

A PLAN FOR 500 UNITS OF HOUSING

Washtenaw Housing Alliance

July 2006

INTRODUCTION

Background

In late 2004, Washtenaw County created a “Blueprint to End Homelessness” and selected the Washtenaw Housing Alliance (WHA) to manage its implementation. In February 2006, the Board of the WHA (BOD) identified the creation of 500 units of permanent, supportive housing as the next critical focus in Blueprint implementation. The BOD therefore established a special committee, known as the 500 Unit Committee, to develop a plan for the creation of 500 units of permanent, supportive housing within the remaining 8.5 years of the ten-year Blueprint. The Board charged the committee to develop a plan that is consistent with the Blueprint and to coordinate its efforts with the existing Blueprint committees focused on housing. The membership of the 500 Unit Committee is found in Attachment 1.

Fundamental Assumptions

- The 500 units created through this effort are to be affordable to households at or below 30% of the Area Median Income (AMI).
- The housing units, and associated supportive services, are focused on the population identified in the Blueprint: those who are homeless or at high risk of homelessness.
- The housing units will be developed through many small and medium-sized initiatives rather than one large project.
- Housing development will be led by many different groups across the non-profit, private, and governmental sectors—relying on both collaborative efforts and geographic diversity.
- Successful development of 500 supportive housing units will require both new initiatives and the continuation of successful existing efforts. New initiatives, therefore, will require new sources of support rather than a diversion of resources from successful existing efforts.
- The impact of creating 500 new housing units will diminish if existing affordable housing is lost during implementation of the plan, so the broader community must develop a way to identify and respond to potential losses. (See Attachment 2)

STATEMENT OF NEED¹

Target populations

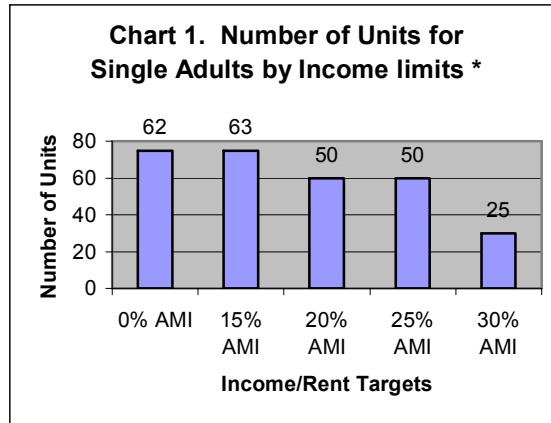
- The 500 units of housing should be roughly divided into 250 housing units for single adults who are homeless and 250 units for families who are homeless. Single adults who are chronically homeless consume a disproportionate share of community services and resources. Homelessness among families is especially destructive to children and youth and threatens the future welfare of the community.
- The incomes of people in the target population range from 0% to 30% AMI, and the range and distribution of new housing unit costs must correspond to the range and distribution of incomes. Table 1. shows the 30% AMI income limits which represent the overall maximum targets.

Table 1. Income and Rent Maximums at 30% AMI *					
Household Size	1	2	3	4	5
Income	\$17,300	\$19,750	\$22,250	\$24,700	\$26,700
Rent	\$432	\$493	\$556	\$617	\$667

* Table 1 reflects 2006 HUD Area Median Income (AMI) for Washtenaw County and affordable rent at 30% of monthly household income.

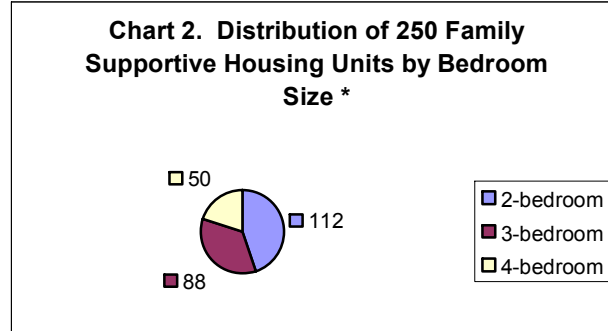
- Among single adults, those with the lowest incomes, especially those who are chronically homeless, have the most critical need for supportive housing. Chart 1 projects the recommended distribution of the 250 units of housing for single adults by targeted income. (See Attachment 3, Table A for annual income and monthly rent limits associated with each grouping.) 100 of these 250 units for single adults should also be targeted for individuals who meet the HUD definition for chronically homeless.

¹ In writing this report, the Committee relied on a great variety of data sources. The Committee wanted to provide real and detailed data to emphasize its conclusions and such data is referenced throughout this report. However, because the report used several different sources, it was not possible to achieve precise alignment of all data sets. The Committee is aware of some minor data inconsistencies throughout this report—these do not change the conclusions or recommendations of the Committee.



* Income and rent targeting for homeless single adult households was derived from Shelter Plus Care data from January 2005 and January 2006. The Shelter Plus Care program—a HUD rent subsidy program awarded to the Ann Arbor Housing Commission and administered through the Shelter Association of Washtenaw County, Michigan Ability Partners, and Avalon Housing—provides rent subsidies to persons who were homeless and have a disability and who are also receiving supportive housing services.

- The 250 units targeted for homeless families should include 2-, 3- and 4-bedroom units to accommodate the various size families among the target population. Chart 2 indicates the goal for distribution of units by size.



* The distribution of family housing units by unit size was derived from data on family sizes of households participating in local housing placement services and transitional housing programs administered by SOS Community Services, IHN-Alpha House and the Family Support Network.

- Family size correlates with family income in families that are homeless. On average, smaller families have lower incomes than do larger families. About half the families with 1-2 children have incomes of 0-10% AMI, compared with fewer than one in five families with 3-4 children. (See Attachment 3, Table B)
- Larger families have higher average incomes, but also need larger, more costly housing units. As a result, the gap between housing costs and ability to pay is usually wider for larger families than for smaller families. (See Attachment 3, Chart C)

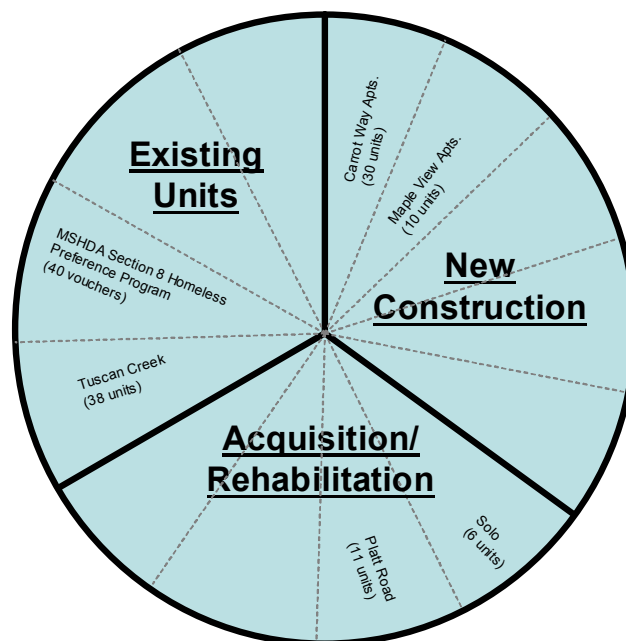
- Families usually need access to a broader array of supportive services than do single adults because homeless children have different needs than adults, and family relationships add to the complexity of the barriers to residential stability.

OPTIONS for HOUSING DEVELOPMENT

- Three strategies of housing development provide the keys to achieving the overall goal of 500 new units:
 - Existing Units
 - New Construction
 - Acquisition and Rehabilitation

Each of these tracks can involve the public, private and non-profit sectors. Existing units can be made affordable by providing rent subsidies. New construction and acquisition and rehabilitation require capital financing and generate permanently affordable housing through long-term control. Each development track has its own benefits and challenges, and the exact cost of a project within any track will depend on factors unique to that project. Each project also must include supportive services appropriate to the needs of the target population, and the cost of service delivery will vary according to project design and participant needs. The aim of supportive services, in every instance, will be to help ensure residential stability.

500 Unit Housing Mix: Opportunities for Public/Private Ventures



Estimated Costs for Housing

The exact cost of creating 500 new units of affordable housing over the next 8.5 years is impossible to know. Construction costs, market shifts and the different project models create a great many changing variables. We can, however, build our estimates from the current situation.

- New Construction, for instance, at \$160 per sq. ft. will cost \$13-16 million for every 100 units.
- Acquisition/Rehabilitation of available private sector units (assuming an average cost of \$100,000/unit) may cost close to \$10,000,000 for 100 units.
- Acquisition/Rehabilitation of distressed units to preserve affordability (assuming an average cost of \$60,000/unit) may cost closer to \$6-7 million for 100 units.
- The Fair Market Rent (FMR) for existing units in our County (e.g., \$913/month for 2-bedroom; \$1,149 for 3-bedroom) provides a guide to the affordability gap in the private sector. Existing private stock housing can become affordable either by reducing rental rates or by subsidizing rents or both. Although individual landlords may negotiate rental rates when vacancy rates are high, market shifts reduce the likelihood of permanently affordable rates for decent private stock housing. A system of rent subsidization is necessary to transform existing private stock units into permanent affordable housing. The cost of a rent subsidy system that includes vouchers for both homeless families and individuals would average \$6,000 per household annually, exclusive of administrative costs.

Estimated Costs for Services

Supportive service costs, for all 500 units, are likely to average \$5,000 per household annually. The actual services budget for a particular project will vary according to the target population—families that have multiple service recipients will tend to have higher costs than single adults, chronically homeless persons will tend to require more services than those experiencing a first episode of homelessness, mental health or substance abuse services will increase the cost of services, etc. Using an average cost per household, therefore, means that service delivery costs, like rent subsidy costs, will be unevenly distributed across programs.

Possible Sources of Revenue

Sources of revenue for supportive housing development include both traditional sources of subsidy and new opportunities for financing. The following list identifies a mix of existing and new sources of funding. Some are associated with existing, successful strategies for supportive housing development. Others represent as yet unexplored options that could spur new initiatives, such as local rent vouchers.

- Discounted rents (negotiated with private sector)

- Federal/State housing subsidy programs: HOME, CDBG, LIHTC, Section 8 and McKinney Funds
- Private philanthropic foundations
- Corporate contributions and sponsorships
- Local government funding
- Investor-driven housing development
- Community Housing Trust
- Rental Subsidy Fund—created by a voluntary fee assessed on market rental units in the County.

LOCAL VOUCHERS—A Pathway to Early Success

A local voucher program offers the possibility of producing new affordable housing units in a relatively short time. A quick initial success that includes a highly visible win-win public/private partnership can build support and momentum for the overall plan. This strategy builds partnerships by accessing units that are available in today's relatively soft rental market. Private landlords can gain an economic advantage while partnering with the public and non-profit sectors for the public good.

To that end, a local voucher program should be designed and implemented to fund projects in any of the three housing development tracks. The vouchers would include funding for both housing and services. These vouchers would cost an average of \$6,000 per year for the rent subsidies, plus an average of \$5,000 per year for the services, exclusive of the cost of administering the voucher program itself. An initial 100 unit voucher program will cost \$1.1 million per year, plus administrative expenses. Subject to the establishment of a substantial system of permanent funding, a local voucher program has the potential to account for 250 units of the total 500 unit goal.

The WHA could administer the overall voucher program, which would include such responsibilities as awarding vouchers to nonprofits, inspecting and approving housing units, monitoring service delivery and outcomes, and record keeping. The WHA could also contract with an entity that currently administers the existing federal voucher program to administer the local program.

The Committee has drafted an outline of the elements of a local program (See Attachment 4). If the BOD elects to pursue this opportunity, we recommend that the BOD appoint a committee to continue to develop this proposal.

PRESERVATION OF EXISTING HOUSING—ACQUISITION OF DISTRESSED EXISTING PROPERTIES

At the current time a number of “middle aged” multi-family rental projects are in economic distress. This situation creates a risk—the loss of existing low and moderate income resources—and an opportunity—the opportunity to acquire this housing at discounted prices

and to reprogram a portion of this housing to the goals of the Blueprint. In order to take advantage of this opportunity, there are two main needs—information about the projects that are at risk and a pool of ready capital to assist in the acquisition of these projects on an emergency basis. An outline of an approach to this housing goal is contained in Attachment 2.

CONTINUING EFFORTS—NEW CONTRUCTION AND HOUSING ACQUISTION

Along with a local voucher program, existing efforts to create new supportive housing units should be continued and expanded. MSHDA is making available as many as 40 additional Section 8 vouchers in Washtenaw County for their homeless preference initiative. Nonprofit housing developers have several supportive housing projects under development or in the pipeline. Subject to the continued availability of the resources that have made them successful to date, these initiatives will continue to produce new units. An outline of an overall approach to this housing goal can be found in Attachment 5. The outline describes, in broad terms, the proposed mix of units and the funding sources necessary to bring these units on line.

CONCLUSION

The WHA Board has identified supportive housing development as its first priority for 2006, and this plan identifies some of the next steps for creating 500 units of permanent supportive housing. Further development of several initiatives suggested here should be at the forefront of WHA efforts over the next few years. This is an ambitious set of tasks and it is critical that the WHA continue to accept responsibility to design, direct and coordinate these efforts.

In order to implement this plan, we recommend that the WHA take the following actions.

- Continue work on the development of a local voucher system. This work will include the development of a specific business plan for the program and discussions with government leaders to gain acceptance of the voucher concept.
- The voucher system envisioned here depends on major new fundraising commitments by the WHA. The WHA should confirm its capacity to undertake such an effort and also confirm that this is the highest fundraising priority for the WHA over the next several years. These efforts probably require the identification and recruitment of one or more Community Champions to lead the program development process.
- The development of the local voucher program provides an opportunity to match new, primarily private, resources with a new initiative. Existing, primarily public, resources that already are being used effectively to create successful supportive housing or to prevent the loss of existing affordable housing should remain available for those initiatives.
- The WHA should pursue efforts to improve the environment for non-profit development via New Construction and Acquisition/Rehabilitation. The WHA

also should assist with the community housing needs assessment process and encourage the development of both an inventory of moderately priced apartments and an active system of communication with owners of these projects.

Though technically outside the Committee's purview, the Committee also believes that several matters related to WHA governance will affect the success of this plan. If the WHA is to continue its leadership of local housing development efforts, then it needs to consider the following actions:

- Implement a more open membership structure and process.
- Decide whether the WHA is willing to serve as the fiduciary of an Integrated Funding system.
- If the WHA assumes such a fiduciary role, then it should review its existing conflict of interest policy and other governance issues to identify and address problems, including the concerns of local funders.
- Analyze WHA administrative capacity and plan for expansion.
- Analyze WHA Board membership needs and capacity relative to future responsibilities.

Attachment 1

500 Unit Committee Membership

The BOD of WHA appointed the first five members listed below, who were empowered to enlarge the committee and did so by adding the remaining names:

Dave Lutton*:	Committee Chair , President, Reinhart Realtors
Mitch Steils:	Executive Director, Washtenaw Housing Alliance
Del Dunbar*:	Certified Public Accountant, Dunbar and Martel, LLC
Michael Appel*:	Executive Director, Avalon Housing
Gary Bell*:	Executive Director, SOS Community Services
Bob Gillett:	Executive Director, Legal Services of South Central Michigan
Mary King:	President, Movin' On Up
Jean Carlberg:	Ann Arbor City Council Member
Leah Gunn:	Washtenaw County Commissioner
Larry Nisson:	Executive Coach, Larry D. Nisson and Associates
Stephanie Hartshorn:	Washtenaw Housing Alliance Board Fellow

**Washtenaw Housing Alliance Board Member*

Attachment 2

PREVENTION: The process of preserving existing units in our community is very complex, in part due to potentially high profits for private investors. Distressed units can be purchased and rehabilitated at significantly lower cost than can be realized by new construction. To illustrate, consider the following:

Profit Incentive for Conversion by Developers:

Cost to build 1000 sq. ft. apartment \$160/sq. ft.	\$160,000
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As compared to:

Cost to acquire existing affordable 1000 sq. ft. “under economic stress”:	\$25,000	
Renovation:	<u>+\$35,000</u>	= <u>\$60,000</u>

<i>Increase in value on conversion to market:</i>	<u>\$100,000</u>
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PREVENTION PROGRAM:

For affordable housing preservation efforts to succeed in this environment, the Housing Alliance must develop and implement a multi-faceted prevention plan. WHA must be positioned to realistically compete with investors when opportunities arise.

Prevention Plan Components must include, (but are not limited to):

- An organized strategy for communication with existing owners
- Facilitation of increased occupancy rates and eviction prevention
- Acquiring options to purchase distressed property that could be lost from affordable housing stock
- Obtaining bank standby lines of credit and/or establishing reserve funds that can be accessed quickly to protect properties that could be lost

Attachment 3

The following tables are referenced in the body of this plan and provide supplemental information that is useful in understanding the recommendations of the plan.

Table A. Provides income and rent figures for 1-5 person households at different percentages of AMI. This table shows the income and rent targets below 30% AMI that need to be met to successfully house homeless families and individuals.

Table A. Household Income and Rent Maximums by percent of Area Median Income					
	Percent of Area Median Income (AMI)				
	0%	15%	20%	25%	30%
<u>1-person household</u>					
Annual Income	\$0	\$8,655	\$11,540	\$14,425	\$17,300
Monthly Rent	\$0	\$216	\$288	\$360	\$432
<u>2-person household</u>					
Annual Income	\$0	\$9,875	\$13,180	\$16,475	\$19,750
Monthly Rent	\$0	\$247	\$329	\$411	\$494
<u>3-person household</u>					
Annual Income	\$0	\$11,125	\$14,840	\$18,550	\$22,250
Monthly Rent	\$0	\$278	\$371	\$463	\$556
<u>4-person household</u>					
Annual Income	\$0	\$12,350	\$16,480	\$20,600	\$24,700
Monthly Rent	\$0	\$308	\$412	\$515	\$618
<u>5-person household</u>					
Annual Income	\$0	\$13,350	\$17,800	\$22,250	\$26,700
Monthly Rent	\$0	\$333	\$445	\$556	\$668

Table B. Provides income distribution and rent capacity for homeless families by household size and percent of Area Median Income (AMI). Household size includes all adults and children. Income reflects the median for each group. Rent capacity equals 30% of median for each group.

Table B. Homeless Family Income and Rent Capacity by Area Median Income (AMI)			
	Percent of AMI		
	0-10 %	11-20 %	21-30 %
Percentage of 2 Person Households	75%	13%	11%
Median Monthly Income	\$321	\$620	\$1,111
Median Rent Capacity (30% of Income)	\$96	\$186	\$333
Percentage of 3-4 Person Households	27%	56%	16%
Median Monthly Income	\$450	\$904	\$1,400
Median Rent Capacity (30% of Income)	\$135	\$271	\$420
Percentage of 5+ Person Households	35%	50%	15%
Median Monthly Income	\$471	\$1,040	\$1,552
Median Rent Capacity (30% of Income)	\$141	\$312	\$466
Overall Percentage of Households	48%	38%	14%

Chart C. Provides income distribution for homeless families broken down by the number of children in each household.

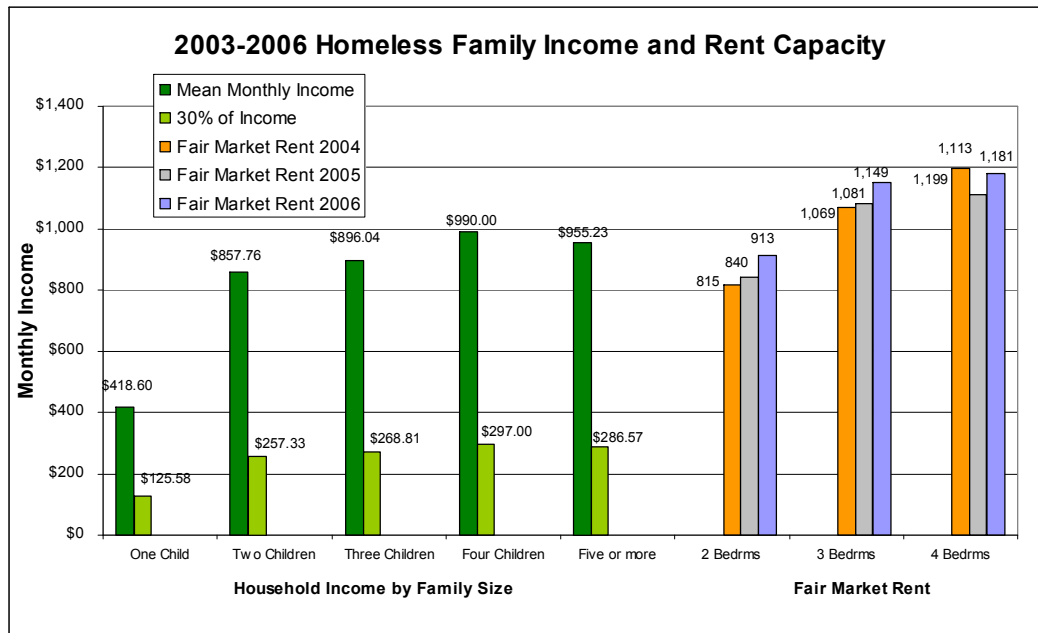


Chart C. shows the mean household income by the number of children in a family for 143 families residing in three local shelters between April 1, 2003 and March 31, 2006. The families included more than 455 individual members, of whom 312 were children under age 18. Family size is defined here by the number of minor children present without regard to the number of adults. The vast majority of families were headed by single females and the rare presence of a second adult almost never had any effect on total household income. Capacity to pay rent is defined here according to the traditional formula of 30% of household income. The distribution of families in each category was: 60 – one child, 34 – two children, 25 – three children, 11 – four children, and 13 – five or more children.

The U.S. department of Housing and Urban Development establishes Fair Market Rent (FMR) according to the number of bedrooms. FMR in this chart is for Ann Arbor and Washtenaw County and covers the years 2004 through 2006.

Attachment 4

HOUSING / SUPPORTIVE SERVICE VOUCHER PROGRAM

The Committee recommends the establishment of a local housing choice voucher program. The financial information is for a pilot program for 100 apartments which could grow to 250 units within 8½ years.

REASONS:

- Higher than normal vacancy rate now exists
- Funding would be public/private money
- New resources are brought in from the private sector
- Other programs are simply rearranging grant dollars from one non-profit entity to another
- The un-recovered cost of vacant apartments is far less than the cost of building new units
- Results are immediately achievable
- Program offers existing diversity and scattered site housing

¹*Rental Voucher Breakdown Flowchart attached*

²*Rental Voucher Structure Flowchart attached*

POSSIBLE FUNDING SOURCES - 3 YEAR COMMITMENT DESIRED

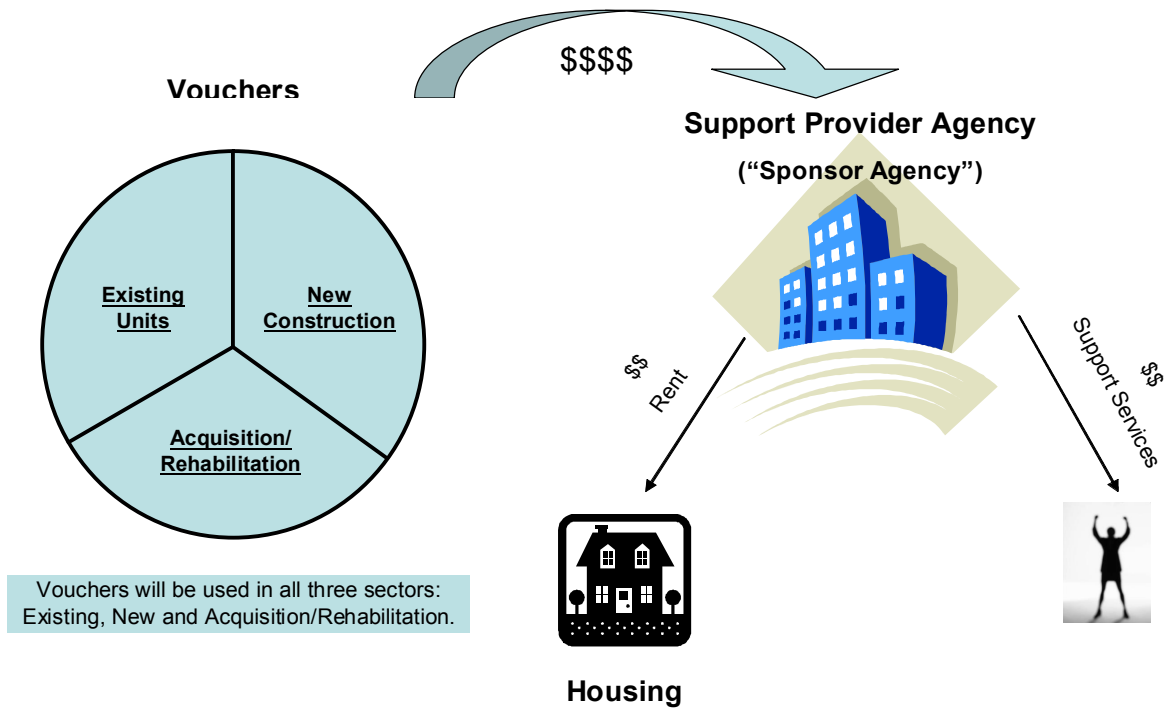
	ANNUAL COST
Apartment Owners Contributions \$10/yr*15,000 apts.	\$ 150,000
City Affordable Housing Funds	\$ 150,000
County Housing Funds	\$ 150,000
AAACF	\$ 50,000
United Way	\$ 50,000
Private Foundations 3 @ \$50,000	\$ 150,000
Corporate Sponsors 15 @ \$10,000	\$ 150,000
Individual Contributions 140 @ \$1,000	\$ 140,000
Tenant Rent Based on Income \$325 x 100 x 12	\$ 390,000
	<u>\$ 1,380,000</u>

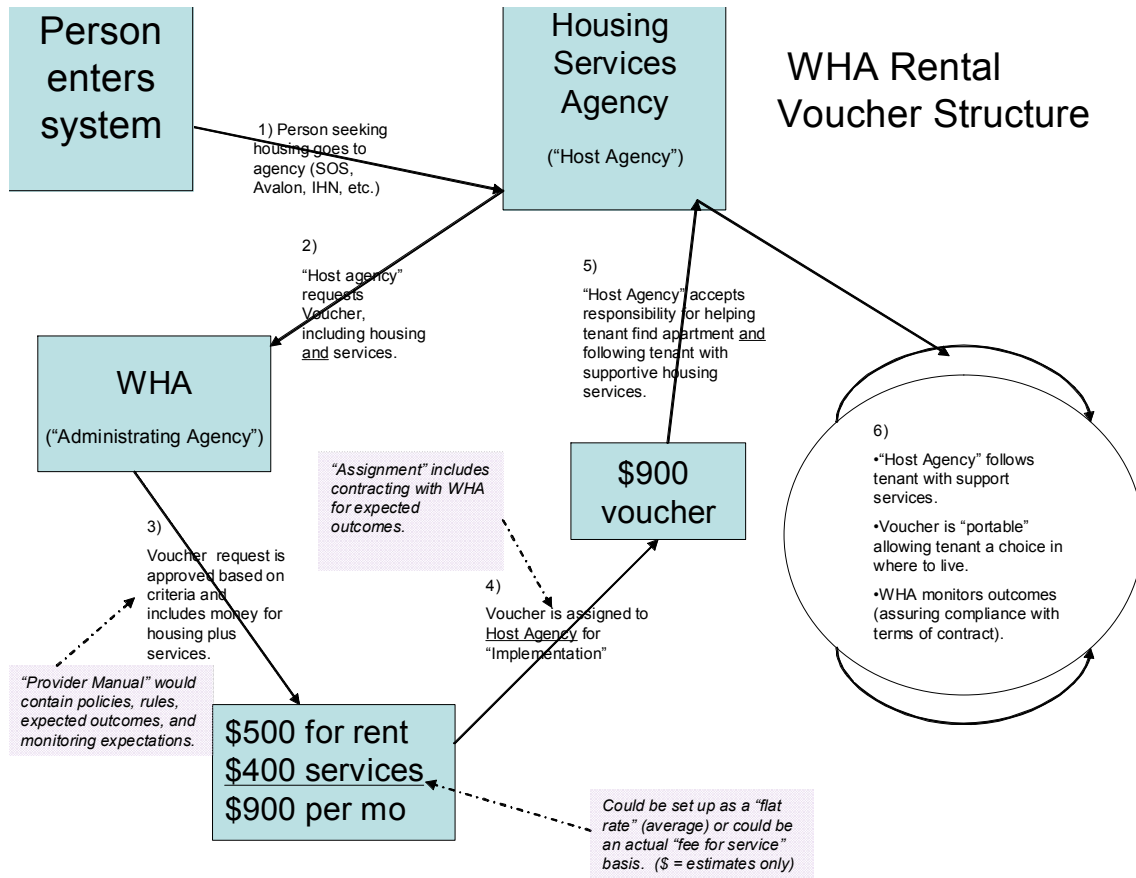
USE OF FUNDS

RENTAL	\$650/mo. * 12 mo. x 100 apartments	\$ 780,000
SUPPORT	\$500/mo. * 12 mo. x 100 apartments	<u>\$ 600,000</u>
		\$ 1,380,000

**Need to appoint community champions to develop and implement the program; one (1) from apartment owner's association and one (1) from non-profit service organization*

Rental Voucher Breakdown





Attachment 5

INITIAL PLAN FOR PROJECT BASED SUPPORTIVE HOUSING

Up to 400 supportive housing units could be added to the local housing stock through acquisition and rehabilitation or new construction. These units will be permanently affordable, with income and rent targeting assured through long-term covenants, liens and other agreements. Projects will benefit from the experience and skill of low-income housing developers and managers, both non-profit and for-profit. It should be noted that these projects both overlap and work in conjunction with the local voucher program (Attachment 4). It is our expectation that a successful voucher program will provide rent and service subsidies for both existing (scattered site, private stock) housing and for the affordable housing projects discussed in this attachment.

Despite a challenging funding environment, developments consistent with the goals of the Blueprint to End Homelessness will be competitive in securing necessary public subsidy. Supportive housing that is addressing the permanent housing needs of homeless persons has emerged as a top policy priority of critical funders, including MSHDA and HUD.

Development costs for these units are estimated using costs from other community Blueprints (including Columbus and Cleveland, OH, St. Paul/Ramsey County and the State of MN), as well as MSHDA-financed supportive housing developments in Washtenaw County and elsewhere in Michigan. Spread over the next 8-10 years, total financing for these units will be approximately \$50,000,000, with a possible distribution of financing as follows:

\$25,000,000	Private equity provided through LIHTC
\$10,000,000	Local housing funds (City of Ann Arbor housing funds—HOME, CDBG, and Housing Trust Funds; County Housing Funds—GF and Urban County funds; etc.)
\$8,000,000	HOME and other funds available through MSHDA
\$2,000,000	Private grant and philanthropic sources
\$5,000,000	Mortgage or bond financing through public, private and non-profit lenders.

A significant majority of these units will be acquisition and rehab units because of the lower cost of these units and the current availability of such units. The new construction units, while more expensive, would be created in response to specific funding opportunities—e.g., a developer who is willing to include affordable housing in a new development or a MSHDA program targeted to new construction—or to create units that are particularly difficult to acquire from the existing stock. This segment of the plan would include both individual and family housing; however, we note that existing developments have few units in sizes larger than two bedrooms.