Executive Summary of Written Statement

Milton J. Bailey, President
Louisiana Housing Finance Agency

Before the
Louisiana Bond Commission
The Honorable John Kennedy, Chairman

September 17, 2009

To address certain areas of concern involving the use of Community Development Block Grant funds, low-income housing tax credits and multifamily housing bonds to finance rental housing accommodations in New Orleans, Louisiana.

Mr. Chairman and distinguished members of the Bond Commission; thank you for inviting me here today to address certain areas of concern involving the use of Community Development Block Grant funds, low-income housing tax credits and multifamily housing bonds to finance certain rental housing accommodations in New Orleans. In the interest of time, I will provide you with an oral executive summary and submit both my written and oral statements for the record.

My understanding of the concerns raised by the Bond Commission are as follows:

1. Whether using CDBG funds to subsidize affordable mixed-income rental housing is inappropriate and if such CDBG Funds are better used for recovering other non-housing activities in the GO Zone;

2. Whether the per unit cost of affordable mixed-income rental housing production with CDBG funds, tax credits and bond financing is excessive and the fees to professionals and developers should be negotiated and/or regulated;

3. Whether the per unit cost of affordable mixed-income rental housing production suggests that it is better policy to simply produce these units for homeownership;

4. Whether the production pipeline of affordable rental units in New Orleans may exceed projected demand; and ,

5. Whether there is an over-supply of subsidized housing in New Orleans as suggested by the BGR Report "The House that Uncle Sam Built."

First, using CDBG funds to subsidize affordable mixed income rental housing developments in the post-Katrina/Rita environment is indeed appropriate. Federal lawmakers made available over $13.4 billion of CDBG funds to assist the State's recovery efforts following the storms and on the basis of the State's housing recovery policies.

- The State Action Plan for affordable housing recovery through the Tax Credit Piggyback Program used nationally recognized best practices to maximize the use of a finite resource within a policy framework to rebuild and recover affordable workforce housing primarily through mixed-income communities or affordable housing developments that de-concentrated centers of poverty.

- The Tax Credit/CDBG Piggyback transactions deferred by the Bond Commission at its July meeting are consistent with these objectives.

- Absent these CDBG subsidies for mixed income developments, very little affordable mixed-income rental housing would be constructed by developers to serve the policy-targeted population of Louisiana's workforce. The use of CDBG funds to subsidize affordable housing does not convey an unfair advantage to affordable housing developers. It levels the playing field.

Second, the costs per unit using tax credits, CDBG dollars and bonds are not excessive and the professional fees are controlled by the Agency in a competitive allocation process.

- In the post-Katrina/Rita environment and across the State of Louisiana, there were substantial increases in the costs of available land, materials, labor and insurance. The costs per unit soared in the City of New Orleans post-Katrina.

- Because of the devastation of the storms, many of these developments, even in previously developed areas needed significant infrastructure improvements. These developments are building back more than housing; they are putting back streets, sewers and other essential components of neighborhoods.

- A good example of this redevelopment point is the break-out of the per-unit development costs associated with the redevelopment of the Desire Public Housing Development in New Orleans through the Michaels Company as The New Savoy II Project which is slated to come before this board. A breakdown of New Savoy II's $192,408 per-unit development cost reveals that only $109,377 is budgeted for residential unit construction

- Additionally, the agency controls for professional costs and the financial interest of developers are not served by unnecessary costs per unit for two primary reasons:

  First, CDBG dollars and tax credits were allocated in a competitive process that favored cost efficiencies in the scoring selection criteria. These dollars were over-subscribed 3 to 1; meaning the agency had 3 times the proposals for the amount of dollars to distribute. Therefore, in order to receive funding, the developments chosen were required to be cost efficient.

  Second, the particular developers in question have deferred developers' fees which will be made available over a 10-15 year period. Therefore, it is in the financial interest of the developer, who has money on the table in each of these deals, to make the project as cost efficient as possible.

Third, layered financing structures that produce the development subsidies for affordable mixed-income rental housing cannot be replicated in a fee simple ownership structure for homeowners; and, not every household in need for affordable housing qualifies for homeownership.

- It has been suggested that these developments should have been built as single family housing units with title simply handed to families given the cost to develop. This argument does not fully consider (i) the multi-layered financing structure of mixed-income housing, (ii) the practical problems of conveying homeownership to every household in need or (iii) the nature of the housing market and the need for <u>both</u> homeownership and affordable rental housing.

Fourth, the projected pipeline of affordable mixed-income housing in New Orleans does not exceed the projected need for affordable housing in New Orleans.

- While the Agency shares the Bond Commission's concerns that over-building affordable housing in the post-Katrina environment may bring economic imbalance, defeat sustainability of communities and create the potential for re-constituting centers of poverty, the Agency has implemented a prudent strategy for assuring that there is no over production. For example, the Agency has retained GCR & Associates since the storms to conduct a comprehensive assessment of housing needs in the State and to monitor continuously the progress of recovery throughout the GO Zone so that the Agency may strategically re-allocate housing resources to areas of need.

- GCR & Associates projects that, between 2008 and 2013, there will be a demand for approximately 44,713 affordable rental units in the New Orleans Metro region. If the current pipeline of tax credit and small rental units is subtracted from this demand, there is still a need for over 18,000 affordable rental units in the area. According to GCR & Associates, New Orleans has one of the highest needs for affordable rental housing in the state.

Fifth, there is no over-supply of subsidized housing in the City of New Orleans.

Members of the Agency's Board of Commissioners who reviewed the BGR Report **"The House that Uncle Sam Built"** concur that the BGR report has a number of omissions in its findings. BGR's report presents a supply-side analysis of affordable housing. It does not, however, include absorption-rate or demand-side analyses for that same housing. As a result, its narrative has created an unfortunate degree of confusion that may have led to the misinterpretation of certain ground-level realities. In order to obtain a professional assessment of the BGR Report, the Agency retained a nationally recognized market assessment firm, **VWB** to review the BGR Report. Simply stated, VWB concluded that the BGR Report should not be a basis for decisions regarding the need for additional affordable housing.

- In summation, it does not appear that the BGR report answers the question as to the need for additional subsidized or Tax Credit housing in Orleans Parish. Instead, it is our opinion that the report simply provides an accounting of the existing and potential affordable rental housing supply of the Parish. Without demographic data, particularly data that focuses on low-income renter households, or reconciliation between supply and demand, it is the opinion of VWB that the BGR report should not be a basis for decisions regarding the need for additional affordable housing.

Thank you for the opportunity to address the Bond Commission, Mr. Chairman. At this juncture, I would like to yield the balance of my time to VWB so that they may weigh-in on the need for affordable housing in New Orleans. Of course I will remain available to address any questions you or the Commission may have once my colleagues have provided their statements.