

**ISSUE: HOW TO FUND PRODUCTION AND PRESERVATION
OF SUBSIDIZED RENTAL HOUSING?**

Issue: Existing and previous funding approaches have led to various problems. To what extent should the Commission recommend new programs, and/or reforms to existing programs?

Why It Is A Problem: Various existing programs fail various of the Commission's guiding principles for housing resource delivery (attached as Appendix 1). See the background papers on Funding for Production and Preservation, Historical Context, Mixed-Income Rental Housing, and Sustainability.

Proposal: The Task Forces make the following recommendations, for adoption by the Commission:

1. **Affirm Current Programs for Funding Production.** The current programs for the most part meet the Commission's guiding principles and thus should be retained as delivery vehicles, with reforms to deal with their weaknesses. This is not an affirmation or criticism of the current level of funding but instead speaks to the funding delivery mechanisms.
2. **Devolution of §202 and §811.** The Task Forces recommend that the §202 and §811 programs be converted to devolved programs operated with considerable local flexibility inside broad federal guidelines.
3. **Expansion of §202 and §811.** The Task Forces recommend that the §202 and §811 programs be expanded so that they could become the vehicle through which to fund subsidized rental housing requiring essentially full capital subsidy. This would, of course, require expanding the scope to include all resident populations and expanding the funding accordingly.
4. **Hierarchy of Compliance in Capital Subsidy Programs.** The Task Forces recommend enactment of the statutory changes necessary to require secondary capital subsidy programs to accept compliance with the requirements of the primary capital subsidy program.
5. **Coordination with Non Housing Services.** The Task Forces recommend reforms to accomplish better coordination between housing programs and non-housing services.
6. **Targeting LIHTCs for Preservation and Production.** The Task Forces recommend encouraging State allocating agencies to prioritize (a) 9% LIHTCs for production and (b) tax-exempt bond / 4% LIHTCs for preservation.
7. **Affirm Current Cost-of-Capital Approaches.** Tax-exempt financing, and credit enhancement by FHA / RHS / GSEs, work well and should be continued.

8. **Expanded use of Tax-Exempt Financing.** The Task Forces recommend expanding the use of tax-exempt financing for multifamily housing. With respect to subsidized multifamily housing, the Task Forces recommend reforms to allow §501(c)(3) bonds to be used in combination with 4% LIHTCs.
9. **Affirm Usefulness of Rental Assistance.** It is clear that rental assistance is an essential tool in the toolbox. Indeed, it is virtually the only tool that – by itself – can achieve affordability for extremely low-income households.
10. **Flexibility and Accountability for the Voucher Program.** The Task Forces recommend flexibility and accountability reforms for tenant-based §8. Such reforms would create performance standards for PHAs, grant them additional flexibility to achieve results, and transfer administration to another entity if the PHA fails to achieve results.
11. **Devolution of Rental Assistance.** The Task Forces recommend deregulation / devolution reforms to HUD §8 and RHS Rental Assistance. Consideration should be given to such measures as allowing States and localities to determine income limits, impose time limits, implement ceiling rents, utilize flat rents, set minimum rents, and simplify income and expense definitions.
12. **Hierarchy of Compliance for Rental Assistance.** The Task Forces recommend recommendations to remove barriers to the combination of rental assistance with the various capital subsidy programs, and to remove barriers to the combination of multiple rental assistance programs within a single property.
13. **Recognition of Full Costs of Rental Assistance.** The Task Forces recommend that rental assistance be treated as a mandatory expenditure for federal budget purposes.
14. **Changes in Rental Assistance to Create Mixed-Income Communities.** Where a property is targeted for mixed-income use but is exclusively occupied by extremely low-income households, the Task Forces recommend reducing the percentage of project-based rental assistance to the level intended for the eventual mixed-income community, consistent with preserving ELI housing opportunities (e.g., developing additional units elsewhere for ELI occupancy). However, because project-based assistance has powerful economic benefits to the property owner, such an initiative should be coupled with incentives for owners that at least offset the economic impact of reducing the percentage of project-based assistance

Attachment: Commission Principles for Housing Resource Delivery

**APPENDIX 1: COMMISSION PRINCIPLES
FOR HOUSING RESOURCE DELIVERY**

Housing resources are best delivered by mechanisms that abide by the following principles.

1. Devolution
 - a. Local flexibility / local accountability
 - b. Resources distributed according to state or regional allocation plans.
 - c. Federal role limited to incentives and oversight.

2. Simplicity
 - a. Use of programmatic safe harbors and project based incentives where feasible in place of regulations and top-down enforcement.
 - b. Hierarchy of compliance when layering subsidies (i.e., compliance with one set of regulations suffices).

3. Coordination
 - a. Housing funding streams should be flexible enough to be used in conjunction with funding for related services.
 - b. Planning requirements for housing should encourage a holistic approach.

4. Reliance on Market Principles
 - a. Competition / choice.
 - b. Use of incentives.
 - c. Accountability (consequences for failure to perform).
 - d. Appropriate pricing / sharing of risk.
 - e. Recognition of full costs / full benefits.

5. Sustainability
 - a. Developments need to be financed and built to last.
 - b. True long-term costs need to be acknowledged up front.