

## **HRDC Support and Implementation Recommendations**

### **Bozeman Housing Mill Levy**

#### **Background**

The City of Bozeman has funded affordable housing efforts from a special revenue workforce housing fund since FY 2009. The special revenue fund can receive up to 5 mills annually and has received from .5 to 5 mills since its inception, with an average of 2 mills assessed annually. From FY09 to FY21, the fund has provided an approximate \$2,544,000 to assist with community housing efforts including program administration, homebuyer's education and counseling, and direct project assistance. This does not include funds received from developers for cash-in-lieu. In FY22, the fund is budgeted for the full 5 mills. Funding of the mill is at the discretion of the City commission. Since FY09, the approximate amount of unassessed funds is \$3,248,000.

As a non-entitlement community (meaning it receives no direct housing funding from HUD), Bozeman's contribution of any funds to community housing is commendable. Despite challenges surrounding the need for consistent funding, there have been successes with the use of the workforce housing fund. In 2020 alone, the fund was used to support the preservation of the Boulevard Apartments, development of Arrowleaf and Perennial apartments, CLT development at Willow Springs, shelter improvements at Wheat Drive, and homebuyer's education and counseling.

To ensure that funds are not left unassessed by future commissions, we are supportive of the community housing fund mill levy. It is estimated that 7 mills would raise between \$900,000 and \$950,000 annually for community housing efforts. To make certain that these funds go toward meeting community housing needs, we recommend that the City use funds to support the findings of their Community Housing Needs Assessment (CHNA) and the strategies outlined in the Community Housing Action Plan (CHAP). A synopsis of the findings from the HNA and CHAP is included below.

#### **CHNA and CHAP process and findings**

In 2019, the City of Bozeman conducted a Community Housing Needs Assessment (CHNA) to identify the community's most pressing housing needs. The study showed that between 5,400 to 6,340 housing units are needed over the next five years to address the current housing shortfall for residents and the workforce and to keep up with job growth. About 60% of these units need to be priced below-market to meet the full range of community housing needs. This includes a mix of housing unit types to diversify options for residents, with prices ranging primarily between \$160,000 and \$400,000 for ownership and \$500 to \$1,200 per month for rent. The following unit distribution was identified in the HNA (the green shading represents the level of need; darker green signifies greater need; shading is directly from the HNA, not HRDC staff added).

Income Range	Owner Income Distribution	Renter Income Distribution
<30% AMI	16%	23%
30.1 to 60%		22%
60.1 - 80%	8%	16%
80.1 - 100%	10%	11%
100.1 - 120%	10%	8%
120.1 - 150%	13%	20%
Over 150%	43%	
<b>TOTAL Units Needed</b>	2,210 - 2,620	3,195 - 3,720

The HNA went on to recommend targeting homeownership units between 60 and 120% AMI (noting that ownership under 60% AMI is not typically recommended), with a limited number of units additionally targeted to households earning between 120 and 150% AMI. The HNA recommended targeting rental units to households earning less than 80% AMI, with the majority of those units targeted to households earning less than 60% AMI. These figures are further explored later in this document.

The HNA was followed by the creation of a Community Housing Action Plan in 2020. The plan identified and prioritized strategies to meet housing needs, and assigned roles, responsibilities, metrics, and timelines to tasks. A key strategy identified was to expand general funds directed to support implementation of community housing projects. This strategy has resulted in the upcoming Community Housing Mill. Bozeman residents have been clear in their desire for expanded housing affordability, however; there are certain risks with placing the funding decision with voters. Demonstrating that funds raised through the mill will have a meaningful impact on housing affordability will be imperative. Creating a strategy for use of the funds also begins to prioritize resources for Bozeman’s eventual HUD entitlement City status and the use of HOME, CDBG, and HTF funds.

**Mill recommendations**

It is estimated that the mill could raise between \$4,500,000 and \$4,750,000 over a five-year period. In 2020, the City provided \$1,500,000 from the workforce housing fund to three community housing projects ranging from preservation of subsidized units to new construction of both rentals and permanently affordable ownership homes. Additionally, the City provided funding to assist with improvements to the Warming Center. Generally, 10% of funds were provided for expansion of emergency shelter (0-60% AMI), 30% were provided for preservation of subsidized rental units (0-60% AMI), 30% were provided for new construction of affordable rental units without subsidy (50-70% AMI), and 30% were provided to permanently affordable

ownership homes (70-80% AMI). Overall, an approximate 385 households will benefit from the 2020 investment. Included within this figure are two exceptionally large projects that received relatively small per unit subsidies. It is highly unlikely that the fund could sustain the level of return achieved in 2020. A more reasonable goal for assisted households annually is an approximate **180 units annually**, or 900 units over a five-year period.

Using data from the City’s HNA cited above, there is a noted need for 618-734 ownership units targeted to households earning from 60-120% AMI and a need for 2,567-3,000 rental units targeted to households earning from 0-70% AMI. Using these figures, it is feasible to recommend that at least 75% of funds raised by the Community Housing Mill go toward supporting efforts to expand affordable rental housing and aid those needing emergency shelter due to a lack of affordable rental housing. Assistance to support permanently affordable ownership opportunities should be targeted to 25% of the fund proceeds. This funding strategy is consistent with funds allocated in previous years (see above).

Using the HNA to calculate total units needed by income level, we recommend the following income targeting strategy:

Income level	Recommended percentage of fund proceeds	Recommended project/programming type
Less than 30% AMI	29%	Emergency shelter; supportive housing; preservation of subsidized rentals
30-60% AMI	27%	Emergency shelter; preservation of subsidized rentals; support for development of new rentals using LIHTC; ownership (likely limited to Habitat for Humanity or similar subsidy structure)
60-80% AMI	27%	Support for development of new LIHTC rentals; preservation of existing LIHTC rentals at restriction end; Homebuyer’s education/counseling; support for development of Community Land Trust homes; down-payment assistance
80-120% AMI	17%	Homebuyer’s education/counseling; support for development of Community Land Trust homes; down-payment assistance

Funds should be allocated through a competitive RFQ or RFP process. The selection process should include a set of expectations for all developers/owners to ensure selected projects achieve community housing objectives. These requirements should include extended periods of affordability. While mill funds will be helpful to advancing the City’s Community Housing goals, to meet the identified unit targets the funds will need to be blended with other public and

private funding sources. Funding requests should, to the extent possible:

- **Maximize the use of non-competitive resources.** The 4% LIHTC program is available on a non-competitive basis to provide equity for affordable housing development. This program is especially useful for larger projects or scattered site projects that can be bundled to achieve the scale desired by equity investors.
- **Preserve and improve existing community housing.** For developments with HUD project-based subsidies, preservation of those subsidies is a priority.
- **Maximize use of private resources.** Some projects will generate sufficient rental income to be able to make debt service payments on loans from private banks. While ensuring that projects have appropriate operating budgets and reserves, private debt should be secured for projects whenever feasible.
- **Maximize local resources:**
  - Publicly owned land
  - Seek other existing affordable housing resources (Federal, State and County resources)

We recommend implementing a portfolio approach to funding projects, monitoring progress, and adjusting priorities when appropriate. As project commitments are made, the City should keep a tracking document updated to show balances of funds available and progress toward community housing goals. This will provide a real-time update that can guide the selection of the subsequent projects to ensure that overall goals and resource commitments are consistent with CHAP.

Implementation of funded projects will occur over a period of 5+ years. This timeline will allow for the identification of sites, securing needed resources for capital and services, forming partnerships with developers and service providers, procurement of projects through public solicitations, and completing construction. During this period, community needs and opportunities may change. New data will become available, new community planning efforts may be initiated or completed, and new resources or opportunities may become available while other resources or opportunities may not materialize as anticipated. In addition, certain community goals may be easily fulfilled, while others may prove more challenging. Because of the dynamic nature of this work, we recommend periodic review of funding priorities.

We recommend that City staff continue to prepare annual reports regarding funds allocated. The report will include information on committed and completed projects (e.g. project status, funding amounts, total project cost, and units produced by unit size, type and income level served). The report will also include information on overall progress toward achievement of the City's Community Housing goals.

### **Five-year investment strategy recommendation**

Assuming fund availability of \$4,750,000 over a five-year period, we make the following recommendations to meet the goals outlined in the City's Community Housing Plan.

#### Support critical safety net infrastructure - \$1,000,000

The need for emergency shelter continues to increase in our community as a result of housing shortages along the continuum impact households at all income levels. To ensure that the most basic need of a safe, warm, dry place to sleep is met, we recommend an investment of \$200,000 annually to support emergency shelter. Per the annual point in time count, there are more than 100 people sleeping outdoors in our community on any given night, through data from service providers, it is estimated that more than 400 people are sleeping in areas not meant for human habitation.

#### Create and support Permanently Supportive Housing - \$377,500

Numerous studies, both locally and nationally have demonstrated that housing paired with supportive services is a successful strategy for keeping people housed that struggle to maintain housing, are at greater risk for homelessness, and have higher community costs associated with health, corrections, and social services. Supporting the development of new supportive housing while funding existing supportive housing interventions eases pressure on safety net services and reduces overall community costs. This investment supports 24 existing units and helps create 40 new units over 5 years, leveraging \$1.66 million in partner and state funds and saving an approximate \$6.9 million across healthcare, detention, and community service providers.

#### Preserve Subsidized and Low Income Housing Tax Credit (LIHTC) Rentals – TBD

At this time, no subsidized or rent restricted units are scheduled for redevelopment, loss of subsidy, or transition to market rate. However, this is a highly dynamic market which requires rapid response. If properties are endangered over the five-year period, we recommend utilizing funds allocated to new LIHTC development to maintain these vital community resources.

#### New LIHTC development - \$2,000,000

While preservation of existing affordable homes is a key priority to maintaining community affordability, creation of new affordable, rent restricted homes is an effective way to add to housing stock and ensure it meets community needs. Providing four new developments of 200 units with \$500,000 each would create 800 units over a five-year period and would leverage over \$220 million in investment from LIHTC, private debt, and state funding.

#### Support for potential Homebuyer households - \$300,000

Households working to purchase a home in Bozeman benefit from comprehensive, non-biased education and counseling to help them make good decisions. HUD-certified Homebuyer's education and counseling has demonstrated impact in increasing buyer readiness, lower financing costs, and reduced foreclosure rates. The city has supported homebuyer's education and counseling with an annual contribution of \$40,000, which provides classes to over 550

households annually, for a total of 2,750 households over a five-year period. Additionally, we recommend providing \$100,000 to leverage down-payment assistance provided through the HOME program for 10 households. These investments leverage \$600,000 in state and federal resources to support first-time homebuyers.

Community Land Trust development (new and scattered site) - \$557,500

Creating permanently affordable ownership opportunities ensures that community investments remain with the community in perpetuity. Supporting the development of CLT homes, either through scattered site acquisition or new construction creates an entry into the ownership market for workers that might otherwise leave the area to become homeowners. Proper capitalization of CLT units represents a large upfront cost, but one that endures. This investment will help create 12 new CLT homes and leverage \$640,000 in outside investment.

Overall, the five year investment plan could create 900 affordable rental and ownership homes which could provide homes for over 1,500 community members. Additionally, the investment would provide support to an additional 4,000 community members through emergency programming, supportive services, homebuyer's education and counseling, and down-payment assistance while leveraging nearly \$230 million in private, Federal, and State investment.