MEMORANDUM

To: Wichita Affordable Housing Fund Technical Advisory Committee

CC: Robert Layton, Scot Rigby, Sally Stang, Scott Wadle, Mary Hunt (City of Wichita)

From: Andy Pfister and Justin Carney – Development Strategies

Date: October 27, 2021 (DRAFT)

Re: Potential uses of ARPA funds in the Affordable Housing Fund

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The purpose of this memorandum is to:

- summarize key outcomes and priorities from our discussion on October 20, 2021,
- summarize the non-ARPA funding options and resources that emerged after our September 13th meeting, and
- present three options for focusing the use of the $5 million in ARPA funds that City Council earmarked for affordable housing.

KEY OUTCOMES AND PRIORITIES

We had very active and informative conversation during the October 20 work session as the committee members weighed different information we presented, considered the breadth of housing needs in Wichita, talked through potential pilot projects, and evaluated how many households a $5 million fund could impact. Key points of agreement emerged from the conversation, building off of our first session on September 13, 2021:

- There is a need to focus on **improving the condition of the existing housing stock** in our core and formerly redlined neighborhoods. This could take the form of home repair funds/programs for existing homeowners so that they are able to stay in their homes. Or, it could be renovation/rehab funds for developers to use to improve existing homes, particularly the single-family homes currently owned by the Housing Authority, for affordable homeownership opportunities.
- There is a desire to **expand affordable and sustainable homeownership opportunities** to address equity in housing options, as well as provide more opportunities to build wealth.
- There is to make sure households have access to the **services that support stability in homeownership**, such as credit counseling, homebuyer education, and homeownership training.
- There is also a need to **improve the quality and condition of rental housing options,** and to address the challenges caused by landlords that do not take care of their properties, or treat tenants with respect.
- There is a need to focus on programs and efforts that can be **fully implemented in the timeframe** dictated by ARPA. That is, the funds must be committed by the end of 2024 and fully disbursed by the end of 2026.
- There was also a conversation about picking more **specific neighborhoods** to focus the funds so that there is more impact, versus scattering the impact across the ECA.
- The economic feasibility models showed that **leveraging the Housing Authority portfolio for affordable homeownership opportunities** would stretch the funds further than for affordable rental units, although there are caveats. For instance, a developer could apply for LIHTCs and/or utilize project-based Section 8 vouchers to improve the feasibility of an affordable rental project. However, these efforts would take more time and may not be practicable in the timeframe for using ARPA funds.
- There was also continued discussion about the need for continued work in the community to expand the capacity of the housing partners, such as forming or attracting a housing-focused CDFI, expanding non-traditional financing, and supporting more developers to help do the work.

Additional notes from the discussion are included in the slide deck, "10.20.21 Wichita AHF Technical Advisory Committee Slide Deck_Notes" that will be provided.

OTHER RESOURCES

Another important topic we discussed is the emergence of additional funding (HOME-ARP) for affordable housing, as well as the portfolio of single-family homes currently owned by the City of Wichita through the Wichita Housing Authority. The latter, in particular, will provide longer-term flexibility to expand the breadth of what the Affordable Housing Fund is able to do and should help focus what programs are targeted with the ARPA dollars.

HOME-ARP

The City of Wichita was approved for a $5.5 million grant through the HOME-ARP initiative to go toward housing for the homeless. While these funds have a specific use, they have longer timeframe than the ARPA funds that will allow for more strategic use. For instance, these funds could support including units for homeless and formerly homeless individuals in mixed-income development, or other types of permanent housing with supportive services that are not common in Wichita. This approach follows national best practices focused on providing sustainable housing options for homeless individuals and families in addition to the emergency services that are more widely available.

HOUSING AUTHORITY PORTFOLIO

The City of Wichita Housing Authority owns **352 single-family homes** scattered throughout the city. The department worked with HUD to create a plan for these homes and decided that it will be more sustainable to sell the portfolio and develop new, moderately-sized multifamily properties that will better meet the needs of the community. The most important aspect of this plan is the opportunity to use the funds raised by the sale of these assets to fund additional affordable housing efforts through the Affordable Housing Fund.

For instance, if the Housing Authority were to sell all 352 homes at an average price of $50,000, this would raise **$17.6 million in additional funds** that would be flexible in their use, so long as the support the development of housing affordable at or below 80 percent of AMI. The Housing Authority also has the ability to leverage those assets for specific projects that accomplish a community goal, and further the ability of the Affordable Housing Fund to maximally leverage its resources. For instance:

- It could carry 20 percent of the purchase price of Housing Authority homes renovated for homeownership to eliminate the down payment requirement and allow homebuyers to obtain traditional financing with no PMI. (there would be provisions, such a s lien, to protect the city's position)
- The purchase price of the homes could be reduced to support a specific project, thereby reducing the feasibility gap.
- For a rental project, or rental component of a broader project, the Housing Authority can offer a project-based Section 8 to provide deeply affordable units while improving the economic feasibility for the operator.
- The Housing Authority also has the option (and in some cases, a requirement) to place a land use restriction on the homes so that they are required to be affordable for a certain term.

In addition to the financial opportunity and flexibility noted above, the **Housing Authority Portfolio represents the best option to provide renovated homeownership opportunities** in the city because of the constraints in the current housing market.

Finally, the Housing Authority received capital improvement funds that it can use to renovate and sell homes in-house for affordable homeownership. If it does this, it will receive a bonus Section 8 voucher to provide a household in Wichita with an opportunity for finding a more stable housing situation. The Housing Authority could use these funds to renovate 30 to 35 homes as a PILOT project to kickstart the Affordable Housing Fund's efforts and/or pair PILOT project like this with a sale of nearby homes to a developer, to maximize the impact in a neighborhood. The proceeds from the sale of these homes would still go into the Affordable Housing Fund. In this case, homebuyers may need services in the form of credit counseling and homebuyer readiness training, as well as down payment assistance, which could come from the Affordable Housing Fund.

Ultimately, the many opportunities presented by this portfolio should help focus the use of the ARPA funds to efforts that can be implemented in the prescribed timeframe, improve housing conditions for current residents, and create new homeownership opportunities for Wichita families.

With all of these factors in mind, the Affordable Housing Fund has, within the past two months, changed from being a potential one-time opportunity to use ARPA funds for an affordable housing purpose, with uncertainty around sustainable funding to an effort that can be viewed in three phases.

- Phase 1: ARPA Funds to focus on practical and impactful short-term efforts.
- Phase 2: HOME-ARP Funds to innovate the city's approach to housing the homeless.
- Phase 3: Leveraging Housing Authority Portfolio Sale Proceeds to Expand AHF efforts.

Of course, as the AHF is implemented and the strategies around these different phases materializes, more work will need to be done in the community to form partnerships, raise additional support, and expand the community's capacity to address affordable housing challenges.

ARPA FUND OPTIONS

We have devised three funding scenarios in order to support the committee's considerations on how to focus the ARPA dollars. Each option would address some of the priorities that have emerged from our discussions, and each would have tradeoffs. It is important to note that these tradeoffs may be short-term—they may be addressed as the Housing Authority sells its portfolio and new funds become available. For instance, we heard a preference to focus on single-family homes through a renovation and home repair approach during the last meeting. This is to not discount the need to address multi-family housing; rather, it partly reflects the reality that it will be difficult to deploy the funds in certain ways in the timeframe allowed.

The following scenarios were devised with these thoughts in mind.

Scenario 1: Single-family homeownership focus

Distribution of funds:

40% toward renovation/rehab for homeownership (50% to 80% AMI):	$2,000,000
40% toward home repair for existing homeowners (<80% AMI):	$2,000,000
20% toward homebuyer/homeowner services (<80% AMI):	$1,000,000

(*down payment assistance, closing costs, credit counseling, homebuyer and homeowner education, etc.)*

Potential Impact:

40% toward renovation/rehab for homeownership ($40k to $50k/unit):	40 to 50 homes
40% toward home repair for existing homeowners ($15k to $25k/unit):	80 to 130 homeowners
20% toward homebuyer/homeowner services (up to $10k per HH):	100 households

Challenges addressed:

- Improving quality of existing housing
- Stabilizing homes for existing homeowners
- Aging in place
- New affordable homeownership opportunities
- Can leverage Housing Authority homes and focus repair program nearby

Tradeoffs:

- Does not address rental housing challenges
- Does not apply to multi-family

Key elements for success:

- Clearly defined application process
- Affordability requirements
- Liens, clawback provisions, etc. that protect the city's position
- Identification of quality contractors, perhaps approving several as qualified contractors for this first phase of work
- Best method for dispersing repair funds (i.e., directly to contractor, or to homeowner?)
- Identification of which Housing Authority homes to be used so that HUD approval can be in place to support timeline
- Identification and/or addition of city staff or contractor to manage the process
- Oversight

Scenario 2: Homeownership and rental opportunities

Distribution of funds:

20% toward renovation/rehab for homeownership (50% to 80% AMI):	$1,000,000
20% toward home repair for existing homeowners (<80% AMI):	$1,000,000
40% toward rental housing renovation and/or repair (30% to 80% AMI)	$2,000,000
20% toward homebuyer/homeowner services (<80% AMI):	$1,000,000

(*down payment assistance, closing costs, credit counseling, homebuyer and homeowner education, etc.)*

Potential Impact:

20% toward renovation/rehab for homeownership ($40k to $50k/unit):	20 to 25 homes
20% toward home repair for existing homeowners ($15k to $25k/unit):	40 to 65 homeowners
40% toward affordable rental housing renovation and/or repair ($40k/unit):	50 rental units
20% toward homebuyer/homeowner services (up to $10k per HH):	100 households

Challenges addressed:

- Improving quality of existing housing
- Stabilizing homes for existing homeowners
- Aging in place
- New affordable homeownership opportunities
- Can leverage Housing Authority homes and focus repair program nearby
- Improve quality of rental homes in neighborhoods
- Could utilized Housing Authority homes for renovated rentals

Tradeoffs:

- Does not apply to multi-family
- Would require ongoing monitoring and compliance for rental units

Additional elements for success:

- Streamlining the entitlement and development process

Scenario 3: Homeownership-focused with new construction

Distribution of funds:

20% toward renovation/rehab for homeownership (50% to 80% AMI):	$1,000,000
20% toward home repair for existing homeowners (<80% AMI):	$1,000,000
40% toward new infill single-family for homeownership (50% to 80% AMI):	$2,000,000
20% toward homebuyer/homeowner services (<80% AMI):	$1,000,000

(*down payment assistance, closing costs, credit counseling, homebuyer and homeowner education, etc.)*

Potential Impact:

20% toward renovation/rehab for homeownership ($40k to $50k/unit):	20 to 25 homes
20% toward home repair for existing homeowners ($15k to $25k/unit):	40 to 65 homeowners
40% toward new infill single-family for homeownership ($80k to $1000k/unit):	20 to 25 homes
20% toward homebuyer/homeowner services (up to $10k per HH):	100 households

Challenges addressed:

- Improving quality of existing housing
- Stabilizing homes for existing homeowners
- Aging in place
- New affordable homeownership opportunities
- Can leverage Housing Authority homes and focus repair program nearby

Tradeoffs:

- Does not address rental housing
- Does not apply to multi-family
- Impacts fewer households
- Timeframe to secure and prepare sites, and complete new construction

Additional elements for success:

- Streamlining the entitlement and development process

QUESTIONS TO CONSIDER

- **Which option do you prefer and are you comfortable recommending to the City Manager?**
- **What are your concerns about the options and/or programs listed?**
- **What else is needed to set the programs up for success?**
- **Are there any additional tradeoffs?**
- **Is there other information or analysis that would help you make a recommendation?**