Fairfax County Affordable Housing Advisory Committee
Capital Formation Work Group Recommendations
March 2016

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The following narrative outlines a number of recommendations prepared by the Capital Formation Work Group intended to provide guidance to policy makers to enable Fairfax County to increase the scope of financial resources available to support the provision of affordable housing opportunities to residents of Fairfax County. Many of our recommendations are a revision or expansion of existing practices, building on a foundation that is already in place.

Implementation of these recommendations will have the most positive outcomes if Fairfax County, The Fairfax County Redevelopment and Housing Authority, and the Department of Housing and Community Development take assertive action to 1) examine current processes and procedures regarding development proposals and financing strategies; 2) Adequately staff the Department of Housing and Community Development and fund new or revamped positions within the county with expertise to manage and negotiate more complex real estate and financing transitions; and 3) adopt a more "entrepreneurial" solutions based approach to overcoming the many challenges facing the county.

Recommended Considerations:

Leverage County Funds. To begin to meet the enormous shortfall of affordable units in the County, County funding must leverage non-County resources, including first mortgage debt and low-income housing tax credit equity. There are a number of ways to raise the funds needed to complete the capital structure of affordable housing projects including:

- the sale of taxable bonds, debt service which would come from the Penny Fund;
- commercial impact fees;
- assignment fees from market-rate developers; and
- the disposition of- non public housing assets owned by FCRHA in the current high-value environment.

Tax Exempt Bonds and Low Income Housing Tax Credits. Local housing finance agencies such as the Fairfax County Redevelopment and Housing Authority (FCRHA) are authorized to issue tax exempt bonds to support affordable housing activities. Although sometimes used in the county, a much more aggressive program effort to structure and offer this financing could result in a revenue stream available to support other housing programs in the county. This activity allows the FCRHA to charge issuer fees, and in some cases lender fees for providing this type of financing to private and nonprofit developers. The multifamily housing bonds finance the acquisition, construction, and rehabilitation of affordable rental housing. Multifamily housing developments with bond financing must set aside at least 40% of the units for households with incomes of 60% or less of the area median income (AMI) or 20% at 50% of the AMI.

It is important to note that these bonds are not obligations to the tax payers of the county but to the development for which the funds are utilized. An additional benefit of utilizing this financing vehicle is that 4% low income tax credits are available on a non-competitive basis as long as certain basic parameters are adhered to. This provides an added project subsidy that allows developments to provide affordable units. Tax exempt financing also can be used in conjunction with the HOME program and can be used to finance a wide variety of housing types such as family housing, units for the formerly homeless, persons with disabilities, and senior housing when properly structured.

In addition to the increased marketing and use of tax exempt bonds, a much stronger collaboration should be undertaken with private and non-profit developers on housing proposals to maximize the award not only of 4% tax credits, but also the competitive 9% credits that are such a valuable resource to the provision of affordable housing opportunities. Applications for 9% tax credits score much more competitively when local jurisdictions work in conjunction with private and non-profit developers to structure applications that provide local incentives and subordinate debt from localities. Following the practice of other jurisdictions, we recommend that DHCD staff identify worthy project opportunities and work closely with applicants to submit competitive applications for these resources. This would include the relatively new Capital Magnet Fund through the Treasury Department that is projected to become a major source of equity for affordable housing in the near future.

Commercial Impact Fees. Re-examine the 3-2-1 policy of commercial contributions to an affordable housing fund for higher density transit areas and districts. Currently this policy applies only to the Tysons redevelopment area, but it should be considered for other TOD and higher density areas in the County. This policy continues to be practiced in Arlington and Alexandria and has provided significant resources for housing without any adverse impact on commercial development.

Assignment Fees. The Tysons plan anticipates permitting market-rate developers to assign the responsibility for deeply discounted rental and for-sale units to affordable housing developers to cost effectively produce more units. The assignment fees could add substantial amounts of money to the Tysons Housing Trust Fund to leverage the other affordable housing financing tools, especially for the production of rental units priced for households with incomes below 60% of AMI.

Disposition of Assets. An analysis of non-public housing owned by the County/FCRHA should be conducted to determine if disposition of some of these assets might result in eliminating debt service and maintenance requirements that are pressing on the department's resources currently. Outside professionals should be brought in to assist with this process.

For example, what would the sale of all or part of the Wedgewood Apartments (to a qualified purchaser which would attract affordable housing financing and which would maintain them as affordable) yield? A newly reconstituted proposal for the Crescent Apartments would provide the same benefits. The sale of selected units would generate revenue after paying off debt and support the development of new affordable apartments throughout the County. The financing of the sold units and the new units would generate fee income to FCRHA.

Housing affordability and **housing for the workforce** were identified as essential elements in the County's Economic Plan for Success. Likewise workforce housing studies from George Mason's Center for Regional Analysis, Dr. Stephen Fuller's *The Roadmap to Our Region's Economic Future* and the Council of Governments *Region Forward* initiative all discuss housing's importance in attracting and retaining quality talent – a key component for growth for the region. We believe that consideration and adoption these recommendations would provide Fairfax County with the tools and financial resources needed to address their continued and growing unmet housing needs and better position the County for attracting 21st century businesses and their workforce.