

STAFF REPORT

AMENDED RECOMMENDATIONS TO THE BOARD OF SUPERVISORS FROM THE FAIRFAX COUNTY AFFORDABLE HOUSING ADVISORY COMMITTEE

Background: *At its meeting on April 30, 2007, the Board of Supervisors directed the staff to review the Advisory Committee's original recommendations concerning the use of the Penny for Affordable Housing Fund (Fund 319) and return with further information. The Affordable Housing Advisory Committee subsequently adopted amended recommendations on June 22, 2007, based on comments received from Board members and further consideration by the Committee.*

This document responds to the Board's April 30, 2007 request by providing an evaluation of the Advisory Committee's amended recommendations. The amended recommendations are included as an attachment to this report.

Staff Evaluation of Recommendations: The Department of Housing and Community Development (HCD) finds that the June 22, 2007 amended recommendations of the Affordable Housing Advisory Committee are generally reasonable, achievable and supported by data documenting the need for affordable housing in Fairfax County. However, there are a number of issues that should be considered in the context of the recommendations. The following is a point-by-point review of the specific recommendations of the Advisory Committee:

1. **New affordable housing goal.**

Advisory Committee Recommendation: That the Board of Supervisors adopt a goal of preserving an additional 1,750 units using the Penny for Affordable Housing Fund, serving a range of low and moderate incomes, by the end of Fiscal Year 2011.

HCD Evaluation and Recommendation: *The original goal of the Affordable Housing Preservation Initiative goal to preserve 1000 units by the end of 2007 was exceeded almost one year ahead of schedule. As of the end of Fiscal Year 2007, 1,412 units had been preserved. The current Advisory Committee recommendation that 1,750 units be preserved between Fiscal years 2008 and 2011 equates to 438 units per year. This recommendation is supported by affordable housing need data from the George Mason University Center for Regional Analysis. The per-year expectation of 438 units preserved is consistent with past performance for the Preservation Initiative. For comparison, in Fiscal Year 2006, 581 units were preserved, including 494 units in transactions using the Penny Fund; in Fiscal Year 2007, a total of 531 units were preserved, including 520 in transactions using the Penny Fund.*

However, Fairfax County's ability to achieve the proposed goal is entirely dependent on a changing real estate market in Fairfax County, the continued availability of the Penny Fund and other affordable housing resources, and

the rent affordability of units preserved. The market for multi-family housing remains strong and prices are continuing to rise. The Washington market is still viewed as attractive by investors throughout the country. The result is that the per-unit costs of preservation are high. Adding additional pressure is the desire to serve more at a lower income lever. This will require additional funds to provide a deeper subsidy.

The Fiscal Year 2007 leverage of the Penny Fund was just below 4:1, a decrease from the Fiscal Year 2006 average of 4.26:1. The Fiscal Year 2007 per unit subsidy was \$58,034, an increase over the Fiscal Year 2006 average of \$45,826. This can be attributed to both the continued rise in the price of rental complexes in the market, and the cost of providing lower rent affordability.

In light of the rapidly increasing costs in the Fairfax County multi-family market and the increased reliance on the Penny Fund to reach rent affordability for very low income households, staff recommends that the Board: 1) adopt a goal of preserving 1,500 units by the end of Fiscal Year 2011; and 2) endorse the Advisory Committee-recommended figure of 1,750 units as a “stretch” goal. HCD agrees with the Advisory Committee that the proposed goal should be revisited annually as a part of the Advisory Committee’s annual progress reporting process.

2. **Increasing the number of households earning 50 % of the Area Median Income (AMI) and below that are served using the Penny for Affordable Housing Fund.**

Advisory Committee Recommendation: That the Board of Supervisors establish a guideline for the use of the Penny Fund that, in general, 50 % of the units preserved should be affordable at incomes 50 % of the Area Median Income (AMI) or below.

HCD Evaluation and Recommendation: *HCD supports the goal of maximizing the number of households served earning 50 % of the AMI and below is a critical goal. The data from the George Mason University Center for Regional Analysis does demonstrate that the greatest need for affordable housing occurs among households earning 50 % of the AMI and below. HCD also agrees with the Advisory Committee's commentary on this recommendation that setting aside a specific dollar amount within the Penny Fund for an income range has a number of potential drawbacks including:*

- *Reduced flexibility to respond to emerging market opportunities;*
- *The potential for funds to go unspent if opportunities to serve a specific income range do not become available; and*
- *That determining a specific amount of subsidy per unit based on income served could be problematic given location-based costs and fluctuations in pricing.*

HCD also reiterates that serving preserving units with rents affordable at 50 % of the AMI and below requires a larger subsidy, potentially reducing the total number of units that could be preserved using the Penny Fund. Attachment 1 of the Advisory Committee's recommendations, which is also included here as Attachment 1, demonstrates that preserving 50 % of the units with rents affordable at 50 % AMI and below could take as much as 70 % of the projected Penny Fund allocations through Fiscal Year 2011.

Given both the critical importance of preserving rental units affordable to very low income households while recognizing the need to maintain maximum flexibility when competing in the market, HCD recommends that the Board adopt the Advisory Committee's recommendation that 50 % of the units preserved be affordable at 50 % of AMI and below as a general goal and guideline.

3. **Investments in Single Room Occupancy (SRO)/Residential Studio Units (RSU).**

Advisory Committee Recommendation: That the Board of Supervisors use the Penny Fund and other resources to invest in the preservation of properties that include or could be used as SRO/RSUs.

HCD Evaluation and Recommendation: HCD supports the recommendation of the Advisory Committee.

4. **Other Considerations and Recommendations:** The Advisory Committee also noted considerations and recommendations for the Board:

- The proposed goal of 1,750 units over the next four years should be revisited annually as a part of the Advisory Committee's annual progress reporting process. **HCD Evaluation and Recommendation: As stated in the response to the recommendation concerning the goal above, HCD supports this recommendation.**
- While the Advisory Committee reiterates its support for the allocation of a second penny for affordable housing, it also recognizes the Board's responsibility to provide for sustainable funding for the preservation initiative. If a second penny is not sustainable, the Advisory Committee recommends that the Board consider other additional funding options, such as a bond issue, to support affordable housing. **HCD Evaluation and Recommendation: None.**
- While the Advisory Committee is recommending a four-year goal of 1,750 units, it also notes the estimated shortfall of nearly 9,000 units over the same period shown in Attachment 1. **HCD Evaluation and Recommendation: HCD acknowledges the recommendation and notes that the production of new affordable housing by the market, including through the Affordable Dwelling Unit (ADU) program and potentially the adoption of a Workforce Housing Program, will be critical to meeting the growing need for affordable housing in Fairfax County.**
- The Advisory Committee suggests that the Board consider allowing the Penny Fund to be used for new construction for those populations who are most difficult to serve through preservation if and only if the Penny Funds used are replaced dollar for dollar by another funding source and used for preservation. **HCD Evaluation and Recommendation: HCD does not support this recommendation. The use of the Penny Fund for new construction sets an unsupportable precedent, as it dilutes the original mission of the Penny Fund. The Penny Fund should be considered for new construction only in very rare cases.**
- The Advisory Committee also had a general discussion about the development of a "toolbox" of options to use the Penny Fund, among other

resources, to maximize affordable housing opportunities for households earning 50 % of the Area Median Income and below. The Advisory Committee recognizes that these options require further study and analysis. These options may include a “Care Fund” to provide short-term housing-related assistance to lower-income families, and providing operating support to affordable housing providers as a means to increase unit affordability. ***HCD Evaluation and Recommendation: These recommendations appear to have merit. HCD will review and consider these concepts and report to the Board at a later date with any recommendations.***

Attachment 1: Rental Housing Needs and Production Goals

Income Range	Units Needed 2005 - 2010	Units Preserved 2005 to 2007	Balance Needed	\$77,300,000* Funding To Be Used Based Per Unit Subsidy FY 2008 - 2011	Per-Unit Subsidy	Affordable Housing Goal FY 2008 - 2011**	Unit Shortfall 2008 - 2010	Percentage of units preserved
50% AMI and below (percentage)	6000 55%	389	5611	\$52,980,000	\$60,000	883	4728	50%
60 to 80% AMI (percentage)	3500 25%	718	2782	\$17,660,000 average	\$30,000 - \$50,000 \$40,000	442	2341	25%
90 to 120 % AMI*** (percentage)	2500 20%	252	2248	\$6,622,500 average	\$10,000 - \$20,000 \$15,000	442	1807	25%
TOTAL	12000	1359	10641	\$77,262,500		1766	8875	

*Anticipated amounts available:

FY 2008	\$9,200,000	
FY 2009	\$22,700,000	
FY2010	\$22,700,000	
FY2011	\$22,700,000	
TOTAL	\$77,300,000	(in 2007 dollars)

**The number of units within each income level preserved are calculated so that the percentage of the total remains constant and the total projected expenditures, based on the average per unit subsidy, stay within \$77,300,000.

***Incomes served above 100% of AMI will only be for first-time homeownership or to avoid the dislocation of long-time residents of acquired properties.

ATTACHMENT 2

AMENDED RECOMMENDATIONS TO THE BOARD OF SUPERVISORS FROM THE FAIRFAX COUNTY AFFORDABLE HOUSING ADVISORY COMMITTEE

JUNE 22, 2007

Background: *At its meeting on April 30, 2007, the Board of Supervisors received recommendations from the Fairfax County Affordable Housing Advisory Committee regarding modifications to the Overriding and Guiding Principles for the One Penny for Affordable Housing Fund. During the Board's discussion of the recommendations, Board members raised a number of concerns, particularly regarding the Advisory Committee's proposed position on using the Penny Fund for new construction. The Board directed the staff to review the Advisory Committee's recommendations and return with further information.*

This document is a product of the Advisory Committee's efforts to be responsive to the Board's concerns. The Special Subcommittee of the Advisory Committee, which drafted the original recommendations, reconvened and amended the recommendations with the assistance of staff. The revised recommendations were discussed and approved by the Advisory Committee on June 22, 2007.

The Advisory Committee now respectfully submits these revised recommendations to the Board of Supervisors for your consideration.

Revised Recommendations: The following are the revised recommendations of the Affordable Housing Advisory Committee:

1. New affordable housing goal.

Advisory Committee Recommendation: That the Board of Supervisors adopt a goal of preserving an additional 1,750 units using the Penny for Affordable Housing Fund, serving a range of low and moderate incomes, by the end of Fiscal Year 2011.

Discussion: *The original Affordable Housing Preservation Initiative goal of preserving 1000 units by the end of 2007 has been exceeded, almost one year ahead of schedule. The Advisory Committee urges the county to continue to "seize the mission" of affordable housing, and is recommending the new goal of preserving 1,750 additional units to that end. This new recommended goal is based on projected needs information from a study prepared by the George Mason University Center for Regional Analysis via a vis the resources anticipated to be available through the Penny Fund allocation through FY 2011. Attachment 1 shows an analysis of how the proposed goal was developed.*

2. **Increasing the number of households earning 50 % of the Area Median Income (AMI) and below that are served using the Penny for Affordable Housing Fund.**

Advisory Committee Recommendation: That the Board of Supervisors establish a guideline for the use of the Penny Fund that, in general, 50 % of the units preserved should be affordable at incomes 50 % of the Area Median Income (AMI) or below.

Discussion: *Maximizing the number of households served earning 50 % of the AMI and below is a critical goal. However, setting aside a specific dollar amount within the Penny Fund for an income range has a number of potential drawbacks. First, having a set-aside of any kind reduces the County’s flexibility and the ability to respond quickly to market opportunities. Second, funds could go unspent if opportunities to serve a specific income range do not become available. Similarly, determining a specific amount of subsidy per unit based on income served could be problematic given location-based costs and fluctuations in pricing.*

A study by the George Mason University Center for Regional Analysis, commissioned by the Department of Housing and Community Development (HCD) and presented to Advisory Committee, shows that in order to support job growth in the County, a total of 12,000 rental units will be needed between 2005 and 2010 for households earning up to 120 % of AMI. Table A shows a breakdown of the rental units needed by income range, the units preserved using all funding sources to date, and the net rental units needed. Table B shows this information with the need projected to 2025.

Table A: New Rental Units Needed, by Income, 2005 - 2010

Income as percentage of AMI	Rental Units Needed	Units Preserved to Date	Net Rental Units Needed	Units Needed as % of Total
50 and below	6,000	389	5,611	52%
50 to 80	3,500	718	2,782	26%
80 to 120	2,500	252	2,248	22%
TOTAL	12,000	1,359	10,641	100%

Sources: George Mason University; DHCD

Table B: New Rental Units Needed, by Income, 2005 - 2025

Income as percentage of AMI	Rental Units Needed	Units Preserved to Date	Net Rental Units Needed	Units Needed as % of Total
50 and below	16,000	389	15,611	49%
50 to 80	9,000	718	8,282	26%
80 to 120	8,000	252	7,748	25%
TOTAL	33,000	1,359	31,641	100%

Sources: George Mason University; DHCD

The data shown in Tables A and B shows that rental housing affordable at 50 % AMI and below constitutes approximately 50 % of the need for net new affordable/workforce housing in Fairfax County through the year 2025, with

units affordable up to 80 and 120 % of AMI constituting the other half of the need.

3. **Investments in Single Room Occupancy (SRO)/Residential Studio Units (RSU).**

Advisory Committee Recommendation: That the Board of Supervisors use the Penny Fund and other resources to invest in the preservation of properties that include or could be used as SRO/RSUs.

Discussion: *The Advisory Committee recognizes low and moderate-income singles, particularly those with special needs, as among the most difficult to house. Significantly, aside from the Fairfax County Redevelopment and Housing Authority's (FCRHA) Coan Pond Residences for working singles, there are no other SRO/RSU developments in Fairfax County. This recommendation is intended to encourage the use of the Penny Fund in preservation projects where there is an opportunity to provide SRO/RSU housing. For example, the Advisory Committee recognizes the purchase of old motels as potential preservation opportunities where SRO/RSU housing could be provided.*

It should be noted that the Advisory Committee also reiterates its support for the proposed amendment to the Zoning Ordinance to facilitate the development of SRO/RSU housing in Fairfax County, as stated in Advisory Committee Co-Chair Conrad Egan's January 12, 2007 letter to Board of Supervisors Chairman Gerry Connolly. In addition, the Advisory Committee recognizes the High-rise Affordability Panel's recommendation to consider allowing the development of Affordable and Workforce Housing in Commercial, Industrial, and Mixed-Use Districts through a mechanism such as the Special Exception process as a potential opportunity to facilitate SRO/RSU developments.

Other Considerations and Recommendations: The Advisory Committee has the following additional considerations and recommendations for the Board:

- The proposed goal of 1,750 units over the next four years should be revisited annually as a part of the Advisory Committee's annual progress reporting process.
- While the Advisory Committee reiterates its support for the allocation of a second penny for affordable housing, it also recognizes the Board's responsibility to provide for sustainable funding for the preservation initiative. If a second penny is not sustainable, the Advisory Committee recommends that the Board consider other additional funding options, such as a bond issue, to support affordable housing.
- While the Advisory Committee is recommending a four-year goal of 1,750 units, it also notes the estimated shortfall of nearly 9,000 units over the same period shown in Attachment 1.
- The Advisory Committee suggests that the Board consider allowing the Penny Fund to be used for new construction for those populations who are most difficult to serve

through preservation if and only if the Penny Funds used are replaced dollar for dollar by another funding source and used for preservation.

The Advisory Committee again acknowledges and affirms the work of the Board of Supervisors-appointed High-rise Affordability Panel. The Advisory Committee recommends that staff explore opportunities within any eventual policy endorsed by the Board to maximize the production of affordable/workforce housing in the County's high-density Development Centers, as identified in the Fairfax County Comprehensive Plan. This could include using the Penny Fund or other resource to make investments in the development of affordable/workforce housing units, to make more new units produced affordable at lower incomes.

The Advisory Committee also had a general discussion about the development of a "toolbox" of options to use the Penny Fund, among other resources, to maximize affordable housing opportunities for households earning 50 % of the Area Median Income and below. The Advisory Committee recognizes that these options require further study and analysis. These options may include a "Care Fund" to provide short-term housing-related assistance to lower-income families, and providing operating support to affordable housing providers as a means to increase unit affordability.