

## Affordable Housing Budget Context and Policy Consideration

The board adopted Guiding Principles for Affordable Housing in April 2022. These principles focus on ways for the town to increase the supply of affordably priced dwelling units through regulation, direct action, having funds available to assist those willing to build units, or assisting residents to stay in or maintain their units.

While principle 2 specifically indicates funds will be spent on all housing efforts, the other principles do not speak to funding or continuing supportive programs to prevent homelessness or otherwise support vulnerable households directly.

Eighty-seven percent of the fees in lieu funding from Forest Ridge (roughly \$209,000) supported the creation of about 48 new units on Odie Street and in Crescent Magnolia. That came out to about \$4,300 per dwelling unit, which is a significant leveraging. Chapel Hill staff recently noted it takes about \$80,000 of subsidy to bring a new dwelling unit to the market. That is just the subsidy portion to “buy down” the construction costs to bring the unit into the affordable range. The cost of construction is still borne by the builder and recouped over time through rents or sales. Those two examples are both ownership opportunities as well. The other 13% of the funds went to emergency housing support. Only about \$1,700 of the \$240,000 fee remains to be allocated.

The board has great latitude to develop a program as they chose. Development activities and support programs are authorized expenditures for local governments. A budget analogy would be the difference between capital expenditures or hiring staff. Capital expenditures tend to be large and one-time. There is a smaller price-tag for hiring staff, but the cost is on-going and always increasing.

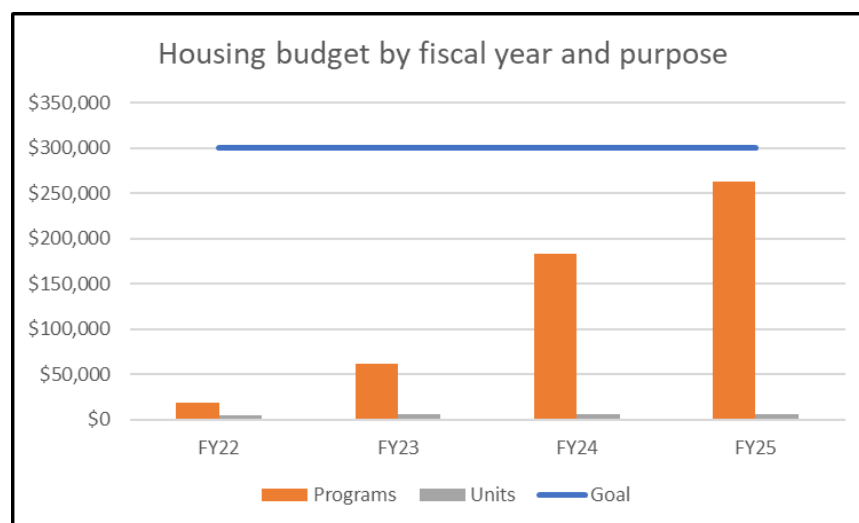
Funding support for IFC to operate Community Housing and Homestart is equivalent to hiring staff. IFC runs a much-needed facility, and they appear to be the only entity willing to do so in the county. Operating a shelter to address emergency situations will likely be a continuing need in the community for many years. Many of the items on the Partnership to End Homelessness Gaps Analysis are also equivalent to hiring staff. Homelessness prevention and ensuring housing security are services, so the systems must be on-going to address ever changing conditions.

The development of more income-based housing is in the top three of the Gaps Analysis and the price to fill this gap is hard to estimate. This will also be an on-going concern – to understand and manage the number of income-based or otherwise affordable units in the community to align with the economic profile of the population. Constructing housing is more of a capital expenditure because the units must be created, then their affordability has to be maintained. Like a new government facility that is built, it also has expenses related to operation and maintenance.

The guiding principles were developed to fill a void in the town’s policy documents. The first principle is that they will be reconsidered and merged into the Comprehensive Sustainability Plan. The draft plan should be ready for public review and adoption by the end of June. The towns and county are also preparing to release an RFP for a countywide housing plan. The effort will be funded with HOME-ARP administrative funds and should kick off in late spring and take about a year to complete. These two documents will better inform the town on where local funding will be most beneficial.

The commitment of 2 cents of tax revenue for affordability and security is significant, but also limited. The board must choose and prioritize the allocation of these funds. Less than \$10,000 of the annual funding supports the construction, repair or acquisition of units through the HOME program grant match and operational support for Community Home Trust. This is roughly 18% of the annual funding. All other funding is allocated toward service provision. The board's decision to provide \$43,300 of additional funding in FY23 tripled its FY22 funding allocation. This new funding has been requested by both the Partnership to End Homelessness (for service expansion) or IFC (to support service provision). With the additional funding allocated to services, the percentage going toward "capital" drops to 9.5%.

This table illustrates this shift. The blue line is the 2-cent goal (\$300,000). The orange bar is a combination of all "staff" type requests, if requested activities are funded: Partnership, Inter-Faith Council, and Emergency Housing Assistance. The gray bar shows the "capital" type requests: HOME program match and Community Home Trust. Of the potential expenditures, only the Emergency Housing Assistance is certain to be spent to benefit current Hillsborough residents.



#### What could \$300,000 buy:

- Approximately \$3.7 million borrowed over 20 years at 5% interest (loan payment).
- About ½ of the purchase price for 604 & 618 N Churton St.
- About 2/3 the cost of our most recent Fire Truck purchase (FY16 engine).
- Almost 4 Police Officers based on FY24 personnel costs.
- About 4 Public Works Equipment Operator I positions (FY24 cost).

#### What "capital" funding opportunities exist for affordable housing?

That is uncertain and will change over time. To date, the town has not been asked to directly participate in any tax credit project. That may be simply due to feedback from staff to applicants that the town has no designated funding source. As noted earlier, the town has participated in two Habitat projects with direct funding and other properties through other support.

If the town pursues a partner to construct affordable housing near the future train station on town property, the town may opt to donate the land to assist the project. That option is available at that site, but the town doesn't own other tracts of land it can make available for housing development.

By having local funds available, the town has a lot of flexibility to participate in projects. Local funds carry only the strings the town wants to impose, rather than grant or federal sources that may have a variety of limitations and requirements. As the town moves to require new developments to provide a percentage of units as affordable, the requests for local funding will increase.

Habitat hasn't moved quickly on the East Village at Meadowlands project. It seems likely they would be interested in local funding to assist with this project. CASA may need assistance as they move into development of the Collins Ridge site.

The tax credit program for rental housing is highly competitive and only one project will be funded each year in each county. Scores need to be near perfect for a project to receive the 9% tax credits. There is a non-competitive program that provide 4 ½% tax credits. If local funds were available to help developers fill this 4 ½% gap, the town could possibly see project that leverage this highly available and underused tool.

A handful of non-profits partner to make small repairs to houses owned by income-eligible people. This program would also benefit from a regular funding allocation from the town to expand their capacity.

Having funds available when opportunities come up allows the town to act quickly and incentivize what it views as important. This is the way the town has operated in recent years.

#### FY24 budget preparation

The decision about FY23 funds heavily influences the FY24 process. Since the FY24 budget is still using the continuation budget method, we applied that rule to the 2-cents for housing as well. We heard the board's commitment to this ideal, but we did not want to pre-commit or indicate any kind of preference. Below are the details we have currently about FY24 requests. We expect updated information on HOME and the Partnership prior to the May budget workshop.

#### Continuation Budget includes:

Community Home Trust payment (per interlocal agreement)	\$ 2,500
Local match funds – HOME (HUD) funding (estimate)	\$ 6,486
<u>Partnership to End Homelessness (FY22 activities)</u>	<u>\$15,788</u>
Total for draft FY24 budget	\$24,774

#### Requests:

IFC (3% increase from FY23)	\$ 43,518
Partnership (FY23 requested amount- expect update)	\$ 43,292
<u>Emergency Housing Assistance once grant completed</u>	<u>\$ 79,200</u>
Total increase requested for FY24	\$166,010