

OVERVIEW: Barriers to Effective Housing Delivery Systems

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Barriers to Effective Housing Delivery Systems

The affordable housing industry in Connecticut is on the threshold of significant changes. Building on the dramatic investments by Governor Dannel P. Malloy, the current state budget continues a historic commitment to increase the state's investment in affordable housing and stable, vibrant communities. The total investment pledged to housing creation and renovation includes a \$300 million commitment for public housing revitalization over the next decade, as well as significant capital and operating dollars for affordable housing, supportive housing, congregate housing, Incentive Housing Zones, and rental assistance subsidies and services.

It is critical to identify the barriers that are currently impeding the efficacy of our housing delivery system. In order to address the housing needs of Connecticut residents and produce and preserve our affordable housing stock, the Interagency Council on Affordable Housing determined in its 2013 annual report that the state needs a housing delivery system that is comprehensive, predictable, transparent, centralized, flexible, and accessible. This document will build on the overview of barriers presented in that report, and focus on identifying the challenges and obstacles that the Department of Housing (DOH) can focus on now that most state-financed and/or state-administered housing functions have been consolidated into a single agency.

Local Barriers:

There are a number of barriers to affordable housing that are local in origin and can, to varying degrees, be controlled at that level. Based on 2012 data, there were only 31 out of 169 municipalities (18%) where at least 10% of the housing stock in that municipality was considered affordable¹. In light of the considerable demand for and shortage of affordable housing statewide, this clearly points to the existence of local barriers to development. Some of those barriers include:

- Local zoning barriers - Zoning is the primary system by which municipalities maintain control and discretion over the pattern of land development within their borders. Local practices can have the effect of increasing housing costs and effectively excluding prospective moderate-income households from locating

¹ Connecticut Department of Economic and Community Development, *Connecticut Housing Appeals List 2012 (Amended)*.

affordable housing for purchase or rent. Examples include the absence of multi-family zones, large lot requirements, and restrictive definitions that discourage development of small, more densely-developed housing options. According to recent research from the Connecticut Fair Housing Center, only a small number of Connecticut towns even permit multifamily housing “as-of-right”.²

- Local regulatory barriers - Regulations that affect housing prices occur in several categories, including building codes, environmental stipulations, impact fees, and administrative processes. These can create significant cost and bureaucratic impediments to development.
- Local infrastructure limitations - Connecticut’s small towns often lack the basic infrastructure to develop higher density multifamily and affordable single family homes. This includes sewer, water, roads, utilities, and access to public transportation. Some communities actively oppose constructing or upgrading this infrastructure in order to discourage new and denser development.
- Local opposition/“NIMBY” - Local opposition to affordable housing is well-documented, and continues to persist in spite of the recent economic downturn and the proven link between economic health and diversity of housing options. The spirit of “Not in My Back Yard,” or NIMBY, is often articulated as a fear of loss of property value, negative impact on schools, increased demand on schools and other public services resulting in increased costs and taxes, and/or a general change or decline in the local quality of life. Although, numerous studies disprove these concerns³, they persist and, when coupled with other local barriers, can shut the door on any affordable housing development.

Financing Barriers:

Notwithstanding the State’s historic financial commitment to create and preserve affordable housing, barriers exist that must be overcome to realize this potential. They include:

- Alignment and clarity of funding priorities - As evidenced by the Council’s needs assessment, Connecticut is being challenged to meet the varied and

² Connecticut Fair Housing Center, based on research undertaken for the State’s Analysis of Impediments to Fair Housing Choice, which is currently in draft.

³ Center for Housing Policy, a research affiliate of the National Housing Conference (NHC). February 1, 2009. <http://www.nhc.org/media/documents/Dontputithere.pdf>

complex housing needs of its residents. The magnitude and diversity of these needs, the breadth of available intervention strategies, and the reality of a finite level of resources has led DOH and CHFA to adopt project evaluation criteria that for each competitive funding program reflects multiple priorities. While this approach allows diverse housing projects to compete successfully for various capital funding opportunities, there is an ongoing need to ensure appropriate weighting among the respective priorities and that evaluation criteria are aligned for funding programs that are intended to be available for the same projects.

- Access to predevelopment and risk capital – Given the capacity of the development community in the state and the need for a robust pipeline of projects to realize our affordable housing goals, predevelopment capital is key. Developers, particularly nonprofits, have experienced decreased or eliminated philanthropic support. As a result, they rely on developer fees to survive; however, they must expend considerable staffing resources, often over many years, before realizing any fee. Likewise, to meet the readiness requirements of most programs, they must risk hundreds of thousands of dollars on design, engineering and other project due diligence. DOH is already taking steps to engage more proactively with municipalities and developers and make more predevelopment funding available. These strategies will increase the number of projects ready to apply for or otherwise obtain financing and enable more projects that are well-suited to specific niche settings to compete on the same level as other projects.
- Need for rental subsidies – Most affordable housing developments targeting very low and extremely low income households need some source of rental support to be self sustaining in the long term. However, federal Section 8 Housing Choice Vouchers are not widely available, and most state Rental Assistance Program certificates cannot currently be project-based into developments. In any event, the current waiting lists for these programs (10 years in some cases) are a testament to the enormous need for this type of housing assistance. Frequently, these types of rental subsidies are the only means to get very low income units into many proposed developments.
- Reduction and instability of federal support – Federal support for affordable housing has changed dramatically over the past several years. Public Housing, the federal HOME program, and the vast majority of all housing production

programs have been drastically cut and, in some cases, eliminated. This decrease in funding is in stark contrast to the state's investment in housing. In essence, a portion of the state's current investments are only compensating for federal funds that have been greatly curtailed. Sequestration has added further cuts to the already strained system, affecting the financial markets that fund affordable housing projects. Funding for the Section 8 voucher program, for example, is renewed from year to year, and investors that rely on this program are unwilling to count on it being available in future years. This impact has particularly been felt on low-income housing tax credit deals that include federal rental subsidies.

- Insufficient operating subsidies available to be project based– For development projects, the application process has been consolidated between DOH and CHFA and funding rounds are more predictable. There is still an opportunity to improve access to financing by combining capital funding with operating subsidy commitments when such subsidies are available. For example, when a project applies for funding to DOH and/or CHFA and commits to providing supportive or deeply-affordable housing, rental and service subsidies could be made available prior to or at the time of application if the project is consistent with State policy and additional subsidies have been funded.

Systems/Administrative Barriers:

There is great promise in overcoming the systems barriers to creating and preserving affordable housing in Connecticut. The recent creation of DOH and the consolidation of many housing production, operation and financing programs into a single agency promises to enhance productivity and ensure a more comprehensive approach to housing in our state. Further, with the Commissioner of Housing serving as the Chair of the Connecticut Housing Finance Authority Board, the programs and priorities of the two agencies have the potential to come into greater alignment than at any other time in their respective histories. The recent joint announcement of funding rounds for 2013-2014 is one indication of the move toward greater coordination, transparency and predictability.

With this potential in mind, the following administrative barriers still exist and should be considered as DOH and CHFA move forward:

- Increased efficiency and continued flexibility in processes – To build upon the increased efficiency that has already been achieved at DOH, additional efforts to streamline programs and reduce duplication are necessary to eliminate unnecessary costly and time-consuming processes, and promote policies that create incentives for creative solutions and facilitate speedy and flexible decision-making. One size does not “fit all” in affordable housing finance, and processes must be responsive to individual project needs instead of forcing all projects through uniform processes. DOH has already made strides in this area by undertaking two Lean processes⁴ to date, and is anticipating carrying out two additional ones in the future.
- Fragmentation of programs and resources – The centralization of housing programs into one agency has greatly improved the once-fragmented housing delivery system. For development programs, significant progress has been started by DOH and CHFA, which have combined their applications and now coordinate their funding rounds and reviews. The streamlining of other initiatives, such as rapid re-housing, can still be addressed and improved as DOH continues to implement the consolidation of housing programs.
- Access to information: Access to available, timely, comprehensive and accurate data regarding housing need within the state is necessary for policymakers to develop appropriate housing and development policies, make appropriate resource allocations, and target investments to maximize impact. It is equally important that such data be able to accurately track and report on the housing that is ultimately created, including providing detailed information on the households served. Similarly, families and individuals seeking affordable housing need to have rapid and easy access to comprehensive information regarding available resources, procedures, programs, rights, responsibilities, applications, and vacancies.

Industry Capacity:

Until very recently, the great majority of affordable housing development and property management was undertaken by a small number of private for-profits, non-profit

⁴ A Lean process is a staff-led, management supported collaborative effort to identify and minimize wasteful time and effort in an organization’s operations.

corporations and municipal housing authorities. When resources were limited, development capacity was similarly limited, and was generally adequate to meet the need. With significant new financial resources becoming available and a vision to redevelop the existing state-financed portfolio, there is an immediate need to expand the number and capacity of affordable housing developers.

There are, however, challenges faced by these organizations that are exacerbated by current economic challenges. They include:

- Lack of adequate predevelopment funding - Developers, particularly nonprofits, have experienced decreased or eliminated philanthropic support. As a result, they rely on developer fees to survive; however, they must expend considerable staffing resources, often over many years, before realizing any fee. Likewise, to meet the readiness requirements of most programs, they must risk hundreds of thousands of dollars on design, engineering and other project due diligence. Although predevelopment funding is currently available, more resources are needed to attract for-profit developers, or enable non-profit developers, to undertake speculative affordable housing projects that will depend on state capital subsidies in the future.
- Housing Authority capacity - Redeveloping the state housing portfolio will require more public housing authorities to expand their current role of owner and property manager to include that of real estate developer. Most public housing authorities have little experience with development and are struggling to manage on ever-shrinking and sequestered funding. While they might be interested in and willing to provide additional housing, they are financially unable to take on new operating burdens.
- Developer community capacity - The expanded resources available to affordable housing has resulted in more opportunities for funding than there are ready projects. Similarly, the number of projects managed by any one firm has increased dramatically, resulting in less complete applications and slower closing processes.
- Access to technical assistance - Many developers seeking to work in Connecticut from out of state do not have access to the technical knowledge necessary to effectively take a project from inception through occupancy and management.

Likewise, residents and housing authorities who are involved in the planning process of proposed redevelopment or disposition based on new statutory requirements do not have the technical assistance they need ensure proper processes are followed. An increase in staff resources, such as consultants, architects, and engineers, to assist these parties with their different needs can be useful in overcoming this barrier.

Ongoing engagement with both public and private resources, as well as an innovative spirit of problem-solving and outcome orientation, are needed to break down the existing barriers to the housing delivery systems. Transparency and consistency in policy and requirements across housing programs will enable the State's housing system to receive more effective input on programmatic and technical changes. This ongoing communication and constant evaluation of the system will allow it to be truly responsive to community needs.