

TO: Chris Dorrington, DEQ Director & Housing Task Force Chair
FROM: Cheryl Cohen, Montana Housing Division Administrator
DATE: September 8, 2022
RE: Affordable Housing Sector – Resource Landscape & Industry Challenges

BACKGROUND:

The Department of Commerce Housing Division, conducting business and known in the community as Montana Housing (MH), strengthens our vibrant communities by supporting access to safe, affordable and sustainable homes for Montanans whose housing needs are not met by the market.

Governor Gianforte's Executive Order No. 5-2022 establishing this Housing Task Force states that "the availability of affordable, attainable housing is critical to the wellbeing of individuals, communities, businesses and organizations of all sizes, and the economy at large." This affirmation is fully aligned with the future Montana Housing envisions "where all Montanans can afford a safe home".

In collaboration with community, local and tribal government partners, Montana Housing offers financial and technical resources to facilitate new construction, acquisition and rehabilitation of affordable single and multifamily homes, and supports opportunities for first-time homebuyers including homeownership counseling, down payment assistance and affordable 30-year fixed rate mortgages to qualified Montanans who are ready to purchase a home. MH also administers rental assistance to low-income Montanans, including working families, seniors and persons with disabilities.

Montana Housing primarily administers federal programs with long-term income and rent or purchase price restrictions generally serving households at or below 80% of Area Median Income (AMI) for rental programs and up to 140% AMI for homeownership programs. Many of our multifamily development and rental assistance programs have deeper income restrictions at 30% to 60% of AMI. MH programs help meet critical needs of lower income Montanans, but are not designed to support broader missing middle- or moderate-income workforce housing needs.

Montana Housing is composed of three component units:

- ❖ **Board of Housing**, Montana's statewide Housing Finance Agency (HFA) created under the Montana [Housing Act of 1975](#), is [administratively attached](#) to the Department of Commerce. The Board is comprised of seven members appointed by the Governor and confirmed by the state Senate. The Board of Housing is funded by enterprise funds with revenues derived from an administrative charge applied to projects and interest-rate spread on mortgages financed; the Board does not receive any general fund and is completely self-supporting. The Board provides policy direction for the following programs:

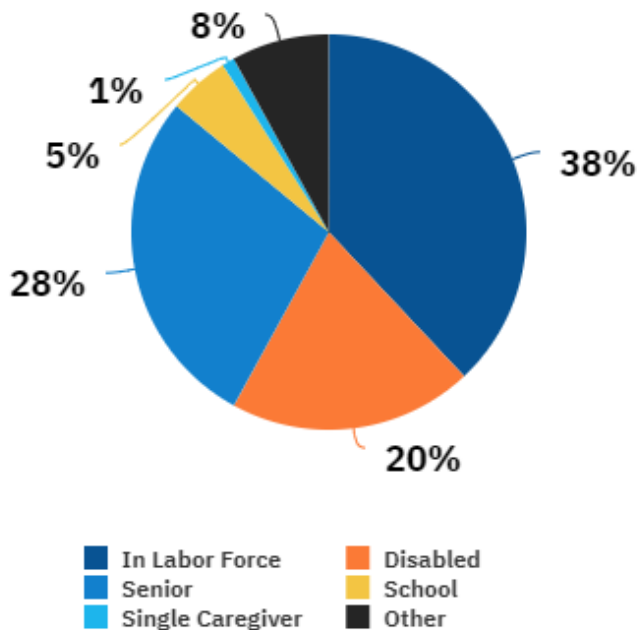


- *Low-Income Housing Tax Credits (LIHTC)* [Governor EO 2-87](#) | [90-6-109, MCA](#) | [8.111.601 to 8.111.603, ARM](#)
 - *Private Activity Bonds (PAB)* [17-5-13, MCA](#) | [90-6-125, MCA](#)
 - *Coal Trust Multifamily Homes program (CTMH)** [90-6-137, MCA](#) | [8.111.801 to 8.111.807, ARM](#)
 - *Housing Montana Fund (HMF)* [90-6-133, MCA](#) | [90-6-134, MCA](#) | [8.111.501 to 8.111.515, ARM](#)
 - *Homeownership Loan & Mortgage Servicing programs* [32-9-101 to 32-9-172, MCA](#) | [90-6-108, MCA](#) | [90-6-125, MCA](#) | [8.111.301 to 8.111.307, ARM](#)
 - *Montana Veterans' Home Loan program (VHLP)** [90-6-601 to 90-6-605, MCA](#) | [8.111.701 - 8.111.707, ARM](#)
 - *Mortgage Credit Certificate program (MCC)*
 - *Reverse Annuity Mortgage program (RAM)* [90-6-501 to 90-6-507, MCA](#) | [8.111.401 to 8.111.409, ARM](#)
- ❖ **Rental Assistance Bureau**, Montana's statewide Public Housing Authority (PHA), is charged with the administration of the following federally funded U.S. Department of Housing and Urban Development (HUD) programs in accordance with Governor Executive Order 28-81. All Rental Assistance Bureau programs are funded by enterprise funds with revenues derived under HUD administrative fees and performance based contracts:
- *Housing Choice Vouchers (HCV)* also known as Section 8 Vouchers
 - *Veteran Affairs Supportive Housing (HUD-VASH)*
 - *Mainstream Vouchers*
 - *Emergency Housing Vouchers (EHV)*
 - *Project-Based Section 8 Contract Administration (PBS8)*
 - *Moderate Rehabilitation Contract Administration (Mod Rehab)*
 - *Section 811 Project Rental Assistance (PRA)*
- ❖ **Community Housing** administers HUD Community Planning and Development (CPD) programs for the production and preservation of affordable homes. These programs provide grant funds to communities and non-profits to rehabilitate single- and multifamily homes, finance new construction and rehabilitation of single- and multifamily homes and provide down payment assistance and closing assistance to eligible homebuyers. Community Housing administers federal funds and state special revenue account programs appropriated via HB 2.
- *Community Development Block Grant program (CDBG)* [90-1-103, MCA](#) | [8.94.37, ARM](#)
 - *HOME Investment Partnerships program (HOME)* [90-6-106, MCA](#)
 - *Housing Trust Fund program (HTF)* [90-6-106, MCA](#)

MONTANA'S AFFORDABLE HOUSING NEED:

137,320	Total number of renter households (31%)
56,727	Number of VLI renters (41%)
67%	VLI Cost Burdened
23%	VLI Severely Cost Burdened
33,598	Number of ELI renters (24%)
83%	ELI Cost Burdened
64%	ELI Severely Cost Burdened
-18,538	Shortage of rental homes affordable and available for ELI renters

**EXTREMELY LOW INCOME
RENTER HOUSEHOLDS**



Note: Mutually exclusive categories applied in the following order: senior, disabled, in labor force, enrolled in school, single adult caregiver of a child under 7 or a person with a disability, and other. At the national level, 15% of extremely low income rent households include a single adult caregiver, more than half of whom usually work more than 20 hours per week. Eleven percent of extremely low-income renter households are enrolled in school, 48% of whom usually work more than 20 hours per week.

Source: 2020 5-Year ACS PUMS

EXISTING AFFORDABLE HOUSING RESOURCES:

2022 Funding	State or Federal	Programs for New Construction and/or Acquisition Rehabilitation of Affordable Rental Homes
30,118,580	Federal	Housing Credits - 9% Competitive Credits
96,178,005	Federal	Housing Credits - 4% Noncompetitive Credits (Volume Bond Cap 70% State Portion, 41% Housing Set-aside)
106,396	State	Coal Trust Multifamily Homes – Fund Balance 8.1.2022
452,894	State	Housing Montana Fund –Fund Balance 8.1.2022
3,420,477	Federal	HOME Program
2,982,433	Federal	Housing Trust Fund
1,000,000	Federal	CDBG for Housing
134,258,785		Total

Year	Letters of Intent (# of Projects)	Housing Credit – 9% Requested	Awarded (# of Projects)	Housing Credit – 9% Allocation
2019	17	95,000,000	5	31,600,000
2020	16	85,800,000	6	32,200,000
2021	14	72,400,000	4	32,200,000
2022	12	70,749,600	Est. 5	Est. 30,118,580
Total	59	323,949,600	20	126,118,580

Competitive 9% Housing Credits are routinely oversubscribed 3:1. Nearly forty (40) viable & needed projects have gone unfunded over the last 4 years.



Units	Estimate number of affordable rental homes that can be awarded funds with existing 2022 resources
150	Housing Credits – 9%. Based on the limited number of 9% Credits available, the Montana Board of Housing will be able to award ~5 projects comprised of approximately 150 rental homes.
266	Housing Credits – 4% allocations for 2022 include 62 units in Laurel / Joliet, 144 units in Kalispell and 60 units in Bozeman.
0	Coal Trust Multifamily Homes – Montana Board of Housing awarded preliminary loan commitments to 7 projects comprising 252 rental homes in the spring of 2020. Most of these projects have closed and funds will accrue as mortgage payments are made, but the current fund balance is insufficient for the production of additional units in 2022.
0	Housing Montana Fund – current fund balance is insufficient to originate a new loan. There is no on-going fund source designated for HMF.
32	HOME Program – anticipated outcome measures include 12 rental (or homeowner) units will be constructed, 20 rental units will be rehabilitated and 10 units of permanent housing for homeless individuals will be constructed or rehabilitated.
65	Housing Trust Fund – anticipated outcome measures include 55 rental units to be rehabilitated and 10 units of permanent housing to reduce homelessness will be constructed or rehabilitated.
10	CDBG for Housing – anticipated outcome measures include 10 rental units will be constructed or rehabilitated.
523	Total
Current state and federal resources can support the production of ~500 affordable rental homes on an annual basis.	



Number of Housing Credit Units Created since program's inception in 1987

Years	Competitive Credits (9%) Units	Noncompetitive Credits (4%) Units
2021	165	700
2011 – 2020	2,056	1,267
2001 – 2010	2,003	440
1991 – 2000	2,682	180
1987 – 1990	493	0
Total	7,399	2,587

Number of units in Housing Credit projects with Affordability Periods Ending

Years	Number of Units
2021 – 2030	2,181
2031 – 2040	1,680
2041 – 2050	1,163
Total	5,024

STATE COMPARISON:

Thirty-one (31) states have a funded state housing trust fund: Arizona, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Illinois, Iowa, Kentucky, Louisiana, Massachusetts, Minnesota, Missouri, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Vermont, Washington and West Virginia.

Nineteen (19) states have a state housing tax credit: Arkansas, California, Colorado, Connecticut, Georgia, Hawaii, Illinois, Maryland, Massachusetts, Missouri, Nebraska, Nevada, New Mexico, New York, Oklahoma, South Carolina, Utah, Vermont and Wisconsin.

Twenty-nine (29) states, including Montana, have dedicated ARPA State Fiscal Recovery funds for affordable housing.



State	ARPA State Fiscal Recovery \$ Amount
California	\$4.75 billion
Massachusetts	\$595 million
Colorado	\$550 million
Nevada	\$500 million
Pennsylvania	\$425 million
New Jersey	\$345 million
Rhode Island	\$250 million
Illinois	\$225 million
North Carolina	\$205 million
Vermont	\$159 million
Michigan	\$130 million
Delaware	\$104 million
Washington	\$102.7 million
Utah	\$100.3 million
Georgia, Iowa, New Hampshire	\$100 million
Maine	\$61.5 million
Connecticut	\$50 million
Idaho	\$50 million
South Dakota	\$50 million
Nebraska	\$39.5 million
Minnesota	\$27 million
New Mexico	\$25 million
Kansas	\$20 million
Hawaii	\$16.3 million
Montana , Tennessee	\$15 million
Oregon	\$13.9 million

AFFORDABLE HOUSING INDUSTRY CHALLENGES:

The affordable housing sector is impacted by all of the same challenges faced by private market developers, including zoning and other housing supply regulations, but there are a number of industry-specific factors that further limit the menu of solutions available to our industry. Federal programs like Housing Credits, HOME and HTF require long-term periods of affordability that limit occupancy to income-eligible renters, restrict rents, and – in some cases – cap the percent of annual rent increases. While private market landlords can raise rental rates in response to increases in market demand and/or in response to rising operating expenses, affordable housing operators are not at liberty to capitalize on high demand market conditions by increasing rents.

Affordable rental developments are tightly underwritten to ensure sufficient revenues for property expenses and required deposits to replacement reserves for future capital expenditures are made, but the operating margins are extremely slim. Affordable properties are thus highly susceptible to inflationary impacts, labor shortages, supply chain disruption and interest-rate increases. A single high-cost unit turnover can easily make the difference in whether a project breaks even or operates at a loss.

Affordable housing operators also have increased administrative costs associated with complex state and federal regulatory compliance, reporting, audits, site inspections and requirements to maintain properties in accordance with federal property condition standards that are not a factor for private market developers.

The broad market conditions noted in the Governor's Executive Order No. 5-2022 including population growth exceeding housing unit growth over the last decade, vacancy rates falling to unhealthy levels, rising rental rates (and purchase prices in the homeownership space) and a surge in short-term vacation rentals (7,800 in June of 2020 to 11,600 in June of 2022), have exacerbated the existing development and operating challenges in the affordable housing sector.

Finally, the National Council of State Housing Agencies (NCSHA) recently conducted a survey of state Housing Finance Agencies as well as affordable housing developers, accountants, attorneys, syndicators and investors. Survey results found that nearly all projects allocated Housing Credits from 2019 to the present have experienced project delays and funding gaps averaging 30 percent due to unanticipated construction cost increases. The Wall Street Journal published an [article](#) earlier this month that focused on these impacts.

CONCLUSION:

Montana is facing an acute shortage of over 18,500 affordable rental units just to meet the needs of our most vulnerable households, including seniors and persons with disabilities on extremely-low, fixed incomes. Montana's existing state and federal resources for affordable rental development are insufficient to replace the number of affordable units at risk of converting to market rate by 2030. In addition to Housing Credit properties with affordability periods ending by 2030, there is a separate universe of USDA-RD and HUD affordable properties also at risk of exiting the state's affordable housing portfolio (see [Housing Preservation Resources](#) for details).

Affordable housing developers, Montana Housing, the Montana Board of Housing Directors and the Department of Commerce have and will continue to face difficult funding decisions as production goals for new units competes with the preservation of current stock. It is anticipated that, absent a significant influx of additional resources, there will be a net loss of affordable rental homes in Montana this decade.

Furthermore, existing resources are also inadequate to make any meaningful or measurable dent in the known shortage of rental housing affordable and attainable for Montana's extremely low-income households. A recent [report](#) from the Government Accountability Office (GAO) found that "a \$100 increase in rent is associated with an approximately 9 percent average increase in the homelessness rate." Lewis & Clark County experienced a [37 percent rent increase](#) from Q1 of 2020 to Q1 of 2022 – only four other counties in the nation experienced higher rent increases during this time period. In addition to recommending a set of implementable solutions to address Montana's housing supply shortages, it is critical to also consider that Montana may be at the brink of an expanding homelessness crisis.

DEFINITIONS:

Affordable Housing – In general, housing for which the occupant(s) is/are paying no more than 30 percent of his or her income for gross housing costs, including utilities.

Cost Burden – Monthly housing costs (including utilities) exceeding 30% of monthly income.

Severe Cost Burden – Monthly housing costs (including utilities) exceeding 50% of monthly income

HUD Area Median Family Income (HAMFI) – Median family income calculated by the U.S. Department of Housing and Urban Development for each jurisdiction, in order to determine Fair Market Rents (FMRs) and income limits for HUD programs. FY2022 Median Family Income (state level) is \$81,200.

Fair Market Rent (FMR) – Primarily used to determine payment standard amounts for the Housing Choice Voucher program, to determine initial renewal rents for some expiring project-based Section 8 contracts, to determine initial rents for housing assistance payment contracts in Moderate Rehabilitation Single Room Occupancy program, and to serve as a rent ceiling in the HOME rental assistance program. HUD's current regulations require it to set FMRs at the 40th percentile of rent paid by recent moves. In a recent notice, HUD acknowledges "assessing the accuracy of FMRs is difficult because at any given time the true 40th percentile rent paid by recent movers is unknown." The current FMR for a two-bedroom apartment is \$918 per month.

Extremely Low-Income (ELI) - Households whose incomes do not exceed 30 percent of the median area income for the area, as determined by HUD. Maximum annual income for a 4-person ELI household (state level) is \$26,200.

Very Low-Income (VLI) – Households whose incomes do not exceed 50 percent of the median area income for the area, as determined by HUD, with adjustments for smaller and larger families. Maximum annual income for a 4-person VLI household (state level) is \$40,350.

Low-Income – Households whose incomes do not exceed 80 percent of the median area income for the area, as determined by HUD. Maximum annual income for a 4-person LI household (state level) is \$64,550.

Moderate-Income – Households whose incomes are between 81 and 95 percent of the median income for the area, as determined by HUD, with adjustments for smaller or larger families.

Workforce Housing – Definitions vary but most commonly intended for households with incomes between 80 and 120% of Area Median Income. Target population may include moderate-income households who earn too much to qualify for traditional affordable housing subsidies, including professions such as police, firefighters, teachers and service workers.



SOURCES:

Definitions:

- https://www.huduser.gov/portal/datasets/cp/CHAS/bg_chas.html
- https://archives.huduser.gov/portal/glossary/glossary_all.html
- <https://www.brookings.edu/blog/up-front/2019/10/29/workforce-housing-and-middle-income-housing-subsidies-a-primer/>
- https://www.huduser.gov/portal/datasets/fmr/fmrs/FY2022_code/2022state_summary.odn
- <https://mf.freddiemac.com/about/workforce-housing>
- https://www.huduser.gov/portal/datasets/il/il2022/2022summary.odn?inputname=STTLT*3099999999%2BMontana&selection_type=county&stname=Montana&statefp=30.0&year=2022

Needs:

- <https://nlihc.org/housing-needs-by-state/montana>
- <https://nlihc.org/oor/state/mt>
- https://nlihc.org/sites/default/files/oor/Montana_2022_OOR.pdf

Existing resources:

- https://housing.mt.gov/_shared/Multifamily/docs/2023LOInvited.pdf
- https://commerce.mt.gov/_shared/ConPlan/docs/2022/AAP/2022-2023-AAP-FINAL.pd

State Comparison:

- 2020 NCSHA Annual Housing Finance Agency Factbook
- <https://www.ncsha.org/advocacy-issues/coronavirus-state-and-local-fiscal-recovery-funds/>