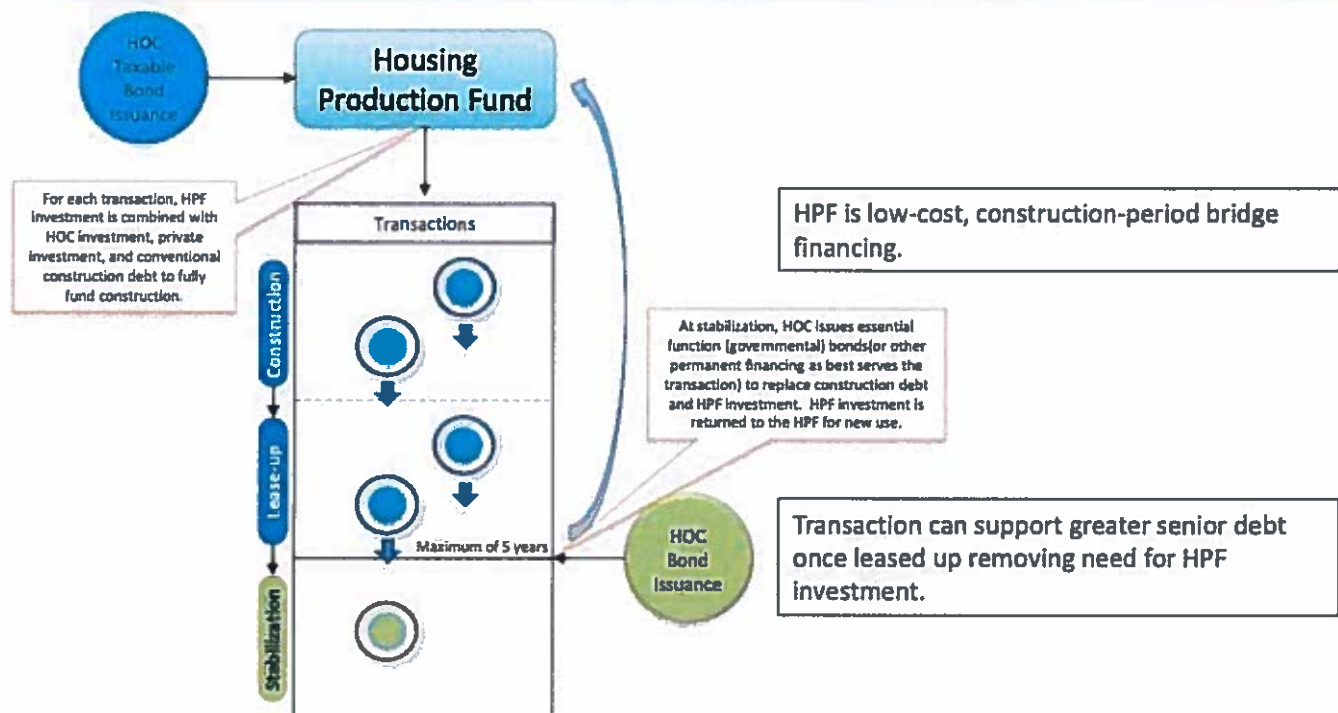
With a significant amount of grant funding, a public developer would have quite a bit of freedom to determine the most socially beneficial and financially sustainable income mix of its units. Concretely, with no construction debt payments to make, it could more deeply subsidize the rents of its low-income units, for example.

But in the event that whatever grant funding makes its way through the state legislature is *not* several billion per year, a public developer could actually make do just fine. Below, I'll briefly review three public sector developers of housing who build almost entirely with low-cost debt financing.

Housing Opportunities Commission—Montgomery County, MD, USA

The Housing Opportunities Commission in Maryland is a state housing authority in Maryland that was established in 1974. For many years, it laid in relative quiet, preserving affordable housing with loan financing or state grants. But earlier this year, HOC got approval and funding from the county government to take a more aggressive approach to addressing the county's housing problems.

Production Fund Mechanism



6/22/2020

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Revolving Housing Production⁽¹²⁾ FundSource: Montgomery County, Maryland

The approach is relatively simple:

1. The County gives HOC \$3 million per year. This is a grant.
2. HOC issues a bond on that revenue stream from the county and gets big wad of cash that they put into the Housing Production Fund. This is debt.
3. HOC combines funds from the HPF with conventional debt and outside equity investment to fully fund and then build the project.
4. After the project reaches stabilization (at four years) HOC issues another bond on the revenue stream of the rents being collected to buy out the HPF investment. Other investors have the option of being bought out or converting their equity to subordinate debt—meaning that HOC takes 100% ownership of the project, and bought-out funds are invested back into the HPF so HOC can do it all over again.

In this scenario, HOC is basically leveraging a tiny investment from the state to get huge amounts of production relative to the \$3 million annual fund. With a setup like this, you don't need anywhere near the level of funding that an entirely grant-funded operation would need. As a tradeoff, your income mix is somewhat more restricted.

(Relatedly, one of the first projects HOC will be building with this model is **268-units of a new passivhaus certified development** adjacent to a bus rapid transit line.)

ARA, ATT and Heka—Helsinki, Finland

I don't have a graphic for how **ATT** and **Heka** financing housing development, unfortunately. But **the way it works** (pg. 11-13) is also pretty simple. In essence:

- Heka or ATT go out and get a loan for their project. They just go to the bank and get a loan like anyone else. Notably, **the bank** is also owned by the government. A great start.
- Then they build the building.
- The national government, through ARA, covers the interest payments on the loan. When interest rates are low, as they have long been, this subsidy is very small.

There are two things in Finland that make this model work that would be difficult in the US, though. First, the vast majority of vacant land in Helsinki is publicly owned, so land costs are nearly nil. Second, the rents that Heka collects from its residents are higher than what would be affordable to a low-income renter in the US thanks to the robust social safety net of income supports in Finland.

That said, the way to address the rents problem in the US is to have mixed-income projects with cross-subsidization, and the way to address the disparity in development costs due to high land values in the US is to a) add something else to the capital stack to cover the costs (equity, for example), or b) make use of eminent domain authority.

Housing and Development Board—Singapore

In Singapore, it's even simpler than Finland. The government loans money to the Housing and Development Board, the HDB builds the apartments, long-term leases them to residents, and pays back the debt.

The HDB of course runs a deficit, but since it's run at the national level, it's not really a big deal as the government can, and does, just give it extra money in the form of normal funding

grants. Last year, in fact, Fitch Ratings gave the HDB a AAA rating and explained a bit of their reasoning in a release:

Government funding provided to HDB is reflected in the national budget and is approved by the Minister for Finance. HDB implements housing and social policies determined by the government and its deficit is fully financed by government grants. Grants are also provided to HDB to preserve the reserves of the past government. The government provides a housing development loan facility to finance HDB's operation, as well as mortgage and upgrading financing loans to fund the financing schemes provided by HDB to purchasers of flats under public housing schemes and lessees of upgraded flats. The government loans formed 61% of HDB's interest-bearing debt as of March 2020. We regard the strong regulatory support framework as the major driver of this assessment, despite the absence of a guarantee.

If we get to the point where we are ready to establish a social housing developer at the national level, the HDB approach seems to be a good model, but getting a state level government to commit to guaranteeing the operations of a public developer is a very different story. Deficits at the national level are one thing, but are basically a no-go at any state level.

So, grants or debt?

What I hope these cases demonstrate is that development of housing can be financed in a variety of ways, not without their tradeoffs, but which give advocates of social housing development some flexibility in putting together state-level programs. If you can get \$5 billion you should take it, of course. But if you can't, \$50 million will go a long way.

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