Funding Strategies for Developing and Operating Extremely Low Income Housing

The national Housing Trust Fund (HTF) is designed to expand the supply of rental housing affordable to extremely low income (ELI) households, those earning less than 30% of the area median income (AMI). At least 80% of HTF funds must support rental housing, and at least 75% of the funds used for rental housing must serve ELI households. Up to 33% of HTF funds can be used to cover operating costs and/or operating cost reserves.

The rents that ELI households can afford to pay often do not cover the operating costs of a project. Two recent studies by the Technical Assistance Collaborative (TAC) and the National Low Income Housing Coalition (NLIHC) identify innovative strategies adopted at the state and local levels to address this issue. States can adapt these strategies when considering how to utilize HTF funds.

Cross Subsidization

- Mixed-income projects that blend ELI units with units affordable to higher income households can provide opportunities for the cross subsidization of rents. Revenue from higher income households can help offset the lower rents from ELI households to meet the operating costs of the housing project. (NLIHC Report)
- Rental assistance subsidies such as Housing Choice Vouchers (HCV) utilized in Low Income Housing Tax Credit (LIHTC) units can offer higher payment standards than LIHTC rents. These higher rents can be used to cross subsidize rents for other ELI households who do not have rental assistance. (NLIHC Report)

Capitalizing Operating Reserves

An operating reserve is money set aside upfront to support the operating costs of a project. The reserve can be drawn down over time to make up the difference between the rent an ELI household can afford to pay and the cost of operating that ELI household’s unit.

- Pennsylvania’s Housing Finance Agency has implemented a model to subsidize operating costs for LIHTC projects that include set-asides of ELI units. The program allows up to a 5% increase to the developer’s fee if that 5% increment is used to capitalize a Rent Subsidy Fund for ELI units in participating LIHTC projects. The Rent Subsidy Fund is created and administered at the project level and used to subsidize the difference between the rent ELI households can afford to pay and operating costs. (TAC Report; NLIHC provides another example of the use of increased developer fees for operating reserves.)

Relation to HTF: State entities designated to administer HTF funds could elect to set aside up to 33% of their HTF allocations to capitalize operating reserve funds for HTF-assisted units administered at the project level.
Rent Subsidy or Operating Assistance

Rental subsidies or operating assistance funds cover the difference between the rent (revenue) needed to cover operating expenses and the rent ELI households can afford to pay. Rental subsidies or operating assistance are administered on an ongoing basis to support deficits in operating income needed to cover expenses.

- North Carolina’s Key Program is funded through state appropriations and provides project-based rental assistance to ELI units required as a set-aside in all LIHTC projects. The subsidies for the units come from a fund that is managed at the state level rather than the project level. The program is funded through annual appropriations, but the state manages these funds strategically to try to maintain 10 years of funding for current and projected units in the Key Program. (TAC report)

Relation to HTF: State entities designated to administer HTF funds could elect to use up to 33% of their HTF allocations to provide operating assistance to HTF assisted units administered at the State level or through another entity.

Reducing Mortgage Debt

Reducing or eliminating mortgage debt lowers the cost of debt service over the lifespan of a project, allowing for more deeply targeted rents.

- Some municipalities provide below market (or donated) land or property for a project, thereby significantly reducing capital costs and mortgage debt. (NLIHC report)
- Private philanthropic organizations provide financial resources to reduce debt in order to support ELI targeted rents over an established term. (NLIHC and TAC reports)

Relation to HTF: HTF funds can be applied directly to capital costs in a project to reduce or eliminate mortgage debt to achieve ELI targeting.

Layered Funding Streams

- Most projects with ELI units utilize multiple funding streams in order to achieve deep income targeting. (NLIHC and TAC reports)

HTF funds could be layered with housing production subsidies targeted at higher income households, such as LIHTC or HOME, to develop units targeted to ELI households.

Further Reading

