

POLITICS

Political Scene: How a Maryland public housing program could influence Rhode Island



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“The Laureate,” a 268-unit apartment building currently under construction in Montgomery County, Maryland, will feature quartz countertops, a courtyard pool, a fitness studio, a children’s playroom, and bike storage rooms — just to name a few amenities.

It’s not what most people think of when they hear the words “public housing” — but the project is publicly-financed, and will be publicly-owned once it’s completed. One quarter of the units will be reserved for affordable housing, and the rest will rent at market rates.

And it's an example of a novel approach to ramping up housing production that some lawmakers hope to replicate here in Rhode Island.

Among those who have expressed interest in Montgomery County's model of building mixed-income housing is House Speaker **K. Joseph Shekarchi**, who described it as "an ‘out of the box’ idea that I believe needs to be pursued further in Rhode Island."

So how exactly does that model work? And how is it working in Maryland so far?

To find out, The Providence Journal spoke with key figures at the Housing Opportunities Commission of Montgomery County (known as HOC), and reached out to each member of the Montgomery County Council.

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The takeaway: Montgomery County acts a "public developer" — meaning that HOC is building new housing on land that it often already owns, rather than simply relying on the

private sector to create more units. It's invested \$100 million in a revolving fund that's accelerated the construction process and is expected to produce about 1,500 units every four or five years. And it focuses on creating mixed-income housing, also known as “social housing.”

“There is only so much that private developers are going to be able to do,” said councilmember **Kate Stewart**. “I think other jurisdictions really should be looking at this.”

What does mixed-income housing look like in Montgomery County?

A suburban offshoot of Washington, D.C., Montgomery County has a population roughly the same size as Rhode Island's — and a severe housing crisis of its own.

Once The Laureate is completed, 25% of the units will be priced at a level that's considered “affordable” for households earning 50% or less of the area median income. Five percent will be affordable for those earning 65% or less of the AMI.

The other tenants will pay market-rate prices, but with a cap that limits how much their rent can increase from year to year.

The goal of so-called “social housing” is to create affordable housing that is appealing and well-maintained, and doesn't segregate or stigmatize people. **Andrew Friedson**, the vice president of the Montgomery County Council, calls it “the secret sauce to building the kind of communities that we want — that are diverse and inclusive and have people from all walks of life.”

More on affordable housing: Big changes considered to RI affordable housing law. Here's what might be coming.

The basic premise isn't unique: In cities across the country, it's common for private developers to receive tax breaks and other incentives in exchange for incorporating affordable housing in their projects. (That's what's happening with the “Superman” building in Providence.)

But those affordability covenants often come with an expiration date. Because The Laureate is owned by a housing agency, the “affordable” units will stay that way forever. And tenants who pay market rate don't have to worry about their rent dramatically increasing from year to year.

How does the revolving fund work?

The Laureate will be the first project financed through Housing Production Fund, a \$100-million revolving fund established by the Montgomery County Council.

The county had set an ambitious goal of creating 3,300 new housing units every year from 2019 to 2030. But it quickly became clear that they weren't going to hit those targets, “so we needed to think creatively,” Friedson said.

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In Montgomery County, tools like low-income housing tax credits that are typically used to create more affordable housing “are really being stretched as far as they can,” said **Zachary Marks**, HOC’s Chief Real Estate Officer. HOC needed a new tool that would provide an additional financing source — which is what inspired the Housing Production Fund.

Typically, one of the most complicated parts of building affordable housing is pulling together “the capital stack” — a mixture of loans, grants and tax credits. Once a project is completed, it enters a stage known as “permanent financing,” where “some of those scattered pieces of capital are replaced by a larger mortgage,” said **Paul Williams**, founder of the Center for Public Enterprise.

The Housing Production Fund provides a streamlined source of financing, speeding up the process of getting new projects off the ground. When a project reaches the permanent funding stage, the money borrowed for construction gets paid back and becomes available for other projects that are in the pipeline. Mortgage payments and maintenance are covered by tenants’ rents.

The first \$50 million put into the Housing Production Fund will translate to about 750 new housing units, Marks said. (That includes the 268 units at The Laureate, and a 463-unit project called Hillandale Gateway that HOC anticipates completing in the next two years.)

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The \$100 million in the fund must revolve every five years, though HOC anticipates being able to pay back the money after four years in most cases. Roughly speaking, every revolution will result in about 1,500 new housing units, Marks said.

After 20 years, once the bond is paid off, “you have a fund that actually has no further cost to the county, but will exist forever.”

Friedson described the county's investment in the fund as a way to "essentially supercharge" the process of developing housing. "It really didn't change much of anything, except to provide a new stream of funding," he said, pointing out that HOC hasn't stopped using other financing mechanisms. "This was totally additive."

What does the public developer model look like?

What's unique about Montgomery County, said **Paul Williams**, founder of the Center for Public Enterprise, is that HOC is “acting in a really mission-driven way to be a developer of housing in the county," and is "a public agency that really thinks of themselves as an active participant in the housing landscape."

In some senses, HOC is like a much larger version of the housing authorities found in cities and towns throughout Rhode Island, like the Providence Housing Authority. It has 380 employees, including a team of roughly 15 staffers focused on building new mixed-income housing. Once construction is completed, a third party is typically hired to handle operations and management, Marks said.

New projects — and any contracts valued at over \$250,000 — need to be greenlit by a board of seven commissioners who are appointed by the Montgomery County Executive and approved by the county council. The board's development and finance committee also provides extensive input during the process, Andrews said.

The Montgomery County Council gets briefed about projects that are in the pipeline, but doesn't get involved with picking sites or projects, Friedson said.

The Laureate is being built on land that Montgomery County already owned. HOC also has the benefit of being able to trigger a "right of first refusal," which makes it possible for the housing agency to snag privately-owned properties when they go up for sale, Andrews said.

When it comes to setting rents, the resolution that created the Housing Production Fund requires that projects must "have at least 20% of total dwelling units priced to be affordable to households earning 50% or less of the area median income (AMI) adjusted for household size and an additional 10% of all units affordable to households with incomes eligible for a Moderately Price Dwelling Unit."

Andrews said the agency aims to go beyond those minimum requirements whenever possible, and is always pushing “to see how deep we can get with our affordability.”

NIMBYism hasn't been a big problem, Andrews said. She noted that the Housing Production Fund is intended to be used in areas that have already been zoned for dense development, so “there isn't that kind of push-pull that one might anticipate, and I'll knock on wood while I say that.”

Is Montgomery County's approach working?

“So far, this has been a wonderful model for us,” Andrews said. She noted that the Montgomery County Council initially invested \$50 million in the Housing Production Fund, and then, not even a full year later, invested another \$50 million.

The Journal contacted each member of the Montgomery County Council to ask if they were satisfied with the return on their investment. Those who agreed to be interviewed all said that the county had more work to do, but had only positive things to say about how HOC was putting the money to use.

"I'm thrilled," Friedson said, adding that he hasn't seen a more cost-effective and efficient tool for ramping up the supply of affordable housing. He pointed to the simplicity of the approach as one of its major advantages.

Officials also point to job creation as another major advantage — unlike private developers, the public sector doesn't just build during boom times, or when the financial conditions are right.

When the public sector is subsidizing private development in order to create more housing, there's always the question of, “Are we giving away too much?” Marks said. But if HOC is acting as the developer, a project that is more profitable than anticipated will typically just end up funding the creation of more affordable housing.

What's being proposed in Rhode Island?

The Create Homes Act, introduced last year by Sen. **Meghan Kallman**, D-Pawtucket, proposed a number of ways to beef up Rhode Island's housing production. Among them: Empowering the state to act as a public developer and create mixed-income housing.

Kallman plans to reintroduce the legislation this year, and said that Rep. **June Speakman**, D-Bristol, will likely be the sponsor in the House of Representatives. The bill is currently being fine-tuned in response to the feedback that she received last year, she said, but "basically, the vision is the same." (Speakman, who is leading the House's efforts to rethink statewide housing policy, noted that details were still being worked out, but said that she's "all ears for new approaches" since Rhode Island has not met its housing goals.)

More: RI could be the first state to tackle the housing crisis by acting as a developer

One thing that was proposed in the original Create Homes Act — establishing a centralized, statewide Department of Housing — has already become a reality.

Kallman said that this year's bill is designed to ensure that the newly-created department has the infrastructure that it needs to meet its hefty mandate.

"To me, the main goal is to set up a department that has the tools and is equipped to meet the needs of Rhode Islanders — making use of the resources that already exist, and then giving them whatever else they need," she said.

One example would be allowing the state to create a land bank so that it can obtain vacant, underutilized properties. The state could either build housing on that land itself, or contract with someone else to develop it, Kallman said.

One thing that wasn't included in the Create Homes Act was the creation of a revolving fund, like the one used in Montgomery County. Reclaim RI, a progressive group that organizes tenants and has pushed for Rhode Island to adopt the public developer model, expects to see that idea introduced in a separate piece of legislation this year.

Speakman said that a revolving fund is one of the many ideas on the table as lawmakers look for ways to "provide ongoing sources of revenue" for affordable housing. Shekarchi, in a statement, said that he likes the Montgomery County model "because once such a program gets up and running, it would be revolving and self-funded."

What happened with the pilot program?

Last year's budget included \$10 million in one-time funding for a public housing pilot program. So far, that money hasn't been spent.

Deborah Goddard, senior housing adviser to the new Department of Housing, said she's hopeful that RFPs and notices of funding availability will be issued in March. The funds were

directed to RI Housing to manage, she said, and the agency has been going through the necessary state approval process to "move the money out."

Goddard said that under the statute, the funds could be used to build new public housing — or help preserve existing public housing. Given the high cost of housing production, she said, "I don't think it's a huge engine for new housing."

Exactly how the money gets spent will, naturally, depend on what kind of requests come in from public housing authorities around the state. Goddard noted that public housing "has been severely underfunded" by the U.S. Department of Housing and Urban Development, and said the pilot program alone won't address all the capital improvements that are needed.

But, she added, "I think it's terrific that the state has decided to value this portfolio and invest in it. I will also say that for a long time, public housing authorities have have been the brunt of a lot of cynicism and criticism ... so to see them be at the table, and valued, is terrific."