



South Lowell – A Mixed Finance Development in Denver, CO

HUD's Office of Urban
Revitalization

January 31, 2024

Mixed-Finance Development: What It Is & How It Can Help Your PHA



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Webinar Topic	Date
<u>Preservation Strategies</u>	March 17, 2021
<u>PHA/Developer Roles</u>	June 30, 2021
<u>Choice Neighborhoods and Repositioning</u>	October 27, 2021
<u>Homeownership Programs</u>	February 9, 2022
<u>You Have SAC Approval – Now What?</u>	September 28, 2022
<u>Reinvestment, Recapitalization, Repositioning Tools</u>	June 7, 2023
<u>Faircloth-to-RAD Development</u>	September 20, 2023
<u>Resident Relocation for Repositioning</u>	December 6, 2023

All webinars are recorded and posted at www.hudexchange.info



Presenters

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Abbey Ogunbola, Grants Manager, Office of Urban Revitalization



Our Agenda



What is Mixed Finance Development



How can PHAs use Mixed-Finance

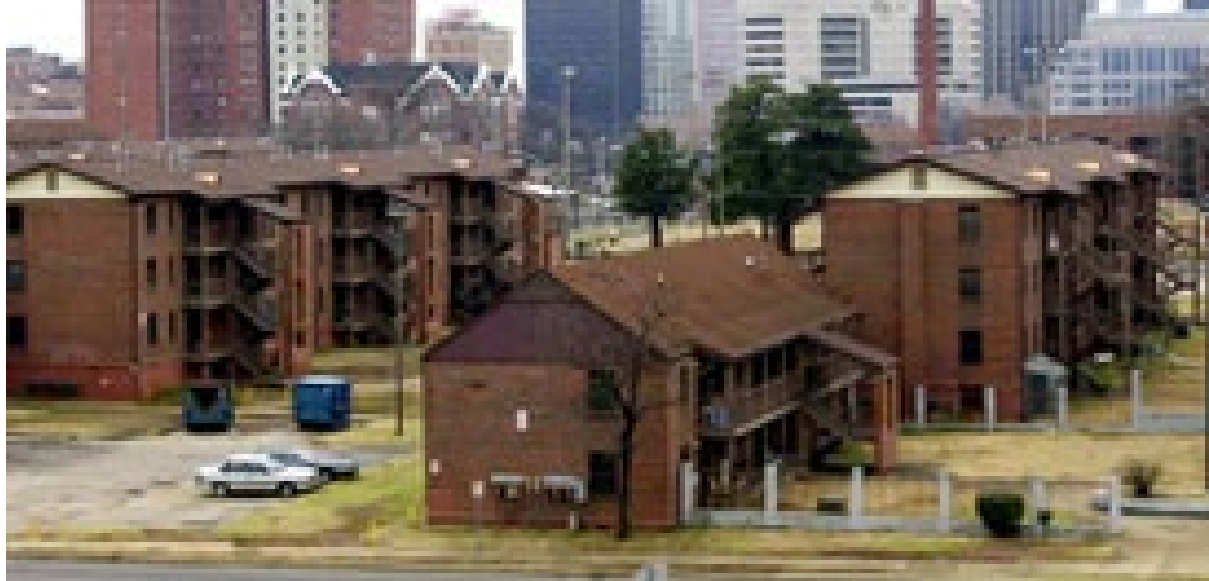


Putting together a Mixed Finance development proposal



Brief Overview of HUD Approval Process

The Challenge



- The public housing portfolio is facing billions of dollars in capital needs.
- PHAs' annual Public Housing Capital Fund allocations are not sufficient to address all their capital needs.
- PHAs often need to leverage other sources of financing to revitalize existing public housing units and create new ones.

The Toolbox

Public Housing Investment Tools:

Units stay in the Public Housing Program but can access private capital

- Operating Fund Financing Program
- Capital Fund Financing Program
- Section 30 Mortgages
- Capital Fund
 - Lead-Based Paint Capital Fund (LBPCF) & Housing-Related Hazards Capital Fund (HRHCF)
 - Emergency/Natural Disaster Grants
 - Emergency Safety and Security Grants
- Energy Efficiency Incentives
 - Energy Performance Contracting
 - Small Rural Frozen Rolling Base
 - Rate Reduction Incentive
- **Mixed Finance Development**
- Choice Neighborhoods

Repositioning Tools:

All units taken out of the Public Housing Program and assistance converted to Section 8

- Rental Assistance Demonstration (RAD)
- Section 18 Demo/Dispo
- RAD/Section Blends
- Voluntary Conversion
- Streamlined Voluntary Conversion (SVC)
- Section 32 Homeownership
- Choice Neighborhoods

The above tools focus on improving EXISTING units.

Other investment tools add NEW units, including Faircloth, Faircloth to RAD, and Homeownership through Cap Funds/Choice

The Basics of Mixed-Finance

The Definition of Mixed-Finance

- **Mixed-Finance Development:** The development of **public housing units** that are owned **in whole or in part** by an entity other than a PHA.¹
- **Why This Matters:** By allowing public housing units to be owned by a third-party, Mixed-Finance allows PHAs to partner with other entities to secure Low-Income Housing Tax Credits and other private financing to build public housing. A PHA can also invest public housing funds in the project to pay for the development and operation of the Project's public housing units.
- **Who Owns the Project?:** Most Mixed-Finance projects are owned by a tax-credit partnerships (LLC or LP).

1. **Mixed-Finance Regulations can be found at 24 CFR 905.600.** If a PHA instrumentality or affiliate owns a project, it is a Mixed-Finance project.



Mixed-Finance Development

Mixed-Finance development can be used to leverage private financing to create high-quality housing for low-income families.

- Since 2000, more than 600 Mixed-Finance public housing projects have produced nearly 80,000 housing units, often in mixed-income communities.
- With Mixed-Finance, PHAs have leveraged more than \$8 billion in non-public housing funds.
- **PHAs have used Mixed-Finance to:**
 - Rehabilitate public housing units
 - Redevelop existing public housing sites
 - Develop new public housing units
 - Acquire existing housing to bring into the public housing program



Gulf Breeze Apartments,
Punta Gorda, FL

The Basics of Mixed-Finance

Benefits of Mixed-Finance Development

Helps PHAs create high-quality housing for low-income families

Allows PHAs to use private and other public financing, particularly Low-Income Housing Tax Credits

Often mixed-income, including PH, LIHTC, PBV, and even market rate units that can increase cash flow during operations

Can be used for rehab, new construction or acquisition

Allows PHAs to partner with experienced developers and investors

Can help to stimulate neighborhood development



Mixed-Finance Development in Practice

Mixed-Finance Development & Section 18

Mixed-Finance is often used to develop distressed public housing sites together with Section 18 and other repositioning tools.

- **Section 18 Disposition**

- PHAs must receive disposition approval before they dispose of a public housing property to a Mixed-Finance new owner entity so it can be rehabilitated or redeveloped.

- **Section 18 Demolition**

- PHAs must receive demolition approval before they demolish existing public housing units that they still own.

- **Tenant Protection Vouchers:** PHAs receive **Tenant Projection Vouchers** for all recently occupied units that are disposed of or demolished. Some PHAs choose to project base some TPVs in the new Mixed-Finance development, rather than building back all public housing units.

Mixed-Finance Development in Practice

Full Scale Redevelopment of an Existing Site

Garfield Heights – Pittsburgh, PA

Garfield Heights – After Redevelopment



- The Housing Authority of the City of Pittsburgh (HACP) used Mixed-Finance to redevelop a distressed public housing site.
- HACP replaced the site's 105 public housing units with a 225-unit Mixed-Income community that had 123 public housing units, 53 LIHTC-only units and 49 market rate units.
- In Phase 4, pictured here, \$9.2 million in public housing funds leveraged \$10.3 million in private and other public funds.

Garfield Heights – Before Redevelopment



The Latest Trend in Mixed-Finance Development

The Faircloth Side of Faircloth-to-RAD

- Via Faircloth-to-RAD, PHAs take advantage of their unused Faircloth authority to build, rehab or acquire new public housing units **and** receive pre-approval to convert via RAD to a Section 8 platform.
- **Projects are approved as Mixed-Finance public housing projects before they convert to RAD.**
- **Key Innovation:** HUD underwrites Faircloth-to-RAD projects once during the Mixed-Finance approval process, using the project's anticipated RAD-rents. This makes it easier for PHAs to secure private financing for development.



Oleander at Broadway, a 348-unit development with 174 Faircloth-to-RAD units in Galveston, TX



Roosevelt Square Phase 3B, a 207-unit development with 75 Faircloth-to-RAD units in Chicago, IL



Legacy at Walton Harbor, an 85-unit development with 12 Faircloth-to-RAD units in Gainesville, GA



The Latest Trend in Mixed-Finance Development

Faircloth to RAD

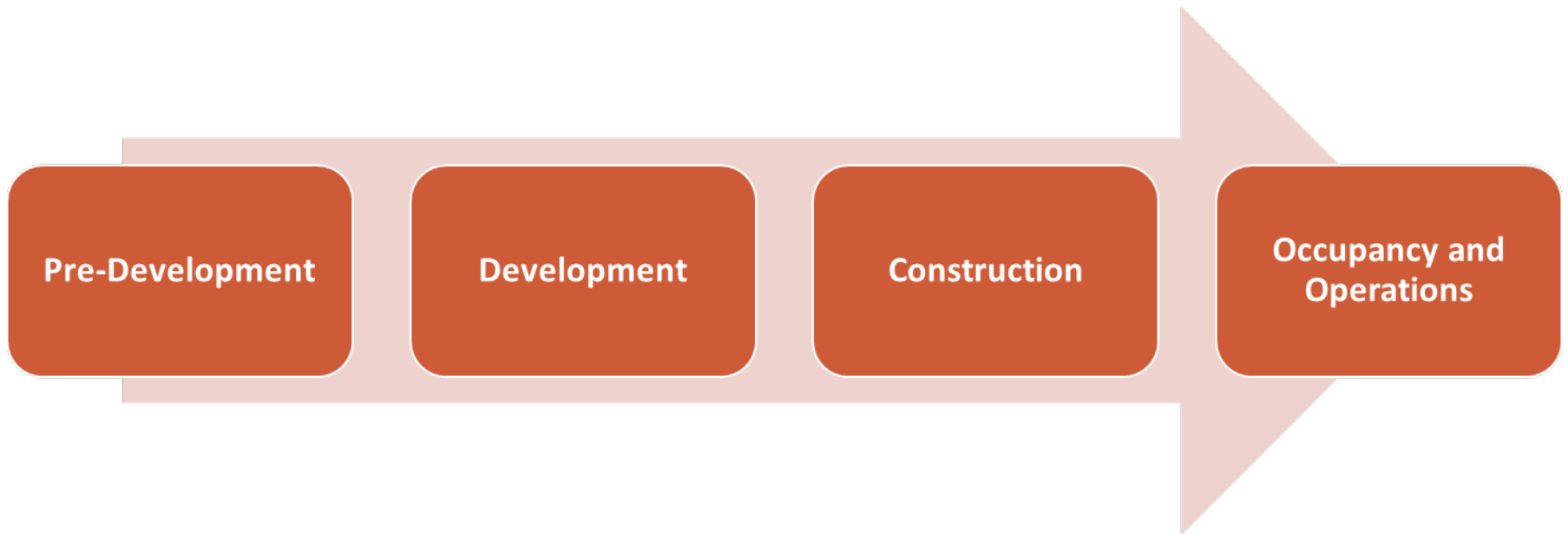
Legacy at Walton Harbor – Gainesville, GA



- The Gainesville Housing Authority constructed a new 166-unit affordable housing development for seniors on a former public housing site.
- This mixed-income development includes LIHTC-only units, ACC/ RAD units and Market rate units.
- Financing included:
 - Public Housing Capital Fund loan
 - Program Income loan
 - State & federal LIHTC equity
 - Private loans
- After being approved as a Mixed-Finance project, the Project converted to RAD shortly after construction completion.



Mixed-Finance Development Process



The Mixed-Finance Development Process

Step 1: Pre-Development

- **Formulate a Plan:**

- **Establish broad-based participatory planning process; meet with residents; hold charettes.**
- Create a preliminary development plan (unit mix, building type) and a preliminary financial plan, based on resident feedback, local housing needs and local market
- Undertake market study/feasibility analysis
- Develop preliminary site plan, building program and design options
- Conduct an environmental assessment
- Include Mixed-Finance planning effort in PHA plan

- **Build a Team:**

- Decide on the role you want your PHA to play in the development and management process
- Identify potential partners: Procure developer if needed; talk with City about preliminary plan and financial support.

The Mixed-Finance Development Process

Key Decision Point: Determining Your PHA's Role

Lender

Landowner

Developer

Part of the
Project's
Ownership Entity

Property
Manager

Asset Manager

The Mixed-Finance Development Process

Step 2: Development

- **Financing:** Apply for and secure financing (ex. Low-Income Housing Tax Credits, state and local grants and/or loans, private mortgages). **If doing Faircloth to RAD, request NARR from HUD.**
- **Site: Conduct an environmental assessment.** Conduct engineering studies. Demolish buildings if needed. Acquire site if needed. **Contact HUD for Site and Neighborhood Standards Review.**
- **Design and Construction Contracts:** Finalize design drawings and construction estimates. Secure regulatory approvals and permits. Prepare/negotiate construction contracts.
- ****HUD Demolition and Disposition Approvals:** If redeveloping an existing public housing site, secure demolition and disposition from the HUD Special Applications Center. Relocate residents if needed.
- **Submit Mixed-Finance Development Proposal to HUD and obtain HUD approval for financing closing**

**PHAs can seek HUD approval to use public housing funds to help pay for predevelopment costs related to putting together a Mixed-Finance proposal.

The Mixed-Finance Development Process

Step 3: Construction

- Commence site work and construction.
- Disburse construction funds
- Monitor construction process
- **Communicate with residents about your progress**



The Mixed-Finance Development Process

Step 4: Occupancy and Operations

- The property manager (either private firm or PHA):
 - Develops and implements a marketing plan
 - Establishes a site-based waiting list
 - Completes unit lease-up
 - Commences management activities
- The PHA:
 - Provides ongoing operating subsidy for public housing units.
 - **Undertakes asset management responsibilities to ensure PH units are operated as public housing, are well maintained, and meet all public housing requirements**
 - Seeks HUD approval before the project's ownership changes or any new liens or financing is put on the property

HUD Approval Process

HUD Approval Process for Mixed-Finance Projects

Step 1: PHA prepares a Development Proposal and submits it to the Office of Public Housing Investments at HUD Headquarters. **Prior to submitting a proposal, PHA contacts HUD field office to submit documentation for environmental and Site and Neighborhood Standards reviews.**

Step 2: Grant Manager at HUD HQ reviews Development Proposal, presents it to Mixed Finance panel, and works with the PHA to resolve any questions or concerns.

Step 3: HUD HQ reviews and approves of Development Proposal and the Draft Evidentiary Documents that govern how the project and its public housing units will be operated. **HUD Field Office Counsel approves survey and title documents.**

Step 4: HUD provides PHA its Mixed Finance approval letter. PHA and partners go through financial closing and execute evidentiary documents.

Step 5: PHA submits and HUD approves final executed evidentiary documents and HUD releases PH funds to PHA if needed.



HUD Approval Process

Key HUD Requirements to Remember

Financial:

- Investment and use of public housing funds must meet HUD guidelines (pro-rata test, Total Development Cost Limit and Housing Construction Cost Limit).
- Project's developer fee and other costs must meet HUD's Cost Control & Safe Harbor Standards.
- Project cannot unduly enrich the project's owner: Subsidy layering review required for projects with Project-Based Voucher units.

Regulatory:

- HUD environmental approval required.
- Architectural drawings must show that the Project complies with accessibility standards and livability criteria.
- HUD FHEO must conduct a **front-end review** showing that the proposed development site complies with HUD's Site and Neighborhood Standards.

HUD Approval Process

Seek Approvals Early

To build a successful Mixed-Finance development proposal, PHAs must obtain several approvals from other HUD offices. PHAs should **ideally** start working on securing all these approvals before submitting their development proposal to HUD's Office of Urban Revitalization.

Local HUD Field Office

- Site and Neighborhood Standards Approval*
- Environmental Approval

Special Applications Center

- Demolition Approval
- Disposition Approval

Office of Urban Revitalization at HUD HQ

- Architectural Approval

*OUR and FHEO plan to host a joint training on Site and Neighborhood Standards reviews for Mixed-Finance projects in March 2024.



■

We are eager to
work with you

Please email us anytime at
our@hud.gov

Questions?





Appendix

The Basics of Mixed-Finance

General Concepts of Mixed-Finance

	Mixed Finance Projects Can:
Unit Composition	Be mixed-income and include both public housing and non-public housing units (i.e. LIHTC, market rate, and/or PBV and other affordable units).
Development Type	Be used for new construction, acquisition or rehab.
Ownership	Be owned by a private entity or a public / private partnership (usually a limited partnership or a limited liability corporation). PHA often part of ownership entity.
Financing	Be developed and operated with public and private funds. PHAs can contribute Public Housing Capital Funds and Public Housing Operating Funds to pay for the public housing units.

Mixed-Finance Regulations can be found at 24 CFR 905.600.



HUD Approval Process

Preparing a Mixed-Finance Proposal

- *HUD's Office of Urban Revitalization reviews the following materials when evaluating Mixed-Finance projects (our@hud.gov).*
- **Development Proposal (HUD Form 50156)**
 - Provides an overview of the project, the parties involved, and how it meets all of HUD's regulatory requirements
- **Total Development Cost Workbook (HUD Form 50157)**
 - Permanent and Construction Budgets with firmly committed financing
 - Proof that the project complies with HUD's Cost Limits, its Pro Rata Test and its
 - Cost Control Standards
 - An operating proforma showing that the project is financially feasible and how cash flow will be distributed
- **Evidentiary Documents**
 - Legal documents reviewed by HUD that explains how the project will be owned and operated

All forms can be accessed on the HUD Mixed Finance Website:

https://www.hud.gov/program_offices/public_indian_housing/programs/ph/hope6/mfph



Assembling Your Financing

Limits on PHA's Investment of Public Housing Funds

Total Development Cost Limits

A limit on the amount of public housing funds a PHA can use to develop a housing unit, based the development type (elevator, row house, detached or walk-up) and location.

Pro Rata Test

The percentage of the project funded with public housing funds must be **less than or equal** to the percentage of the project's units that are public housing units. For Example:

- Imagine a 100-unit project.
- If only 50 of the project's units are public housing units, then only 50% of the project's development costs can be paid for with public housing funds.

Assembling Your Financing

Common Sources of Construction Financing

Public Housing Funds	Other Public Funds	Private Funds
<ul style="list-style-type: none"> Public Housing Capital Funds Choice Neighborhoods Replacement Housing Factor Funds Capital Fund Financing Program Operating Fund Financing Program 	<ul style="list-style-type: none"> HUD HOME and CDBG Funds Grants and loans from state and city governments Housing Finance Agency Housing Trust Fund Tax Increment Financing Program Income f/ other PH projects (i.e. developer fees, loans repaid, etc.) Federal Home Loan Bank funds 	<ul style="list-style-type: none"> LIHTC, historic tax credits and New Markets Tax Credits Taxable / tax-exempt bonds Conventional Mortgages Deferred private developer fees Federal Home Loan Bank AHP Foundations Deferred developer fees (private developer)



Assembling Your Financing Sources of Financing for Operations

Public Housing Funds	Other Public Funds	Private Funds
<ul style="list-style-type: none">• PH Operating Subsidy• PH Tenant Rents	<ul style="list-style-type: none">• Section 8 Project Based Vouchers	<ul style="list-style-type: none">• Other non-public housing units' rental income (i.e. income from market rate and LIHTC units)• Other income (parking, laundry, etc.)

HUD Approval Process

Site and Neighborhood Standards

- Site and Neighborhood Standards regulations are located at 24 CFR 905.602(d)
- **Submit application seeking FHEO approval to HUD Field Office public housing staff as early as possible in the development process.**
- **Information to include:**
 - Proposed development site and its current use
 - Proposed unit mix for new or rehabilitated development
 - Description of site's access to amenities
 - Evidence needed to meet exemptions if the site is in an area of minority concentration
- **Process:** HUD Public Housing Staff will share the PHA's submission with HUD's Office of Fair Housing and Equal Opportunity (FHEO), which will review and approve it. FHEO and PIH will contact the PHA with questions and requests for additional information as needed.
- **OUR and FHEO plan to host a joint training on Site and Neighborhood Standards reviews for Mixed-Finance projects in March 2024.**





Thank you!
