Housing Production Trust Fund Advisory Board

5.5.2014

Approved and Signed Meeting Highlights

GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOUSING PRODUCTION TRUST FUND ADVISORY BOARD

Meeting Highlights

(For more details, see Transcript)
Monday, May 5, 2014
DC Department of Housing and Community Development (DHCD), Housing Resource Center

Board Members Present: David Bowers, Chairman; Stanley Jackson; Jim Knight; Sue Marshall; Oramenta Newsome (by teleconference); Jacqueline Prior; and Michael Kelly, Director of the DC Department of Housing and Community Development (DHCD), *ex officio*. Absent: M. Craig Pascal, Bob Pohlman, and David Roodberg.

See ***Attachment (1)*** for copy of Sign-in Sheet.

Agenda Items and Actions Taken:

See ***Attachment (2)*** for copy of the Meeting Agenda.

1. Call to Order and Quorum:
   Meeting was called to order by David Bowers, Chairman, at 10:06 A.M., and a quorum was established.

2. Update on Meeting Summaries: The Board deferred consideration of prior meeting summaries to the June meeting.

3. Update on Leverage Working Group
   Chairman Bowers advised that Bill Batko, who was scheduled to provide an update, was unable to attend the meeting. Director Kelly and Nathan Simms, Deputy Director, DHCD, provided a summary of the April Leverage Working Group discussion:

   A. *Credit Enhancement & Capital Acquisition Fund*: DHCD staff met with some local lenders to discuss options presented to the HPTF Advisory Board regarding credit enhancement and establishment of a capital acquisition fund:

      1) Both concepts would use the HPTF dollars as the backbone to mitigate the risk for the private sector lender side, so that lower interest rates could be provided and increased loan to value (LTV) opportunities, especially for projects East of the River. The next follow-up meeting is scheduled for May 14th at DHCD to review more details of how the concepts would work and to assess other jurisdictional models as examples.
      2) The group discussed the importance of including the philanthropic community, and ways to raise pre-development/"getting started" funding.

3) DHCD is considering a bifurcated strategy: (i) if there is a credit enhancement partner in a position to partner with DHCD, the agency will begin negotiations now; and (ii) while considering the establishment of a larger capital acquisition fund. It is hoped that the capital acquisition fund can be established over the summer for activation October 1st (the beginning of the fiscal year).

B. *Board Member Questions re Leveraging Group Meetings*: Mr. Kelly and Mr. Simms provided the following comments and responses to Board Member questions:

1) *Inclusion of practitioners/developer.* One Board Member requested that there be a subset of the lending group that includes practitioners or developers, so that the product established would meet the needs of all, as opposed to some. The Director indicated he has discussed with Board Member Poulman the inclusion of members of the Coalition for Nonprofit Housing and Economic Development (CNHED). Chairman Bowers suggested that the invitation list for the April Stakeholder meeting could also be used to share plans for the proposed new acquisition fund and as a follow-up to last month's meeting and recommendations. The Chairman indicated that this invitation list included a mix of some non-profit developers as well as some mission minded for-profit developers.

2) *Inclusion of TOPA projects.* Another question raised was whether the capital acquisition fund would cover TOPA (Tenant Opportunity to Purchase), which is a very different transaction with different parties. Mr. Simms indicated that other jurisdictional models include all types of transactions, and that the agency is working to enhance tenant deals to better compete. Several Board Members expressed concern about a "one-size fits all" underwriting criteria, where tenant groups in the acquisition model were not going to have any capacity beyond the property itself, so that the risk profile is different in the financing vs. an owner with a "big balance sheet". Mr. Simms did not see this difference in the underwriting criteria, but more so in the requirements for consideration of the initial proposal.

3) *Subset of SAFI.* Agency representatives advised that at the fund-level view vs. the practitioner–level view, the capital acquisition fund would be a subset of the present DHCD SAFI program.

4) *Mindful of HPTF statutory funding requirements.* HPTF Chairman Bowers reminded the Board that it must be mindful of the HPTF Fund requirements to fund within the percentages for the designated income bands of the statute.

4. Presentation/Discussion Item: Options for Leveraging HPTF Dollars for Affordable Housing: Prior to introducing the presenters, Chairman Bowers reminded the Board of its charge to review how HPTF funds, the city's money, should be leveraged to meet the goals of the 2012 Comprehensive Housing Strategy Task Force to produce or preserve 10,000 net new units by 2020, or the "10x20" goals, and to preserve 8,000 expiring units as well. The presenters today are one of several different speakers to examine different options for leveraging the HPTF Fund.

A. *Presentation by: Bryan Dickson and Mark Dean from Citi Community Capital.* Mr. Dickson is with Citi Community Capital's Mid-Atlantic Office, which is primarily responsible for debt production in the affordable housing area. Mr. Dickson is also a member of the Leverage Working Group. Mr. Mark Dean is the National Head of Production with Citi Group and Citi Community Capital. See *Attachment (3)* for a copy of the PowerPoint used to guide the discussion. It is entitled, "Leveraging the Housing Production Trust Fund".

B. *Presentation and Power Point were divided into 12 sections.* The presenters indicated that their goal was to discuss how to leverage the Trust Fund to the greatest extent possible to achieve what are the stated objectives of the Fund:

- *Objectives for the HPTF*: (a) to reach 10,000 affordable housing units by 2020 & preserve 8,000 units; and to meet the statutory parameters/objectives for annual AMI % use of the Fund dollars. Presenters raised the question, how would a fund guaranty be captured in fulfilling the following objectives: (1) preservation of affordability; (2) stabilization and revitalization of neighborhoods; and (3) other policy objectives to be considered: maximizing the use of "other peoples' s money" (O.P.M.), maximizing LIHTC credit value; and "maximizing the value of the resource", by recycling Trust Fund monies back into new projects as quickly as possible (some dollars go out for 40 years and never come back – there is a need to improve velocity of the return).
- *Forms of Capital: (*a) Economic/financial capital (money); (b) intellectual capital (what is needed to achieve these goals from stakeholders and participants, i.e., developer or organizational capacity); (c) political capital; (d) social/community capital; and (e) emotional capital.
- *Factors Regulating Capital*: (a) scarcity of resources but unlimited wants; (b) subjectivity of the value of resource providers (funder likes and dislikes, expectations, CRA requirements); (c) inequality in the distribution and control of resources; (d) competition to level the playing field, cheaper money; (e) imperfection in the ability to fix all problems; (f) ignorance of information surrounding resources—the need to market your resources and what you do; and (g) complexity of intended and unintended actions and consequences in funding affordable housing deals ("you should stop when your layers of capital exceed the number of floors in a building").
- *Behavior of Capital:* (a) capital is allocated by a rational process; (b) capital has monetary and opportunity costs; (c) capital is deployed to derive benefits, both monetary and for its utility; (d) incentives are deployed to obtain capital; (e) marginal analysis is used to deploy present capital or next opportunity; (f) and relative analysis, comparing present opportunity with others and rationing capital to unlimited opportunities. Look at the accounting options of proposals and the more the deals are familiar, the easier for a funder to accept.
- *Mapping Capital in Affordable Housing:* includes levels of affordability and resources, i.e., many resources vs. fewer resources and deep affordability vs. market rate. Capital resources to consider included: 9% LIHTC, PHA, Sec 8 for Seniors, Sec. 8 for family/LIHTC, 501(c)(3) housing, mixed income – 4% LIHTC, 80/20 transactions, naturally affordable, land loans, pre-development loans. See page 7 of PowerPoint. The most deeply affordable transaction is the 9% tax credit which has the most resources

available, while a naturally affordable project is subject to DC Rent Control. It is suggested that the Board assess where capital is lacking and where capital is needed.

- *Approaches to Leveraging HPTF to Meet DC's Need for Affordable Housing*: (a) Loan guarantees; (b) debt service guarantees; (c) acquisition loan fund (or guarantee thereof), for example, the DHCD SAFI program; (d) bridge loans/warehousing or very short term financing (whereby DHCD provides a bridge loan in the context of a LIHTC transaction to increase yield and bring more dollars into a 9% tax credit project); (e) mezzanine/subordinate debt (traditional gap financing); (f) land acquisition (to lease for affordable rental or for-sale development projects); and (g) securitization of DC Deed Tax commitment. In general, there is the issue of getting adequate security during pre-development acquisition and construction phase loans. Smaller entities or non-profits have a more difficult time. Fundamentally, partnering smaller entities with larger entities makes sense; and Mr. Kelly highly recommended marketing to bring groups together to help solve any underwriting issues. Further, in general, bankers want to control underwriting and assist in developing the underwriting criteria. From experience across the country with various funds, the Presenter cautioned that if an acquisition program is developed, make sure there is a pipeline to start taking advantage of the program right away or the pipeline needs to be developed while the program is being formulated.
- *Case-Study – Multifamily Affordable Housing Preservation Transaction*: Private developer to acquire 225 units in DC: Use of funds-- Total acquisition costs of \$35.7M + \$1M soft costs=\$36.7M; Sources of funds-- Permanent loan of \$25.8M, HPTF soft subordinate debt of \$7M and equity of \$3.9M = \$36.7M. HPTF sub debt would be structured as 40-yr term/amortized, 1% interest, and principal & interest payments due from origination date. Several alternatives were proposed to free up the HPTF subordinate debt, such as a HPTF loan guarantee or a debt service guaranty.
- *Fund Award Process Considerations*: (a) density bonuses for development around metro transit facilities and use of TIF Districts to help capture new proceeds and then dedicate to affordable housing; (b) benefits for creating of home ownership for specified groups, e.g., workforce housing, and providing funding specifically to accomplish this objective, e.g., DHCD land leases or lease to own programs, with resale restrictions or shared equity; and (c) award bonuses for services designed to impact demand for affordable housing, such as: adult skills training facilities; after-school facilities; or other programs to improve earnings potential for adults and/or children.
- *Acquisition fund structuring and underwriting discussion highlights*:
    - HPTF funds must support higher leverage;
    - Underwriting issues include providing adequate security during predevelopment and during acquisition and construction phases; and underwriting smaller non-profits differently;
    - Banks want control of underwriting and want to assist in developing underwriting criteria;
    - Lender participation in ground floor/initial project funding discussions with selected applicants (important to Citi); and
    - Necessity for a pipeline of projects – program must have scale to provide economics to all parties.
    - *Other comments regarding the DC HPTF*:

- The commitment of deed taxes and other resources provides significant resources to meet affordable housing needs in DC.
- A guarantee program and acquisition loan program are great starts.
- Need to focus on both supply and demand side components.
- Coordination with the construction industry, planning, and social services can produce additional leverage for Trust Fund monies.
- No "silver bullet" solution, all approaches deserve consideration.

The Presenters were thanked for their willingness to come and share their recommendations and the Chair advised that this information would be shared with Board Members who were absent. Further, the Board would consider the above recommendations at the June monthly meeting.

C. *Questions Raised by Board Members Regarding the Presentation Recommendations*:

1) *As it relates to new investment, how do bankers view historical factors where certain areas of the city have historically received limited sustained investments for a period of time, and areas that possess high levels of social dysfunctional activities. e.g., limited education?* Response from a Presenter was that for a banker, the banker's perception is its reality. Thus, you must change the perception and provide new information to convince and educate the banker about the good opportunities or end game for capital investment. Use field trips to present information and proposed plans for new projects.

2) *How many 9% and 4% LIHTC loans does DHCD complete in a typical year?* Mr. Simms responded that approximately three or four 9% projects are funded annually; whereas 4% LIHTCs are more common. These represent 30-40% of most deals.

3) *Under O.P.M., what might provide an opportunity to leverage private capital the most?* Presenter indicated the need for acquisition financing to bridge some time until permanent financing is in place and to respond quickly to an opportunity. Loan guarantees require that a private lender meet a LTV (loan to value) ratio that breaks even with debt service coverage. Local funds could be used as a subordinate loan to buy down capital to acceptable levels to bring the private sector in. Having all the stakeholders to discuss what is needed and what would be acceptable from an accounting standpoint is very important.

4) *Should a SAFI hybrid be considered for leveraging HPTF dollars, where banks would provide between 70 to 75% LTV ratio in first lien place, with intermediaries splitting a second lien place with HPTF (second debt or mezz debt)?* In such scenarios, less HPTF dollars would be invested. This assumes, unlike SAFI, that intermediaries would be comfortable with a second lien position, as opposed to first lien position, and that intermediaries would only funds projects involving less than $7M. In this instance, the HPTF dollars would serve as a credit enhancement for intermediaries. Larger projects would require deeper bank

financing. Presenters indicated that this scenario has been used in other places across the country. Banks are looking for the maximum amount of leverage for a project, with up to 80% LTV. The second acts like equity that can be foreclosed on if necessary. Still the project must show debt service coverage. Mr. Simms indicated that with SAFI, the Department is concerned that the private lending side be incentivized to participate and that the Fund dollars be recycled, i.e., repaid and re-circulated to reinvest more quickly.

5) *Is it workable or practicable to consider setting aside from $5M to $20M for securitization for the kinds of predevelopment acquisition needs presented or on the permanent debt side?* Another Board Member cautioned that any kind of securitization or additional debt impacts the District's loan cap, making this structure programmatic. Presently, the securitization for New Communities debt is being switched, so the HPTF $8M in debt service will be paid from the capital fund.

6) *Is the government running the numbers to consider the trade-off between securitized money or originated funds, i.e., what it costs versus what it produces?* Mr. Simms advised that the analysis has not been performed as yet.

7) *Would loan guarantees have value for a credit lender?* Presenter advised that a guarantee would get you to the same point as a subordinate loan, but may require for lenders special accounting/treatment by regulators. This structure would need to be vetted with regulators sooner than later.

8) *Is there a difference/impact to the District between $1 mezz debt vs. $1 set aside for a guarantee?* Mr. Simms opined that mezz loans are already permitted, whereas if DHCD were to provide a guarantee for a project, that would be different. However, he indicated the District would be looking for whatever would best leverage and recycle District dollars. The Presenter advised that as the Board considers alternatives, a subordinated loan is with the government's money and would be on the government's terms whereas a guarantee would be on the lender's terms.

9) *In large scale projects where you can reduce your energy costs from 30-40 percent, how do lenders address/underwrite debt service savings from the use of energy credits?* The Presenter indicated in those deals that involved energy savings, when the savings has been factored in, there is the issue of resizing the deal, if the energy savings do not come to fruition. With a well-healed sponsor, some sort of loan resizing guarantee is provided. A Board Member indicated that groups like Enterprise and others, who care about green and sustainability, are working with Fannie Mae and Freddie Mac to come up with industry standards, such as, Fannie's Green Refi Plus Program. There are pilot initiatives in New York and other places.

D. *Other issues identified by the Board for consideration*:

1) *Subsidizing the higher costs of units around transit hubs*. For projects around transit hubs, the per-unit costs are much higher. To reach the HPTF's statutory goals benefiting low-income populations, the public and private sector must consider the high cost and high subsidy of preserving affordable units for residents who are very low-income in gentrified neighborhoods, as opposed to the costs in a typical neighborhood where housing is more affordable.

2) *Homeownership opportunity in gentrifying areas*. With regard to homeownership, the cost of housing has escalated such that "naturally affordable" homeownership housing, not subsidized, has been completely lost, and is not coming back. A home purchased a few years ago, on a salary of $45,000, for $120,000 to $160,000 in an area that included a naturally affordable row house is now selling for $860,000, making homeownership unaffordable to those on start-up incomes. The question raised is whether there should be an "intention" to create affordable housing and keep it somehow as affordable for a generation?

5. <u>Legislative Updates on Budget and Pending Legislation</u>

A. *DHCD Proposed FY 2015 and FY 2014 Supplemental Budget Updates*. Ms. Beatrix Fields, Senior Legislative Specialist, and Andree Chan-Mann, the Agency Fiscal Officer/Office of the Chief Financial Officer, provided brief highlights on DHCD's budgets and provided copies of the Mayor's FY 2015 Budget for DHCD (DBO) and HPTF (UZO). Ms. Fields advised that the DBO budget represents DHCD's operating budget; and the UZO budget shows that the HPTF was changed from a "Special Purpose Revenue Fund" to an "Enterprise Fund", one of the objectives of the Board in its communications with the Mayor. Chairman Bowers thanked Board member Poulman for his efforts in preparing the letter of request from the Board to the Mayor for this change in fund type. Mr. Poulman indicated that he had talked with the agency AFO and that the Enterprise Fund was a more workable system to eliminate the problems that had resulted from obligating and de-obligating funds at the change in fiscal years. Ms. Chan-Mann agreed that from a budgetary standpoint, the process has been streamlined, and there is no need to request budget authority to spend prior year fund balances, i.e., non-lapsing funds as of FY 2014. In response to questions, Ms. Chan-Mann indicated that the dedicated sources of revenue for the Fund are the deed and transfer taxes and those projections for these proceeds are certified revenue that has been conservatively estimated as compared to the actual revenue received in the past few years. Several of the proposed provisions of the FY 2015 Budget Support Act were highlighted regarding changes to the collection of deed recordation and transfer taxes and the amount dedicated to the HPTF.

B. *Errata for FY 2014 Revised and FY 2015 Proposed Budgets*: Director Kelly noted that the agency has requested through the Mayor an errata to clarify and "right size" the projected budgets for the Lead Safe Washington and Single Family Residential Rehabilitation programs. These budgets were originally prepared with the thought that the HPTF would only receive one large infusion of funds (Mayor's $100M Affordable

Housing Initiative) and funds were allocated for these two programs over several years. Now, the agency is proposing to show the actual projected annual budgets for these programs, with the remaining funds going back to the HPTF for development finance and the Property Acquisition and Disposition Division (PADD) programs. Mr. Kelly advised that the agency is enhancing the PADD program as a sister tool to development finance, through the disposition of available land for affordable housing. Mr. Simms is scheduled to meet with developers and others to discuss the proposed solicitations of 63 parcels for targeted housing related development. The proceeds from these sales will go back into the PADD programs for future acquisitions. The focus of these dispositions is for a productive use of vacant and abandoned properties or weirdly shaped parcels.

C. *Pending HPTF legislation*. In addition, the Board was provided with copies of five pieces of legislation related to affordability and the HPTF, which are the subject of public hearings, scheduled for May 29, 2014, before the Committee on Economic Development, the Honorable Muriel Bowser, Chairman (See *Attachment (4)*). Two of the five pieces of legislation would impact the HPTF directly. Board Members were urged to provide comments on any pending legislation of interest. The Chairman asked DHCD to provide the Board with any thoughts the agency may have regarding comments on or impacts of the legislation at least a week before the hearing. A Board Member asked what if a Board member testifies on behalf of his/her day job and that testimony differs from the Mayor, is there any general guidance on how a member should respond. Ms. Fields advised that the agency, through the Mayor, will have its opinion, and that opinion will not come to the Board for approval. With reference to a member's day job – organization, it is that organization's opinion; and the agency values that opinion and the citizens the organization represents.

6. Review of Notes/Recommendations from April 7, 2014 HPTF Advisory Board Stakeholder Meeting. This matter was deferred to the June Meeting.

7. Old Business:

A. *Update on FY2014 NOFA:* Mr. Simms advised that under the two-tier review process, the Tier-One review closed on Friday, May 2, 2014. DHCD received eight (8) applications for a total number of 837 units. The total development costs for these applications were $219,991,230, with a request from the HPTF for $42.8 million, and just under $3.1 million for 9% LIHTCs.

B. *Role of Philanthropy in leveraging funds*. As one follow-up to the April Stakeholder discussions, Chairman Bowers asked members and DHCD to consider how to leverage philanthropic money, both local and national, in ways that they have not been engaged before. A Board Member raised concerns as to whether private foundations have been asked to assist in developing affordable housing and was not sure these organizations would be willing to participate. Specifically for private foundations, the Board Member advised that it requires an understanding of the accounting specifics for private foundations. Chairman Bowers asked that foundations be included in leverage talks. Another Board Member suggested that there may be some activities that the government would not do, that foundations might. One example provided is the need for non-profit "capacity building", where smaller developers have the expertise and commitment, but do not necessarily have "big balance sheets". In partnering, perhaps, there may be a way for foundations to potentially lend their balance sheets. It was suggested that philanthropy be advised of what is needed by developers or what other capital is needed that may stretch monies further or in different ways. The Chair stressed the need to continue to get all the stakeholders in the same room to share ideas and concerns.

8. New Business:

A. *DHCD Project Pipeline Report:* Director Kelly updated the Board on the launching of the DHCD online dashboard, a public tool that provides transparency and project accountability in real-time information on the status of pending projects; including project location, developer info, number of affordable units, funding sources and dollar amounts involved.

C. *Discussion of Next Meeting Agenda:* The next meeting is scheduled for Monday, June 2, 2014, from 10:00 am to 12 Noon, at DHCD. Requested agenda items included:

1) Chairman Bowers indicated that he would email the Report from the April Stakeholder meeting, prepared by the Facilitator Marisa Gaither, Green Door Advisors, to the Board Members and asked that they review the recommendations for consideration at the June meeting, along with the recommendations provided by Citi presenters.
2) As a follow-up to the Tier-One application discussion, the Chairman requested an update on the projects in the pipeline, using the prior pipeline spreadsheet information. Also provide the same spreadsheet information for the Tier One Applications, side by side with the existing pipeline.
3) Director Kelly was asked to provide a summary of the May 14th Leverage Working Group meeting, as well as the Department's thoughts about sharing information with the development community and how to leverage local and national philanthropic dollars. The Chair asked that there be a summary of the leverage working group discussions at each meeting.
4) Meeting minutes from the April meeting, including recommendations from stakeholders.

9. Public Comments. The members of the public in the audience were invited to provide comments. There were no comments.

10. Announcements.
Board members received a copy of a "Save the Date Notice" for the **2014 Sixth Annual DC Housing Expo and Home Show**, Saturday, June 21, 2014, from 10:00 AM to 3:00 PM, at the Washington Convention Center. "*Welcome: Potential homeowners, renters, homeowners, landlords.*" For more information, please contact (202) 442-7200, or visit website: dhcd.dc.gov.

11. Adjournment: 12:16 P.M.

Attachments: (Handouts or PowerPoint Slides)

- *Attachment (1):* Copy of Sign-In Sheet.
- *Attachment (2):* Agenda, dated 5.5.14.
- *Attachment (3):* Copy of PowerPoint, entitled, "Leveraging the Housing Production Trust Fund", dated May 5, 2014, by Citi Community Capital, marked *Strictly Private & Confidential*.
- *Attachment (4):* "Upcoming Affordable Housing Hearings", a listing of pending legislation the subject of public hearings on Thursday, May 29, 2014.

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Submitted By: Beatrix Fields, Senior Legislative Specialist, DHCD
(Any corrections should be forward to Beatrix.fields@dc.gov)

**The audio recording of this meeting may be heard by contacting Pamela Hillsman, Senior Community Resource Specialist, at Pamela.hillsman@dc.gov or calling (202) 442-7200.

Approval of Meeting Highlights. *The Board unanimously approved these Meeting Highlights at its September 8, 2014 meeting, with leave for the staff to make any technical amendments. After review by the Chairman, the final Meeting Highlights shall be posted on the DHCD website.*

Final Approval: ______________ **(David Bowers, Chairman)**

9/8/2014 **(Date)**

HPTF Advisory Board Meeting Sign-in Sheet 5.5.2014

ATTACHMENT (1)

Government of the District of Columbia

Housing Production Trust Fund Advisory Board

Monday, May 5, 2014; 10:00 A.M.

Location: DHCD, Housing Resource Center
1800 Martin Luther King, Jr., Ave., SE, Washington, DC 20020

SIGN-IN SHEET

NAME & TITLE	ORGANIZATION
1. JACQUELINE PRIOR	Cafritz Foundation
2. Jen Metcalf	Olender Reporting
3. Linda Metcalf	" " "
4. Bryan Dickson	Citi
5. Mark Dean	Citi
6. Sue Marshall	TCP
7. Bob Pohlman	
8. David Bowers	ECP
9. Jim Knight	JubileeHsg

	NAME & TITLE	ORGANIZATION
10.	[illegible]	DHCD
11.	[illegible] ACDC	AEDC
12.	[illegible]	LISC
13.	[illegible]	[illegible] / DHCD
14.	[illegible] Williams	
15.	Michael Kelly	Director, DHCD
16.	Milton Bailey	DHCD
17.	Beatrix Fields	DHCD
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ATTACHMENT (2)

Government of the District of Columbia

Housing Production Trust Fund Advisory Board

Monday, May 5, 2014; 10:00 A.M.

Location: DHCD, Housing Resource Center
1800 Martin Luther King, Jr., Ave., SE, Washington, DC 20020

Meeting Agenda

1. Call to Order & Establish Quorum: David Bowers, Chairman

2. Update on Meeting Summaries

3. Update on Leveraging Working Group

4. Presentation/Discussion Item: Options for Leveraging HPTF Dollars for Affordable Housing:
   - *Presenters:* Bryan Dickson and Mark Dean, Citi Community Capital

5. DHCD Proposed FY 2015 and FY 2014 Supplemental Budget Updates

6. Review of Notes/Recommendations from April 7, 2014 HPTF Advisory Board Stakeholder Meeting

7. Old Business

8. New Business

9. Announcements

10. Public Comments

11. Adjournment

As of 5.2.14

HPTF Advisory Board Meeting Citi Presentation: Leveraging the HPTF 5.5 2014

ATTACHMENT (3)

Leveraging the Housing Production Trust Fund

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Introductions

- **Mark Dean, Managing Director** - almost 30 years experience (17 years with Citi) in public finance, municipal structured products, and community development, including affordable housing as both a lender and investor. Citi Community Capital's Head of Project Finance.

- **Bryan Dickson, Director** - 18 years multifamily affordable housing finance experience including debt production, asset management and underwriting. Responsible for production in Mid-Atlantic office.

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Objectives of the Housing Production Trust Fund

- **10,000 affordable housing units by 2020**

- **Legislative parameters (objectives) for annual use of the Fund**
  - In each fiscal year, funds shall be awarded from the Housing Production Component and the Special Financial Products component so that, in aggregate:

    (a) At least forty percent (40%) of the funds awarded in the fiscal year shall benefit extremely low-income households;

    (b) At least forty percent (40%) of the funds awarded in the fiscal year shall benefit very low income households; and

    (c) At least fifty percent (50%) of the funds awarded in the fiscal year shall be for the development or rehabilitation of rental housing

  - Funds snall be allocated so that, in a given year, no more than 25 percent of the Fund may be allocated to the Special Financial Products Component, which includes:

    Loans or grants to provide on-site child development facilities financed, assisted or constructed as a result of a linked development program approved by the D.C. Zoning Commission

  - **Query: How would fund guaranty's be captured in fulfilling this obligation?**

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Objectives of the Housing Production Trust Fund

- **Preservation of affordability**
- **Stabilize and revitalize neighborhoods**
- **Suggested additional policy objectives**
  - Maximize use of “other people’s money”
  - Maximize LIHTC credit value
  - Maximize value of the resource by recycling Trust Fund monies back into new projects as quickly as possible

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Forms of Capital

- Economic / Financial Capital
- Intellectual Capital
- Political Capital
- Social / Community Capital
- Emotional Capital

Factors Regulating Capital

Scarcity	Subjectivity	Inequality	Competition	Imperfection	Ignorance	Complexity
• Society has unlimited wants and needs	• Value of resources is subjective	• Resources are not equally distributed	• Competition is good	• Society can fix some problems, but not all	• Information is a scare good	• Society is extremely complex
• Society has limited resources	• Likes and dislikes impact the price of resources	• Inequality results from controllable factors	• Lack of Competition is bad	• Seeking perfection form an imperfect world is frustrating	• Nobody knows everything	• Every action has several effects
• Resources must be allocated	• Resources are priced are value based upon subjective values of their owners	• Inequality results non-controllable factors	• Levels the playing field		• Everybody is ignorant about something	• Both intended and unintended effects
					• Provider of Resources generally have more information than consumers	

Behavior of Capital

Rational Choices	Capital has costs	Benefits	Incentives	Marginal Analysis	Relative Analysis
• Capital is allocated by a rational process • Understanding the process facilitates allocation	• Monetary Costs • Opportunity Costs	• Capital is deployed to derive benefits • Monetary Benefits • Utility or Happiness	• Capital is deployed for incentives • Rewards are positive • Punishments are negative	• Capital is deployed on Marginal Analysis • The "Next" opportunity • The past is less relevant	• Capital is deployed on Relative Analysis • Compare this opportunity to others • Relative Analysis addresses scarcity of capital

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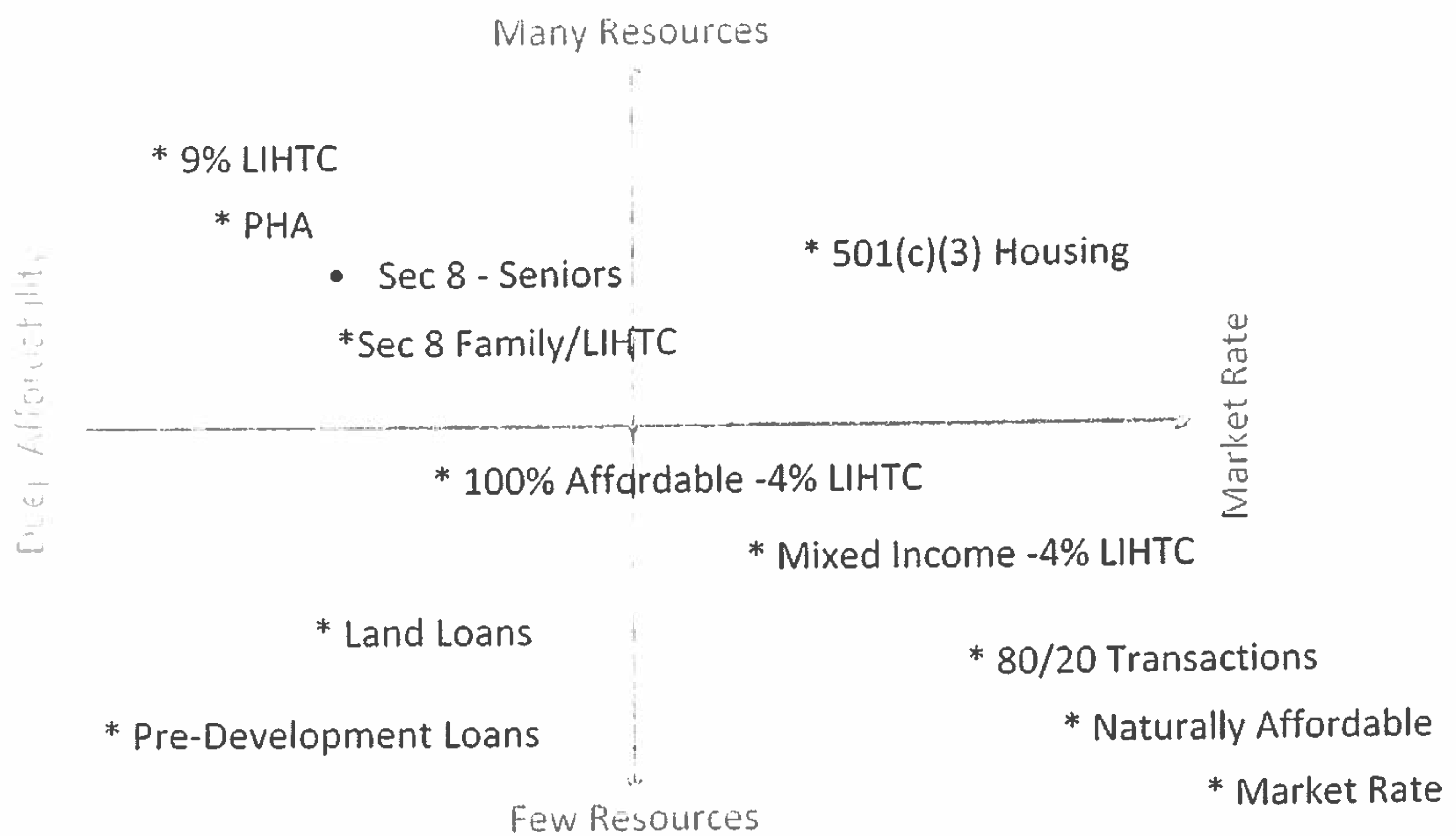
Mapping Capital in Affordable Housing



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Approaches to Leveraging HPTF To Meet DC's Need for Affordable Housing

- Loan guarantees – in lieu of gap financing, to the extent of a minimum debt service coverage tbd (say 1.0x -1.05x), provide a guarantee to a private lender. Perhaps segregate to a soft preferred position to facilitate GSE exits for lenders
- Debt service guarantee – in lieu of a direct guarantee of loan principal, provide a guarantee on debt service to cover the amount between the lender's underwritten debt (typically at 1.15x dsc) and 1.0x-1.05x dsc. Benefit to the Fund is that the annual revenues from DC Deed Tax can be pledged, and to the extent the project achieves at least 1.0x dsc become available for any housing trust fund purpose annually in arrears
- Acquisition Loan Fund (or guarantee thereof) – provide funding for governmental or non-profit, pre-development, acquisition, construction and permanent financing
- Bridge loans – Provide LIHTC equity bridge financing to enhance value on a price per credit basis, provide warehouse financing to accumulate sufficient smaller loans into a larger more cost effective financing, or non-LIHTC acq/rehab financing

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Approaches to Leveraging HPTF To Meet DC's Need for Affordable Housing (cont'd.)

- **Mezzanine/subordinate debt** – traditional gap financing
- **Land acquisition** for lease to affordable rental and for-sale development projects
- **Securitization of DC Deed Tax Commitment** – justifiable to the extent that the current value of the accelerated receipt exceeds the interest cost on the bonds

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Case Study-Multifamily Affordable Housing Preservation Transaction

- Private developer acquisition of 225 units in Washington, DC

Total Project Sources and Uses	
Total Acquisition Costs	$35,710,400
Soft Costs	$1,007,100
TOTAL USES	**$36,717,500**
Permanent Loan	$25,773,000
HPTF Soft Subordinate Debt	$7,000,000
Equity	$3,944,500
TOTAL SOURCES OF FUNDS	**$36,717,500**

*HPTF Sub debt structured as follows:

-40-year term/amort.

-1% Interest

-Principal and Interest Payments due from origination date

*Combined debt service coverage of 1.15x

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Case Study-Multifamily Affordable Housing Preservation Transaction

- Alternatively, with additional credit support to mitigate the loan-to-value limitation in this deal, a private lender could have provided subordinate financing of $7MM.

- Option 1: HPTF could have provided a loan guaranty to a private lender.
  - -Additional monitoring and administrative effort required post closing.
  - Revenue stream could be created by assessing Gfee in rate stack.
  - -Capital set-aside should be less than amount guaranteed.

- Option 2: HPTF could have provided a debt service guaranty on the subordinate financing at a market rate down to as low as 1.0x dsc (potentially even lower, essentially subsidizing until/if revenues increase)
  - Pledge of Deed Tax Revenues to support the guaranty of debt service.

  Result: if the project performs as projected, no HPTF money is actually utilized and the annual "set-aside" is available for any purpose in the following year
  - Additional HPTF revenue stream could be created by assessing Gfee in rate stack.
  - This sub-debt could also be warehoused under a bank line, pending accumulation of sufficient amount to efficiently bring a Deed Tax Bond to market

- 2nd mortgage Lender would need to make the loan "soft" to facilitate GSE executions.

- End result is that HPTF does not tie up $7,000,000 at 1% for 40 years.

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Acquisition Fund Structuring and Underwriting Discussion

- HPTF Funds must support higher leverage.
- Underwriting Issues: Difficulty getting adequate security during predevelopment and acquisition and construction phase.
- Underwriting Issue: Underwriting smaller non-profits.
- Banks want control of underwriting and to assist in developing underwriting criteria.
- Ground floor discussions: Important for Citi.
- Need a pipeline, program must have scale to provide economics to all parties!

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Fund Award Process Considerations

- **Consider density bonuses for development around metro transit facilities**
  - Consider creating tax increment districts in benefitted area around these developments to capture additional dedicated affordable housing resources
- **Consider benefits of home ownership for specified groups (eg: workforce housing), and provide funding specific to this objective**
  - HCD land lease
  - Lease to Own Program
  - Issues to consider: restriction in perpetuity? Gain share with homeowner?
- **Consider award bonuses for services designed to impact demand for affordable housing**
  - Adult skill training facilities and program support
  - After school facilities and program support for activities including tutoring and at-risk support
  - Any other program designed to improve earnings potential for adults and/or children

Closing

- The **commitment of 15% of Deed Tax and 50%** of operating surplus to the Housing Production Trust Fund **provides significant resources** to meet affordable housing needs in DC

- A **guarantee program and acquisition loan program** are a **great start!**

- **Focusing solely on the supply side will not provide sufficient long term benefits** to meet all needs, and **demand side components should be evaluated**

- **Coordination with the construction industry, planning and social services** can produce additional leverage for the Trust Fund monies
  - Construction cost reduction strategies
  - Public transit access and density impacts
  - Adult skills training and after school youth programs

- **There is no "silver bullet" solution**, all approaches deserve consideration. The key to success is to have clearly established, achievable and balanced objectives

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ATTACHMENT (4)

Upcoming Affordable Housing Hearings

on **Thursday, May 29, 2014**
Beginning at 10:00 am in Room 120
Council of the District of Columbia, Committee on Economic Development

(1) Bill 20-594 "Disposition of District Land for Affordable Housing Amendment Act of 2013". The bill would establish affordable housing set-aside requirements when District-owned land is being disposed for the development of multi-family residential projects with 10 or more units. A 30% affordable housing set-aside is required for projects that qualify as transit-oriented development, and a 20% set aside for all other projects. Affordability is defined as a 25% set-aside for households earning up to 30% of the Area Median Income (AMI) and 75% of units for households earning up to 50% of AMI for the development of rental units. For ownership units, affordability is defined as a set-aside of 50% of units for households earning up to 50% of AMI, and 50% of units for households earning up to 80% of AMI. The legislation also, allows for the Mayor to waive set-aside requirements when the OCFO certifies that it would not be economically feasible to comply. *(Introduced by Councilmembers, Bowser, Bonds, McDuffie and Graham)*

To read more about this bill, visit: *http://lims.dccouncil.us/Legislation/B20-0594?FromSearchResults=true*

Recommended Executive Agency: DMPED

(2) **Bill 20-604. "Affordable Homeownership Preservation and Equity Accumulation Amendment Act of 2013".** This bill reduces the resale restriction time periods for which affordable units located in distressed neighborhoods and produced with District government subsidies from the Housing Production Trust Fund (HPTF) must remain affordable from 15 to 5 years. It also requires affordable housing subsidies to be repaid to the HPTF at the time an affordable unit is sold. *(Introduced by Councilmembers Bonds and McDuffie)*

To read more about this bill, visit: *http://lims.dccouncil.us/Legislation/B20-0604?FromSearchResults=true*

Recommended Executive Agency: DHCD

(3) **Bill 20-622, "Housing Assistance Program for Unsubsidized Seniors Act of 2013".** This bill establishes a rental housing assistance program for low-income senior citizens to be administered by the D.C. Housing Authority and appropriates $5 million annually to fund the program. *(Introduced by Councilmembers McDuffie, Bonds and Wells)*

To read more about this bill, visit: *http://lims.dccouncil.us/Legislation/B20-0622?FromSearchResults=true*

Recommended Executive Agency: DCHA

(4) **Bill 20-708, "Housing Production Trust Fund Baseline Funding Act of 2014".** This will amend Title 42 of the District of Columbia Official Code to require that the Housing Production Trust Fund be funded at a minimum of $100 million annually. *(Introduced by Councilmember Bowser)*

To read more about this bill, visit: *http://lims.dccouncil.us/Legislation/B20-0708?FromSearchResults=true*

Recommended Executive Agency: DHCD

(5) **Bill 20-713, "District of Columbia Affordable Housing Act of 2014".** The bill would develop a ten-year $1,000,000,000 affordable housing plan that provides for $100,000,000 per annum to increase, build, and modernize affordable housing in the District of Columbia, with $25,000,000 per annum for targeted populations. The bill will also authorize the issuance of bonds to finance the reconstruction, renovation, and emergency maintenance of affordable housing facilities. *(Introduced by Councilmember Orange, Barry, Bonds and Graham)*

To read more about this bill, visit: *http://lims.dccouncil.us/Legislation/B20-0713?FromSearchResults=true*

Recommended Executive Agency: DMPED & DHCD