Monroe County Legislature

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Via Electronic Mail
County Executive Adam Bello
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County Executive Bello,

We have an opportunity to use American Rescue Plan Act (ARPA) funds to make a difference in the lives of Monroe County residents struggling with housing affordability. Your administration has indicated a desire to spend $7.8 million to "to create more affordable housing options for low- and moderate-income families and to help remove the barriers preventing the rental of existing affordable housing in Monroe County."[1]

I'm concerned the recent announcement of housing stability initiatives offers an unrealistic way to achieve the stated goals. Your administration released four RFPs[2] related to this issue in April 2024; the respondents are now pending review of their applications.

These programs would be funded by ARPA dollars. We face an end-of-year deadline to obligate these funds, and the Legislature should not be placed in a position where we are rushed into approving potentially flawed programs. Therefore, I am writing in the hopes that the questions I raise can be addressed before RFP respondents are selected and legislation is submitted for approval.

I have reviewed the information contained in the Housing Stability Initiatives press release and the Requests for Proposals and addendums. This feedback draws on the report, *The Mechanics of Monroe County's Rental Housing Market*[3] (hereinafter *Rental Housing Market* study). The *Rental Housing Market* study was referenced in the County's announcement, which I applaud since it is "on the same page" as my own analysis; however, the RFPs do not show fidelity to that study's recommendations. I was

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[1] (2024, March 12). *County Executive Adam Bello Announces $7.8 Million Plan To Increase Affordable Housing Opportunities*. Monroe County. https://www.monroecounty.gov/news-2024-03-12-housing
[2] RFPs and addendums are in this Google Drive folder: https://drive.google.com/drive/folders/1oupRkmeiIrRpZ-fz8TnVxDimFLHJlxZ1?usp=sharing
[3] (2021, October). *The Mechanics of Monroe County's Rental Housing Market*. ACT Rochester. https://actrochester.org/tinymce/source/OtherReports/FINAL_MonroeRentalStudy_Nov2021.pdf

also privy to conversations with several housing experts with decades of experience in neighborhood development and affordable housing, all anonymous due to their employment.

The key to housing stability is both quality and affordability. I have concerns about how we will achieve either within the budgets and parameters outlined in two of the four RFPs.

RFP 1: Rental Repair Program

The goal of the Rental Repair Program:

- Bring new affordable rental units online; or
- Make renovations to rental units already housing low- or moderate-income households.

Program details:

- Budget of up to $3,000,000.
- The program aims to repair up to 600 units (as stated in press release).
- Landlords must own 10 or less rental units in Monroe County.
- All repaired units must commit to the program for 20 years through a covenant recorded against the deed.
- The repaired rental units may only be rented to individuals with a maximum income of 120% area median income (AMI).
- The rent for the repaired rental unit cannot exceed 85% of Fair Market Rent.

Concerns with Rental Repair Program

Spread across 600 units, the budget is unlikely to have a lasting, positive and meaningful impact. Minus a 15% administrative fee, $2,550,000 is available for repairs, which, divided by 600, is $4,250 per unit. The *Rental Housing Market* study suggests upgrades cost at least $20,000 a unit – sometimes much more.

Could we do some repairs for less than $20,000 per unit? Certainly, but, as one housing expert told me, "If we don't do a comprehensive repair, we risk throwing good money after bad. It's not worth doing anything unless you're going to do everything."

Twenty years is too long. This requirement is a deterrent for most landlords. Many improvements do not last for 20 years. One expert said, "I would suggest a money/time agreement; for example, for every 'x' thousands the owner commits to 'y' years of program participation. This would also tie it to capital depreciation schedules."

All landlords are not made equal. The *Rental Housing Market* study notes that "A" and "B" landlords are well-capitalized and offer higher quality units. "C" and "D" landlords are most likely to rent to lower income tenants, struggle to maintain and invest in their properties and often have no balance sheet. Their properties are the ones that desperately need repairs.

Since "C" and "D" landlords need the repairs the most and are more likely to rent to lower income tenants, it does make sense to target them for this RFP.

To achieve the goal of "600-units renovated," the "C" and "D" landlords are more likely to include those with code violation histories, lack of property management acumen, and low reserves for continued maintenance of their properties.

Tenants placed in properties that have received minimal repairs are at risk for multiple issues, including eventual displacement. Therefore, investing in "C" and "D" landlords is not good for our rental housing market without a real plan to move them into "A" and "B" status. Indeed, the *Rental Housing Market* study says, "A pilot program where a 'Mom & Pop' rental property owners can sharpen their management acumen, receive help growing their reserves, and obtain assistance upgrading their properties would be a valuable endeavor for the Rochester community to undertake." This kind of undertaking requires a much more significant investment plan than we have created so far.

This program has high administrative burdens. The vendor selected to administer this program must follow federal regulations for procurement; including ensuring lead paint and asbestos are remediated. This is all very hard to do in a low-cost rehabilitation program. Just as troubling, the time it will take to stand up this program, screen applicants, and hire contractors risks Monroe County not spending the money allotted for this program by the December 31, 2026, deadline.

Recommendation: Target far fewer units for rehabilitation – 50 to 100 – and tie the length of time a landlord must be in the program to the level of investment in the property. Create a mentorship program between the administrator and the landlords to nurture property management and accounting practices and procedures that build their portfolios and reward them for the risk of taking part in a program tied to both affordability and quality of units.

<u>RFP 2: Landlord Incentive Program</u>

The goal of the Landlord Incentive Program:

- Recruit landlords and property owners to rent to low- or moderate-income households; or
- Provide incentives to those that rent to low- or moderate-income households.

Program Details:

- Budget of up to $2.75 million.
- The program aims to target up to 1,500 units (as stated in press release).
- Tenants must be 65% Area Median Income (AMI).
- Landlords renting to eligible tenants referred from the County (either directly or through the County's Housing Search Navigator) or Partners Ending Homelessness's Coordinated Entry Prioritization List would receive $1,000 for the first unit rented and $500 for the next 4 units, up to 5 total units.
- If an eligible tenant damages the rental unit during the first year of tenancy and/or does not pay rent during the first year of tenancy, Landlord will be eligible for up to $3,500 to cover such loss.
- Rent during the eligible tenant's tenancy cannot exceed 85% of Fair Market Rent.

Concerns with Landlord Incentive Program

The budget is not adequate to cover the risk of renting quality units to 1,500 tenants who have low incomes. The premise behind the incentive is that landlords are taking on risk by renting to lower-income tenants. The *Rental Housing Market* study shows us this risk can be quantified and suggests an incentive that covers the gap between what the tenant can afford to pay and what the unit costs to maintain. The gap is smaller for lower-quality units, which don't cost as much to rent.

Minus a 15% administrative fee, the program is left with $2,337,500. Divided by 1,500 units, that's an average incentive of $1,558 per unit. That's a small fraction of what is required for the landlord and tenant to maintain stability.

Based upon the criteria to participate in this program, tenants are likely to earn well below the 65% AMI threshold. A family of three earning 30% AMI[4] earns $25,650[5] and can afford no more than $641 in rent (30% of income). At 85% Fair Market Rent, the cost of a two-bedroom in Monroe County is $1,111.[6] This family requires a $470 subsidy per month, or $5,640 a year, for the life of their tenancy.

One expert suggested using the incentive funds this way to create a lasting, upgraded affordable unit:

> "If you have $2.75 million, you can help about 450 low-income households for ONE YEAR, or about 225 for two years or 45 households for ten years, at the end of which time you have to redo all these structures. If you capitalize the flow of the gap financing, you can purchase about $50,000 in capital improvements per customer (unit) in today's mortgage market, and in today's construction environment. If we divide that into $2.75 million, you could plausibly upgrade 50 to 60 one-unit homes in Rochester, then convert those loans to grants for compliant landlords."

What kinds of landlords will get these incentives? "A" and "B" landlords are unlikely to apply for these incentives because a total of $4,500 is not enough to offset the costs and risks of offering a higher quality unit to a tenant below 65% AMI at 85% FMR.

Under the current structure, we risk subsidizing "C" and "D" landlords looking to make a quick buck through this program, and who are offering a subpar product. Such an outcome will continue to exploit tenants by trapping them in low-quality units, which they will continue to struggle to afford.

The administrative burdens are high. If this program will be aimed at screening out problem landlords with histories of code violations and substandard units, one housing expert said to me, "The standard is so high it won't work, or the standard is so low that you're helping the wrong landlords."

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[4] The Rental Housing market study notes this is the group that faces the largest deficit of units.
[5] *How to Qualify*. Rochester Housing Development Fund Corporation. https://homerochester.org/how-to-qualify/
[6] *FY 2024 Fair Market Rent Documentation System*. HUD. https://www.huduser.gov/portal/datasets/fmr/fmrs/FY2024_code/2024summary.odn

There are questions about whether the $3,500 incentive for repairs and losses qualifies for ARPA. Do repairs have to be made before we cut a check?

Here again, we face the risk that the program will not be implemented, and the incentives not awarded in enough time to spend the money by December 31, 2026.

Recommendation: Implement a program that covers the gap between what a tenant can reasonably pay and Fair Market Rent. Another option is to cover rental arrears to help families avoid eviction. This could be modeled on Monroe County's Project Anchor or New York City's One Shot program.[7]

Let's think about what we can realistically do with $5.75 million by the December 31, 2026, deadline to spend ARPA funds. We could do the following, or a combination:

- Provide landlord incentives to cover the gap between Fair Market Rent and what a household can afford for two years to 400 families.
- Provide rental arrears for up to 2,500 families.
- Rehabilitate 100 units and keep them affordable for 10 years.

I would also like to suggest that we include an evaluation of any housing plans passed by the Legislature. Such an evaluation should include quantitative and qualitative analyses of landlord and tenant experience to measure whether the program had its intended impact.

Thank you for putting forward proposals to address housing affordability. I strongly support using ARPA dollars to address this issue and hope to support legislation that will have maximum and lasting impact on our neighbors. I stand ready to work on this issue collaboratively.

Sincerely,

Rachel Barnhart

Rachel Barnhart – Legislator District 17

cc: Monroe County Legislature

[7] *Cash help during an emergency*. Access NYC. https://access.nyc.gov/programs/one-shot-deal/

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