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Housing and Community Development City of Tucson

Executive Summary

Portfolio Assessment and Preliminary Recommendations

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Executive Summary

In December 2022, the City of Tucson Department of Housing and Community Development (HCD) engaged Praxis Consulting Group, LLC (Praxis) to conduct an assessment its public housing properties and provide recommendations for preserving and expanding affordable housing in Tucson.

At the outset of the portfolio planning process, we asked Tucson HCD staff to voice their goals for the repositioning effort. Among these goals were the following:

- Put HCD on stable financial footing;
- Address HCD's aging housing stock through rehabilitation;
- Increase the overall energy efficiency of HCD's portfolio and take advantage of new green building technologies;
- Right-size the scattered-site portfolio to increase homeownership opportunities in Tucson and the overall affordable housing inventory city-wide by creating affordable homeownership opportunities with approximately two-thirds of the existing scattered-site single family homes;
- Utilize HCD's Faircloth Authority to pursue the development of new multi-family affordable housing;
- Double HCD's portfolio of affordable housing units, by taking better advantage of density, purpose-built senior and special needs housing, energy efficiency, and location efficiency; and,
- Reduce HCD's carbon impact to help ensure the City meets its climate targets identified in the Tucson Resilient Together Climate Action Plan.

Tucson's Existing Public Housing Portfolio is the Result of Forward-Looking Policy Decisions

HCD's current portfolio is a result of ambitious strategies over time to develop and acquire scattered-site properties in every neighborhood of the City and well-planned and forward-looking multi-family development efforts. The relatively recently completed MLK Apartments is emblematic of a housing authority with significant development capacity, and the Posadas HOPE VI development (formerly the Connie Chambers and La Reforma projects) represents the City's ability to implement major HUD programs. The recently successful Choice Neighborhoods Initiative (CNI) grant for Tucson House is just the latest example of HCD's ambition to take on large-scale affordable housing programs.

Under new recent leadership, and in the aftermath of COVID, HCD has rededicated itself to stabilizing its large and diverse portfolio and the finances of the Department, including appointing a dedicated Asset Manager position. This current portfolio assessment process is a component of this new focus.

HCD's Housing Stock is Showing its Age

HCD's Public Housing portfolio consists of 1,505 units, including 407 units at Tucson House, 483 scattered-site units (i.e. non-contiguous developments containing four or fewer units), and a number of small and medium-sized multi-family developments that make up the remaining 615 units.

The weighted average age of all its properties is over 45 years, or the equivalent of having been built in 1978. There is a clear divide in age between the two newest properties in the portfolio (MLK and Silverbell) and the remainder of the public housing units. While the scattered-site units can vary widely in age, with some units dating back to the 1940s, the median age of most properties is 40-50 years old. In general, the older the property, the greater its needs for rehabilitation and major repairs to maintain habitability.

In 2021 HCD commissioned AEI Consulting to prepare capital needs assessments of its entire public housing portfolio. Based upon the findings of these reports, the total cost of repairs for HCD's public housing portfolio over a 20-year period (excluding Tucson House) was estimated to be \$45.7 million or about \$41,646 per unit. However, we believe that these assessments significantly underestimate the overall capital needs of the portfolio, making the true cost of bringing the portfolio up to modern standards much higher. Based upon HCD's annual allocation of HUD Capital Funds, approximately \$2.5 million, it would take roughly 18.3 years to address all the anticipated capital needs of these properties as documented in the reports, without accounting for new needs and challenges that would emerge during that time period.

Still, the properties visited by the assessment team were fully occupied, frequently attractive, and in relatively good condition considering the issues faced by the HCD. Staff exhibited deep institutional memory and knowledge of all properties across the portfolio. The dedication of management and maintenance staff to provide the best possible living conditions for public housing tenants was evident.

Despite HCD's Financial Challenges, there are Opportunities for Rehabilitation and Growth

While the scattered-site approach has resulted in affordable housing opportunities across the entire city, it is difficult to manage and maintain such a geographically dispersed and varied portfolio. With rising costs and inflation following in the wake of the COVID-19

public health crisis, and future cuts anticipated at the Federal level, Tucson needs a new approach to its scattered-site properties and a strategy for rehabilitating its aging housing stock.

The costs of maintaining the HCD portfolio in its current form are not sustainable. According to a recent internal estimate, high operational and maintenance costs has resulted in a revenue gap of roughly \$3.5 million a year. This means HCD must allocate reserves just to maintain the status quo, without factoring in the major capital repairs outlined above.

This Report identifies federal and state-level financing tools available to help HCD to put its portfolio on a firmer financial footing while addressing rehabilitation needs, creating new capital for new affordable housing developments, and helping transform a portion of HCD's scattered-site portfolio into new homeownership opportunities for low-income Tucson residents.

HUD tools for recapitalizing and rehabilitating public housing properties as well as creating new construction affordable developments include the Rental Assistance Demonstration (RAD) Program, Section 18 Disposition, and the Faircloth-to-RAD program. These financing tools can be combined with traditional affordable housing financing mechanisms, like the Low Income Housing Tax Credit (LIHTC), tax exempt bonds, and Arizona state programs, including the Arizona State Affordable Housing Tax Credit. These programs are described in further detail in the Report.

The Inflation Reduction Act of 2022 allocated significant funds towards renewable energy projects and created new programs for increasing energy efficiency of existing housing developments. These tools can help the City of Tucson tackle its environmental goals while also rehabilitating its public housing portfolio.

Tucson is Well-Positioned to Transform and Expand its Public Housing Portfolio to Better Serve Residents in Need

The Report recommendations build on Tucson's long history of cutting-edge public housing strategies and financing tools to stabilize and improve its housing stock. Key recommendations in the Report include:

- Converting some large multi-family properties and all of the qualifying scattered-site properties from public housing to project-based Section 8 housing under the RAD and Section 18 programs, to increase revenue in order to address deferred maintenance and project operating deficits;
- Recapitalizing older multi-family properties, utilizing tax-exempt bonds, low-income housing tax credits, and other subsidies in order to extend the life of these properties for another 30 to 50 years;

- Convening a “Scattered Site Task Force” to evaluate HCD’s large and geographically dispersed portfolio of low-density housing based upon metrics (such as age, physical needs, location, etc.) and to establish disposition strategies. Strategies might include conversion to homeownership opportunities, sale to community-based non-profit partners, and outright sale to the private sector, with the proceeds reinvested in HCD’s affordable housing mission;
- Working with the Arizona Department of Housing (ADOH) to prioritize public housing preservation in the tax credit Qualified Allocation Plans and other programs; and,
- Utilizing the new HUD Faircloth-to-RAD program to access unused operating subsidy to create new affordable housing units in Tucson serving extremely low-income households.

Because most of these recommendations will directly impact families living in HCD units, as well as the HCD staff who serve them and the overall operations of the Department, it will be important to develop a strong communications strategy working with residents, staff, and City leadership as HCD moves forward with implementation.

The City of Tucson also has strong community partners that can help implement new HCD strategies and objectives, including Pima County Community Land Trust, Habitat for Humanity, the Tucson Industrial Development Authority (TIDA), and the larger affordable housing development community. Community partners such as these will be important in helping HCD to carry out its goals, especially for the transformation of its scattered-site portfolio.