

Building the Stock



Targeted Project-Based Rental Assistance to Create More Deeply Affordable Permanent Housing

Massachusetts can create more housing, more effectively, for homeless and low-income families by linking its capital subsidy with rental assistance programs to create a stock of housing that will be permanently affordable to the lowest income families. **Home Funders**, a collaboration of foundations using \$19.5 million to create more housing for homeless and extremely low income families, and **Citizens' Housing and Planning Association (CHAPA)** propose that the Commonwealth:

- Increase project-based rental assistance through the Massachusetts Rental Voucher Program (MRVP);
- Develop innovative models of project-based rental assistance for a portion of the funds to create more access to housing for homeless and extremely low income families; and
- Provide a set-aside of MRVP linked to Home Funders projects to maximize the leverage of this private foundation investment.

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Summary

Homeless and other low-income families are facing an unprecedented crisis in Massachusetts today. While Massachusetts has a deep commitment to, and sophisticated infrastructure for, creating affordable housing, the affordable housing created often fails to reach the most vulnerable, lowest income families. These families, earning below 30% of Area Median Income (AMI), are extremely low income (ELI) and are most vulnerable to homelessness.

Producing housing for ELI families requires capital programs that provide equity and rental assistance to fill the gap between the cost-based rent and what an ELI family can afford to pay using 30% of their income.

In recognition of the housing crisis facing economically disadvantaged families, the Home Funders collaborative has made an extraordinary commitment of private resources to induce developers and the public sector to address the housing needs of homeless and ELI families. The Home Funders initiative is using \$19.5 million of philanthropic and corporate funding to provide low interest loans to support the creation of housing for ELI families in Massachusetts. Housing created by Home Funders loans is targeted to families earning \$25,200 annually or less — 30% of AMI or below. The program is designed to integrate ELI family units into mixed income housing, rather than create blocks of low-income housing. Home Funders has raised \$19.5 million towards its goal of \$26.5 million, and has created a total of 955 affordable units, of which 255 are affordable to ELI families.

The Home Funders model, and other models that provide deeply affordable units, require access to rental assistance to ensure that its capital investment reaches the targeted ELI families. Without access to project-based rental assistance, Home Funders' investment will not be effective in serving the lowest income families. A State commitment to a stream of rental assistance will allow Home Funders to serve ELI families and will provide reassurance to the philanthropic partners that their investment in Massachusetts is sound.

New types of project-based vouchers specifically linked to the Department of Housing and Community Development's (DHCD) existing capital subsidy funds for affordable housing production can deepen affordability at lower ongoing cost than traditional fair market rent (FMR) based vouchers. Home Funders and CHAPA call this innovation "Capital Plus" because it builds on the capital programs of DHCD and adds affordability with rental assistance—a real 'plus' for homeless families who would otherwise not be able to afford even the Commonwealth's 'affordable' housing. The proposed Capital Plus model will stretch voucher dollars by restricting the voucher rent to 50% of AMI (i.e., the Low HOME Rent), providing a cost saving over FMR-based voucher rents.

Housing Crisis for Extremely Low Income Families: Background

Despite the tremendous need, each year only a handful of permanent housing units are created for extremely low-income and homeless families with incomes less than 30% of Area Median Income. There are good reasons for this — the high cost of real estate; financing and feasibility challenges; lack of resources, particularly operating subsidies; and a lack of development capacity to serve this population.

In Massachusetts, 118,831 households earn less than 30% of AMI and pay more than 50% of their income towards rent and utilities.¹ Every night up to 4,000 Massachusetts families are living in homeless shelters at an annualized cost of \$36,000 per family or \$70 million per year. One third of these are working families; many more could work if they had stable homes.

In the greater Boston area, an ELI family of four earns less than \$25,250.² This is the equivalent of earning \$12 an hour for a 40 hour work week. Out of Reach³ 2006 has calculated that a Massachusetts worker needs a wage of \$22.65 per hour or \$47,122 per year, 56% of AMI, to afford the fair market rent for a two bedroom apartment in Massachusetts. A family with one wage-earner earning minimum wage earns less than \$15,000 annually or 18% of AMI.

¹Massachusetts 2005–2009 Consolidated Plan—Needs Assessment, pp. 48–50.

²See the chart on page 15 for HUD area median incomes in MA.

³Out of Reach 2006. The National Low Income Housing Coalition.

Affordable rental housing created through the Commonwealth's many capital programs and the Low Income Housing Tax Credit (LIHTC) program is generally accessible to those making 50% of median income (that is, \$42,050 per year for a family of four⁴). Rents for these affordable units, especially in the Greater Boston area, are almost \$1,000 per month, far in excess of what a minimum wage worker or a family at 30% of AMI can afford. Many ELI families have incomes in the range of 15–20% AMI or less.

The public sector has long struggled with how to address family homelessness and to provide adequate housing for the lowest income families. In the past, Massachusetts has been a leader in creating opportunities for extremely low income families. Massachusetts is one of only three states that have a state public housing program and one of a handful that provide a state rental assistance program.

Despite a policy and subsidy framework to address the housing need of extremely low income populations, Massachusetts has lagged over the last two decades in its commitment of resources to addressing the needs of this population. State public housing, the major source of housing for very low income families, has, until the Patrick Administration took office, experienced disinvestment and deterioration. Moreover, the Massachusetts Rental Voucher Program (MRVP), a critical state operating subsidy source, had also been dramatically cut. In 1997, MRVP provided 9,646 vouchers. In 2006, the program had shrunk to 4,350 vouchers.

At the same time, the number of homeless families has grown. The shelter population hovers at 4,000 families and many more are doubled up with friends and relatives. The McCormack Institute of the University of Massachusetts estimates that each year 10,000 children and their families lack a permanent home.⁵

The Massachusetts Homelessness Commission has brought together key stakeholders to provide a road map for reducing homelessness in Massachusetts. The Homelessness Commission, formed by the Legislature and the Patrick Administration in 2007, has determined that we must shift resources away from crisis management to prevention and permanent solutions. The expense of housing families in shelter dwarfs the investment of housing

⁴HUD Income Limits FY 2007 issued April 2007.

⁵University of Massachusetts, Boston. The Center for Social Policy, McCormack Institute, *Meeting the Housing Needs of Lower Income Massachusetts Residents 2000*.



Achuset Commons is an award-winning project, receiving the Fannie Mae Foundation's Maxwell Award from a nationwide pool of 70 projects. The award was given in the "Innovative Partnership" category for the project's partnership with a childcare/family support provider. Opened in 2006 with 12 units of housing for the New Bedford community with 6 designated for ELI families, funding came through numerous sources including a Home Funders loan from Massachusetts Housing Partnership (MHP).

subsidy to achieve more permanent and family-friendly solutions. Linking state capital programs with the appropriate rental assistance is one piece of the solution to family homelessness.

Addressing the Problem

Home Funders

A partnership of private funders started in 2003, Home Funders uses philanthropic dollars to leverage public funding for the creation of affordable housing for homeless and other extremely low-income families. The Home Funders' goal is to help create 4,000 units of new or preserved housing, including 1,000 units for extremely low income families.

To accomplish this goal, Home Funders has added a new, \$19.5 million targeted pool of funds that is attractive in rate, terms and ease of use, and compatibility with the existing network of resources. The Fund creates an incentive for developers to access existing rental assistance funding (i.e., Section 8 vouchers or MRVP) to help very low-income families afford the housing. Home Funders lends money at low interest rates to projects that set aside at least 20% of units to serve families below 30% of AMI. In addition, lower interest costs and streamlined financing reduce development time and costs that help these developers compete most effectively for development opportunities.

The heart of Roxbury's Egleston Square gets a lift from two Urban Edge buildings — a mixed-use redevelopment project that includes 64 affordable housing units incorporated into a green building-design that will significantly cut energy usage.



Home Funders carries out lending activities through two very experienced housing finance intermediaries, the Community Economic Development Assistance Corporation (CEDAC) and the Massachusetts Housing Partnership (MHP). Home Funders also makes small service grants to help stabilize families in their new homes.

Home Funders has a strong commitment to advocacy and public education about family homelessness and the affordable housing crisis and works to create more state resources for housing. Working in coalition with other organizations, the Collaborative's advocacy and public education efforts have focused on increasing resources that are more targeted toward homeless and ELI families.

State Initiatives

Awareness of the housing crisis is growing statewide and nationally, driven by increases in homelessness and a commitment to seek more cost effective and permanent solutions to family homelessness. Strong advocacy by housing and homeless coalitions has highlighted the urgency of providing housing for the lowest income families, particularly through the use of rental assistance for prevention of homelessness, access to existing housing, and production of new affordable housing.

A number of initiatives have taken root. Modest increases to MRVP and more realistic state public housing operating funding are a down payment on the Patrick's Administration's commitment to



The Grant family at Brian J. Honan Apartments, a Home Funders project developed by the Allston Brighton CDC.

affordable housing for ELI families and recognition by the legislature of the importance of addressing this critical need. Initiatives to create new mixed finance approaches to revitalizing public housing are extremely important to ensure the preservation of this valuable resource.

Homelessness prevention and rapid re-housing programs such as Rental Assistance for Families in Transition (RAFT) and the Department of Transitional Assistance's (DTA) Toolkit provide models that avoid shelter in favor of prevention and creation of permanent housing solutions.

In recognition of the gap and the need, the City of Boston and the state require developers who access resources through the City of Boston, or receive allocations of LIHTC through DHCD, to set aside 10% of their units for households below 30% AMI. While this is an excellent start, a 10% set aside is inadequate to meet the housing needs of the Commonwealth's many homeless and extremely low income families. In addition, many of these units are studio and one bedroom apartments that cannot meet the needs of families.

The Commonwealth also provides 100 units of federal Section 8 Project-based Vouchers (PBVs) in each rental housing round to help developers link the appropriate vehicle—operating subsidy—with capital programs to serve ELI households. In the past, the Boston Housing Authority (BHA) provided PBVs to development projects but now only makes PBVs available to existing rental housing.

While these steps are significant, linking state capital programs with the appropriate rental assistance is a critical and immediate step that can be taken to help solve family homelessness.

The Importance of Rental Assistance

Massachusetts has myriad capital subsidy programs in a complex system of leveraged resources designed to create affordable housing. These resources create new units and preserve existing low income housing. To serve the lowest income families in these units, operating subsidy is a critical part of the equation.

For example, even in an affordable housing development that maximizes capital subsidy to create debt-free units, there is a gap between what a homeless or an economically disadvantaged family, whose income may average 15% of AMI, can pay and the actual costs to operate the unit.

The tables below and on page 9 illustrate the gap. The operating costs include only management expenses, utilities and standard operating costs and do not include debt. This shows the economic infeasibility developers face when they want to serve families at the lowest incomes.

Gap between a family's ability to pay rent and the average operating costs of a debt-free unit

| | Boston Family of 3 | |
|--------------------------|--------------------|------------|
| Area Median Income for 3 | \$ 74,150 | |
| Family income @15% AMI | \$ 11,123 | |
| | Monthly | Annually |
| Rent @ 30% of income | \$ 278 | \$ 3,337 |
| Operating Costs | \$ 667 | \$ 8,000 |
| Gap | \$ (389) | \$ (4,663) |

The gap above—\$4,663—represents only the operating gap on a debt-free unit. Many tax credit units must charge rents that include debt service as well as operating costs. For a two bedroom unit, the LIHTC maximum rent at 60% AMI is \$1,135. The gap between the LIHTC rent and the amount a family at 15% and 30% AMI can pay is presented on the next page.

Gap between the LIHTC rent and the amount families at 15% and 30 % AMI can afford

| | | |
|-------------------------|----------------|-----------------|
| Family of 3 at 15 % AMI | \$ 11,123 | |
| | Monthly | Annually |
| Rent @ 30% of income | \$ 278 | \$ 3,337 |
| LIHTC rent | \$ 1,135 | \$ 13,620 |
| Gap | \$ (857) | \$(10,283) |
| Family of 3 at 30% AMI | \$ 22,750 | |
| | Monthly | Annually |
| Rent @ 30% of income | \$ 569 | \$ 6,828 |
| LIHTC rent | \$ 1,135 | \$ 13,620 |
| Gap | \$ (566) | \$ (6,792) |

When we compare the cost of providing subsidy to fill the largest gap of \$10,283 with the \$36,000 annual cost of sheltering one family, the advantage of housing subsidy over emergency shelters is clear.

Building the Stock Through the Use of Project-Based Vouchers

Rental assistance is the best route to provide access to both the subsidized and unassisted inventory for homeless and extremely low income families, outside of public housing. Operating subsidy can be in the form of 1) mobile vouchers that tenants can use to pay for housing they find and obtain in the private market; or 2) project-based vouchers that are attached to specific developments.

Federal Section 8 operating subsidy through the Housing Choice Voucher program is an extremely valuable resource allowing thousands of Massachusetts households to access safe, decent and affordable housing. Currently, approximately 72,000 Massachusetts households receive Section 8 assistance.

The HUD regulations regarding project-based vouchers issued in November 2005 have helped to clarify and promote the use of these valuable vouchers to increase the permanent stock of units

for ELI and homeless families and individuals. Up to 20% of Housing Choice vouchers can be project-based.

The Massachusetts Rental Voucher Program (MRVP) also provides mobile and project-based vouchers. Over the last ten years, MRVP project-based vouchers have been limited to special demonstrations or other unique circumstances due to a shortage of funding.

Increases in MRVP across the board are necessary for prevention of homelessness, access to housing, and production of new units. Both tenant and project-based vouchers represent an important piece of the housing continuum. Project-basing a portion of these vouchers is the most effective way to build and sustain a stock of permanent units that are deeply affordable for ELI and homeless families.

Project-based vouchers can be used to increase income diversity in mixed income housing and create housing opportunities in a wide range of communities that may not be affordable on the private market. Project-basing is also economic; rents do not float as dramatically with the market and over time will provide a less costly alternative to tenant fair market rent (FMR)-based vouchers. Even in tight market times when it is difficult for mobile voucher holders to find units, the stock of project-based units is intact, available, and deeply affordable.

Innovation in MRVP

The MRVP program has been dramatically scaled back in the last fifteen years. Expansion of the program resources and improvements to the overall system are long overdue. Aligning MRVP income restrictions and tenant rent payments and protections to be more like Section 8 is one important refinement. The Housing Solutions Campaign has promoted this and other legislative and regulatory improvements to increase the fairness and efficiency of the program.

With an expanded and improved MRVP allocation system, additional innovation to link rental assistance to capital programs can provide a streamlined, cost effective approach to increase the supply of rental housing that is affordable to families whose incomes do not exceed 30% of the area median income. Trending

of MRVP rents to insure they are reset to keep pace with operating expenses is also critical to ensure that MRVP remains a useful development tool.

Capital Plus Vouchers

We are proposing to use project-based Section 8 and MRVP as a part of a flexible development package that is integrated with DHCD’s existing capital funding program to create “one-stop” shopping for developers who are willing to create a higher number of deeply affordable units than required. By adding rental assistance to the existing capital programs, or “Capital Plus,” we would provide deep affordability for a portion of the units in a private subsidized development. Using Capital Plus will streamline the development process and eliminate the barriers of infeasibility, delay and complexity that developers cite in trying to serve ELI or homeless families. MRVP can be particularly valuable in instances where Section 8 is not appropriate or immediately available during the development period.

Project-based MRVP vouchers can leverage creation of deeply affordable units in the existing portfolio of subsidized projects. Below are two areas of potential innovation for the MRVP program: one, as a way to deepen affordability in the state’s subsidized affordable housing inventory at lower cost, and two, as a back-up guarantee to Section 8.

1. MRVP to Deepen Affordability in LIHTC Projects Through Capital Plus Vouchers

Using vouchers with DHCD’s private rental housing program can provide access otherwise unavailable to ELI families. We propose a variation on the Capital Plus or “deep affordability” voucher by providing an affordable housing developer with an operating subsidy that is less than the FMR but that would enable the project to rent to ELI families. This would build on and leverage the stock of affordable units being created through DHCD’s existing capital subsidy programs.

For instance, the current fair market rent for a 2 bedroom in Boston is \$1,366, and the current low HOME rent is \$946. The latter

is affordable only to families whose incomes are at 50% of AMI. So, in the case of a project developed with HOME and state LIHTC subsidies, the Capital Plus voucher would be provided for several units for a maximum of \$946 a month. This would enable the developer to rent to a number of families with incomes of 30% of AMI or below by providing the developer with the extra income needed to rent to ELI families.

This is illustrated by the following table:

| Rent Level | Rent for 2 bedroom unit | Affordable to families at: |
|----------------------------------------------------------------------|--------------------------------|-----------------------------------|
| Fair Market Rent | \$ 1,366 | 80% + without voucher |
| Low HOME Rent/MRVP Voucher | \$ 946 | 50% AMI without voucher |
| Savings to MRVP program over FMR-based rent when using low HOME Rent | \$ 420 in savings per unit | below 30% AMI with voucher |
| ELI Tenant Rent under Capital Plus MRVP | \$ 278 | 15% AMI |

Without the Capital Plus voucher, the project would provide affordable housing as obligated by the HOME program, but it would not house ELI families because they could not afford the rent. In most such projects, the development numbers simply do not work if rents are below the HOME maximum.

With the project-based voucher, tenants earning no more than 30% of area median income would be eligible to reside in these units and they would pay 30% of their income for rent. The amount of subsidy would be the difference between the affordable rent level for ELI families at 30% of income and either the Low HOME rent or actual operating costs, making it an extremely efficient and effective tool to increase housing for ELI families. In some cases, DHCD may determine that full FMR-based vouchers are necessary to allow the project to leverage debt, but in many cases, holding the operating budget harmless through the use of the thrifty voucher to deepen affordability, while providing cash flow up to 50% AMI, will be sufficient to allow the project to serve ELI families.

2. MRVP as Section 8 Back-up

While Section 8 is a valuable resource, both in terms of affordability and leveraging debt, timing and availability issues have sometimes been barriers to its use in development, and have caused developers and lenders to be wary of counting on this resource. Without a reliable and readily accessible ‘back-up’ source to Section 8, Home Funders and others who want to create deeply affordable housing will face barriers to its production. MRVP can provide a back-up operating subsidy for those cases where Section 8 is not immediately available. For example, in situations where a Section 8 issuing housing authority is over-utilized and cannot provide a contract for assistance for projects that need the assurance to close in a particular year, MRVP back-up would allow the project to go forward quickly. This would help in the case of Boston projects which, under current policy, only qualify for BHA assistance once they are complete. A back-up guarantee of MRVP will assure lenders that a project will have adequate cash flow through the subsidized rental stream to accommodate the homeless families it plans to serve and the loan it must service. This is particularly important in projects that count on the FMR to leverage additional debt into a project. The project can close with the guarantee and when Section 8 is available, the project can substitute the federal source.

Conclusion

Many homeless and extremely low income families cannot access and maintain housing in Massachusetts's high cost markets without the additional support that rental assistance provides. The gap between market or even affordable rents and what an extremely low income family can afford cannot be closed without operating subsidy. Developers struggle to serve this population but it is economically infeasible and unsustainable to do so without the appropriate tools.

Project-based rental assistance can be an effective tool to create a stock of permanent affordable housing for the lowest income and homeless families and households. In addition to families, low income individuals, persons with disabilities living on SSI and other economically disadvantaged households can benefit from these program changes.

Project-basing a portion of MRVP, linking MRVP with the state's capital subsidy programs, and using MRVP as a back-up to expand and encourage use of Section 8 are cost effective ways to create permanent housing for our most economically disadvantaged and homeless families.

A targeted set-aside for Home Funders projects additionally leverages the Commonwealth's operating subsidy to create a new pool of permanent, affordable units for extremely low income and homeless families.

Income Limits—Boston SMSA 2007

| | 1 | 2 | 3 | 4 | 5 | 6 |
|-----|-----------|-----------|-----------|-----------|-----------|-----------|
| 30% | \$ 17,700 | \$ 20,300 | \$ 22,750 | \$ 25,250 | \$ 27,250 | \$ 29,300 |
| 50% | \$ 29,450 | \$ 33,650 | \$ 37,850 | \$ 42,050 | \$ 45,400 | \$ 48,800 |
| 80% | \$ 46,300 | \$ 52,950 | \$ 59,550 | \$ 66,150 | \$ 71,450 | \$ 76,750 |

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