May 10, 2016

To: The Missouri Housing Development Commission

From: Jeanette Mott Oxford, Executive Director, Empower Missouri

Re: National Housing Trust Fund (NHTF) allocation plan

The Affordable Housing and Homelessness Task Force (AHHTF) of Empower Missouri is happy to share our inclinations with MHDC for the administration of the highly anticipated National Housing Trust Fund (NHTF) allocation. The funds are very important to increasing the affordable housing availability for Very Low Income (VLI) and Extremely Low Income (ELI) households and individuals.

We strongly prefer rental production over homeowner housing because we are concerned about cost burdens of homeownership for individuals with VLI to ELI. Though only 10% of the NFTH allocation can be dedicated to homeownership, we are curious if MHDC will publish the organizations and agencies that are recipients of the funding for real property acquisition, if awarded.

Grants are preferred to keep costs low and ensure affordable rents. We recognize that loans are another avenue for allocating funding, to which we prefer non-interest bearing loans, as they would be ideal since minimizing debt on a property will make deeper affordability more achievable. Also, non-interest bearing loans would allow non-profit developers and service providers to take advantage of using the LIHTC program to layer in equity.

Rent levels – Rent levels are at the crux of this conversation and ensuring affordability is the #1 goal of NHTF. However, HUD’s interim regulations reject the Brooke rule to cap rent and utility expense at 30% of income, establishing, instead, a maximum rent (including utilities) at a fixed amount of the greater of either 30% of the federal poverty line or 30% of 30% of the area median income. This is of particular concern to us because it means that some individuals at ELI and VLI will remain rent burdened. In light of this, we are asking MHDC to also closely consider fixed rent ranges for proposed projects and their feasibility for the area in which they are developed.

Merits of the project – Priority should be given to individuals with Special Needs, proposed projects with access to transportation, homeless households (as defined by HUD) and proposed projects in low-poverty high-opportunity areas. Considerations for “merit” should include steering developers away from producing housing in areas of concentrated poverty, especially in urban settings, in accordance with principles of Affirmatively Furthering Fair Housing (AFFH).
**Affordability period** – While 30 years of affordability is ideal for most state allocation plans, we recommend that projects that commit to longer affordability periods (i.e. 50 years) be given preference, as this will firmly secure the future of affordable housing for respective areas.

**The ability to deploy funds quickly** - The interim regulation allows for HUD to recapture funds that are not expended within 5 years, and if this occurs it can hamper future advocacy for increased allocations. It is imperative that NHTF funded programs and projects are able to produce reasonable turnaround with these funds to demonstrate program efficacy and set the stage for future increases to allocations.

**Ability to leverage funds** – This is an important priority, as developers will need to turn to funding sources beyond just NHTF, in order to create more units that are ELI-affordable. Preference should be given to developers with fewer interest-bearing loans or advances, as it would reduce costs of operations and rent levels for ELI units.

**Geographic distribution** – Though we have housing needs all across Missouri, we want to be guard against spreading the funds too thinly across the state as to not create any real impact in addressing the housing shortage for ELI renters. We recommend that MHDC disclose the resource(s) used to determine where the most needs are and how it will be calculated in the forthcoming allocation plan for NHTF. Empower MO utilizes housing gap analysis data provided by the National Low Income Housing Coalition (NLIHC).

Undoubtedly, a 100% ELI project will not achieve financial feasibility without full operating assistance support from NHTF for the affordability period, and we just aren’t certain that this is a great set-up. However, **mixed-income projects** produced through diverse funding streams such as LIHTC, HOME, CDBG, and Affordable Housing Commission (with zero or very little debt) that dedicate 20-30% of its units to ELI renters would have a better chance at achieving financial feasibility with only some help from NHTF operating assistance in the first few years.

Our suggestion is the creation of an operating cost assistance **reserve** to be funded upfront for NHTF-assisted units to help project financial feasibility for the first 5 years of the affordability period and have developments renew based on need. Section 201(e)(1) of the rule requires the state to establish the eligible amount of NHTF money per unit for operating cost assistance to be based on the deficit remaining after the monthly rent payment for the NHTF-assisted unit is applied to the NHTF-assisted unit’s share of monthly operating costs. The maximum amount of the operating cost assistance to be provided to the NHTF-assisted rental project must be based on the underwriting of the project and must be specified in a written agreement between the state and the recipient. The written agreement may commit, from a fiscal year NHTF grant, funds for operating cost assistance for a multiyear period provided that the state is able to meet its five-year expenditure deadline. MHDC may renew operating cost assistance with future year NHTF grants during the affordability period, and that amount must be based on the need for operating cost assistance at the time the assistance is renewed.

New construction should not be a priority. There is no shortage of ELI persons to occupy rehab developments. Further, if relocation assistance becomes a priority, this issue becomes moot, to some extent. Also, it is possible to rehab a building and fund only a portion of the units in a given building with NHTF dollars. These units can be set aside as they become vacant.

Historically, we already know that requiring that 100% of units be reserved for ELI persons does not work. We offer as examples Pruitt-Igoe in St. Louis and Cabrini Green in Chicago, IL. Further, mixed-income developments would help with meeting the agenda for Affirmatively Furthering Fair Housing. If we are looking forward, another concern is that these 100% NHTF units will be developed in or near high-need low-opportunity areas and will be difficult to maintain or lease to mixed-income populations.
after the affordability period. We cannot only consider today. We must be intentional in causing no harm to the future as well.

We do not recommend services being required for a project to receive NHTF funding. Furthermore, services should always be development-wide and voluntary, as participation in services cannot be a condition for leasing. When these services are required on a site, it conveys the problematic and patronizing assumption that any low income household in need of an NHTF-assisted home MUST be in need of services. However, this decision should be left to the developer and their agency, partnerships, and community resources, but should NOT be criteria for NHTF support. However, if a development is designated under a special needs merit, which includes chronic homelessness and disabilities as examples, service enrichment would be a requirement through a LIHTC QAP, if funding is diversified, and thus become a development-wide voluntary service.

Special Needs households may very well be among those that seek housing in a NHTF-funded development, but we see no reason to assume that all who seek to live in one of these developments will have a Special Need.

In closing we stress the urgent need for NHTF funds to be targeted to the population it was designed to serve, ELI households, including homeless and formerly homeless households and individuals. It is our hope that the NHTF program will grow to also serve DLI households (15% AMI) some day.