USING PROJECT-BASED VOUCHERS ON NCI DEVELOPMENTS

The Differences Between NCI Developments Using ACC vs. Project-Based Vouchers

WHAT IS NCI?

- NCI is a District effort started in 2005 to revitalize aging public housing communities where the concentration of poverty and crime are a persistent challenge.
- It was also a response to the defunding of public housing by the federal government, resulting in billions in deferred maintenance and capital improvements.
- DCHA has over $1B in deferred maintenance.
- <u>4 Neighborhoods:</u> Barry Farm • Lincoln Heights/Richardson Dwellings • NW1 • Park Morton
- <u>2 Main Goals/Activities</u> - Development to transform Physical Spaces; and Human Capital to provide services to support resident success
- <u>4 Core Principles</u> - 1:1 Replacement; Right to Return/Right to Stay; Mixed Income; Build First.

WHAT IS NCI'S PIPELINE?

In the past two years, NCI has projected and planned the full pipeline of projects needed to complete development of the NCI neighborhoods and **ensure one-for-one replacement, mixed-income and right to return,** as well as full build-first strategies for Park Morton & Lincoln Heights/Richardson Dwellings.

BARRY FARM:
Redevelopment Plan Area Includes:

- Barry Farm/Wade Apartments - Planned
- Matthews Memorial – Complete
- Sheridan Station Phase 1 – Complete
- Sheridan Station Phase 3 – Complete

PARK MORTON:
Redevelopment Plan Area Includes:

- Park Morton – Planned
- The Avenue – Complete
- Bruce Monroe – Planned

NORTHWEST ONE:
Redevelopment Plan Area Includes:

- Temple Courts/Gonzaga – Planned
- Severna I – Complete
- Severna on K – Complete
- 2M – Complete
- 2 Patterson – Planned

LINCOLN HEIGHTS/RICHARDSON DWELLINGS:
Redevelopment Plan Area Includes:

- Lincoln Heights - Planned
- Richardson Dwellings - Planned
- 4427 Hayes – Complete
- 4800 NHB – Complete
- Marley Ridge - Complete
- Deanwood Hills – In Construction
- Strand – Planned
- Providence Place – Planned

WHAT IS NCI'S PIPELINE?

- **1,191 Units Completed or In Construction**
  - 355 Replacement Public Housing Units (29.8% of Total)
  - 583 Other Affordable Units (49% of Total)
  - 253 Market Rate Units (21.2% of Total)

- **4,326 Units Planned**
  - 1,327 Replacement Public Housing Units (31% of Total)
  - 1,663 Other Affordable Units (38% of Total)
  - 1,336 Market Rate Units (31% of Total)

Replacement units are affordable at or below 30% of AMI, but can be higher depending on the income of the household.

Other affordable units are affordable at 50 – 60% of AMI, as the main supporting subsidy is usually LIHTC.

WHAT WILL NCI COST?*

$622M *($143,781/unit)*	This is the amount left after fully leveraging private debt and tax credit equity, assuming ACC as the operating subsidy.
-$199M	Additional private debt that can be supported by Project-Based Vouchers.
-$94M	Equity that can be raised by requiring developers to contribute a significant portion of their own equity.
$329M	**RESULTING GAP**

*Estimates reflect best case scenario at full payment standard rents, which may need to be adjusted to reflect sub-market rents.

WHY PROJECT-BASED VOUCHERS?

Q: Why can't the District just use its own funds to create the units it wants, and leave DCHA to use its vouchers to create the units it wants?

A: We get more affordable units when our resources work together, and in this market these projects do not get done with just one resource alone. Further, some federal resources are no longer available and we have limited subsidy options left to do these kinds of deals.

- CAPITAL – Land Value, Tax Credits, HPTF, NCI
- OPERATING – PBV, LRSP, RAD, ACC

Since we have modeled the NCI pipeline and know what it's going to take, let's use it to test this question.

Let's assume we have two scenarios for producing units.

WHY PROJECT-BASED VOUCHERS?

TOTAL REPLACEMENT/AFFORDABLE UNITS NEEDED = 2,990

SCENARIO 1 – DISTRICT SUBSIDY ONLY		SCENARIO 2 – PBV ONLY	
2,990	UNITS	2,990	UNITS
1326 1664	Replacements Other Affordable	1326 1664	Replacements Other Affordable
-$622M	Funding Gap	-$622M	Funding Gap
+$0	PBV Proceeds (ACC only)	+$199M	PBV Proceeds
+$94M	Developer Equity	+$94M	Developer Equity
+$329M	District Subsidy & Support	+$0	District Subsidy & Support
-$199M (956 units short)	**Stop! You must find additional funds to create these units.**	**-$329M (1,581 units short)**	**Stop! You must find additional funds to create these units.**

TOTAL UNITS PRODUCED District only = 2,034 units (956 units short)
TOTAL UNITS PRODUCED PBV only = 1,409 units (1,581 units short)

WHY PROJECT-BASED VOUCHERS?

BUT, WHAT IF THE DISTRICT AND DCHA WORKED TOGETHER?

TOTAL UNITS NEEDED = 2,990	
SCENARIO 3 - DISTRICT SUBSIDY & PBV	
2,990	UNITS
1,327 1,663	Replacements Other Affordable
-$622M	Funding Gap
+$199M	PBV Proceeds
+$94M	Developer Equity
+$329M	District Subsidy & Support
$0	**You can do 2,990 units.**
TOTAL UNITS PRODUCED = 2,990	

WHY PROJECT-BASED VOUCHERS?

- District Capital Subsidy + DCHA Operating Subsidy is a typical combination for public housing developments and redevelopments.
- Developments either use NCI or HPTF Funds. HPTF Funds are competitively awarded but prioritized for DCHA projects, and NCI funds are reserved for DCHA projects.
- Judicious use of both District and DCHA resources is needed in order to cover as many DCHA projects as possible.
- Using the best available operating subsidy helps the District spread its capital subsidy around to all of the projects that need it, creating more overall affordability.

NCI-FUNDED

Barry Farm
Lincoln Heights/Richardson Dwellings
Northwest One
Park Morton

+

HPTF-FUNDED

Kenilworth
Parkway Overlook
Capitol Gateway

WHY PROJECT-BASED VOUCHERS?

The likely method for getting PBVs for development projects is through attrition of tenant-based vouchers – converting tenant-based vouchers into project-based vouchers when families in the tenant-based program give them up.

While re-deploying those as tenant-based vouchers gets new families off the DCHA Waitlist and into the program (which is valuable), you also lose overall capacity to house people if you don't address failing units like those at Barry Farm.

WHAT'S THE IMPACT OF MOVING FROM ACC TO PBV?

ACC/ Public Housing	PBV
Units cannot support debt (needed to cover redevelopment costs)	Units can support debt
Subsidy decreasing because of fed govt typically prorates/discounts	Subsidy increasing because fed govt typically inflates
Based on HUD's estimated Project Expense Level (PEL) which is "cost based"	Based on market rent levels (such as HUD Fair Market Rents)
Subsidy approximately $492 per unit	Subsidy between : $2,000 & $2,500 per unit
If tenant share decreases, subsidy does not adjust until following funding cycle.	If tenant share decreases, subsidy increases so rent remains level

KEY QUESTION & STRATEGIES

How does DCHA value PBV?

- DCHA voucher budget authority is used.
- DCHA receives HCV admin fee, conducts inspections/tenant waiting list/certifications
- Provides replacement units for low-income families at a more sustainable operating level.
- Enhances the feasibility of projects, allowing the project to support debt.
- Cross subsidizes units, so a mix of incomes can be achieved.

What is the impact on the Housing Authority budget when there is a shift from ACC to PBV?

- DCHA public housing capital funds are reduced, but replaced with HCV admin fee, which does not drastically reduce revenue but may come with some use restrictions.
- Provides regulatory relief for MTW agencies and promotes flexibility.
- Allows for a greater mix of incomes.

How can ACC work well?

- We have found that ACC requires cross-subsidization and very rarely works as the only operating subsidy funding the project.
- Nationwide, HUD is moving to a RAD PBV platform rather than a rebuild ACC model.

How does PBV compare to RAD?

With RAD there is a possibility to convert the units and enhance the rent with MTW that way the cost per unit for providing the voucher goes down and provides savings to the PBV program.

- PBV cost = $2,000
- RAD cost is ACC op subsidy +capital = $742
- Which would allow DCHA to provide more affordable units.

A WORD ABOUT LAND VALUE…

- Like some District-owned parcels, some DCHA parcels are worth a lot.
- The District, however, has a specific policy (where feasible) to use land values to support creating affordable housing for the lowest incomes reachable.
- Once a site is programmed with a significant number of deeply affordable units, the value can drop drastically.
  - For example, Bruce Monroe (Park Morton "build first" site) was valued at $14.5M
  - After applying a development program that included 70% affordability and half of the site allocated to park space, the value dropped to -$62.9M.
  - The negative value signals the need for additional subsidy beyond land value, which in this case is being provided by the District.
  - If we sold Bruce Monroe and used the proceeds to try to build housing elsewhere, we would have to buy land less expensive than the parcel we just sold, which would likely only be in underserved areas.
  - This would lead to displacement of PM residents from their neighborhood, and further concentration somewhere else of the very poverty we are trying to reduce.
- Where there is value left after programming the site, lease or sale payments can be negotiated.
- The District has assumed, in planning NCI sites, that DCHA has the same goal – to use its land values to support creating affordable housing.

RECOMMENDATIONS

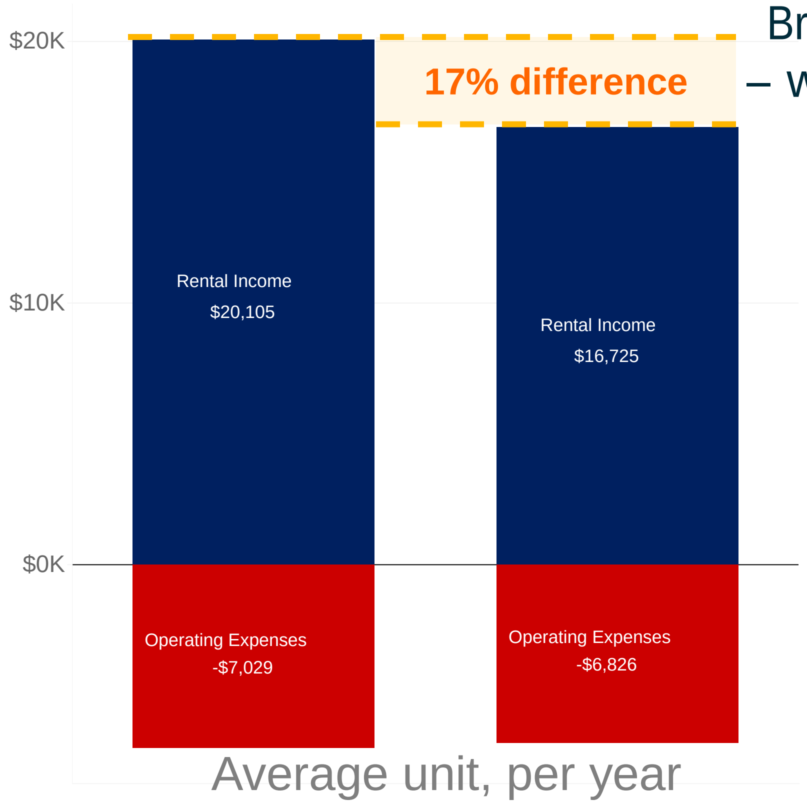
DMPED RECOMMENDS:

- Approving the use of project-based vouchers for Bruce Monroe (Park Morton) and Barry Farm (Phase 1), whose development timelines are sensitive, at the July Board Meeting.
- Approving a strategy in which DCHA commits to prioritizing use of its best available operating subsidy on future NCI phases/projects.
  - Where “best available” is defined by the highest amount of private debt proceeds generated; and
  - Where, according to current knowledge, possible subsidies/combinations include:
    - Project-Based Vouchers
    - Local Rent Supplement Program (LRSP) Project-Based Vouchers
    - LRSP + ACC
    - RAD
    - ACC
  - Where the actual subsidy used is determined during underwriting of those phases/projects, based on best available.
  - And where DCHA has clear timelines for responding to a request to identify the operating subsidy for any project/phase and for putting a resolution before the Board of Commissioners.

APPENDIX

LOWER RENTAL INCOME CREATES THE GAP

NOI if Bruce Monroe had **all Market-rate** units



NOI for approved Bruce Monroe program – with **Replacement and Affordable units**

	Market
Rent Income	$20,105
Operating Expenses	-$7,029
NOI	**$13,076**

	Affordable
Rent Income	$16,725
Operating Expenses	-$6,825
NOI	**$9,899**

-24% difference

Rental Income – Operating Expenses = Net Operating Income (NOI)

Net Operating Income is greater in an all-market rate development than one with an affordable housing program because rental income is significantly greater in an all market rate building, while operating expenses are based on a percentage of the rental income.