



Moving to Work (MTW) Newsletter

Increasing Cost Efficiency, Self-Sufficiency and Housing Choice

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From the MTW Director's Desk

The Spring/Summer issue of the MTW newsletter highlights ways in which three MTW public housing authorities – the Housing Authority of the City of Pittsburgh (HACP), Home Forward and the Housing Authority of the County of Santa Clara (HACSC) – have made the most of their ability to combine funds to leverage resources and better respond to local needs.

HACP explains that they have used their MTW block grant to focus on three priorities: redevelopment, self-sufficiency programs and homeownership programs. In support of these goals, they have redeveloped two-thirds of their public housing portfolio, created a mandatory FSS program and provided soft-second mortgages to help more residents become homeowners. Home Forward reports on the ways in which the agency has worked to leverage resources through a “Local Blended Subsidy” to provide additional affordable housing opportunities to low income families. HACSC explains how MTW flexibility has enabled the agency to develop and preserve low income housing in Silicon Valley.

We would like to thank HACP, Home Forward and HACSC for providing articles for this newsletter. We continue to encourage contributions from other MTW agencies for future issues so that this newsletter remains a resource to discuss the latest MTW innovations and to share the successes and challenges of the agencies in the demonstration. We are currently looking for volunteers to provide articles for our Fall/Winter issue, which will focus on lessons learned from unsuccessful or significantly revised MTW activities. If you would like to contribute an article addressing this or another topic, please email your MTW coordinator so we can discuss how to include your work in future issues.

Sincerely,

Ivan Pour
Director, MTW Demonstration Program

The Housing Authority of the City of Pittsburgh: Optimization of the Single Fund Budget

Moving to Work Block Grant Agencies can combine funding sources into a 'Single Fund' for budgeting and resource allocation purposes. At the Housing Authority of the City of Pittsburgh, we have utilized this authority to prioritize redevelopment of our distressed and obsolete housing stock; and to provide self-sufficiency, homeownership, and security services at levels that would not otherwise be possible.

Initiative #1: *Redevelopment*

HACP has some of the oldest housing stock in the nation. Even after late 1990's demolitions and three HOPE VI redevelopment projects, about a third of the agency's public housing stock, over 1500 units, date from the 1940's. Most are three story walk-ups with six apartments per stairwell, and their design does not incorporate the current philosophies of defensible spaces and eyes on the street. With the shrinking and elimination of HOPE VI, the ongoing under-funding of the Capital Fund and the limited availability of Choice Neighborhood grants, HACP uses funding allocated via the voucher program and the public housing operating fund to support the capital contribution required to make tax credits and ongoing operating subsidy work. In Pittsburgh, Fair Market Rent (FMR) levels are relatively low, so leveraging of operating subsidy and tax credits alone does not provide enough income to support relatively high construction costs. The Single Fund Budget enables the agency to fill the gap, and is proving to be key in providing gap and infrastructure financing to make redevelopment possible. Without this single fund authority and without HOPE VI, redevelopment would be virtually impossible; absent a Choice Neighborhoods grant.

Initiative #2: *Added Support for Family Self-Sufficiency Programs*

HACP's modified rent policy requires that all non-elderly, non-disabled residents work, participate in the Family Self-Sufficiency (FSS) program, or face a minimum rent of \$150 per month. One key element of this policy, in order to avoid being seen as forcing out the poorest of the poor, is ensuring adequate capacity in the FSS program to assist all interested families in developing and maintaining a self-sufficiency plan. Service coordinators have reasonable case loads, an extensive network of agencies and an in-house employment program for eligible residents that allow them to follow up with and work with families to support them in achieving their self-sufficiency goals. Without adequate capacity in FSS, many families would sign up, get inadequate services, and end up back in the "did not comply - \$150 per month rent" group, which is not the outcome the agency desires. Moving to Work's single fund budget flexibility allows the agency to develop this added FSS capacity, which makes the modified rent policy possible.

Initiative #3: *Homeownership Program Soft-Second Mortgage*

HACP uses Moving to Work single fund budget flexibility to support HACP's MTW Homeownership Program, which has assisted over 100 families in becoming home owners. While HACP offers fairly traditional assistance with closing costs, mortgage insurance, and home inspections, the agency also offers a soft-second mortgage program. Rather than provide a monthly voucher payment over a ten-year period and allow families to use the voucher payment towards homeownership payments, the agency calculates what the total amount of that monthly assistance would be over the ten year period, and (subject to a \$32,000 maximum) provides that to the resident as a soft-second mortgage. Ten percent of the loan is forgiven each year that the family stays in the home. The entire amount is forgiven at the end of year ten. This allows families to purchase more home for their dollar, to pay less for the home, to have a smaller mortgage

payment or to more easily qualify to be a homeowner. In addition to providing funding for staff support and the soft-second mortgage program, this approach saves the authority money and assists the purchasers to build equity while providing a quality, low-cost home. This program also eliminates the need for annual re-examinations, inspections, etc.

These are three examples of how the single fund budget assists HACP to leverage funds into other needed and tangible programs.

For additional information, contact, David Weber, Government Relations & Special Services Officer, Housing Authority of the City of Pittsburgh, David.Weber@hacp.org.

Home Forward: Leveraging Resources and Leveraging Outcomes

Public housing authorities operate at the confluence of private market conditions and public policy. To fulfill their purpose, improving the lives of low income people and the communities where they live, housing authorities must navigate the currents of both forces—working within them to leverage the greatest possible outcomes for low income people. So, if you are working to develop affordable rental housing, grab your paddle.

Since the passage of the Quality Housing and Work Responsibility Act of 1998 (QHWRA), and continuing through the Rental Assistance Demonstration (RAD) program created in 2012, public housing finance has evolved significantly. The trend has been towards using available resources to leverage private capital. QHWRA authorized the blending the traditional public housing resources and private or other public money, a concept previously not allowed. RAD builds on the concepts authorized in QHWRA by creating different opportunities to deploy HUD resources to leverage private capital. These two HUD initiatives, as well as other examples, contribute to a positive trend toward a public housing finance model that more resembles common real estate finance practice. Within this general policy trend, there continue to be limits resulting from lingering directives contained in statute, rules, or guidance. Those directives can hinder the most efficient execution of a financial transaction to develop affordable housing.

Private market forces are equally challenging to manage. Strong trends seen in many urban rental markets create upward pressure on rents and real estate. Stagnant employment and flat wages make location decisions and affordability generally more challenging. Debt and equity are available for quality projects, subject to terms and conditions that reflect the influence of underwriters more than originators.

These two streams of influence, applied together, create the current environment for developing affordable housing as a public housing authority. It is complicated to a fault, rapidly changing, constrained by resources, and still incredibly important work. Thankfully, for those public housing authorities that possess Moving to Work (MTW) authority, there is an ability to identify and seek relief to allow for greater leveraging of resources, in service of greater of outcomes. In these times, the ability to use our MTW status to execute financial transactions is critical to increasing outcomes, to serving more people better.

In Portland, Home Forward has used this approach to reposition its existing portfolio of housing and to develop new units. One example of this approach is what we call “Local Blended Subsidy.” Like many public housing authorities, we found ourselves with fewer units on-line than permitted

under our Faircloth limit. Recognizing that a unit's worth of public housing operating subsidy is insufficient to successfully operate a unit, and that some money is better than no money at all, Home Forward sought a way to leverage this independently inadequate resource. Also like many public housing authorities, we have a portfolio of units that operating under Project Based Section 8 contracts. In its final form, Local Blended Subsidy converts PBV units to public housing. This process allows us to turn on net new operating subsidy for that unit—supplanting an equal amount of PBV subsidy, which can then be used to serve a new household. We use MTW authority to allow the newly created public housing unit to function economically like a PBV unit, resulting in no financial implication to the existing project. And at the same time, we increased our ability to serve more households.

Sidebar: Riding the Rapids

1. Set a compelling goal: Start with a measurable goal defined by your organization or your community and then set out to find a financial solution to achieve that goal. Do not let the financial structure drive your outcome.
2. Reply upon fundamentals: Rely upon basic real estate principles to guide your financial structure and request of HUD.
3. Understand your partners (1): Lenders focus on repayment and collateral.
4. Understand your partners (2): Equity investors focus on financial feasibility first, tax matters second. Solve for the financial feasibility first.
5. Be Creative: Free your mind from ingrained regulatory procedures, and look for opportunities to redirect the flow of resources, access currently available but unused resources. Embrace the idea of "switchy – switchy".
6. Test your idea: Involve HUD and close financial partners in the development of your idea to test its viability. Frame the idea in terms of the larger measurable goal and then explain how the proposal will leverage the desired outcome.
7. Build on what others have done: Change in real estate finance practices is evolutionary. Modifying existing ideas to fit your situation provides a solid base upon which you can build.

For additional information, contact Mike Andrews, Director, Development and Community Revitalization, Home Forward, mike.andrews@homeforward.org.

The Housing Authority of the County of Santa Clara: Using MTW Flexibility to Develop and Preserve Low Income Housing in Silicon Valley

The Housing Authority of the County of Santa Clara (HACSC), located in San Jose, California provides low income housing to over 20,000 households, through the Section 8 voucher program and through housing developed and owned by the agency over the past 30 years. HACSC has long been a leader in the development of Low Income Housing Tax Credit (“tax credit”) housing.

In September 2007, the Department of Housing and Urban Development (HUD) approved the HACSC’s application for the Disposition of its portfolio of conventional public housing low-income housing complexes in order to develop financing mechanisms to correct the significant deferred maintenance and capital improvement needs. Shortly after that, in 2008, HACSC was designated a Moving to Work (MTW) agency, providing much needed flexibility in the use of its funds via a block grant system.

Since then HACSC has proposed and implemented a number of innovative MTW activities, and has used Public Housing Disposition in order to develop and preserve low income housing in one of the tightest rental markets in the country.

Built and funded in the 1980s and 1990s, 10 HACSC Public Housing properties in Santa Clara, San Jose, Gilroy, and Campbell, California had provided attractive, stable, affordable homes to very low-income renters in one of the country’s highest real estate markets at a time when the supply-demand gap in affordable area housing was at all-time highs. In the late 2000s, after years of a steady downward trend in federal funding for maintenance and renovation, HACSC came face to face with a harsh reality: Either find a way to upgrade over 500 units of Public Housing, or watch as these properties faced decay and abandonment.

“The old way was not working,” said Alex Sanchez, executive director of HACSC, “and the problems were worsening. Since we’re in the heart of Silicon Valley, a vibrant area known for its innovation, we implemented a new formula that has proven to be a win-win for all concerned.”

HACSC leveraged over \$90 million in private funds from Low Income Housing Tax Credits, tax exempt bonds, and commercial loans. HACSC also used ARRA funds to rehabilitate three small Public Housing properties. The total cost of the construction work was approximately \$84 million, and addressed millions of dollars of deferred capital work that could not be financed from the annual Capital Grant for Public Housing.

Four different general contractors were hired to complete the projects on 10 sites. In addition to the main goal of developing and preserving low income housing, the project also created over 400 jobs for construction workers, legal and architectural professionals, and city building inspectors. The work was completed over a three year period and required close collaboration between the development team and the Section 8 program.

HACSC sought approval for a number of MTW activities in relation to its Public Housing disposition. This included self designation of Project based vouchers to HACSC owned properties without competition allowing HACSC to keep the rents for former Public housing tenants at the same level before and after disposition. Additionally, an activity for the approval for vouchers to be issued to exiting Public Housing tenants up to 80% AMI assisted in relocating tenants that would not be eligible for the tax credit housing. A third activity allowed Section 8 staff to accept the tax credit income certification as the primary income certification, which dramatically improved the time needed to qualify tenants, reduced the administrative impact on tenants and staff, and ensured rapid and simple lease up of hundreds of units that transitioned to tax credit housing.

Without HACSC's efforts under MTW and Public Housing Disposition, the properties would have fallen into disrepair, and valuable units that provide services and housing to extremely low income tenants would have been lost.

"We've proven that public-private partnerships are a successful formula for serving the low-income housing needs of Santa Clara County," said Sanchez. "Similar approaches will work throughout the nation."

In response to the high cost of land and the tight rental market in Silicon Valley, in 2011, HACSC started to focus on "local, non-traditional uses" of MTW funds to expand, preserve and maintain the housing stock. To achieve this goal, HACSC launched three MTW activities..

The first activity created a \$15 million development and acquisition fund. HACSC issued a Request For Proposals (RFP) for local developers to apply for funding to support low income housing deals that had stalled amid the poor economy and lack of affordable housing funds in California. Criteria included project readiness, cost effectiveness, income affordability and experience of the developer. Through this activity, HACSC became a gap lender, replacing local and state funding sources that were unable to fund new deals. HACSC also implemented a second activity which created a smaller preservation fund to ensure that its own 2500 units of non Public Housing units did not fall into disrepair over time.

A third activity, relating to local, non-traditional use of MTW funds, provides funding for social services in HACSC-owned, non Section 8 housing. The high cost of living in Silicon Valley, the poor economy and the extremely low income of most of HACSC's residents leads to economic uncertainty and housing instability. By funding a social worker at each site along with after school programs, HACSC provides, through a third party nonprofit, rental assistance, counseling, educational programs such as money management, job search and independent living. These services have been in high demand and, combined with the implementation of third party property management, have stabilized the housing population in units where no Section 8 assistance is provided.

HACSC's implementation of these MTW activities over the past four years has allowed it to address specific local issues, such as the end of California Redevelopment funding for affordable housing and deteriorating Public Housing, thereby ensuring that low-income populations have access to affordable, high quality housing in Silicon Valley.

For additional information, contact Vanessa Cooper, Director of Real Estate Services, Housing Authority of the County of Santa Clara, VanessaC@hacsc.org

Other MTW Articles

1. *The Oregonian* published an article on how Bud Clark Commons has helped thousands of Portland's homeless.
2. The *Dover Post* published an article, "Realizing the American Dream: DSHA Helps Residents Attain Home Ownership," about the Moving to Work Program and one of DSHA's successful former residents.
3. *The Leo Weekly* in Louisville published an article, "Rise and Fall: A Look Back at Sheppard Square's 70 Years," which looks at the history of Sheppard Square, one of Louisville's 2010 HOPE IV projects.
4. The Housing Authority of the County of San Bernardino (HACSB) has received four Awards of Merit in Housing and Community Development from the National Association of Housing and Redevelopment Officials (NAHRO) for the areas of Vista Del Sol, 71-unit senior development, Strategic Plan for Energy Management, Procurement Efficiencies and Local Payment Standards.

MTW Updates

Based on comments from OMB, the MTW Office felt it was important to conduct one additional revision of Attachment B/Form 50900 and allow housing agencies and stakeholders to review those revisions before the form is submitted for approval. The MTW Office is currently reviewing the comments received during the additional 30-day comment period and is planning to issue responses to all the comments and conduct a conference call for all MTW agencies. The purpose of the call will be to discuss the policy/reporting areas that many of the agencies have raised.

The policy regarding the submission of Plans and Reports in the new format is the following: agencies are not required to submit any Plans or Reports due within 120 days of the form approval in the new format. However, any Plans **and Reports** due more than 120 days from the time the form is approved will be required to be submitted in the new format. This means that for many agencies, the Report will be in a different format from the Plan from that same fiscal year. If Plan or Report is due within the 120 day window and the agency would prefer to submit the document in the new format, they are permitted to do so. No agencies should submit in the new format until the form is approved by OMB.

HUD will be offering webcast training on the new Attachment B/Form 50900 after it is approved.