

MEMORANDUM

TO: Mayor and City Council

FROM: Housing and Human Services Advisory Board

DATE: May 1, 2008

SUBJECT: Housing and Human Services Advisory Board recommendations for replacement of 100 units of affordable housing on the former Y site

Attached for City Council review are recommendations from the Housing and Human Services Advisory Board (HHSAB), which call for the replacement of 100 units of affordable housing on the former Y site, or another similarly suited downtown site.

Background

On December 3, 2007 City Council requested that the Housing and Human Services Advisory Board (HHSAB) recommend options for development of 100 units of affordable housing for residents at the former Y site per Resolution R-07-583. The resolution directed the HHSAB to gather relevant information from, at a minimum: the public through one public hearing; the Shelter Association of Washtenaw County; the Washtenaw Housing Alliance; the Downtown Development Authority; and other stakeholders and sources as appropriate. City Council resolved that, at a minimum, the following specific issues be addressed in a written report summarizing options and recommendations to City Council on or before May 31, 2008:

- Whether the 100 units should be located on the former Y site, or elsewhere;
- Whether the 100 units should be developed on one site, or dispersed in a variety of locations;
- Whether the 100 units should be located in the downtown area, outside the downtown area, or dispersed both inside and outside the downtown;
- Likely requirements and possible sources of funding for development of 100 units of affordable housing, including provision of social services for housing residents;
- Whether nonprofit developers, for-profit developers, and social service providers in the community have sufficient capacity to develop and provide services for 100 units of affordable housing within the next four (4) years; and
- Any other challenges or opportunities related to the development of 100 units of affordable housing for low-income residents.

The HHSAB examined key elements and issues and consulted with local as well as outside experts over the course of eleven meetings and two public hearings to determine the viability of developing affordable housing on the former Y site, as well as other viable sites throughout the City. The discussion of the HHSAB focused on creating and enhancing a foundational understanding of the related issues in order to form this recommendation. The HHSAB examined the following key issues: community need; financial implications; available options for affordable housing and related service provision; and potential opportunity costs.

Considerations

The HHSAB utilized the following reference materials during its process to form the recommendations below:

- The AATA Downtown Transit Center Joint Development Feasibility Study from October 2000;
- The City Council Resolutions, dated August 2000, October 2003, and December 2003 authorizing first right of refusal and purchase of the YMCA property;
- The RFP issued in December 2004 for the sale and redevelopment of the former Y site for replacement of 100 units of affordable housing;
- The City Council Resolution approving selection of HDC, LLC and HOPE Network as purchaser and redevelopers of the YMCA property;
- The proposal submitted by HOPE Network describing the services they planned to deliver to residents in the proposed redeveloped housing (William Street Station);
- Executive Summary of HDC/HOPE Network's proposed financing for William Street Station;
- Income and demographic information about the former Y residents;
- An inventory of existing affordable housing units in the City of Ann Arbor, including location and demographics;
- Continuum of Care Data describing the local characteristics of those who are homeless in Washtenaw County;
- Participant testimony from an HHSAB-convened Public Hearing in February 2008 and May 2008;
- The Corporation for Supportive Housing description of Supportive Housing;
- Washtenaw Housing Alliance Planning Considerations Regarding Replacement of 100 "Y" Units Report, dated March 2008;
- A meeting with the Ann Arbor Downtown Development Authority;
- A meeting with the Ann Arbor Area Transit Authority;
- Testimony from the Director of the Shelter Association of Washtenaw County;
- Feasibility analysis of 5 alternative acquisition properties including site visits and financial analysis; and
- Staff report with potential funding sources for affordable housing development, other current and future demands on City resources for affordable housing, and potential City HOME funds and Ann Arbor Housing Trust Fund revenue for future affordable housing demands.

In addition to these materials and extensive expert knowledge provided by staff, the HHSAB carefully considered presentations from the Corporation for Supportive Housing, the Michigan State Housing Development Authority, Synod Residential Services, the Washtenaw Housing Alliance, and dialogue with the Downtown Development Authority, the Ann Arbor Transportation Authority, and other expert and Ann Arbor residents' testimony. Having been further informed by and mindful of the City of Ann Arbor and Washtenaw County Housing Needs Assessment and the context provided by the Blueprint to End Homelessness, the HHSAB recommends the following:

- 1) that the former YMCA site be redeveloped with 100 units of affordable housing;
- 2) that these units be targeted to very-low-income single adults (please see the finance section regarding the reason for setting the income limits at 50% AMI), persons who are homeless, and those who have the greatest challenges to achieving and maintaining stable housing;
- 3) that the redeveloped units maximize opportunities for residents through services and community supports, and have a central entrance to maximize resident safety;

- 4) that another comparable downtown site would be an acceptable alternative if already held secure by the City of Ann Arbor or Washtenaw County, and
- 5) that, should the former YMCA site be sold for use other than redevelopment of 100 units of affordable housing, the net equity shall be committed to future supportive housing at an alternative downtown location.

These recommendations are elucidated below, organized into five subheadings: location, target population, site characteristics, finances and supportive services.

Location

The HHSAB recommends redeveloping the existing Y-site with 100 units of affordable housing. If this is not possible, the City should hold the former YMCA site for affordable housing until at least 100 units are secured at an alternative suitable downtown location for the target population. If the City sells the site, the net equity should be committed to future affordable housing and providing social services at the alternate downtown 100-unit location(s).

Rationale:

- Creating 100 additional units in a downtown location is consistent with the stated intent of the City's initial purchase of the "Y" site in 2003, with the recommendations articulated in the City's "Affordable Housing Needs Assessment," and in the community's "Blueprint to End Homelessness;" The loss of the former Y without redevelopment as planned on that site has created a substantial gap in the community's homelessness response system by reducing an already scarce stock of permanent housing. An adequate supply of affordable housing – for people of all incomes and needs – is essential to ending, or at least ameliorating – homelessness in a community.
- The City currently owns the property and has already overcome neighborhood opposition to approve 100 affordable units on the site. The financial, political, and neighborhood challenges in securing site approvals for a high-density, service-enhanced housing development indicate that success in advancing replacement of these 100 units as described will be achievable on a publicly owned site;
- A downtown location can best absorb a hard-to serve population with the least neighborhood impact, in part because the scale and density involved is most consistent with existing downtown development.
- The current downtown resident association supports this location;
- The AATA is currently the primary transportation option for this population and the Blake Center is adjacent to the site. This location is crucial to residents accessing off-site services, especially since navigating the complex bus system has proven to be difficult for many of the people this project would be serving (see Target Population below);
- The building design elements associated with service delivery, front desk staffing, and a high concentration of units (described below in *Site Characteristics*) are more normative in downtown development and would be much more difficult to achieve in a site outside the downtown area;
- There has been significant investment in creation of "market rate" housing units in the downtown area over the past decade, and many of the lower-cost units that historically had been available in near-downtown areas have been lost to gentrification. Failure to replace the "Y" units in the downtown area will leave the downtown with a significant shortfall in housing options for very low-income residents;
- Although the per-unit cost of development on the "Y" site is higher than on some alternative locations, the higher cost is justified by the unique benefits afforded by the site to the community and to potential residents of the 100 units.

- Alternative sites throughout the City were explored, but none appeared to be as well-suited for the specific population for whom these 100-units are targeted, nor the service model most needed in the community. However, these sites have definite potential to fulfill the other housing needs as called for in the Blueprint to End Homelessness, including developing affordable housing for families, or populations with fewer service needs. The Office of Community Development will continue to encourage and support the development of one or more of these sites.

Target Population

The HHSAB recommends that these units be targeted to very low-income single adults who have the greatest challenges to achieving and maintaining stable housing. The population housed should include, but not be limited to those who: are homeless or chronically homeless; have a disability or health issue including HIV/AIDS; are veterans; have a mental illness or are chemically dependent; or are on probation or parole.

Rationale:

Success in the community's "Blueprint to End Homelessness" is contingent upon creating permanent affordable housing options, including those for the most difficult to house. Without access to such housing, many who are homeless will keep cycling through the emergency shelter, healthcare, and justice systems, at a substantially higher cost to the community than developing and supporting permanent housing;

The closing of the former Y has left a documented gap in housing placement options in the homelessness response system, specifically related to those with the characteristics described above. Some important examples of this gap include: growing wait lists for housing provided by Avalon, the Ann Arbor Housing Commission, and Michigan Ability Partners, and longer psychiatric in-patient stays for individuals who were either homeless prior to hospitalization or could not return to their former housing setting.

While this population should be the target for tenancy, Council should not pre-determine which units should be set-aside for specific populations. It is critical to give the developer maximum flexibility to blend funding sources with population restrictions to create a healthy, financially viable project.

Site Characteristics

The HHSAB recommends that the site maximize opportunities for on-site services and provide a secure environment for residents. The site should have a front desk or centralized entrance, and as much as feasible, should be designed with common/community space, counseling offices, and meeting rooms to accommodate and support site-based delivery of services.

Rationale and Additional Characteristics:

- Research-based "best practices" have demonstrated that a single/controlled entrance with front desk security works most effectively when housing and providing services to the "hardest to house" individuals described above. This approach increases the likelihood that tenants with a history of housing failure in more open settings can succeed in achieving housing stability. A single/controlled entrance minimizes the impact of risky behavior, illegal activities, and unwanted or predatory guests entering the building;
- A single multi-unit site affords economies of scale and efficiencies for supportive services and operating functions. The Corporation for Supportive Housing cites at least 60 units as the threshold for achieving such efficiencies;

- The economics of successfully developing and maintaining a “front desk” calls for a minimum number of units to afford needed core staffing – generally no fewer than 60 units to enable 24/7 coverage;
- Having at least 60 residents in a single site will facilitate possibilities for integration of existing public/mainstream funding and resources for provision of mental health services, employment supports, substance abuse recovery, and similar support – including site-based case management. Washtenaw Community Support and Treatment Services (CSTS) has reaffirmed its commitment to provision of site-based supports for “Y” replacement units, but has also underscored the importance of a site-specific “critical mass” in order to make such services economically feasible and sustainable;
- Synod Residential Services – the agency with which the City contracted to provide support services to the former Y tenants – emphasized the difficulty of managing a “hard to serve” population in a scattered site housing model, and the need for substantial services staffing to distribute medication and to maintain a “front-desk” model to assure tenant safety;
- Building in ample community/common space will maximize services to tenants, foster community and social interaction among tenants, and minimize negative impact on the surrounding area;
- The site must have easily accessible transportation, primarily utilizing AATA, but with private options such as vans available also;
- The site should have onsite or nearby parking spaces for some tenants, site staff, and visiting service providers.

Finances

The HHSAB understands that the most significant funding source for any large-scale affordable housing project – whether downtown or elsewhere – is the *Low-Income Housing Tax Credit Program*. MSHDA has prioritized permanent supportive housing and housing for the homeless over the last 3 years under the leadership of the previous MSHDA Director. Ann Arbor housing developers have benefited from this alignment with Ann Arbor priorities. Although MSHDA’s current LIHTC priorities exclude Washtenaw County (among many other counties) from the general funding round, Washtenaw County projects are still eligible for the set-aside for permanent supportive housing projects. The project, as recommended, would be considered permanent supportive housing.

In addition, the developer will need to secure funds from MSHDA, the Federal Home Loan Bank, and other private and public sources, including a significant financial contribution from the City. All financial resources are contingent on availability, funder priorities, market conditions and competitive applications. The City’s financial contribution for construction will likely be \$2 million to \$3.5 million, depending on the ability of the developer to secure other funding. The City’s contribution for construction will likely be a combination of federal HOME funds and Ann Arbor Housing Trust Funds. These funds will not need to be committed for 2-3 years, after a developer is selected, a site-plan is approved, and other financial resources are secured. The Ann Arbor Housing Trust Funds will only be available if existing approved PUD project cash-in-lieu contributions are received in the next 2-3 years.

It is important to note that the HHSAB only examined the cost to build or acquire property for the provision of 100 units of affordable housing. The operational revenues and expenses were not fully evaluated.

A critical housing priority for the Office of Community Development is preserving existing affordable rental units. The OCD is working with both Avalon and Washtenaw Affordable

Housing Corporation to complete Capital Needs Assessments to determine the level of re-investment that is needed in the next couple years. Michigan Ability Partners and Community Housing Alternatives properties are all either new or recently rehabilitated. Consequently, a lag-time of 2-3 years to redevelop 100 units on the Y-site would enable the OCD to reinvest in existing rental properties for 2 years.

The target population's incomes are expected to average close to 15% AMI, which means affordable rents would need to be around \$215/month. However, \$215/month will not provide enough revenues to cover expenses. Therefore, the project will need to set the income target at 50% AMI in order to secure project-based Section 8 vouchers with rents at the 50% AMI level of approximately \$720/month. The tenants will pay 30% of their incomes and the project-based Section 8 vouchers will cover the remaining rent. Otherwise, the developer will need to set-aside approximately \$2 million in an operating deficit reserve up front to cover the annual operating losses.

The HHSAB understands that development costs for 100 units of affordable housing on the former YMCA site will be more expensive than some other potentially available parcels. However, development on this site may afford several benefits that counterweigh these costs including:

- 1) Development of affordable housing on this site is consistent with community priorities, demonstrated by past Council actions and precedent, and by the near unanimous citizen input which was received by this committee in the form of public comment during the previous five months;
- 2) Developing a tower model with 100 units will bring economies of scale, thereby saving operating and support services costs into the future and, in some cases, making it possible to provide services where it has not been economically feasible at scattered sites;
- 3) Similarly, developing adjacent to the AATA Blake Transit Center will create dramatic savings in project transportation costs into the future;
- 4) The City has site control of the former Y parcel, it is not currently slated for any alternative project, and neighbors have already indicated acceptance of a project placing multiple units of affordable housing on the site. The confluence of these factors make this site optimal, and the need for all these pieces suggest a great obstacle for the acquisition of another site for the same purpose.

Supportive Services & Existing Community Capacity

The proposed 100 replacement units will require intensive support services that should be tied to a successful bid for redevelopment. Optimally, the developer – whether non-profit or for-profit – should partner with existing service providers to maximize efficiencies and expertise, minimize duplication, and facilitate resident integration into the community. As outlined by the Corporation for Supportive Housing, key supportive housing services for tenants should generally include:

- Case Management, Advocacy, and Life Skills;
- Education and Vocational Training;
- Employment Training and Support;
- Mental & Physical Healthcare and Treatment;
- Transportation Assistance; and
- Recovery Supports.

The City of Ann Arbor and Washtenaw County have a number of proven and effective nonprofit service providers. With additional resources, these providers have the capacity to deliver the recommended services. Efforts to raise additional resources are already underway. Most

promising is the County Board of Commissioners' recently chartered Task Force on Sustainable Revenues for Supportive Housing Services that is charged with developing feasible recommendations for community review by July, 2008. We should look to the efforts of this Task Force to provide guidance for a complementary funding strategy for the long-term funding that will be needed for these 100 replacement units.

Using the figure identified by the Blueprint planning process as an average cost for provision of supportive housing services (\$5,000/unit /year), there will be a need for substantial commitment to service expenses for these replacement units. Concentrating these units in a single site, however, will help to reduce this aggregate cost.

Funding for development of these units in the most efficient and effective manner will necessitate mobilization of a broad mix of public and private funding commitments. The February 19th presentation by representatives of the Corporation for Supportive Housing to the HHSAB highlighted several examples of the kind of leveraging and sources that will be needed – including assignation of site-based Section 8 vouchers to support services and operations, and secure long-term rent affordability.

Recommendation:

Based on the information provided above, the HHSAB recommends that City Council charge the City Administrator with re-issuing an RFP to develop 100 units of permanent supportive housing on the former YMCA site.

The HHSAB recognizes that Council's decision to accept, reject, or amend this recommendation will be based on a complex array of issues that includes financial and neighborhood considerations. Alternative options are presented below for Council's reference and consideration.

Alternatives:

1. Council directs the City Administrator to research and recommend an alternative downtown or near downtown location (within ½ mile of the DDA district) for 100 units of permanent supportive housing by October 2008.
 - a. PROS
 - i. Accessibility to public transportation and many support services
 - ii. The City and County both own surface parking lots that could be developed as affordable housing, with underground public parking
 - iii. A stand-alone facility would make the financing less complicated than a mixed-use development
 - iv. Proceeds, after paying off debts, from the sale of the YMCA site could be used to provide support service to these units
 - b. CONS
 - i. Potential neighborhood opposition
 - ii. The City will need to secure the site if it is not currently owned by the City
2. Council directs the City Administrator to issue a Request for Qualification to select a developer to work with the Office of Community Development to develop 100 units of permanent supportive housing on one or two sites anywhere in the City, including the downtown. Council directs the OCD to work with the HHSAB to draft an RFQ for Council by October 2008.
 - a. PROS

- i. Selecting the developer first enables the City to select a developer that specializes in Permanent Supportive Housing
 - ii. The Developer will be responsible for securing the site
 - iii. A stand-alone facility will make the financing less complicated than a mixed-use development
 - iv. An Acquisition project will not require site plan approval and neighborhood support
 - v. A 100 unit project outside the downtown will be 30% to 50% less expensive than a downtown project
 - vi. A greater number of units can be developed outside the downtown at a lower cost than in the downtown
 - vii. Proceeds, after paying off debts, from the sale of the YMCA site could be used to provide support service to these units
- b. CONS
- i. Permanent loss of affordable housing for very-low income households in the downtown, which further polarizes the income mix in the downtown toward high-income households
 - ii. Potential neighborhood opposition to an acquisition project due to the visibility of this process and the population to be served
 - iii. Subject to market availability of suitable existing apartments and/or vacant land
 - iv. A two-site solution would have higher annual operating and support service costs than one site
 - v. Does not take advantage of downtown public transportation hub and support services

Through this process, the HHSAB has developed an advanced understanding of the issues involved in the development of supportive housing, and recommends that Council utilize the HHSAB's expertise as a recommending body for any RFP or RFQ that is issued.

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