HOUSING AFFORDABILITY

Affordable housing remains one of our community's biggest challenges. With increasing housing demands, housing supply shortfalls, and rising housing costs, solutions must be multifaceted—balancing support for individuals in need with efforts to increase supply.

The County Manager's FY 2021 Proposed Budget responds to the County Board's direction for significant investments in this area. The budget recommends $9.1 million above FY 2020 funding levels for housing services and investments in additional housing supply:

AHIF investment	**$18.7 million, ($2.7 million more than FY 2020)**
Dedication of Columbia Pike TIF balances and future funding to affordable housing investments either in the Columbia Pike corridor or elsewhere	**$2.3 million**
Recommendation to allocate additional funding from a projected increase to the local cigarette tax rate, being considered by the General Assembly, to affordable housing	**$2.0 million**
The first increase to the Permanent Supportive Housing Rental Assistance program since FY 2014 along with the staff necessary to support some of our most vulnerable residents	**$0.6 million**
Increase to our Housing Grants program to fund the program at a level that meets demand and increases the maximum allowable rents to respond to increases in the market (all ongoing funds)	**$0.8 million**
Young Adult Foster Care Subsidy Program to offset housing and housing-related costs for young people who are aging out of the foster care system and are enrolled in a higher education program (ages 18–24)	**$0.3 million**
Additional support for the Housing Arlington initiative by providing additional staff and consultants	**$0.4 million**

Each of these proposals meets the goals and objectives contained in the Affordable Housing Master Plan and the County Board's Housing Arlington initiative.

Further, since the adoption of budget guidance in November, the County has received unprecedented investments in AHIF ($21.6 million) and a 0.9-acre parcel of land (Crystal House 5) that will be dedicated to additional committed affordable units.

Expanding the Capacity of Housing Arlington

The County Manager's Proposed Budget includes an expansion of support for Housing Arlington to ensure that it continues developing housing policy tools and strategies to help expand affordable housing supply and increase capacity for further development and planning. Specifically, the proposed budget includes funding for a new Principal Planner position in CPHD's Housing Division to pursue program objectives and monitor trends around supply of Market Rate and Committed Affordable Units (CAF) units. The proposal also includes $248,750 for research, analysis, and community outreach and engagement including:

- a housing needs analysis as part of the Affordable Housing Master Plan Review;
- Arlington's participation in the regional analysis of impediments to fair housing led by the Metropolitan Washington Council of Governments;
- a partnership with Enterprise Community Partners' Faith-Based Development Initiative (FBDI);
- an independent economic analysis of the recommendations and guidance for Housing Conservation Districts and design consultation;
- economic and design modeling for the Missing Middle Housing Study; and
- communications materials and translation services to ensure that all public engagement opportunities can involve, and the latest news and information can reach, as many Arlingtonians as possible.

Affordable Housing Investment Funds (AHIF)

The County's Affordable Housing Investment Fund remains our main vehicle to both preserve and create long-term affordable housing by making low-interest loans available to developers. Over the past five years, the County has produced an average of 281 committed affordable units annually, as a direct result of County financing. Further, as of January 2020, the County has 34 CAFs that are affordable to households earning less than 30% of the area median income (AMI).

As noted earlier, since the Board provided budget guidance in November, Arlington has received significant contributions to the Affordable Housing Investment Fund (AHIF) from private development, notably commitments for future contributions of $20 million from the Amazon HQ2 Met Park Site Plan and $1.6 million from the Crystal Houses redevelopment.

Additionally, as a part of the Crystal Houses redevelopment, the developer agreed to convey a 0.9-acre parcel of land to the County for development of committed affordable housing. This parcel is entitled to be developed with a seven story, 75-foot building containing 81 committed affordable units. Upon acquisition, the

County has the option to develop the building as entitled or amend the site plan to allow additional height, increasing the building to 110 feet and potentially adding more affordable housing units. The County is in the process of creating a procurement to develop both this site as well as development options for sites owned or acquired by the County for the purpose of affordable housing.

In its November direction, the County Board also asked for analysis of the factors to consider in supporting the housing needs of residents who make less than 30 percent of Area Median Income. The additional AHIF funding can be used to fund new CAFs, deepen affordability on existing CAFs to 30 percent of AMI, support acquisition of a market rate affordable (MARK) property, or a combination of these:

Incremental Increase	**Potential use of funds**
$2.7 million in FY 2021 Proposed Budget	• create 32 net new CAFs **OR** • deepen affordability on 23 multifamily units to 30 percent of AMI **OR** • support acquisition of a MARK property **OR** • some combination
$2.7 million in FY 2021 Proposed Budget + $21.6 million in developer contributions	• create 286 net new CAFs **OR** • deepen affordability on 203 multifamily units to 30 percent of AMI **OR** • fund acquisition of a MARK property **OR** • some combination

Historically, the County has used subsidy programs such as Housing Grants, rather than CAFs, as its primary tool to support extremely low-income households. Primarily, this is because creating units affordable at 30 percent of AMI can be challenging to finance and harder to support during property operations because they yield less revenue than CAFs that are affordable at 60 percent to 80 percent of AMI. However, providing deeper affordability through CAFs may provide a longer-term strategy to support these households and may reduce the need to provide ongoing rent subsidies.

Creating CAFs affordable at 30 percent of AMI could be done by including them in new CAF projects or by identifying opportunities to deepen affordability in existing projects. Projects and associated County loans can be structured differently to help offset the impacts of the deeper affordability.

If the County wishes to increase its supply of CAFs at 30 percent of AMI, these are some considerations:

- The funding gap, and therefore the County loan request, typically is higher on 30 percent AMI units. On average, the project funding gap increases by approximately $40,000 per 10 percent increment in affordability. Therefore, deepening affordability from 60 percent AMI to 30 percent AMI may increase the cost gap by $120,000 (or more) per unit, depending on unit size, total development costs, and other factors.

- Units affordable at 30 percent of AMI struggle to cover operating expenses. For example, assuming an average annual operating cost of $7,700/unit, a 30 percent AMI rent of $683/month for a one-bedroom unit will produce only $8,196 in revenue annually, leaving little extra to cover debt service on the first trust financing. Further, operating expenses typically escalate faster than 30 percent AMI rents grow, which can cause the project to experience a negative Debt Service Coverage Ratio (DSCR), which measures the revenue available to cover debt service payments in the project's "out years." That has implications for future debt refinancing.
- Units at 30 percent of AMI generate less cash flow, which reduces funds available to make annual payments on the County loan.

Despite these challenges, there are opportunities to make CAF projects with 30 percent AMI units successful:

- Certain funding, such as Federal Home Loan Bank (FHLB), Virginia Housing Trust Fund (VHTF), and Virginia Housing Amazon REACH grant funds, provide subordinate financing with no payment or interest-only payments that are forgivable over time. These funding sources provide projects with additional equity once the principal is forgiven, improving the financial position of the property during a future refinance or re-syndication and helping to offset the impacts of deeper affordability.
- For projects that have requirements for CAFs at 30 percent of AMI, the County could provide a kick-out clause that allows projects to shift these units to 40 percent or even 50 percent of AMI if the property's DSCR drops below a certain threshold. This would reduce the project's risk if additional revenue is needed to cover costs in the future.
- The County could consider deferring and/or forgiving loan interest or principal over time for projects that agree to provide units at deeper affordability levels, such as 30 percent of AMI. This approach would be similar to the FHLB and VHTF financing referenced above and would reduce debt pressure on projects that have less revenue to repay their County loans.
- Income averaging is a tool allowed by Virginia Housing (formerly the Virginia Housing Development Authority, or VHDA) for low-income housing tax credit projects to help "neutralize" cash flow impacts of lower AMI units. In these scenarios, projects can include more 70 percent and 80 percent AMI units to offset the reduced revenue of the 30 percent AMI units, so long as an overall affordability average is retained.
- Similarly, spreading 30 percent AMI units across many projects, rather than concentrating them into fewer projects, can help reduce the impact of these units on a single property. For example, the County could consider a requirement that all County-financed projects provide a minimum number of units at 30 percent of AMI, similar to current incentives/requirements for

permanent supportive housing and accessible units for County-financed projects. If the County takes this approach, staff recommends coupling it with one of the financing strategies above to improve viability of the project.

Using a combination of financing and policy strategies, the County could reaffirm its commitment to deeper affordability by incentivizing CAFs affordable at 30 percent of AMI while reducing the impact of these units. For projects without 30 percent of AMI CAFs available, the County can continue using Housing Grants, housing-choice vouchers, and Permanent Supportive Housing funds to support households needing deeper affordability at these properties.

Deepening Affordability Now

While Housing Arlington works to develop innovative tools and policies and AHIF provides funds for additional housing supply for the future, the challenge of rising housing costs impacts our community and residents now. Thus, the County Manager's Proposed FY 2021 Budget includes proposals to maintain adequate funding for the current demand being placed on our Housing Grants and Permanent Supportive Housing programs.

The County's Housing Grants Program provides rental assistance to low-income Arlington residents. These grants cover a portion of monthly rent, depending on household income, household size, and rent amount with a goal of having tenants pay no more than 40 percent of their income towards rent. In FY 2021, the projected number of households served will increase by 17 (1.4%), from 1,227 to 1,244. Currently, 83 percent of Housing Grants clients are at or below 30 percent of AMI.

The Manager's Proposed Budget also includes an increase in the maximum allowable rents to the 2019 levels ($64,158) to ensure subsidies keep pace with the rental market. The additional funding with the increase in maximum allowable rents increases the Housing Grants budget from $9.3 million to $10.1 million (an increase of $801,781).

The County's Permanent Supportive Housing (PSH) program provides affordable housing and supportive services for individuals and families who are not only homeless or at risk of becoming homeless, but also who have very low incomes and serious, persistent issues that may include substance use, mental illness or other disabilities, and HIV/AIDS. The PSH program's current budget of $2.064 million has been in place since FY 2014, while the number of available units has increased from 202 in FY 2014 to 280 projected in FY 2021 (a 38-percent increase). To maintain current support for residents facing housing instability and to adequately fund these 280 units, an additional $412,554 is included in the Manger's proposal along with 2.0 FTEs to support the program:

- PSH Housing Locator ($105,618) to develop and strengthen relationships with landlords offering affordable housing options in both corporate and

private rental markets and coordinate housing placement options for DHS-assisted households
- PSH Case Manager ($91,923) to provide dedicated housing support and case management services, including assisting clients find and lease affordable housing units, coordinating with shelter and institution client reentries, and conducting home visits

Recognizing that not all Arlington residents meet the criteria of our existing housing support programs, the Manager's proposal also funds a Young Adult Foster Care Subsidy to provide independent living support for young people (ages 18 to 24) who are aging out of the foster care system and a case manager to support those youth ($343,659). Youth must be enrolled full time in an accredited institution of higher learning to be eligible. Enrolled youth would receive a subsidy to offset the cost of housing and housing-related costs, up to a maximum allowable subsidy cap.