

Housing Finance Agencies: Opportunities and Challenges in 2018

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State Housing Finance Agencies (HFAs) are a necessary and influential component of the national housing finance system. They can propel home sales, spur new multifamily construction starts, and nimbly respond to housing market disruptions. Despite their broad portfolio, they remain largely unknown to both the general public and housing professionals. This article will provide a brief overview of the different activities HFAs currently engage in and also share with readers some of the different topics HFAs will tackle in 2018, including those raised in the new administration.

What Is a Housing Finance Agency?

HFAs are state-chartered entities that advance housing options for low- and moderate- income residents. Their relationship with the state government varies: some are cabinet-level actors with leadership directly appointed by the governor's office; others are independently structured with a private sector operational style. Their mandates and programmatic offerings are similarly diverse with every HFA organized around and tailored to the unique housing needs of its state.

In the single-family sphere, HFAs are most commonly known for offering First Time Home Buyer (FTHB) discounts to support the next generation of homeowners. Similar programs can expand availability to other special populations, e.g., veterans or members of the armed forces, college graduates, first responders, or seniors. The benefits can include down payment assistance, rehabilitation loans, interest rate reductions, or mortgage tax credits. Depending on the source of funds, these programs can carry with them affordability requirements, minimum contract lengths, repayment terms, or neighborhood targeting components. Because these state lending products expand ownership opportunities to people who have reliable earnings but lack traditional indicia of creditworthiness or savings, borrowers are also provided with counseling, coaching, or education courses to ensure a successful transition to homeownership.

These programs are largely financed through the proceeds of each state's issuance of tax-exempt Mortgage Revenue Bonds (MRBs) or Multifamily Housing Bonds. Other financial instruments and state resources

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can also support mortgage initiatives. For instance, the Mortgage Credit Certification is an Internal Revenue Service (IRS) credit issued by states that reduces federal tax liability above and beyond what the standard home mortgage interest deduction already provides. Because HFA assistance is often paired with conventional mortgages or those insured by the Federal Housing Administration (FHA), U.S. Department of Agriculture, or U.S. Department of Veterans Affairs, strong relationships with private banking entities and real estate agents are critical to reaching the intended consumer and raising public awareness about these opportunities.

Some HFAs outsource mortgage servicing to third party entities while others have intricate internal structures to manage their portfolios. Similarly, some HFAs self-securitize or make their own bond offerings, while others rely on external support for these vital functions.

When the Great Recession threatened the homeownership gains states made, HFAs responded by expanding their preservation networks. Many participated in the National Foreclosure Mitigation Counseling (NFMC) grant program to offer loss mitigation counseling and assistance either directly to homeowners or by providing pass-through funding to housing counseling agencies. Eighteen states and the District of Columbia also launched foreclosure prevention programming through the Hardest Hit Fund (HHF), a Troubled Asset Relief Program initiative.¹ Because the foreclosure crisis affected localities differently, HHF was designed as a flexible resource, customizable by states to respond to their unique challenges. Assistance could be geared toward both individual and neighborhood-wide recovery and included options such as ongoing mortgage payment assistance, rescue payments, principle reduction, transition assistance, blight elimination, and down-payment assistance. While NFMC began sunseting its operations in 2017, HHF remains available in many states and continues to evolve to address emerging issues with origins rooted in the foreclosure crisis.

HFAs are also significantly involved in the multifamily arena. Whereas single-family activities tend to be customized for low- to moderate-income families, multifamily programs tend to assist low- to extremely-low income renters. The flagship program for most HFAs is the Low Income Housing Credit (HTC), as regulated by Section 42 of the Internal Revenue Code. This complicated public-private partnership is the federal government's primary vehicle for supporting capital contributions to affordable housing and is responsible for the creation or preservation of approximately 110,000 low-income housing units per year.² It is offered in

1. Hardest Hit Fund, <https://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/hhf/Pages/default.aspx> (last visited Jan. 24, 2018).

2. HUD's National Low Income Housing Tax credit (HTC) database: Projects Placed in Service through 2015 (2017), <https://www.huduser.gov/portal/Datasets/HTC/tables9515.pdf> (last visited Dec. 31, 2017).

two varieties, the highly competitive “9 percent” program, which funds approximately 70 percent of development costs, or the non-competitive “4 percent” program, which funds approximately 30 percent of development expenses and is paired with Private Activity Bond (PAB) debt to cover an additional 50 percent of development costs. The allocation of credits is governed at the local level through the establishment of annual Qualified Allocation Plans (QAPs), which set forth a state’s threshold requirements for HTC participation and the competitive criteria applied to determine which developments qualify for these limited resources. In exchange for credits, developments must maintain rents that are affordable to households earning no more than 60 percent of the Area Gross Median Income (AGMI) for at least thirty years.

Beyond HTC and tax-exempt bond programs, HFAs can also offer an array of other multifamily construction and preservation tools. Some states developed innovative products to offset the complexity and cost of HTCs, including bridge, construction, or permanent financing options that bolster credit pricing and reduce interest rates on hard debt. Other HFA-run programs operate in tandem with HTCs to leverage the credit investment. For example, some states administer the HOME Investment Partnership Program (HOME), a federal block grant to deliver rental assistance and support to nonprofits in their creation of affordable housing opportunities. The National Housing Trust Fund is another federal allocation to state governments often administered by HFAs. It is designed to expand affordable housing options for Extremely Low Income (ELI) residents, those earning 30 percent of the AGMI or less. State-sponsored trust funds are also available in a growing number of states. These local programs support an ambitious array of housing services; some are dedicated to work in conjunction with HTCs, while others support special initiatives such as increasing accessibility for homeowners or supporting homelessness shelters’ operating expenses.

Although some HFAs focus primarily on the “bricks and sticks” of affordable housing, concentrating their efforts on construction and capital preservation needs, others also provide direct rental subsidies. Examples include the Michigan State Housing Development Authority, which oversees the Section 8 Housing Choice Voucher Program, and the more narrowly tailored Section 811 Supportive Housing for Persons with Disabilities Project Rental Assistance program, now offered by 27 states and the District of Columbia.

Like any business, the core mission of HFAs is supported by a sophisticated compilation of support offices. Communication teams are tasked with raising awareness of homeownership support programs while managing the public image of intricate financial products. Legal departments must vet constantly evolving regulation and issue guidance on shifting judicial precedents. Internal auditors provide oversight and accountability to the public. Finance professionals manage funds to optimize productivity and ensure tight budgets are appropriately balanced. Information technology workgroups develop niche tools and support public engagement

efforts. And human resource staff must recruit and retain top talent in an increasingly competitive industry.

Despite their established and often traditional role in the finance sector, HFAs are also incredibly dynamic with a massive policy agenda. As the housing market and economy ebb and flow, HFAs must adapt to new challenges and provide quick relief when signs of distress emerge. The following is a brief, non-exhaustive summary of the issues that will be discussed, debated, and decided by HFAs in 2018.

Tax Reform

The biggest topic on the HFA radar in the waning moments of 2017 was undoubtedly the impact the Tax Cut and Jobs Act of 2017 would have on affordable housing programs. The potential for upheaval was high, as HTC followers observed in late 2016, when the mere rumor of tax reform caused credit pricing to plummet by 20 percent. However, the final legislation appears to have only grazed, rather than maimed, the housing industry. A number of proposals that were floated—but ultimately abandoned in the final draft—could have had a devastating impact. These included the elimination of the tax exemption for PABs, permanent changes to the HTC basis boost calculation and general use provisions, ending the Mortgage Credit Certificates, and termination of community development programs such as the New Market Tax Credit and Historic Tax Credits.

While high-tax states such as California, New York, and New Jersey might still worry about dips in home sales due to new limits on the state and local tax deduction and narrowing of the mortgage interest deduction, tax reform is unlikely to influence purchasing decisions in the rest of the country, particularly for low- to moderate-income buyers who historically take the standard deduction. However, states that were already struggling to maintain their FTHB balance sheets will need to continue to find innovative ways to generate new business, e.g., the Wyoming Community Development Authority's zero percent interest rate Home\$stretch program.³ HFAs will continue to monitor both the tax reform consequences as well as overarching market trends, such as how student loan balances may limit millennial purchasing power and how baby boomer retention rates restrict available housing stock.

Unfortunately, revisions to non-housing tax provisions will have a collateral impact on the HTC program that could result in 235,000 fewer affordable units⁴ over the next ten years than were otherwise expected. In

3. Home\$stretch Program, <http://www.wyomingcda.com/index.php/homebuyers/C225> (last visited Jan. 24, 2018).

4. Michael Novogradac, *Final Tax Reform Bill Would Reduce Affordable Rental Housing Production by Nearly 235,000 Homes* (2017), <https://www.novoco.com/notes-from-novogradac/final-tax-reform-bill-would-reduce-affordable-rental-housing-production-nearly-235000-homes> (last visited Dec. 31, 2017).

analysis from Novogradac & Co., an accounting and consulting firm specializing in affordable housing and community development fields, the new 21 percent corporate tax rate will downgrade credit pricing by approximately 14 percent, equivalent to a \$1.4 billion annual equity reduction. Moreover, switching to a chained consumer price index⁵ for urban consumers calculation will reduce states' annual allocations of both HTCs and private activity bonds. The Base Erosion and Anti-abuse (BASE) Tax, which affects global companies' ability to benefit from credits and deductions, and amendments to the Alternative Minimum Tax will influence how corporations can benefit from HTCs and may make the credit less attractive or available to certain investors, resulting in lower demand for the HTCs.

Tax reform will continue to be a prominent issue for HFAs in 2018. Most immediately, states will need to assess their HTC cost requirements to ensure they are still relevant under new pricing schedules. States that establish minimum credit-per-unit thresholds or incentivize lower credit requests in exchange for points will need to revisit those pricing expectations to ensure they remain reasonable without pushing incentives to an unobtainable level that could compromise construction quality. More broadly, it is widely speculated that a technical correction bill will be needed to fix flaws identified in the hastily drafted Tax Cut and Jobs Act of 2017.⁶ Unexpected loopholes and unintended consequences will be identified in the coming months as tax professionals become more versed in the law's text. These issues are commonly corrected in cleanup legislation. Some hope that these fixes will include relief for nonprofits⁷ or farmers,⁸ while others are evaluating the need for corrections to provisions regarding pass-through income⁹ and overseas profits.¹⁰

5. *Differences Between the Traditional CPI and the Chained CPI*, Congressional Budget Office, Blog, <https://www.cbo.gov/publication/44088> (last visited Jan. 24, 2018).

6. Arthur Delaney & Jonathan Cohn, *Republicans Already Say They'll Need Another Bill To Fix Their Tax Mistakes*, HUFFINGTON POST, Dec. 19, 2017, https://www.huffingtonpost.com/entry/republican-tax-bill-technical-corrections_us_5a380422e4b01d429ccb49c8 (last visited Jan. 24, 2018).

7. Chris Gates, *Nonprofits are the unintended victims of the new tax bill*, THE HILL, Dec. 29, 2017, <http://thehill.com/opinion/finance/366773-nonprofits-are-the-unintended-victims-of-new-tax-bill> (last visited Jan. 24, 2018).

8. *Tax Bill Gives Advantage to Cooperatives*, ABC NEWS, <http://www.kcrg.com/content/news/Tax-Bill-Gives-Advantage-To-Cooperatives-470103423.html> (last visited Jan. 24, 2018).

9. Lily Batchelder & David Kamin, *The GOP tax plan creates one of the largest new loopholes in decades*, L.A. TIMES, Dec. 31, 2017, <http://www.latimes.com/opinion/op-ed/la-oe-batchelder-kamin-tax-deduction-pass-through-income-20171231-story.html> (last visited Jan. 24, 2018).

10. *Corporations may dodge billions in US taxes through new loophole*, REUTERS, Jan. 12, 2018, <https://www.cnbc.com/2018/01/12/corporations-may-dodge-billions-in-us-taxes-through-new-loophole.html> (last visited Jan. 24, 2018).

As it relates to housing, one of the biggest opportunities in a technical correction bill is adoption of the Cantwell-Hatch/Tiberi-Neal HTC reform measures that would not only correct adverse tax reform effects but also adopt common sense modernizations. In addition to operational advantages, the proposed bill increases the credits available, establishes a permanent floor to the 4 percent rate, resolves questions regarding who defines what qualifies as a revitalization plan and what types of local contributions can be encouraged by states, and permits income averaging to achieved a broader band of affordability adaptable to more market variations. While the original tax bill passed with a simple majority vote through the reconciliation process, a filibuster-proof majority may be needed for future updates. The potential for politicization is high, particularly if corrections become intertwined with a spending bill, making the extensive bipartisan support for the Affordable Housing Credit Improvement Act all the more critical moving forward.

Federal Appropriations

Optimistically looking ahead to full budget negotiations,¹¹ with the deficit now expected to top \$1 trillion by 2019, fiscal hawks are already calling for steep cuts to safety net programs. Meanwhile, housing advocates seek parity in spending cap relief, demanding equitable increases to defense and domestic spending, which they assert is necessary to further the president's forthcoming infrastructure agenda.

However, the White House's proposed HUD Fiscal Year 2018 budget called for major cuts in housing infrastructure, including zeroing out Community Development Block Grants and HOME and a 67 percent reduction to the Public Housing Capital Fund. President Trump's proposal would reduce Housing Choice Vouchers more than 4 percent, eliminate over 250,000 vouchers, and slash the Public Housing Operating Fund by \$500 million.¹²

The multifamily side of HFAs will be watching these negotiations carefully. Federal dollars are often used to leverage state investments in housing development: the more funds that can be leveraged, the more likely a project is to receive HTC or other state funding. Beyond soft capital contributions,

11. As of this writing, the government ended a brief shutdown. If a longer shutdown occurs, and past closures are predictive, we can expect delays in multifamily loan closings (since HUD runs a skeleton crew during shutdowns), difficulties for prospective homeowners securing tax records necessary to substantiate mortgage applications, and suspension of non-essential duties related to policy implementation and program guidance. The HUD Contingency Plan for a Possible Lapse in Appropriation would provide a roadmap for operations in the absence of another continuing resolution.

12. *Trump-Carson Housing Budget Cut Estimator for Your Local Community* (2017), AFFORDABLE HOUSING ONLINE, <https://affordablehousingonline.com/FY18-HUD-Budget-Cuts> (last visited Dec. 31, 2017).

operating subsidies can be critical to ensuring project cash flows for the full affordability period. This is particularly true for Permanent Supportive Housing (PSH) projects serving ELI households with disabilities that are unable to contribute significant rental payments. Many HFAs encourage developers to build in areas where significant collateral investments occur; piggybacking off local redevelopment infusions not only leverages state investment for a catalytic impact, it also helps preserve affordability where targeted redevelopment zones pose a risk of gentrification. If federal allocations to cities limit the ability of local governments to invest in their communities, HFAs may need to reanalyze their QAP structure to ensure that these incentives are not unduly skewed to higher tax-base cities that are better equipped to maintain infrastructure commitments in the absence of federal support.

Outside the budget process, reallocations of the HHF by the U.S. Department of the Treasury in advance of the 2020 wind-down date ensure that all available funds are directed to those areas most in need of foreclosure prevention and community recovery assistance. As of September 30, 2017, 88 percent¹³ of all HHF program funds were expended, with significant variances in draw-down rates across states. HFAs must innovate and modify these tools to meet the shifting challenges the foreclosure crisis continues to generate. Ongoing HHF programming is likely to revolve around mortgage reinstatements for homeowners in struggling localized economies, large-scale blight remediation in neighborhoods besieged by decaying zombie properties, and down payment assistance to close the purchasing holes left by underwater pre-recession mortgages. The extent to which Treasury officials and program auditors are able to acknowledge and understand on the ground conditions and authorize HFAs' proactive solutions to these entrenched foreclosure legacies will be a monumental factor in the states' foreclosure prevention agenda for the foreseeable future.

Containing Housing Development Costs

As stewards of public funds, HFAs are responsible for maximizing value and efficiency in the programs they operate. Cost containment is one of the hottest topics in the HTC world and one that will continue to preoccupy HFAs in 2018. The first step to solving this problem is understanding it inside and out. To that end, states will continue to enhance data analytic tools and pursue cross-border information exchanges to provide real-time tracking information on cost accelerations and savings potentials. A great example of this is the new Midwest Cost Database, a consortium of similarly situated HFAs sharing annual HTC cost data and monitoring patterns and trends.

13. *Hardest Hit Fund Third Quarter 2017 Performance Summary* (2017), U.S. TREASURY DEP'T, <https://www.treasury.gov/initiatives/financial-stability/reports/Documents/Q3%202017%20Hardest%20Hit%20Fund%20Program%20Performance%20Summary%20Final.pdf> (last visited Dec. 31, 2017).

Equipped with this information, we can expect to see new techniques for promoting cost containment in QAPs. More states are abandoning developer fee calculations that award a percentage of basis-eligible costs in favor of fee models that incentivize economies of scale; increased unit production; or the inclusion of policy priorities in the apartment scope, such as accessible or green design or service provision elements. States will also continue to explore per-unit, -bedroom, or -square foot cost caps; point systems that promote greater leveraging; tiebreakers that weigh in favor of value-added design elements; and architectural requirements that focus on durability and practicality over style.

The housing market is particularly vulnerable to and interlaced with a variety of seemingly unrelated external influences, particularly with regard to cost. In 2017, forest fires in Canada contributed to startlingly high lumber prices, storms in the Southwest ratcheted up oil and shipping expenses, and rebuilding from these natural disasters led to marked labor shortages. Because of the clear interplay between national issues and local costs, HFAs will closely monitor policy debates about disaster spending, immigration reform, and trade deals. Moreover, states may begin to look for ways to isolate their expenses from market instability, for example, by promoting modular or prefabricated construction techniques. Some larger housing developers are also exploring bulk purchasing options to further insulate themselves from cost swings, an advantage which QAP scoring may implicitly favor simply through current point offerings for cost efficiency.

Beyond containing costs, HFAs must get better at communicating the worth of affordable housing. Insiders and experts know that HTC housing is more expensive than its market rate counterparts because it is more *valuable*. They know that affordable housing is built to last 30 years, instead of 7. They know that the high upfront costs of energy efficiency pay for themselves over the life of the building. They know that capitalized operating costs ensure that quality is maintained, even during recessions and lean years. They know that prefunded service coordinators will help residents move to self-sufficiency more quickly, clearing the path for the next family who needs help. And they know that professional fees are a necessary part of the checks-and-balances system that ensures the program rules are being followed. Of course, there are simpler ways to pay for housing but, right now, there are no *better* ways. Learning how to message these facts properly is an indispensable part of the cost containment dialogue and will need to be perfected quickly.

Multifamily Siting

Long before the *Inclusive Communities*¹⁴ decision, policy makers, advocates, and community leaders debated where affordable housing is most

14. Tex. Dep't of Housing & Cmty. Affairs v. Inclusive Cmty. Project, Inc., 135 S. Ct. 2507 (2015).

needed and how limited development resources should be allocated geographically. Authorities on both side of the debate correctly assess that centuries of racist, segregationist policy largely concentrated affordable housing in communities that were purposefully disinvested and disenfranchised, leaving black and brown families without equal or equitable prospects for education, employment, and advancement. Today, some fair housing advocates are fighting to redirect housing spending away from concentrated areas of poverty and into “high opportunity” neighborhoods, a move they believe will offer low income families a meaningful choice in where they live. Longtime residents and leaders in these minority communities often disagree, arguing that decades of neglect cannot be remedied by more government disinvestment, but rather by an increased commitment to the communities where they have long found faith, family, and familiarity. HFAs, as statewide actors with fidelity to all residents, find themselves torn between two meritorious but diametrically opposed positions. In a world of constrained resources, many policymakers suggest pursuing a “both/and” approach that seeks an ethical balance between both approaches.

In crafting this solution, HFAs will continue to rely on research partners for a deeper understanding of the current landscape through refinements to the opportunity mapping process. A number of issues remain in this body of work, including:

- How to define spatial subjects in a way that is both measurable and meaningful. The county-level perspective may have the strongest data, but is too diffused. The census tract may have the most data, but is over-inclusive. And the neighborhood-level may have the most relevant focus, but lacks reliable information streams.
- How to avoid measuring the opportunities *people* have had rather than the opportunity that *places* themselves offer. For example, opportunity mapping that looks only at resident educational attainment, instead of the quality of local schools, potentially misrepresents the opportunity available in rapidly gentrifying neighborhoods where single, highly-educated transplants skew the geographical education data of low-performing schools. How and if race should be mapped in these processes is another contentious question HFAs will need to resolve.
- How to map opportunity when residents’ expectations differ. Being within one mile of a grocery store may be a valuable amenity in a highly concentrated urban city, but it neither practical nor necessarily desirable in a dispersed rural township. However, maps that differently weigh geographical variances are considerably more complex and difficult to communicate, potentially diluting their utility.
- How to avoid linguistic insensitivities that can have real world impacts. What does it mean for a community to be labeled “low opportunity”? Even if HFAs are able to appropriately contextualize the his-

torical framework that resulted in that branding, will the public and other funders exercise the same analytical restraint when making their own investment decisions to avoid recreating redlining maps? HFAs will need to work closely with their scholarly counterparts to ensure culturally sensitive messaging is a substantive objective of the mapping process.

Beyond the exercise of mapping resources and opportunity, HFAs will also grapple with the complicated implementation questions these empirical methodologies will raise. The structural preference embedded in Section 42 for Qualified Census Tracts (which tend to be low on the opportunity scale), escalated costs from developing in highly desirable locations, and community backlash to siting affordable housing in stabilized economies all create an uphill battle for HFAs proactively attempting to diversify their housing portfolios. QAP tools such as granting basis boost to high opportunity locations, supplementing developer fees to offset the increased administrative burdens of securing the site, and offering set-asides or points to guarantee a competitive edge can all help ensure that a variety of different sites will be able to find a pathway to funding success. Likewise, policymakers appear poised to achieve significant advances in the integration of market rate housing units within affordable developments through inclusionary housing programs; the cross-subsidization potential is an attractive funding vehicle, but is still hindered by investor hesitations and local demand that make it an unlikely option outside highly competitive rental markets.

In 2018, HFAs will also continue evaluating how their regional funding decisions align with the Affirmatively Furthering Fair Housing (AFFH) rule. This procedure and its companion assessment tool remain complicated by the bureaucracy embedded in the reporting requirements and uncertainty regarding the rule's finality after HUD Secretary Ben Carson's recent pledge to "reinterpret" the rule.¹⁵ Similar to the Small Area Fair Market Rent requirements, the new administration's first step in this reinterpretation appears to be delaying implementation the Obama-era rule. The public backlash to this announcement was swift, with seventy-six housing and faith groups issuing a joint statement condemning the move as antithetical to the Fair Housing Act's integrative mandate. Also similar to the Small Area FMR rule suspension, advocates are closely evaluating whether HUD's actions comport with the Administrative Procedure Act or if they instead form a sufficient basis for a legal challenge.

Regardless of whether consolidated planning occurs under the newer AFFH tool, or the older Analysis of Impediments, HFAs will be well-

15. Ben Lane, *Carson says HUD will "reinterpret" Obama fair housing rule after Republicans ask for repeal*, HOUSINGWIRE.COM (July 20, 2017), <https://www.housingwire.com/articles/40742-carson-says-hud-will-reinterpret-obama-fair-housing-rule-after-republicans-ask-for-repeal> (last visited Aug. 3, 2017).

served by strengthening partnerships with sister state agencies such as those overseeing education, health care, and infrastructure priorities to ensure that the nuanced policy concerns of each of these fields are appropriately deliberated and factored into their consolidated planning process. The prominent role of data may also lead smaller or resource-constrained participating jurisdictions to seek assistance from contractors and outside analysts who are better equipped to crack the code HUD has created.

When assessing neighborhood stabilization and recovery tactics, a number of additional issues will also have a prominent role in HFAs' planning processes. Preservation of affordability in rapidly gentrifying neighborhoods is imperative, but the tools to identify those at-risk neighborhoods need further refinement. Opportunity maps, particularly those with progress or trajectory components, may be adapted to fill this need but prospects remain for further academic invention. The Urban Displacement Project, a collaboration of researchers at University of California Berkeley and Los Angeles, is an intriguing and comprehensive start.¹⁶

Moreover, at the HFA level, preservation funding has been primarily restricted to rehabilitate properties with expiring HUD or USDA place-based vouchers. As older HTC developments approach their 30-year anniversary, HFAs will need to strategize how to deploy their preservation resources, and whether resyndications should be permitted in preservation funding pools. Because of IRS Notice 2016-77, which sought public comments on whether and how the Service should issue guidance concerning the implementation of Section 42(m)(1)(B)(ii)(III) regarding the "concerted community revitalization plan" preference in the HTC program, QAP drafters will need to carefully define the term "revitalization plan" to avoid IRS preemption with a one-size-fits-all definition that risks over simplification or erasure of intricate local conditions.

Finally, while urban planners are well versed in local opposition arguments that seek to exclude new development in high-income, single-family areas, they are not as readily prepared to combat the similar underlying concerns that surface during the redevelopment of distressed neighborhoods. A growing impediment to investment in high-need communities is that current residents can launch costly opposition campaigns against any development for fear it will inherently lead to displacement. While gentrification is a real risk and should be avoided with careful planning, strategists must carefully plan for how to gain meaningful buy-in of local leaders and incorporate residents' visions into the long-term redevelopment plan. This is often expressed in the phrase "nothing about us, without us."

16. Urban Displacement Project, <http://www.urbandisplacement.org/> (last visited Jan. 24, 2018).

Intersections of Housing and Health Policy

There is an undeniable, symbiotic relationship between health and housing. Physical environment, access to health care, and the condition and quality of one's home all impact a person's health prospects. Conversely, a person's well-being influences her housing decisions and can limit the housing options accessible to her. Understanding the health needs of low-income residents is a growing practice for HFAs that will continue to expand in the coming years. QAPs may operationalize this health care agenda by providing scoring points for siting near affordable health care institutions, offering onsite health interventions and partnerships, or creating additional accessible or universally designed building plans that allow residents to age in place with the assistance of community-based health supports.

With new health emergencies occupying a conspicuous place in the public discourse, HFAs will be called upon to participate in multi-sector response plans that acknowledge the social determinants of health. The Ohio Housing Finance Agency (OHFA) provides two prime examples of these types of emergency interventions. First, with an infant mortality crisis consuming hotspot neighborhoods, OHFA is partnering with issue experts CelebrateOne and their health care and research associates to sponsor a rental assistance pilot program for pregnant women and new parents that targets the hardest hit zip codes in Columbus. Second, responding to the opioid overdose epidemic, OHFA is supporting the expansion of service-enriched, sober living housing models that help families recovering from drug addiction through the creation of a new substance abuse recovery funding pool in its QAP.

Evolutions in Medicare and public health policy will also impact HFAs' future programming. Importantly, HFAs are increasingly using HTC's to create affordable assisted living options. This fills an important gap for seniors who need a higher standard of care than independent living can safely provide, but do not need the fully institutionalized services a nursing home offers. How states interpret the Home and Community Based Services rule¹⁷ will determine how easily IRS and Medicaid regulations can be interwoven. And the daily reimbursement rate state Medicaid offices set for intermediate care facilities will impact the feasibility of overlaying affordability requirements on top of assisted living protocols.

Ending Homelessness

In many states, HFAs are at the forefront of the fight to end homelessness. Securing sufficient funding and advancing best practices for PSH housing or homeless shelters will remain an important challenge for many HFAs in 2018. States are likely to continue to work within a collaborative of other state and local actors to develop comprehensive homeless-

17. 42 C.F.R. Part 430, 431 et seq.

ness response plans, such as the Minnesota Interagency Council on Homelessness' "Heading Home" plan.¹⁸

Moreover, as jurisdictions begin to achieve a "functional end to chronic homelessness," HFAs that long prioritized serving the hardest-to-house will need to revisit how these resources are allocated and evaluate whether they can successfully adjust to the next challenge, be it family homelessness, veteran homelessness, or youth homelessness. One area of increasing concern is the need to better support former foster youths as they transition into independent adulthood. With the HTC Student Rule carving an explicit exception for former foster youth, the tax credit program can be a well-tailored answer. Another potential area of interest for HFAs may lie in reintegrating individuals involved in the criminal justice system into stable housing situations. Both these special populations are likely to have medical and substance abuse issues and would benefit from established service-enriched housing models, making current PSH providers a natural intervention point. Moreover, the high institutional service costs for both these populations may make pay-for-success financing terms particularly attractive.

HFAs have also begun to carve out an expertise in data warehousing and homelessness information systems consolidation. Because Continua of Care all use different case management and triage systems, homelessness service usage data is often collected and analyzed exclusively at the local level. State agencies, including the Michigan Housing Development Authority, have launched initiatives aimed at anonymizing and aggregating this data at a statewide level, and then combining it with other social service records to better predict and understand demographic and usage patterns.¹⁹ This body of research stands to benefit multiple systems and aid in crafting a more responsive social safety net by streamlining intake procedures across public benefit applications, informing behavioral health systems of the impact homelessness has on well-being, aligning housing and employment supports, and coordinating training of front-line staff to increase provider capacity in underutilized diversion techniques.

HUD: EO13771 Recommendations, Rulemaking, and Guidance

In 2017, President Trump issued Executive Order 13771, Reducing Regulation and Controlling Regulatory Costs, which directed all agencies to repeal at least two existing regulations for each new one issued. In response, HUD solicited public recommendation of regulations that "may be outdated, ineffective, or exceedingly burdensome." The National Council of State Housing

18. Heading Home Plan, <https://mn.gov/dhs/heading-home-minnesota/> (last visited Jan. 24, 2018).

19. *See, e.g.*, Statewide Data Warehouse Design: A Case Study on the Statewide Homeless Assistance Data online Warehouse (SHADoW), <https://www.hudexchange.info/resources/documents/StatewideDataWarehouseDesign.pdf> (last visited Jan. 24, 2018).

Agencies, a trade group representing most HFAs, submitted suggestions on behalf of its membership that included: (1) reducing Consolidated Planning requirements and correcting inconsistencies in the submission process; (2) standardizing physical compliance requirements across multifamily program types; (3) eliminating contradictions in utility allowance calculation requirements; (4) systematizing environmental review requirements across all HUD programs; (5) reassessing flood control measures that unduly restrict housing availability; (6) loosening Community Housing Development Organization requirements and untangling confusion stemming from the 2013 HOME rule; and (7) streamlining and standardizing foreclosure prevention and loss mitigation requirements for FHA-insured mortgages. Should any of these recommendations materialize, the procedural benefits would save time and money for HFAs and their subgrantees, allowing more resources to be directed into programming and away from administrative overhead.

A number of other rules promulgated or proposed during the Obama era require HUD follow through and could impact HFAs or the affordable housing industry generally. The final rule, *Narrowing the Digital Divide Through Installation of Broadband Infrastructure in HUD-Funded New Construction and Substantial Rehabilitation of Multifamily Rental Housing*, seeks to expand Internet access to low income and rural communities. Some HFAs have incentivized or mandated resident Internet accessibility in HTC housing. Zealous enforcement of these requirements could bolster those efforts. Similarly, the *Smoke Free Public Housing and Multifamily Properties* final rule will be fully implemented by July 31, 2018, and may provide a reliable template for HFAs desiring to launch smoke free requirements in new multifamily housing. Finally, HUD's 2017 guidance for implementing the *Violence Against Women Act (VAWA)* in HUD-assisted housing will not only affect HFAs that heavily leverage federal financing, but it can also serve as a prototype for HTC compliance with VAWA requirements until IRS-specific guidance is issued.

Government Sponsored Entities and Finance Reform

While both the left and right appear to agree that housing finance reform and the unwinding of government sponsored entities (GSEs) Fannie Mae and Freddie Mac are necessary, the path forward is not clear. Further uncertainty is likely with so many major policy leadership vacancies on the horizon, including long-term leadership at the Consumer Financial Protection Bureau, a replacement for retiring House Finance Services Committee Chairman Jeb Hensarling, and Mel Watt's 2019 replacement at the Federal Housing Finance Agency.

Fannie, Freddie, and Ginnie are the largest purchasers and securitizers of HFA mortgages. By acquiring these mortgages, the GSEs can take the paper assets off state balance sheets in exchange for the liquid capital necessary for HFAs to continue issuing new loans that support their homeownership missions. As reform conversations begin in earnest, HFAs will closely track the Federal Housing Finance Agency's Duty to Serve

program,²⁰ the proposed relationship of GSEs with state HFAs, and national objectives to promote and protect affordable housing.

Because GSE reform may implicate the national Housing Trust Fund, multifamily interests will also be vested in this dialogue to ensure any new policy protects or potentially expands this relatively new resource. As Freddie Mac considers the need for an advance from the U.S. Department of Treasury to compensate for tax reform changes, potentially jeopardizing the National Housing Trust Fund distributions, a legislative reshuffling may need to address how the Trust Fund is endowed.

QAP and HTC Considerations

A number of other topics will continue to be relevant in HTC programs through 2018, including: (1) the best ways to support transit oriented design; (2) the proper role of anchor institutions, such as high impact medical and education centers, in planning and sustaining affordable housing; (3) the best approach to workforce housing; (4) how to tactfully define contentious terms like “urban” or “substantial rehabilitation”; (5) how lease-purchase programs can perfect their conversion rates; (6) creative mixes of 4 percent and 9 percent credits; (7) whether and how to incorporate deference to local government desires in scoring systems; (8) what affordability term best balances the housing demand against operational and financial realities; (9) how and when modifications of restrictive covenants should be considered; and (10) how should an applicant’s successful ownership and management histories be factored into HTC proposal scoring.

Opportunities for Support Offices

HFAs support offices play an essential role in executing the agencies’ mission including by supporting HFAs’ programmatic staff. In the information technology sector, government agencies that still rely on basic, off-line spreadsheets to monitor program performance will find significant utility in software products that link different programmatic offices and improve access to real-time data. Some, like the Colorado Housing Finance Agency, found success in internal information sharing through third party platforms like Tableau. Others, like OHFA’s Allita Hardest Hit Fund Manager, contracted with developers to create a portal customized to the state’s unique program needs. HFA communication teams will also play an important role in 2018 as the need to raise affordable housing’s profile to advance funding prerogatives become more acute. Campaigns such as Washington State Housing Finance Commission’s “What If”²¹ and Indiana Housing & Com-

20. *Duty to Serve Program*, FEDERAL HOUSING FINANCE AGENCY, <https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/Duty-to-Serve.aspx> (last visited Jan. 24, 2018).

21. *What If Everyone Had an Affordable Place to Call Home?*, Washington State Housing Finance Commission, 2016 Annual Report, <http://www.wshfc.org/admin/2016annualreport.pdf> (last visited Jan. 24, 2018).

munity Development's "Portraits of the Human Spirit,"²² which raise awareness of elected officials and community leaders, will effectively and compassionately advance affordable housing objectives. Human resource officers will continue to face the challenges familiar to many state government entities, including recruiting and retention for public service jobs in high demand employment markets.

Conclusion

The opportunities for HFAs far outweigh the challenges. With sound leadership and a principled mission, HFAs' 2018 prospects are strong. Nationally, both single-family and multifamily housing industries are well situated for a successful year. If state housing experts continue to host exceptional programming that promotes affordability and provides strength and diversity to the overall housing market, HFAs will help a new generation of homeowners and renters find stability and even prosperity in the new year.

22. *Portraits of the Human Spirit—Celebrating 30 Years of Success*, INDIANA BICENTENNIAL CELEBRATION 2016, <http://www.in.gov/ibc/legacyprojects/4275.htm> (last visited Jan 24, 2018).