# Housing Production Trust Fund Advisory Board

6.2.2014

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, June 2, 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; Bob Pohlman; Jacqueline Prior; David Roodberg; and Michael Kelly, Director of the DC Department of Housing and Community Development (DHCD), *ex officio*. Absent: M. Craig Pascal.
See ***Attachment (1)*** for copy of Sign-in Sheet.

## Agenda Items and Actions Taken:

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

1. Call to Order and Quorum: Meeting was called to order by David Bowers, Chairman, at 10:05 A.M. and a quorum was established.

2. Approval of Prior Meeting Summaries: The Board deferred consideration of prior meeting summaries to the July meeting. For each meeting of the Advisory Board, there are records for full review by any member of the public, including a written transcript and/or an oral recording.

3. Discussion Item: Leveraging Options

    A. *Leverage Working Group Update.* Mr. Nathan Simms, Deputy Director, DHCD and Mr. Michael Kelly, Director, DHCD provided a summary of the recent Leverage Working Group meetings and activities.

        1) Among the various leveraging exercises, the Group is working diligently to convene a meeting with Community Development Financial Institutions (CDFIs).

        2) In response to a request at the May meeting to meet with developers, DHCD has scheduled a meeting with the Coalition for Nonprofit Housing and Economic Development (CNHED).

        3) Public leveraging commitments include development of two major components: a capital loan fund, or credit enhancement; and a larger acquisition loan fund, to be established by October 1, 2014. These new products would be in addition to DHCD gap financing. Presently, DHCD is addressing issues related to first trust lenders, mini-terms or balloons, and loan to value (LTV) ratios. While

conversations are preliminary at this stage, DHCD will focus on developing the acquisition fund first, since DHCD can use credit enhancements under the HPTF.

4) *Responses to Board Member questions/concerns:*
   a. *The Board expressed concern that it would have an opportunity to review and comment on proposed outcomes from the Leverage Working Group.* Chairman Bowers asked DHCD to provide updates at future Board meetings regarding the proposed products and their respective elements/terms, until the products are established. Thus, during meetings, Board Members will have an opportunity to provide comments on proposed products. In response to a request for a written copy of any proposals being considered, Mr. Kelly assured the Board that over the summer, the proposed products would be refined after further discussions with various parties to the transactions (including bankers, intermediaries, and developers). Further, Mr. Kelly assured the Board that final proposals would be shared for comment by the Board before execution.

B. *Review Report from the April 7, 2014 HPTF Advisory Board Stakeholder Meeting.* See page 7 of ***Attachment (3)*** for a summary of action items. Chairman Bowers stated that the purpose of the discussion today was to review the Report and identify those items the Board wants to consider as recommended actions, and then to identify who should implement. The Chair started the discussion by identifying those items in the Report he felt the Board should consider for further action; and then Board members recommended those items they felt should be considered for further action. These issues and any related concerns are listed below:

1) Key points identified by Chairman Bowers from the Report.

   a. *Page 2, Philanthropic Groups/Barriers to Development*: Foundations would prefer to provide operating support as opposed to development support. Also, Foundations do not have the level of capital to invest in the development of projects, and should therefore be a part of a coordinated response to the provision of affordable housing.

   b. *Page 2, Philanthropic Groups/Increasing Capacity:* There is additional ability to use Program Related Investments (PRIs). However, since the pool of local Foundation dollars is limited, if the dollars are used for affordable housing, then other areas dependent on foundations may go lacking. Thus, as it relates to Foundation support, there is a need to assess how Foundations support the interrelationship of education, health, workforce, affordable housing, etc. to get the most from philanthropic investment. The Chairman noted that in the region, through the Washington Regional Association of Grantmakers (WRAG) and others coming together, there is emerging the connectedness between housing and health, housing and education, etc.

c. *Page 3, Philanthropic Groups/ Question:* There is a need to make the case for local funders to do more or use their funds differently, which could then be shared with or requested from more National funders.

d. *Page 3, Financial Institutions Group:* In response to a recommendation, DHCD clarified that it does not have a per-unit limit in the recent NOFA.

e. *Page 3, Financial Institutions Group/Barriers to Development:* Regarding the use of the DC Charter Schools/OCFI credit enhancement mechanism, Mr. Simms advised that DHCD has had several discussions with OCFI regarding its credit enhancement terms and relations with Office of the Chief Financial Officer (CFO). DHCD has also had discussions with some participating OCFI lenders.

f. *Page 4, Government Stakeholder Group/Barriers:* There is the need to determine how to use Rapid Rehousing vouchers in a financing strategy.

g. *Page 6, Development Group/Increasing Capacity:* The term "capacity" has many meanings. But in general, it refers to the strength of a developer's "balance sheet", which many non-profits and smaller developers do not have. The question raised was whether there could be a centralization of a credit enhancement vehicle for smaller-capacity developers to strengthen or support weaker balance sheets.

2) *Other Board Member comments on the Report:*

a. *The role of philanthropy:*
   i. Several Board Members felt the number of philanthropic participants at the Stakeholder Meeting was small, and the recommendations may not have captured the participation of that industry. Further, no group was identified to take the lead for this industry. Not sure if that role has been assigned to WRAG. Chairman Bowers noted that WRAG has reconvened an affordable housing action team that for the past 18 months has been holding a series of events to present what is needed around affordable housing to the philanthropic community.
   ii. A Board Member advised that philanthropic funders respond to what they are asked for, i.e., need generated initiatives. Philanthropic funds do not build housing or provide services; but support practitioners/grantees. It was suggested that there needed to be more participation by those providing the services to assess what is needed.
   iii. The question remained whether there is a role for philanthropy with the proposed acquisition fund or whether to use philanthropy capital as part of a "capital stack".
   iv. It was suggested that philanthropic funders be approached "one by one" to discuss the role of a particular foundation. There are differences between a community, a public and a private foundation.

Each operates under different tax laws, has different types of assets (i.e., some more liquid than others), and is capable of providing different resources. Also, foundations are responsive to their grantees, so they would need to hear from them as to what they need. Then, the Board may have a sense of what is possible (see ii. above).

b. *Seeking support of philanthropy to help build capacity for smaller non-profits.* It was noted that given bank scrutiny associated with a CDFI model, developer/borrower capacity will be more important, including financial and staffing capacities. Thus, there is a need for philanthropic roles in building and sustaining the capacity of non-profits. A Board Member noted that while lenders review capacity, philanthropic funders also have underwriting standards and want to feel confident that the grantee has the capacity to complete a project.

c. *Philanthropic incentives/matches.* Another idea raised by the Board was for philanthropic funders to provide an incentive or matching funds to encourage government to make funds available for capacity-building. Similar to the Community Housing Development Organization (CHDO) operating dollars (associated with HOME federal dollars), which are the only available limited funding for operating and capacity building, philanthropy and government could jointly create capacity building dollars for small non-profits. Mr. Kelly agreed that philanthropic funders may want to replicate the CHDO contribution and program specifically for non-profits. Another suggestion by the Board was for community foundations to identify housing as a priority under the DC Government's One City Fund.

d. *The role of the corporate community.* As with philanthropy, the Board should consider recommendations related to the corporate community/ large employers/ major professional groups that have resources to invest and who will benefit from affordable housing for their employees. There is an action item to reach out to these sectors, see page 7 of ***Attachment (3).***

e. *Building capacity through partnerships and education.*
   i. Mr. Bailey, DHCD Chief of Staff, noted that the missions of nonprofit and for-profit developers are different and that there is a need to pair small sponsors with stronger for-profit developers, especially where the non-profit has a grass-roots handle on what is needed for the population to be served. Mr. Simms noted that the government plays matchmaker many times to get deals done.
   ii. Mr. Bailey added that the educational component of capacity building needs to be separated from the financial component of capacity building and partnerships. The educational component of capacity building, or how to complete a project, could be accomplished at UDC, with experienced developers and educators teaching the course. However, there is also the "sticks and bricks" capacity building on the

financial side that requires the necessary funding to complete and sustain the cash flow of a project. This is particularly difficult when developing permanent supportive housing, which includes the business of "sticks and bricks" development with the overlay of "human mortar". Capacity training is also needed for nonprofits and service providers to make these type projects successful.

f. *The role of the HPTF and DHCD in capacity building.* The Board asked whether the HPTF has ever been used for capacity building and should it be used like a match to support those groups that work with the "hardest-to-serve" populations. In response to this concern, a Board Member expressed support for the partnership idea, which seemed more workable; however, there may need to be more communication and understanding of how to do these partnerships. There is more risk in capacity building than in partnerships. Mr. Kelly noted that DHCD does provide assistance to smaller developers with the hope that in the next funding cycle, the organizations will be better qualified and understand the requirements to complete necessary tasks. DHCD has a responsibility to assist in capacity building and Mr. Kelly indicated that he supports DHCD doing more to build capacity in smaller developers, by expanding the seminars provided in advance of a NOFA issuance.

g. *Establishment of a risk mitigating fund.* As an example, even if a small developer partners with a larger developer, the small developer's goal is to provide housing for the extremely low-income. The smaller developer's balance sheet may not look "strong" because the small developer has to leave more of its profit in the project to make it work (i.e., limited loss reserves). Thus, it was concluded that some type of centralized risk mitigating or community capital fund should be established that is only drawn upon if something goes wrong. Such a fund could be available to multiple groups. Comments expressed that it seemed more likely that a foundation would create this tool as opposed to government.

h. *Expedited permitting.* On page 9 of the Report, there is a recommendation for a regulatory improvement to implement expedited permitting and the waiver of development related fees for affordable housing. In the past, the Department of Consumer and Regulatory Affairs (DCRA) had an "ambassador" program or dedicated staff that helped problem solve to support affordable housing projects. It was concluded that this should be a recommendation for consideration by DCRA, Deputy Mayor for Planning and Economic Development, and/or advocacy groups.

C. *Citi Community Capital Recommendations.*
Chairman Bowers pointed out that Citi Community Capital presenters recommended various approaches to leveraging HPTF to meet DC's need for affordable housing. See slides 8 and 9 in ***Attachment (4).*** There options included: loan guarantees, debt service guarantees, acquisition loan fund, mezzanine/subordinate debt, land acquisition and securitization of DC

tax commitments. Board Member comments regarding the use of these leveraging tools were as follows:

1) *DHCD's use of the various tools.* In response to whether DHCD has considered using any of the identified proposed approaches to leveraging the HPTF dollars, Mr. Simms indicated that all the approaches are being considered; however, the credit enhancement and acquisition loan fund are the focus.

2) *Use of bridge loans.* A Board Member recommended that DHCD use bridge loans as a potential leveraging approach. It was explained that presently a first mortgage lender will provide this transaction but at a higher interest rate than the HPTF would require. On a large deal, a lower interest rate would result in significant savings and could significantly impact the budget of a project. Mr. Simms indicated that the focus has been on acquisition and pre-development as opposed to construction and permanent financing. But he suggested that these areas would be fleshed out as the discussion turns to credit enhancement and the permanent financing side. Mr. Kelly summarized that the Department will be considering many options on the pre-development and permanent sides of financing, and he anticipates that different types of leveraging approaches could be considered for the RFP next year. The bridge loan approach is one that the Department has not offered in the past.

4. <u>Old Business</u>

A. *DHCD: Update on the NOFA Pipeline Report.*
Mr. Kelly invited Board Members to visit the agency website and navigate the pipeline report to find what real-time information is available for pipeline projects. Mr. Chris Dickersin-Prokopp, DHCD Strategic Program Specialist, walked the Board through the website, pointing out the data fields available. While there are almost an infinite number of fields that could be used, DHCD is up to about 400 fields. Now the agency has one centralized database to capture applications, documents and all items associated with a project and its status at a given point in time. Information available includes, but is not limited to: the project address, developer, members of project team, the type of project - whether acquisition only, acquisition and rehab, new development, rental or home ownership, or preservation of existing affordable units, as well as the number of units and the AMI income bands involved. These project characteristics allow the agency to more easily run reports and respond to audits. Internally, the database helps the agency assess staff workflow, internal capacity, and records management. Eventually, and hopefully next year, funding applications will be submitted electronically.

With this new database, not only can DHCD be more transparent and share basic database information with the public, but also the agency can share information with its partner agencies who are performing joint underwriting with DHCD (such as, the Housing Finance Agency, the DC Housing Authority, the Department of Behavioral Health (DBH), and the Department of Human Services (DHS)). At this time, the public has access to three categories of pipeline projects, including information for projects (1) in underwriting, (2) under construction, and (3) completed. In addition, there are actual links to the developer sites for people who want to rent a unit in one of the projects.

A Board Member asked if construction draw information could be made available to a selected group, because the timeliness of payment draws impacts balance sheets. Mr. Simms indicated that the agency is working with the CFO to better track payments; however, all governmental parties would need to use the same financial reporting system.

Also, DHCD was asked whether the dchousingsearch.org, website, used to identify available rental units, would be linked to this pipeline database. At this point, Mr. Dickersin-Prokopp advised that dchousingsearch.org website is a better source for finding available rentals units. Given the newness of the database, there are many steps still in process.

Mr. Kelly advised that DHCD would like to share with the Board an exercise Mr. Dickersin-Prokopp prepared on the life of a project and what can go wrong in the funding process.

The Board expressed appreciation to the DHCD staff for the creation of the new Pipeline Database, a longtime request from the development stakeholder community.

5. New Business

A. *DHCD DFD Pipeline Projects in the FY 2014 Tier One NOFA Applications.* See ***Attachment (5)***. Mr. Simms indicated that eight (8) Tier One applications were filed, requesting approximately \$43M in HPTF financing and \$44.2M in other DHCD funding. The total development costs for these applications were \$271.7M. From the eight applications, 837 units would be created or preserved, including 753 units as affordable and 84 units as market-rate. Of the 837 units, 622 units are at 60% of AMI and 70 units are at 30% AMI and below. A summary of Board Member comments on the Tier One application information is as follows:

1) *Limited number of projects in the lower income bands.* Chairman Bowers expressed concern that the applications did not necessarily assist the agency in reaching the statutory targeted incomes. Most of the Tier One applications were for projects funding units representing 60% AMI (LIHTC units). DHCD was asked what if the NOFA applications do not result in funding requests that reach the 0-30% AMI income band statutory percentage spending targets. Mr. Simms advised that from his conversations with developers regarding funding the extremely low-income housing needs, the question is how to make these deals work. A Board Member suggested that available resources for this population band should be dedicated for these housing projects. The need to have the service dollars available for the 30% AMI band was noted as critical to making these projects feasible.

2) *Use of HPTF for service dollars.* The Board asked whether HPTF dollars can be used for the service component. Mr. Simms advised that HPTF dollars are used for "sticks

and bricks". The Board requested that the agency seek a legal opinion whether HPTF can be used for service. If the HPTF by statute is supposed to serve certain incomes at various AMI levels and the responses to RFPs are not submitted to reach the percentage of units that need to be funded annually, then there may be a way to use portions of the Trust Fund monies to help facilitate more of a demand to serve these low-income populations. However, a Board Member cautioned that if you attempt such a policy change, "you might as well back a truck up to the HPTF to finance all human service needs". In the alternative, it was suggested that advocacy is needed to seek more funding for human service and supportive housing as well as for rent subsidies.

3) *HPTF policy change and alternatives.* The Board raised the issue of whether there needed to be a policy change in order to receive more deals reaching the 30% AMI and below population. It was suggested that a portion of the HPTF dollars be used for the service component to make the extremely low income projects feasible. It was noted that the service subsidy is for the life of the affordability, which is 40 years. This deep subsidy would require further discussion. Another suggestion was that the DHCD consolidated RFP is a step toward reaching those deals, where DHS funding is being matched with bricks and mortar dollars. A third suggestion was bringing in philanthropic dollars to fill project commitments and gaps.

4) *Length of the service subsidy.* The Board discussed whether the subsidy should be a one-time subsidy or on-going. If one-time only, a Board Member suggested that the service component must be monitored and be a part of the operating budget of the project.

5) *Consideration of the Administration's efforts to provide the service component.* In response to concerns about the amount of subsidy needed, Mr. Bailey suggested that DHS is reviewing a way to monetize the income used to shelter the homeless at DC General Hospital (DCG) and allow the savings to assist in providing services for the extremely low income or homeless populations. He suggested that the service component be a part of the Administration's desire to use its capital more efficiently to achieve social services than to assign the monetary and sustaining responsibility to DHCD or the HPTF for subsidy-driven social services. A Board Member suggested looking at all options and considering a combination of DHS subsidy and HPTF assistance; where the services would be a part of the project pro forma.

6) *Use of RFP guidelines to produce low income housing.* A Board Member suggested using the RFP guidelines to drive the production of projects to reach the 30% AMI and below population. DHCD was asked to assess, based on past experiences, the real cost for a 30% AMI project in terms of using capital, operating subsidy, and services dollars. This analysis could determine how much more in service dollars are needed.

7) *Impact of consolidated RFP.* Matt Scalf, on behalf of the Office of the Deputy Mayor for Health and Human Services (DMHSS), requested Board consideration for the

consolidated RFP process as a first step in bringing the various agencies and funds together. He emphasized that this is a new process, only in its second year, but it may get the government closer to where it wants to be in terms of mixing bricks and mortar with needed services for the targeted populations. In addition, Mr. Scalf added that the DMHSS is also focusing the use of its funds for rapid re-housing and permanent supportive housing as alternatives to housing the homeless at DCG and other shelters. Chairman Bowers asked that DHS and DBH brief the Board on the types of resources available for the consolidated RFP to assist the HPTF in providing housing for citizens at the lower income bands.

B. *Change to July and August Monthly Meeting Schedule*. In light of Board Member schedules, the Board agreed to a consolidated July/August meeting on the second Monday in July (July 14), with no meeting in August.

C. *Agenda Items for the July 14, 2014 Meeting*:
1) Update on the Leverage Working Group;
2) Recommended structure for the Acquisition Fund, and if available, provide a written summary in advance of meeting;
3) Updated tracking information on the pipeline projects and new NOFA applications;
4) Database presentation on following a pipeline project;
5) Request for a legal opinion regarding the use of HPTF dollars for funding services; and
6) Presentation by DMHHS (DHS/DBH) on resources available for the consolidated RFP.

6. Announcements

Mr. Kelly made two announcements:

A. *Wednesday, June 11th:* DHCD will hold a stakeholders forum on the new Property Acquisition and Disposition Division (PADD) and Development Finance Division (DFD) application solicitation initiative. This initiative, the agency's revised property acquisition and disposition approach, is geared toward targeted housing development, using DHCD parcels and DFD financing.

B. *Saturday, June 21:* Attend the **2014 Sixth Annual DC Housing Expo and Home Show**, from 10:00 AM to 3:00 PM, at the Washington Convention Center. Please share with your constituencies.

7. Public Comments

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

8. Adjournment: 12:07 P.M.

*Attachments: (Handouts or PowerPoint Slides)*

- Attachment (1): Agenda, dated 6.2.14.
- Attachment (2): Copy of Sign-In Sheet.
- Attachment (3): Report Out to Board Members of Facilitated Discussion, submitted April 23, 2014, by Green Door Advisors.
- Attachment (4): Copy of PowerPoint, entitled, "Leveraging the Housing Production Trust Fund", dated May 5, 2014, by Citi Community Capital, marked *Strictly Private & Confidential*.
- Attachment (5): DHCD DFD Pipeline: Projects; FY14 Tier One NOFA Applications, dated 5.29.14.

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 6.2.2014

# *ATTACHMENT (1)*

Government of the District of Columbia

# Housing Production Trust Fund Advisory Board

Monday, June 2, 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. | David Roodberg President | Horning Brothers |
| 2. | Jacqueline Prior | Capitol Foundation |
| 3. | Sue Marshall | Community Partnership |
| 4. | Lee Hagy | Dep Mayor Health and Human Services |
| 5. | Matt Scallet | DMHHS |
| 6. | Jim Knight | Jubilee Hsg |
| 7. | Oramenta Newsome | LISC |
| 8. | Alastair Smith | DCHA |
| 9. | Bob Pohlman | |

| NAME & TITLE | ORGANIZATION |
|---|---|
| 10. Oke Anyaegbunam | DHCD |
| 11. Stanley Jackson | |
| 12. Jennifer Skow | DHCD |
| 13. Chris Dickersin-Prokopp | DHCD |
| 14. Angela Nottingham | DHCD |
| 15. Michael Kelly | DHCD |
| 16. Milton Bailey | DHCD |
| 17. | |
| 18. | |
| 19. | |
| 20. | |
| 21. | |
| 22. | |
| 23. | |
| 24. | |
| 25. | |

# *ATTACHMENT (2)*

Government of the District of Columbia

# Housing Production Trust Fund Advisory Board

**Monday, June 2, 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. Approval of Prior Meeting Summaries
3. Discussion Item: Leveraging Options
   a. Leveraging Workgroup Updates
   b. Review Report from the April 7, 2014 HPTF Advisory Board Stakeholder Meeting
   c. Citi Community Capital Recommendations
4. Old Business
   a. DHCD: Update on the NOFA Pipeline Report
5. New Business
6. Announcements
7. Public Comments
8. Adjournment

As of 5.29.14

HPTF Advisory Board Meeting Minutes 6.2.2014

# *ATTACHMENT (3)*

GREEN DOOR
ADVISORS

**Monday April 7, 2014 HPTF Advisory Board Stakeholder Meeting**

**Report Out to Board Members of Facilitated Discussion**

**Submitted April 23, 2014**

## Stated Goals of the Meeting

1. Identify specific recommendations for HPTF Advisory Board consideration
2. Identify specific recommendations for agency/company/organization/group consideration
3. 1-on-1 connections to act on specific issues

## Guiding Questions

1. Identify the barriers that exist;
2. Identify the resources available; and
3. Identify the steps that can be to meet a goal of the Housing Strategy Task Force and Mayor Gray to "Produce and preserve 10,000 net new affordable housing units by 2020" and to preserving 8,000 expiring units.

## Meeting Background

Four distinct groups were invited to the meeting: Financial Institutions, Philanthropic Institutions, Developers and Public Sector partners. Prior to the meeting surveys were sent to 3 of the 4 groups (all except public sector). The questions posed all addressed the guiding questions (noted above) as they relate to each industry (please see survey questions for additional details). Prior to the meeting 15 responses were received and the responses were tabulated and provided the foundation for the conversation.

GREEN DOOR
ADVISORS

**Philanthropists Group:**

Barriers to Development

- Knowing where to invest for maximum impact given limited resources
- High transaction costs
- Another barrier to development is the drying up of philanthropic dollars that are needed for costs, specifically Fannie & Freddie
- Have limited funds and feel just like a drop in the bucket of funding
- The amounts of money for affordable housing are pretty small
- Would prefer to provide operating support as opposed to development support
- Philanthropic groups typically represent individual families
- Typically don't give large sized grants
- Relative size of grants are very small compared to philanthropist groups in major cities such as NY, Chicago, Philadelphia
- Funds typically support operating expenses and not part of development capital
- DC does not have many national foundations those that are active in the area look to support families directly, not housing development
- Funders want to help, but they need to know where they are most needed
- They don't have the level of capital to invest in the development of projects and a coordinated response is needed to support
- Doesn't think that the philanthropic community will grow much more in the area
- Community ready to come to table and discuss where needed to support

Increasing Capacity

- There is additional ability to use PRIs
- Provide very specific uses for the funds, there is a way to be more targeted
- Educating members of impact investments program for affordable housing
- It is really not about increasing capacity but more like shifting capacity because there is just one pool of money
- If there is more money in one area, then there will be less investment in another area
- More training how to invest more effectively, but there will be another area feeling a pinch
- Have to look at everything as interrelated regarding education, health, workforce, affordable housing, etc. to get the most of funding

***Question:*** *If there was a nice one-stop package are we able to attract deep pocketed organizations to fund area?*

- There needs to be large regional and national collaboration
- Connection between different areas for support (regionalism)
- Continue to educate members of philanthropic groups regarding affordable housing need
- The pace needs to be very clear so philanthropic groups can go after national funding
- Needs Local commitment first before branching out to national level funders

## Financial Institutions Group

Barriers to Development

**Opportunity:** Projected 100,000 new households in 10 years to keep up with job growth, on the high end.

- Feedback from underwriters and appraisers is that we are in a bubble, likely to pop. The type of data presented by Dr. Howell would help ease the fears that we are in a bubble, by showing hard evidence that the growth is rooted in sustainable trends.

- High transaction costs create a gap in the capital stack
- Recommended per unit limit on DHCD NOFA is restrictive.
- Look to work with tier one, or seasoned developers, and that pool is limited. Look at years in the business, net worth, number of deals.
- Underwrite the transaction and the sponsor prior to 2008. Now you focus more on the sponsor, underwrite the sponsor first. Lack of experienced developers. Credit enhancements could help grow the pool of loans to existing developers.
- Difficult to get banks to do condo loans for affordable housing projects.
- Prefer to do what's best for bank's own portfolio, which is not necessarily low profit condo loans.

***Question:*** *Is there a way to centralize risk to help developers low on cash?*

- Copy credit enhancement mechanism from charter school finance approach.

## Government Stakeholders Group

- ¾ of new $100M proposed in FY15 budget for affordable housing would go to HPTF

- Real challenge is to figure out how to house those with incomes low enough to earn public assistance benefits .
- Director Kelly: 29 projects under construction. 3,000 units are in underwriting. Goal is to support 10,000 units with the trust fund.
- Total of $287MM for affordable housing
- What are the trends: The District never had a time limit on the welfare benefits; however now there is a sense of urgency with a new time limit. Understanding that there is a need for job attainment. Huge increase in resources for people with employment training. Putting more resources to be successful. Must be in a stable housing environment; cannot get a job if their housing is unstable.
- Director Charles Thorton: Additional subsector for extremely homeless are citizens returning from incarceration. 8,000 people returning to the city annually. Huge public safety issue.

**Barriers**

- Time it takes for things to go through HUD
- So many different programs with different timelines. Several Federal programs do not jive with local programs. Slows down the process.
- Drying up philanthropic dollars needed for predevelopment costs
- Condo Financing for Affordable Housing
- Loss of Fannie Mae and Freddie Mac dollars for Philanthropic Activities
- Haven't figured how to use rapid rehousing vouchers for a financing strategy. Only approved for 4 months generally used for a year. 80% of families who use do continue use. Long term financing strategy that doesn't jive with banks. Don't know how to translate into development of units.
- Additional amount of grant money from Department of Justice federal dollars for housing. Addressed non profits: go after those opportunities. Social Impact Bond Funds. Philanthropy as well as non profits can use those dollars.
- Strategies. DCHA housed 4,000 people in the last three years: existing public housing stock helps families at 30% AMI and under stay in DC
- There are 8,300 (6,300 that need a strong preservation plan)
- McKinney Act Program for predevelopment funding. Single Family Program: Open Doors for new prospective homebuyers at 120% of AMI or lower
- Most buildings are 75-125 units. Trying to create a smaller building program
- Memorandum of Understanding for Super NOFA for pool of dollars with sister agencies

**Opportunity:** to build net new, land value and space on public housing authority properties; HUD's rental assistance demonstration because it will unlock the value, will allow us to borrow against the value of the properties; Joint effort of NOFA.

Increase Capacity

***Question:*** *Are we able if we had a nice one stop track to attract foundations with deep pockets?*

- Large organizations are interested in collaboration and regional collaboration
- The opportunity is there, but the case must be clear. Pursue the national foundation partners because it is incredible competitive. Not a lost cause but there needs to be a local commitment.
- Government level collaboration with consolidated RFP's
- Entitlements. Waive fees for affordable housing through PUD process and moving to the front of the line
- Need a larger stable of affordable developers
- Pairing some of our weaker non-profit developers with stronger developers. Combination of strength should improve the transactions.

**Opportunity:** Marketing Urgency will increase productivity. Globalize effort and make larger.

## Development Group

### Barriers to Affordable Housing Development

- Funding requirements not matching changing requirements, energy standards and green building
- Community pushback, certain neighborhoods thinking they have enough affordable housing
- Disconnect between policy creating priorities and identifying needs and saying these are the kinds of developments that we need, it's linked to the market needs. Aligning the priorities more intentionally, to maximize effort and take more of the uncertainty out of it
- Large public disposition of ADU units
- High transaction costs for LIHTC
- Layers, local and federal not necessarily in sync.
- The District's resources for gap funds are best in the region but the gap funds required for any type of development is larger recommended limits in most recent NOFA from DHCD - inadequate given market conditions. Public sector is not matching the conditions, better than anywhere but still difficult
- The same restrictions are local for homeownership and ....40% for people at 30% of AMI-and really do we want to produce for homeownership

GREEN DOOR
ADVISORS

Increase Capacity

- Making ourselves a target for cap acquisition funds, to be more nimble and real pipeline, what are some of the ways the NP developers can attract that for the purposes of CRA and other investments, some help in that or a coordinated efforts with a combo of government, philanthropic and financial institutions, each of us alone doing it might not make the most sense.
- Put affordable housing at the front of the line, waive permit fees, PUD fees
- Increasing productivity
- If we want to get people between 60%-80% AMI we need more soft money in the deal, the rent income is insufficient to make the cap # s work. Need have a lot and increase the capacity
- Pairing weaker/smaller developers with more experienced/better capitalized developers
- Capacity could mean a lot of things-a major thing is balance sheet, many (non-profit/smaller developers) don't have a deep balance sheet, could there be a centralization of the sources? credit enhancements? If so, would this be enough to have more banks provide financing for deals?

**Opportunity:** Do something similar to charter schools with credit enhancement...why don't we have one for housing? Already have model, just have to apply it

GREEN DOOR
ADVISORS

**ACTION ITEMS**

The second portion of the discussion focused on 5 key action items that arose during the foundational discussion. At this stage of the discussion participants were asked to provide practical steps to moving these issues forward, the "who, what, how" of getting something accomplished:

**These items are:**

1. **Coordinated Action to increase Philanthropic Involvement**
   - **Focus on large scale foundations not currently represented in DC**
   - **Strong case for coordinated efforts**
   - **Example of Super NOFA**

First step is to develop a case. Need for cross sector conversations and identifying the priorities. Terrie Freeman mentioned a need to bounce off to national friends before pushing it out. Also, look to see whether or not we have local channels that could be helpful.

- Is there a group already having this conversation already? - Yes, beginning stages with WRAG & Funders

This conversation needs to be done more on the leadership level in corporations/agencies. It is the decision makers that need to be more engaged. Given where things are today how can that happen?

- Identify needs of corporate community
- Find the national counterparts and ask what are the things that will make you go..."Ooh!" and get excited to participate in funding projects. Typically more interested in supporting operating costs
- Look at data as well to see where targeted funding can go.

**Opportunity:** November mayoral transition
Great for philanthropy groups to come together and make a plan how to get more philanthropic funding. One very good sign of local commitment is the consolidated RFP and MOU to show that the local community is working together to address this issue

<u>Ideas to bring folks together:</u>

- Have to have a strategic approach to bring together the public and private sectors
- Look at marketing strategy

- Be deliberate and strategic about bringing people together

**Lead: WRAG with subset of HPTF Board and/or stakeholders, Chamber of Commerce, DCBIA**

2. **Increasing stable of qualified/experienced developers with financial capacity**
    - **Increase in/support of JVs**
    - **Pooling for underwriting (credit enhancements, reserves)**
    - **Charter School Model & DISB cash collateral program**

***Big Questions:*** *How can you make regulatory requirements achieve more than the minimal allowable requirement?*

| |
|---|
| **Opportunity:** For charter schools, buffer fund from city to leverage private funds. Cash collateral support program from DISB |

Public private partnerships, joint ventures, must be strategic, must be deliberate about bringing people together, expertise

*Increasing qualified stable developers*

- Make sure it's a welcome environment – create a culture of incentives rather than compliance so parties are interested in doing the most rather than the least.
- Compliance of ADUs
    - Art of compliance how little can you do to get it done
    - Have to give them some kind of incentive to do it, but how much more can do and make economic sense?
- Develop a roadmap of how to structure successful public/private partnerships

DHCD has begun two efforts-an acquisition pool an expanded SAFI, pair with a CDFI to mitigate risk, free up capital

- DHCD met with OSSE-looking toward launching where a similar mechanism, 5 years with a burn off and DHCD providing GAP financing. Slightly lower fees, debt service coverage, a little less DHCD gap into the deal so the DHCD money can go further
- DHCD looking at starting a working group on it
- Potential to create recoverable grant product

**LEAD: DHCD, CA**

GREEN DOOR
ADVISORS

3. **Deployment of RAD funds/Other federal $**
    - **Utilization of PHA housing sites**
    - **Unlocking value**

**LEAD: DCHA**

4. **Regulatory Improvements**
    - Front of line permit process, reduction/elimination of PUD (other fees) RE Taxes
    - How/who could make the fee waiver possible?
        - DCRA in consultation with the Mayor
        - Fiscal analysis has to occur

**LEAD: DCRA, DMPED, CFO**

5. **Demonstrating Urgency**
    - **PRIs, Targeting investments**
    - **Impacting Underwriting/Appraisal Concerns "Next Bubble"**

**LEAD: DHCD, DMPED, BANKS**

- How do we motivate banks to get to the higher level of CRA, how to do more than what's required?
    - Based upon good solid economics as the give- away grant making, banks will always get the minimum possible. Until they see it as a viable line of business, the economics could get better. Get them over the threshold, most of the risks models. They won't go there, with the regulators looking at them. Two types of examiners not always looking out of the same play book.

- There is a need to engage larger business community
- New head of dc chamber of commerce
- New leadership at Meyer foundation
- Educate several who still don't think affordable housing is a number 1 concern

GREEN DOOR
ADVISORS

Who are the right folks to engage?

- Chamber membership
- Lisa at DCBIA
- What's the ask and who would they listen to?

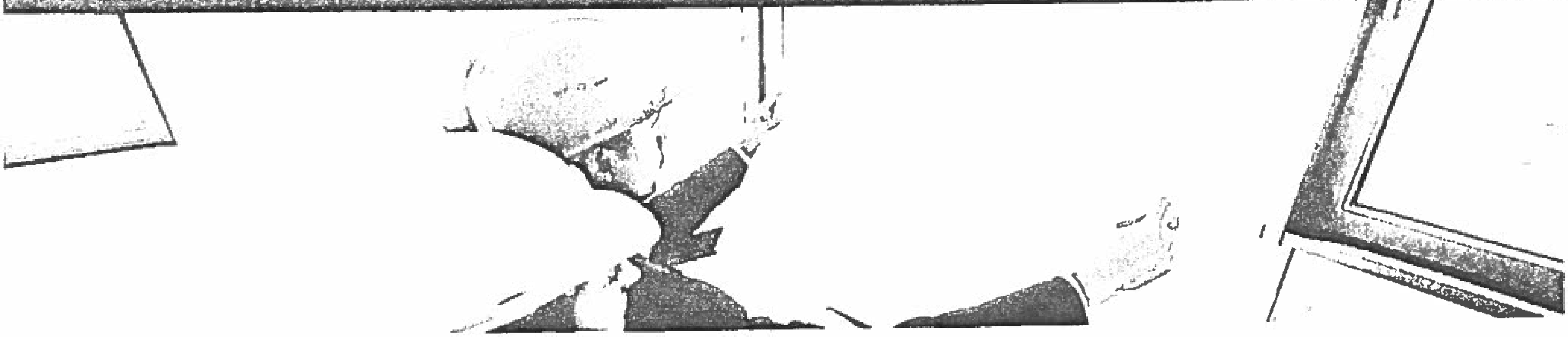
A collection of bankers and high level governement leaders are the right people to engage business leaders.

**Opportunity:** Specific conversation about the local tax credit program ($2.5M annual need) which is under development. This is a specific investment opportunity for businesses and opens the door to deeper conversation regarding the need for affordable housing in District/region.

Additionally, there is a strong case for the need for workforce/affordable housing for a variety of workers in growing industry sectors: national association of restaurant owners/food service, hospitality and healthcare.

HPTF Advisory Board Meeting Minutes 6.2.2014

# *ATTACHMENT (4)*



# Leveraging the Housing Production Trust Fund

citi

# 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.

citi

# 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 shall 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?**

citi

# 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

# Forms of Capital

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

citi

# 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 is allocated by a rational process
- Understanding the process facilitates allocation

### Capital has costs

- Monetary Costs
- Opportunity Costs

### Benefits

- Capital is deployed to derive benefits
- Monetary Benefits
- Utility or Happiness

### Incentives

- Capital is deployed for incentives
- Rewards are positive
- Punishments are negative

### Marginal Analysis

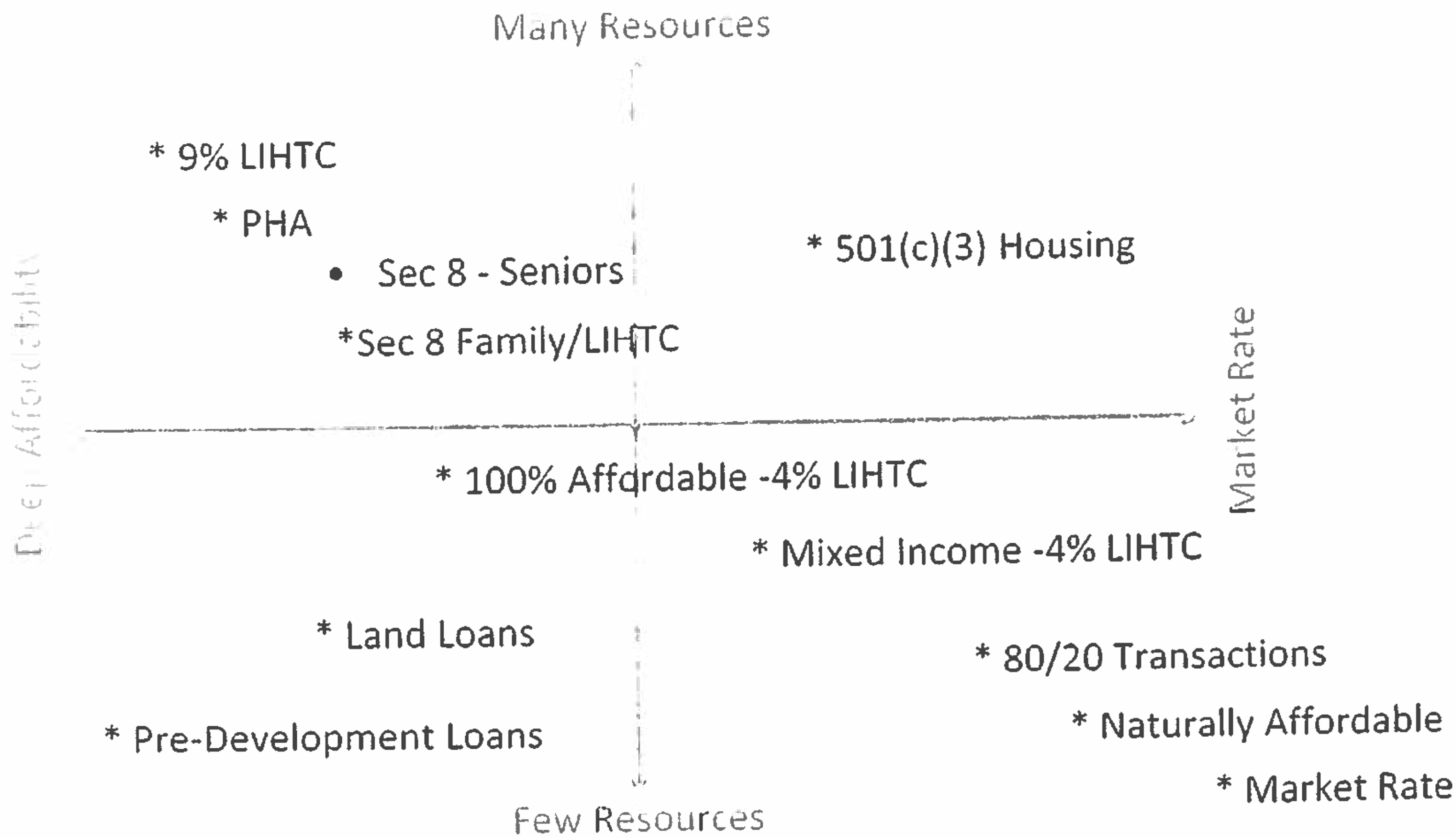
- Capital is deployed on Marginal Analysis
- The "Next" opportunity
- The past is less relevant

### Relative Analysis

- Capital is deployed on Relative Analysis
- Compare this opportunity to others
- Relative Analysis addresses scarcity of capital

citi

# Mapping Capital in Affordable Housing



# 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

citi

# 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

citi

# 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

citi

# 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.

citi

# 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!

citi

# 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

citi

# 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

citi

# Contact Information

**Mark Dean**
[illegible] Union Square
[illegible] Union Street
Seattle, WA
[illegible]

**Bryan Dickson**
11921 Freedom Drive, Suite 850
Reston, VA 20190
(703) 234-7308

citi

citi

# *ATTACHMENT (5)*

# DHCD DFD Pipeline : Projects | FY14 Tier One NOFA Applications

MAY-29-2014 2:11 PM

## FY14 Tier One NOFA Applications

| Project: Name | Project: Sponsor | Units: Public Housing | Units: 30% AMI | Units: 40% AMI | Units: 50% AMI | Units: 60% AMI | Units: 80% AMI | Units: 120% AMI | Units: Total Affordable | Units: Market Rate | Units: Grand Total | Financing: HPTF Amount | Financing: DHCD Funding Total | Financing: Total Development Cost | Project: Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Benning Heights Apartments | The NHP Foundation | 0 | 0 | 0 | 0 | 148 | 0 | 0 | 148 | 0 | 148 | $5,012,387 | $5,012,387 | $31,945,798 | |
| Capitol Gateway Marketplace | A&R Development Corporation | 0 | 15 | 0 | 16 | 281 | 0 | 0 | 312 | 0 | 312 | $13,000,000 | $13,000,000 | $78,688,162 | |
| Generations Brightwood Park | Generations Brightwood Park LLC | 0 | 13 | 0 | 0 | 17 | 0 | 0 | 30 | 0 | 30 | $3,690,319 | $3,690,319 | $13,653,470 | |
| Genesis Intergenerational Housing | 6925 Georgia Ave LLC | 0 | 15 | 0 | 4 | 0 | 8 | 0 | 27 | 0 | 27 | $2,200,000 | $3,502,316 | $7,636,791 | |
| Girard Street Community Partners | Girard Street Community Partners LLC | 0 | 10 | 0 | 15 | 0 | 0 | 0 | 25 | 0 | 25 | $990,990 | $990,990 | $11,607,395 | |
| Hope and a Home Scattered Sites II | Hope and a Home, Inc. | 0 | 4 | 0 | 0 | 0 | 0 | 0 | 4 | 0 | 4 | $302,032 | $302,032 | $348,904 | |
| Shaw 42 Developers | Shaw 42 Developers, LLC | 0 | 3 | 4 | 14 | 0 | 0 | 0 | 21 | 84 | 105 | $5,000,000 | $5,000,000 | $31,704,010 | Project withdrawn |
| The Grove at Parkside | CI GD Parkside 7, LLC | 0 | 10 | 0 | 0 | 176 | 0 | 0 | 186 | 0 | 186 | $12,800,000 | $12,800,000 | $42,182,451 | |
| **TOT** | | **0** | **70** | **4** | **49** | **622** | **8** | **0** | **753** | **84** | **837** | **$42,995,728** | **$44,298,044** | **$217,766,981** | |