

MEMORANDUM

July 24, 2020

TO: Planning, Housing, and Economic Development Committee

FROM: Linda McMillan, Senior Legislative Analyst

SUBJECT: **Housing Opportunities Commission Housing Production Fund**

PURPOSE: Review Comments from County Executive

**Expected for this session:**

Mary Beck, Capital Budget Manager, Office of Management and Budget  
Mike Coveyou, Director, Department of Finance  
Stacy Spann, Executive Director, Housing Opportunities Commission (HOC)  
Kayrine Brown, Chief Investment and Real Estate Officer, HOC  
Zachary Marks, Director of Development Real Estate, HOC

On July 7, 2020, the Council introduced the Planning, Housing, and Economic Development (PHED) Committee's recommended amendment to the FY 2021-2026 Capital Improvements Program and a Special Appropriation to the FY 2021 Capital Budget to create the HOC Housing Production Fund. The creation of this fund would accelerate HOC's ability to proceed with mixed-income housing developments in their development pipeline. This item is scheduled for public hearing and action by the Council on July 28, 2020.

The Council received a memo from the County Executive the evening of July 23 with his concerns about this proposal.

Executive staff will be present to discuss these concerns with the PHED Committee.

**Attachments:**

Executive memo July 23, 2020	1-3
July 7 staff report for introduction of CIP Amendment and Special Appropriation to The Capital Budget	4-11



**OFFICE OF THE COUNTY EXECUTIVE**

Marc Elrich  
*County Executive*

**MEMORANDUM**

July 23, 2020

TO: Sidney Katz, President, County Council

FROM: Marc Elrich, County Executive

SUBJECT: Balancing affordable housing goals with COVID-19 fiscal challenges

I am writing to express my concern about a Housing Opportunities Commission capital budget amendment which the Council is being asked to approve next Tuesday. On June 22, the Planning, Housing and Economic Development (PHED) Committee voted to create a revolving Housing Production Fund that will provide County-funded debt service payments for \$100 million in HOC-issued bonds – with \$50 million in FY21 and \$50 million in FY22. At the same time, the PHED Committee is also considering a Housing Preservation Fund that may also add \$50 million in debt. While this preservation proposal is not fully developed, it is important to keep it in mind so that the total potential fiscal impact of both proposals is understood.

My concerns about this approach fall into two categories – financial consequences and net impact on affordable housing. From a financial perspective:

- Annual debt service increases for FY22 and beyond could vary from \$3.4 million to \$10.2 million depending on the amount of debt issued. These additional debt levels will require future tradeoffs. For example, \$1 million used for debt service could also be used to support new affordable housing deals by non-profit developers with fewer financing options. Alternatively, \$1 million could also provide support for 14 public school teachers; child care subsidies for 143 children per year; rental assistance for 416 families; 1 electric bus; emergency shelter for 160 clients; 9 fire fighters; or pruning 1,250 trees.
- The combination of increased debt service costs and reduced revenues would push one of our key debt service indicators (debt service/general fund revenues) over 12 percent in FY21 - a significant variance from the 10 percent target we have been working towards.

- This approach will negatively affect the County’s debt capacity. It will need to be declared to potential investors through the Municipal Securities Rulemaking Board’s (MSRB) EMMA website and will need to be disclosed to the Rating Agencies and on the County’s financial statements. It is possible that this new program could have an adverse effect on the County’s bond rating, especially given the recent revenue write-downs and the unknown future effects of COVID-19.
- At best, we are facing a highly uncertain financial outlook now and for at least the next few years. As recent revenue write-downs indicate, the COVID budget hangover will linger well into the future. And, at least one charter amendment has the potential to place severe limitations on our budget flexibility and to lower our coveted AAA bond rating.
- We have a highly inflexible budget already. In FY20, maintenance of effort and debt service requirements made up almost 65 percent of the budget and critical Health and Human Services costs added another 7 percent of the budget. Adding more debt will make it harder for us to respond to any additional revenue decreases or COVID-related cost increases. If further savings plans are required, the choices will be much harder than the savings plan reductions you have been considering.
- The amount of increased debt being contemplated is quite large compared to our annual planned general obligation bond issuance (\$320 million in FY21).

While you know that I consider affordable housing to be one of our shared highest priorities, this is not the time to further increase debt.

My concerns regarding the net impact on affordable housing relate primarily to the trade-offs required, questions regarding the relative value for our investments, and the inflexibility that could arise by transferring control of funds from the Department of Housing and Community Affairs to the Housing Opportunities Commission.

- In FY21, the debt service costs would be paid for with funds that Council diverted from my recommended HIF operating budget. In FY22 and beyond, unless funds are available to cover both HOC’s annual debt service costs and to restore funding to the HIF, HIF resources for other affordable housing projects will be drastically reduced. HIF annual debt service payments are already expected to increase from \$9.6 million in FY20 to \$18.2 million in FY26 without this additional cost – putting further pressure on available resources for our non-profit partners.
- HOC appeared to be on track to develop the Westside at Shady Grove and Hillandale Gateway projects without these funds – albeit on a later time frame. Allocating the \$6.8 million as previously recommended through the HIF to non-profit housing developers that may not have access to the full range of financing options that HOC has could result in more affordable housing units in the long run.
- The Council of Governments identified a need for 7.5 out of 10 units to be affordable to people below 70 percent of AMI, yet the initial projects proposed by HOC would support housing that produces 7 of 10 units of market housing. This is not going to address our future housing needs. On top of that, we already have over 20,000 households living in units that far exceed their ability to pay. Our need at the lower end of the housing spectrum will simply not be met this way.
- The affordable housing proposed from this HOC Housing Production Fund will provide at least 20 percent of units for households under 50 percent AMI and an additional 10

percent at MPDU rates, with the remaining 70 percent of the units at market rates. However, the proposal does not provide any firm commitment of how many units each \$50 million would produce, only percentages.

- It is difficult to determine the per unit cost efficiency in order to compare results with other affordable housing projects.
- Funds may be unnecessarily underutilized if HOC's pipeline of projects hits delays, but debt service payments will continue.

I share the PHED Committee's interest in supporting preservation efforts along the Purple Line. And, I hope that the Council will soon appropriate the funds for the Affordable Housing Opportunity Fund project that will prioritize projects in that area.

Before the County commits to 20 years of debt service limiting future County financial flexibility, we need a thoughtful review of affordable housing options. The Planning Department has just provided a Preservation Study with a thorough analysis of the priorities and challenges involved in the preservation of our existing affordable housing. This study indicates that 40 percent of our unrestricted affordable housing is at risk of loss to higher rents in the next 10 years, with much - but not all - of that along transit corridors. The policy options recommended for consideration in the Preservation Study include tools other than capital investments, such as land use guidelines and the targeted use of rent stabilization. We know we have very large budget challenges immediately ahead of us - we just don't know how large. We should not tie our hands and commit our budget irreversibly with additional debt before reviewing all the options for most effectively addressing severe housing cost burdens. Before committing to additional debt, I propose that we meet with the affordable housing development community to review financing and other options from a cost-benefit perspective so we can make the most strategic use of our increasingly scarce resources.

I have asked staff to reach out to Councilmembers to discuss these concerns. If there is not sufficient time to fully consider these concerns, I hope that Council will consider deferring a vote on this issue until September so that the full impact of these proposals can be considered comprehensively.



**Committee:** PHED  
**Committee Review:** Completed  
**Staff:** Linda McMillan, Senior Legislative Analyst  
**Purpose:** To introduce agenda item – no vote expected  
**Keywords:** HOC; Housing Production Fund

AGENDA ITEM #2E  
July 7, 2020  
**Introduction**

## **SUBJECT**

Amendment to the FY 2021-2026 Capital Improvements Program and Special Appropriation to the FY 2021 Capital Budget; Housing Opportunities Commission; HOC Housing Production Fund; \$2,800,000 (Source of Funds: General Fund Reserves Designated for Affordable Housing) Lead Sponsor: Planning, Housing, and Economic Development (PHED) Committee

## **EXPECTED ATTENDEES**

None

## **COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION**

- Public hearing and action are scheduled for July 28, 2020 at 1:30 p.m.
- The PHED Committee recommends (3-0) approval of a new CIP project that creates a Housing Opportunities Commission (HOC) Housing Production Fund.

## **DESCRIPTION/ISSUE**

Montgomery County has a current and projected shortage of housing and a significant shortage of housing affordable to low and moderate-income households. To meet current and future housing needs, new strategies for increasing the housing supply must be implemented. This includes finding ways to leverage County resources to create larger pools of funding to accelerate the production of new mixed-income developments with a substantial percent of affordable housing, particularly housing that is targeted to serve households with incomes at or below 50% of area median income. The PHED Committee recommends approval of a Capital Improvements Program project that will create a \$100 million Housing Opportunities Commission (HOC) Housing Production Fund. The County will provide HOC with \$2.8 million in FY 2021 to create the Fund and allow HOC to issue \$50 million in HOC-issued bonds. County funding will increase to \$6.8 million annually to allow HOC to increase the bonds to \$100 million. The funds will be used for construction period financing. This will allow HOC to accelerate projects in its development pipeline. HOC estimates it can create nearly 8,800 units of housing with the assistance of this Fund. At minimum, 20% of the housing units will be affordable to households earning 50% or less of area median income and 10% of units will be affordable to households earning incomes eligible for the Moderately Priced Dwelling Unit program.

## **SUMMARY OF KEY DISCUSSION POINTS**

- Montgomery County is a partner in the Metropolitan Washington Council of Governments' Regional Housing Initiative and the Council has endorsed the goal of adding an additional 10,000 housing units above current forecasts by the year 2030.

- The Housing Needs Assessment recently completed for the Planning Board estimates that between years 2020 and 2040, the County will add over 63,000 new households. The study estimates that over half of new housing units will be multi-family rental.
- Housing is one of the four pillars of the Council’s Economic Development Platform.
- The Housing Opportunities Commission is the County’s public housing agency, with a mission of providing high-quality affordable housing. HOC has created a development and redevelopment pipeline of mixed-income housing developments from properties in its own portfolio and through properties acquired through partnerships with private developers. HOC can accelerate these projects with additional construction period bridge financing.
- The impact of access to quality, stable, and affordable housing on health is a well-researched social determinant of health. Stable, quality housing is shown to reduce illness and healthcare costs, and for families with children can impact other factors such as school achievement.
- The Council placed \$6.8 million in designated reserve as a part of its original FY21 budget actions to allow the PHED Committee and Council time to review proposals to leverage funding for production and preservation of affordable housing. This designated reserve will be the source of the FY21 current revenue funding for this new project.
- At its June 22, 2020 worksession on this proposal, Executive staff from the Office of Management and Budget requested time to review the proposal and consult with the Department of Finance to advise the Council about any impacts regarding County debt capacity or other financial policies. The PHED Committee acknowledged the need for this input and the ability of the Committee and Council to consider additional information.
- The recommended Project Description Form states the minimum requirements for affordability in projects developed using this Fund, the PHED Committee discussed the need to work to increase affordability beyond these levels. HOC confirmed that seeking ways to increase affordability is a top goal of the HOC Commissioners and they would welcome continued discussion.

**Attached:**

Resolution: CIP Amendment and Special Appropriation  
 Project Description Form

pages 1-4  
 5-6

Link to June 22, 2020 PHED Committee staff report which contains presentation slides from HOC on the Housing Production Fund:

[https://www.montgomerycountymd.gov/council/Resources/Files/agenda/cm/2020/20200622/20200622\\_PHED2.pdf](https://www.montgomerycountymd.gov/council/Resources/Files/agenda/cm/2020/20200622/20200622_PHED2.pdf)

Link to June 8, 2020 PHED Committee staff report on the Housing Needs Assessment that contains presentation slides:

[https://www.montgomerycountymd.gov/council/Resources/Files/agenda/cm/2020/20200608/20200608\\_PHED2.pdf](https://www.montgomerycountymd.gov/council/Resources/Files/agenda/cm/2020/20200608/20200608_PHED2.pdf)

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Resolution No.: \_\_\_\_\_  
Introduced: July 7, 2020  
Adopted: \_\_\_\_\_

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

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Lead Sponsor: Planning, Housing, and Economic Development Committee

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**SUBJECT:** Amendment to the FY 2021-2026 Capital Improvements Program and Special Appropriation to the FY 2021 Capital Budget  
Housing Opportunities Commission  
HOC Housing Production Fund  
\$2,800,000 (Source of Funds: General Fund Reserves Designated for Affordable Housing)

**Background**

1. Section 308 of the County Charter provides that a special appropriation is an appropriation which states that it is necessary to meet an unforeseen disaster or other emergency, or to act without delay in the public interest. Each special appropriation shall be approved by not less than six Councilmembers. The Council may approve a special appropriation at any time after public notice by news release. Each special appropriation shall specify the source of funds to finance it.
2. Section 302 of the County Charter provides that the Council may amend an approved capital improvements program at any time by an affirmative vote of no fewer than six members of the Council.
3. Montgomery County has had a decades long commitment to providing affordable housing to its residents. The County was one of the first jurisdictions in the nation to use inclusionary zoning to provide moderately price dwelling units. The County has committed local funding to provide housing stabilization, rent supports, rapid re-housing, and permanent supportive housing. The County provides loans and grant to affordable housing partners through the Housing Initiative Fund and provides tax relief for affordable housing through the payment in lieu of taxes program. Public land is leveraged to support developments with higher percentages of affordable units, and the Council has included provisions in master plans and sector plans to incentivize affordable housing and promote strategies that result in redevelopment of specific parcels having no net loss of affordable units.

4. The County's investments have not been enough to meet the current need for all housing and for affordable housing. The Housing Needs Assessment recently completed for the Montgomery County Planning Board estimates that between years 2020 and 2040, Montgomery County will add over 63,000 new households. In 2018, there was a gap of almost 48,000 units affordable to households with incomes at or below 50% of area median income. The projections show that higher income households will remain the largest group, but the percent of households with incomes below \$50,000 will increase. The study estimates over half of new housing units will be multi-family rental.
5. On November 5, 2019, the Council adopted Resolution 19-284, Resolution to Support Metropolitan Washington Council of Governments' Regional Housing Targets for Montgomery County. The Council's actions stated that, "A sufficient stock of quality housing at all levels of affordability is critical to quality of life, health of residents, and the economic development that will bring increased employment opportunities." The Council committed to goals of producing 10,000 housing units above the current forecast and having 75% of new housing in Activity Centers or near high-capacity transit.
6. On November 19, 2019, the Council adopted Resolution 19-300, Economic Development Platform for Montgomery County. The resolution says, "A growing and thriving economy is necessary to provide abundant amenities, jobs with sustainable wages, and high-quality services for all residents of the County." The Council's action adopted four pillars: Housing, Transportation, Workforce Development, and Business Development. The Housing pillar affirmed the Council's commitment to strive to meet the Council of Governments' housing targets.
7. On June 16, 2020, the Council adopted Resolution 19-493, Declaration of Racism as a Public Health Crisis. The resolution says, "Racism causes persistent discrimination and disparate outcomes in many areas of life, including housing, education, employment and criminal justice, and an emerging body of research demonstrates that racism itself is a social determinant of health." The Health Affairs Policy Brief, "Housing and Health: An Overview of the Literature," says, "Housing is one of the best-researched social determinants of health and selected housing interventions for low-income people have been found to improve health outcomes and decrease health care costs." It further notes that residential instability (moving frequently, falling behind on rent, couch surfing) increases a person's likelihood of experiencing poor health compared to stably housed peers.
8. To meet the County's goals for increased housing and increased availability of affordable housing, new creative and dynamic tools are needed including new tools for financing the production of new mixed-income housing developments with housing units affordable to household earning less than 50% of area median income.
9. The Housing Opportunities Commission (HOC) is the County's public housing agency with a mission to provide affordable housing and supportive services that enhance the lives of low and moderate- income families and individuals so that no one is living in substandard housing. HOC has been actively developing high quality mixed-income

housing. HOC has a development and redevelopment pipeline from properties in its own portfolio and from properties acquired through partnerships with private developers. HOC can accelerate projects in its mixed-income housing pipeline with availability of construction period bridge financing.

10. As a part of its actions on the FY 2021-2026 Capital Improvements Program and FY 2021 Capital Budget, the Council agreed to hold \$6.8 million that the County Executive recommended for Housing Initiative Fund loans and grants in a Designated General Fund Reserve to allow the Council time to give further consideration to new models that leverage County funds to create larger pools of financing.
11. On June 22, 2020, the Planning, Housing, and Economic Development Committee reviewed the proposal to create a HOC Housing Production Fund. Under this proposal, the County will provide annual funding through the Capital Improvements Program and Capital Budget that HOC will use to pay the cost of the HOC-issued bonds. The proceeds from these bonds will be used as low-cost, construction-period bridge financing. This method of financing will mean that HOC will not be required to use Low Income Housing Tax Credits or traditional financing assistance from the Housing Initiative Fund.
12. The Planning, Housing, and Economic Development Committee recommends an amendment to the Capital Improvements Program to allow for creation a \$50 million HOC Housing Production Fund in FY 2021 that will increase to \$100 million in FY 2022. The expenditures will provide HOC with funding that it must use for the cost of HOC-issued bonds. The Committee recommends a FY 2021 appropriation of \$2.8 million for this purpose. The Committee further recommends that any interest payments generated by projects will be reinvested into the HOC Housing Production Fund.
13. Public notice of this special appropriation was provided and a public hearing was held.

### **Action**

The County Council for Montgomery County, Maryland approves the following resolution:

The FY 2021-2026 Capital Improvements Program is amended as reflected in the attached Project Description Form. A special appropriation to the FY 2021 Capital

Budget for the Housing Opportunities Commission, in the amount of \$2,800,000 is approved as follows:

	<u>Personnel Expense</u>	<u>Operating Expense</u>	<u>TOTAL</u>	<u>Source of Funds</u>
HOC Housing Production Fund	\$0	\$2,800,000	\$2,800,000	Designated General Fund Reserves

This appropriation is needed to act without delay in the public interest.

This is a correct copy of Council action.

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Selena Mendy Singleton, Esq.,  
Clerk of the Council

**HOC Housing Production Fund – (PHED Committee Recommended)**

	Total	6 Years	FY21	FY22	FY23	FY24	FY25	FY26	Beyond
Expense									
Other	134,800	36,200	2,800	6,200	6,800	6,800	6,800	6,800	98,600
Funding									
Current Rev	134,800	36,200	2,800	6,200	6,800	6,800	6,800	6,800	98,600

Appropriation Request FY21	2,800
Appropriation Request FY22	6,200
Cumulative Appropriation	-
Expenditure/Encumbrance	-
Unencumbered Balance	-
Year First Appropriation	FY21
Last FY's Cost Estimate	-

**Project Description**

This project will provide funding to the Housing Opportunities Commission (HOC) that will support the principal and interest requirements for the establishment of a Housing Production Fund. The appropriation and expenditure in FY 2021 will support the first-year cost for \$50 million in HOC-issued bonds. The annual expenditure for this first bond issuance will increase to \$3.4 million in years 2 through 20. Expenditures beginning in FY 2022 reflect the expenditures needed to allow HOC to increase this revolving fund to \$100 million. The funds from the HOC issued bonds must be used to produce new mixed-income housing developments and will provide financing for no more than the first five years. Funds may be used for project development, construction, and initial occupancy. Once permanent financing is in place, HOC will repay the revolving fund for all draws associated with the development. At least 20% of all units must be affordable to households with incomes at or below 50% of area median income and another 10% at or below the income for a Moderately Priced Dwelling Unit. HOC is encouraged to access other sources of funding to increase the percentage of affordable units.

**Project Justification**

Montgomery County has a severe shortage of affordable housing and housing of all types. The Metropolitan Washington Council of Governments estimates that Montgomery County needs to add 41,000 housing units by 2030 to meet demand, at least 75% should be in activity centers or near high-capacity transit, and at least 75% should be affordable to low- and middle-income households. The 2020 Housing Needs Assessment estimates that the County will need housing for over 63,000 new households by 2040. It further estimates that in 2018 there was a shortage of almost 48,000 housing units affordable to households with incomes at or below 50% of area median income. Production of new housing must occur to meet these goals. HOC is the County's public housing agency and its mission is to provide high-quality affordable housing. HOC has a pipeline of potential projects but needs additional construction-bridge financing capacity to move all its projects forward.

**Other**

HOC estimates that it can create nearly 8,800 units of new housing on properties it owns, controls, or is controlled by the County and could be transferred to HOC.

**Fiscal Note**

Any interest payments generated by the projects will be reinvested into the HOC Housing Production Fund.