

Public Housing Capital Funding Sources: An Overview

DHCD MONTHLY PRESENTATION SERIES: JANUARY 2022

Overview of DHCD Structure



- DHCD's Division of Public Housing is split into two main Bureaus: Housing Management and Housing Development and Construction
- All Capital funding sources and projects fall under the purview of the Bureau of Housing Development and Construction (BHDC)
- The BHDC is made up of the following units:
 - Project Management
 - Architects and Engineers
 - Construction Advisors
 - Data and Systems
- Staff from these units assist with the direct implementation of capital improvement projects at LHAs. Staff are also involved in assessing funding requests by evaluating the scope of the project on site and providing technical support to the LHA.

DHCD funding types

CAPITAL FUNDS

- Capital funds support capital construction projects on the LHA's buildings and sites.
- Examples of acceptable uses:
 - Roof replacements
 - Paving
 - Installation of new windows
 - Elevator repairs

OPERATING FUNDS

- Operating funds support the LHA's day-to-day operations.
- Examples of acceptable uses:
 - Gutter cleaning
 - Maintenance upkeep
 - Snow removal
 - Office staff

Where does DHCD's funding come from?

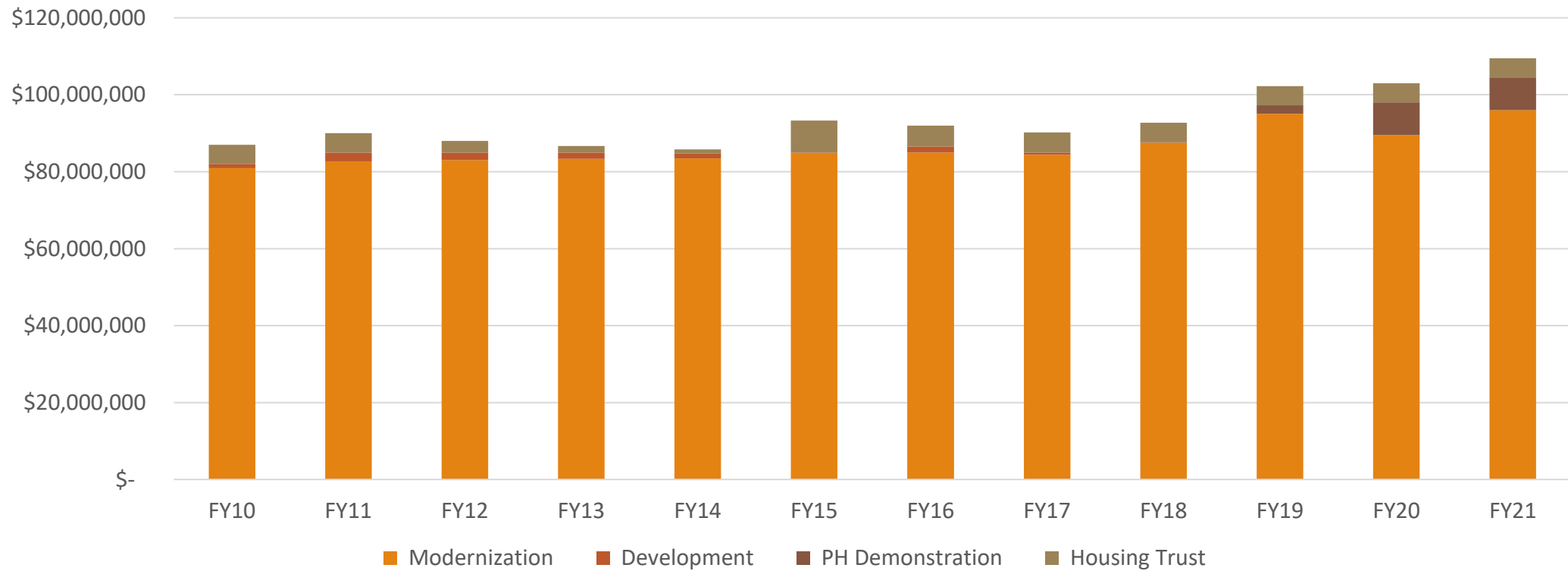
CAPITAL FUNDS

- Capital Funds are funded in the Commonwealth's annual capital budget through bond bills.
- The spending is planned and allocated to agencies by the Office for Administration and Finance.
- The "Bond Cap" is funded by long-term bonds repaid with tax revenue that the Commonwealth receives through the operating budget.
- In Fiscal Year 2022 the Administration allocated DHCD's Public Housing division \$109.5 M in capital funds for the preservation and modernization of our state-wide portfolio.
 - The slides that follow will show how DHCD manages the bond cap as a whole, and the different vehicles through which the funding is awarded to LHAs.

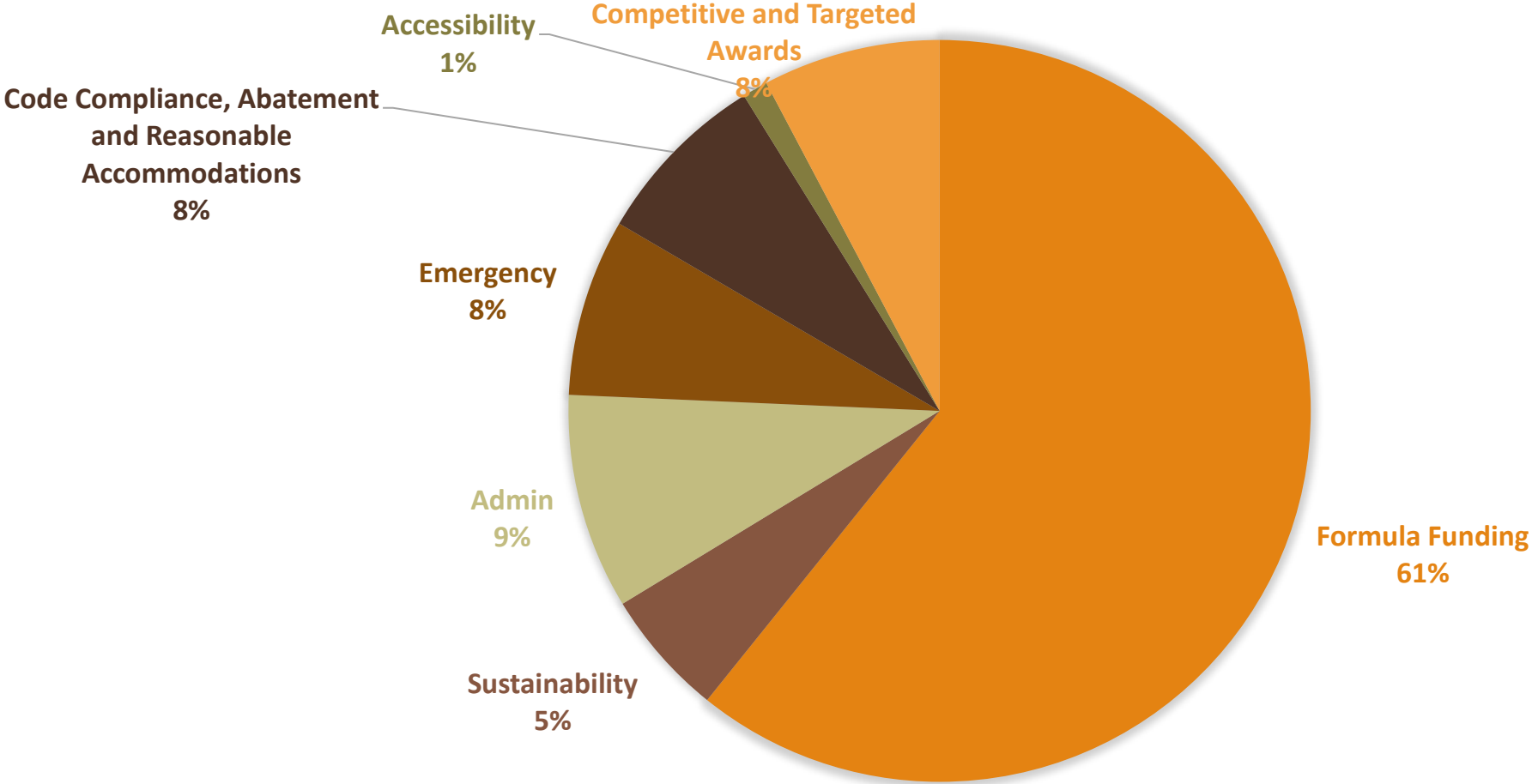
OPERATING FUNDS

- Operating Funds are appropriated each year through an annual budget process.
- They are disbursed to LHAs based on the overall funding level and allowable expenses (ANUEL) net of rents.
- Operating funds are funded by current year taxes.
- The Fiscal Year 2022 Commonwealth budget provides \$85 M in operating subsidy for Local Housing Authorities

Capital Funding Over time: FY10-21



Pieces of the Bond Cap Pie



Formula Funding

- Formula Funding is an LHA's share of DHCD's bond cap, allocated on an annual basis. In fiscal year FY22 Formula Funding is budgeted at \$55 M of the bond cap
- The amount of Formula Funding that an LHA receives is based on their need and size of their portfolio.
 - Need is determined based on the condition of the LHA's existing buildings as reported in CPS, our Capital Planning System. Every five years DHCD procures a state-wide facility condition's assessments to inform formula funding allocations.
 - CPS catalogues the condition of every building and site in the state housing portfolio. LHAs update CPS as projects are completed.
- A CIP will focus mostly on Formula Funding spending. LHAs program their formula funding allowance through CIPs, and apply for competitive funds through periodic grant rounds.

Special Awards

Besides Formula Funding, there are a few types of “other” funding that an LHA can request to use in their CIP. These funds are awarded on a case-by-case basis at DHCD’s discretion.

- Compliance Reserve
 - Emergency Funds
 - Vacant Unit Funds
 - Sustainability Funds

Compliance Reserve

- Used for projects required to comply with laws, codes or regulations. For example: projects relating to reasonable accommodation requests or asbestos and lead remediation. The CR fund may also be used to fund compliance with those requirements of the Mass. Architectural Access Board (MAAB), and the America with Disabilities Act (ADA).
- Funding criteria:
 - LHAs will be required to dedicate operating reserves in excess of 70% of their full reserve level, and LHAs with restricted reserves may be asked to contribute these funds to the project, depending on the urgency of the work for which the restricted reserves were originally earmarked.
- LHAs can request Compliance Reserve funds through their Project Manager or CIP

Emergency Funds

- Used when an LHA has depleted their formula funding, but an emergency situation arises that cannot wait for their next year's formula funding allocation

Funding Criteria (all of the following criteria must be met):

- If not repaired, the condition results in an immediate threat to the health, safety, and welfare of the occupants, and would prevent the unit(s) from being occupied.
- This emergency cannot be funded through a reduction of other planned work in the CIP without resulting in occupied units becoming vacant. This includes projects that haven't started yet and active projects that haven't gone out to bid yet.
- Other non-modernization resources (operating reserve, restrictive reserves, local funds) are not available to pay for the work.

LHAs can apply for emergency funds through their Project Manager or CIP

Vacant Unit Funds

\$65/unit maximum award

Funding Criteria:

- LHA has exhausted its formula funds
- Contribute operating reserve funds in excess of 70%. Restricted reserves may also be need to be allocated to the vacant unit project, depending on urgency of the earmarked project.
- Postpone all non-urgent active projects that haven't gone out to bid yet and reallocate the funds to the vacant unit project.

LHAs can request Vacant Unit funds through their Project Manager or CIP

Sustainability Funds

- Sustainability Funds can be used for projects falling into three categories:
 - Reducing greenhouse gas emissions and utility consumption- installing heat pumps, weatherization improvements, efficient toilets, etc.
 - Improving the resiliency of a development- better drainage, flood walls, light-colored roofing, etc.
 - Installing equipment which helps improve indoor air quality (IAQ)- bathroom fans, range hoods
 - Ineligible projects- system maintenance, replacing already-efficient equipment, cleaning up stormwater
- Applications fall into two categories:
 - Dedicated projects: Projects focused exclusively on an eligible component(s)
 - LEAN should look at potential projects first
 - Typically capped at \$150k per LHA bi-annually, unless not eligible for LEAN
 - Ex- Insulation project, heat pump project, toilet-replacement project
 - Add-On projects: Projects where a sustainability, resiliency, and/or IAQ are added to an existing project
 - Sustainability funding can cover incremental cost of project:
 - Ex- roof costs \$100k, light-colored roof costs \$125k, SUST funds can cover \$25k
 - Ex- weatherizing attic as part of a roof replacement project, raising equipment as part of a replacement project, etc.

Sustainability Funds

- Some projects are required, while others are strongly encouraged!
- Required example: Resiliency add-on projects, where needed
- Information on eligible projects, the funding applications, and more can all be found here:
- <https://www.mass.gov/service-details/public-housing-sustainability-resilience-and-healthy-building-environments>
- Questions: Ask Greg Abbe at gregory.abbe@mass.gov

Shift: Competitive Comprehensive Mod Awards to Targeted Awards

- In years past, DHCD has issued competitive NOFAs for comprehensive modernization projects in programs such as ModPHASE.
- Moving forward, to make most effective use of our funding, DHCD is deploying a new strategy of making targeted awards to address components that are expired en mass across the portfolio.
- The goal is to replace aging components before the point of failure. Replacing after the point of failure is disruptive to the residents and greatly increases the cost (by an estimated 10-20% based on the component).
- In the current escalating construction cost environment, comprehensive modernization projects require far too much of the bond cap in order to complete. With our current funding levels, this is not sustainable or equitable.

Targeted Awards Pilot: Septic Systems

- In 2020, we evaluated every septic system in the portfolio and assessed for condition.
- We created a report which prioritized the systems by urgency of replacement need.
- This assessment identified 19 systems on the verge of failure that we were able to repair or replace before complete failure— saving the Department time and money. We issued funding awards to cover the entire TDC of the project.
 - We estimate approximately **20% in savings** through this initiative by avoiding pumping and cleanup costs associated with total field failure.
- We intend to replicate the efficiency of this program with other building components, including fire alarm systems and federal pacific panels.

Questions?
