



Committee: PHED
Committee Review: At a future date
Staff: Linda McMillan, Senior Legislative Analyst
Purpose: To receive testimony – no vote expected
Keywords: Affordable Housing

AGENDA ITEM #5
January 12, 2021
Public Hearing

SUBJECT

Amendment to the FY21-26 Capital Improvements Program and Supplemental Appropriation to the FY21 Capital Budget; Montgomery County Government; Department of Housing and Community Affairs; Affordable Housing Opportunity Fund (P762101); \$8,000,000 (Source of Funds: Recordation Tax Premium (MCG))

EXPECTED ATTENDEES

NA

COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION

- Introduced on December 15, 2020. PHED Committee to be scheduled at a future date.

DESCRIPTION/ISSUE

Montgomery County has a shortage of housing that is affordable to moderate and low-income households, particularly households earning less than 50% area median income. Additional financing strategies to help preserve affordable housing are needed. The Executive recommends the creation of an Affordable Housing Opportunity Fund. The Department of Housing and Community Affairs is planning to enter into a partnership with an entity, such as a Community Development Financial Institution (CDFI), to identify appropriate projects and assist in creating financing packages that leverage non-county funding. Funds from the Affordable Housing Opportunity Fund will fill the financing gap so that the project can move forward. It is expected that these funds will primarily be used for initial short-term financing of up to 36 months but may also be used for intermediate term agreements. Eight million dollars is requested for FY21 and \$6 million for FY22.

SUMMARY OF KEY DISCUSSION POINTS

- Both new financing tools and additional public and private resources are needed to preserve affordable housing in Montgomery County, particularly housing that is affordable to households with incomes below 50% of AMI.
- In January, the Executive recommended the creation of an Affordable Housing Opportunity Fund that would be used to preserve affordable housing through the purchase of existing buildings by partners that commit to long-term affordability. This is likely to occur through the county's ability to exercise right-of-first refusal.
- The Council agreed with the recommendation of the Planning, Housing, and Economic Development Committee to approve the project but not to appropriate until additional questions were answered about the structure for this fund.

- The Department of Housing and Community Affairs has continued to work through the details on the structure and now plans to issue a solicitation to partner with an entity, such as a CDFI, that will assist with identifying projects and partners, developing financing plans that will leverage new sources of non-county capital, and reviewing loans. This partner will be able to access the county funds to close gaps in financing packages.
- The Executive has transmitted a CIP amendment and is requesting a supplemental appropriation of \$8 million. The source of funds is Recordation Tax Premium that is available for county CIP projects.

This report contains:

Executive memo, Resolution, and PDF

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OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Marc Elrich
County Executive

M E M O R A N D U M

December 4, 2020

TO: Tom Huckler, President, County Council

FROM: Marc Elrich, County Executive 

SUBJECT: Amendment to the FY21-26 Capital Improvements Program and Supplemental Appropriation #14-S21-CMCG-6 to the FY21 Capital Budget
Montgomery County Government
Department of Housing and Community Affairs
Affordable Housing Opportunity Fund (P762101), \$8,000,000

I am recommending a supplemental appropriation to the FY21 Capital Budget and amendment to the FY21-26 Capital Improvements Program in the amount of \$8,000,000 for the Affordable Housing Opportunity Fund (No. P762101). Appropriation for this project will address the urgent challenge of preservation and development of affordable housing in areas at risk of rent escalation to higher market rents, including the Purple Line Corridor and other County transit corridors.

This increase is needed because the County has a severe shortage of affordable housing and needs to maximize and leverage private investment in the preservation and creation of dedicated affordable housing. The recommended amendment is consistent with the criteria for amending the CIP because project leverages significant non-County sources of funds. The funds will be used to support creation of a public-private affordable housing acquisition fund, leveraging County acquisition loans with predetermined private sector lending to support long-term affordable housing preservation. It will allow development of an agreement with the private sector capital providers, including targeted uses and lending terms as agreed upon by the County and the private sector partners as part of an acquisition funding pool, to support lending for acquisition of targeted properties to create long-term affordable housing. Borrowers are expected to repay loans when long-term affordability financing is arranged, revolving the funds back to support additional acquisitions.

I recommend that the County Council approve this appropriation and amendment to the FY21-26 Capital Improvements Program in the amount of \$8,000,000 and specify the source of funds as Recordation Tax Premium.

I appreciate your prompt consideration of this action.

ME:ll

Attachment: Amendment to the FY21-26 Capital Improvements Program and Supplemental Appropriation #14-S21-CMCG-6

c: Ascem Nigam, Director, Department of Housing and Community Development
Jennifer Bryant, Acting Director, Office of Management and Budget

Resolution: _____
 Introduced: _____
 Adopted: _____

COUNTY COUNCIL
 FOR MONTGOMERY COUNTY, MARYLAND

By: Council President at the Request of the County Executive

SUBJECT: Amendment to the FY21-26 Capital Improvements Program and Supplemental Appropriation #14-S21-CMCG-6 to the FY21 Capital Budget Montgomery County Government Department of Housing and Community Affairs Affordable Housing Opportunity Fund (P762101), \$8,000,000

Background

1. Section 307 of the Montgomery County Charter provides that any supplemental appropriation shall be recommended by the County Executive who shall specify the source of funds to finance it. The Council shall hold a public hearing on each proposed supplemental appropriation after at least one week's notice. A supplemental appropriation that would comply with, avail the County of, or put into effect a grant or a Federal, State or County law or regulation, or one that is approved after January 1 of any fiscal year, requires an affirmative vote of five Councilmembers. A supplemental appropriation for any other purpose that is approved before January 1 of any fiscal year requires an affirmative vote of six Councilmembers. The Council may, in a single action, approve more than one supplemental appropriation. The Executive may disapprove or reduce a supplemental appropriation, and the Council may reapprove the appropriation, as if it were an item in the annual budget.
2. Section 302 of the Montgomery County Charter provides that the Council may amend an approved capital improvements program at any time by an affirmative vote of no fewer than six members of the Council.
3. The County Executive recommends the following capital project appropriation increases:

| <u>Project Name</u> | <u>Project Number</u> | <u>Cost Element</u> | <u>Amount</u> | <u>Source of Funds</u> |
|-------------------------------------|-----------------------|---------------------|---------------|-------------------------|
| Affordable Housing Opportunity Fund | 762101 | Land | \$8,000,000 | Recordation Tax Premium |

Amendment to the FY21-26 Capital Improvements Program and Supplemental Appropriation
 #14-S21-CMCG-6
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4. This increase is needed because the County has a severe shortage of affordable housing and needs to maximize and leverage private investment in the preservation and creation of dedicated affordable housing. The recommended amendment is consistent with the criteria for amending the CIP because project leverages significant non-County sources of funds. The funds will be used to support creation of a public-private affordable housing acquisition fund, leveraging County acquisition loans with predetermined private sector lending to support long-term affordable housing preservation. It will allow development of an agreement with the private sector capital providers, including targeted uses and lending terms as agreed upon by the County and the private sector partners as part of an acquisition funding pool, to support lending for acquisition of targeted properties to create long-term affordable housing. Borrowers are expected to repay loans when long-term affordability financing is arranged, revolving the funds back to support additional acquisitions.
5. The funds will support the County negotiating an agreement with a private sector partner to serve as a fund manager, arranging additional acquisition lending funds from private sector sources, and coordinating acquisition opportunities under terms and conditions targeted with the County's funds.
6. The County Executive recommends an amendment to the FY21-26 Capital Improvements Program and a supplemental appropriation in the amount of \$8,000,000 for the Affordable Housing Opportunity Fund (No. P762101) and specifies that the source of funds will be Recordation Tax Premium.
7. Notice of public hearing was given and a public hearing was held.

Action

The County Council for Montgomery County, Maryland, approves the following action:

The FY21-26 Capital Improvements Program of the Montgomery County Government is amended as reflected on the attached project description form and a supplemental appropriation is approved as follows:

| <u>Project Name</u> | <u>Project Number</u> | <u>Cost Element</u> | <u>Amount</u> | <u>Source of Funds</u> |
|-------------------------------------|-----------------------|---------------------|---------------|-------------------------|
| Affordable Housing Opportunity Fund | 762101 | Land | \$8,000,000 | Recordation Tax Premium |

This is a correct copy of Council action.

Selena Mendy Singleton, Esq. Clerk of the Council



Affordable Housing Opportunity Fund (P762101)

| | | | |
|----------------------|-----------------------------------|-----------------------------|-----------------------------|
| Category | Community Development and Housing | Date Last Modified | 05/18/20 |
| SubCategory | Housing (MCG) | Administering Agency | Housing & Community Affairs |
| Planning Area | Countywide | Status | Planning Stage |

| | Total | Thru FY19 | Est FY20 | Total 6 Years | FY 21 | FY 22 | FY 23 | FY 24 | FY 25 | FY 26 | Beyond 6 Years |
|--------------------------------------|---------------|-----------|----------|---------------|--------------|--------------|-------|-------|-------|-------|----------------|
| EXPENDITURE SCHEDULE (\$000s) | | | | | | | | | | | |
| Land | 14,000 | - | - | 14,000 | 8,000 | 6,000 | - | - | - | - | - |
| TOTAL EXPENDITURES | 14,000 | - | - | 14,000 | 8,000 | 6,000 | - | - | - | - | - |

| FUNDING SCHEDULE (\$000s) | | | | | | | | | | | |
|----------------------------------|---------------|---|---|---------------|--------------|--------------|---|---|---|---|---|
| Recordation Tax Premium (MCG) | 14,000 | - | - | 14,000 | 8,000 | 6,000 | - | - | - | - | - |
| TOTAL FUNDING SOURCES | 14,000 | - | - | 14,000 | 8,000 | 6,000 | - | - | - | - | - |

| APPROPRIATION AND EXPENDITURE DATA (\$000s) | | | |
|--|-------|--------------------------|---|
| Appropriation FY 21 Request | - | Year First Appropriation | |
| Appropriation FY 22 Request | 6,000 | Last FY's Cost Estimate | - |
| Supplemental Appropriation Request | 8,000 | | |
| Cumulative Appropriation | - | | |
| Expenditure / Encumbrances | - | | |
| Unencumbered Balance | - | | |

PROJECT DESCRIPTION

This project provides funding to address the urgent challenge of preservation and development of affordable housing in areas at risk of rent escalation to higher market rents, including the Purple Line Corridor and other County transit corridors.

The Affordable Housing Opportunity Fund will be used to provide seed money to establish a public-private preservation commitment of funds which will proactively leverage additional resources to support affordable housing developers in preserving and producing targeted affordable housing. The purpose of the funds is to assist affordable housing developers purchasing properties offered for sale, and potentially to purchase property from the County which it acquires under the Right of First refusal law. A portion of the units in these properties must serve households with incomes that are at or below incomes eligible for the Moderately Priced Dwelling Unit (MPDU) Program.

The funds will be operated through establishing a contractual agreement with a fund manager, such as a Community Development Financial Institution (CDFI), to coordinate commitment of private capital investment in acquisitions of properties to create long-term affordability. Under predetermined terms, the Opportunity Fund will be dedicated to acquisition transactions in combination with the private capital with County approval of each transaction. The funding is expected to support financing activity within six months of allocation, based on the time needed to identify partners, develop investment guidelines, and document responsibilities. Loan terms will primarily be short-term (up to 36 months) in duration. Funds are expected to revolve based on refinancing or redevelopment financing.

PROJECT JUSTIFICATION

The County has a severe shortage of affordable housing and needs to maximize and leverage private investment in the preservation and creation of dedicated affordable housing. The fund structure will establish predetermined underwriting parameters and qualifications for affordable housing developers rapidly purchasing properties targeted for preservation. After acquisition, the fund structure will allow time to implement longer term actions addressing specific property opportunities, from rental agreements to redevelopment. The expectation is that these funds will leverage approximately \$4 for every \$1 of County funding. Opportunities to purchase property utilizing the County's Right of First Refusal could arise without advance notice and would not be planned in advance. Other targeted acquisitions would benefit from access to a dedicated source of ready funding. Properties may be acquired by the County, the Housing Opportunities Commission, non-profit developers or other entities that agree to maintain affordability or develop/redevelop a property for affordable housing.

OTHER

Resale or control period restrictions to ensure long-term affordability should be a part of projects funded with these monies.

FISCAL NOTE

Future loan repayments are expected and will be used to finance future housing activities in this project. FY21 supplemental in Recordation Tax Premium (MCG) for the amount of \$8,000,000.

COORDINATION

Montgomery County Revenue Authority, Housing Opportunities Commission, non-profit housing providers, private sector developers, and financing institutions.