MILLENNIAL HOUSING COMMISSION
PRODUCTION AND PRESERVATION TASK FORCES
BACKGROUND PAPER: INNOVATIVE STATE AND LOCAL PROGRAMS

OVERVIEW

This paper presents the results of research to identify innovative State and local programs to accomplish the following objectives:

- Combining housing and services.
- Facilitating mixed-income housing.
- Facilitating mixed-use housing (residential and retail, for example).

In each of the examples discussed below, particularly innovative or noteworthy aspects are shown in italics. In addition to highlighting programs and properties that clearly demonstrate innovative or cutting-edge approaches, this paper discusses a number of more traditional approaches that have been implemented in a particularly noteworthy manner.

COMBINING HOUSING AND SERVICES

Major Themes. Integration of non-housing services into affordable housing carries with it at least the following challenges:
- Which services to provide.
- How to measure whether services are effective.
- Physical space for service provision.
- Funding for service costs.
- How to deal with the reality that services are seldom funded for more than one or two years.
- How to deal with the reality that services are funded through the HHS system (administered generally by states) vs. housing that is funded through the HUD system (administered generally by individual property owners and managers).
- Whether to serve households with consistent specific needs vs. households with a wider range of needs.

Following are two sections illustrating noteworthy approaches. The first section features the more innovative approaches. The second features more traditional, but particularly well implemented, approaches.

INNOVATIVE PROGRAMS FOR COMBINING HOUSING AND SERVICES

California HFA, Service Enriched SRO. Although not a "program", this property is noteworthy for its focus on the services necessary to support its target population, its change-of-use aspects (the property was a former motel), its use of multiple subsidies, and its successful response to the risk of §8 discontinuance in year ten of the fifteen-year LIHTC compliance period. The property provides 28 units of service enriched SRO housing for formerly homeless individuals disabled by mental illness and/or HIV/AIDS. A 29th unit provides housing for the resident manager. *The former motel office and living quarters became a large community living room, kitchen, and dining room for residents. Two nearby storefronts were converted into offices for the on-site provision of supportive services by third party service providers. The interior courtyard was converted from parking to a landscaped open space with seating for the residents.* The existing laundry room was rehabilitated for ongoing use for residents. The site was chosen for many reasons, including close proximity to all types of public transportation, shopping, and community resources. A 1% first mortgage loan from CHFA allowed for a much greater level of rehabilitation. *The Agency relied on a pledge from the local redevelopment agency to pay off the loan in year eight. By leveraging the twenty-eight, ten year McKinney Act §8 rent subsidies, and the payoff promise from the redevelopment agency, CHFA was able to provide an eight year mortgage that amortizes over 14 years, providing the project long- term financial stability, while allowing the project to accumulate reserves sufficient to operate until year 15 as required by their tax credit investor, in the event the Section 8 certificates are not renewed after year 10.* CHFA also provided a bridge loan in the amount of $1.175 million also at 1% for 5 years to leverage the 9% tax credits. *The property is able to serve individuals at 20% of median income.* Additional resources included HOPWA, locality tax increment funds, local housing funds and a McKinney Act Grant for Services.

Maine SHA Village Care Program. The Maine State Housing Authority conceived of this program as a model for supported-housing programs for the rural elderly. *The program links together five small, family-like eldercare homes (each with six residents) located in the hearts of small villages in the Mid-Coast Maine Region.* Each of the homes has its own on-site staffing and services. At the same time, the concept is designed to gain many advantages of scale with central management. An administrative office and staff serve each of the five homes. *Such tasks as menu planning, purchasing of food and supplies, financial management, maintenance, etc. are handled by the central management.* With this model, frail elders are able to enjoy a family-like atmosphere in a village setting, while accessing the services that they need. Development capital was provided by a combination of funding under the Rural Housing Service Community Facilities Program and subsidy funding provided by the MSHA State HOME funds. Funding for the operational and service supports is generated by a combination of Medicaid funding and a DHS-administered State subsidy.

Tennessee HDA Program For Persons With Chronic Mental Illness. A Joint Resolution of the Tennessee State Senate authorized the Tennessee Housing Development Agency to lead a study to assess the housing needs of persons with mental illness in Tennessee. *As a result, a study was completed which determined that approximately 15% of persons receiving case management are housed inappropriately, and that the primary barrier to appropriate housing is monthly income. Then, THDA created a joint $4.5 million effort with the Tennessee Department of Mental Health and Developmental Disabilities (TDMHDD).* THDA contributed $1 million in THDA funds and $1 million in federal HOME funds for a total of $2 million. These funds were awarded as grants to pay for the acquisition and/or rehabilitation of properties to provide housing for persons with mental illness. TDMHDD is providing $2.5 million in state funds to pay some of the costs of housing but primarily to fund the necessary costs of support services. *The housing will include group homes with 24-hour support staff or service coordinators and apartment-style* *single room occupancy units (SRO), and apartments, thus providing options for various degrees of independent living.* The grants will assist the efforts of nonprofit agencies to expand living options for persons with mental illness by providing more than 100 units of affordable rental housing in and around Nashville, Memphis, Jackson, and Chattanooga.

MORE TRADITIONAL APPROACHES FOR HOUSING-SERVICE COMBINATION

Direct State Provision of Non-Housing Services. An example from the Maryland Department of Housing and Community Development, for several HOPE VI developments in central Baltimore: "The State provides supportive services to tenants as well, including job training, day care, and family development and counseling in order to help families achieve self-sufficiency. Tenants sign a participation plan to contribute toward community building including flower planting, trash and litter pick up, community social and educational activities, and supplemental security service (Neighborhood Watch) programs."

State-Level Housing and Service Agency Coordination. The Tennessee Housing Development Agency cooperatively works with the State Division of Mental Health and Developmental Disabilities to ensure housing access and affordability to persons with mental disabilities. THDA's Section 8 rental assistance division works with MHDD to fill the gap between the state housing subsidy (STRAP) program funding and the housing needs of the disabled population. The Section 8 rental assistance division works with local provider agencies to determine if the state or federal subsidy is available and or most beneficial. When a state subsidy is not available, a Section 8 rental subsidy, when available, is provided. In addition, THDA conducts physical inspections of the STRAP-assisted home since the department of Developmental Disabilities lacks trained personnel in this area. THDA also coordinates with the State Department of Human Services to administer a welfare-to-work voucher program that is offered in targeted areas based upon need.

Multiple Subsidies to Finance Non Housing Service Expenses. For example, the Vermont HFA financed a 30 unit service enriched seniors facility that provides a significant service package for all residents (one meal per day, weekly housekeeping, weekly linen service, activities and transportation, an exercise program, and cable TV). The facility was able to afford to deliver the service package through a combination of financial resources including tax exempt bond financing, 4% LIHTCs for the 7 low income units, and higher rents from the shallow-subsidy and market-rate units.

Another example property was financed by the Georgia Department of Community Affairs. Located in Atlanta, this property is a newly constructed complex of 56-unit efficiencies to serve persons with chronic mental illness who are homeless or at-risk of becoming homeless. Supportive services are provided that focus on moving the residents into a lifestyle of self-sufficiency. Services include assistance with daily living activities (budgeting, shopping, meals, household chores, conflict resolution and transportation), information and referral services to physical and mental health services, medication monitoring, educational and recreational activities, and supportive counseling. Developed by a state-certified CHDO, the project was funded using a \$1.6 million HOME construction/permanent loan and a \$1.5 million construction/permanent loan from the State Housing Trust Fund for the Homeless. *Resources were applied for both funding sources through a single application process.* Other financing sources include:

- Financing the through the DeKalb County Community Services Board for rental and operating expenses
- HOPWA funds from the City of Atlanta for rental operating assistance and site acquisition
- Shelter Plus Care funds for 28-units of project-based rental assistance

Addition of Community Facilities and Services During A Preservation Transaction. An example from Maryland DHCD, for the acquisition, redevelopment, and preservation (for residents below 60% AMI) of a formerly distressed market rate property: "The project also included the construction of 4 new laundry centers, as well as a new 6,000 square foot community resource center, exercise center, add clubhouse, and a new pool. In addition, three ground floor units were converted for use for after school activities, including a homework club, craft club, tutoring program, computer training program, and health fairs. Three other units in the complex are provided rent free to police officers to encourage them to live in the community, walk the grounds and interact with community residents. Lastly, the project also includes a number of security features, including controlled access entry, perimeter fencing, a security patrol, and the construction of a police substation financed separately by the City of Bladensburg."

Co-Location of Properties With Appropriate Service Facilities. For example, a South Dakota Housing Development Agency financed property for seniors was co-located with a senior service center.

Facilitating Mixed-Income Housing

Major Themes. Efforts to facilitate mixed-income housing present at least these challenges:

- What income level is desired, for the lower-income units? Will the remaining units be moderate-income, above-moderate, or a mix of both?
- How to fund the capital subsidies necessary to make the lower-income units affordable to the target population.
- Securing a site with the low crime levels, good access to jobs, and good schools necessary to support a successful mixed-income development.
- How to manage the property so that it becomes a viable community.

Following are two sections discussing innovative approaches to mixed-income housing. The first section outlines particularly innovative approaches (the first of which dates to 1973!). The second highlights more traditional, but particularly well executed, approaches.

Innovative Programs for Mixed-Income Properties

Montgomery County MD Moderately Priced Dwelling Unit (MPDU) Program. Enacted in 1973, the MPDU law requires private developers to build mixed income housing throughout the County. The law covers any new subdivision, townhouse complex, or apartment development with at least 50 housing units. Under the county law up to 85 percent of the new housing can be "market rate" (at whatever income level the builder targets), but at least 15 percent must be "affordable" housing, or MPDUs. The County allows a 15% density bonus to developers, in turn requiring that the MPDU units be offered for sale or rent at prices reflecting only the hard costs of construction (excluding land cost and profit). To qualify for an MPDU, a family's income cannot exceed 65 percent of the county's average household income. To help integrate poor households into middle-class society, the county law further specifies that one-third of the MPDUs, or five percent of all housing created, must be available for rent or outright purchase by the Housing Opportunities Commission, the county-wide housing authority. Over 9,000 MPDUs have been purchased by HOC and serve households with a range of incomes. Private homebuilders and apartment developers have produced several thousand MPDUs -- two-thirds for sale, one-third for rent. The HOC has purchased between 10% and 15% of MPDU units. Church groups and private non-profits have bought others. The 85-10-5 income mix produces no social problems, according to HOC officials, police, and social agencies. Resale prices have risen in mixed-income subdivisions faster than for other housing developments. Resale prices of MPDUs are controlled for ten years; afterward the County recaptures a portion of appreciation and applies those funds to its housing trust fund.

Vermont HFA Mixed Market – LIHTC – ELI Property. Although not a program, this property illustrates a number of important mixed income principles. The Vermont Housing Finance Agency provided a pre-development loan, construction and permanent financing, and tax credits, to a new construction 48 unit development. This is a family housing development being constructed in a very desirable community with a vacancy rate of less than 1%. *It is a good example of "smart growth" - much needed housing in a high density residential neighborhood with the added benefit of land conservation.* The project has a variety of funding sources including below market financing from VHFA, a Community Development Block Grant loan from the City, a HOME loan from the State, and a Vermont Housing and Conservation Board grant. *The property will be mixed income: twelve units will have project based Section 8 vouchers to serve households as low as 30% of median income, tax credit units will serve households at and below 60% of median income, and there are also market units. In addition the property has a natural heritage conservation area of 10.7 acres which includes a rare and beautiful cedar forest and a scenic gorge. The natural area will be maintained by a local conservation organization.* This project was developed by a local non-profit organization in partnership with a statewide non-profit organization.

More Traditional Approaches for Mixed-Income Properties

Ohio HFA Housing Development Assistance Program. The HDAP funds can be used to provide rental and homeownership opportunities to low- and moderate-income residents. The sources of funds for the programs are the federal HOME allocation and the Ohio Housing Trust Fund, created in 1991. A large portion of the HDAP dollars are used as gap loans or grants for projects receiving Housing Credits - both 9% and 4% credits. A project may receive a grant or loan up to $600,000 depending on the location of the project. This program has allowed owners to set rents that are affordable to households with incomes well below 50% of the AMGI.

Innovative Programs for Mixed-Use Properties

Increasingly, sponsors are pursuing affordable housing properties that mix housing and non-housing uses. Following is a description of one such property.

Public Purpose Commercial Space and Low Income Family Housing. Although not a "program", this New Hampshire property has characteristics that would be worthy of replication in other mixed-use settings in which some or all of the commercial space is donated for public purpose use.

- The commercial tenant educates young people in the operation of the business.
- The commercial tenant provides services to low-income residents of the neighborhood.

The property is a youth-run art gallery co-sponsored by a local nonprofit and the local fine arts museum. The museum gives studio space for a fine arts educational program, and the nonprofit gives gallery space where not only students, but professional artists show their work. *The students learn about running an art gallery, as well as learning how to create high quality work.* The coordinator of the program, an employee of the nonprofit, is a professional artist himself, and sets high standards for both production and presentation. One of the first participants in the program will be attending the Corcoran School of Art this fall as a freshman (he was also accepted at other highly-rated art schools). The gallery space itself is a very attractive first floor storefront in a formerly vacant and abandoned building that also houses 6 low-income families. The building received 2 historic awards last year.

OTHER MULTIFAMILY PROGRAMS

The research found a variety of innovative multifamily programs that accomplish purposes outside those covered in this paper. A few examples follow.

Partnership Rental Housing Program (MD DHCD, To Expand Funding)

The purpose of the Partnership Rental Housing Program is to expand the supply of affordable housing for low-income families through a partnership between State and local governments. New construction and acquisition or rehabilitation of rental housing are eligible activities. Rental housing may include apartment buildings, townhouses, single-family homes, single room occupancy (SRO) buildings and shared housing facilities. *Local governments and housing authorities may apply for Partnership funds. The applicant must provide a site, including roads, water, sewer, and other infrastructure. Also, the local government or authority must have an interest in the ownership entity of the property. Resident households must have a gross income which does not exceed 50 percent of the statewide median income adjusted for family size. Residents have a community service requirement, under which they must contribute maintenance or other services to the facility, grounds or neighborhood. Resident services are determined as part of the loan approval process.*

Live Near Your Work (MD DHCD, To Promote Smart Growth)

Live Near Your Work is a partnership between DHCD, local government and businesses to provide a $3,000 grant to employees who purchase a home near their place of employment. *Each of these three partners - DHCD, the local government, and the business - provides $1,000 each to help an employee of the business purchase a home. These funds can be used for closing costs or a down payment on a home within the employer's targeted neighborhoods.* The program strengthens neighborhoods through increased homeownership, reduces community costs, supports employer compliance with the Clean Air Act, offers workers the opportunity to own homes, reduces turnover, training, and recruitment costs for business, and makes Maryland a more attractive place for businesses to locate and expand.

Alabama Multifamily Loan Consortium (Alabama HFA, To Promote Lending for Affordable Multifamily). The Alabama Multifamily Loan Consortium is a joint venture of AHFA and the Alabama Bankers Association. These entities are working to unite the state's banks and savings and loan institutions to provide long-term financing for affordable multifamily housing development and rehabilitation. The consortium currently has 43 members who have committed a total of $25 million. Its loan committee has already closed 10 loans and approved 15 more for 1,500 units of multifamily construction across the state. Consortium funds are combined with Housing Credits and HOME financing to further stretch limited funding sources. [Other HFAs have created or co-sponsored similar consortia]

SINGLE FAMILY PROGRAMS

Finally, a number of innovative single-family programs were mentioned that are outside the scope of this paper. One such program will serve as an example of the creativity that State and local agencies have shown in meeting the needs of low-income homeowners and potential homeowners.

Rehab Assistance Partnership (Alabama HFA, to Make Rehabilitation Affordable to Low-Income Homeowners). Through the RAP program, AHFA sought to fill a two-pronged housing need: to improve Alabama's existing housing stock, and to help local homebuilders' associations meet more of the demand for community service projects. RAP offers interest-free loans up to $10,000 to low-income homeowners for basic renovations through local homebuilders associations (who provide volunteer labor plus materials at builder cost). So far, AHFA has provided nearly $218,000 to fix 25 homes for elderly individuals who were unable to perform or pay for repairs. AHFA committed $500,000 of its own resources to make the loans. The Alabama Bankers Association members which mortgage these properties also are encouraged to contribute funds to each local project.

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