Public Housing Authorities: Looking More to the State and Developers, Less to HUD

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During the past two years, Florida's public housing authorities have increasingly re-developed or created new housing units by looking beyond their standard source of funding for capital projects – the U.S. Department of Housing and Urban Development. Local housing authorities and their related non-profits competed successfully in the Florida Housing Finance Corporation's 2005 Universal Cycle for housing credits; they have approximately ten projects competing for HOME and low-income housing tax credit funding in the 2006 Universal Cycle. Due to local government contribution requirements for the Universal Cycle, it can be assumed that all of these projects are receiving local funding as well, primarily from SHIP or the Hurricane Housing Assistance Program. In the Predevelopment Loan Program, FHFC's initiative to assist non-profits and housing authorities with pre-development construction expenses, more than 20 percent of active projects - 11 of 50 - are housing authority developments. Before May 2004, only one housing authority had requested funding from this program.

HUD funding decline

Housing authorities have traditionally been subsidized solely by HUD via two grants, one for operating and one for capital improvements. However, in recent years the amount allocated by HUD for public housing authorities has decreased. From Fiscal Year 2005 to Fiscal Year 2006, operating subsidies for housing authorities decreased by approximately $25 million, according to the National Low Income Housing Coalition.. FY06 funding levels support only 89 percent of the public housing authorities' actual need. During the same period, the HUD allocation for capital improvements decreased by $252 million. Approximately 70 percent of Florida's 39,000 public housing units are more than 30 years old and in need of progressively more expensive repairs and major systems upgrades – just as the capital funding for these improvements is declining.

New Partnerships

Low-income housing tax credits are particularly attractive to public housing authorities for the same reasons they appeal to other developers. While public housing authorities have requested a variety of funding from FHFC, the vast majority is applying for the competitive 9 percent housing credit through the Universal Cycle. Housing credits can provide 65percent or more of the financing for a project in the form of equity as well as create reserves and a developer fee to help offset the decreased amount of operating subsidy from HUD. While housing credits are complex for any developer, housing authorities have additional challenges imposed by their HUD contracts, which can add time and expense. If a public housing authority is planning to re-develop a property that has an Annual Contributions Contract -- the contact between the housing authority and HUD for operating subsidies – the housing authority must obtain several approvals from HUD for the project. These include demolition/disposition approval, mixed finance approval, and approvals to transfer and encumber the property. In addition, although housing credit syndicators require financial guarantees -- commitments by developers to investors to ensure that the project is constructed, leased-up, and operated as promised -- housing authorities often cannot assume any guarantee liability.

Responding to change

Because of the complexities associated with developing projects with housing credits, public housing authorities are procuring for- and non-profit developers to partner with them. Experienced affordable housing developers have become interested in working with public housing authorities because housing authorities own large tracts of land that are properly zoned, with infrastructure in place, centrally located and close to services – an increasingly scarce commodity as Florida land values have escalated and the remaining, available, buildable land is being developed into market rate projects. Over the past two years, at least half a dozen affordable housing developers have partnered with public housing authorities to re-develop Florida properties, something that was nearly unheard-of before.

When completed, many of these re-developed projects will have an increased number of units on the same property and will still utilize the existing ACC to subsidize some of the units. Rent levels of the remaining units will typically be at 60 percent of area median income Public housing authorities have traditionally been seen as providing housing for extremely low-income families, those earning below 30 percent of area median income. However, because of the economics of these projects, the additional units being created will not be affordable to ELI families. Without increased operating subsidy, these additional units must be rented to higher-income families to keep the project financially viable.

The increased interest in financing re-development with FHFC funding correlates with the increased number of housing authority applicants in the Predevelopment Loan Program. As the Technical Assistance Provider for this FHFC program, the Florida Housing Coalition is working with housing authorities to increase their development capacity. Our technical advisors have helped housing authorities understand the development process, educated them on how housing credits work and the risks involved, and assessed development and operating budgets using alternative funding sources.

One of the public housing authorities which is receiving technical assistance from the Florida Housing Coalition in conjunction with the Predevelopment Loan Program is the Arcadia Housing Authority, located in DeSoto County. The Arcadia PHA operates 130 units known as The Oaks and The Palms, of which 60 were damaged beyond repair during Hurricane Charley. The remainder of the units suffered significant damage from the back-to-back storms in 2004 and 2005 and will require substantial rehabilitation. The Arcadia PHA is utilizing the funding and technical assistance resources during the predevelopment phase of this project to create a financially feasible redevelopment plan, conduct engineering studies, and create architectural plans to renovate and rebuild so that DeSoto County's low income families will have access to affordable housing. The development is currently assembling financial resources and commitments to implement the plan, which include county HHRP funds, Federal Home Loan Bank funds, insurance proceeds, HUD funds, and tax credit equity.

By financing re-development with housing credits, public housing authorities are taking on additional risks that can have serious financial consequences. Housing credits require that construction completion and lease-up happen within a short time, usually less than 24 months, or the project is required to pay back some or all of the equity invested. This requirement can be onerous. However, housing authorities can mitigate these risks by partnering with a qualified co-developer who, for a larger split of the developer fees, will sign the guarantee. Housing authorities should also take care to procure a strong, experienced development team, including an architect, engineer, and contractor who have the ability to finish the project on time and within the budget. While there are added risks for public housing authorities when developing housing with non-traditional funding sources, they can, by using housing credits, gain re-developed units, sophisticated development experience, and long-term financial stability. They can also increase their capacity to acquire additional units. This capacity is critical, as the affordability period of thousands of units in Florida is ending in the next two decades. Housing authorities are located in nearly every community in Florida, and given their mission to serve lower-income families, their ability to put together the complex financing needed to acquire these expiring use projects and keep them affordable will be crucial to their future preservation.

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