

DCHA Portfolio Stabilization Policy Discussion

April 9, 2019

The Stabilization of DCHA's Public Housing Stock is intended to allow the Authority to Fulfill its Mission to its Residents

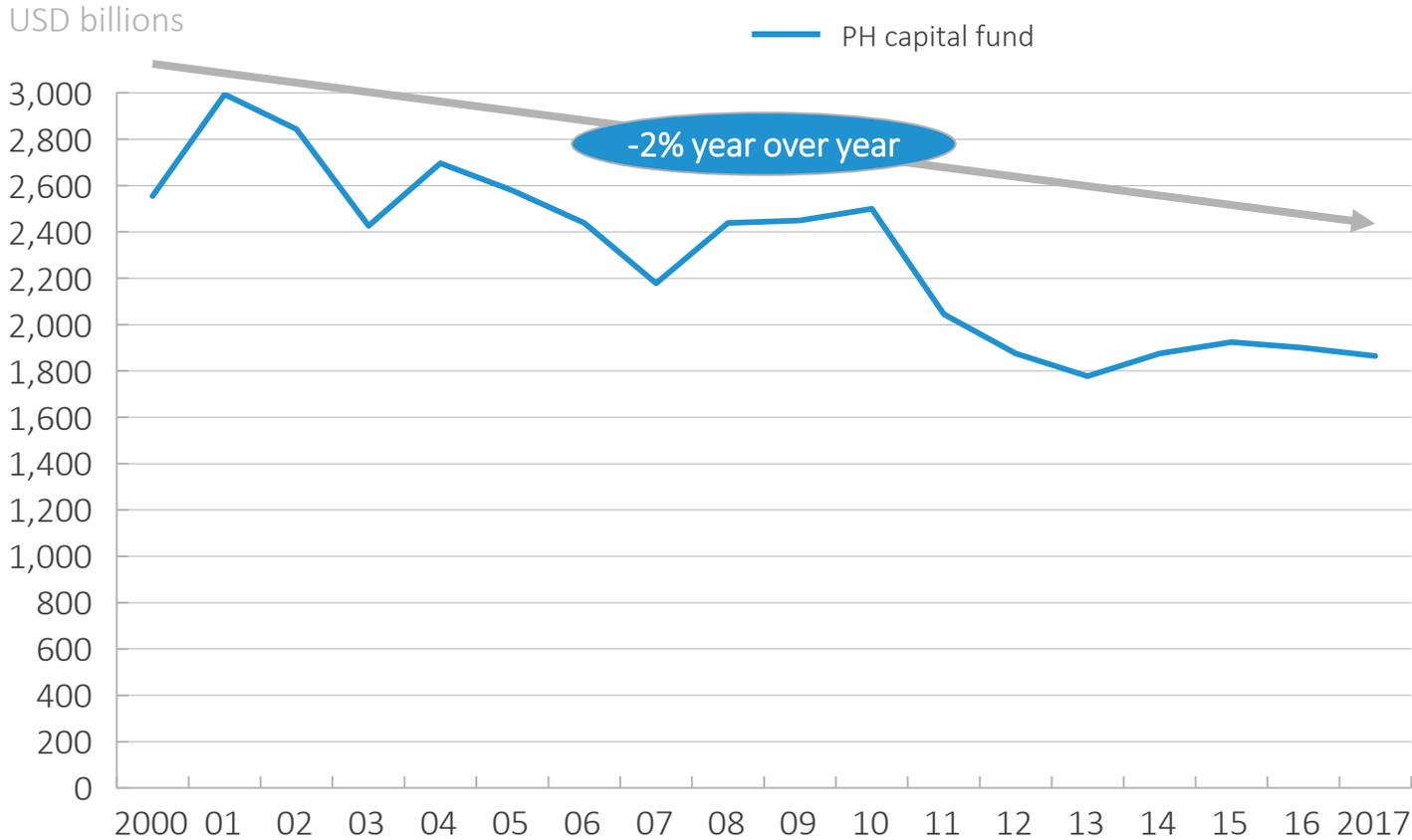
DCHA's values

- 1 Ensuring residents live in **safe, clean and affordable housing**
- 2 Ensuring to the maximum extent possible the **dignity and quality of life of every DCHA resident and guaranteeing resident and participant rights**
- 3 Providing good stewardship of available funds to **maximize affordable housing opportunities for the most vulnerable**
- 4 Serving as many households as possible, especially those at **30% area median income (AMI) or below**
- 5 Preserving **long-term affordability** of housing in the District through a **sustainable and transformed DCHA**

Capital funding from HUD has declined nationally and is expected to continue to decline

National HUD public housing capital fund

\$, Billions

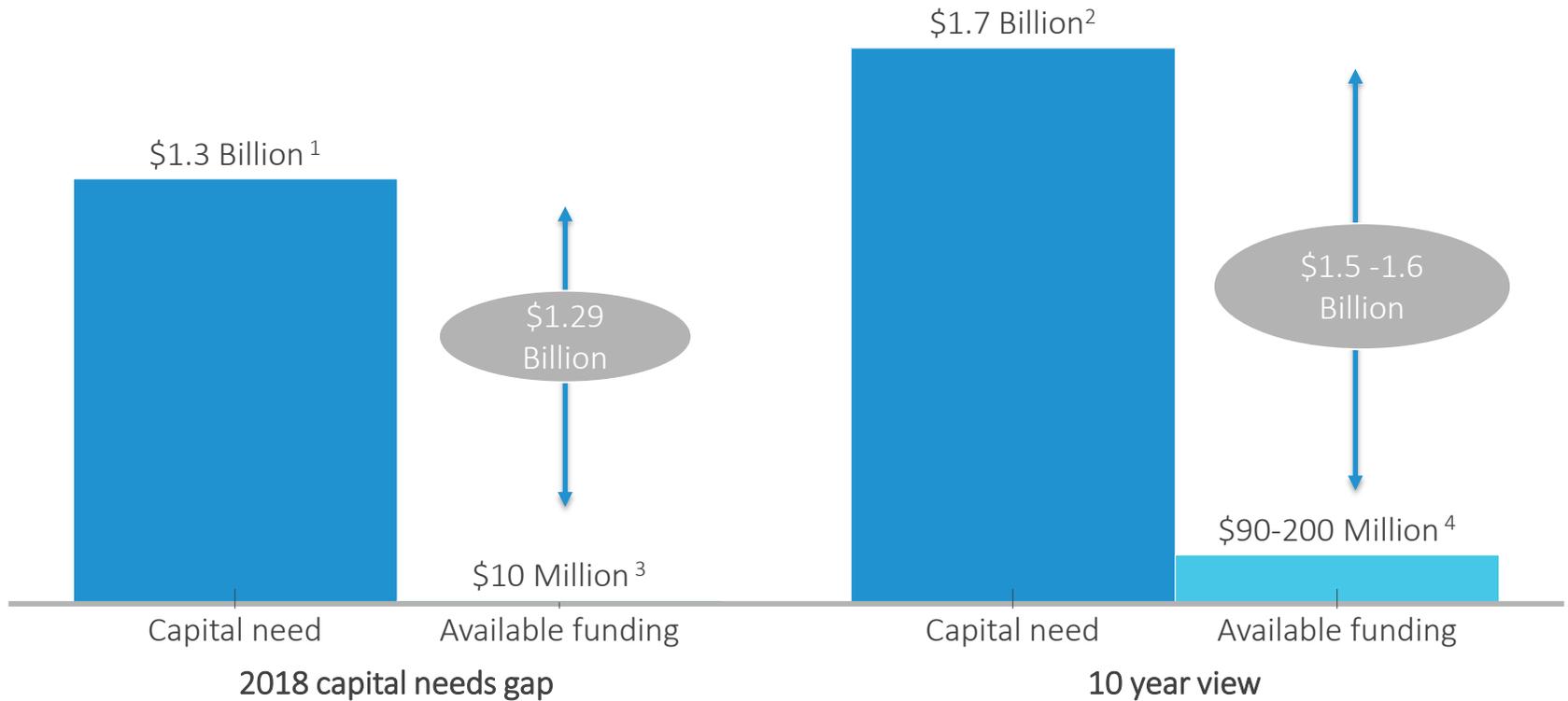


SOURCE: HUD budgets from 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017

DCHA's current funding is unlikely to be sufficient to meet its capital needs—the funding gap may worsen if DCHA continues on current course

Capital funding details
USD

■ Capital need ■ Available capital fund ■ Estimated gap



¹ Includes Capital Needs Assessment figures of developments that have unmet capital needs, escalated at 3% per year to year 2019

² Includes Capital Needs Assessment figures of developments that have unmet capital needs, escalated at 3% per year to year 2028

³ Includes the capital needs fund and confirmed R&M funding for 2018

⁴ Based on historical range of HUD and City sourced capital funding from 2017 to 2019

SOURCE: DCHA Capital Needs Assessment, PMO Interview

Understanding DCHA's Immediate Needs. . .

An Explanation of the \$1.3 Billion

Difference Between \$1.3 Billion and \$2.2 Billion:

\$1.3 Billion

- Represents a snapshot of capital needs for the entire DCHA portfolio in 2018 dollars
- The \$1.3 Billion estimate did not include cost-escalation over an estimated 17-year rehabilitation and/or redevelopment program.
- The \$1.3 Billion estimate also did not include soft costs for rehab or redevelopment projects (design, legal, etc. . .)

\$2.2 Billion

- Represents an estimate of real rehab and redevelopment costs based-upon historical data of prior DCHA and other Housing Authority rehab and redevelopment deals.
- Includes cost-escalation on the \$1.3 billion hard-cost number for a 17-year rehab and redevelopment program.
 - Includes soft-costs.

Understanding DCHA's Immediate Needs. . .

An Explanation of the \$343 Million

\$343M in Immediate need:

- The \$343 million figure was a snapshot provided to the U.S. Department of Housing and Urban Development (HUD) in late 2018.
- It was a first perspective of the funding needed in FY2019 to engage in a task-by-task repair and maintenance of all issues uncovered through environmental assessments (including lead risk assessments and visual unit inspections) to meet immediate needs for the units.
- The amount would have only mitigated the environmental hazards for one-year for the 2,610 extremely urgent units in the short-term, including meeting regulatory requirements related to addressing lead issues within a year.
- This approach would not have fixed the systemic infrastructure issues with the properties or ensured 20-year viability of the agency's public housing portfolio.

DCHA's lowest cost scenario to address the needs of the full portfolio would require \$785 - 850 million in cash

Address all housing needs at the lowest cost

Scenario description

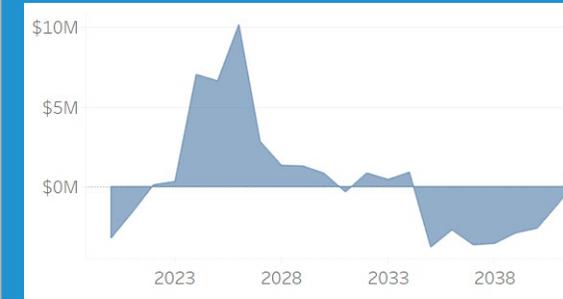
- Use full suite of tools available to address needs of all traditional public housing stock

- This approach would require DCHA to get \$785 - 850 million of cash to leverage \$2.2 billion of total development funding
- This approach assumes the full use of RAD for properties that require major or minor rehab and mixed finance redevelopment for properties needing demolition; some land sales may be required to generate working capital.
- This approach assumes that DCHA would adopt best practices from other property management approaches that could help DCHA reduce its public housing operating deficit

Redevelopment costs



Annual operating deficit



To fulfill its commitment to providing safe, clean and affordable housing, DCHA to align on a set of aspirations

Potential aspiration: stabilize the portfolio over the next 10 years¹

Potential stabilization goals for the next 10 years could include

Move all the properties out of extremely urgent repair need category



2,610 units in the DCHA owned portfolio currently fall in this category

Maintain one-for-one replacement for all housing units in DCHA's portfolio (incl. offline and vacant units) with public and affordable housing



DCHA currently is struggling to turn vacant units due to a backlog of unmet capital needs

Achieve sustainable operations and maintenance cost basis for the long term



Federal funding is declining and the portfolio currently faces over \$1.3bn in capital needs in 2018 Dollars

¹ 10 years is used as the timeframe because it represents a reasonable real estate benchmark to be able to meet capital needs

SOURCE: Interview with Office of PMO,

Examples of the various decision points that inform the stabilization approach(es) under consideration

Each decision point has tradeoffs

- 1 How to address properties with extremely urgent needs?
- 2 How much traditional public housing can we preserve?
- 3 How and where should we relocate residents to facilitate rehab/ redevelopment?
- 4 How much of the portfolio can we afford to manage ourselves?



DCHA Portfolio Stabilization

Assuming that the decline of operating and capital subsidy for traditional public housing continues:

- Stabilizing DCHA's portfolio would require *conversion* of some portion of DCHA's public housing units to subsidy platforms that facilitate financing of rehabilitation and/or redevelopment.
 - Conversion of ACC properties under HUD's Rental Assistance Demonstration ("RAD") or
 - Demolition/Disposition under Section 18
- In either conversion scenario, DCHA would look to maintain ownership and management control of the properties.

DCHA Portfolio Stabilization

Commitment to Tenant Protections

In advance of its initial RAD conversions to incorporate and enhance the protections afforded by HUD's RAD Notice, DCHA created a comprehensive set of policies that aligns with the public housing program:

- new regulations at 14 *DCMR* §§ 5700, *et seq.*;
- amendments to the DCHA Admission and Continuing Occupancy Policy (“ACOP”) – Public Housing (14 *DCMR* §§ 6113, *et seq.* (2014)); and/or
- amendments to the DCHA Housing Choice Voucher Program (“HCVP”) Administrative Plan (“Admin Plan”) – HCVP (14 *DCMR* §§ 4900, *et seq.* (2012))

DCHA Portfolio Stabilization

DCHA Conversion Principles

DCHA is committed to structuring conversion transactions, in order to:

- maintain ownership of the fee interest in all property;
- self-develop major rehab or redevelopment, to the extent of its capacity ;
- control and or manage any developer/owner entity created for redevelopment or rehabilitation for financing (e.g. Low Income Housing Tax Credits;
- utilize contractual agreements (e.g. RAD Control Agreements to govern third-party developers and managers); and
- manage properties post-conversion, wherever feasible to do so.

This approach creates the controls necessary to ensure the implementation of established public housing tenant protections, to the extent feasible, and maintain long-term ownership and control of DCHA's land.

DCHA Portfolio Stabilization

First Steps

Funds Required to Commence

\$25 M over the first 2-years of Stabilization (\$12.5 M / year)

- Address the capital and environmental needs of 190-200 units (to 20-year viability), by undertaking major rehabilitation and abatement of existing environmental hazards at up-to two of the DCHA's fourteen most-urgent sites
- In order to rehabilitate these properties, resident relocation would be required at these sites and other sites among the 14 most-urgent properties in order to provide residents with safe housing
- This is *non-DCHA money* needed to commence the stabilization process



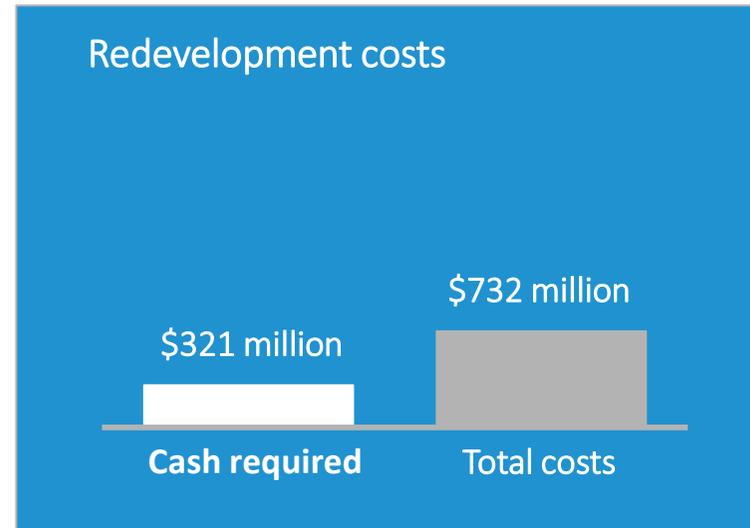
DCHA Portfolio Stabilization

Longer-Term Strategy

To support the long-term redevelopment of its housing stock to 20-year viability, DCHA will need additional cash for capital improvements

**\$30 M - \$35 M per year
for 10 years**

- Address the capital needs of 25 properties (to 20-year viability), including units needing extremely urgent action and those with lead housing children under 6 at which lead interim controls would be ineffective



DCHA Portfolio Stabilization

Next Steps

Proposed timeline Going Forward:

- 1st round of rehabilitation/redevelopment discussions presented to the Board of Commissioners
- Continue community engagement process to:
 - educate residents and stakeholders on the stabilization effort
 - present options to addressing capital needs
 - provide opportunity for feedback on options
- Present stabilization plan, including approaches for extremely urgent needs for Board approval
- Convene Community Transformation Advisory Council, facilitated by a 3rd party and comprising residents, advocates, community organizations (e.g. NYC)

DCHA Portfolio Stabilization

Discussion