

# Leveraging City Dollars for Impact

Affordable Housing Trust Fund Recommendation

# Topics:

- **Overview of City's Affordable Housing Tools**
- **Summary of DCED's Notice of Funding Availability (NOFA) Program**
- **History of City's Affordable Housing Trust Fund**
- **Strategy For Impact**
- **Summary of Recommended AHTF Structure**

**Cincinnati Development Fund (CDF) will present after and will go into more detail about their organization and their work to leverage City funds.**

# City's Affordable Housing Tools

Housing affordability issues took a long time to develop.

**Resulting from a complex mix of market and macroeconomic forces intertwined with historical public policy (at times driven by racism):**

- Wage stagnation and inflation
- Supply and demand
- Construction cost increases
- Zoning Policy
- History of racism in our country and City has created racial disparities in housing, which contributes significantly to racial disparities in wealth.



**Need urgency but it is going to take a long time to address...**

**No single policy tool or program will be enough to address our housing affordability challenges and the solutions will have to be regional.** Must think about Big “A” subsidized affordable housing and also creating or maintaining affordability in the market (aka naturally occurring affordable housing).

# City's Affordable Housing Tools

## Policy Toolkit:

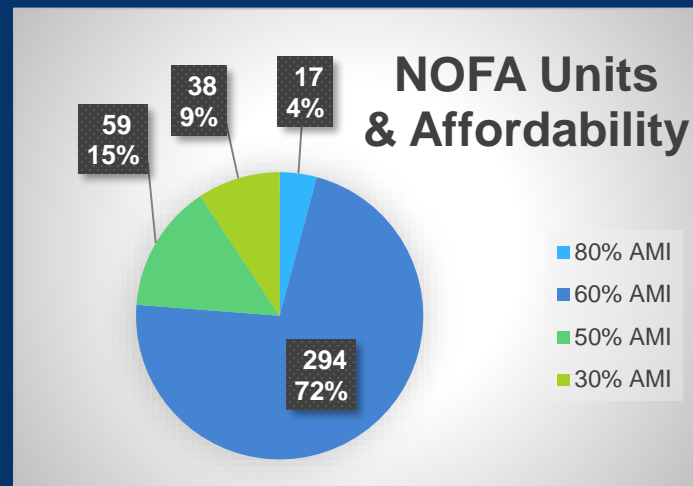
- Finance Tools
  - NOFA
  - AHTF
- Tax Incentives Tools
- Zoning Reform
- Anti-poverty and workforce programs focused on income growth (Career Pathways, Hand Up, and Project Lift)

# Notice of Funding Availability (NOFA) Program

## FY23 (CY22) Awards\*:

- Total Awards: **\$7,141,500**
- Total Affordable Units: **407**
- Total Development Cost: **\$104,210,500**
- Avg. Per Unit Development Cost: **\$256,045**
- Avg. Per Unit Subsidy: **\$17,547**
- % of Projects Leveraging LIHTC: **78%**

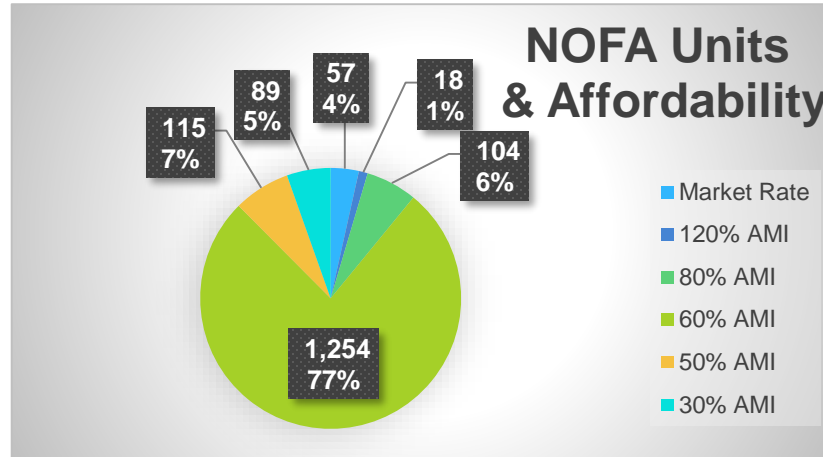
*Total Dev Cost and Per Units Subsidies are estimates until final costs are established*



# Notice of Funding Availability (NOFA) Program (Last 5 Years)

## FY19-23 (CY18-22) Awards\*:

- Total Awards: **\$30,959,190**
- Total Affordable Units: **1,580**
- Total Development Cost: **\$396,467,562**
- Avg. Per Unit Development Cost: **\$250,929**
- Avg. Per Unit Subsidy: **\$18,912**
- % of Projects Leveraging LIHTC: **58%**



*Total Dev Cost and Per Unit Subsidies are estimates until all NOFA projects have established final costs*

2022 Income Limits (as published by HUD)								
AMI	1	2	3	4	5	6	7	8
<b>30%</b>	\$20,100	\$22,950	\$25,800	\$28,650	\$32,470	\$37,190	\$49,910	\$46,360
<b>50%</b>	\$33,450	\$38,200	\$43,000	\$47,750	\$51,600	\$55,400	\$49,250	\$63,050
<b>60%</b>	\$40,140	\$45,840	\$51,600	\$57,300	\$61,920	\$66,480	\$59,100	\$75,660
<b>80%</b>	\$53,500	\$61,150	\$68,800	\$76,400	\$82,550	\$88,650	\$94,750	\$100,850
<b>120%</b>	\$80,200	\$91,700	\$103,150	\$114,600	\$123,750	\$132,950	\$142,100	\$151,250

# History of AHTF

The strategy and funding available for the City's Affordable Housing Trust Fund has evolved over several years with layered Council action.

- **June 2017** - FY2018-2019 Budget Motion includes reference to establishing an affordable housing trust fund.
- **December 2017** – Council motion requesting City Administration to work with affordable housing stakeholders to establishing parameters of Affordable Housing Trust Fund.
- **December 2018** – Council passes Ordinance No. 364-2018
  - Establishes special revenue fund Fund 439, “Affordable Housing Trust Fund” that includes restrictions for funds within Fund 439 to be utilized to benefit households with income below 61% AMI and requires half of such funds to be utilized for benefiting households with income at or below 30% AMI.
  - States Council’s intent to pass subsequent ordinances to establish a revenue source for Fund 439, eligibility requirements, and an oversight board.
- **February 2019** – Council passes Ordinance No. 66-2019, authorizing the Finance Director to accept donations from private individuals into Fund 439 and a \$1,300 donation is later received.

# History of AHTF

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- **March 2019** – Council passes Ordinance No. 76-2019 establishing capital improvement program project account no. 980x162x191624, “Affordable Housing,” and transferring \$700,000 into the account with funds to be utilized for the preservation and development of affordable housing and to prevent homelessness and to be utilized in coordination with Fund 439.
- **April 2019** – Council passes Ordinance No. 125-2019 levying a short-term rental tax and in CMC 315-67 identifying that revenues from the tax be deposited in Fund 439 to be used for the preservation and development of affordable housing in the City.
- **June 2019** – Council passes Ordinance 206-2019, as part of the FY2020 budget process, amending the CMC 315-67 language to indicate that the revenues raised from the short-term rental tax be depositing in the General Fund but that the revenue amount collected set a minimum amount to be appropriated in the annual budget to capital improvement projects for the preservation and development of affordable housing.



# History of AHTF

- **June 2019** – Council passes the FY2020 Capital Budget with \$611,000 into capital account capital improvement program project account no. 980x162x201644, “Affordable Housing” for the preservation and development of affordable housing.
- **June 2020** – Council passes the FY2021 Capital Budget with \$305,000 into capital account capital improvement program project account no. 980x162x201644, “Affordable Housing”.
- **April 2021**– Council passes Ordinance Nos. 121-2021 and 122-2021
  - Designating the Housing Advisory Board to establish the City’s affordable housing policy priorities, including with respect to the Affordable Housing Trust Fund.
  - Amending the CMC 209-7 to include in the duties and responsibilities of the Housing Advisory Board as establishing the affordable housing policy priorities of the City and advising the City Manager on allocation of federal, state, and local resources for affordable housing development, including the Affordable Housing Trust Fund.
  - Designating the Cincinnati Development Fund, Inc. (CDF) to oversee the Affordable Housing Trust Fund and related proposed Section 108 loan.
- **June 2021** – Council passes the FY2022 Capital Budget with \$500,000 into capital account capital improvement program project account no. 980x162x201644, “Affordable Housing Trust Funding – General Capital”.
- **September 2021** – Council approves appointment of 10 mayoral appointments to the Housing Advisory Board.

# History of AHTF

- **January 2022** – New Mayor and Council are sworn in.
- **February/March 2022** – Council passes Ordinance Nos. 53-2022, 55-2022, and 56-2022.
  - Appropriating \$5 million dollars to Local Fiscal Recovery Fund 469 American Rescue Plan grant project account no. 469x101xARP200, "Affordable Housing Trust Fund," to enhance the availability of affordable housing within the City.
  - Expanding the Housing Advisory Board and approving appointment of additional members.
  - Amends the City's Stabilization Funds Policy to identify the City's Affordable Housing Trust Fund to receive up to \$5 million.
- **May 2022** – City Administration, in coordination with CDF, present a proposed structure for deployment of the City's Affordable Housing Trust Fund to the Housing Advisory Board to solicit feedback.
- **June 2022** – Council passes the FY2023 Capital Budget with \$611,000 into capital account capital improvement program project account no. 980x162x201644, "Affordable Housing Trust Funding – General Capital". An additional \$489,000 was appropriated in general capital to the Strategic Housing Initiatives Program to support development of affordable housing through DCED's NOFA program.

# History of AHTF

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- **August 2022**
  - City executes agreement with CDF for administration of the City's Affordable Housing Trust Fund and deploy all previously appropriated dollars.
  - HUD announces approval of \$34 million Section 108 Loan to the City of Cincinnati to support the development of affordable housing.
- **Present Day**
  - Administration recommends \$5 million in FY 2022 carryover be appropriated to be deployed in line with structure established in CDF's agreement.
  - First project funded from the Affordable Housing Trust Fund: Slater Hall.
    - Permanent Supportive Housing project located in the West End of Cincinnati and creating 62 units
    - Being developed by Over-the-Rhine Community Housing (OTRCH) and Tender Mercies
    - Closed in September and received a \$1.88 million loan from the AHTF through CDF.
    - All units target income at or below 50% AMI.

## Current Sources of City AHTF

Sources	Amount	Legislative or Program Restrictions
Donation to Fund 439	\$1,300	60% AMI or below. Half of funds to 30% AMI or below.
Ord. 76-2019 – CSR Tax Credit	\$700,000	Section 2 – Ord. 76-2019 - Providing resources for the preservation and development of affordable housing and to prevent homelessness in the City of Cincinnati. To be used in coordination with Fund 439.
City Capital Budget (FY20-FY23)	\$2,027,000	CMC 315-27 – For capital improvement projects for the preservation and development of affordable housing in the City of Cincinnati.
Ord. 53-2022 - ARP	\$5,000,000	Section 4 – Ord. 53-2022 - Providing funds to enhance the availability of affordable housing within the City which is necessary because of the impacts of the COVID-19 pandemic.
Ord. 323-2022 - FY2022 Carryover	\$5,000,000	Section 5 – Ord. 323-2022 – Providing resources for a one-time contribution to the City's Affordable Housing Trust Fund.
Section 108 Loan (Low-Cost Debt)	\$34,000,000	CDBG Program Restrictions apply - At least 51% of the units will be occupied by low (50% AMI) to moderate income (80% AMI) households at affordable rents.
<b>Total</b>	<b>\$46,728,300</b>	

## Direct City subsidy of units is not a realistic strategy to alone addressing housing affordability in our City.

- Assume we need to create 25,000 units
- Average project cost for an affordable housing unit: \$250,000.
- Average City subsidy of highly leveraged NOFA projects is apx. \$19,000 (8% of total project cost)
  - 25,000 units x \$19,000 (8% subsidy) = \$475 million
  - 25,000 units x \$25,000 (10% subsidy) = \$625 million
  - 25,000 units x \$50,000 (20% subsidy) = \$1.25 billion
- For context:
  - City's unfunded pension obligation is over \$700 million.
  - City's typical general capital budget averages apx. \$60 million per year—with the vast majority utilized to maintain existing infrastructure. Combined housing and ED uses average about 12% @ apx. \$10 million a year.
  - City's federal entitlement funds averages apx. \$16 million a year—with \$9 million (56%) already committed to housing development or housing support services.

# Developing Housing For The Lowest AMIs Is the Most Difficult

**Lower AMIs => Lower Rent => Lower Revenue to Support Project  
Lower Revenue => Less Debt is Financially Feasible => Need for More Subsidy**

- Requires sophistication to build, finance, and operate = Limited developers and generally extended project time frames.
- Most housing targeting the lowest AMI levels require ongoing rental assistance/subsidy to operate since an affordable rent alone will not generate enough revenue to support operation.
- Other anti-poverty and workforce development programs must be a part of assisting these residents to increase income so that more housing is affordable to them.

# Developing Housing For The Lowest AMIs Is the Most Difficult

Trade off between volume of units created and local subsidy level/leverage.

Assuming \$250,000 development cost per unit:

- \$5 million @ \$10,000 per unit (4% subsidy) = 500 units
- \$5 million @ \$20,000 per unit (8% subsidy) = 250 units
- \$5 million @ \$50,000 per unit (20% subsidy) = 100 units
- \$5 million @ \$125,000 per unit (50% subsidy) = 40 units

No easy or simple solution with limited resources.

# How can we make the most impact possible with available City funding?

Generate impact through high volume—creating as many affordable units as possible.

100-200 units a year is not moving the needle enough to impact affordability within the larger housing market.

Better outcome to have more affordable units for households at a slightly higher AMI than to have much fewer units for the lowest AMI with less leverage.

Ex. 50% AMI household occupying an 80% AMI unit or 30% AMI household in a 40% AMI unit





# Strategies for Impact

**Strategy #1:** Leverage City funds to the greatest extent possible to attract other public and private dollars.

- Facilitate use of LIHTC and other available tax credit structures to maximum extent.
  - LIHTC permits income averaging with units up to 80% AMI and lower AMI units to equal 60% or below. NMTC program utilizes 80% AMI.
- Leverage the City's dollars to raise other public and private funds that can be invested in affordable housing projects.
- Maintain sufficient flexibility to allow multiple subsidy (public and private) sources to work together in a single project.

**Strategy #2:** Align program parameters with how existing affordable housing developers develop affordable housing and create a pipeline for lesser sophisticated and smaller developers to begin to develop affordable housing.

- Provide flexibility to match LIHTC and other tax credit program parameters commonly utilized in the industry.
- Allow for flexibility to accommodate developers creating affordable units across a spectrum of affordability options.
- Create room for less sophisticated and smaller developers (ex. CDCs) to do simple affordable housing projects, leveraging the experience to grow in capacity to handle more complex affordable housing finance.

# Strategies for Impact

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## **Strategy #3:** Promote mixed-income projects to cross subsidize lower AMI units.

- For example, additional revenue generated from a 100% AMI unit or market-rate unit can be utilized to support a lower AMI unit.
- Opens up possibility to do lower AMI units without as sophisticated financing structures and less upfront subsidy due to more revenue.
- Encourage flexibility for mixed-income projects to avoid concentration of low AMI units within single projects.

## **Strategy #4:** Utilize AHTF dollars to work in tandem with City's NOFA Program and federal entitlement funding.

- NOFA Program deploys on average apx. \$5.75 million per year—mostly federal funds.
- Federal funding has many strings attached and requires a sophisticated developer, making it a good source for financing the lowest AMI range projects, since these projects generally require complex financing.

# Strategies for Impact

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**Strategy #5:** Work in partnership with a mission-aligned external partner to create efficiencies and depoliticize funding decisions.

- External partner can expedite service delivery, lower barriers to utilization of the funds, and minimize administration costs.
- Allow for professional judgment of affordable housing finance practitioners to complete a thorough underwriting and vetting of projects and to navigate nuance of pairing multiple subsidy sources.
- Utilize an existing organization to minimize administration costs—maximizing available City resources for subsidizing projects.
- City's strength is not private fundraising—tap external expertise.
- Avoid lengthy approval and contracting processes.

# Summary of Recommended AHTF Deployment Structure

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## Loan Products:

- Forgivable Loans – Function as a grant.
- Repayable Loans – Low or no-interest loans to be repaid. Repaid amounts recycled.

## Eligible Projects and Uses:

- Multi-family projects – will likely be primarily residential rental projects.
- Eligible uses include acquisition costs, hard construction costs, and reasonable soft construction costs.
  - In limited circumstances, refinance debt or other uses to leverage tax credit financing structures.

## Affordability Terms:

- Rent maximums set based on process utilized by OHFA and HUD.
- Affordability term to generally be 15 years.
- Right of First Refusal – Promote long-term affordability through mission-oriented ownership.

# Summary of Recommended AHTF Deployment Structure

## Maximum Subsidy for Forgivable Loans:

### Forgivable Loan Maximums:

Area Median Income ("AMI") Level for Unit	Maximum Forgivable Loan per 1-2 Bedroom Unit	Maximum Forgivable Loan per 3+ Bedrooms
Up to 60% AMI	\$50,000 per unit	\$60,000 per unit
Up to 80% AMI	\$25,000 per unit	\$30,000 per unit
Up to 100% AMI	\$10,000 per unit	\$20,000 per unit

- Higher AMI units are intended to be part of mixed-income projects.
- 100% AMI units are intended to be rare.
- These amounts are intended as a ceiling. Each project will be underwritten and only offered the subsidy necessary to make the project financially feasible.
- City must approve any forgivable loan.
- Amounts to be revisited after two years to see if adjustments are needed.

# Thank you