

City of Ann Arbor
Ann Arbor Housing Commission Joint Policy and Financial Advisory Committee
Recommendations to City Council

Background

On May 18, 2015 (R-15-164), City Council unanimously established a committee to clarify the operational and financial responsibilities of the Ann Arbor Housing Commission (AAHC) and City of Ann Arbor (City) to one another for FY2017 and beyond. The committee was tasked with recommending a Partnership Agreement clarifying the operational and financial responsibilities of the AAHC and City to one another. The recommended agreement was to address, but was not limited to, the following topics:

- a. The City's affordable housing goals, strategies and policies.
- b. Use of General Fund dollars to fund recurring expenses of the AAHC.
- c. Allocation of Affordable Housing Trust Fund (AAHTF) dollars to the AAHC.
- d. The role of the AAHC in contributing to the goals of the Affordable Housing and Economic Equity Analysis commonly referred to as the Affordable Housing Needs Assessment, and the City's Sustainability Framework.
- e. The responsibility of the City to replace declining federal funds.

As background, the AAHC operates several somewhat separate types of services and is funded from a variety of sources. A few key highlights are described below.

Public Housing / Affordable Housing

In 2013, the AAHC was one of 10 housing authorities approved by HUD to redevelop its entire portfolio under the Rental Assistance Demonstration (RAD) program. As a result, the AAHC has leveraged \$42 million in construction funds from outside sources to reinvest in our existing affordable housing stock. The City has been a critical partner with the AAHC to ensure the success of the RAD conversion, providing \$2.6 million in construction funding (\$1,546,389 AAHTF, \$900,000 DDA, \$153,611 Sewer Fund) and \$891,000 in operating funds (\$159,000 AAHTF, \$732,000 General Fund) over the last three fiscal years. Once all of the AAHC's properties are converted under the RAD program (targeted for 2018), the AAHC operations of its properties are expected to be financially self-sufficient.

The AAHC was able to secure redevelopment funding under the highly competitive Low Income Housing Tax Credit (LIHTC) program, in part because of their commitment to permanent supportive housing, which requires on-site support services. The AAHC contracts with: Peace Neighborhood Center (Peace); Community Action Network (CAN); Avalon Housing; the Veteran's Administration; Ozone House; and Community Support and Treatment Services to provide services to residents. The AAHC has an annual commitment of \$140,000 to three of these service partners, which in turn, leverages millions of dollars in service funding. For more than 15 years, the City has provided the AAHC with an annual contribution of \$60,000 for these services, with the balance funded by the AAHC through its public housing capital fund. The RAD

model does not allow for services to be paid for from operating funds and the AAHC no longer receives public housing funds for those properties, leaving a line item annual deficit of \$80,000.

Voucher (Section 8) Housing

While the AAHC properties covered by the RAD conversion are expected to be operationally and financially self-sufficient post 2018 (excluding the funding for support services), this is not the case with the AAHC's Voucher (Section 8) program. The Housing Choice Voucher program is designed to provide tenants with the flexibility to live in private landlord housing in a community of their choice. This program is intended to de-concentrate poverty by integrating vouchers into market rate properties, while simultaneously providing a significant economic benefit to private landlords. Ideally, vouchers should enable tenants to move to neighborhoods with good schools and in close proximity to employment, services and transit.

Unfortunately, the high-cost housing market in Ann Arbor is a barrier to voucher participants securing housing within the City. Creating an additional barrier is the fact that landlords are not required by law to accept a voucher. The AAHC recently implemented policies to increase the voucher usage in Ann Arbor, which resulted in a net gain of 90 households residing within the City. Despite this change, over 800 households with an AAHC voucher do not live in Ann Arbor.

Regardless of where the AAHC's voucher tenants live, the AAHC must comply with HUD regulations to operate the program. Currently, the U.S. Congress funds the Voucher program at 81% reimbursement to the AAHC of HUD's calculated cost to run the program. The AAHC has implemented cost-saving measures and is currently under-staffed, but unless Congress substantially increases the reimbursement rate, the Voucher program is expected to face long-term operating deficits.

AAHC Operations

AAHC staff, the vast majority of whom are AFSCME members, earn less than their City counterparts at every level of the organization. The AAHC employs a higher percentage of African Americans compared to the City staff as a whole. Leading up to FY2016, City Council expressed a desire to address this imbalance in pay equity. At this point in time, the federal government does not provide sufficient reimbursement to achieve equitable pay without supplemental support from the City.

Ann Arbor Housing "Trust" Fund

The committee discussed Ann Arbor Housing Fund allocations to the AAHC. The committee recognized that the AAHF was created to provide one-time funds for either the development of new affordable units or to meet critical capital investments in order to maintain existing housing stock. The AAHF was not intended to provide annual operating funds to the AAHC. Further, the AAHF currently has less than \$50,000 available.

Committee Recommendations

The Committee met six times between June and December, 2015, at which it received and discussed information provided by the AAHC and the City. Since the AAHC is in the process of converting all its Public Housing to Project-Based Voucher Housing (via the RAD program), the Committee recommends Council delay its request for a Partnership Agreement until 2018, at which time a similar Committee could be charged with developing a recommended agreement.

The Committee did, however, arrive at several findings and have the following recommendations corresponding to the Committee's charge:

a. A Commitment to Affordable Housing and the Goals of the Affordable Housing Needs Assessment

The committee reaffirmed the City's relationship with the AAHC, which was created by the City for the purpose of providing affordable housing within the City of Ann Arbor. As the largest provider of affordable housing in the City, the committee recognizes the central role of the AAHC in maintaining high quality affordable apartments. As we explore a variety of strategies to increase the number of affordable apartments within the City, it is critical that we support existing housing for our most vulnerable residents.

The Committee recognizes that the crisis of low-income and affordable housing in the City of Ann Arbor is linked to the deeper history and broader challenge of inequality within the municipality, Washtenaw County, and the country. It notes the crisis of systematic inequality in Michigan as underscored by recent studies, including the Washtenaw County Equity Analysis and the Washtenaw County Opportunity Index which project that unaddressed racial inequality in Washtenaw County alone reduces local GDP by \$1.9 billion dollars.

The Committee recognizes the role of the AAHC in promoting economic and racial diversity within the City. The AAHC plays a critical role in ensuring that the City is welcome to all residents, in part by providing housing and opportunities for low-income and minority households. Supporting the AAHC is a low-hanging point of intervention that will pay exponential dividends to the City of Ann Arbor.

The Committee briefly touched on the City's need of workforce housing (defined here as 60% to 100% AMI), but recognized the AAHC has developed expertise with HUD funded housing. AAHC is currently focused on affordable housing units which are at 60% AMI and below, but may focus on workforce housing in the future.

b. Use of General Fund dollars to fund recurring expenses of the AAHC

The County has offered to collaborate with the City and increase its Community Based Development Organization (CBDO) funding to Peace and CAN, who meet the requirements as current recipients of CBDO funding, by \$80,000 to finance the costs needed to provide

supportive services to the residents in RAD program apartments. The CBDO funding would come from the City's Community Development Block Grant allocation that is managed by the County and would require City support to institute this change. This funding would supplement the existing \$60,000 per year City General Fund appropriation. The Committee recommends the City:

1. Continue, on a recurring basis, to provide the \$60,000 operating support for the AAHC from its General fund
2. Adopt a policy to allocate CBDO funds on a recurring basis to fund supportive services for residents at the RAD converted properties; thereby establishing a sustainable funding source for these important services

The Committee also recognized the AAHC may experience unplanned losses during the RAD conversion process itself through 2018 and recommends Council support the transition with one-time appropriations for the RAD conversion, as needed, during this period.

c. Allocation of Affordable Housing "Trust" Fund (AAHF) dollars to the AAHC

Recognizing the AAHC's request for additional recurring operating support, City Council redirected its annual \$100,000 General fund appropriation from the AAHF directly to the AAHC starting in FY2016. The Committee supports the continuation of this appropriation since it establishes a sustainable source of recurring support for AAHC operations to achieve pay equity for AAHC staff.

d. The role of the AAHC in contributing to the goals of the Affordable Housing and Economic Equity Analysis, commonly referred to as the Affordable Housing Needs Assessment, and the City's Sustainability Framework

If as recommended City Council charges a new Committee in 2018, that Committee's charge should require follow-up in this area. City Council should consider including, but not limited to, charging the new committee with identifying which services at that time are sustainable, which services are not, what are the recommended actions to make the unsustainable services sustainable, and what policies and roles surrounding the AAHC and City should be clarified in the Partnership Agreement so that the City's affordable housing goals are advanced.

e. The responsibility of the City to replace declining federal funds

The Committee recommends that City Council provide non-recurring general fund operating support through FY2018 for the administration of the Housing Choice Voucher Program due to insufficient federal funds to operate the existing program. The level of support needed will change depending on the shortfall created by HUD's budget adopted by Congress. The Committee recommends that City Council approve \$105,000 as a placeholder in the budget and that the City and AAHC adjust this amount based on AAHC actual receipts from HUD. If as recommended City Council charges a new Committee in 2018, the Committee recommends addressing at that time what the role of the City should be regarding the financial sustainability of the Voucher program as well as future appropriations.