Housing Advisory Committee (HAC)
Policy Subcommittee Meeting

Wednesday, December 12, 2018
12:00 – 2:00 PM
Basement Conference Room
City Hall

Agenda

1. Introductions (5 minutes)
2. Discussion of policy questions related to recent funding requests (55 minutes). Topics will include:
    i. The federal Rental Assistance Demonstration (RAD) program and potential opportunities or obstacles to leverage this program locally by the Charlottesville Redevelopment and Housing Authority (CRHA)
    ii. Housing vouchers, including both federally funded and locally funded
    iii. Development costs of housing built specifically to meet the city's affordable housing goal
    iv. The extent to which market rate units in publicly funded mixed income developments can offset development or maintenance costs
    v. Availability of Low Income Housing Tax Credits
3. Discussion of overall funding model for a comprehensive housing strategy (55 minutes). Topics will include:
    i. Initial estimate of funding needs to provide the housing identified in the housing needs assessment
4. Public comment (5 minutes)

(Interim) Staff Contact:
Brenda Kelley, Redevelopment Manager: (434) 970-3040 or kelleybr@charlottesville.org

HAC Policy subcommittee 11/14/18 notes

Present – SC members
Lyle Solla-Yates – HAC (and recording)
Dan Rosensweig SC co-Chair
Ridge Schulyer SC co-Chair
Phil d'Oronzio, HAC Chair
Anthony Haro, HAC
Heather Hill, Vice Mayor
Stacey Pethia, Staff

Kathy Galvin – City Councilor, presenting.

Members of Public Participating - Eliane Poon, Brandon Collins

Kathy Galvin recommendations discussion only agenda item, going over several page memo on housing policy options

Guest speaker Councilor Galvin highlighting 5 or 6 ideas with urgency, many others.
"fish or cut bait" must eventually act on studies
Ebony Walden presentations included some examples of other communities with affordable housing strategies
Planning & Zoning, Programs and Services, Financial, Budgetary Tools
Alexandria parking reform case study
height bonuses, special use permits,
Small Area Plans, Form Based Codes
Tax Increment Financing
Tax circuit breaker from UVA to provide revenue for housing
Small Area Plans to increase capacity for housing
12,300 homes are needed by 2040
Needs 10-15 acres of buildable land to do this
100 acres of parking lot at Hillsdale, 1000+ homes possible
SIA, phase 1 could supply 1300+ homes
If each SAP gives 800 homes, that gives us 80% of what we need overall, context of a healthy viable neighborhood
Costs $350,000 per Small Area Plan, not staff capacity to do that currently
Could combine 29 efforts with County and BRT
-Consider 20% target supported affordable units
-Special Use Permit is not providing much affordable housing, creates scale issues, Westhaven example given, showing low scale buildings below the tall back of new construction on West Main
-live/work buildings, multiplex, townhouse,
-missing middle scale housing is most common in North Downtown
-design guidelines (lipstick on a pig, Flats on West Main given as an example)
-form based code puts in more blocks, 3 story max, 6, and 9 story areas in SIA
-20% loss of land for setbacks with standard zoning
-form based code with shallower setbacks produces more housing
-setback reform gives you more homes than height bonuses
-citywide approach (height bonus)
-"synthetic TIF": proposed in April, called Value Capture, no support by Council, endorsed by HAC Policy subcommittee by majority voice vote (Motion LS-Y, 2nd PBd)
-Property Tax Circuit Breaker, requesting permission, not allowed by State, allows tax relief as a credit or refund of state income tax, Elaine Poon asks if this is automatic, process? Endorsed by HAC Policy subcommittee by voice vote (Motion PBd, 2n LS-Y)
-"New by-right zoning citywide that provides better transitions and expands scale appropriate, missing middle housing within low density residential areas"

-go into neighborhoods where height is scary
-have to be parks, food to support new housing, can't just be parking lots
-Austin example (Dan Rosensweig notes) each area has a housing target
-SIA was driven by Choice Neighborhood submission that failed, Cherry project was driven by upset over William Taylor Plaza project by right Planned Unit Development
-Kathy Galvin: "New Hill project will be community driven"
Dan Rosensweig: need public support for creation of broader opportunities (not dispersion), 2013 Comprehensive Plan was focused on design, not affordability, need to recognize need for acknowledgement of history in SIAs, make affordable housing the main priority
-"This is going to happen in 10th & Page, Fifeville...Belmont" 5 story building is not going to work, how do you insert more housing so that it does not harm existing character, Booker Street,
-Ridge Schuyler believes the Land Use map will be a housekeeping update, real one will come after Housing Strategy
-Dan Rosensweig says the best way is to eliminate zoning, eliminate rules, we don't want that, we don't want Cabrini Green in Greenbrier
Ridge Schuyler emphasized the need for outreach, education
Kathy Galvin: Vinegar Hill is underutilized with fast food on it, Staples parking lot,
Ridge Schuyler: need homeownership opportunities

Members of the public contributed throughout -

New Housing Units	Quantity	Avg. Unit Size	Cost/Sq ft	Unit Cost	Total Cost	Needed w. Leverage*	Notes
LIHTC-leveraged							
CRHA Replacement Units	376	1000	$ 135	$ 135,000	$ 50,760,000	$ 16,920,000	Assuming $45k/unit City contribution to reach deeper affordability goals
Additional CRHA Units	261	950	$ 135	$ 128,250	$ 33,473,250	$ 19,575,000	CRHA can't get HUD operational subsidy on the additional 30% AMI units, so the construction subisidy will have to be ~$75K
Friendship Court	300	1200	$ 155	$ 186,000	$ 55,800,000	$ 15,000,000	Includes cost of structured parking pushing unit subsidy to $50K/per
LITHC Rentals	150	1000	$ 155	$ 155,000	$ 23,250,000	$ 4,500,000	Assumes 50-60% AMI rents @ $30k/unit, if goal is deeper affordability, subsidy may have to go up
SRO Units	100	350	$ 225	$ 78,750	$ 7,875,000	$ 6,000,000	Needs DEEP construction subsidy ($60K)because low rents and very little operational subsidy. Permanent Supported Housing type for homeless transition
Total LIHTC Units	1187						
Other leveraged units							
Affordable Homeownership	250	1150	$ 150	$ 172,500	$ 43,125,000	$ 11,250,000	Between 20% and 60% AMI. Rising Construction costs, City requirements and lower AMI targets push subsidy required to $45K/unit
Accessory Dwelling Units	100	350	$ 150	$ 52,500	$ 5,250,000	$ 2,000,000	Assumes $15K subsidy of private ADUs in exchange for deed restrictions
Total Other	350						
Grand Total	**1537**				**$ 219,533,250**	**$ 75,245,000**	
Additional Housing Interventions	Quantity/yr			Annual Unit Cost	Total Annual Cost		
Vouchers	75			$ 7,200	$ 540,000		Assumes expansion of City voucher program
Additional tax relief	100			$ 2,000	$ 200,000		Program improvements are currently being researched
Housing Counseling	50			$ 3,000	$ 150,000		Provided by NGOs
Direct IDA type grants	75			$ 10,000	$ 750,000		Direct grants to low wealth participants in wealth/education programs
One Stop Housing Hub Interventions	60			$ 1,000	$ 60,000		Navigator to align need with community resources
Emergency Repairs	40			$ 5,000	$ 200,000		Based on AHIP's projections
Rehabs	20			$ 45,000	$ 900,000		Based on AHIP's projections
Total/yr	**420**			**$ 73,200**	**$ 2,800,000**		
Total over 10 years	**4200**			**$ 732,000**	**$ 28,000,000**		
Summary							
Units							
Total Units	1537						
Total Capital Costs	$ 219,533,250						
Total Leveraged Funds Needed	$ 75,245,000						
Additional Interventions							
Total Additional Interventions	4200						
Annual ongoing costs	$ 2,800,000						
Ten year ongoing costs	$ 28,000,000						
Units + Interventions							
Total Units + Interventions**	5737						
Voucher redundancy (assumes no turnover of HCVs)	-675						Because voucher holders are likely to use voucher for entire 10 year window, only the initial gain in housing is counted
Tax relief redundancy	-900						Because the same families will qualify year over year, only the initial gain in housing support is included
Total new affordable housing	4162						
Funds Needed***	$ 247,533,250						
Funds Needed w. Leverage***	$ 103,245,000						

*City Contribution required for leverage

**Assumed over a period of 8-10 years

*** Does not trend for inflation

Charlottesville Affordable Housing Policy

Ed Olsen
Professor of Economics and Public Policy
University of Virginia

June 12, 2017
Revised November 27, 2018

Charlottesville is an expensive place to live because it is a desirable place to live. In Virginia, only the D.C. suburbs are more expensive (http://eoolsen.weebly.com/price-indices.html). Making it less expensive for everyone without making it less desirable is no mean feat. Changes in zoning ordinances that allow denser development is the most promising path.

It's important to distinguish between public policies that are intended to reduce housing prices and rents for all residents and those that subsidize the housing of some residents at the expense of others. Changing zoning ordinances to allow denser development is in the first category. Selling unused city land for housing development is another example. The Charlottesville Affordable Housing Fund (CAHF) is in the second category. Instead of lowering the property tax rate that would benefit everyone financially (though not necessarily overall), this money is spent on housing subsidies that benefit the poorer members of the community and perhaps developers of housing projects (http://www.pbs.org/video/3000723710/).

Some policies combine these goals. Giving city-owned land to developers or selling it to them at a below-market price is an example. An alternative is to sell the land to the highest bidder and use the proceeds to deliver housing assistance in the most cost-effective manner. Another example is requiring developers to provide a certain number of units renting for less than a certain amount in exchange for variances from zoning ordinances. Asking for something in exchange for zoning variances is appropriate because variances provide a financial benefit to the owners of the land. An alternative would be to require cash proffers that could be used to deliver housing assistance in the most cost-effective manner.

The evidence on the performance of low-income housing programs is unambiguous that it costs much less to provide equally good housing in equally desirable neighborhoods with tenant-based housing vouchers than in housing projects of any type. Olsen (2008, pp. 9-15) summarizes the evidence. This implies that it would be possible to serve many more people equally well with a given budget using housing vouchers rather than subsidizing housing projects.

For example, the best study of HUD's largest program that subsidized the construction of privately owned projects (the Section 8 New Construction Program) found an excess total cost of at least 44 percent. That is, the total cost of providing housing under this program was at least 44 percent greater than the total cost of providing equally good housing under the housing voucher program. This translates into excessive taxpayer cost of at least 72 percent for the same outcome. It implies that housing vouchers could have served all the people served by this program equally well (that is, provided them with equally good housing for the same rent) and served at least 72 percent more people with the same characteristics without any increase in public spending. The best study indicates an even larger excess cost for public housing.

The Low-Income Housing Tax Credit is the largest and fastest growing low-income housing program. The evidence on its performance is not as good as the evidence on the older programs. The best evidence available (GAO 2001) suggests that tax credit projects cost 16% more than the voucher program to provide units with the same number of bedrooms in the same metro area. This study unambiguously understates the cost of the tax credit program because it omits some of the public subsidies such as land sold to developers by local governments at below-market prices, local property tax abatements received by some developers, subsidies from the housing voucher program, and later subsidies for renovating the projects. Whether the tax credit program provides better or worse housing than the housing occupied by housing voucher recipients over the 30-year use agreement of its projects is an open question.

The best evidence available also indicates that occupants of tax credit projects capture a small fraction of the subsidies provided to developers. This evidence indicates that the present value of the rent saving to tenants (the difference between the market rent of the unit and the rent paid by its tenant) is about 35% of the present value of the subsidies provided to developers.

In preparing this report, I examined data from HUD's Picture of Subsidized Households on the performance of public housing authorities in using housing vouchers. Because a certain fraction of households offered vouchers don't use them, housing authorities are allowed to overissue vouchers early in the year and adjust their issuance later in the year to insure close to full usage (the number of vouchers available times 12 months). By this means, most housing authorities are able to almost fully utilize the vouchers available. In 2016, the national average was 93%. For housing authorities like the CRHA not involved in the Moving to Work Demonstration, it was 99%. Charlottesville was an outlier at 70%.

This poor performance has been a consistent pattern in the years that I examined (2009-2016). Over this period, Charlottesville has used only 69% of its vouchers. Indeed, it has lost a significant number of vouchers due to its failure to use them. This cannot be explained by low vacancy rates. The cities with the lowest vacancy rates had much higher voucher utilization rates – NYC 93%, L.A. 95%, Boston 94%, and San Francisco 91%. If the CHRA could attain the average utilization rate of these housing authorities, it could provide housing assistance to about 120 of the poorest families in the city with its current resources.

Spending the money to put in place a state-of-the-art administrative structure for the city's voucher program would almost surely get more bang for the buck than any other use of the CAHF. The housing authorities that consistently use the highest fraction of their vouchers are the places to look for these structures and perhaps the people to implement them.

Many argue that it's necessary to subsidize the construction and operation of housing projects in order to increase the supply of affordable housing. They offer two main rationales: it will help provide housing to people who are homeless and it will help low-income households that spend a high fraction of their income on housing. Neither objective justifies subsidizing the construction of housing projects.

It is not necessary or desirable to construct new units to house the homeless. In the entire country, there are only about 600,000 homeless people on a single night and more than 3 million vacant units available for rent. Charlottesville has about 1,000 vacant rental units. All homeless people could be easily accommodated in vacant existing units, which would be much less expensive than building new units for them. The reason that people are homeless is not a shortage of units but lack of money to pay the rent for existing units.

A housing voucher would solve that problem. A major HUD-funded random assignment experiment called the Family Options Study compared the cost and effectiveness of housing vouchers and subsidized housing projects for serving the homeless. Short-term housing vouchers were as effective and much less expensive than transitional housing projects.

Most poor households are not offered low-income housing assistance in the form of a voucher or a spot in a housing project, and many of these households spend high fractions of their modest incomes on housing. These households already have housing. We don't need to build new housing for them. If we think their housing is unaffordable, the cheapest solution is for the government to pay a part of the rent, and the housing voucher program, the system's most cost-effective tool, does that. This program also ensures that its participants live in units that meet minimum standards. Building new units is a much more expensive solution to the affordability problem.

People who want to help more of the poorest households with their housing should support expansion of the housing voucher program rather than subsidizing the construction of additional housing projects.

Finally, I believe that cash proffers in exchange for zoning variances are likely to be better than providing a certain number of units at rents below specified levels because this money can be better targeted on intended recipients and is more likely to lead to a significant subsidy. These remarks are more speculative than my earlier remarks due in part to my uncertainty about the details of the affordable housing commitment and in part to the dearth of evidence on programs of this type.

If a developer commits to a particular number of units renting for less than a particular amount, he or she will have an incentive to skimp on the cost of building and maintaining them. The ceiling rents of the units may not be much below their market rents. Therefore, the subsidies provided to the tenants might be minimal. The landlord will also have an incentive to rent these units to acquaintances or households with the highest incomes because they are likely to be better tenants. Unless the rent ceilings are very low, the units won't be attractive to the poorest households. This raises questions about whether the provision of so-called affordable units in exchange for zoning variances will provide significant benefits to the families that we want to help.

Appendix

1. **The Charlottesville Redevelopment and Housing Authority should aggressively expand the Family Self-Sufficiency Program.** CRHA serves about 750 low-income families in public housing projects or with Section 8 Vouchers that enable assisted families to occupy any unit meeting the program's standards. Citizens who are not eligible for housing assistance and pay the taxes to provide this assistance have a strong preference for helping people who help themselves. The FSS Program is an initiative within the Public Housing Program and the Housing Choice Voucher Program to encourage work and savings. For families that do not participate in the FSS Program, earning an extra $1 increases their contribution to rent by 30 cents without providing better housing. For families that participate in the FSS Program, this amount is put into an interest-earning escrow account. Families that complete the five-year program receive the money in the escrow account and are free to use this money as they choose. Completion of the program requires that no members of the family have received cash welfare assistance for the preceding 12 months. Participants in the FSS Program cannot lose from their participation. If they do not complete the program, they pay the same rent and live in the same housing as they would in the absence of FSS participation. If they complete the program, they benefit from their participation. The extra money to provide this benefit does not come from the regular budget of the CRHA. It is additional money from the federal government that is not available for other purposes.

2. **The Charlottesville Redevelopment and Housing Authority should aggressively expand homeownership under the Section 8 Voucher Program.** Many people believe that it is desirable to encourage homeownership among low-income families. In their view, this gives these families a greater stake in society and leads to better maintenance of the dwelling units. Despite this prevalent belief, low-income housing programs have, with minor exceptions, required families to be renters in order to receive assistance. Since October 2000, local housing authorities have been allowed to use the Section 8 Housing Voucher Program to provide assistance to low-income homebuyers. To the best of my knowledge, the CRHA has subsidized few low-income homebuyers. The feasibility of expanding this option dramatically has already been demonstrated. In the 1970s, the Experimental Housing Allowance Program offered housing vouchers as an entitlement to the poorest 20 percent of the households in South Bend, Indiana and Green Bay, Wisconsin. Renters and homeowners were offered the same assistance on the same terms, namely, living in units meeting certain housing standards. Although the participation rate among low-income homeowners was lower than among renters because they had higher incomes and hence were eligible for smaller subsidies, thousands of low-income homeowners in these small metropolitan areas received assistance under this program. Unless we believe that too many of the families that reach the top of the voucher waiting list would choose unwisely to be homeowners, we should allow each family the option of being a renter or a homeowner. Olsen (2007) provides more details about promoting homeownership among low-income families.

Using RAD to Redevelop Public Housing in Charlottesville

Ed Olsen
University of Virginia
November 27, 2018

The Rental Assistance Demonstration (RAD) allows public housing authorities to renovate and redevelop their housing projects using subsidies from other low-income housing programs, primarily the low-income housing tax credit (LIHTC), as well as their own revenue. RAD also alters the nature of their HUD subsidies to facilitate redevelopment. The federal funds that housing authorities would have received to support the projects involved are converted from the current operating subsidies and capital grants appropriated each year by Congress to multi-year contracts that guarantee total amounts in the first year equal to their funding under the current system and increase this amount each year by the rate of inflation. This is the same subsidy mechanism used in privately owned subsidized projects like Friendship Court. Under RAD, housing authorities borrow against some of this guaranteed future revenue to help fund redevelopment. RAD redevelopment does not require funds from local governments.

When RAD was introduced in 2012 as a part of an appropriations bill, it was a demonstration limited to 60,000 public housing units. It has progressed well beyond a demonstration. The cap was raised to 185,000 units in FY2015, 250,000 units in FY 2017, and 455,000 in FY 2018. To put these numbers in perspective, there are about a million public housing units the country today. RAD requires one-for-one replacement for all units in subsidized projects that are demolished and the automatic renewal of subsidies on these projects in perpetuity.

There are many reasons why most housing authority directors favor RAD. First, its one-for-one replacement rule prevents a reduction in the number of units that they manage. To them, the reduction that has occurred over the past 25 years is alarming. The increase in the number of vouchers that they administer has greatly exceeded the reduction in the number of public housing units, but most directors prefer to manage projects rather than administer a voucher program. Second, it enables them to use subsidies from other sources, mainly LIHTC, to renovate and sometimes demolish and rebuild public housing projects. This enables them to provide better housing to their tenants, creates a more grateful clientele, and reduces complaints. Third, RAD enables them to borrow money for these purposes. Under the current system, they cannot borrow against future capital fund appropriations. Fourth, despite the assertions to the contrary, RAD will almost surely lead to larger HUD subsidies. In the first year, the subsidies are the same. However, the adjustment factors used to adjust the contract rents for inflation are likely to lead to higher subsidies. Over the past seven years, the annual adjustment factors that would be used to increase the total amount received by housing authorities each year for the projects redeveloped under RAD have exceeded the increase in the sum of tenant rent, operating subsidy, and capital subsidy in the public housing program. If the total amount received by housing authorities had been increased each year from FY2009 to FY2016 by the annual adjustment factors, they would have received a HUD subsidy of $657 per household per month instead of the $508 in FY2016.

From:	Sunshine Mathon
To:	Hill, Heather; Duffield, Grant; d"Oronzio, Phil
Cc:	Norris, David; Pethia, Stacy; Mike Murphy; Schuyler, Ridge; Rosensweig, Daniel
Subject:	Re: Supporting Redevelopment & Addressing Related Inquiries
Date:	Tuesday, December 11, 2018 1:14:20 PM

Good morning, all.

There is a lot to unpack here. I am going to do my best to address the concerns/comments, but I am sure to miss something along the way. My apologies in advance if I don't get at it all.

SUBSIDIZING HOUSING CONSTRUCTION v. VOUCHERS

CHOICE: I completely agree with Dr. Olsen's assertion that increased choice is a deeply desirable outcome of voucher-based programs. In fact, I go further and assert that choice is the key goal of all housing programs. The fullest definition of choice includes the ability to live in communities with common social norms, with integrated services, and with proximity to job, education and transportation options, such as in a community like Friendship Court or nearby public housing sites.

In any rental market, we all know the cost of housing varies by the perceived desirability of the neighborhood. Vouchers, which are typically tied to average market rents, do not facilitate voucher holders living in highly desirable neighborhoods (i.e. with rents above the average) – like the downtown core of Charlottesville in which Friendship Court is located. Though vouchers are absolutely part of a comprehensive solution, if we relied solely on vouchers then low-income residents would be effectively priced out of the expensive neighborhoods, furthering entrenching segregation.

Relatedly, a comprehensive voucher program depends on two key enabling factors. First is an availability of units. We are already in an overly-constrained market. Second, and more impactfully, a vibrant voucher program *requires* that all landlords accept vouchers. We do not live in a state currently with source of income protection laws. Until such protection is passed, a comprehensive voucher program is dead in the water.

LONG-TERM COSTS: Building on an earlier point, one of the reasons the market only sees new high-end (expensive) rental construction in the core of the city is twofold. One, the market will bear the high rents due to desirability and constrained supply. Two, the cost of land and construction are so high that the only way to finance *any* project is to charge above-average rents. Using Friendship Court as an example, if we were to re-build without construction subsidy the cost of construction in today's market would require high-end rents to finance it. Assuming that "promised" vouchers would bridge the gap to allow residents to effectively stay in place would be a fallacy.

Dr. Olsen's analyses and mentioned studies examine the relative cost benefits of different subsidy pathways at the federal level (LIHTC, public housing policy, etc.). Though there may be merit in a deeper discussion of these ideas, they only have a philosophical impact our discussion of local subsidy pathways. I say this because a local construction subsidy leverages large federal LIHTC construction subsidy while a local voucher subsidy leverages nothing additional. In other words, the only way his arguments hold is if there is federal systemic change – we can't change the intertia on our own locally.

Using Friendship Court as an example, the current federal HAP rental subsidy is ~$1.8mm/year. For the sake of argument, let's say that subsidy stays in place for those 150 units and the city doesn't have to worry about those in its calculations. However, we'll be adding another 150 affordable units, and if Dr. Olsen's proposition were to hold, we would need an additional $1.8mm/year. If you extrapolate that out for 30 years (the required affordability period under LIHTC) and assume no rent (subsidy) increases over time, this equates to $54mm in city voucher costs. As a comparison, if you take the middle road of what we estimate we need over 4 phases, it totals ~$20.4mm. You can compare the numbers.

Further, federal construction funding (LIHTC) requires a 30-year affordability compliance period. These units will be affordable for this period, guaranteed. One of the most significant concerns of a purely voucher-based program is its vulnerability to short-term political will. This uncertainty is reflected both at the federal level where the current administration attempted to make deep cuts in federal operating subsidies, and at the local level where the current city-based voucher program has no certainty beyond the current fiscal year.

CONTSRUCTION COSTS

As Dr. Olsen pointed out, a recent GAO study shows that the cost of producing LIHTC housing is generally consistent with development market rate housing nationally. Construction costs are high. I do not dispute that. They are high for every developer.

Nonetheless, there are times when we will make decisions on construction that prioritize material and maintenance durability, quality of construction, energy efficiency, indoor air quality health impact, etc. that a typical spec developer would not. Typically, a spec developer will not own a building more than 5 years, and they prioritize the perception of luxury rather than long-term sustainability. As long-term nonprofit developers who build with a mission in mind and who also will own the property in perpetuity, we pay more attention to long-term costs and long-term impacts, both economic and health-related, on residents. This sometimes results in somewhat higher construction costs… and we almost always have to fundraise separately to make the numbers work to plan accordingly. As an example, don't be surprised if Friendship Court Phase 1 has solar panels all over the roof when completed – but rest assured the City would not be subsidizing that investment (though it would be a sound one), it will only happen if we can find additional funding to cover the delta.

Further, as I mentioned during the presentation at the Work Session, Phase 1 in particular for Friendship Court is higher than the rest. The land for Phase 1 is particularly atrocious from a structural perspective. We have to bear the effective land value in Phase 1. The average unit size of Phase 1 is much higher than market rate equivalents because we're prioritizing families and have to replace many of the existing site's 3- and 4-bedroom units.

Lastly, building structured parking is not an insignificant cost. While we reduced the structured parking as much as possible, we have to build high-quality open green space at Friendship Court. There is no park to walk to within a 10-minute circle otherwise.

MARKET RATE CROSS-SUBSIDY

The resident's goals for the market rate units at Friendship Court are intended to build on the housing ladder concept, from affordable units serving <30% AMI through 60%, and then with market units in the typically-defined "workforce" housing spectrum, 80-120% AMI. We will not be building luxury units. Due to my points earlier about the cost of construction, modest market rate units will provide a small amount of operational subsidy. This subsidy does little to reduce debt, but is more intended to build long-term maintenance resources so that the property can be maintained and sustained over time.

TAX CREDIT VALUE

The big drop in LIHTC value initially happened when the president took office because he had made campaign promises of corporate tax reform and the ensuing uncertainty of how much and when. This is corroborated in Dr. Olsen's linked chart from Novogradac. The 2017 corporate tax bill codified the "new normal." Based on our particular market, with future trends predicted as best they can be (everyone seems to be planning on a softer market coming), and with not being able to confirm actual LIHTC pricing until 8-9 months from now, we have been guided to underwrite at $0.89 or so. This is a tremendous drop from two years ago. It is also a drop that has not seen a commensurate drop in land value and construction costs, as is typical with market trends historically. In fact it is the unprecedented opposite.

I hope this is all helpful. Please followup with questions.
Thanks.

Sunshine Mathon • *Executive Director*
Piedmont Housing Alliance • *Charlottesville, VA*
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Creating housing opportunities and building community through education, lending and development.

From: "Hill, Heather" <hhill@charlottesville.org>

Date: Tuesday, December 4, 2018 at 10:24 AM
To: "Duffield, Grant" <duffieldg@charlottesville.org>, Sunshine Mathon <smathon@piedmonthousing.org>, "d'Oronzio, Phil" <doronzio@pilotmortgage.biz>
Cc: "Norris, David" <norrisd@charlottesville.org>, "Pethia, Stacy" <pethias@charlottesville.org>, Mike Murphy <murphym@charlottesville.org>, "Schuyler, Ridge" <ridge.schuyler@cvilleworks.org>, "Rosensweig, Daniel" <drosensweig@cvillehabitat.org>
Subject: Supporting Redevelopment & Addressing Related Inquiries

All,

Thank you to Grant and Sunshine for the time and information you shared a week ago last evening during our combined joint work sessions with CRHA and PHA. I hope that Council's interest in supporting the strategic redevelopment of the neighborhoods these organizations oversee was clear.

As these are significant funds that are being considered, it is important that Council is most thoroughly informed so we can convey with confidence to our constituents that these dollars are being maximized for this purpose. To that end, it would be helpful to gain better understanding of some of the points raised by Dr. Olsen, Professor of Economics and Public Policy, who I believe some of you have met. His research specialty is low-income housing policy. Additionally, if CRHA, PHA, the HAC, or others are interested in engaging with Dr. Olsen on our policies, I would be happy to coordinate a meeting.

In the meantime, it would be helpful to have the following addressed relative to both CRHA (Grant) and PHA (Sunshine), where applicable, as well as general policy considerations by HAC (Phil):

- While Rental Assistance Demonstration (RAD) came up on Monday evening, I for one would appreciate some additional perspective on RAD and the hurdles to leveraging this program locally by CRHA given the perspective Dr. Olsen has laid out below and in the attached "RAD & CRHA" document.
- Perspective on the points raised relative to housing vouchers in the attached "Charlottesville Housing Policy" document and any other comments on this summary
- A response to the scrutiny of the per unit development costs for public housing and Friendship Court

- A response to the scrutiny around the revenue generated by market rate units and, in turn, the ability to fund gaps with this revenue

- A response to the perspective on the relative amount that tax credits can be sold

I appreciate any feedback on these points so I may share them with other members of Council as we look to make the most out of our investment by maximizing the number served in our community who have the greatest need. Again, the time and commitment being put toward these important projects is commended.

Sincerely,
Heather

Heather D. Hill | Vice Mayor, City of Charlottesville | hhill@charlottesville.org

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From: Olsen, Edgar O (eoo) <eoo@virginia.edu>
Sent: Wednesday, November 28, 2018 9:43 AM
To: Hill, Heather
Subject: From the City Website: promised info about RAD

Heather,

This is to follow up on our brief conversation at Monday night's meeting about using HUD's Rental Assistance Demonstration Program (RAD) to redevelop public housing. As promised, I've enclosed a short description of RAD with a link to the relevant part of HUD's website. Since RAD would allow CRHA to pursue its redevelopment plans without any local funds and CRHA is asking for substantial city funds, I hope that the city council will carefully explore the RAD option with the CRHA. CRHA should have a good explanation for why it is not using RAD to redevelop public housing. Unless CRHA has low ratings for its administration of the public housing program, it should be able to participate in RAD. If it has done poorly in administering public housing, that raises questions about the wisdom of giving it such an enormous sum of money to redevelop and expand its projects. A much smaller sum to increase its administrative capabilities and more money for expanding the cost-effective CAHF housing voucher program would be wiser expenditures.

The other enclosed document is a slightly revised version of a piece that I wrote the summer before last. At Mike Signer's request, Louis Nelson, UVA's Associate Provost for Academic Outreach, invited six faculty members to write pieces on Charlottesville's housing policy to help Stacy Pethia who was preparing information for the Housing Advisory Committee's development of an affordable housing plan

If you would like to talk about the city's affordable housing policies, I would be happy to do that. Low income housing policy is my specialty, and I've been at it for quite some time. I'm very familiar with the operation of all of the programs discussed Monday and the evidence on their performance. For now, I'll offer a few other thoughts about the material presented at Monday's meeting.

The large per-unit development cost of the housing projects warrants scrutiny. For public housing units, it was about $135,000 per unit for Crescent Hall and $160,000 for the other projects. Although I could not find this information in the slides for Friendship Court, I suspect that they are even larger there. Nationally, the average per-unit development cost of LIHTC projects is about equal to the average market value of owner-occupied houses in the same localities. Why are these developments so expensive? Do they provide granite rather than laminate kitchen countertops, the most expensive appliances, etc.? Should the poorest families be provided with housing better than the average unsubsidized renter? One shortcoming of spending so much per-unit is that few people are served with the public money involved. Only one and four of the poorest 20% of households receive low-income housing assistance. One way to fill the funding gaps described by both presenters is to provide more economical housing.

Finally, the financial information provided about Friendship Court seemed off the mark in several important respects. First, the numbers presented ignored the substantial revenue from the rents on market rate units. These rents in excess of operating costs will enable PHA to repay loans at market interest rates to fill some or all of the funding gap mentioned. By including more market rate units, the rest of the gap, if any, could be eliminated. Naturally, PHA prefers a below-market loan from the City. Incidentally, an outright grant from the City would reduce the tax credits awarded dollar-for-dollar. Therefore, PHA will want assistance from the City to be in a form that does not appear to be a grant. One possibility is a deferred or residual loan that is not repaid in its entirety or at all. Second, the numbers presented understate the amount for which the tax credits can be sold. Contrary to the claims of lobbyists for the tax credit industry in arguing for additional tax credit allocations during the debates over tax reform and repeated on Monday, tax reform did not lead to a reduction in the prices paid for tax credits. The tax reform legislation received Senate approval in December 2017, and the price of tax credits has remained between .90 and .94 with no trend between March 2017 and September 2018 (the latest info available). https://www.novoco.com/resource-centers/affordable-housing-tax-credits/data-tools/lihtc-pricing-trends. Tax credit prices have had their ups and downs over the years, but the average has been in this range. In any event, the price of tax credits has been in this range for a while and shows no signs of declining. Since 9% tax credits provide tax credits equal to 90% of development cost (spread over 10 years), the tax credits can be sold for amounts well above those presented and hence the funding gap is much less than indicated.

I hope that these few thoughts are helpful in figuring out how to use the city's money well in serving some of our poorest neighbors. Don't hesitate to get back to me if you have questions.

Ed Olsen