Technical Assistance to Czech Mayors

Czech Republic

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Prepared by

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Introduction

At the request of the U.S. Agency for International Development (USAID), the National League of Cities (NLC) planned, organized and implemented a three day technical assistance/training program which focused on the areas of local government management and housing, to benefit municipal leaders from the Czech Republic. NLC engaged the Czech officials with their counterparts in US cities as well as with representatives from the private sector and local housing authorities. This program ran from August 2, to August 4, 1993.

This technical assistance initiative was undertaken in cooperation with Meridian International Center and the United States Information Agency (USIA). Members of the Czech delegation were in the U.S. on a five week visitor exchange program devoted to urban management.

As part of the Meridian study tour, substantive areas covered included the role of political parties in elections, solid waste management and the local role in environmental protection, responding to the needs of a racially and ethnically diverse constituency, and taxation. NLC was asked to deliver a specialized assistance program that emphasized housing and infrastructure finance. In addition, because three members of the Czech team were very active with the counterpart municipal association in the republic, time also was devoted to discussions of how national municipal associations (such as NLC and ICMA) can be effective for and supportive of their member cities and towns.

The work under this RFS to assist Czech officials builds upon ongoing activities in the country through USAID's Office of Housing and Office of Democratic Initiatives. For example, at the republic level, USAID and the Urban Institute (UI) are engaged in a project assisting the development of a market-oriented credit system to finance municipal investment. In the city of Liberec, consortium members responded to a request from the mayor to analyze the housing stock, recommend strategies for privatization, and provide support for implementation of a privatization plan. In Hradec Kralove, assistance is being provided to the city in devising a strategy for improvement and extension of its local water supply system. New projects, mainly in the area of infrastructure finance, are being developed in the cities of Usti nad Labem, Opava and Pardubice.

In a separate project, USAID, National League of Cities and ICMA provided technical support to the Union of Towns and Communities of the Czech Republic (UTC) during an in-country visit to the Czech Republic during 1992. The tour was undertaken as part of a program to develop the capacity of the Polish, Czech and Slovak city associations. In July 1993, two staff members from the Czech association visited the US at the invitation of ICMA. Staff at NLC organized two days of information exchanges on the operation of municipal associations.

Program Outline

The structure and content of the programs over the three day period included the following:

- Day One -- Presentations: Scope of USAID work in Central and Eastern Europe; detailed explanation of specific programs operating in the republic under the Local Government & Housing Privatization contract; discussion of how municipal associations such as NLC and ICMA assist policymakers and managers and a comparison with UTC; structure of U.S. inter-governmental relationships.

- Day Two -- Field visit to a Montgomery County Housing Opportunities Commission, Kensington, Maryland, to illustrate examples of local housing management and privatization.

- Day Three -- Presentations on infrastructure finance, municipal financial planning and capital budgets.

Czech Participants

- Mr. Frantisek Bina, deputy mayor, Most -- this city has a proliferation of decaying high-rise housing which prompted Mr. Bina's strong interest in US public housing management.

- Mr. Jiri Horak, mayor, Brno -- a city of 500,000 with several large projects under development including an airport, free trade zone, and an entertainment park. Mr. Horak found Seattle's public transit system interesting.

- Mr. Milan Horinek, mayor, Olomouc -- this 1,000 year old city is the 5th largest in the republic as well as the former center of Soviet occupation. He is working to attract investments in order to maintain and preserve the city's many historical sites.

- Mr. Jaromir Jech, mayor, Ricany U Prahy -- Mr. Jech is the deputy president of the Union of Towns and Communities of the Czech Republic and an advisor to the Prime Minister. The town of Ricany has a population of 10,000.

- Mr. Zdenek Prosek, deputy mayor, Plzen -- an urban center of 175,000 people. The former city manager of Roanoke, Va. is working on site in Plzen.

- Mr. Zbynek Sorm, mayor, Jilova U Prahy -- a former gold mining town with a population of 3,500.

- Mr. Jiri Stanek, mayor, Opava -- this city of 70,000 is an historic regional capital.

- Ms. Miroslava Storkanova, mayor, Karlovy Vary -- popular as a tourist area because of mineral springs, this city has a population of 57,000. Mr. Storkanova sits on the executive council of the Union of Towns and Communities.

- Mr. Tomas Zajicek, mayor, Pisek -- Mr. Zajicek is the former president and current deputy president of the UTC. His town is 30,000 in population.

The mayors and deputy mayors represented a cross section of local officials in the Czech Republic. Many were trained as economists and were strongly interested in financial matters.

Prior to their visit to Washington, D.C., the Czech officials had, over a four week period, been to several other cities. Tour cities included Boston, Houston, Seattle, Lincoln, Neb. Des Moines, Cleveland, Raleigh, and Columbia, S.C. Following the stop in Washington, the group travelled to New York before returning home.

Program Specifics

During the three days of programming, The Czech municipal officials held discussions with staff from NLC, ICMA and USAID. Special presentations were organized with U.S. elected officials and with technical experts in housing and infrastructure finance.

Overview of Regional Initiatives (August 2)

Representing International City/County Management Association (ICMA) were Chuck Anderson, Bob Dubinsky, Renata Frenzen and Sharon Van Pelt. They each provided information about the overall program activities being undertaken through the Local Government and Housing Privatization contract. Details were provided about initiatives in Poland, Hungary, Slovakia and the Czech Republic. In addition, the efforts of ICMA, NLC and the USAID Office of Democratic Initiatives to assist the Union of Towns and Communities of the Czech Republic in building its capacity to serve member cities was described.

The Urban Institute has taken the lead on programs in the Czech Republic. David Olinger, from USAID, presented information about the UI programs in the republic, and with specific Czech cities. Highlights included plans for a USAID Housing Guaranty Loan for the Republic to capitalize a municipal development fund, water and waste water projects in Hradec Kralove, and the development of a housing privatization strategy in Liberec.

The Czech officials were not aware of the city-specific projects underway with USAID support. Some of the delegates were skeptical about the reliance on cabinet departments as primary contact points for questions about municipal issues. Other officials suggested that the Finance Ministry and the Council of Ministers are not as familiar with the reality of life in the cities and with the daily challenges that local mayors and deputy mayors must face. Nonetheless, they emphasized their strong support for the USAID Housing Guaranty Loan program and the steps being taken to assist the national government.

The Czechs requested that USAID and the members of the consortium make extensive use of the staff of the Union of Towns and Communities of the Czech Republic as a primary contact point. They suggested that cooperation with the national government be complemented with greater local contact, since the local leaders are more likely to craft solutions to specific problems.

Mr. Olinger encouraged the officials to put project specific proposals before USAID directly. He reminded them that a long-term USAID advisor will soon be on the ground in Prague, and that person will be available for technical assistance.

The afternoon session was devoted to a discussion of the role of municipal associations, particularly a comparison of NLC and ICMA with UTC. NLC staff provided information on education and training programs, organizational structure and revenue sources, communication with members, lobbying and political advocacy, publishing of local officials' guidebooks, and balancing the needs of big city and small city members. Representatives of ICMA provided information on services which their organization makes available to city managers and other officials.

Housing (August 3)

NLC's technical expert on housing, Mr. Robert Maffin, conducted the briefing on housing related issues. The presentation included a history of US housing policies, structure and general powers of local housing agencies, national and state government incentives to promote private home ownership, and some statistics about the size of U.S. public housing operations in comparison to private housing ownership. The visiting officials discussed the importance of having national policies that promoted private ownership, such as the U.S. tax code provisions that make mortgage interest payments deductible.

A case study of a California program to develop multi-family housing was given to the officials. (See Annex A for a copy of the case study) It highlighted the complex relationship between almost a dozen public and private partners involved in locating, designing, building and operating the facility.

The Czech officials spent an entire day touring facilities of the Montgomery County Housing Opportunities Commission. (See Annex B for a complete description of HOC programs) The Commission, which is independent of the local government, manages about 4,000 housing units. The Commission has very broad powers to work with the private sector in the housing finance area. Housing is provided for those with very low incomes who receive public assistance, and for those with low and moderate incomes.

The commission has been very successful in its efforts to mix families of various income levels within its housing communities. By offering about 70% of rental units in its Timberlawn residences at market rates, the remaining 30% of the units can be rented at reduced rates for those of lower incomes. Under this scenario of 70% market rate, the housing operation not only finances general maintenance and repairs, but also retires long term construction bond indebtedness.

New laws in the Czech Republic will allow rents for housing to rise by 40-60% in 1994. According to the visiting mayors, this rent increase will only cover the costs associated with operations and maintenance. Local governments have no expectation of subsidized support from the national government, either for operations and maintenance or for new construction.

The Czech officials were most interested in the relationships that HOC has established with real estate developers engaged in new construction. The county law in support of "Moderately Priced Dwelling Units," or MPDU's provides a level of local control that the Czechs considered essential.

Under the HOC Moderately Priced Dwelling Unit program, when a new developer builds a community of 50 housing units or more, up to 15% of those units must be set aside as MPDU's. These units are priced affordably to be sold to low and moderate income families. Before these MPDU's are put up for sale, 33% are offered to the Commission. Another 7% of the units are offered to non-profit community based organizations that are certified by HOC to provide housing services.

Infrastructure Finance (August 4)

Prior to the arrival of the Czech officials in Washington, Tom Kingsley of the Urban Institute was consulted for his views on programming in the area of infrastructure finance in the republic. His comments emphasized the need for incremental improvements of current facilities rather than massive new capital projects. This viewpoint was reiterated by David Olinger during his overview remarks on public works and general infrastructure planning and financing.

With the end of central planning and the devolution of some powers to the municipal level, Czech cities were left to their own devices to operate, maintain and construct public works. National subsidies were eliminated. Rates (or tariffs) for public services such as water and sewer remained controlled. There is no credit market for selling bonds. To make progress in the short to mid-term, user fees to cover costs of basic operation and maintenance will have to be increased, joint ownership arrangements between the local government and private investors instituted, and public utilities created.

The two presenters for the program on infrastructure financing were Mayor John Mason, Fairfax, Va. and Mr. John Peterson, Government Finance Group. Fairfax City is a community of 25,000 that in the last two decades has gone from wholly residential to having 50% of its tax base derived from the commercial sector. It is through well designed and well maintained infrastructure projects that Fairfax was able to acquire and keep that residential-commercial mix.

Mayor Mason focused on the coordinated process of city planning, capital budgeting and infrastructure maintenance. He provided specific examples from his city about how they approached the decision-making process in these areas. (See Annex C for copies of Mayor Mason's handouts)

Of all the materials provided to the Czech officials, the documents received with the most enthusiasm were the Fairfax City long-range plan, capital budget and operating budget. The level of detail, the coordination between the documents and the simple clarity and organization of the materials served as good models.

Mr. Peterson provided an overview of how US cities rely on bonds as the primary means of infrastructure financing. (See Annex D for a coy of Mr. Peterson's outline) Models of joint ownership or complete private ownership of public works were discussed as examples of what Czech cities might rely upon in the short and mid-term. For example, the BOT model, build-operate-transfer, used for toll roads was explained. Other models include BOO, build-operate-own, or long-term lease arrangements.

The discussion of joint ownership arrangements was most relevant for the Czech Officials. Given the conditions in the country, this seems the best option available. In fact, Ms. Storkanova informed the group that her city of Karlovy Vary had made use of the build-operate-transfer strategy for a municipal parking garage.

Recommendations

(1) Regarding the Union of Towns and Communities of the Czech Republic (UTC): For all initiatives in the Czech Republic, it should be standard procedure to keep UTC informed and engaged. It is clear from comments by the visiting officials that the organization has a good reputation. Under the Local Government and Housing Privatization contract, it is in the best interests of all concerned to carry forward an ongoing dialogue with UTC and rely on its dissemination network. Further, it is a productive use of resources to have both the USAID Housing Office and the Office for Democratic Initiatives working in cooperation with UTC. Such contact will likely facilitate communications.

(2) Regarding housing: the Czech officials do not expect that the national government will extend any housing subsidy such as the rental assistance and public housing modernization programs

operated in the US. Moreover, even though new laws will allow housing rents to rise by 40-60% in 1994, local officials do not expect to be able to cover costs beyond basic operation and maintenance. One available option for the Czech local governments is the sale of communal housing assets. To carry forward such a program, the Czechs need assistance in how to apply selected asset management techniques to the analysis of communal housing stock, particularly as regards costs of continued ownership and revenue generation. Questions of valuation, marketability, market absorption and conditions of sale as well as asset analysis itself, all are part of future training that should be offered in the next six to nine months.

(3) Regarding infrastructure finance: Even with a republic level municipal capital improvements fund, the short and mid-term steps for continued operation of municipal public works needs to be addressed. At present, cities such as Karlovy Vary are using build-own-transfer strategies to bring private investors into partnerships with local governments. Continuing to stress these options, as well as providing information about joint ownership and privately owned pubic utilities, should be the near-term focus. Although large sums of capital (provided as loans) are not yet available to the cities, it also would be useful to present more information on topics such as special taxing districts as a tool to repay long-term debt. Such information could be disseminated through the UTC network as noted above.

ANNEX A

California Housing Finance Agency Role in Rental Housing

CHFA'S ROLE IN RENTAL HOUSING: A PERSPECTIVE

Prepared for

The California Housing Finance Agency

Prepared by:
Robert W. Maffin
May 7, 1991

May 7, 1991

Karney Hodge
Executive Director
California Housing Finance Agency
1121 "L" Street, 7th Floor
Sacramento, CA 98514-3974

Dear Mr. Hodge:

This Report, "CHFA's Role in Rental Housing: A Perspective", is submitted in fulfillment of Contract #A90-020. I trust it succeeds in its aim to assist the California Housing Finance Agency to deliberate, design and implement programs for rental housing in the State.

To you, the staff and Board Members of the CHFA who shared so much of their knowledge and insight as the assignment was undertaken, I want to express my gratitude. And to the many Californians with whom I met to gain insight into the rental housing environment, my appreciation is also extended.

The CHFA's initiative in rental housing is looked upon as most needed and significant step in the struggle to have an adequate, affordable housing supply in California. That is the clear message gleaned from the field work of this assignment. Judging from the other steps being taken at the CHFA that message is welcomed and is being acted upon. Congratulations!

Thank you for the opportunity to share in this initiative.

Very truly yours,

Robert W. Maffin

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OVERVIEW

"What role should the California Housing Finance Agency play in the provision of rental housing for low and moderate income California households?" This report has been prepared as one response to the question. The task has been to develop recommendations on a role for the Agency in the low/mod rental housing market in light of present and forseeable circumstances and, of course, in the context of its charter.

Now is a time when households are changing and becoming more diverse, when housing expenditures consume more of their incomes and make affordability a widening concern. It is a time when public resources for housing are in decline and public responsibility for housing under re-examination; when, more and more, the private development process is summoned to pledge resources and commitments to low/mod and special housing; when the consequences of earlier policies leaves threatened some of the housing stock created to serve the low/mod population. It is a time, when in response to these circumstances, concerned groups and advocates, state and local governments employ a patchwork of resources, responsibility and authority to meet the need for low and moderate income rental housing. The general view is that these conditions will prevail throughout the decade.

This is not a technical report. It is intended to provide the Agency with an assessment of the opportunities for CHFA in the rental market drawn from an extensive background in the housing and urban development fields, from interviews with many informed individuals, and from a close review of the current and foreseeable environment in which the Agency will function.

As the report reveals, there are many perspectives from which CHFA is viewed. Much of what has emerged from this assignment has been observed before, many of the ideas for CHFA action have been presented on other occasions. The benefit of bringing them together in this report is to provide a focal point for the formulation of a strategy for the California Housing Finance Agency.

The California Housing Finance Agency has a prescribed and crucial responsibility for housing in California. Its function is to attract capital for housing through the issuance of bonds and notes, the interest on which is tax exempt. In turn, the funds it raises on the capital market are either loaned to private lenders (for single and multi-family housing) or, in some cases, to borrowers directly for multi-family housing. The Agency operates out of program revenues rather than tax dollars. The acceptability of its issues on the capital market and the provision of operating funds out of program revenues are, in the view of many, a priori conditions upon which a refined role for CHFA in low/mod rental housing must be constructed.

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An essential element of the assignment has been interviews with a broad spectrum of individuals with experience working with CHFA--bankers, investors and developers, public administrators with local, state and federal governments, staff with national, regional and local nonprofit organizations, housing advocates and consultants. Some have had continuing contact with CHFA; others have had only irregular or indirect contact; some connected only years ago, others in the recent past, the remainder maintain a relationship. The interview process had two principal objectives: to obtain a current assessment of the low and moderate income rental housing field in California; to gather from a variety of perspectives, suggestions for CHFA action in the low/mod rental housing arena. The interviews have provided a clearer sense of the dynamics and diversity of the low/mod rental housing in the State.

In the sections that follow, the report sketches the major factors that have changed the low and moderate income rental housing environment since the late 1970's; describes the format and results of the many interviews conducted as a part of the assignment, and sets forth a series of recommendations for the California Housing Finance Agency's consideration.

THE RENTAL HOUSING ENVIRONMENT

In the years since the California Housing Finance Agency was created in 1975, major changes have occurred in housing in the United States. The Agency noted some of the major changes, for

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example, in the formulation of this assignment: the 1986 Federal Tax Act, the Low Income Housing Tax Credit, the entry of local government into the housing bond market and the growth of nonprofit housing organizations.

In general, the most significant elements of change affecting housing fall into four categories: demographics, housing inventory, housing finance and public policy. Other factors, such as construction technology and building standards, land availability and environmental regulations have had an impact as well. Add to these influences, the fact that the housing industry, including the materials producers and suppliers is, at once, both national (and becoming international in some aspects) and local in structure; and that public policy is promulgated by at least three levels of government each with different responsibilities affecting housing. Into this complicated scene must be added social attitudes and mores regarding household composition, like age, sex, race, income, size and even structure. This section of the report is devoted to highlighting some of the more significant changes; a detailed probe of all the the factors is not essential for the purposes of this report.

Demographics and Housing inventory--For half a century the members of the "baby boom" generation have been the driving force in the housing market. As they pass through this decade they will become 45-54 years of age and they will have the highest household income. They will be the second and third-time home buyer, and they will likely begin, in greater numbers than ever before, to explore new housing life styles. From their generation, from a few who were ahead of them and from those who have followed, households have grown smaller--more single and two member, more single parent, more elderly--and the homeless have emerged. Added to these internal shifts have been the millions of immigrants who arrived during the past decade. Housing demand has been dramatically altered, not only by the passage of the baby boomers, but by changes in life styles and attitudes.

If the baby boomers have been the driving force in the housing market, then the housing industry enabled them to fulfill a dream--a house with land in which to raise a family. The single family, detached house became a fixture of the American Dream. It remains an important part of the dream, even though today it has been transformed a bit: attached to other houses in a cluster and often farther from work for the two or more job holders in the household. The dream is most vivid when nesting time approaches. But, as reams of data demonstrate, while the boomers made their passage, life styles began to change for huge global and national reasons and for reasons of personal experience and attitude. Alternatives to residential suburbia became practical because of changes in marriage patterns, career paths, social attitudes and life expectancy--apartments and condominiums with shared amenities located in the city, close-in suburbs or specialty developments,

old houses in urban neighborhoods. These were the alternatives for those able to grasp a handle on the dream: the baby boomers, the skilled singles and couples, the established elderly. But another, growing part of America, which also experienced changes in marriage patterns, career paths, social attitudes and life expectancy, found more limited alternatives--ownership out of reach or delayed, no home, or maybe a temporary shelter, housing costs that consume 50-70% of income. This part of America also is well documented: the handicapped and the homeless, the unskilled and low-skilled worker, the single parent, many of the elderly, ethnic minorities and the immigrants. Instead of a housing market dominated by a fairly homogenous segment, today's market is more evenly segmented among user groups with wide variations within and among local and regional geographic areas.
One of the hallmarks, then, of the housing market of the 1990's is the diverse populations it must serve. Two other, closely related factors which will condition the response to these differential demands are (1) attitudes toward growth and their companion, resource conservation; (2) preferences for housing style, age and location. It is not necessary to intimately explore the relationship of environmental issues and concerns to taxpayer anxieties, to neighborhood conservation and historic preservation before being able to assert comfortably that they will modify how the demand for housing will be met. Nor is it required that there be a lengthy exposition of the interplay of suburban flight and urban flight, of revitalization and gentrification, of housing and transportation costs in order to observe that both new construction and rehabilitation will be required to meet housing demand.

Certainly, California conditions reflect these trends, as the recent report, "California Statewide Housing Plan Update" (State of California, Department of Housing and Community Development, October, 1990) verifies. As CHFA charts a course in rental housing, several aspects of these trends appear to have the most significance:

-New households take longer to move from renter to owner status for a variety of reasons--income growth lags inflation, ownership entry requirements extend the time necessary to accumulate savings, life style preferences--and provide substantial demand for rentals <u>and</u> first-time ownership.

-On the whole, the renter population has become older, poorer and composed of households, such as single parent, with lagging incomes and diminished housing options.

-The housing inventory in California is aging, which offers an opportunity to expand, or retain, a stock of more affordable housing, while extending the useful life not only of the stock but the other capital improvements--public and private--built to serve established areas.

-In-fill development, whether in older urban neighborhoods ro in surrounded or leaped-over suburban patches, matches the demand for housing diversity and the environmental, etc. constraints on development. (Other constraints--economic and ethnic differences, for example, are not reduced, however).

The demographic shifts and the condition of the housing inventory are viewed as basic building blocks for a CHFA strategy. They have been, as they will continue to be, major influences on the other elements--finance and policy--which are briefly described below. As the recommendations reflect, the changes highlighted here have given important direction to this report.

Housing Finance and Public Policy--Public policy, financial institutions and the way they do business have been dramatically altered in recent years. In addition to demographic changes, housing, because of its symbolic and economic importance, has been caught up in the process of deregulating and adjusting the U. S. system to its place in a global economy. It is intangled in the public policy issues of taxation, of intergovernmental relations and responsibilities, of private and public realms.

Out of this milieu have come changes such as a faltering, some would say collapsing, set of financial institutions. In this era of thin, taught resources, intense debates have emerged regarding the setting of a "level playing field" and on targeting the beneficiaries of housing funds. Rising again to the surface have been the perennial tugs and pulls between the public and the private sectors, among city hall, state house and Washington, D.C. At the same time, the system has revealed its capacity to adapt and to function, as new institutions and new instruments have formed to meet the housing demand while the broader struggle to change continues.

A simple listing of some institutional and operational changes in housing finance illustrates the later point:

-on the institutional side, the most significant additions have come from the private, nonprofit arena where a range of primary and secondary providers have arisen, and from the public sector where local and state housing agencies have been created to help bridge the affordability gap.

-the variations in financial instruments have been tailored to meet the diverse needs of market segments and to maintain the flow of investment capital into housing. For example, the home purchaser today can choose from a variety of mortgage instruments, in addition to the long-term fixed rate instrument fostered by the reforms of the 1930's; the homeowner can withdraw equity, share equity, trade equity for income; mortgage-backed securities, insurance and co-

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insurance, mortgage and industrial revenue bonds help bring capital to the market; housing trust and revolving loan funds are new housing finance sources provided by government. All are instruments designed to enable public and private institutions to adapt to changed circumstances.

Just as the marketplace has changed the housing environment, so has public policy. Federal policy has: (1) sharply reduced funds for housing, particularly for supply-side programs; (2) made major changes in the treatment of housing investment in the tax code; (3) significantly curtailed the ability of state and local governments to issue tax exempt bonds for housing; (4) more tightly targeted housing assistance programs; (5) placed more reliance on private profit and nonprofit organizations, state and local governments to provide needed housing resources.

Fortunately, state and local governments and private entities have responded to the withdrawal of the federal government. State and local governments have been creative, they have, for example, appropriated general funds, issued general obligation bonds, created revolving loan funds and housing trust funds, given away land, converted public buildings to housing. Private entities have donated resources, raised capital, constructed or modernized and they have managed affordable housing.

On balance, however, the withdrawal of the federal government and the entry of state and local governments and the private sector have left the housing scene in worse condition over the decade. Ownership is down, housing prices and rents are up, the struggle against deterioration and decay is hardly holding its own, the young, the elderly, single parents and handicapped pay too much for housing. The homeless numbers are mounting.

There is, however, a very small period of relief as new household formation slacks off, as the over-heated real estate market wanes and when public policy, at least at the federal level, pauses after so much turmoil.

Out of experience of this period it has become clear that housing is no longer principally the product of a dominant population group, nor of dominant federal policies and programs, nor even of a stable set of private institutions and practices. It is equally clear that the tumult of the past decade or so has generated a diverse, competitive and experienced group of players in the housing field, especially in low and moderate rental housing where limited resources and complex rules are the order of the day.

The changes in housing finance and public policy define a much different environment from that of the heyday years of assisted rental housing in the late 1970's and early 1980's. It is in this different environment that CHFA will be setting its course in the low/mod rental housing market. A firm grasp of and constant reference to some base-line conditions of the new environment will serve the Agency well in charting its moves:

-In the world of housing finance, institutions with clear missions and established performance will be needed, but may well be in short supply. Yet, such entities are critical to the market both as a reliable conduit for attracting investment capital and to simplify and rationalize the processes of finance.

-Several patterns will emerge for providing low/mod rental housing but all will include, in one capacity or another, the various private and public entities that have developed recently. As the players are cooperators <u>and</u> competitors, they must adapt to the capability and experience of each other.

-Now that each government--city, state and federal--is an active player, not just a regulator, in housing and the private sector is likewise a participant in providing affordable housing, future public policies will prescribe a role for each.

The decision of the California Housing Finance Agency to refine its role in the rental housing market is a strong signal that the formidable capabilities of the Agency are being marshalled to serve the California housing community in preserving and expanding affordable rental housing.

<u>THE INTERVIEWS</u>

The housing environment of today is very different from that of the late 1970's-early 1980's when the California Housing Finance Agency, like most state housing finance agencies, was heavily involved in rental housing. Throughout this past decade new private organizations have formed and many government agencies have been created to deal with one or more aspects of low and moderate income rental housing. These institutions continue to grow in number and are an integral part of the California housing scene.

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As many of these players could become or continue to be "partners" in any CHFA initiatives, understanding their activities, relationships and perspectives became an important element of the assignment.

To gain insight into the views and experience of the various participants, personal interviews were conducted with fifty-six individuals throughout California, in Washington, D.C. and Maryland. The interviews were chosen to provide a cross section of the participant-types in the field: for-profit development and nonprofit development organizations, local government agencies and departments, regional, state and national nonprofit entities, banks, savings, insurance and secondary market businesses, state and federal agencies, CHFA staff, law offices, and housing consultants. For the most part, the individuals interviewed had personal experience dealing with CHFA, although some, like those in Washington, D.C. and Maryland were selected for their knowledge of national data, or of legal and tax matters relating to housing. The California interviews were arranged through CHFA staff in order to establish a legitimacy for the interview.

Each California interview was structured to run about an hour during which the respondents were asked for their observations on several broad areas concerning low/moderate income housing in California. Each person was advised that their views on these areas were being solicited as part of an effort to assist the California Housing Finance Agency to develop initiatives in the low/mod rental housing area. The areas of covered by the interview were:

-a description of their endeavors in the low/mod rental housing field in California;

-their view on the condition of California's low/mod rental market, including the identification of adverse conditions ro missing ingredients;

-their experience and insight on specific areas: (a) the nonprofit players functioning in the low/mod rental housing sector in California; (b) the local government programs in this market; (c) the resourcefulness, flexibility and willingness to participate of the various players, including CHFA;

-their judgement on what is needed in the low/mod rental housing area and what can, or should CHFA do?

As a matter of course, each person interviewed was asked to identify (a) other people and organizations who should be contacted; (b) studies, reports and analyses on their own efforts.

<u>General Observations</u>--Over the course of the interviews a few

general observations surfaced concerning the market and the players involved. In the California market for low/mod rental housing, several conditions were cited as significant:

-the changes in federal policy--sharp cut-backs in funding for assisted housing; fundamental changes in the tax laws relating to housing investment; de-emphasis of federal responsibility and the emphasis on state/local government and private responsibility--and the shortage or the inadequacy of replacement initiatives by others;

-the shortage of land, because of lack of services (for environmental, anti-growth or nimby reasons) or because California has no "patient" land (land that is not out-priced by competing possibilities);

-the potential loss of over 40,000 units of low/mod rental housing during the decade through the expiration of commitments on federal, state and local assisted housing.

-the uneven availability of experienced or interested organizations or agencies throughout the State, such as nonprofit housing providers, developers and government agencies.

As the respondents discussed their respective activities, it was clear that the dynamics of the field are "deal" driven by (a) the then current, most critical rental housing needs--or opportunities--in their area of operation, (b) the array of players in the specific situation, (c) the currently available resources and current public policy--federal, state and local. While each respondent offered a more or less standard description of its endeavors: consultants consulted, developers developed, nonprofits behaved as nonprofits, etc, the unique features of each "deal" usually resulted in an ad hoc set of relationships with each doing another's work or taking a different position in an undertaking, depending on the particulars of the "deal". The only evident pattern was the almost endless combinations of players, policies and resources being deployed. Each undertaking is distinctive and time-comsuming, relationships become frayed. Many felt that the process needs to be simpler, even rationalized some.

Of particular significance to CHFA's initiatives in rental housing, is the emergence of local government and nonprofit organizations in the rental housing field. California, in comparison to other states, has an abundance of nonprofit housing organizations and local government housing agencies, which vary widely in capacity, experience and even purpose. In local government, some have established housing trust funds capitalized from a variety of dedicated revenues, others have revolving loan funds created from the Community Developemnt Block Grant Program, others have neither of these tools. In the rapidly growing nonprofit field, some organizations develop housing, some manage, some do both; some groups are community-based, some are regional or even national in scope; some are designed to help the end-user, others act as intermediaries or facilitators for other nonprofits and still others are creatures of private developers.

Local governments and nonprofits alike are very active and increasingly experienced players in the marketplace. Very often they are resourceful and cooperative, but, above all, flexible in order to cope with the requirements of each deal. Most of them are eager to join in common projects, especially in the present tight credit market. They trade positions, facilitate the others involvement, share risks and learn to rely on each other; their relationships are set according to what each brings to the table (in the deal). They will continue to play critical roles in the low/mod rental market.

The most revealing aspect of the interview process was the candor with which the respondents spoke of CHFA. Quite obviously, CHFA is viewed as an important public resource, and there seems to be broad support for CHFA initiatives in the rental housing market. Clearly everybody has ideas about CHFA.

Some of the suggestions and ideas noted below are beyond the scope of this assignment, others relate directly to this task and are addressed in the "recommendations". Many are deserving of early follow-up. The purpose in listing them is to provide CHFA with the broad range of notions expressed by those interviewed, most of whom have had substantial experience with CHFA. However, a few of the observations were based on experiences of several years ago when the rental market and the Agency's participation in it were quite different.

Observations and recommendations regarding CHFA covered the Agency's operating procedures and practices, offered diverse and sometimes conflicting suggestions for activities and functions to perform, identified specific project types or client groups to serve. For clarity, the comments are arranged according to (a) procedures and practices, (b) activities and functions, and (c) projects and client groups. In some instances a suggestion fit more than a single category, so an arbitrary assignment was given.

<u>Operating Procedures and Policies</u>--In the view of many, CHFA needs to examine its operating system in light of the many competent players among local governments and within the for-profit and not-for-profit sectors, each with substantial experience and a track record in developing, managing and financing rental projects. Many of the players have experience putting together projects using a variety of subsidies and credits, concessions, donations, deferred payments, credit enhancements, etc. These were some of the suggestions:

(1) Reduce fees and escrow requirements, modify underwriting policies, resale restrictions and reduce procedural delays. Comments came from several directions, but all pointed to the competition--from local housing finance agencies, from SAMCO and CCRC. Often the statement was heard that it is just plain easier or faster to use the other sources. And others stated that the competition is more likely to tailor their help to the clients need rather than make it fit a more rigid (CHFA) system. In underwriting areas like loan-to-value, debt service coverage, recourse and loss sharing, policies need to be reviewed against the level of competition and competence in the marketplace.

(2) Modify loan approval process--Several individuals observed that CHFA covers the entire State, which is a large territory, and that most of today's financial packages involve several funding sources and participants. In view of these conditions, CHFA should review the present system fo Board approval and meeting location, perhaps allowing for more frequent Board meetings and/or a decentralized approval process.

Activities and Functions--When suggesting new activities for CHFA most people offered ideas on new financial services. (In a some instances, people made a recommendation, unaware that CHFA already had the service in place). Several individuals recommended that CHFA expand its market development and outreach function. Many times the recommendations were prefaced by the observation that CHFA's strength is in its street-wise knowledge and status in the capital market and in its expertise in finance. The thrust of their suggestions was to bring the Agency's strength into the patchwork world of today's rental housing finance.

(1) Establish a pipeline for flexible financial support-The concept of a "pipeline" came from one respondent; another proposed a "one-stop" financial services center. Either could be an umbrella for many suggested services: pre-development and construction loans, bridge loans (in tax credit deals), gap loans, etc. CHFA would establish criteria for the use of the service, such as prescribing the market segment to be served, and tailor the service to the specific deal.

(2) Assistance to small issuers--The suggestions range from CHFA providing technical support for an offering to the pooling of small issues. As examples, people cited the novice or minority issuer, or the issuers of 501 (c) (3) bonds. In a related area, CHFA may want to look at working with non- profits and local agencies in "preservation buy-outs",linking 501 (c) (3) issues with 241 (f), as 100% insurance, for example, and CHFA as a credit enhancer.

(3) Demonstration, or pilot, finance projects--CHFA should undertake demonstration, or pilot, finance projects, both to refine new approaches and to identify market opportunities, according to several respondents. For example, the successful efforts of CHFA and HCD in small town and rural areas should be tried in larger urban settings. Or, in the "at-risk" preservation field, develop a "wrap-around" loan, take a subordinated position which would gradually convert to first. Do a pilot project with a local housing agency, combining CHFA resources, local trust and tax increment funds, even local pre-development funds in a tandem package. In another instance, it was suggested that CHFA provide an incentive or bonus to stimulate developers to establish support services, such as day-care, etc.

(4) Expand market development and outreach function--CHFA's strength is as a finance agency in the "affordable" housing market. As the field has dramatically changed in the last decade, the Agency should (a) reach out to bring new players into the field--second and third tier developers, foreign investors, etc; (b) acquaint lending institutions and investors using hard data and information on the low/mod market (there is very little assembled data, for example, on the loan performance of the low/mod sector); (c) initiate contact with the more recent players in the field--nonprofit organizations and local housing agencies--for the purpose of developing working partnerships.

In the view of some, expanding its efforts in market analysis, exercising leadership in market development and establishing contact and developing solid relationships with the other players are appropriate and essential functions commensurate with the significant role CHFA plays in California housing.

Project and Client Selection--The suggestions for projects to undertake and clients to serve clearly reflect the current condition of the low and moderate income rental sector. Some focussed on serving specific segments of the increasingly diverse and expanding low/mod income housing market--the demand side, if you will. Others dealt with some of the supply issues facing project development--affordable land, location (in all its dimensions) and growth/no growth (only a few emphasized building and development standards). In both instances, the respondents implied a direction for CHFA: target its effort on serving specific client groups (demand) and project types (supply). And in doing so, develop initiatives jointly with the other players in the field.

(1) Client groups--one respondent noted that the tax credit program is now tilted toward large family housing; CHFA could, perhaps, help fill the gap with its programs.

Others pointed to the growing problem of the aging-in-place population for whom modification of the existing stock is required. Are any adjustments to CHFA programs required to finance this rehabilitation? Transitional and permanent housing for the homeless, the de-institutionalized and the handicapped are growing needs in most California communities. Are these opportunities for CHFA, HCD and service providers to develop a housing/service package around group facilities, for example? Or again, transient and temporary labor, single parent housholds, not only have difficult-to-meet housing requirements but often have special social service needs.

(2) Select projects--On the supply side, the most urgent need, according to most of those interviewed and, indeed, of most housing experts, is the preservation of the "at-risk" low/mod rental projects which have expiring 236, 221(d)(3) and tax exempt bond status. In California, these "at-risk" projects contain over forty thousand rental units. Other suggested projects involve both preservation, in the broad sense, and supply side issues: (a) in-fill housing takes advantage of close-by services and reinforces neighborhood upgrading, (b) many of those with special housing needs either already live in the older existing stock or need access to the services which are located nearby. A CHFA focus on the existing housing stock would also, in their opinion, support the needs of several segments of the low/mod market and contribute to other important public policies as well.

The interviews provided a wealth of information as well as insight on the low/moderate income rental scene in California. When set in the context of the various public policies and general conditions expected to prevail over the next few years, a direction can be discerned for CHFA. The recommendations that follow, it is hoped, suit the purpose and the inclination of the Agency and benefits well the broad community it serves.

RECOMMENDATIONS

At the beginning of this report, it was noted that its purpose was to present a response to the question, "What role should the California Housing Finance Agency play in the provision of rental housing for low and moderate income California households?". The recommendations that follow provide a response, one that has been gleaned from extensive interviews with informed and experienced individuals in the field, from an examination of many reports and studies, and from long experience in the housing and community development fields. Because more than hard data and the synthesis of other's observations have provided the grist for these recommendations, because they have derived, as well, from the perspective of one person's experience, a comment on a few basic lessons learned about housing in the United States is in order before setting forth the course recommended.

-<u>Housing does not lend itself to simple, single solutions</u>--the experience of more than sixty years of public policy and programs has demonstrated the need for both basic support and adaptable delivery programs. Housing programs--particularly for the non-market sectors--must be adaptable ot the peculiarities of local conditions; housing policies must provide consistent, reliable conditions of housing finance and credit, of land use and building regulation, and of public funding.

-<u>Housing is more than shelter</u>--housing is an integral part fo the development, preservation, conservation and revitalization of neighborhoods and communities. Housing policies and programs should be geared to saving and recycling resources as well as consuming them.

-<u>In housing there is plenty for everyone to do</u>--the experience of the past two decades has demonstrated that there are many useful parts to be played in housing. Sometimes the players are competitive, but usually they perform complimentary or collaborative functions. For the first time in the United States there is now a limited but wide-spread body of experienced individuals and institutions at the community level, in the private sector, among local and state governments capable of providing housing, even when only limited resources are at hand.

-<u>To provide housing capable, stable institutions with clear missions are needed</u>--Housing particularly requires a dedicated focus, as the savings and loan debacle revealed. There has been a tendancy in housing, most noticeably among public institutions, to expand activity to match related, but distinctly different needs. Too often the result has been, at best, a duplication of effort or, at worst, missions have become diffused and failed.

Taken together, these lessons suggest an environment where a clearly dedicated and focussed agency, like CHFA, can perform essential and necessary public functions, provided they are sharply and surely aimed.

In more concrete terms, the recommendations build on the competency and strength of the California Housing Finance Agency and on conditions in California that relate to rental housing.

- Over the years, CHFA has established a solid reputation as a housing finance institution. It has accumulated impressive experience and knowledge in the capital market, ni underwriting, in issuing and managing large portfolios, and about large and significant segments of the California housing market. In the housing capital market, CHFA has developed a street-wise and respected position.

- Not surprisingly, the housing stock in California is aging and, historically, the existing housing stock has most often been the richest source for obtaining "affordable" housing. The existing stock is generally located in built-up, serviced areas which may afford a better opportunity to use existing facilities and, hopefully, reduce capital costs and environmental entanglements.

- And, while the young adults and the 25-34 age groups will decline in numbers or as a percentage of the total population during this decade--giving a small breather from the pressure of first-time home buyers, California will see continued, even increased, demand placed on the rental housing market from minorities, female-headed and elderly households, and from young adults who must delay climbing on the homeowner ladder.

- In the past decade or so, there has been an explosive growth of institutions and programs created to meet California's housing needs, particularly for low and moderate income housholds. Local, regional and even national non-profit organizations have emerged to help provide or care for low/mod rental housing. Some have been created by community-based entities, others by private firms, or social service groups, or local public agencies. At the same time, the State Government and many, many local governments have instituted programs of loans, grants and technical assistance to foster "affordable" housing. Today California has a complex web of institutions and programs built from experience and knowledge in the housing field.

- To the unique conditions in California must be added the substance of federal policies and programs that are directed toward meeting national housing objectives.

It is against the background of the foregoing commentary and conditions that the following recommendations are made.

<u>Recommendation #1--CHFA should continue an aggressive role in the single family market</u>.

It is not inappropriate to begin recommendations for a CHFA role in low and moderate income rental housing by urging an aggressive program in single family housing. There are several compelling reasons for doing so: (1) a sustained, substantial single family program directed primarily at first-time home buyers is essential to maintain the Agency's strong position in the capital market; (2) ownership is a principal objective of the State of California's housing policy and the data denote a continuing need for assistance to enable the first-time buyer to get into the ownership stream; (3) there is a clear relationship between rental and sales demand in the new and young household segment of the California market.

Assisting affordable sales can relieve pressure on the rental inventory.

For many observers, it is critical for CHFA to maintain an established, credible position on the capital market in order to assist other, smaller issuers and to provide resources for innovative and higher risk undertakings. The mortgage revenue bond program well serves all these objectives.

Recommendation #2--The primary focus of CHFA's rental housing initiative should be the preservation of the existing housing stock.

To implement Recommendation #2, CHFA should undertake the following actions:

- o Convene at an early date a select group of nonprofit housing providers for the purpose of identifying specific steps CHFA should take to assist them in (a) concluding buy-out arrangements for expiring FHA Sections 236 and 221 (d) (3) projects, (b) obtaining the most favorable conditions for marketing 501 (c))3) issues, and (c) otherwise utilizing the existing housing stock to provide housing for low/mod households;

- o Identify one or more proposed projects that utilizes the existing stock or an in-fill site for use by one or more of the market segments note above and develop a defined role for CHFA to bring the project(s) to completion. Ideally, the "deals" entered into would provide prototypical guidance for a CHFA program in the area. (For example, a project might be drawn from unsuccessful candidates for IRB or tax credit allocations);

- o Initiate discussions with local housing bond issuers where the targeting is to expire by 1995 in order to prescribe a role, if any, for CHFA in extending the "affordable" life of the project. (Fresno, Orange County and San Bernardino County have significant units expiring during ths period, for example). The outcome may be to define a role for CHFA in assuring the continued affordability of the 10,000 units in this category.

Background on Recommendation #2

The term, "Preservation", is used to refer to the narrow sense in which the term is now used: preserving the affordability of the expiring Sections 236 and 221 (d)(3) projects and those projects financed by local bond issues, and to the broad sense as it applies to the entire supply of housing already built.

According to estimates by the National Low Income Housing

Preservation Commission, almost 33,000 rental units in California will be eligible for prepayment during the decade. By early 1990, prepayment intentions and plans were being most actively proposed in California, among all the states. One knowledgeable observer calls California the "hotbed" of prepayment activity. While recent Federal legislation has established clearer ground rules for prepayment and makes financial assistance available for buy-outs, it is still the case that each project presents an unique set of conditions that require a financial package tailored to its circumstances. CHFA's access to and standing in the capital market could be employed, for example, to bundle
small 241 (f) issues.

At the same time, in some 10,000 of the 16,300 rental units financed by local housing bond issues in California the commitments will expire in this decade. Some 2,000 will expire by the end of 1995, three and one-half years away. In this instance, CHFA could play a role in extending the "affordability" of these units.

In short, about 43,000 units of rental housing in California could fall out of the "affordable" category by the end of the decade. This represents a very significant area of potential activity for CHFA, one which should be pursued vigorously.

Except for the 1960's, California's housing stock has been aging in each decade since 1940. Today (1989 data), over one-third of the stock is over thirty years old; 57.7% is over twenty years old. For the past thirty years, apartment share of the stock has been increasing. Within the single family inventory much of the older stock is either rentals or occupied by senior households. In the multifamily rental stock only 26% is occupied by married couples with the remainder occupied by female households (40%) or male households (34%). Add to these data, trends in household size, age, poverty and ethnic composition--in the changing demographics--in California and the importance of the existing rental housing stock stands in stark relief as a resource to be preserved.

Recommendation #3--As its second focus, CHFA should assist and facilitate the efforts of nonprofit housing groups, state and local government agencies, and for-profit organizations to provide rental housing.

To implement Recommendation #3, CHFA should undertake the following actions:

o On a case basis, identify projects to which to apply CHFA's finance and market capabilities in conjunction with: local housing trust funds, public housing operating reserves, CCRC resources, local government asset management programs, CDBG program income/properties. The outcome would be the formulation of prototype programs based on successful experience in each case.

o Explore with DHCD and local CD Agencies the linkage of CHFA financing with (a) the new "HOME" program and (b) the expanded 108 Loan program. The flexibility of these new programs offers an opportunity to develop innovative connections at the programs' outset.

o An essential function of CHFA is to broaden confidence and participation in the low/mod housing market. Several avenues may be employed: (1) develop and disseminate data on mortgage lending experience in the low/mod market; (2) attract 2nd and 3rd tier developers to the market; (3) refine and reduce paper work for the experienced private, nonprofit and local government partners; and (4) using prototype programs developed from "pilot" projects, demonstrate the opportunities for investors and financial institutions in the under-served segments of the rental market.

Background on recommendation #3

Today in California, by some estimates, there are about 150 operating non profit housing organizations, a three-fold increase in the past 10-12 years. Upwards of a dozen of them each own and/or operate 800 or more units, and 25-30 both own and manage rental housing.

While most nonprofits operate on the local level, several operate on a regional level and a few even operate nationally. In addition to the local nonprofits, the financial community has created nonprofit entities to serve its interests in the affordable housing market. And national nonprofit organizations have arisen, funded by foundations and corporatios, to provide technical assistance, locate capital and train local nonprofit development groups. The reasons for the growth of nonprofit housing organizations a multiple, but certainly tax law changes and the federal policy tilts toward them have stimulated community groups, public agencies and private developers to establish nonprofit arms.

A similar pattern of growth has occurred in the public sector. Barely a decade has passed since the first local government housing finance agency was established. Now, according to the Association of Local Housing Finance Agencies, one-third of their members come from California (40-45 agencies). Even though local housing authorities, redevelopment agencies and even departments of housing and community development have been around for some time, their numbers and the extent and diversity of their activity have increased. Many housing authorities, for example, have joined with nonprofit groups to generate housing and others have helped to develop a variety of financing tools for rental housing. State and local community development agencies have focussed an increasing share of their resources on housing--CDBG rehabilitation, tax allocation proceeds, local loan funds, etc. Just in the CDBG entitlement program some 120 California cities and counties annually allocate 35% ($90 million) of their funds for housing.

CHFA can reinforce the efforts of these other experienced organizations in the field. It can bring needed, consistent support and practice to the tasks without weakening the strength of diversity. As the principal financial institution for low and moderate income housing in California, the largest sub-national economy in the world, CHFA is in the enviable position of bringing its stability, its resources and capabilities to the rental market at a most critical, but opportune, time.

Concluding Comment

This report has only two recommendations for CHFA in the rental field. In the author's view, it is important that CHFA set limited and achievable objectives. CHFA itself has a limited charter; it is crucial that the Agency give a clear, limited focus to its rental housing actions, if the Agency is to succeed in its initiative.

Even though there are only two recommendations in this report, each requires detailed consideration and careful calculation as there are many tasks to be performed. Again, in my view, the sensitivity of the Agency's Board and the practiced eye of its staff are much more competent to spell out the form of CHAFA's role There are specific suggestions for action, however, some of which are recited in the "Interveiw" section of this report; several are worthy of early consideration. The factual base, the broad rationale and the strategy for CHFA action are articulated in this report, and that has been its aim.

There is one observation--almost a footnote to this report--that concludes this commentary. There is a growing mood in public policy, exemplified by local exactions and federal FIRREA, that the private sector must become engaged in the "affordable housing" task and that the regulatory process, not tax or appropriation policy in an era of fiscal constraint, is the most effective means for inducing practical performance. CHFA is an experienced, respected participant in public/private ventures; it should engage the California Community Reinvestment Corporation, an off-spring of this mood, as a pilot and harbinger of future policy.

APPENDIX A

CHFA'S ROLE IN RENTAL HOUSING: A PERSPECTIVE
(Interview Notes)

The notes below summarize some 60 interviews conducted between August, 1990 and February, 1991 as part of the field work undertaken in connection with the above named report. The persons interviewed were, for the most part, operating in the California rental market in a variety of capacities and have had first-hand experience in the low and moderate end of the market and with the California Housing Finance Agency. Each interview ran between 45 minutes and one and a quarter hour and, as they were asked to express views on CHFA in the rental market, their comments ranged widely over many issues and concerns in rental housing.

To protect the confidentiality of their remarks, the observations are organized into functional groups, i.e., government agencies, legal services, financial institutions, for-profit and nonprofit entities.

The Interviews Notes

Local Government Agencies:

(1) In moderate and small size communities and in rural areas, CHFA could act as a facilitator, bringing lending institutions, developers, public agencies, community groups and nonprofit organizations together to build/renovate affordable rental housing; or CHFA might work to inform and educate local lenders about the low/mod market; or help to remove "red-line" barriers where they exist.
(2) Specific activities were suggested as CHFA initiatives, such as (a) acting as an intermediary for local issuers in the bond market and providing assistance in underwriting, (b) providing construction financing and "gap" financing in rehabilitation projects, (c) developing a "one-stop" project financial packaging service, including DHCD's program RHCP, for example, (d) undertaking a "pilot project" with a local housing agency that links local TA bonds, or trust funds--maybe even predevelopment financing and/or local land--with CHFA underwriting and funds, (e) focussing on in-fill type projects in areas passed over in the normal development process, (f) using the local "waiting list" (for assisted housing) as a CHFA tool in identifying need, demand areas in the State.
(3) CHFA is viewed by some as a competitor in the affordable housing field; not sure how much cooperation is possible.

State and federal agencies:

(1) Several general comments were made by officials at the state and federal levels: (a) CHFA and DHCD should make their program and operating requirements compatible, perhaps they should even become one agency, (b) CHFA should become more aggressive in affordable housing, like the Massachusetts Agency putting together a menu of initiatives for the FHLB, or the Arizona Housing Finance Agency working with the FHLB to pick-up RTC single family inventory, or working with local redevelopment agencies on pre-development loan resources.
(2) A variety of suggestions were made about specific finance areas that CHFA should explore: (a) expand its HAT program, perhaps adding funds by refinancing some of its portfolio, (b) renew exploration of HUD "delegated processing", (c) develop finance tools for third parties in 241 (f), RTC and HUD reo deals, (d) expand on loan-to-lender initiative, (e) explore issuance of taxable bonds, even lower-rated bonds; work with Prop.#s 81,84,107 and with local agency #108 issues backed by HUD CDBG funds.
(3) Others suggested specific market niches in which CHFA should specialize: (a) preservation, including expiring contracts on assisted projects and historic properties/areas, (b) target market segments--SRO, emergency, transitional and aging-in-place housing,

handicapped and in-fill housing, for example.
(4) Other ideas included (a) work with DHCD on workshops for local participants in affordable rental housing, (b) develop an overall marketing strategy and pattern for the Agency, (c) let loose of some of CHFA's money, (d) focus on smaller projects, (e) explore the use of CHFA's authority to own property, (f) play a more active advocate role in housing.

Financial Institutions (Includes private lenders, secondary market entities and institutional consortia)

(1) Several persons made a few general observations about CHFA: (a) the present tight lending policies and the push (through FIRREA) for more involvement in low/mod lending by institutions sets an environment in which CHFA should thrive as an intermediary, (b) CHFA should probe itself for institutional change by engaging the other participants in its internal dialogue, (c) CHFA should examine local housing issues for terms and conditions in order to structure its programs; it should review California submarkets, particularly the changing demographics, to assess CHFA's utility to those markets, (d) CHFA should decide its primary role: direct lender or a provider of origination services, (e) CHFA should aggressively market its services and capabilities (LISC was cited as an organization that has effectively marketed itself).
(2) A number of specific suggestions for CHFA action were made by the individuals in financial institutions: (a) CHFA should explore functioning as a seller in the secondary market, and at the same time explore working with FNMA, as the Massachusetts and Florida HFA's are doing; it should consider offering credit enhancements in the secondary market, (b) CHFA should buy nonprofit bonds, like FNMA, or buy SAMCO and CCRC paper, (c) mix CHFA, RHCP and nonprofit participation (say on a 50/40/10% basis), (d) for projects that fall out of HCD or tax credit pots, CHFA work a low floater guarantee with a private lender, (e) CHFA should help lower construction financing costs through linked deposits or matching deposits, (f) get involved in Participation Notes on a blended interest basis with 1st trusts; or, on a deal basis, provide a time-limited subsidy to developers; or provide a "wrap-around" loan at a subordinated position, becoming first under specified conditions, (g) focus on nonprofits by putting together a bond pool with a single issue; make 501 (c)(3) issues popular, use 241 (f) program, (h) explore "B" bond issues; float tax exempt issue to pool preservation issues, bring a FNMA-type credit enhancement to the pool; explore CHFA role in new housing block grant, (i) acquire Section 8 deals; issue tax exempts behind others but reduce fees.
(3) Other observations included: (a) CHFA should be aware that small, social service and special housing projects are falling through the cracks as the system now operates, (b) CHFA should review its "conservative" escrow and underwriting practices.

For-Profit developers

(1) CHFA needs to expand private industry contacts in order to increase participation in low/mod rental housing. For example, extend CHFA's network to include such groups as the mortgage bankers, or market and advertise CHFA's capabilities (frequently mentioned), or attract second and third tier developers, or attract foreign investment in rental housing.
(2) In operating terms, suggestions were made to: (a) review and revise underwriting standards, (b) revise Board schedule to accommodate the need for quick responses to proposals.
(3) Again the respondents made specific suggestions in the finance area: (a) package small issues, (b) take a loss sharing risk; revise non-recourse provisions, (c) provide take-outs for private construction loans; be willing to make forward permanent commitments, (d) develop incentives for others to participate in low/mod housing; give bonuses (or incentives) to developers who build affordable housing in high income census tracts or who provide sustained social services, e.g. child care, transportation, handicapped services in their developments.

Legal Services

(1) In California there is competition in finance between locals and CHFA: CHFA is disadvantaged by its underwriting standards, its required use of Agency G.O. bonds rather than the locals' use of revenue bonds, its participation and public purpose requirements in 80/20 deals, CHFA is more "bureaucratized" than the locals; CHFA has advantages with the market value of its name and record in fixed-rate, long-term issues, with the beginnings of bringing subsidies and credit enhancements to deals.
(2) CHFA procedures in monitoring, architectural reviews, affirmative action and its fee structure do not recognize the increased sophistication in the field nor the competition in financial services; or, as another stated, "CHFA's interest rates are ok, but its fees and reviews discourage users. Even so, the nonprofits would rather deal with CHFA than HCD, but HCD has the money"
(3) Virtually everyone said that CHFA should get involved with the novice and small issuers by (a) covering front-end issue costs, (b) pooling small issues.
(4) Several specific activities were proposed for CHFA: (a) adapt and replicate the CHFA/HCD joint effort in rural areas to the urban areas,(b) develop a program for group homes, (c) operate in the high cost areas, (d) get into pre-development and construction financing, (e) the Agency should consider placing resale restrictions on single family loans (as a means of extending affordability), (f) play a "broker" role: help find equity capital, (g) maximize the use of its reserve funds, particularly if the Agency refinances its old Section 8 projects, by designing a variety of program investment funds (like HAT) to apply in priority market segments, (h) since CHFA and HCD are moving in the same directions--HCD getting into loans; CHFA into grants--explore better ways to link programs, streamline procedures.

Nonprofit Organizations (Includes local nonprofits, regional and national nonprofit entities)

(1) There is a perception that CHFA is not interested in rental housing, citing that fact that the Agency has essentially absented itself from the field the past few years; that the Agency is too slow and its controls (like resale restrictions) and procedures are too cumbersome, its fees too high (can get better deals and treatment from the locals, SAMCO and CCRC).
(2) The nonprofits need help from CHFA: (a) develop a package to enable them to buy-out (d)(3)s and 236s, (b) pool 501 (c)(3) issues; even provide a flexible pool, maybe with undefined projects, (c) buy nonprofit paper, act as a secondary market for them.
(3) Several specific suggestions were made for CHFA initiatives: (a) develop a taxable bond program (some wondered why CHFA had not already done so), (b) undertake a demonstration on "fast-track" processing, (c) link-up CHFA capabilities with HCD money, (d) pick-up market areas left out by the tilt of the tax credit program toward large family housing, (d) develop a demonstration program for SRO housing, provide a subsidy for mixed income projects that include community services, like day care, (e) use CHFA reserves for predevelopment costs without present strings; for acquisition loans, say at 95/5%.

During the decade new housing tools have been developed, some established ones altered or abandoned; and, in all, the policy direction is changing. New are housing tax credits, housing trust funds, FIRREA (and its Affordable Housing Program), HOME and HOPE, for example. Altered or abandoned have been Section 8, 108 loans, housing certificates, for example. And a host of programs at the state and local levels have emerged and changed. Policy continues to move in the direction of stimulating, or prodding the private sector into generating resources for affordable housing--dedicated revenues for trust funds and fee set asides, like the Affordable Housing Fund, are examples.

During the 1990's in California the 45-54 age group will grow the most while those under 25 will increase only negligibly and the 25-34 group will decline by over 600,000. A significant segment, the over 65, will grow but remain about the same 11.5% of the total. These shifts portend a reduced demand for sales housing coming from the 25-34 age group, an increase in the second or third-time buyer from the 45-54 group and a flat demand on the horizon from the younger group. Even if, as some project (the National Bureau of Economic Research's recent paper offered such a suggestion), the population changes take some pressure off the sales market, they do not, as the Joint Center for Housing Studies of Harvard University observes in its "State of the Nation's Housing, 1990 Report", relieve the rental housing situation.

California has about 10% of the nation's housing inventory. The inventory is not as old as the national average, but it has been growing steadily older. In 1989 over 50% of the housing stock was 21 years or older; 37.2% was over 31 years old. As the percentage of units in multifamily structures has sharply increased since 1970, the single family, detached house has continued its long downward share of the inventory. Much of the older single family stock is occupied by renters and senior households. But, like the rest of the country, the most memorable aspect of the inventory is its affordability. Even as more California households spend more of their income for housing (in 1989 about 35% of all households spent more than 25% of their income for housing), fewer of them could afford to become first-time home buyers (ibid, page 49).

Several trends seem to converge to keep the rental market tight, particularly for low income households. First, according to national data compiled by the Joint Center for Housing Studies, between 1960 and 1987 the number of units renting for less than $200 (measured in 1989 dollars) fell from 4.8 to 3.0 million, and units renting between $200-$300 were reduced form 6.4 to 4.2 million, an aggregate reduction of 36%. Second, renter income has not kept pace with rent increases, in part because tenants are increasingly single parent or elderly households. For the poorest fifth of the population, real income dropped over 6% between 1979-1987, while rents overall increased greater than the rate of inflation. Third, young households (the under25 and 25-34 age groups), already experiencing a drop in homeownership, are taking longer to to buy-in to ownership and that trend is likely to continue, given the recent pattern in wage rates. California data generally parallels these trends, according to the "California Statewide Housing Plan Update",(October,1990, State of California, Department of Housing and Community Development).

ANNEX B

HOC Housing Programs

HOC Housing Programs

The Work of
The Housing Opportunities Commission
of Montgomery County, Maryland

June 1992

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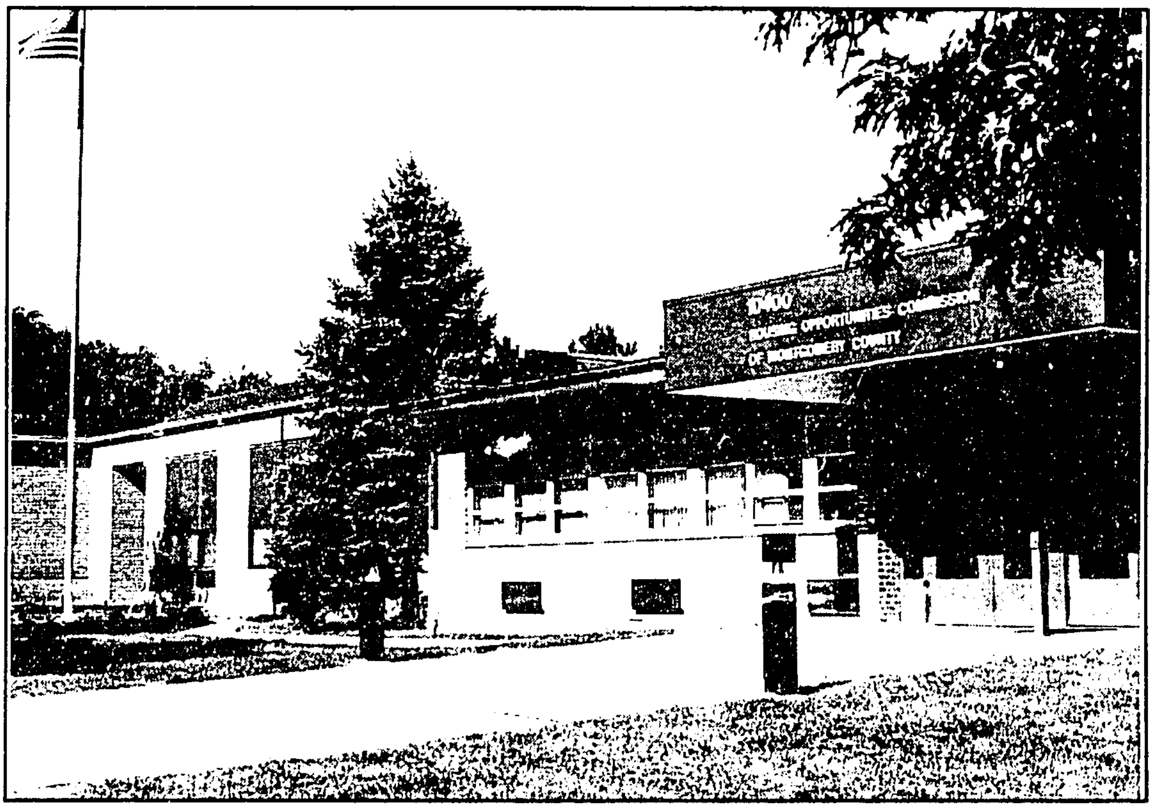
All figures in this booklet are current as of June 1992.

Second Edition.
First Edition March 1991.

Table of Contents

HOC Housing Programs

I. Overview Of HOC and Its History



The Housing Opportunities Commission's central offices at 10400 Detrick Avenue in Kensington.

I. Overview of HOC and Its History

A. What the Commission Does

The Housing Opportunities Commission (HOC) is a public corporation established through state law and local legislation. There are seven volunteer Commissioners who oversee the Commission and its staff of more than 320. These volunteers are appointed for five-year terms by the County Executive with approval of the County Council. The Commission is responsible for hiring HOC's Executive Director, setting policies and approving the budget. The seven volunteer Commissioners are listed in <u>Index One</u> at the end of this booklet.

The Commission usually meets on the first and third Wednesdays of each month, although this is subject to change. Meetings usually start at 7 p.m. and are open to the public. To verify meeting dates, call 929-2380.

HOC builds, owns, manages and finances housing for people of low and moderate income. The Commission administers more than 3,100 federal Section 8 rental subsidy Vouchers and Certificates. HOC manages 1,400 public housing units (more than half are for families) and manages more than 7,000 single-family, low-interest mortgage loans as well as close to 9,000 multi-family rental units. HOC owns housing units in more than 130 communities throughout Montgomery County, and belongs to about 110 homeowners associations.

In order to deal with the diverse duties of managing so many housing units and programs, HOC's staff is divided into five divisions. The divisions include Housing Management, Resident Services, Finance, Development, and Executive. Staff is subdivided to perform many diverse duties in each division.

This booklet is designed to explain the numerous programs HOC administers, where funding for these programs comes from, and income levels of people the programs help. More information is always available through HOC's Public Affairs Office, which may be reached through HOC's main switchboard number, 929-6700, or the Housing Information Center, 929-2390.

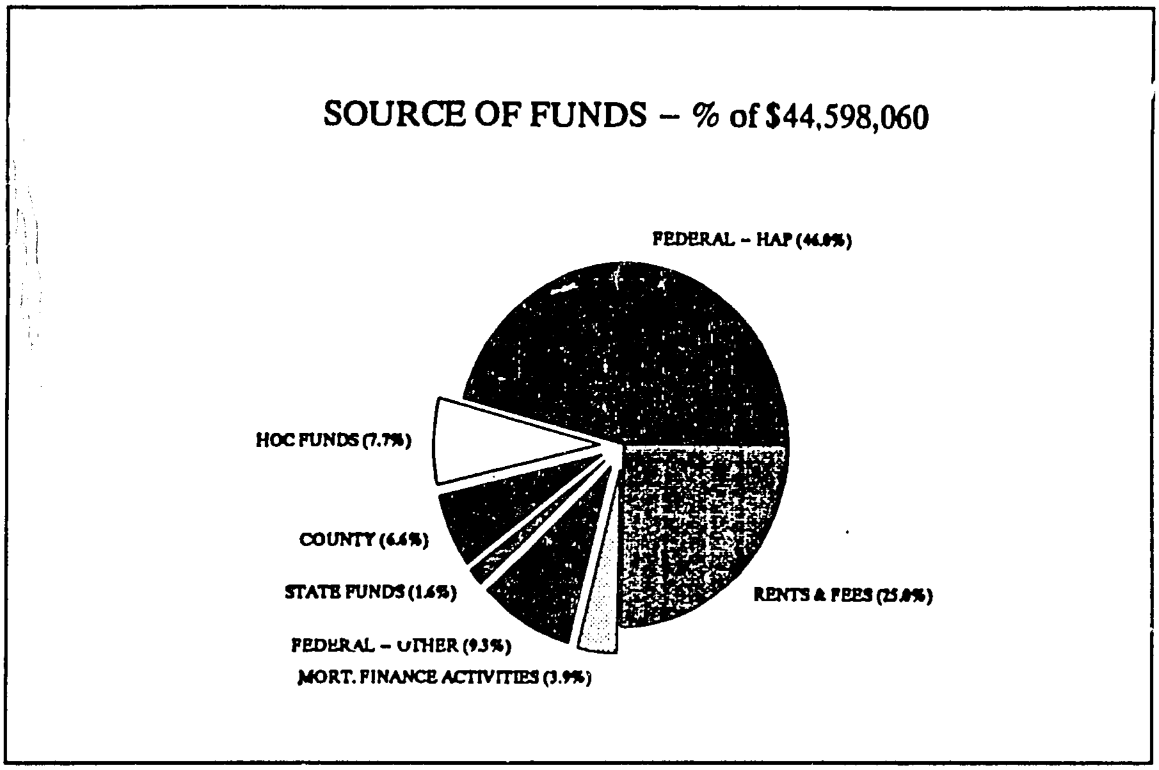
B. Laws Pertaining to HOC

State laws of 1939 authorized Housing Authorities. In 1966, a County council resolution activated the Housing Authority of Montgomery County, or HAMC.

The Housing Opportunities Commission was established through a restructuring of HAMC in 1974, again by State and County legislation. The compendium of state and local laws pertaining to HOC is available at HOC's Public Affairs Office.

C. *The HOC Budget*

Funding for HOC comes from a variety of sources as summarized here:



The complete HOC budget is available at HOC's offices and at the Rockville Library in the municipal collection.

D. *HOC's Mission Statement*

Montgomery County is considered one of the more affluent counties in the nation, where annual median household income is more than $60,000. However, about 18,000 households in the county bring home less than $15,000 a year. This

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is not an adequate income to pay fair market rent for an average two-bedroom apartment, which currently is more than $746.

Because of this situation, many households are forced to pay well over 30% of their incomes toward rent, or are unable to find adequate housing at all. HOC's goal is to provide housing for people who can't afford the Montgomery County market.

HOC is a public service agency that builds, finances, manages, and owns housing for people of eligible income.

WE VALUE:

SERVICE TO THE COMMUNITY
This public agency carries with it a responsibility to perform daily tasks adhering to the highest standards of ***Integrity, responsiveness, and courtesy*** *in making housing services available. We define community in the broadest sense, to include HOC applicants and residents, government entities, community organizations and citizens of the greater Montgomery County community.*

WORTH OF THE INDIVIDUAL
This pertains to our belief that every person as defined above, is important and is to be ***respected and treated fairly*** *at all times.*

Of equal value are our employees, who are a key resource and are empowered to operate in a participatory management environment that fosters initiative and individual contribution, with a strong emphasis on task accomplishment and creative approaches in the accomplishment of our mission.

As of June 1992, HOC staff were working on a values statement to more clearly define the goals of each operating division of the agency.

II. HOC Programs in Brief

HOC's programs are designed to help low and moderate income people find adequate and affordable housing in Montgomery County.

II. HOC Programs in Brief

A. A Short Introduction to HOC's Housing Programs

The Housing Opportunities Commission administers a variety of housing programs, some involving a large number of units, some just a few. Funding comes from local, state, and federal sources. With diminished federal support during the 1980s, finding creative ways to obtain funds is becoming increasingly important, and has led to many innovative new approaches to developing housing. The restructuring of the Housing Authority of Montgomery County to the Housing Opportunities Commission, which took place in 1974, allows HOC to utilize creative, non-federal financing tools for housing programs. These financing programs enable HOC to serve a much broader spectrum of income levels in Montgomery County.

B. Some of HOC's Programs–A Brief List

As of June 1992, HOC's Section 8 rental subsidy program provides rental subsidies for more than 3,100 households in Montgomery County. Low income households receive Section 8 rental subsidies by applying to HOC, receiving preference points based on need and current residency, and ultimately getting to the top of the HOC waiting list. Once a Section 8 certificate or voucher is received, recipients locate their own homes to rent in the private marketplace. Once such a unit is found, the landlord and renter enter into a regular lease agreement. The tenant pays part of the rent, and HOC the rest. The amount of subsidy is based on tenant incomes and expenses, determined by a federally-approved series of guidelines.

Public Housing is another federally-subsidized program. The capital costs of units purchased for public housing are paid for by the federal government. Unlike the Section 8 program, public housing units are owned and managed by HOC. Potential residents are placed on the HOC waiting list with a number of preference points and are offered housing when they reach the top of the list, just as is done in the Section 8 program. The public housing units may be grouped in a single community, or distributed throughout the county in "scattered sites." Public housing resident selection for all sites is handled by HOC's Occupancy Office.

HOC manages seven elderly residences for seniors, and manages several apartment complexes where rents are affordable for families. HOC issues a limited amount of tax-exempt mortgage revenue bonds to finance new construction of both privately-developed, and HOC-developed, multi-family housing. Other units are purchased in partnership with private industries, which receive tax credits for using such units to supply affordable housing.

HOC has transitional housing programs for homeless families. Transitional housing provides furnished residences for those coming out of shelters to occupy for a specified time period, after which they may make the move to public housing, Section 8, or another housing program--eventually, maybe even homeownership.

HOC's Operation Match program is a free roommate-referral service. The Operation Match staff matches people with extra room in their homes to rent, to people seeking roommates and an affordable place to live. This program works for people of all income levels.

The Commission's main goal is always to provide adequate and affordable housing to the county's low- and moderate-income residents, and the agency administers many programs to encourage residents to become homeowners, not just home renters. For example, HOC's public housing program includes certain units that are available for residents to purchase at low interest rates.

The HOC Mortgage Purchase Program (explained in a later section) assists moderate-income-qualified residents to purchase any unit in the County which falls within purchase-price guidelines, at below-market-rate interest.

As you read about these and other programs, you will see why HOC is such a multi-dimensional agency. HOC staff are continually seeking ways to creatively solve the housing crises of the coming decade, and beyond.

C. *The MPDU Program and HOC*

County law stipulates that when a developer builds a community of 50 housing units or more, up to 15 percent of these units must be set aside as "Moderately Priced Dwelling Units," or "MPDUs." These units are priced affordably to be sold to moderate-income families who are on a waiting list administered by the County's Department of Housing and Community Development. Before these MPDU units are put up for sale, forty percent of them are offered to HOC and non-profits, certified by HOC, who are willing to provide housing services. This forty percent is divided among HOC and the non-profits, with HOC offered 33 1/3 percent, non-profits offered 6 2/3 percent. The MPDU law enables HOC to obtain many of the "scattered sites" used for various programs described elsewhere in this booklet.

D. HOC and the Waiting List

All applicants to HOC's federal (Section 8 and public housing) programs must fill out HOC's standard housing application. They are then assigned a number of preference points based on need and current residency, and placed on HOC's waiting list until a program appropriate to their need is available. There is no way to determine exactly when an applicant will receive housing assistance, but those assigned the greatest number of preference points, from 1 to 9, do receive priority.

Applicants are assigned preference points in the following ways:

5 points	-	Involuntarily displaced Substandard housing Paying more than 50% of income for rent*
2 points	-	Live or work in Montgomery County
1 point	-	Victim of domestic violence
1 point	-	Foster care family reunification

* Only one 5 point assignment is made.

Due to the large number of applications, it may take up to four weeks to process an application onto the waiting list.

Here are some facts about the HOC waiting list as of 1992:

20.1% are elderly
71.7% are single-parent households
50.46% have wages as the primary source of income
14.22% have incomes from retirement, VA or social security benefits
Almost 1,553 applications are from homeless households
Almost 3,264 applicants are paying more than half of their incomes for rent
HOC receives more than 300 new applications each month, and serves an average of 60 households each month
The average waiting list time is 712 days, but is unlikely at this time that federal housing assistance will be offered to anyone with just two preference points.

More than 99% of placements in federally-assisted housing are people who either reside or are employed in Montgomery County. Although anyone may apply, people who live or work in Montgomery County are allocated two preference points.

E. *Income Limits Served*

There are maximum income limits to qualify for various HOC programs. Applicants are required to provide income verification at time of housing interview, after their names have been taken from the waiting list. Programs for which these income limits serve as guidelines are explained in this booklet, and current maximum income limits are listed in Index Two at the end of this booklet.

F. *HOC's Occupancy Policies*

Residents in programs involving HOC owned and managed housing must sign a lease, just as in any landlord-tenant relationship. Also, just as in any standard lease agreement, there are obligations for HOC as landlord, and for the residents as tenants.

As there is mounting concern about the national problem of drug abuse and trafficking, special note is made here of HOC's policy in this regard. HOC considers a drug-related conviction as grounds for eviction from HOC property. There are processes of appeal that residents may take if they feel they are being unjustly evicted, but HOC's policy on drug-related activities is made clear to its residents at the time of lease signing.

III. Public Housing

Sandy Spring Meadow is a community of public housing rental units for both senior citizens and families.

III. Public Housing

A. Public Housing Rental for Families

Families who qualify by income and family size are placed on the waiting list for public housing. The Federal government sets the income limits for those qualified for public housing programs based on the median household incomes for each Standard Metropolitan Statistical Area (SMSA). This income limit is set at 50% of the area's median income.

As previously mentioned, income limits for applicants who may apply for public housing are listed in Index Two at the end of this booklet.

Federal regulations stipulate that "very low" income households qualify to live in any public housing unit. However, the "lower income" households may live only in units built before 1981.

Before residents are offered one of HOC's public housing units, HOC staff examines credit history, checks landlord references, and conducts criminal history checks.

As of June 1992, HOC owns and manages almost 1,400 public housing units. They include:

Elizabeth House (elderly)	160 units
Holly Hall (elderly)	96 units
Emory Grove Village (family)	55 units
Washington Square (family)	50 units
Arcola Towers (elderly)	141 units
Middlebrook Square (family)	76 units
Waverly House (elderly)	158 units
Ken Gar (family)	19 units
Parkway Woods (family)	24 units
Towne Centre Place (family/elderly)	49 units
Sandy Spring Meadow (family/elderly)	55 units
Scattered Sites (family)	659 units

These units are located throughout Montgomery County, from Damascus to Potomac to Silver Spring. Some are small subdivision communities; other

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"scattered sites" may include only a few houses in a subdivision. As mentioned previously, most of HOC's scattered site purchases are a direct result of HOC's participation in the County's Moderately Priced Dwelling Unit (MPDU) law.

Each unit of public housing falls under the jurisdiction of an HOC resident manager. In some cases, as in Middlebrook Square or Washington Grove, where the entire community is a public housing community, a resident manager may be on site daily. In other cases, such as the scattered sites, a single manager is responsible for overseeing units in different communities. Just as in any other rental situation, the resident is made aware of his or her resident manager, and addresses any problems to this manager. One of HOC's counselors, who provide a variety of support and referral services, is also assigned to each public housing household.

B. *Homeownership Opportunities in Public Housing*

Some public housing residents are offered the opportunity to become homeowners of the units they rent. Two such "Turnkey III" homeownership program communities include the Tobytown community, where as of 1992, 4 of 26 units had been sold to occupants, and the Bel Pre community, where 36 of 50 families had become homeowners. These communities have homebuyer and homeowner associations. There are also 102 scattered site public housing units which have been designated as homeownership units. In 1992, all but 31 of these units had been sold to residents. The total number of residents purchasing homes through public housing as of 1992 was 115 of 178 available units.

Residents who rent in these homeownership communities receive some guidelines concerning home purchasing and are eligible to receive low interest HALF (Homeownership Assistance Loan Fund) mortgages (as low as 6%). Some families also qualify to receive special loans from the Commission to cover homeownership-expense related loans such as debt consolidation or closing cost expenses involved in settling on a homeownership loan.

In homeownership programs, a portion of the resident's monthly rents prior to homeownership goes toward a non-routine maintenance fund and a savings reserve fund for homeownership. When these savings funds reach a stable point, HOC staff works with the resident to help obtain a mortgage and become a homeowner.

C. *Funding for Public Housing*

The federal government pays the capital (purchase) costs of public housing. However, there are of course continuing operating costs. Resident rents, which are set at 30% of the family's adjusted gross income, go toward operating costs. Rent includes a utility allowance for the residents.

Operating costs are supplemented by funding from the federal government, and some additional agency and County funds as required. The Performance Funding System (PFS) funds operating costs through the federal government. Each year, HOC applies to the federal government for these PFS funds, which are distributed based on a formula that the federal government staff determines is equal to normal, standard operating costs of a prototypical housing authority.

Two sources for capital improvements in public housing come from "Community Development Block Grants" (CDBG) and "Comprehensive Improvements Assistance Programs" (CIAP). The CDBG program is a HUD program where funds are distributed to local governments for programs which assist low income people and improve community conditions--keeping public housing communities in good shape. For fiscal year 1991, the County Department of Housing and Development received $3,398,000 in CDBG funds. Agencies and organizations apply annually for these funds, both by written application and verbal testimony. DHCD and a citizens advisory committee then advise the County Executive regarding the CDBG allocations. For example, in 1991 HOC received $273,000 of this CDBG money, the primary use being for capital improvements of public housing.

The CIAP program is a modernization program which also involves HUD funding. **However, the CIAP Program ends in September 1992, to be replaced with the Comprehensive Grant Program (CGP).** Under CGP, HOC will receive funds to modernize its properties based on a formula allocation process instead of through competition, as was the case with CIAP. Management staff and residents work together to produce a "Comprehensive Plan" to determine what is needed to improve homes, as well as create an outline of goals, strategies and priorities. The Plan plays a pivotal role in obtaining money under CGP.

Public housing residents themselves are encouraged to help with the routine maintenance of their homes, such as changing filters, keeping their homes clean, and maintaining their yards. More complicated maintenance is provided by HOC's management/maintenance staff.

IV. Section 8 Rental Assistance

Section 8 rental subsidies allow residents to locate their own units in the private marketplace.

IV. Section 8 Rental Assistance

A. Section 8 Funding

The Section 8 Rental Assistance Program is funded by the federal government. HOC receives a fee from the Department of Housing and Urban Development (HUD) for administering this program in the county. The fee is on a per unit basis and is set by HUD. When funding for Section 8 is about to become available, HUD publishes a Notice Of Funds Availability in the Federal Register. HOC is awarded Section 8 allocations after being invited by HUD to apply, and then receiving specific HUD unit allocations by bedroom size.

B. Section 8 Qualified Applicants

There are several different programs within the Section 8 guidelines, but applicants' income limits (listed in Index Two at the end of this booklet) are the same as those for "very low" public housing.

C. How Section 8 Works: Rental Certificates and Vouchers

Families qualify for the Section 8 rental subsidy program by applying and coming to the top of HOC's waiting list. The program makes it possible for low income applicants to live in privately owned and managed rental properties while paying a portion of income for affordable rent. The Section 8 subsidies from the federal government make up the portion of rent which the Section 8 recipient does not pay. This portion of the rent is paid directly to the Section 8 landlord.

1) The "Section 8 Rental Certificate"

The "Section 8 Rental Certificate" allows the recipient to rent a unit in the private marketplace as long as the rent is within federally-determined guidelines and the renting landlord agrees to participate in the program. Participants must locate their own units to rent, and must enter into a standard private lease agreement with the landlord. *It is the landlord's responsibility to screen and select tenants, not HOC's.* However, HOC does inspect the unit prior to occupancy to ensure it meets federal guidelines, and examines the lease to be sure rent charged falls within fair market rent limitations set by the federal government.

When an applicant receives a Section 8 Certificate, HOC specialists determine the amount of rent an applicant should pay, which is 30% of the income, adjusted depending on household expenses such as child, handicapped, elderly, or other dependent care. The Section 8 family pays the HOC-determined 30% income for rent, and the Section 8 Rental Certificate subsidy pays for the balance of the rent each month, up to a federally determined rent maximum.

The household must recertify on a yearly basis to determine if they are still in need of a Section 8 Rental Certificate, and to receive a yearly inspection of their housing unit per HUD specifications. If there is a raise in rent, that will also be reviewed. Any reasonable rent requests may cause an upward adjustment in the amount of the HOC's monthly Section 8 payment. If family income has increased or decreased, the household's portion of the rent increases or decreases.

Current federal guidelines for Fair Market Rents acceptable under the Section 8 Certificate program are listed in Index Two at the end of this booklet (rent plus utilities).

2) *The "Section 8 Voucher"*

Not all Section 8 recipients receive "Certificates." The "Section 8 Rental Voucher" is nearly identical to the "Section 8 Certificate" in that the recipient must locate a home in the private marketplace and enter into an agreement with the landlord. The difference is that the "Section 8 Housing Voucher" has no maximum rent limits (unlike the Rental Certificate limits).

Since the Housing Voucher has no maximum rent limitations, the applicant may pay any extra difference between HUD's determined fair market rent (the Voucher Payment Standard) and the actual rent. For example, if a family of three obtains a Section 8 Rental Voucher and rents a two bedroom apartment for $780, this is $49 above the federally determined fair market rent (see Index Three). In addition to 30% of the adjusted income for rent, the family will also be responsible for paying this extra $49. Conversely, if the rent is lower than the fair market rent, the tenant will pay less than 30% of adjusted income for rent. Since the savings are passed on to the tenant, it is obvious that it is to the tenant's advantage to shop around. But no matter how inexpensive the rent for the unit located, the family must pay at least 10% of their gross income for rent and utilities.

D. *"Section 8 New Construction"*

During the 1970s, some builders were able to obtain HUD contracts to build "Section 8 New Construction." In these cases, the Section 8 rental subsidy stays with the units to house eligible families. In other words, the Section 8 subsidy is "project based" instead of "tenant based," and doesn't move when the tenant moves.

Some buildings have Section 8 "set asides," where certain units or a certain number of units are set aside as Section 8 "project based." Other developments are 100% Section 8 "new," where all residents are Section 8 recipients, and where the units will remain Section 8 "project based" after these tenants move on.

Magruder's Discovery in Bethesda is 100% Section 8 new. This 134-unit garden apartment development in Bethesda is owned by a group of private investors, but is managed by HOC, and will revert to HOC ownership at the end of its mortgage. Magruder's keeps its own waiting list of qualified applicants. Residents qualify by income and family size. Income limits are the same as all Section 8 income limits. This syndication agreement between the Magruder's Discovery owners and HOC is unique.

The Paint Branch community is a Section 8 "new" construction community of 14 housing units. This is the only Section 8 "new" community which was built for HOC before HUD contracts under this program were discontinued.

There are other communities in Montgomery County which contain Section 8 new units, but these non-profits' owners have entered their own agreements with HUD, and these units are not part of HOC's housing stock.

E. *Section 8 and HOC Multi-Family Financing*

There are a number of privately-owned developments which received financing from HOC for acquisition and rehabilitation. In return, HOC received a guarantee that a certain number of units will be designated as "affordable" for a certain number of years. Both "project based" and "tenant based" agreements have been reached. Other units in these developments are also designated as "affordable" housing for other than Section 8 use, and still others may be rented at market rate. Applicants qualify by income and family size. HOC monitors the loan agreements with these properties throughout the duration of the agreements.

Many Section 8 tenants have found affordable places to live through HOC's multi-financing activities. This financing is covered more fully in a separate section of this booklet.

F. *"Section 8 State-Connected"*

HOC has an agreement with the State of Maryland to transfer some Section 8 allocations, whereby the State administers these Section 8 subsidies.

This process allows the Commission to rent some of its units purchased under the MPDU law to Section 8 families. These "state-connected" units are also used in other affordable properties HOC owns, such as Tanglewood, Chevy Chase Lake, Fairfax Court, and Spring Gardens.

G. *Section 8 Special Programs*

Through HUD's Section 8 regulations, housing agencies are allowed a 10% variance in section 8 rentals for special projects. The Commission has served special county needs in a number of ways through this regulation. For example, the single-parent residents at the Crossway Community are eligible to receive Section 8 subsidies, and residents from the Wells Robertson House/Gaithersburg Single Parents Program, Stepping Stones Shelter, Bethesda Interfaith Housing Coalition, and other groups may receive Section 8 Certificates and Vouchers.

H. *Section 8 "Mod Rehab"*

Mod Rehab is a HUD "project based" Section 8 program whereby a private owner agrees to moderately rehabilitate rental property and receives a 15-year commitment of Section 8 subsidies for some or all of the units in the property. The same Section 8 income limits apply as for any Voucher or Certificate holder. HOC has 185 Mod Rehab units in these six properties: New Hampshire Gardens, University Manor, Hewitt Gardens, Barclay Apartments, Sligo House, and Lenmore/Rocklin Park Apartments.

I. *Section 8 Rental Rehab Programs*

In some cases, certain substandard properties with many low-income residents, and with rehabilitation needs, are recommended as candidates for the Rental Rehab Program. Such properties must meet HUD guidelines as to neighborhood, area median income, number of low-income tenants, and rent-appreciation likelihood. The owner of the rental property must agree to accept some HUD money for rehabilitations, and take out loans for other work. HOC is often able to help the owner find financing. If the owner agrees to participate in the program, income-qualified residents of this substandard housing are eligible to receive Section 8 Certificates or Vouchers. If residents wish to remain in the Rental Rehab property, they may do so, or may opt to move to other suitable rental housing, taking their Section 8 subsidy with them.

The County Department of Housing and Community Development sometimes refers to HOC a family residing in substandard housing who needs help quickly. Through the Rental Rehab Program, HOC is able to provide these recommended families with a Section 8 subsidy. The property must either be rehabilitated, in which case the family may stay, or the family has the option to move to more suitable housing.

J. Family Self-Sufficiency Program

In 1991, Congress implemented the Family Self-Sufficiency Program. Under this ruling, public housing authorities use public housing and Section 8 rental assistance together with public and private resources to provide supportive services such as opportunities for education, job training, child care, homeownership opportunities, and counseling to enable participating families to achieve economic independence and self-sufficiency. As of June 1992, HOC is about to receive an initial offering of Section 8 Rental Vouchers and Certificates to implement this program locally.

V. Section 236 Housing

Leafy House in Silver Spring is a "236" building managed by HOC. It contains affordable housing for senior adults.

V. Section 236 Housing

A. The Section 236 Program

The Section 236 program was a federally-subsidized mortgage program that ended in 1978. Until then, the government subsidized mortgages down to 1% for buildings in this program.

Since HUD stipulates that HOC cannot both own and manage Section 236 properties, the buildings are owned by non-profit boards of directors, appointed by the HOC Commissioners. HOC manages these buildings.

In the Section 236 Program, residents pay either a basic floor (minimum) rent, or 30% of income for rent, whichever is higher. Since Section 236 buildings have floor rents, this program does not assist very low income people who cannot pay that minimum floor rent without some other assistance.

HUD must approve the floor rents for each Section 236 property, as well as any floor rent increase recommendations. In addition, HUD sets minimum income requirements for Section 236 building residents.

At the time of original Section 236 financing, HUD agreed that building owners could "opt out" of their affordable housing agreement after a designated period of time (20 years) by selling or refinancing their 236 buildings. This 20-year "opt out" period is now up for some owners, and Congress has passed Title VI of the 1990 Affordable Housing Act to give owners incentives to continue the preservation of these units as affordable, as well as giving incentives to buyers of these buildings to continue their affordability. In addition, if owners of 236 properties wish to sell, Congress gives the right of first refusal to resident-based associations or resident recommended organizations, in order to further ensure these units will remain affordable.

Income limits to participate in Section 236 housing are the same as the low income public housing and Section 8 limits listed in <u>Indexes Two</u> and <u>Three</u> at the end of this booklet.

B. Rental Subsidies for Section 236 Residents

As stated before, it is impossible for Section 236 to serve very low income households because of HUD-designated floor, or minimum, rents in each Section 236 property. However, there are two different subsidies available in this program to serve very low income households in the County and enable them to live in Section 236 housing.

The Rental Assistance Program (RAP) is administered by the County. A designated monthly rental subsidy amount is applied to households who cannot pay the minimum monthly floor rents. A specified RAP budget is applied to each Section 236 property. This dollar amount does not change as costs of living increase, so each year the RAP subsidy helps fewer and fewer households. (The County's RAP program is different from HOC's RAP (Rental Allowance Program described in Section XIV of this booklet.)

The other type of subsidy which may be applied to Section 236 households who are not able to pay the minimum monthly floor rents is the Section 8 rental subsidy Voucher or Certificate.

C. *HOC's Section 236 Properties*

HOC retains management of four Section 236 properties in Montgomery County which are owned by non-profit boards of directors.

These properties are:

Bauer Park Apartments (Elderly)	142 units
Leafy House (Elderly)	181 units
Town Center Apartments (Elderly)	112 units
Camp Hill Square Apartments (Family)	51 units

VI. Housing and Programs for the Elderly

A participant in the Senior Assisted Housing Program at HOC's Arcola Towers attends an arts & crafts workshop.

VI. Housing and Programs for the Elderly

A. HOC's Senior Public Housing Residences

HOC owns and manages four public housing rental properties for seniors. These are apartment communities where rents are determined by income. Income limits are the same as for any public housing community. These communities are:

Arcola Towers	141 units
Elizabeth House	160 units
Holly Hall Apartments	96 units
Waverly House	158 units

Residents in these communities are actively involved through residents associations, which plan entertainment, recreational activities and trips. Each building has its own resident manager.

In addition to these four properties devoted entirely to senior housing, there are two HOC public housing family communities with some units for seniors. Towne Centre Place has 16 units for seniors, and Sandy Spring Meadow has 5 senior households.

B. HOC's Section 236 Senior Residences

As described in the previous chapter, HOC manages three senior residences under the Section 236 program. These buildings are owned by non-profit boards of directors, and managed by HOC. These affordable housing residences are:

Bauer Park Apartments	142 units
Leafy House	181 units
Town Center Apartments	112 units

C. Seniors in the Private Marketplace (Section 8)

Seniors may apply for Section 8 Rental Vouchers and Certificates just as any income-qualified person may. This enables seniors who wish to find their own residences to do so and still receive help with monthly rental expenses. The Section 8 program for seniors works the same as the Section 8 Certificate/Voucher program described in Section IV.

D. *The Senior Assisted Housing Program*

In the four senior communities owned and managed by HOC, the Senior Assisted Housing program is available. This program is designed for frail older people who need some extra assistance to remain in an independent living environment. This program is available to qualified applicants only at Arcola Towers and Leafy House.

This program provides personal services to seniors on an individual basis, which may include housekeeping, laundry, three meals a day, and other needed services. Seniors who wish to participate are interviewed by an HOC panel to determine the extent of their needs, and are interviewed on a yearly basis afterwards to ensure the program still meets their needs adequately.

There is a fee for Senior Assisted Housing in addition to monthly rental, but financial assistance for lower income applicants is available through the Maryland Office on Aging. The fee charged for program participation is based on the household income.

E. *Sunrise at Kensington Park*

Sunrise at Kensington Park will be completed in 1993, and is HOC's first income-integrated (rent based on income) senior community.

The Kensington development will feature three large, Victorian style buildings with 165 units to house both frail and independent elderly residents.

VII. HOC and the MPDU Program

The County's MPDU law ensures a supply of affordable housing in each new development in Montgomery County. HOC purchases MPDUs for numerous housing programs.

VII. HOC and the MPDU Program

A. The MPDU Law

County law stipulates that when a developer builds a community of 50 housing units or more, up to 15 percent of these units must be set aside as "Moderately Priced Dwelling Units," or "MPDU's." These units are priced affordably to be sold to moderate-income families who are on a waiting list administered by the County's Department of Housing and Community Development, which retains control over their resale price for 10 years. The original selling price of MPDUs is set by the County Executive. This law became effective in 1974.

By law, HOC is offered one-third of these units before they are made available for sale. This MPDU law enables HOC to obtain many of the "scattered sites" used for various programs, which are summarized in following sections.

In 1989 an amendment to the MPDU law provided an opportunity for non-profit organizations to participate in MPDU purchases for affordable housing. As HOC receives an offering of 33 1/3 MPDUs before they go on the market, it selects its units and determines which of the programs described below will finance any MPDU purchases. Non-profits certified by HOC can select an additional 6 2/3 percent of MPDUs to purchase. The balance goes on the market for the MPDU program participants' lottery. (Because so many people wish to purchase MPDUs, DHCD developed a lottery system to determine who will be offered these units.)

By mid 1992, HOC had purchased about 1,100 MPDUs for use in various programs.

B. HOC Programs Which Use MPDUs

New MPDUs offered to HOC are available only at the time initially offered, and HOC finances MPDU purchases from any number of programs which have funds available. Price-controlled, resale MPDUs occasionally are available to HOC.

HOC's current programs which make use of the Commission's MPDU purchases include:

1) Public Housing

The MPDU law gives HOC other options besides traditional use of public housing funding. "Traditional" public housing involved development of entire subdivisions or apartment communities of housing units. Since MPDUs are scattered throughout the County and HOC is offered one-third of these MPDUs, HOC can purchase "scattered sites" of public housing rather than concentrate a group of units in a single community. As stated previously, the federal government pays the capital costs to purchase public housing, so HOC can acquire its scattered sites using federal public housing funds, when funds are available.

2) Section 8

Section 8 program regulations once specified that a housing agency may not both own and rent a housing unit to a Section 8 recipient. Therefore, HOC made use of "state-connected" Section 8 units. HOC transferred Section 8 authority to the State in certain situations. In these cases, the state administers the Section 8 Rental Certificates and Vouchers. Currently, HOC has 250 units in this State-Connected Program. More than 75% of these units are MPDUs. Residents in these units are bound by the same regulations as any other community residents, and they pay 30% of household adjusted income for rent.

3) Montgomery Homes Partnerships

1986 tax law established the Low Income Housing Tax Credit Program. This law provides tax credits for certain investments in housing that serves low income households. HOC saw this program as an opportunity to purchase MPDUs in partnerships with the private sector. The tax credit is allocated by the federal government to the state on a state-by-state basis. In Maryland, the Maryland Department of Housing and Community Development distributes the tax credit throughout the state. If all tax credit for a year is not used in its assigned area, it can then be re-allocated to areas which can use additional credits.

As of 1992, HOC has formed five partnerships with private enterprise partners making use of the tax credit, one during each year the program has existed. These corporations invested in a group of MPDUs as limited partners, and with HOC as the general managing partner. Each partnership has different financial agreements which affect rent levels and qualifications for residency.

The first Tax Credit Partnership was with Fannie Mae and Potomac Capital Investments (a PEPCO subsidiary). The second partnership was with Maryland National Bank, SOVRAN Bank, and Giant Food. Partnerships three and four were with Maryland National Bank, and the fifth was with Enterprise Foundation. As of early 1992, HOC was seeking a partner for the sixth Tax Credit Partnership.

The Tax Credit Partnerships serve people whose incomes average between 35% and 55% of the area median income. There is a floor rent in each Tax Credit unit, and above that amount, residents pay a percentage of their income for rent.

Partnership agreements stipulate the units must serve low income households for fifteen years, but it is HOC's intention to maintain the units for long-term rental for low income families.

4) MCHOME

MCHOME (Montgomery County Housing Opportunities Mobility Enterprise) is a 41-unit program. The units are rented to low income families. These MPDUs were purchased with funds from the County's condominium transfer tax, as well as funds earned by HOC financing activities. There is a minimum floor rent for each unit.

5) HALF

HOC has established the Homeownership Assistance Loan Fund (HALF) to help Section 8 and public housing families buy MPDUs from HOC. The Commission provides very low interest mortgage loans by a blending of past mortgage revenue bond issues. Other small loans for debt consolidation, closing costs, or other minor debts may also be made as low interest HALF loans when a family is about to reach the goal of homeownership.

6) MPDU Rentals

At times, the Commission has an opportunity to purchase MPDUs which are not appropriate for any particular subsidy program. Because of their value or location, HOC purchases them for long-term control, and rents them to people at MPDU qualified incomes and rents.

VIII. Transitional Housing

HOC's transitional housing program allowed this family to leave a shelter and begin to get back on track to economic independence.

VIII. Transitional Housing

A. Purpose of Transitional Housing

Transitional housing is designed specifically for homeless families to get into the mainstream of economically-stable living. Certain units owned by HOC are specifically designated as transitional housing units, for families who are coming out of shelters or other homeless living situations.

By living in one of these units for a designated period of time, and receiving counseling to obtain economic independence, formerly homeless families have an opportunity to live with some degree of stability. When their time in transitional housing is up and their economic situation is stabilized, they are able to move on to another HOC program such as public housing or Section 8, or other more permanent housing. The goal, of course, is to ensure that the family does not slip back into a homeless situation.

HOC transitional staff has developed working relationships with the County's Department of Addiction, Victimization & Mental Health Services (DAVMHS) and the Department of Social Services (DSS), and other County staff. These departments refer families and individuals for HOC's transitional housing programs, and work with HOC staff to provide services for clients in these programs.

B. Transitional Housing Funding

1) McKinney Grants

For the past four years, HOC has received grants from HUD as part of the McKinney funded programs for homeless families and the homeless mentally ill. The funds will provide transitional housing for almost 100 families and individuals during a five year period.

The McKinney funds total almost $4 million dollars to be spread over five years. For more independent clients, HOC rents apartments in the private marketplace with five-year leases. Others live in HOC developments, in a "semi-congregate" setting which encourages mutual support and sharing. Clients are referred by the Department of Social Services (DSS) or by the Department of Addiction, Victimization and Mental Health Services

(DAVMHS). These more independent clients may stay in the housing for up to two years, and then move into more permanent housing.

2) *Other Transitional Housing Programs*

a) *Jesup Blair*

In 1991, HOC renovated the former Jesup Blair mansion in Silver Spring to provide ten units of transitional housing. Residents receive a variety of support services to guide them on their way to a more permanent housing situation.

b) *Abused Spouse Program*

There are two transitional housing units available for families who have left abusive situations.

c) *AIDS Project*

There are currently two units available for AIDS victims who are homeless.

d) *HOC Initiative*

This program provides case management and funds for client services for up to 50 formerly homeless families placed in permanent housing.

e) *Turnkey Program*

As of May 1992, there were 18 transitional housing units available for formerly homeless individuals who sought help through DAVMHS for mental health services. The program provides 31 mentally ill adults with case management services from a variety of County agencies as well as housing, as they move toward a goal of independence. The number of people and units involved in this successful program is expected to grow.

C. *HOC's Furniture Collection Program*

Most people coming from a homeless living situation have almost no personal belongings, and very little money. The problem of furnishings for these families arose as units were designated and occupied for transitional housing use. For this reason, in 1988 HOC began soliciting locally to receive Montgomery County residents' furniture in good shape. Local businesses donated warehouse space, a staff person was designated to coordinate furniture collection and storage, and HOC's furniture collection program was born.

Now, when transitional housing residents are offered the opportunity to live in a transitional unit, they are able to take a "shopping trip" to the HOC warehouse and pick out the items they will need, such as beds, couches, kitchen tables, lamps, and even some toys. When the family moves out of transitional housing, they are able to take some of these furniture contributions with them.

IX. Multi-Family Financing

HOC below-market-rate-interest loans to private developers have financed many multi-family developments in Montgomery County. Developers agree to provide some affordable housing in these communities.

IX. Multi-Family Financing

A. Multi-Family Bond Issues to Finance Non-HOC Owned Properties

HOC can issue tax exempt mortgage revenue bonds and use the revenues to provide below-market-rate financing for both new rental developments and acquisition of existing multi-family rental properties.

Since 1982, HOC has issued multi-family bonds for almost half a billion dollars, and financed the development or acquisition of more than 9,000 units. The 1986 tax reform law put a cap on the dollar amount of yearly bond issues HOC can float to lend to other developers, severely curtailing HOC's activities in this area.

Funds generated from issuing bonds are put back into financing activities or held for future financing use. About 7% of HOC's local budget comes from these activities.

HOC currently monitors arrangements on about 35 multi-family loan regulatory agreements totaling more than $400 million.

1) Multi-Family New Developments/Privately Owned

In return for providing below-market-rate-interest loans, the Commission requires developers to provide a percentage of apartments for low and moderate income households, and to maintain the properties as rental for a number of years, meeting or exceeding IRS requirements. Each financing arrangement is different, depending on the financial package for the particular development.

HOC is limited in the amount of these "private activity" bonds it can issue, but the Commission can "borrow" funds as necessary from previous years of unused bond funds.

In some instances of HOC financing, the Commission requires the developer to provide some units to Section 8 certificate holders (see Chapter IV, "Section 8 Subsidies"). The basic IRS requirement when lending money for a development is that at least 20% of the units serve people who are at 65% of the median income, 30% are marketed to "opportunity income limits" (moderate income), and the remaining 50% rented at market rate. Most HOC agreements go beyond these requirements.

The multi-family developments HOC has financed as of June 1992 are:

Aston Woods
Canterbury
Chase Knoll
Damascus Gardens
Dring's Reach
Fieldstone at Brandermill
Flair at Overlook
Flower Hill
Fox Run
Greenhills
Grosvenor House
Hunt Club
Knightsbridge I
Knightsbridge II
Lenox Park
Magruder's Discovery
Montgomery Paint Branch II
Montgomery Paint Branch III
Northlake
Oak Mill I
Oak Mill II
Oakwood (formerly Chase Grove)
The Oaks at Four Corners
The Place
Ring House
Stonecreek Club
Tamarron
Village House
Waterbury

2) Multi-Family Existing Developments/Acquisition

HOC has provided financing to some developers who wish to acquire and rehabilitate an existing multi-family development.

In return for this financing, as with financing new developments, HOC receives a guarantee of affordable housing in these existing developments for a given period of time.

To date, HOC has provided acquisition and rehabilitation financing for the following multi-family communities:

Barclay	Croyden Manor
Falkland Chase	Forest Walk
Goshen View	Hewitt Gardens
Montgomery Gardens (formerly Blair Gardens)	
Rocklin Park	Sligo House
University Manor	Windsor Court

B. Multi-Family Bond Issues for New HOC-Owned Developments

Although the federal government capped the dollar amount of bond issues HOC can issue to develop non-HOC owned property, the government has not capped the "essential purpose" bonds, which are multi-family bonds issued for HOC or non-profit-owned new developments.

Timberlawn Crescent, HOC's newest community, is located in Bethesda. The development has won awards both for architectural beauty and concept. It was built with no federal funding, and is Montgomery County's first non-federally subsidized, mixed-income community. Essential purpose bonds were issued to finance construction of this development, and were also used to fund Alexander House, a high-rise, mixed-income community in downtown Silver Spring. Mixed-income developments are highlighted in a later section.

C. Multi-Family Housing: The Annual Growth Policy Exception

Under the Annual Growth Policy (AGP) adopted by the County, certain sections of the County are closed to further development. However, a developer may apply to HOC to receive an Exception to the AGP in return for providing a certain number of affordable housing units. Therefore, the landlord or developer may build a community to rent or sell at both market rate and more affordable prices. A minimum of 20 percent of the units must be affordable to residents at or below 50 percent of median income in order to receive an AGP Exception.

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X. Single Family Financing: HOC's Mortgage Purchase Program

HOC's Mortgage Purchase Program helped this woman buy her first home. The Mortgage Purchase Program has financed over 6,700 first-time buyers.

X. Single-Family Financing: HOC's Mortgage Purchase Program

A. Single-Family Bonds

HOC issued its first tax-exempt mortgage revenue bonds for single family home mortgages in 1979 and has issued bonds each year since. The money from these single-family bonds is used to provide below-market-rate-interest mortgage loans for first-time homebuyers. Qualifying families must be income eligible, according to income limits set by the Commission. This program is known as MPP, or Mortgage Purchase Program.

There is a total federal "cap" on the amount of money HOC can generate through the sale of tax-exempt mortgage revenue bonds.

B. The Mortgage Purchase Program (MPP)

The Mortgage Purchase Program helps moderate income families purchase their first homes. As described above, money for the program is generated by issuing mortgage revenue bonds. In 1992, the interest rate for borrowers of MPP financing reached an all time low of 7.125%--well below market-rate interest.

Income-eligible households who wish to apply for a low-interest MPP loan locate their own housing unit to purchase. HOC will not finance more than a two-bedroom unit for a single-person household. HOC does not maintain control over the resale price of the unit. A housing unit may include a condominium, townhouse, or single-family house. Current mortgage rate and qualifying information may be obtained by calling 301-933-HOME.

1) MPP Income and Price Guidelines

MPP applicants do not have to live in Montgomery County, but the unit located for purchase does have to be in Montgomery County. Also, when locating a home to purchase under MPP guidelines, purchasers must adhere to unit price guidelines. Current qualifying household incomes and house price maximums for the Mortgage Purchase Program are listed in <u>Index Two</u> at the end of this booklet.

2) *Receiving an MPP Loan*

When an applicant wishes to apply for an MPP loan, a household representative must bring three things to HOC to apply: a ratified (signed by all parties) contract on a house which falls within the MPP price guidelines; a check for 1% of the loan amount requested; and a completed, one-page MPP application. When HOC receives these items, the applicant is assigned to one of a number of mortgage companies who are MPP program participants and determine whether the applicant is qualified. If for any reason the applicant does not qualify for the loan and is refused, the applicant's 1% loan reservation fee paid to HOC at time of application is refunded.

C. *The Mortgage Purchase Program and MPDUs*

Some qualifying households find units to purchase on their own or through realtors. Others choose to finance Moderately Priced Dwelling Units (MPDUs).

To reiterate, the county's MPDU law stipulates that a developer must set aside up to 15% of units in a new development of more than 50 units as affordable to moderate-income homebuyers. A first-time homebuyer of one of these MPDUs often meets Mortgage Purchase Program guidelines, so is often able to combine the county's MPDU program unit with HOC financing. Having a chance to buy a below-market-rate home with low interest financing may be the only method by which a moderate-income family is able to purchase a first home.

It should be noted that the popularity of the MPDU program has led to the creation of a lottery system, so that each applicant for an MPDU has a chance to get a unit. The County's MPDU program is administered by the Department of Housing and Community Development, at 301-217-3600.

D. *Builders Who Participate in the MPP*

Some builders of new developments plan to price all available units at or below MPP price guidelines. The builder sometimes wishes to participate directly in the MPP as a "participating builder." MPP purchasers who buy in this MPP-qualified property do not have to come to HOC's offices at any time or pay a loan registration fee. The builder sends the applicant directly to an assigned participating mortgage company (lender) to apply for MPP financing. A list of participating builders is available through the Mortgage Purchase Program department.

XI. Operation Match

Operation Match is a free roommate-referral service which has successfully made more than 2,000 matches.

XI. Operation Match

A. Roommate Referral

"Operation Match" is a home-sharing program. HOC provides free referral services to match people seeking a place to live with those having extra room in their homes. More than 2,500 matches have been made. Homeseekers who are single or who have one child are the most suitable clients. Homeowners are usually those seeking to supplement their income by sharing extra space, or even homeowners who use Operation Match to help them make their mortgage payments.

Homeowners who seek roommates through Operation Match must be interviewed, and have their homes inspected by Operation Match staff. If accommodations and the homeowner are suitable by Match standards, the home will be signed up as a potential residence.

Clients who are homeseekers must fill out an Operation Match application, be interviewed, and provide references. After this process is completed, they will be interviewed to determine where they want to live, their lifestyle (i.e. smoker or pet owner) and how much rent they want to pay, which will become a private arrangement between landlord and tenant.

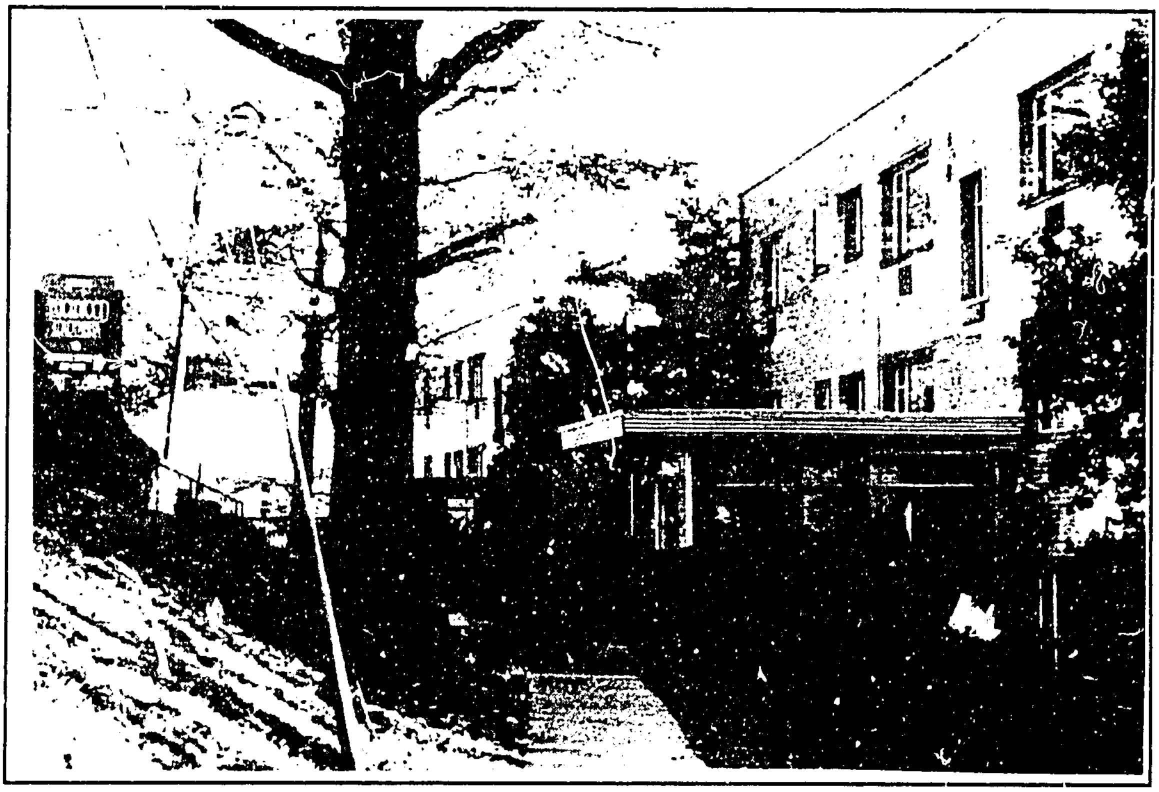
Clients are put in touch with homeowners who have compatible expectations. Many homeowners have more than one Operation Match-referred roommate.

B. Mortgage Counseling

Homeowners who fear they will lose their homes through failure to make mortgage payments are put in touch with Operation Match staff, who provide counseling and referrals.

Although HOC does not have emergency assistance money to lend to people who are failing to meet mortgage commitments, staff is able to suggest courses of action and refer mortgage holders to appropriate federal, state and local programs or mortgage counselors. Staff are often able to assist mortgage holders in preparing cases to put before the federal or state governments when requesting mortgage assistance.

XII. Opportunity Housing



Tanglewood Apartments in Takoma Park was purchased by HOC in order to preserve it as an affordable housing development.

XII. Opportunity Housing

A. Opportunity Housing Defined

"Opportunity Housing" is a catch-all term used to refer to HOC's owned and managed properties which are affordable to the County's moderate and lower income households.

B. HOC's Right of First Refusal

The County has laws (specifically county codes 11A and 53A) which pertain to the County's or HOC's "right of first refusal."

Under these codes, the right of first refusal is triggered when an affordable apartment complex is being bought by a purchaser who intends to use the property for something other than residential rental. HOC is offered the property to purchase, and must essentially match the contract specifications drawn up by the seller and the investor who wishes to purchase.

The right of first refusal does not have to involve a change of use from residential. HOC's right of first refusal may also come into play when the title of an affordable rental property is being transferred to a purchaser who could make improvements or changes in the property which will probably cause a rental increase.

In essence, Opportunity Housing is housing purchased when there is a potential sale of rental property which would displace low and moderate income tenants by either changing the property to non-residential use, or making changes in rental property which would make rents unaffordable to current residents.

C. HOC's Multi-Family Preservation Housing

When HOC purchases housing under the right of first refusal, the Commission sets eligible income limits for each property. Separate waiting lists, maintained by a resident manager, are kept for each of these developments.

Some examples of HOC's housing preservation developments include:

Chevy Chase Lake	68 units
Edinburgh Apartments	45 units
Fairfax Court	18 units
Pomander Court	24 units
Pooks Hill	189 units
Spring Garden	83 units
Tanglewood Apartments	133 units

D. *Diamond Square Apartments*

In 1991, the Commission was offered an exciting opportunity--to purchase a hotel in Gaithersburg in partnership with the City of Gaithersburg and the county, and turn it into affordable housing.

This renovated Quality Inn, now known as Diamond Square, provides rental housing to one and two person households with very modest incomes who can pay modest rents for furnished apartments. The targeted population is the county's entry-level workers, and workers with low-paying jobs.

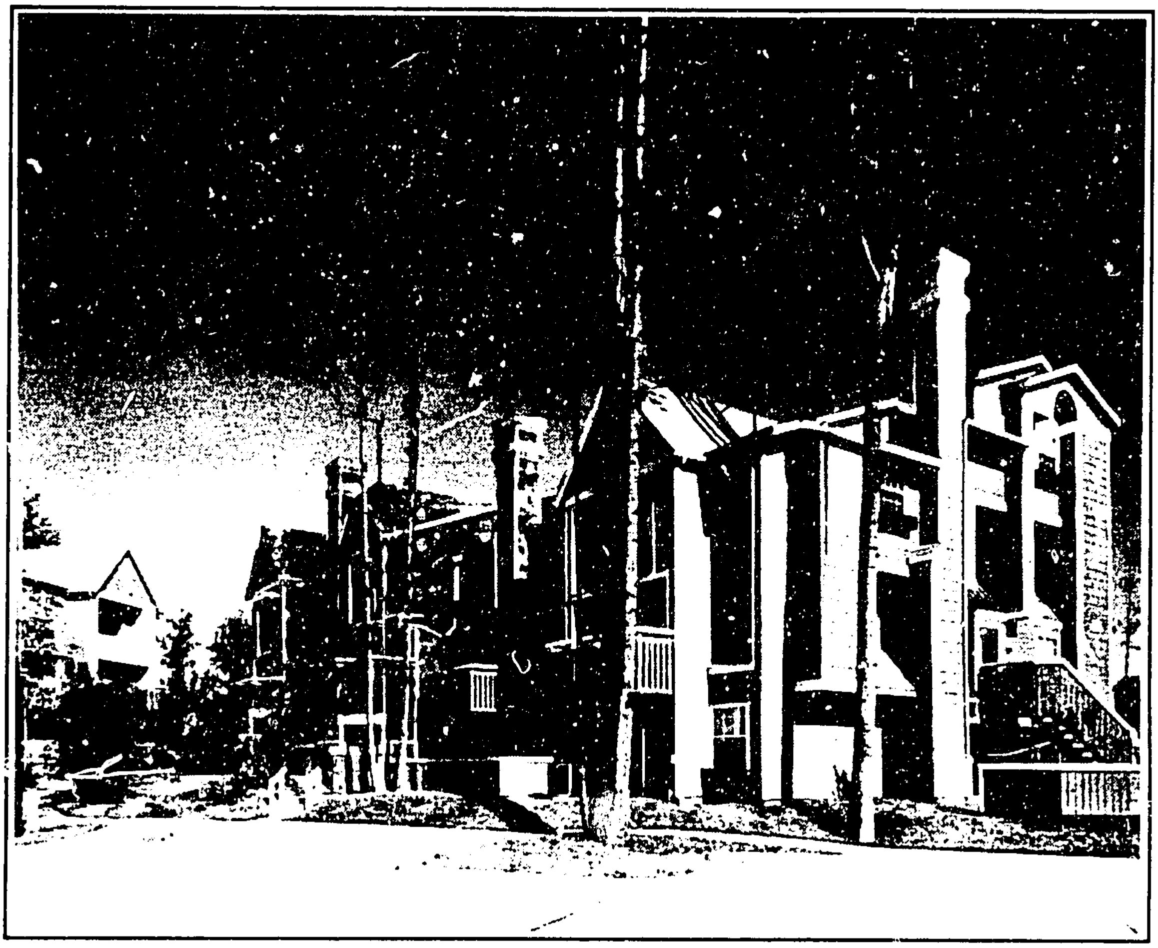
E. *MPDU Rentals*

Some MPDUs at The Gables development in Bethesda became available in 1987. These 17 one-bedroom units were not immediately suitable for any HOC housing programs, but since they were so affordable, the Commission purchased them. The units are now rented as affordable housing for residents who meet the county's MPDU income guidelines.

F. *State Rental Partnership Program (RHPP)*

The state of Maryland provides low-interest loans for nonprofit agencies to purchase or build housing to serve households at 60 percent or less of the area median. The loans may be used in conjunction with other programs at local, state or federal levels. As of mid-1992, HOC owned 40 housing units (MPDUs) purchased with help from this state Rental Housing Production Program (RHPP).

XIII. Income-Integrated Housing



Timberlawn Crescent is an architectural gem located in Bethesda. This mixed-income community was built with no federal funding, and has won awards for both architectural design and concept.

XIII. Income-Integrated Housing

A. What is Income-Integrated Housing?

"Income-Integrated Housing" refers to HOC-owned housing developments which serve a wide range of income levels. There is no difference among units in an income-integrated development, no matter how much rent is paid.

The developments described in this section are financed through different mechanisms to ensure a percentage of units serve, and will continue to serve, very low income households.

Here are some examples of HOC's income-integrated housing developments:

B. The Timberlawn Crescent Community

HOC acquired a piece of real estate in prime Bethesda when a developer failed to meet his MPDU requirement when building a subdivision. After considering what kind of use would be best suited for this area, the Commission decided to build its first non-federally subsidized, income-integrated community.

On this property HOC built and owns Timberlawn Crescent, a beautiful community of 107 apartments. The units serve a mix of 15% low income, 15% low to moderate income, 30% higher moderate income, and 40% market rate renters. Rents vary according to income.

Low income residents are referred from HOC's waiting list to the independent company hired by HOC to manage the property. This company advertises to fill vacancies in the moderate income and market rate units at Timberlawn.

Timberlawn Crescent was financed through a mix of tax exempt "essential purpose" bonds, insurance from the Maryland Housing Fund, and rental supplements from the state's Rental Housing Production Program (RHPP).

Construction on Timberlawn Crescent Phase II was completed in 1991. Phase II is adjacent to the original 83 units. It contains 24 mixed-income units, all of which were immediately leased.

This development was supported by Montgomery County Housing Initiative Funds (HIF) and was financed with tax-exempt bonds. As HOC's first income-integrated community, Timberlawn Crescent was a success.

C. Alexander House

Alexander House in downtown Silver Spring is HOC's second income-integrated community. This highrise contains 311 efficiency, one- and two-bedroom apartments and is HOC's largest financial undertaking ever.

Groundbreaking for this development took place in May of 1991, with occupancy in late 1992.

D. Sunrise at Kensington Park

Groundbreaking for Sunrise at Kensington Park took place in January 1992. This three-building, 165-unit Victorian style development will serve the County's elderly population.

Two of the three buildings are designed to house frail elderly people who need some assistance in basic daily living, and the third building will house more independent residents. Occupancy is planned for mid-1993.

E. Oakridge/Damascus

In mid 1992, preliminary plans for the Oakridge community in Damascus were approved by the County's Planning Board. The proposed development will contain 118 rental units and 38 units for sale.

XIV. Rental Allowance Program

The Rental Allowance Program allows residents in emergency housing situations to obtain temporary rental subsidies.

XIV. Rental Allowance Program

A. Purpose of the Rental Allowance Program (RAP)

The Rental Allowance Program (RAP) is a State of Maryland program funded by the Maryland Department of Economic and Community Development, and by HOC, which matches these contributions. The purpose is to assist low income households who are homeless or who have critical or emergency housing needs, such as living in a temporary shelter.

The program is designed for short-term rental assistance, and will provide rental subsidy payments for up to six months. At that time, if the need still exists and a special request is granted, payments will continue. RAP may be used for almost any type of rental housing.

The program is similar to the Section 8 rental subsidy program, in that residents must locate their own housing, and the rental subsidy is in the form of a check mailed directly to the landlord.

HOC currently administers this RAP program, providing rental help for 150 households through these RAP subsidies. This RAP program differs from the RAP program run by the County's Department of Housing and Urban Development (DHCD).

B. Eligible Applicants

To be eligible for the RAP program, applicants must meet income limits set by the state, be unable to receive any other immediate housing assistance, be homeless or in critical housing need, and show ability to obtain the overall RAP goal of self-sufficiency by the end of the six-month payment period.

Referrals for the RAP program may come from the Department of Social Services, or Community Service Agencies. Referral from one of these agencies is the only way HOC may receive RAP applicants. RAP income limits are listed in Index Two of this booklet.

INDEX ONE:

HOC'S VOLUNTEER COMMISSIONERS

Here are HOC's seven volunteer Commissioners as of May 1992:

L. MARK WINSTON, CHAIRMAN
BARBARA GOLDBERG-GOLDMAN, VICE CHAIR
KENNETH REICHARD, CHAIR PRO TEM
RALPH BENNETT
CATHY BERNARD
JAMES A. BRODSKY
RICHARD NELSON

Index Two:

HOC Program Income Limits

Family Size	Public Housing Section 8 Very Low Income	Public Housing Section 235 Lower Income	Mortgage Purchase Program and Opportunity Housing
1	$20,700	$27,000	$28,500
2	23,700	30,900	39,000
3	26,650	34,750	43,500
4	29,600	38,600	47,700
5	31,950	41,700	47,700
6	34,350	44,800	47,700
7	36,700	47,850	47,700
8+	39,050	50,950	47,700

Maryland Rental Allowance Program (RAP) Income Limits

Household Size	Gross Income	Maximum Monthly Subsidy Allowance
1	$12,050	$250
2	13,750	250
3	15,450	350
4	17,200	350
5	18,550	350
6	19,950	500
7	21,300	500
8+	21,750	500

Index Two:
(Continued)

HOC Mortgage Purchase Program
House Purchase Price Limits

Unit Size	Existing Detached and New Construction	Existing Townhouses	Garden and High-Rise Condos
3 Bedroom	$148,700	$134,900	$118,000
2 Bedroom	$138,700	$124,900	$ 98,000
1 Bedroom	$118,700	$ 94,900	$ 88,000

Index Three:

Section 8 Income and Rent Limits

Family Size	Section 8 Very Low Income Limits
1	$20,700
2	23,700
3	26,650
4	29,600
5	31,950
6	34,350
7	36,700
8	39,050

Unit Size	Fair Market Rent (Rent + Utilities)
Efficiency	$ 511
1 Bedroom	$ 621
2 Bedroom	$ 731
3 Bedroom	$ 914
4 Bedroom	$1023
5 Bedroom	$1176
6 Bedroom	$1330

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Index 4:

H.O.C. HOUSING INVENTORY
RENTAL & HOMEOWNERSHIP HOUSING
OWNED, MANAGED AND/OR ADMINISTERED BY H.O.C.

(rev. 6/92)

I. DEVELOPMENTS OWNED & MANAGED BY H.O.C.

A. PUBLIC HOUSING

1. Rental

Arcola Towers	Elderly	141	1972
Elizabeth House	Elderly	160	1960
Emory Grove Village	Family	55	1970
Holly Hall	Elderly	96	1969
Ken Gar	Family	19	1979-80
Middlebrook	Family	76	1973
Parkway Woods	Family	24	1981
Sandy Spring Meadow	Family/Elderly	55	1984
Scattered Sites	Family	453	various
Towne Centre Place	Family/Elderly	49	1984
Washington Square	Family	50	1970
Waverly House	Elderly	158	1978
SUBTOTAL		1,336	

2. Homeownership

Bel Pre	Family	14	of	50	1969
Scattered	Family	32	of	102	various
Tobytown	Family	22	of	26	1972
TOTAL		68	of	178	

B. SECTION 8 NEW CONSTRUCTION

Paint Branch	Family	14	1981

C. OPPORTUNITY HOUSING

1. Family

Chevy Chase Lake	Family	68	1988
Diamond Square	1 or 2 people	120	1990
Fairfax Court	Family	18	1988
MCHOME	Family	41	1986
Gables, The	Family	19	1987
Pomander Court	Family	24	1975
Pooks Hill	Family	189	1992
Sligo Hills	Family	50	1990
Spring Garden	Family	83	1986
State Rental Partnership Program	Family	75	1990-92
Tanglewood Apartments	Family	83	1989
Timberlawn Crescent Phase I	Family	83	1988
Timberlawn Crescent Phase II	Family	24	1990
SUBTOTAL		877	

II. DEVELOPMENTS MANAGED BY H.O.C.

A. OPPORTUNITY HOUSING

1. FHA 236's (non-profit/sponsored)

Bauer Park Apartments	Elderly	142	1977
Camp Hill Square	Family	51	1986
Leafy House	Elderly	181	1973
Town Center	Elderly	112	1978
SUBTOTAL		486	

2. Section 8 (joint public-private ownership)

Magruders Discovery	Family	134	1979-80
SUBTOTAL		134	

3. Tax Credit Programs

Montgomery Homes Limited Partnership I	Family	32	1987
Montgomery Homes Limited Partnership II	Family	54	1988
Montgomery Homes Limited Partnership III	Family	44	1989
Montgomery Homes Limited Partnership IV	Family	60	1990
Montgomery Homes Limited Partnership V	Family	38	in progress
SUBTOTAL		228	

2. Section 8 (joint public-private ownership)

Magruders Discovery	Family	134	1979-80
SUBTOTAL		134	

III. SECTION 8 EXISTING CONTRACT ADMINISTERED

Section 8 Existing	1,738
Section 8 Mod Rehab	185
Section 8 State Connected Certificates	200
Section 8 State Connected Vouchers	50
Section 8 Vouchers	929
Portable Vouchers	55
SUBTOTAL	3,157

IV. STATE OF MARYLAND RENTAL ALLOWANCE PROGRAM	65
V. TRANSITIONAL HOUSING (McKinney Funds & Jesup Blair)	77
VI. SPECIAL PROGRAMS (DAVMHS)	15
GRAND TOTAL	6,591
VII. OPERATION MATCH (HOMESHARING)	2,500+

In development stage: Kensington (Elderly, 165); Alexander House (Family, 311); Damascus (Family, 104); Jones Lane (75-90); Brooks Farm (38); Garage 49; White Flint North; Jones Lane (Metropolitan Place); Pooks Hill

ANNEX C

Materials on Fairfax, Virginia

FUNCTION: Public Works
DEPARTMENT: Public Works
DIVISION OR ACTIVITY: Building Maintenance

BUDGET COMMENTS:
The transfer of $6,000 in utility costs to the Old Town Hall account plus a reduction of $21,300 in capital purchases which has been offset by $20,000 budgeted for maintenance costs related to the possible purchase of the Post Office have produced an overall decrease of $4,792 (1.0%). Supplies include all of the housekeeping and other supplies and materials necessary to operate the City's buildings. Other services and charges include $138,284 in utility costs for City buildings and $90,000 in contractual services covering heating and cooling systems, plumbing and electrical work as well as window, carpet and duct cleaning.

PROGRAM:
An aggressive preventative maintenance program including cleaning, repairing, renovating, providing utility service and managing mechanical equipment contracts.

GOAL:
To protect the City's $10 million investment in facilities, provide employees with a pleasant and productive work environment and provide citizens with clean, comfortable community meeting areas.

OBJECTIVES:
- Repair electrical service, plumbing, carpentry, flooring, heating and air-conditioning on a systematic basis for all public buildings
- Administer maintenance contracts for heating and air-conditioning, elevators, clocks, alarm systems and pest control
- Clean City buildings and facilities daily
- Maintain security systems
- Set up equipment for meetings and events
- Control and maintain outdoor lighting at City facilities
- Maintain City-owned historic buildings
- Conduct environmental quality studies

Measures	Estimated FY 1992-93	Projected FY 1993-94
Custodial hours	5,400	5,400
Maintenance hours	3,600	3,600

SERVICES AND PRODUCTS:
- Well maintained public buildings
- Clean meeting rooms
- Emergency service

COST CENTER 431310: PUBLIC WORKS--BUILDING MAINTENANCE

TITLE	LAST YEAR ACTUAL	CURR YEAR ORIG BUDGET	CURR YEAR REVSD BUDGET	BUDGET YEAR PROPOSED
SALARIES	$155,958	$157,534	$157,534	$157,341
FRINGE BENEFITS	65,217	63,429	63,429	54,954
SUPPLIES AND MATERIAL	49,353	45,000	45,981	49,500
OTHER SERVICES AND CHARGES	234,905	226,921	253,881	248,049
RECOVERED COSTS	<43,885>	<45,202>	<45,202>	<45,654>
CAPITAL PURCHASES	8,698	32,600	37,484	11,300
COST CENTER TOTAL	$470,246	$480,282	$513,107	$475,490

PERSONNEL CLASSIFICATION	GRADE	AUTH FY 91-92	AUTH FY 92-93	PROP FY 93-94
Crew Supervisor	16	1.0	1.0	1.0
Utility Worker II	10	2.0	2.0	2.0
Custodian II	6	2.0	2.0	2.0
Custodian I	5	1.0	1.0	1.0
Custodian (P/T)	5	.62	-0-	-0-
Total Positions		6.62	6.0	6.0

100

Function: Transportation
Department: Public Works
Title: Rt. 123
Location: Judicial Drive to University Drive
Status: Ongoing

PLANNED FINANCING

Funding Source	Approp. 1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	Total
General Fund	$ 15,000	$ 10,000	$195,000				$ 205,000
State Funds	718,000	490,000	488,000				978,000
Totals:	$733,000	$500,000	$683,000				$1,183,000

DESCRIPTION

This project provides funds to construct the widening of Rt. 123 from Judicial Drive south to University Drive as a four lane divided highway. The project will be jointly funded by the City and State with the City contributing funds for 100% of the design and 2% of the land acquisition and construction costs. Engineering funds were appropriated in FY 86/87. $85,000 is provided in 1993/94 to ensure a proper landscaping treatment. $100,000 is also included in FY93/94 to replace the existing cobra head street lights for "period" type lights. This is proposed to be consistent with the scale the City desired to achieve along this corridor. The landscaping is to be in accordance with the consultant plan presented to City Council. The total project estimate is $4,970,000 for work from 1986 through 1994.

Relationship to Comprehensive Plan

Meets Transportation Plan for south City limits to Judicial Drive specifying a four-lane configuration "with a landscaped median containing left turn lanes," and "reduce the visual dominance of the automobiles by emphasizing pedestrian accessibility and significant landscaping."

SKETCH

New Annual Operating Cost Estimate

The additional lanes would add about $10,000 a year in operating costs. Inspection during construction will be handled by the State.

Financial Mechanisms

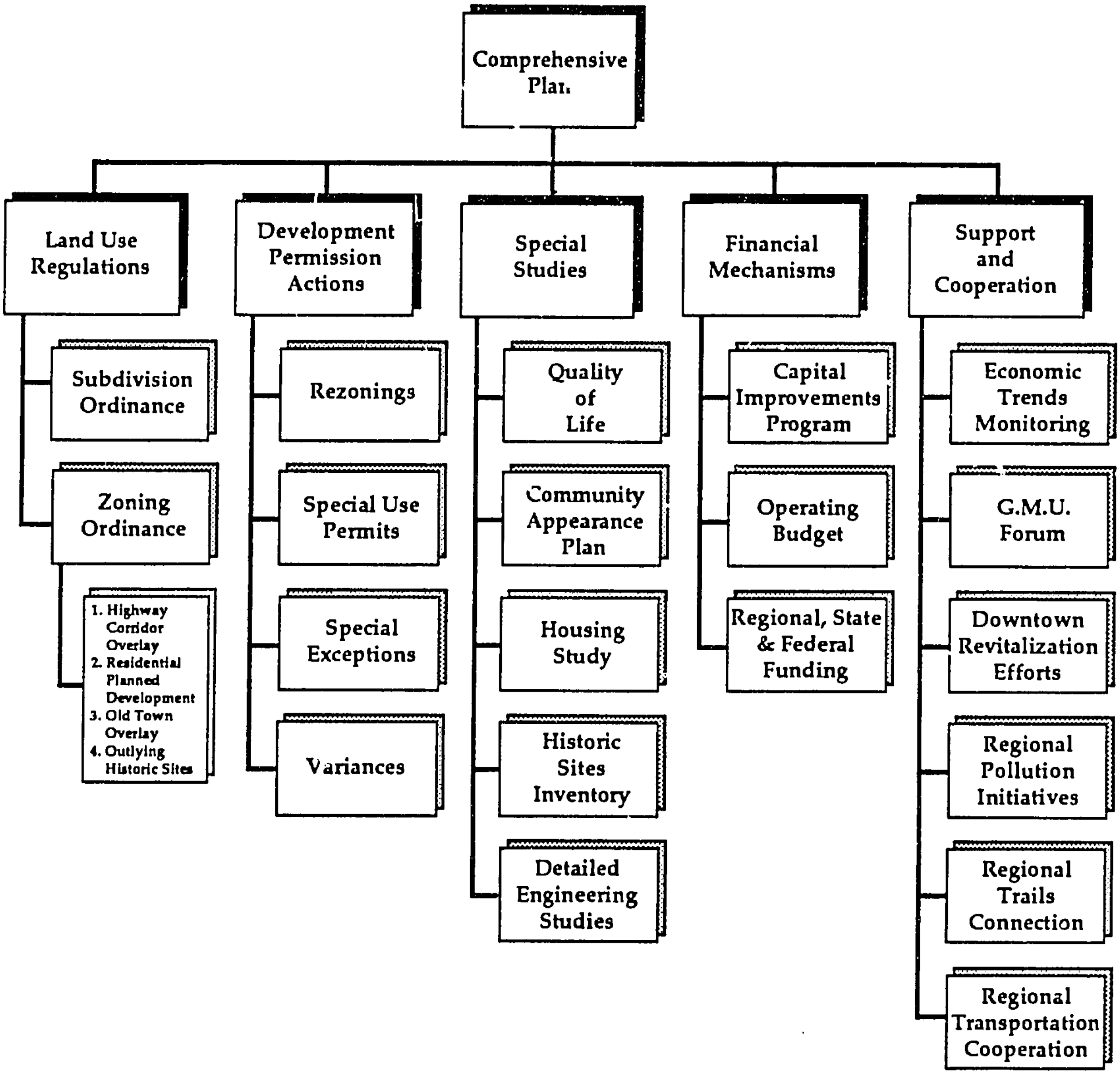
Many of the Plan's goals, objectives and recommendations become actualized through the Capital Improvements Program (CIP) process. This is the primary mechanism for funding various public facilities and improvements (e.g., schools, road, parks).

The *Code of Virginia* allows the Planning Commission, at the direction of the Council, to "prepare and revise annually a capital improvement program based on the comprehensive plan.....for a period not to exceed the ensuing five years." This CIP process allows the City to anticipate revenues and capital expenditures through the planning process rather than merely reacting to crisis situations. This facilitates a more rational, even-handed approach which permits the City to make the most of the finite financial resources.

This Comprehensive Plan provides direction for the CIP in several areas. In general, the Plan recommends that the City provide excellent services and facilities with additional emphasis placed on public education and the maintenance of existing facilities. The Plan also recommends that public capital improvements be targeted to those neighborhoods identified for rehabilitation. In addition, the Transportation Section of the Plan makes specific recommendations for road improvements and encourages the increased use of public transportation.

Figure 10-1

Implementation Tools



ANNEX D

Outline on Infrastructure Finance

GOVERNMENT
FINANCE
GROUP, INC.

A LEGG MASON COMPANY

OUTLINE
CAPITAL (INVESTMENT) FINANCE

JOHN PETERSEN, GOVERNMENT FINANCE GROUP
AUGUST 4, 1993

1. WHAT ARE CAPITAL PROJECTS?

   o LONG USEFUL LIFE
   o INFREQUENT, LARGE EXPENDITURES
   o PUBLIC PURPOSE ... HEALTH, WELFARE, ECONOMY
   o SUPPORTS BASIC FUNCTION

2. TYPICAL CAPITAL PROJECTS;

   o TYPES OF FACILITIES;
     UTILITIES (WATER, SEWER, POWER)
     COMMUNICATIONS (PHONE, TELEVISION/RADIO)
     TRANSPORT (RAIL, TRAMS, SUBWAY, AIRPORTS)
     PUBLIC BUILDINGS (OFFICES, PRISONS, SCHOOLS)
     HOUSING AND ECONOMIC DEVELOPMENT (INDUSTRIAL PARKS)
   o LIST IS DETERMINED BY WHAT ACTIVITIES GOVERNMENTS ARE RESPONSIBLE FOR

3. WHO IS RESPONSIBLE?

   o CENTRAL EUROPEAN MODEL (SOCIALIST, COMMUNIST COUNTRIES)
     THE CENTRAL GOVERNMENT WOULD BUILD AND OFTEN DELEGATE OWNERSHIP AND OPERATION TO LOCAL GOVERNMENTS OR STATE-OWNED COMPANIES. TYPICALLY GETS ASSISTANCE FROM CENTRAL GOVERNMENT
   o U.S. MODEL (PRIVATE ENTERPRISE, CAPITALIST ECONOMY)
     THE LOCAL GOVERNMENT USES PRIVATE SECTOR TO BUILD, THEN OWNS AND OPERATES FACILITY. SOMETIMES RECEIVES ASSISTANCE FROM CENTRAL GOVERNMENT
   o MANY COUNTRIES FALL IN BETWEEN

4. THEORY BEHIND CAPITAL (INVESTMENT) FINANCING:

   o LONG-TERM PHYSICAL ASSETS RENDER THEIR SERVICES OVER TIME
   o EACH GENERATION OF USERS SHOULD PAY THEIR SHARE SO THAT GOOD IS EQUITABLY CHARGED
   o IN A PRACTICAL SENSE, THE EXPENDITURES ARE LARGE AND CURRENT REVENUES CAN NOT PAY ALL COSTS
   o IN PRACTICE, CAPITAL EXPENDITURES DETERMINE THE FUTURE RATE, PATTERNS AND CAPACITY FOR FUTURE DEVELOPMENT AND OPERATING EXPENDITURES

GOVERNMENT FINANCE GROUP, INC.
4350 NORTH FAIRFAX DRIVE • SUITE 760 • ARLINGTON VA 22203
TELEPHONE: 703-528-5785 FAX: 703-528-6277

5. PLANNING FOR CAPITAL EXPENDITURES:

- o BEST PRACTICE IS TO PLAN CAPITAL OUTLAYS FOR SEVERAL YEARS ADVANCE (5 TO 6 YEARS). THIS IS CALLED A CAPITAL IMPROVEMENT PLAN
- o IN U.S., IT IS BEST PRACTICE TO DO A CAPITAL BUDGET, WHICH IDENTIFIES INVESTMENT SPENDING SEPARATELY AND IDENTIFIES SOURCES OF FUNDING
- o THE SPECIAL TREATMENT GIVEN TO CAPITAL FINANCING IS DUE TO THE ADVANCED PLANNING THAT IS NEEDED AND ALSO THE SPECIAL FINANCING TECHNIQUES AVAILABLE TO CAPITAL SPENDING
- o CARE MUST BE TAKEN THAT PROJECTS ARE AFFORDABLE

6. STEPS IN THE CAPITAL PROGRAMMING PROCESS

- o PROJECT IDENTIFICATION ... COLLECTION OF PROPOSALS STANDARD FORMS ... URGENCY ... PRIORITIES
- o PROJECT EVALUATION ... RANKING PROJECTS ...QUANTITATIVE METHODS ... RATES OF RETURN ...WEIGHTING CRITERIA
- o RESOURCE EVALUATION AND ALLOCATION ... IDENTIFY FUNDING SOURCES ... FINANCIAL ANALYSIS
- o PROJECT SCHEDULING
- o ADOPTION AND EXECUTION

7. FINANCING INVESTMENT SPENDING:

- o THREE BASIC CHOICES:
  1. PAY-AS-YOU-GO, WHICH IS TO SPEND OUT OF CURRENT REVENUES OR ACCUMULATED SAVINGS
  2. INTERGOVERNMENTAL TRANSFERS (PAYMENTS FROM SUPERIOR GOVERNMENTS)
  3. BORROWING IN CAPITAL MARKETS
- o IN U.S. TENDENCY IS TO FINANCE WITH DEBT IF A LARGE PROJECT. HOWEVER FOR SMALLER PROJECTS THE USE OF PAY-AS-YOU-GO IS DICTATED TO CONTRIBUTE "EQUITY" TO PROJECT
- o IN OTHER PARTS OF WORLD, USE OF PAY-AS-YOU-GO OR CENTRAL GOVERNMENT PAYMENTS. INCREASING USE OF PRIVATE SECTOR CONCESSIONS AND BUILD-OWN-TRANSFER. REASONS FOR THIS.

Aka Turn key — Operate — Public Power, Transport, Communications projects

8. DEVELOPING FINANCING MECHANISMS

- o LACK OF LONG-TERM LOAN CAPITAL IN OTHER COUNTRIES (U.S. HAS SPECIAL TAX INCENTIVES)
- o SPECIAL RISKS IN TRANSFORMING ECONOMIES
- o INVOLVING BANKS AND OTHER FINANCIAL INSTITUTIONS
- o CENTRAL GOVERNMENT DECISION-MAKING LEGACIES
- o PRESSURES ON REVENUES LIMIT MONEY FOR CAPITAL SPENDING
- o NEED FOR LOCAL TAX-SETTING AND RATE-MAKING POWERS
- o BEST OPPORTUNITIES: PROJECTS WITH LARGE, REGULAR CASH FLOWS ... ESSENTIAL SERVICES ... AUTONOMOUS RATE MAKING ... TRUSTEES ... PRIVATE SECTOR ASSIGNMENTS
- o NEED FOR TRANSPARENT AND CONSISTENT ACCOUNTING AND REPORTING METHODS ... REGULAR INDEPENDENT AUDITS
- o ENFORCEABLE PRIVATE PROPERTY RIGHTS