



Raleigh

MEMO

**TO:** Ruffin Hall, City Manager  
**FROM:** Larry M. Jarvis, AICP, Director  
**DEPARTMENT:** Housing and Neighborhoods  
**DATE:** August 26, 2020  
**SUBJECT:** Housing Bond Follow-up Report

At the July 7 City Council meeting, staff presented possible housing bond policy options and proposed three next steps identified below. Staff was directed to bring back the associated report after Council's summer break.

- To develop a proposed combined funding matrix that includes bond elements, federal resources and local funds over five year period;
- To report on existing income targeting by program, including the Raleigh Housing Authority; and
- To develop and present specific policy options for achieving great 30% AMI income targeting.

#### **Combined Funding Matrix**

Based in part on the Five-Year HUD Consolidated Plan approved by Council and the five bond elements or "buckets" as currently proposed, staff projected expenditures and accomplishments over a five-year period utilizing the bond, local funds and HUD entitlement funds. Funds allocated to the City under the CARES Act as a result of COVID-19 were also incorporated.

Conservative assumptions were used to project accomplishments. Nonetheless, a total of 3,261 affordable housing units were projected over that period. That figure includes new construction, homeowner repair or rehabilitation assistance and first-time homebuyer assistance.

To reflect a stronger emphasis on targeting rental units affordable to households at or below 30% AMI, staff increased the assumed per unit gap financing in tax credit projects to \$35,000 from the \$20,213 that had been the average over the previous five years.

The matrix displays the full spectrum of activities and income groups served. Public services in particular tend to benefit very low-income households and those experiencing homelessness or who are at risk of becoming homeless. HUD Emergency Solutions Grant funds, excluding those allocated under the CARES Act, can only be used to assist households with incomes at or below 30% AMI.

The matrix is included in the agenda back-up materials.

Municipal Building  
222 West Hargett Street  
Raleigh, North Carolina 27601

One Exchange Plaza  
1 Exchange Plaza, Suite 1020  
Raleigh, North Carolina 27601

City of Raleigh  
Post Office Box 590 • Raleigh  
North Carolina 27602-0590  
(Mailing Address)

### **Existing Income Targeting by Program**

To better document how and by whom households at or below 30% AMI are currently being served, staff surveyed the most recent 13 LIHTC projects placed in service and the six most recent permanent supportive housing projects placed in service. Additionally, staff obtained current public housing and housing voucher data from the Raleigh Housing Authority.

The survey found that while only 14% of the units in those 13 LIHTC projects were required by loan agreements to target incomes at or below 30% AMI, a substantially higher percentage of households in that income group are actually being served. In those projects, 37% of the units are occupied by households at 30% AMI which can largely be attributed to the fact that 40% of tenants were voucher holders. As staff has reported previously, tax credit projects are the only newly constructed rental offering which provide an option for voucher holders.

The survey of permanent supportive housing projects showed a similar pattern. While only 3% of the unit were required by loan agreements to target 30% AMI, 43% of the units were actually occupied by 30% AMI households, again attributable to the fact that 46% of all tenants were vouchers holders.

The Raleigh Housing Authority, as one would expect, overwhelmingly serves households at or below 30% AMI. In public housing, 76.64% of all tenants are in that income group and among voucher holders, 83.37% have incomes at or below 30% AMI.

RHA reports a public housing waiting list of 4,196 households and a voucher waiting list of 6,572 households. (1,925 households are on both waiting lists.). Approximately 300 vouchers annually become available. Only about 30% of new eligible voucher holders actually locate an available unit.

More detailed information is included in the agenda materials.

### **Policy Options for Achieving Greater 30% Income Targeting**

Of the five bond elements or “buckets”, the two that hold significant potential for achieving greater income targeting are Public-Private Partnerships and LIHTC Gap Financing. While the Transit-Oriented Site Acquisition bucket will eventually lead to more such units, site acquisition itself will not. Moreover, to the extent that naturally occurring affordable housing is acquired with funding from that bucket, that action would only serve to preserve the affordability that already exists.

For purposes of the bond, Owner-Occupied Home Rehabilitation and Down Payment Assistance “buckets” were included to further the objective of equitable development around transit. Rehabilitation was included to provide assistance to long term residents near transit investments and neighborhoods in transition to enable them to remain in their homes and age in place. Down Payment Assistance was included to enable low to moderate income households to purchase new homes near transit investments. Those new homes might include choices made possible by addressing barriers to missing middle housing.

Before considering how greater 30% income targeting can be achieved via gap financing and partnerships it is important to establish certain capital and operating parameters. A rental project where all of the units have rents affordable at 30% AMI would not be able to support any debt

service and would not generate sufficient rental income to cover operating expenses. Therefore, 30% AMI units must be mixed with higher income targets for a project to be viable and sustainable. This mixing of incomes (in the absence of projects having project-based vouchers) is common among non-profit affordable housing projects and is often referred to as an internal subsidy where the income from the higher income rent levels subsidizes the lower ones.

Within the Public-Private Partnerships bucket, staff recommends that City Council considers allocating the \$28 million as follows. As previously presented, staff recommends allocating \$10 million towards a permanent supportive housing project containing at least 50 units and serving very low income (30% AMI or lower) chronically homeless individuals. Such a project would be similar to Moore Place in Charlotte where formally homeless individuals with mental illness are housed and provided on-site support services. Strong partnerships with Wake County and perhaps the Raleigh Housing Authority and others would be required for this project to become a reality. Key factors to determine include the source of the required project-based vouchers and funding for site-based and other support staff.

Staff suggests allocating an additional \$10 million to non-profit partners to create or preserve small scale projects where not less than one-third of the total units serve 30% AMI or lower and not more than one-third target 80% AMI. The income targeting shown in the survey results for the most six most recent permanent supportive housing projects would be similar to what is being suggested.

With respect to the remaining \$8 million, staff suggests allocating that to partnerships that coupled with equitable development regulatory incentives create new rental development where not less than 20% of the units are affordable at 60% AMI for not less than 30 years (voluntary inclusionary model) or the development of "missing middle" homeownership opportunities.

By far, the greatest number of rental units serving 30% AMI can be created via the LIHTC Gap Financing bucket and the targeting requirements suggested by staff. For 9% tax credit projects seeking City funds, staff suggests requiring that 25% of all units target 30% AMI and in 4% projects, staff suggests requiring that 10% of the total units target the 30% AMI income level. Looking back at projects approved over the past five years, 2,260 of the units were via the 4% program and none of those projects included 30% AMI units. To achieve 10% targeting going forward will require greater per unit subsidy and produce fewer units overall but staff believes the targeting requirements to be a balanced approach in creating more 30% AMI units.

Staff has a presentation to Council prepared for the September 1 meeting and will be available to answer questions.

Attachments:

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Affordable House Bond RHA Tenant Incomes and Voucher Utilization  
Affordable Housing Bond Tax Credit Income Targeting Materials  
Affordable Housing Bond Funding Matrix (combined and by source)