

MEMORANDUM

February 1, 2023

TO: Planning, Housing, and Parks (PH) Committee

FROM: Naeem M. Mia, Legislative Analyst
Eunice Jeong, Legislative Analyst

SUBJECT: **Housing Opportunities Commission (HOC) - Housing Production Fund Update**

PURPOSE: Briefing only - no Committee or Council action needed.

Expected Attendees:

- Chelsea Andrews, Executive Director, HOC
- Kayrine Brown, Deputy Executive Director, HOC
- Zachary Marks, Chief Real Estate Development Officer, HOC
- Ken Silverman, Director of Legislative and Government Affairs, HOC

Overview

For the FY23 Approved Operating Budget, the Council approved an additional \$50M of bonding capacity for the Housing Production Fund (HPF), bringing total capacity to \$100M through a revolving loan facility. For FY23, the Council also appropriated a total of \$7.0M within the Housing Initiative Fund (HIF) for the annual debt service for no more than \$100 million in HPF bonds. The approved operating budget resolution with the relevant provisions is attached at © 1-2.

The HPF was approved in 2021 as an innovative way to provide HOC with a source of short-term construction funding that would allow HOC to accelerate projects in their pipeline and in turn help the County in meeting its goals for both increasing housing and affordable housing. At least 20% of units in a development financed using the HPF must be affordable to households earning 50% or less of area median income with at least another 10% of units affordable to households earning incomes eligible for the Moderately Priced Dwelling Unit (MPDU) program.

Update

HOC has provided a brief update on recent and upcoming HPF-funded projects at the Committee's January 30th panel discussion on the "The State of Affordable Rental Housing in Montgomery County"; a copy of HOC's presentation is attached on © 3-15. HOC will provide additional updates and details at this Committee session.

Some key discussion topics for the Committee may include:

- Discuss on specific projects and any actual or potential issues encountered.
- Recent and current interest rates for bonds and projected loan repayments in FY23.
- Potential for retaining interest payments made on issued loans within the HPF. Currently, interest payments are transferred back to the County, offsetting the cost of debt service. For FY23, interest payments are estimated at \$2.8M
- Status of efforts to request increasing the bond cap. HOC's bond issuances are constrained by a volume cap issued by Maryland DHCD. HOC is currently projecting a shortfall of \$125 million in bonding capacity; in order to maximize the HPF development pipeline, HOC intends to request a special allocation from the State.

This packet contains:

	<u>Circle Page #</u>
1. FY 23 Approved Operating Budget Resolution #10 – Provision 91	1-2
2. HOC Presentation for January 30 th PH Committee	3-14

87. This resolution appropriates \$1,087,854 in the Office of the County Executive to provide for continuity of certain contractual services related to food system security and to plan and prepare to implement the future Office of Food System Resilience. These funds are budgeted in a program for Food System Resilience pending Council approval of legislation to create an Office of Food System Resilience.
88. This resolution appropriates \$5,529,663 to the Department of Health and Human Services to expand a model of high school wellness services that must include mental health, case management and positive youth development services, through the Street Outreach Network or School Outreach Network and community-based services providers, to all High Schools without an existing High School Wellness Center program.
89. The resolution appropriates \$10,923,236 to the Office of Community Use of Public Facilities. A portion of the appropriation must be used to reimburse Montgomery County Public Schools for community use of school facilities. In the absence of a current agreement between the County and the school system on the amounts owed for community use, the reimbursement must be based on the terms of the 2018 Memorandum of Understanding between the agencies.
90. The Department of Housing and Community Affairs (DHCA) must transmit to the Council quarterly reports to include information on funding from the Housing Initiative Fund (HIF) and the projects administered by the department in the Capital Improvements Program (CIP). The information must include the amount of funding the department has made commitments for, encumbrances, or expenditures. The reports are due no later than September 30, 2022; December 31, 2022; March 31, 2023; and June 30, 2023.
91. The Council authorized a \$50.0 million revolving Housing Production Fund through Council Resolution No. 19-774. This resolution approves an additional \$50.0 million for the revolving Housing Production Fund in FY 2023, for a total fund of \$100.0 million.
- (a) The Executive is authorized to amend the previous agreements or enter into a new agreement to establish a total of \$100.0 million revolving Housing Production Fund with the terms and provisions deemed appropriate by the County Executive to achieve the purposes set forth in Council Resolution No. 19-774 (the “HPF Agreement”).
 - (b) Under the HPF Agreement, the County may agree to provide the funding necessary for the debt service for additional HOC-issued bonds in an aggregate par amount not to exceed \$50 Million Dollars or \$4.0 million in annual gross debt service (the “HOC Bonds Tranche 2”) for use by the HOC Housing Production Fund.
 - (c) The proceeds of the HOC Bonds Tranche 2 including any premium will be made available solely for the uses of the HOC Housing Production Fund and to pay costs of issuance.
 - (d) Funds made available by the County Government for debt service on the HOC Bonds Tranche 2 shall be subject to annual appropriation by the Council.
 - (e) The funds made available from the County Government are not expected to exceed \$4.0 million dollars as appropriated annually while the HOC Bonds Tranche 2 are outstanding.

- (f) If the County Executive enters into the HPF Agreement, it must state that the payments from the County Government are subject to annual appropriation, provided however, that the County Government contribution for debt service on the HOC Bonds payable in FY 2023 shall not exceed the \$4.0 million authorized in this resolution.
 - (g) The HPF Agreement will provide that the HOC Bonds Tranche 2 will have a final maturity not to exceed 20 years from the date of issuance.
 - (h) The Executive may transfer the entire or any portion of the FY 2023 appropriation of \$4.0 million to the Montgomery Housing Initiative (Housing Initiative Fund) as needed for the purpose of paying debt service of the HOC Bonds Tranche 2 to be used as set forth in this Resolution.
 - (i) HOC developments funded using the proceeds of HOC Bonds Tranche 2 and any other funds in or made available for the HOC Housing Production Fund must have at least 20% of total dwelling units priced to be affordable to households earning 50% or less of the area median income (AMI) adjusted for household size and an additional 10% of all units affordable to households with incomes eligible for a Moderately Price Dwelling Unit.
 - (j) The HOC Bonds Tranche 2 and related documents shall provide that any earnings on the proceeds of the HOC Bonds Tranche 2 will be used to pay the debt service on the HOC Bonds Tranche 2.
 - (k) Any interest paid by the developments funded through the HOC Housing Production Fund in FY 2023 and in future years, unless and until modified by the Council, must be paid to the County Government and must be deposited by the County into the Montgomery Housing Initiative (Housing Initiative Fund).
92. The Executive must notify the Council within 15 days if the County receives more than \$500,000 of reimbursements from the Federal Emergency Management Agency related to the COVID-19 pandemic. Per the County's fiscal policies, any reimbursements received are one-time resources and should fund one-time expenditures if the Executive or Council propose additional funding in Fiscal Year 2023.

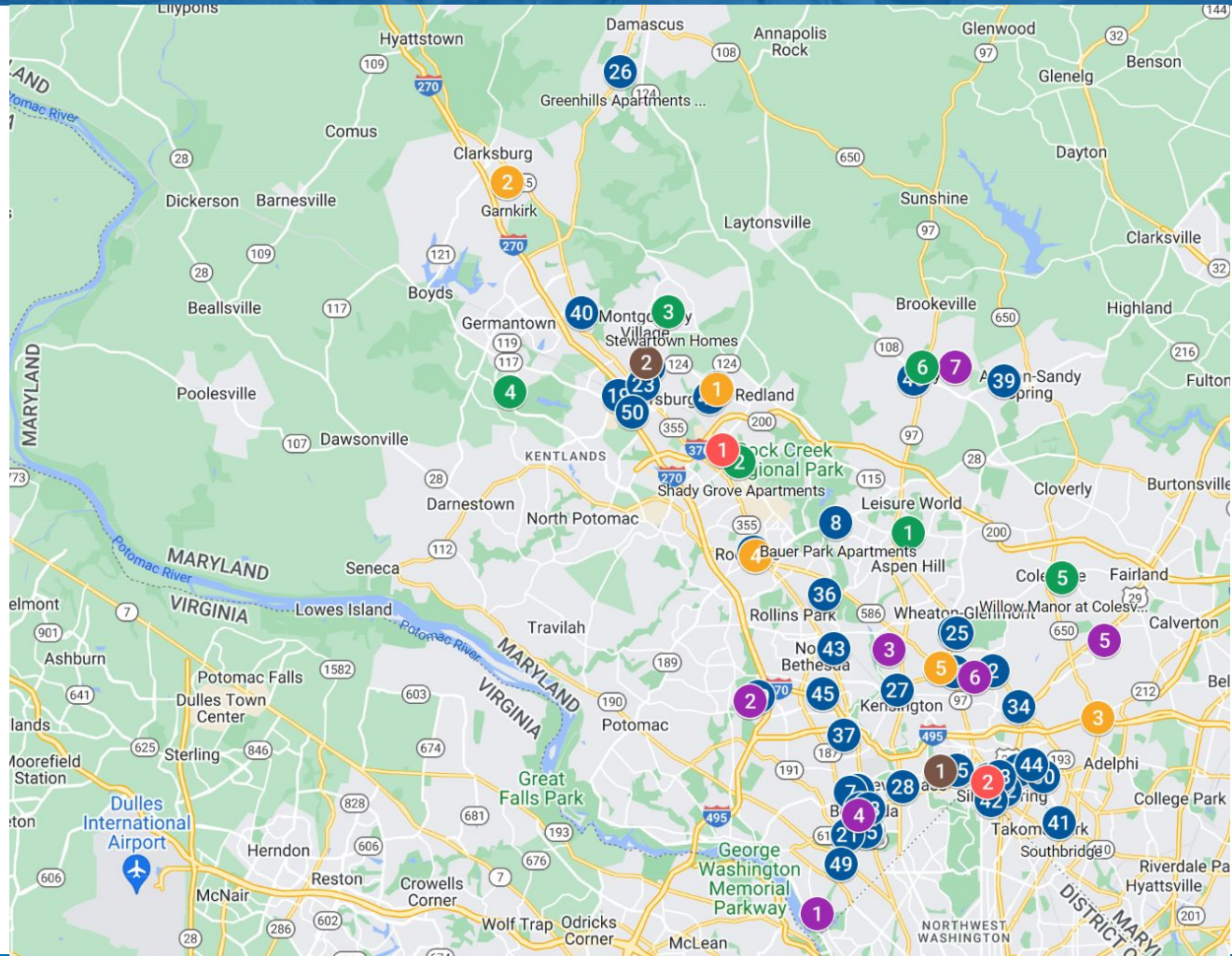
This is a correct copy of Council action.

Judy Rupp
Clerk of the Council



HOC Real Estate & Development

HOC owns properties across Montgomery County



HOC Multifamily Properties + Pipeline. Does not include scattered sites.

Evaluating the Preservation Need

As of July 2020...

- Approximately 80% of the County's rental stock is unrestricted.
- Of those, 45% are priced to rent at or below 65% AMI.
- Nearly 26,000 (60%) of units below 65% AMI are unrestricted (NOAH).

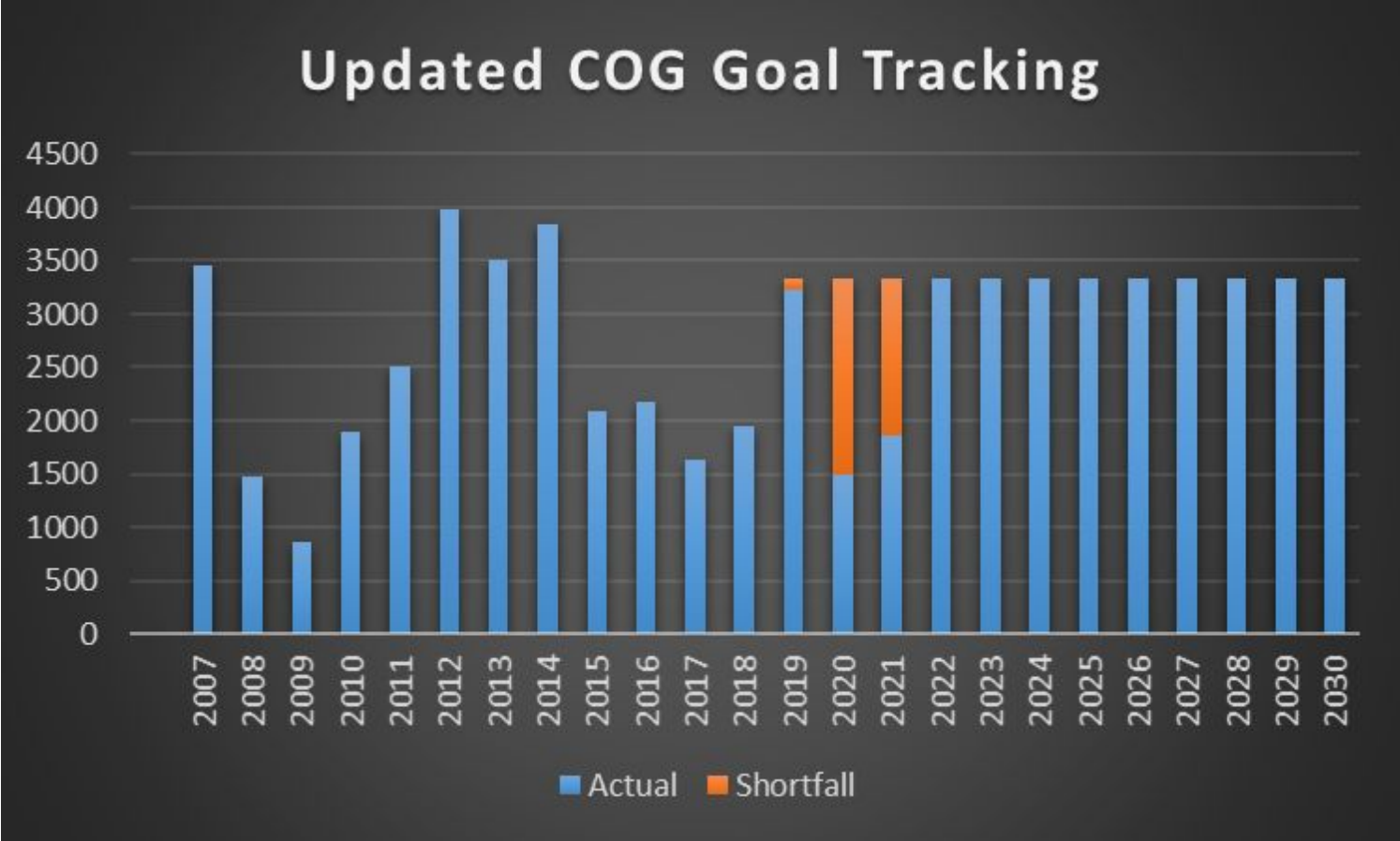
By 2030, between 7,000-11,000 of these 26,000 NOAH units will be lost.

Preservation of Affordable Housing Study*

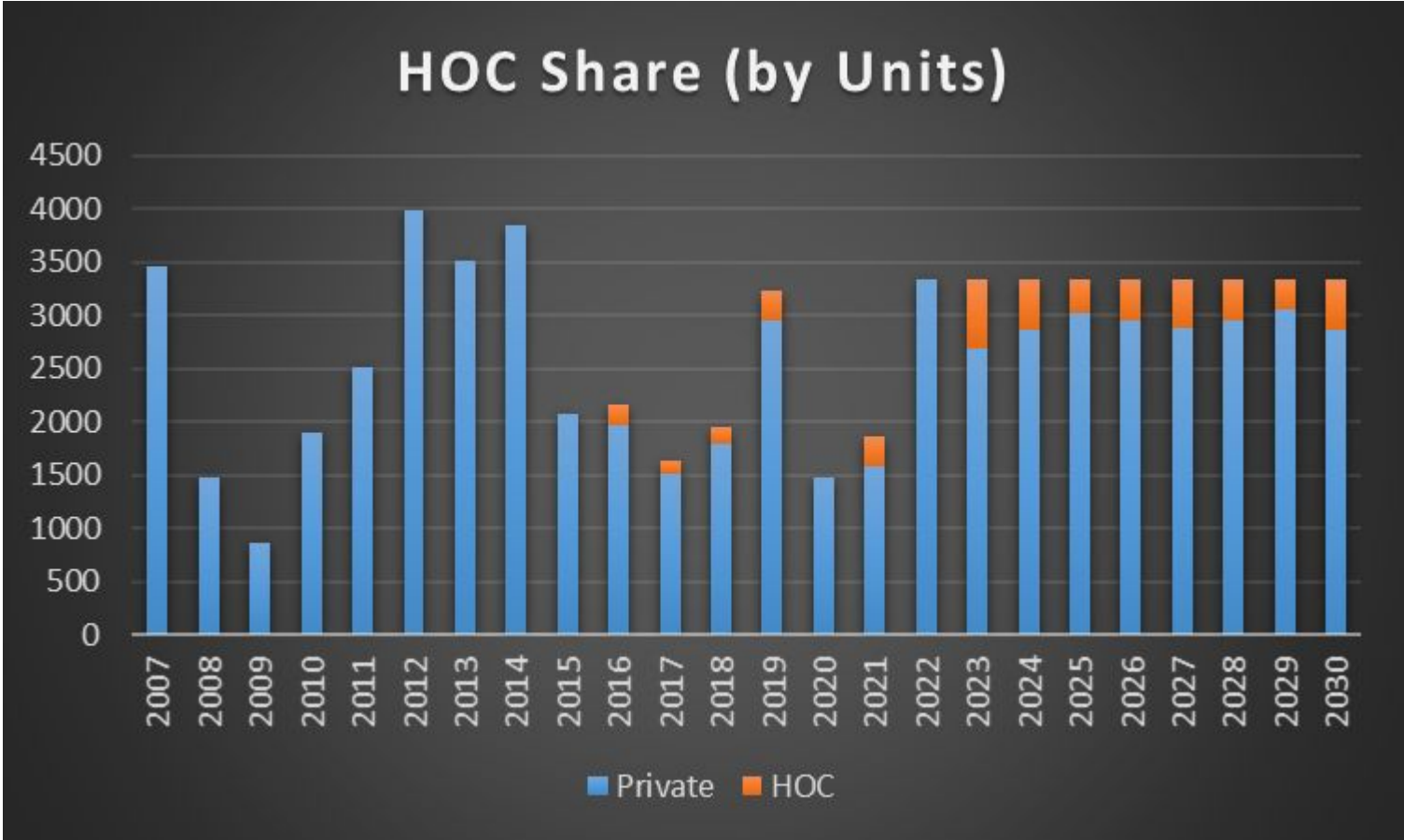


*Commissioned by the Montgomery County Planning Department

Producing new housing



Producing new housing



How we can close the gap

More rental assistance

- Whether funded locally or at the state or federal level
- Continuing the Emergency Housing Voucher program to assist the most vulnerable families
- Shallow subsidy voucher programs could stretch local and state dollars further and cover families that may not be eligible for federally funded programs

Preservation of existing affordable housing

- HOC is eager to work with County, State and nonprofit partners to develop new funding sources to expand our ability to acquire and preserve Naturally Occurring Affordable Housing
- Continued county support for acquisition and renovation of scattered site units (often MPDUs)

Production of new housing

- Housing Production Fund is a huge success and just getting started
- State bill HB60 (Del. Stewart) would create a Housing Innovation Fund to provide 1:1 matching funds for HPF
- HOC's bond issuances are constrained by a volume cap issued by Maryland DHCD. We currently project a shortfall of \$125 million in bonding capacity in order to maximize our development pipeline and intend to request a special allocation from the State. We will seek County support for this request.



Selected HOC Real Estate Projects

Selected Projects Under Construction



The Laureate (Shady Grove)

First new development to utilize HOC's Housing Production Fund, the Laureate (formerly Building D of the western half of the County Service Park redevelopment) is a 268-unit, transit-oriented community in Rockville, just steps from the Shady Grove Metro Station. As required by the HPF, 20% of units will be set aside at 50% AMI, and 10% of units will be set aside at MPDU limits. Construction was funded without LIHTC equity or long-term HIF funding. This mixed-use building will house local-serving retail and an HOC Customer Service Center.



Elizabeth Square (Silver Spring)

New construction, mixed-use, mixed-income senior apartments over the future South County Regional Recreation and Aquatics Center ("SCRRAC") located in Silver Spring. The Leggett (formerly Elizabeth House III) includes 267 residential units, with 106 RAD replacement homes for the current Elizabeth House limited to households making 30% of AMI. An additional 14 units are restricted to 60% AMI and 118 units to 80% AMI. Residential units are expected to be completed in September with the SCRRAC following in early 2023.

Selected Projects

Design | Planning



Hillandale Gateway (East County)

A new mixed-use, mixed-income community located on the site of Holly Hall Apartments, a former 96-unit Public Housing community in Silver Spring. Hillandale Gateway will consist of 155 age-restricted residential units, 308 multifamily apartments, retail, and parking. Both buildings will be built to Passive House standards. The senior building will strive to achieve Zero Net Energy through Passive House construction techniques, energy efficient mechanical systems, and the installation of solar panels on the site. HOC anticipates closing on LIHTC and construction financing on or around 3Q FY23.



The Metropolitan Apartments (Bethesda)

High-rise, 308-unit rental community atop County Garage 49 located in Bethesda, MD. Staff continues to advance the design and planning efforts for the future renovation. The 216 market rate units benefitted from minor renovations between 2012 and 2013 but need more significant renovations to remain market competitive. The 92 affordable units have not had any renovations since construction. Staff is proposing to achieve National Green Building Standard (“NGBS”) Silver certification.

Selected Projects

Design | Planning



Heritage Emory Grove (Gaithersburg)

Proposed redevelopment project for mixed-income homeownership, honoring the history of a thriving, self-sufficient community founded by freed African-Americans in 1864. A partnership between Montgomery County, HOC and Emory Grove United Methodist Church, this project contemplates new street grids, pedestrian connectivity, an updated community center, Johnson's Local Park, historical programming, cultural amenities, and community gardening to help re-establish the camaraderie and interconnectedness of the original community with Emory Grove United Methodist Church as its reaffirmed heart.



Wheaton Gateway (Wheaton)

Proposed vibrant new mixed-use residential and retail property on 5+ acres in Wheaton, MD, featuring mixed-income, multifamily housing, and exciting public and commercial spaces at the site of the Lindsay Ford automotive dealership. Wheaton Gateway will include a variety of unit types (i.e. 1-, 2-, and 3-bedroom units) offered at a variety of prices (target of 70% market-rate and 30% MPDUs). Buildings will be designed to meet Passive House standards. HOC intends to explore a variety of potential construction technology systems including mass timber, steel, and concrete.

Selected Projects

Design | Planning



Sandy Spring Missing Middle

Proposed development of 22 missing middle units to the existing Sandy Spring Meadows development in Sandy Spring Village Center. Current proposal includes six duplex units, 12 triplex units, and four carriage houses, along with a 900 square-foot central community space on 3.27 acres. Ten units would be MPDUs all would incorporate green building techniques.

Selected Projects

Recently Completed



The Fenton (Silver Spring)

This 124-unit mixed-income and mixed-use development was completed in November 2019. Of 124 units, 84 are restricted to residents earning below 60% of AMI and further subsidized with Project Based Rental Assistance. The remaining 40 units are affordable to residents earning below 80% of AMI. It is located in Fenton Village near the Silver Spring Metro, and is home to two new, locally-owned dining options for Silver Spring: The Breakfast Club, an upscale all-day breakfast restaurant, and the Black Lion Cafe, a second location for the Rockville-based coffee roaster and retailer specializing in Ethiopian coffee.



Residences on the Lane (Rockville)

New construction, mixed-use, mixed-income senior rental apartments located in Rockville Town Center. Residences on the Lane (formerly Upton II) includes 150 age-restricted residential units, including 112 replacement homes for HOC's nearby Town Center Apartments. Of the 150 units, 30 are restricted to 40% AMI (22 of which are subsidized with Project Based Rental Assistance), 82 are restricted to 60% AMI, and 23 are restricted to 80% AMI. The building opened for occupancy in December 2021 and is nearly fully occupied.