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After the Cuts:

How a "For-Profit" Approach Is Reinvigorating Our Mission

BY STACY SPANN, EXECUTIVE DIRECTOR, HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY (MD.)

Abstract

Public housing programs are seeing their funding drastically cut as a result of sequestration. The Housing Opportunities Commission of Montgomery County (HOC) in Maryland, however, is developing a suite of innovative financing methods that include partnering with private capital, bundling bonds in new ways. The result is a "for-profit" approach that seeks to build long-term economic sustainability and growth, while still serving the

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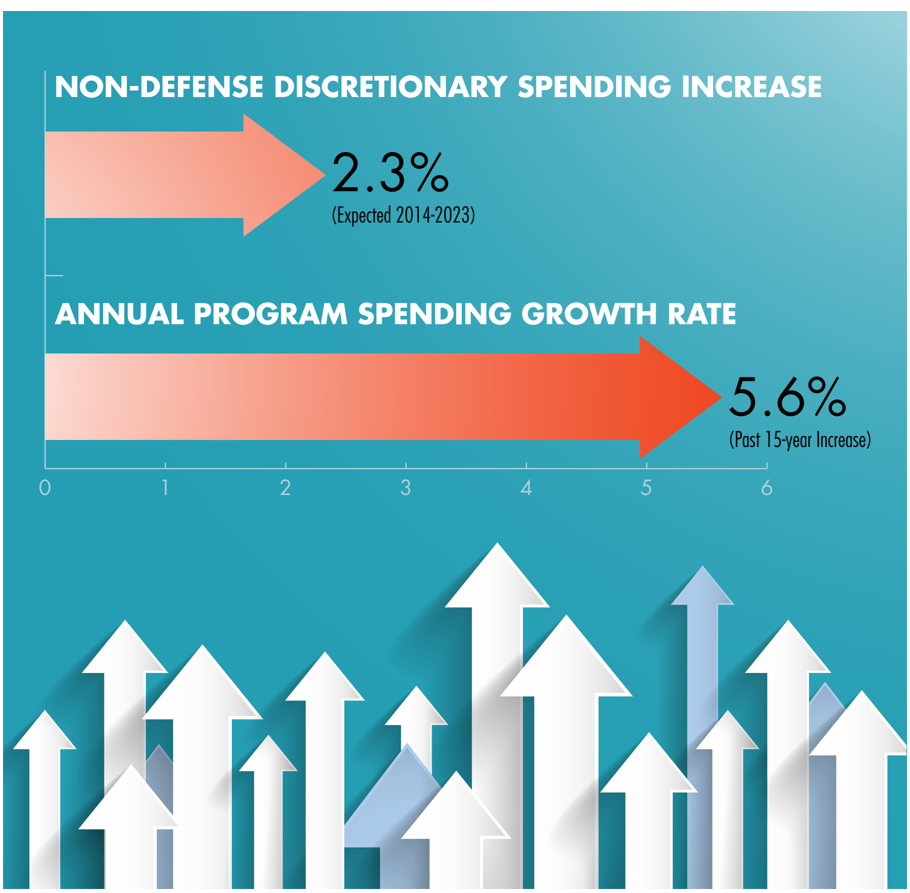
mission of ending generational poverty by providing high-quality housing to those who need it most.

Introduction

In the spring of 2013, public housing authorities (PHAs) across the country were hit with massive budget cuts as a result of sequestration, the automatic and sweeping budget cuts that resulted from the federal government being unable to pass a budget two years earlier. The Center for Budget and Policy Priorities estimates that the hit to PHAs around the country was close to $1 billion, which left many PHAs unable to release turnover vouchers, and resulted in approximately 70,000 low-income families falling off the Housing Choice Voucher program nationwide. In Maryland, where the Housing Opportunities Commission of Montgomery County is located, we've seen about 1,666 families losing their voucher, about a 4 percent reduction.[1]

While the worst of the cuts is essentially over, additional funding for non-defense discretionary spending is expected to only climb by 2.3 percent between 2014 and 2023, far below the annual spending growth rate of 5.6 percent that these programs have seen in the past 15 years.[2]

And in Montgomery County, Maryland, the HOC's jurisdiction, we face some additional challenges—and some advantages—that other jurisdictions may not face. First, our county is a suburb of our nation's capital, and many of our residents either work in high levels of the federal government, or in sectors that support the federal government. As a result, we have a higher median household income and home values than most areas; Montgomery County is, in fact, one of the wealthiest counties in the country.[3]



1 *Sequestration's Toll: 70,000 Fewer Low-Income Families Have Housing Vouchers*, Center for Budget and Policy Priorities. http://www.offthechartsblog.org/sequestrations-toll-70000-fewer-low-income-families-have-housing-vouchers/. February 26, 2014. Last accessed December 10, 2014.

2 en.wikipedia.org/wiki/Budget_sequestration_in_2013. Last accessed December 10, 2014.

3 en.wikipedia.org/wiki/List_of_highest-income_counties_in_the_United_States. Last accessed December 10, 2014.

Second, because of our proximity to Washington, D.C., our area is expected to experience massive growth over the next 15 years, both in terms of jobs in the region and the housing demand that growth is expected to create. In fact, Montgomery County is predicted to be the main center point of growth among all the Maryland suburbs that surround or feed into Washington, D.C., making up approximately half of the housing demand.[4]

Lastly—and this is key to the mission of the HOC—the percentage of households needing multi-family housing is expected to flip-flop with its current level. By 2030, analysts predict that 61 percent of housing needs will be multi-family, compared to only 33 percent today.[5] And of that demand, the percentage of renters to owners is expected to climb.

The growing pressure created by financial cutbacks as well as regional housing trends only scratches the surface. Like many PHAs, the HOC is also faced with similar issues that other jurisdictions face. That includes renewing aging properties, a long waiting list for Housing Choice Vouchers, and essentially old models of doing business.

With all these challenges facing us, how can a PHA fulfill its mission to ensure high-quality housing for those who need it most, especially without cutting corners?

Same Mission. New Approach.

Over the past two years, the HOC has taken huge strides to update our approach to serving low and moderate-income families in need of high-quality housing.

Like other PHAs across the nation, the HOC has committed itself to securing funds under the HUD's Rental Assistance Demonstration (RAD) program. Using this program, HOC can take ownership of public housing properties and HUD converts the subsidy to Project-Based Voucher funding. HOC in turn is able to tap into private equity to redevelop or rehabilitate these properties. The net result is a more secure subsidy and higher quality, energy-efficient housing for our clients.

What makes the HOC's situation unique is that, unlike many other areas of the country utilizing the RAD program, Montgomery County is *extremely* expensive. We generally have a high population density, and the market rate for land to develop new affordable housing units does not fit the common PHA model of doing business.

That means that we work to recognize and extract as much value out of our properties as possible to make them a worthy long-term investment. To do so, however, first requires that we provide a diverse set of housing opportunities for our clients. For buildings that we plan to renovate, we offer voluntary relocation options to newly renovated, HOC-owned or HOC-controlled housing. The rental assistance for all those voluntarily relocating follows those households to their new units, maintaining the existing level of deeply affordable housing stock. The resulting renovated building not only undergoes a physical transformation but also a social one in which residents of many different income levels live in the same community.

For those properties we redevelop, where the existing buildings must be fully vacated, we must provide clear value to our clients in their relocation housing. As such, the relocation opportunities are newly constructed, highly amenitized, mixed-income communities in attractive geographical locations. Again, the rental assistance for all households is transferred to the new locations keeping the stock of deeply affordable housing constant.

Because we are able to create financially sustainable properties through the redevelopment of the

4 *Housing the Region's Future Workforce: Policy Challenges for Local Jurisdictions.* Sturtevant, Lisa A., PHD. Fuller, Steven S., PHD. George Mason University Center for Regional Analysis. October 25, 2011.

v Ibid.

converted public housing properties, we are able to use the "new" value of the land on which the redevelopment will occur to subsidize the construction of the new relocation housing we've made available to our existing residents. The county's inventory of affordable housing is expanded by the inclusion of new units within the redeveloped properties.

The delivery of these new affordable units within a financially sustainable asset allows us to partner with private capital providers like banks, tax credit investors, and private equity partners. We are also able to team up with the private market of builders and developers to ensure the new communities are well built and well designed. Throughout the renovation, repositioning, and redevelopment of our public housing portfolio, HOC maintains control of all renovated and newly constructed units. Our strategy does not rely on the sale of land or improvements, but rather secures recapitalization through redevelopment of the disposed-of former public housing assets.

The end result is more of a "for-profit" approach to public housing that ensures that all our properties will be self-sustaining over time. Just like in the commercial world, we're proud to share that most of our properties are funded at 120 percent of their budget, giving us a more robust buffer and long-term viability. It's a triple win: HOC clients receive a high-quality place to live, our commercial partners get a profitable investment and the HOC is financially stable.

With federal funding uncertain at best, HOC must increasingly rely on the development of mixed-income properties to generate new affordable properties. In the high-rent, high-demand submarkets of Montgomery County, market-rate rents are well above (and sometimes double) even top-tier LIHTC rents. Well-located, well-conceived and well-built housing that includes even deeply affordable units still appeals to renters of all incomes. Thus, the presence of market-rate units in mixed-income properties provide the needed revenue to not only support the below market-rate units, but also give the HOC the cash flow to ensure properties are properly maintained and upgraded when needed. The old approaches and solutions are no longer viable options in our current operating environment. To that end, we are regularly revisiting our portfolio and assessing our opportunities for redevelopment.

More than Just Finances

It takes more than creative financing to improve the performance of a housing authority. It takes a change in attitude. Over the past two years, we've not only updated our business model, but we've also become a more business-savvy organization. We need to be both nimble and smart as an organization in order to achieve a satisfying result.

HOC has reimagined the paradigm for service delivery to its clients by re-distributing staff resources across the entire county (a sprawling 507 square miles), meeting clients and providing needed services where the clients are, not just in our central office. Instead of operating in one or two locations in Montgomery County, HOC has opened 10 Housing Unit Based (HUB) offices to ensure that the vast majority of clients have a local HOC office close to their home. Clients are now able to sign leases, complete paperwork and submit maintenance requests in a far more convenient way. Moving resources closer to clients has generated multiple other benefits including a reduction in maintenance response times, as well as savings in fuel consumption across the agency's entire fleet of vehicles by positioning them closer to those we serve.

We need to be both nimble and smart as an organization in order to achieve a satisfying result.

In addition to the change in service delivery, the HOC's real estate team has reinvented itself as an aggressive, opportunistic team that identifies and capitalizes on market opportunities, making full use of the many tools at our disposal. Real estate acquisition and development is the financial engine of the HOC, and by becoming a stronger player in the field, we are in a better position to succeed in the face of funding shortages and varying market conditions.

This new attitude has helped us develop new programs around initiatives you normally wouldn't think of a PHA taking. A great example of this is our collaborative relationship with Montgomery College (MC) that will result in more consistent delivery of education and workforce development training to our clients. Through the collaboration, we will utilize the college's assessment tools to ascertain how we can better serve our Family Self-Sufficiency participants by determining their educational needs and then referring them to appropriate classes. We are actively partnering with the college to provide pre-GED and GED classes, as well as classes in workplace preparedness, and a wide range of other vocational training programs. We will also co-market and co-promote many programs offered by the college but underutilized by HOC clients.

Conclusion

Putting all the numbers, staff and program development into place is more than just a few shots in the dark. It's a strategic repositioning of the agency. Our region desperately needs more housing for those in need. And we can really only achieve that by being a more secure agency that is less susceptible to the volatility of government funding. Public housing, in its current form and given competing demands for federal funding, is likely not sustainable in the long term. The possibility exists that the program will transition to project-based voucher funding because it is far cheaper to simply provide rental assistance than it is to address the capital needs of the rapidly aging Public Housing multifamily buildings. HOC and our clients cannot afford to be caught unprepared for such a scenario. And, ultimately, it doesn't serve our mission to be fully reliant on federal funding. Because our mission isn't just about providing high-quality housing; it's about ending generational poverty. ■