M E M O R A N D U M

June 18, 2020

TO: Planning, Housing, and Economic Development Committee

FROM: Linda McMillan, Senior Legislative Analyst

SUBJECT: **Department of Housing and Community Affairs (DHCA): Affordable Housing Opportunity Fund**

PURPOSE: Update on Potential Structure for this Fund – Need for Appropriation

Expected for this session:
Aseem Nigam, Director, DHCA
Frank Demarais, Deputy Director, DHCA
Pofen Salem, Office of Management and Budget

Background

The Executive's Recommended Capital Improvements Program (CIP) included $10 million in expenditures in each of FY20 and FY21 to leverage non-county government funding to create an Affordable Housing Opportunity Fund for preservation and development of affordable housing. The PHED Committee reviewed this proposal with DHCA at its February 13, 2020 session. The PHED Committee expected to return to further review this proposal in its Committee worksession on the Housing Initiative Fund. However, because of the COVID-19 emergency, the Council had to adopt a budget process that did not have Committee sessions and so there was not an opportunity for further discussions on the expected structure and guidelines for this fund.

Additionally, the Council's final actions on the CIP reduced the amount of funding to $8 million in FY21 and $6 million in FY22 because of the need to reduce the use of current revenue throughout the CIP. Because the Committee and Council did not have time to better understand this proposal, the Council did not appropriate the FY21 funding. A supplemental appropriation will be needed to give DHCA the authority to spend, but the source of funding is assumed in the expenditure schedule.

The Approved PDF is attached at © 1, The excerpt from the February 13 staff report is attached at © 2-4. The excerpt from the 2020 Housing Pipeline report that shows projects underway and under consideration for funding is attached at © 5-11.

As the February excerpts says,

- Project funds would be expected to support financing activity within 6 months of allocation.
- Funds will be used to secure rental properties – right of first refusal other situations.
- A portion of the units must serve incomes at or below MPDU eligibility.
- Loans will be primarily short-term (up to 36 months).
- Funds may be used for intermediate term agreements (up to 15-years).
- Funds are expected to revolve.

This session:

DHCA will provide an update with their current thinking and plans for this fund. Chair Riemer would then like to return to this issue and the issue of funding preservation of affordable housing at an upcoming PHED Committee session at which time the Committee would make recommendations on this or any other potential financing options for the preservation of affordable housing.

Affordable Housing Opportunity Fund
(P762101)

Category	Community Development and Housing	Date Last Modified	05/18/20
SubCategory	Housing (MCG)	Administering Agency	Housing & Community Affairs
Planning Area	Countywide	Status	Planning Stage

EXPENDITURE SCHEDULE ($000s)

	Total	Thru FY19	Est FY20	Total 6 Years	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	Beyond 6 Years
Land	14,000	-	-	14,000	8,000	6,000	-	-	-	-	-
TOTAL EXPENDITURES	14,000	-	-	14,000	8,000	6,000	-	-	-	-	-

FUNDING SCHEDULE ($000s)

	Total	Thru FY19	Est FY20	Total 6 Years	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	Beyond 6 Years
Recordation Tax Premium (MCG)	14,000	-	-	14,000	8,000	6,000	-	-	-	-	-
TOTAL FUNDING SOURCES	14,000	-	-	14,000	8,000	6,000	-	-	-	-	-

APPROPRIATION AND EXPENDITURE DATA ($000s)

Appropriation FY 21 Request	-
Appropriation FY 22 Request	6,000
Cumulative Appropriation	-
Expenditure / Encumbrances	-
Unencumbered Balance	-

Year First Appropriation	
Last FY's Cost Estimate	-

PROJECT DESCRIPTION

This project provides funding to address the urgent challenge of preservation and development of affordable housing in areas at risk of rent escalation to higher market rents, including the Purple Line Corridor and other County transit corridors. The funds will be used to provide seed money to establish a public-private preservation fund to proactively attract investors and leverage additional public and private capital to preserve targeted affordable rental housing when opportunities arise. Project funds would be expected to support financing activity within six months of allocation, based on time needed to identify partners, develop investment guidelines, and document responsibilities. The funds will be used to secure rental properties offered to the County under the Right of First Refusal Law or otherwise available for purchase by non-profit and for-profit developers. A portion of the units in these properties must serve households with incomes that are at or below incomes eligible for the Moderately Priced Dwelling Unit (MPDU) program. Loan terms will primarily be short-term (up to 36 months) in duration, but funds may support companion intermediate-term agreements (up to 15-year duration). Funds are expected to revolve based on refinancing or redevelopment financing.

PROJECT JUSTIFICATION

The County has a severe shortage of affordable housing and needs to maximize and leverage private investment in the preservation and creation of dedicated affordable housing. The fund structure will establish predetermined underwriting parameters and qualifications for rapidly purchasing targeted properties. The fund structure will allow time for implementing a range of longer-term actions addressing specific property opportunities, from rental agreements to redevelopment. The expectation is that these funds will leverage approximately $4 for every $1 of County funding. Opportunities to purchase property utilizing the County's Right of First Refusal could arise without advance notice and would not be planned in advance. Other targeted acquisitions would benefit from access to a dedicated source of ready funding. Properties may be acquired by the County, the Housing Opportunities Commission, non-profit developers or other entities that agree to maintain affordability, or develop/redevelop a property for affordable housing.

OTHER

Resale or control period restrictions to ensure long-term affordability should be a part of projects funded with these monies.

FISCAL NOTE

The FY21 appropriation is deferred until the Council has further discussion of permanent financing housing activities in the future. Future loan repayments are expected and will be used to finance future housing activities in this project.

COORDINATION

Montgomery County Revenue Authority, Housing Opportunities Commission, non-profit housing providers, private sector developers, and financing institutions.

Affordable Housing Opportunity Fund

(PDF attached © 5)

Expenditures (in $000s)

	TOTAL	Thru FY20	6 Years	FY21	FY22	FY23	FY24	FY25	FY26
CE Recommend	20,000	0	20,000	10,000	10,000	0	0	0	0

FY21-26 Recommended Funding Schedule (in $000s)

	TOTAL	Thru FY20	6 Years	FY21	FY22	FY23	FY24	FY25	FY26
Recordation Tax Premium (MCG)	20,000	0	20,000	10,000	10,000	0	0	0	0

FY22 Appropriation: $10 million

This new project provides $10 million each in FY21 and FY22. The PDF says:

- Project funds would be expected to support financing activity within 6 months of allocation
- Funds will be used to secure rental properties – right of first refusal or other situations
- A portion of the units must serve households with incomes at or below MPDU eligibility
- Loans will be primarily short-term (up to 36 months)
- Funds may be used for intermediate term agreements (up to 15-years)
- Funds are expected to revolve

Questions:

1. Please provide a brief description on the structure the County expects to use to leverage non-county funds (private or other public funds). If there is more than one option under consideration, please briefly describe.

The Affordable Housing Opportunity Fund development process expects to engage financial institutions in creating the most effective structure to leverage County funds. The structures expected to be proposed would include risk sharing (using County funds as subordinated loans, or in a loss reserve) and providing cost of capital incentives for other lenders to commit funds. DHCA HIF funds traditionally serve as subordinate loans to reduce risk to senior lenders and reduce project costs. The County's funds will be in the form of a loan, not a grant, with the expectation for repayment from secured lending on the properties. DHCA expects to see proposals on different approaches for private investment, which could involve institutions having a controlled pool of funds or a process that brings funds on a transaction by transaction basis. Any structure we adopt will ensure a defined amount of funds ready and available for the targeted transaction profile, with a process providing for timely competitive bidding on properties. The level of committed private institution funding is targeted to achieve a 4:1 leveraging of County funds.

2. Will the first-year funding be limited to loans of no more than 36 months?

The FY21 funding will be used to create an acquisition focused fund with loans for up to 36 months.

3. Why are longer funding options (up to 15 years) being considered? Why not limit this fund to 36 months and then continue to use the existing HIF project fund the longer-term loans?

The potential has been identified for developing an intermediate term fund structure to attract committed pools of funds which allow a period longer than three years before refinancing with long term permanent financing and affordability. The Fund development and implementation in FY21 will help to determine the potential for FY22 funding to leverage investment funds with an intermediate horizon. The Affordable Housing Opportunity Fund project is structured for one-time funding in FY21 and FY22 and will prioritize repayments of loans to maintain a flow of repayment to fund future lending. Existing HIF project funds target long term permanent financing with affordability controls of 30 years or greater, and slow repayment.

4. DHCA indicated that seeking financing from the State of Maryland can take up to a year. Why is this? Is there a way to work with the State to accelerate their process?

The State of Maryland Bond Financing process involves the process for bond issuance and legal processing. DHCA transaction process accepts and works within the current state framework, and we will continue the dialogue with the state to support improvements.

5. The PDF only requires "a portion" of affordable units at MPDU eligible incomes. Why shouldn't it have more specific minimum requirements, such as at least 30% at MPDU incomes and at least 10% at 50% or lower area median income (AMI)? DHCA can choose to require more, but there should be a minimum.

Acquisition financing will prioritize currently affordable properties at risk of rent increases or displacement, expecting a significant majority of units to be affordable at or below 70% AMI (MPDU eligibility). The PDF language supports design of the Fund eligibility to set a standard for affordability levels based on achieving the highest percentages of very low and low-income units. The Affordable Housing Opportunity Fund terms will include addressing the requirements for long term affordability related to the permanent financing.

6. Many of the properties that come through right of first refusal pre-date the MPDU program but now some do not. Should affordable housing requirements be in addition to the existing MPDUs? For example, if a development already has 15% MPDUs, the project absolutely should be providing a much larger percentage of MPDUs and not just the percent that was already funded through the density of the original development.

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DHCA priorities for both the new Affordable Housing Opportunity Fund and the existing long-term capital loans focus on maximizing the number of restricted units and level of affordability of the units. A redevelopment of a property with continuing MPDU requirements would recognize those units as not needing subsidy and would evaluate the proposal on the basis of creating new controlled units.

Concern:

1. The MHI/HIF is established in County Code and regulation (attached © 33-35). Council staff recommends that the PHED Committee and Council should look to revise the law so that it better reflects the current structure and use of the HIF and establishes the Housing Opportunity Fund and clarifies the time limits for loans and the rules for how it revolves.

DHCA has conferred with the County Attorney's Office. Section 25B-9(b) of the Code, the law establishing the MHI/HIF, provides that the MHI/HIF fund "may use appropriated funds and receipts from any source . . . ." Hence, amending the Chapter 25B to address the Affordable Housing Opportunity Fund is probably unnecessary. However, DHCA looks forward to working with the Council to address all concerns and suggestions for updating the law.

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FY20 Pipeline Loans

DHCA's FY20 pipeline currently consists of 11 prospective loans totaling $32.75M, which would produce or preserve 1258 total units, of which 732 would be affordable.

Please find information on these 11 loans below.

1. Hampshire Tower Apartments

- Owner / Developer: Orlo, Takoma
- Located at 7401 New Hampshire Avenue, Takoma Park
- Preservation / utilization of a rent subsidy agreement to invest in the repair/replacement of crucial building systems that have exceeded their useful life. These systems include life safety fire system, elevators to service the 11-story building, hot water and heating/cooling system
- Rehab also focuses on risers, drain lines and valves, unit convectors and in-unit improvements (some units have not received any updating/improvements in over 20+ years)
- 216 total units of which all units will be affordable @ 60% AMI
- Provided an upfront rent subsidy of $6MM (disbursed over 10 years to directly support the improvements to the property and will not be income to property owner.
- Loan closed.

2. MHP - Halpine Hamlet Community Center

- Owner/Developer: Montgomery Housing Partnership, Inc.
- Located at 5501 Halpine Place, Rockville
- Project scope includes repurposing unused pool changing rooms and utility rooms into a community space, installation of an ADA compliant ramp to the community space, and installation of storm drain system at this 67-unit LIHTC assisted property
- Of the 67 units, 50 units are restricted units accommodating households at 50%, and 60% of AMI. 17 units are for households paying market rate rents
- Financing comprised of DHCA $250,000 CDBG loan, MHP funds, State Grant funds
- Loan closed.

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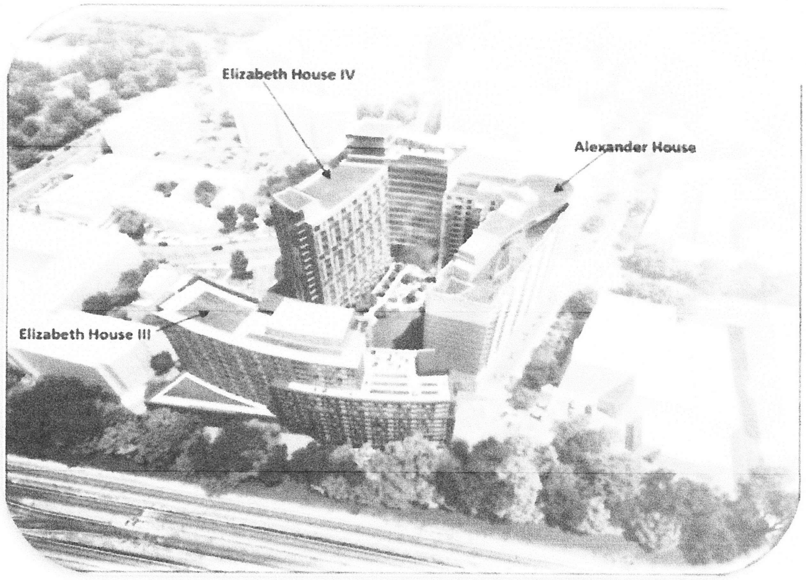
3. HOC Elizabeth House III
   - Owner / Developer: HOC
   - Located at 1315 Apple Avenue, Silver Spring
   - New construction of a 267-unit mixed income **senior** rental apartment property that will be attached to the new County sponsored aquatics center located on Apple Street in Silver Spring MD.
   - Total of 267 units of which 120 units will be affordable @ 60%
   - Providing a subordinate loan for $8MM
   - Loan closed.



4. MHP – Parkview Towers
   - Owner/Developer: Montgomery Housing Partnership, Inc.
   - 7667 Maple Avenue, Takoma Park
   - Stabilization and repairs of exterior façade issues at this 125-unit LIHTC assisted property
   - 105 units will accommodate households with incomes at 30%, 50%, and 60% of AMI.
   - Work to include the stabilization, design, and installation of a permanent wall repair system for the property
   - Structure will include financing from the County as well as funding from Private Lender, State, etc.
   - Project may require additional County funding, which will be considered at a later time.
   - Expected to close FY20, late Q3.

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5. Brooke Park

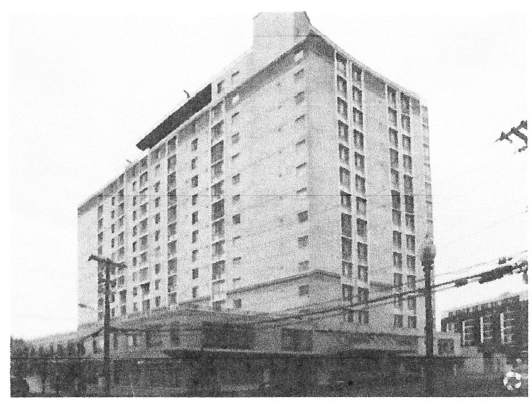
- Owner / Developer: HOC
- Located at 6401 MacArthur Blvd.
- Preservation and redevelopment of 17 multifamily units
- All 17 units would be affordable to households earning no more than 30-80% AMI.
- Expected to close FY20, late Q3.

6. MHP Hillbrooke Towers

- Owner / Developer: Montgomery Housing Partnership, Inc.
- Located at 515 Thayer Avenue, Silver Spring
- Preservation and rehabilitation of a 55-unit apartment building
- The property was purchased by Montgomery Housing Partnership in 2015 as part of disposition by a private owner.
- The rehabilitation of the property will involve LIHTC along with bond and subordinate financing from Maryland Department of Housing and Community Development.
- Anticipated to close FY20, late Q4.

7. GRAMAX

- Project ended its initial LIHTC compliance period and has been sold.
- DHCA is meeting with the purchaser as a part of the Right of First Refusal process and seeks to ensure that the LIHTC extended use will remain in place.
- DHCA anticipates executing a rental agreement to extend the affordability of expiring affordable units.
- Anticipated to close FY20, late Q4.



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8. Container Housing Initiative
    - Owner / Developer: tbd
    - Potentially located at 1920 Seminary Rd.
    - Feasibility study to determine the applicability of modular and/or shipping containers as an affordable housing resource.
    - Affordability and financing info tbd.
    - Closing tbd.

9. MHP – Frederick Avenue
    - Owner / Developer: Montgomery Housing Partnership, Inc.
    - Located at 439 & 425 Frederick Avenue
    - Renovation of property to preserve affordability
    - A minimum of 50 percent of the units would be affordable at 60% AMI.
    - Developer creating the scope of work.
    - Anticipated financing structure includes tax-exempt bonds, LIHTC and subordinate state debt.
    - Closing tbd.

10. 715 Sligo
    - Owner / Developer: REBI, Inc.
    - Located at 715-719 Sligo Avenue
    - Development and new construction of 75 +/- family or senior housing units.
    - Seventy – eighty five percent of the project will be affordable to housing earning at or below 60% AMI.
    - DHCA is working with developer and MD DHCD to finalize financing structure of the project.
    - Closing tbd.

11. Park at Kingsview
    - Owner / Developer: PRP Real Estate Management
    - Located at 13414 Daventry Way, Germantown
    - Preservation of 41 expiring MPDUs through a rental agreement.
    - Requested level of County funding is tbd.
    - Anticipated closing is FY20, late Q4.

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FY21 Pipeline Loans

DHCA's FY21 pipeline currently consists of 4 loans totaling $25.2, which would produce or preserve 426 total units, of which 260 would be affordable. Additionally, DHCA is in discussion with developers on 13 additional possible projects roughly totaling 626 units of which 550 would be affordable.

Please find information on these loans below.

1. Kensington Manor (Knowles) Senior Housing

- Owner / Developer: Knowles Manor, LLC
- Located at 3906 Knowles Avenue, Kensington
- Production / new construction of 94 units of **senior** housing.
- All ninety-four (94) units will be affordable to households earning 30%, 50%, and 80% of AMI.
- Project is receiving 4% LIHTC's from State of MD and State is allowing income averaging calculations for the 80% of AMI units.
- DHCA is providing $8,900,000 for the project's development and construction costs. A PILOT Agreement will be provided for the project.
- Anticipated closing is FY21, late Q1.

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2. Fireside Park Apartments

- Owner / Developer: Rockville Housing Enterprises
- Located at 735 Monroe Street, Rockville
- Preservation of an existing rental housing development that provides housing to families earning 50%, 60% and 80% of AMI.
- Project contains 22 buildings with a total of 236 units that require rehabilitation due to a major fire that occurred in 2018.
- Project is applying for 4% LIHTC's from the State of MD
- Expected to close FY21, early Q1.

3. MHP – Hillwood Manor

- Owner / Developer: Montgomery Housing Partnership, Inc.
- Located at 1100 Linden Avenue in Takoma Park
- Preservation and renovation of 96-units of multifamily rental housing
- Project contains 78 units at or below 60% AMI and 18 market rate units
- Renovation plan includes new kitchens, baths, HVAC, electrical, plumbing, paint, flooring and extensive repair to the common areas and exterior
- Financing strategy includes 4% LIHTC, State of MD direct financing, a seller take-back note, and County funding.
- Anticipated closing is FY21, Q1.

4. Snowden's Ridge Apartments

- Owner / Developer: Arlington Partnership for Affordable Housing, Inc.
- Located at 2105 Harlequin Terrace, #A, Silver Spring
- Previously, the County provided funding to acquire / preserve this 87-unit 100% Section 8 property via Right of First Refusal
- Property had an expiring Section 8 contract, was preserved through the County's participation
- The County anticipates providing an additional loan to provide needed rehabilitation funding for the project along with LIHTC and MD DHCD tax-exempt bonds as the permanent financing.

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Projects "In Discussion"

a. MHP – Parkview Towers – Financing is anticipated to be provided by the County as well as funding from Private Lender, State, etc; the project may require additional County funding.
b. MHP – Forest Glen- Potential redevelopment of aging multifamily complex to accommodate increased density and more affordable units; project recently awarded 9 percent LIHTCs to finance a portion of the site; remainder of project financing to be determined.
c. Wheaton Woods Pool – Project is the re-purposing of a vacant pool at 4610 Landgreen Street in Rockville for a 75-unit new construction senior affordable housing development. Developer is continuing discussions with the community, DHCA and MD DHCD.
d. Montgomery College Tiny House – Potential partnership with Montgomery College to be defined.
e. Milestone Senior – Project is the new construction of affordable senior housing; project in early discussion stage.
f. Mission 1st – St. Anne – Mission First is planning the new construction 70+ units of affordable senior housing in Damascus. Project financing will include tax-exempt bond debt, and LIHTC. MD DHCD anticipated to be bond issuer.
g. HOC – Hillandale – This is the redevelopment of the HOC Holly Hall site a former public housing site that will have increased units with a projected 155 units of senior housing and a 308-unit family building.
h. Seabury Resources - Springvale Terrace – renovation of the 146 unit senior independent and assisted living facility. Most residents residing at the property have incomes at 30-50% AMI. The property will seek tax-exempt bonds and LIHTC equity for renovation financing.
i. The Fields of Gaithersburg – This is a Qualified Contract purchase of an owner opting out of a LIHTC compliance period. The Qualified Contract purchase process is managed by MD Department of Housing and Community Development.
j. Homes at Olde Towne – Potential sale by owner of a LIHTC project.
k. 315 Diamond Avenue – New construction, mixed-income, mixed-use project consisting of 109-units of apartment housing located in the center of Gaithersburg adjacent to the MARC Train. 52 of the 109 units are slated to be affordable to households at or below 60% AMI.
l. MHP Drings Reach – Potential partnership with Montgomery Greenbank to be defined.
m. Charter House – Potential partnership with Montgomery Greenbank to be defined.

Affordable Housing Opportunity Fund

A Critical Tool for Preservation of Affordable Housing

Marc Elrich
County Executive

DHCA

Aseem K. Nigam
Director, DHCA

Affordable Housing Units Needed: Now through 2030

- Today: There is a need for housing across the income spectrum. The need is most acute for those earning at or below 50% AMI (approximately $50,000). Currently, there are 20,000 households at or below 50% AMI who are severely rent-burdened.

- By 2030: According to the COG study, Montgomery County is expected to serve an additional 20,000 households at or below 50% AMI.

- Between now and 2030: Montgomery County could lose an estimated 7,000 – 11,000 affordable housing units if we fail to dedicate sufficient resources to preservation.

DHCA

Affordable Housing Opportunity Fund

- The Affordable Housing Opportunity Fund (Fund) will support affordable housing developers to acquire and control properties in order to position them for long term affordability.

- The proposed $10 million County investment in FY21 would represent one-time funding that would create a dedicated fund of $40M - $50M (4:1 leverage). The funds are expected to revolve within a 3-year timeframe.

- As a part of the FY21 budget process, the Council has programmed $8 million from County CIP but the money has not been appropriated to the Fund yet.

- The Fund will offer ready-to-go acquisition financing targeted to give a competitive advantage to affordable housing developers to help preserve housing units by implementing a long-term affordability strategy.

DHCA

Affordable Housing Opportunity Fund (cont'd)

- Fund is expected to be funded by Recordation Tax Premium (County CIP portion).
- Fund will support preservation of properties throughout the County, including along transit corridors such as the Purple Line.
- Fund does not impact the County's debt capacity.

DHCA

Affordable Housing Opportunity Fund (cont'd)

- The Affordable Housing Opportunity Fund will provide a financing tool to affordable housing developers so they can compete with better capitalized investors.

- We can provide acquisition financing in HIF, on a case-by-case basis. However, this Fund provides ready to go capital with pre-determined eligibility and process. This Fund provides efficiency and readiness for acquisitions.

- Generally speaking, the affordable housing developer needs 2-3 years to put together long-term financing. The Affordable Housing Opportunity Fund will provide short term loans, targeted up to 36 months, that will allow time for property stabilization and arranging long-term affordability financing.

DHCA

Affordable Housing Opportunity Fund (cont'd)

- These transactions will have an exit strategy, so that the funds can revolve over 3 years.

- Project financing could be in a first lien or subordinate lien position. An example of a subordinate lien position:

  - A $20 million property acquisition could obtain a $16 million (80% Loan-to-Value) bank loan and use the Fund for the remaining $4 million (20%).

  - The developer stabilizes the property and arranges long-term affordability financing and repays the acquisition loan. Long-term financing may include LIHTC, DHCA HIF, Federal Home Loan Bank, and other financing sources.

DHCA

DHCA has validated the approach with Market Participants

- DHCA has met with leading CDFIs (Community Development Financial Institutions) who manage leveraged acquisition and preservation funds.

- Once the Council appropriates money to this fund, we expect to form the Fund in an approximately six-month time period, working with procurement and legal processes.

- Fund would employ proven regional and national models, i.e., District of Columbia, Fairfax, Denver, Seattle, Bay Area, Boston, New York and Minneapolis.

- The successful implementation of Funds in these jurisdictions demonstrates the viability of providing ready capital for preservation of housing on a long-term basis.

DHCA