# Report to the Governor, the Secretary of Commerce and Trade, the House Appropriations Committee and the Senate Finance Committee

## The Virginia Housing Trust Fund
*and the*
## Financial Status of the Virginia Housing Partnership Fund

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**Submitted by:**
**The Department of Housing and Community Development**

**December 2013**

# Virginia Housing Trust Fund
# FY 2014

## Introduction

During the 2013 regular session, the General Assembly amended provisions of Chapter 9 of Title 36 to provide a statutory framework for the administration of the Virginia Housing Trust Fund previously established by Item 108 G of the 2012 Appropriations Act. One of the statutory changes modified certain reporting requirements applicable to the former Virginia Housing Partnership Revolving Fund. Effective July 1, 2013, § 36-150 of the Code of Virginia requires the Department of Housing and Community Development (DHCD) to report annually on the Trust Fund and such other matters the Department may deem appropriate, including the status of the former Housing Partnership Revolving Fund. Designated recipients of the report include the Governor, Secretary of Commerce and Trade and the Chairmen of the House Appropriations and the Senate Finance Committees.

In accordance with the statutory requirement, DHCD presents the following document, which includes two sections. The first provides a review of recent activities associated with the operation of the Housing Trust Fund during the period since its resources became available at the onset of FY 2014. The second section updates information concerning the financial status of the Virginia Housing Partnership Revolving Fund, presently administered by the Virginia Housing Development Authority (VHDA). The latter section continues the format used during previous years in accordance with the former statute and incorporates materials provided by VHDA's independent auditor.

## Part I: The Virginia Housing Trust Fund

## Background

As amended in 2013, the current biennium budget appropriated $8,000,000 in the second year to establish the Virginia Housing Trust Fund (HTF). As noted previously, the 2013 General Assembly also provided a statutory framework to guide the administration of the Trust Fund.

The HTF structure directs the Department of Housing and Community Development (DHCD) and the Virginia Housing Development Authority (VHDA) to work collaboratively on implementing its provisions. At least 80 percent of the Fund must be used for loans to provide affordable housing. Twenty percent of the funds may be used for grants to reduce homelessness. Key features of the HTF include supporting state housing policy initiatives and leveraging other resources to address the Commonwealth's housing needs.

To assure the timely implementation of the new Trust Fund program, DHCD and VHDA, working in partnership with the Virginia Housing Coalition and the Virginia Coalition to End Homelessness, initiated an intensive process to help develop the HTF guidelines. During the summer of 2012, the agencies and their partners conducted seven input sessions at locations spanning the state (Annandale, Charlottesville, Fredericksburg, Hampton, Richmond and Roanoke), reaching more than 250 participants. An online survey gave interested parties another means to provide input. DHCD and VHDA also met with other state agencies whose missions relate to housing and homelessness. Finally, the agencies consulted with the Housing Policy Workgroup, originally convened to help guide the development of the Commonwealth's Housing Policy Framework. Perhaps the most pervasive single theme emerging from this extensive process was that Virginia's most critical housing needs far surpass the resources available through the Trust Fund.

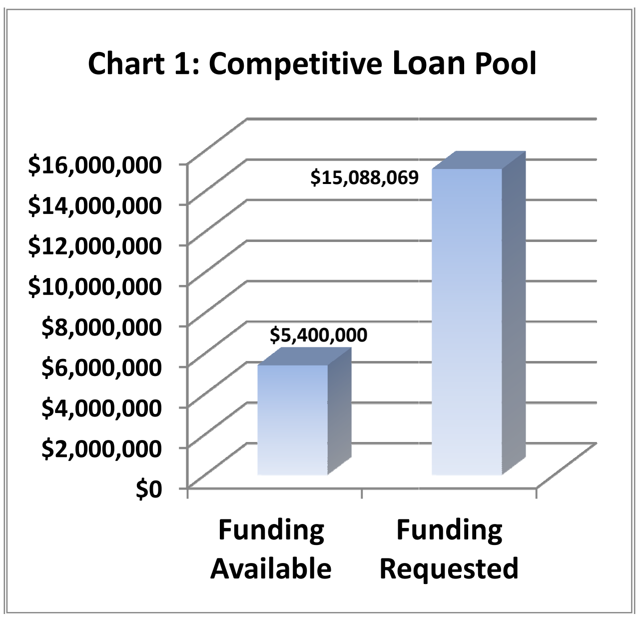
DHCD and VHDA drew upon the information gathered through these input and consultation activities as a basis for preparing the Housing Trust Fund Structure and Use Plan, which was submitted to the General Assembly in November, 2012. The plan reflects the structural requirements of the budget language and the Code of Virginia as well as the insights and experience of Virginia's housing professionals.

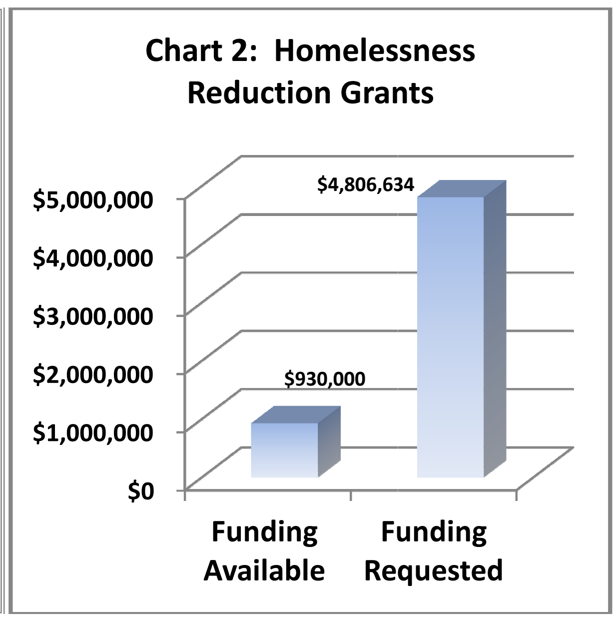
The Trust Fund Structure and Use Plan outlined the four primary components of the Trust Fund:

- Homeless reduction grants;
- Foreclosure counseling grants;
- Foreclosure rehabilitation loans; and
- Affordable housing loans

## Recent Activities

With HTF guidelines in place, DHCD and VHDA began the fund allocation process in advance of FY 2014. The agencies initiated application periods for each HTF component in early 2013. As anticipated, there was a high level of interest in each program area—particularly so for competitive loans and homelessness reduction grants (see Charts 1 and 2). Applicants from all regions of the state submitted requests seeking from three to five times the available funding. In the aggregate, requests nearly tripled the amount actually available.



Following the closure of the application period for each HTF component, DHCD and VHDA began selecting grantees and administrators in accordance with the process and criteria outlined in the HTF Structure and Use Plan.[1] Table 1 on page 4 summarizes the results of the various application processes. This same table also shows the alignment between the various components of the HTF and major goals from the Housing Policy Framework.

*Foreclosure Counseling Grants*

Early in FY 2014, DHCD transferred $500,000 in HTF grant funds to VHDA in support of enhanced counseling activities in areas of Virginia hardest hit by the foreclosure crisis, Twenty-six counseling organizations received grants in amounts ranging from $3,375 to $33,750. The average grant was $19,230. While the grants focused on those regions of the state hardest hit during the foreclosure crisis—Northern Virginia, Hampton Roads and Metro Richmond—every region of the state received additional resources to address the impact of foreclosure on households and communities. These grants also afforded opportunities for linkages with another HTF component addressing the impact of foreclosure on localities and neighborhoods—the Trust Stabilization Program (TSP)—that offered a source of loans for the rehabilitation of previously foreclosed properties.

*Homelessness Reduction Grants*

Homelessness reduction grants may be used to support a variety of activities or approaches that share the common purpose of serving to reduce homelessness. Grants may be used to provide temporary rental assistance, not to exceed one year; housing stabilization services in supportive housing for homeless persons and predevelopment assistance to support long-term housing opportunities for the homeless. Following a highly competitive application round in which 58 applicants participated, DHCD selected ten organizations from across the state to administer program funds. Two of the grantees will use the grants to underwrite supportive services to the homeless; five will underwrite supportive services and provide rental assistance to various target populations and three will deploy funding for pre-development costs/activities associated with new housing facilities consistent with Virginia's emphasis on rapid re-housing. All homeless reduction grants are now under contract.

The intended beneficiaries of rental assistance include homeless families with children, homeless families facing high barriers to obtaining permanent housing, ex-offenders re-entering society, and homeless veterans--especially those remote from Veterans Administration services. Pre-development activities include costs associated with the creation of housing options intended for low-income disabled or elderly individuals and their families, the potential development of a single Room Occupancy (SRO) facility to meet the needs for permanent supportive housing for homeless adults—especially those with severe disabilities—and for a mixed-use project providing studio apartments and support services.

[1] http://leg2.state.va.us/dls/h&sdocs.nsf/By+Year/RD3052013/$file/RD305.pdf

| Table 1: Initial Allocation of Housing Trust Fund Resources | | | | | |
|---|---|---|---|---|---|
| **Trust Fund Components/ Features** | **Grants** | | **Loans** | | **Totals** |
| | **Foreclosure Counseling** | **Homelessness Reduction** | **Foreclosure Rehabilitation** | **Competitive Loan Pool** | |
| **Housing Policies Addressed *** | Housing Industry as Vital Economic Development Engine | Preventing and Reducing Homelessness | Promoting Stable and Vibrant Communities | Ensuring the Provision of a Range of Housing Options | |
| **Purpose** | Enhance grant resources available from the VHDA to provide foreclosure counseling services and other assistance to those experiencing foreclosure with the intent of combating homelessness and other adverse consequences that may follow foreclosure. | Provide competitive grants may to local/ regional partners providing temporary (<1 year) rental assistance; housing stabilization services in supportive housing; and pre-development for long-term housing oppor-tunities for the homeless. | Provide resources through performance contracts with local/ regional organizations in areas hardest hit by the foreclosure crisis to transform previously foreclosed homes into community assets through their purchase and rehabilitation for resale to eligible first time homebuyers. | Provide successful local/ regional partners with low-interest loans that will assist in financing housing projects that meet critical state housing policies. Project underwriting will tailor repayment rates and terms to specific project needs. The highest priority will go to those demon-strating financial sustain-ability and leveraging. | |
| **Funding Available** | $500,000 | $930,000 | $1,000,000 | $5,400,000 | $7,830,000 |
| **Applicants** | 31 | 58 | 7 | 29 | 125 |
| **Funding Requested** | $827,603 | $4,806,634, | 0 | $15,088,069 | $20,722,306 |
| **Award Recipients** | 26 | 10 | 5 | 8 | 49 |
| **Amount Offered** | $500,000 | $920,779 | $1,000,000 | $5,300,000 | $7,720,779 |
| **Proposed Leveraging** | $240,000 | $1,124,778 | $3,500,000 | $34,323,537 | $39,188,315 |
| **Areas Served** | Foreclosure counseling, like VHDA's homebuyer education training, is available statewide. | Grantees provide coverage in five diverse regions, including Northern, Central, Southeast, Western and the Shenandoah Valley. | Statewide, targeting especially hard-hit areas, such as Prince William; Fredericksburg; metro Richmond; Western, Southside and Southeast Virginia. | Projects are targeted in Southeast, Central, Shenandoah Valley, Southwest, Northern Virginia and Southside | |

*Goals included in the Commonwealth's Housing Policy Framework

*Foreclosure Rehabilitation Loans*

The TSP foreclosure rehabilitation program is based on an approach successfully used by the federally-funded Neighborhood Stabilization Program (NSP) to provide for the rehabilitation and resale of previously foreclosed residential properties. The federally-funded program was limited to certain NSP-designated areas. By contrast, although many feature s of the program draw directly upon the NSP program design, TSP activities can take place outside of the limited number of NSP-designated areas. DHCD selected five organizations to serve as providers for this performance-based program. All TSP providers are now under contract. They provide program coverage across the Commonwealth.

*Competitive Loan Pool*

This represents the largest single component of the HTF. Demand for the program funds far outstripped their availability. Twenty-nine applicants ought over $15 million in loan programs. Eight projects selected by DHCD and subjected to VHDA's underwriting review will take up the bulk of the available funding. Successful applicants were widely dispersed geographically. Locations ranged from Wise to Virginia Beach and Annandale to Harrisonburg. Five projects involve the acquisition and/or rehabilitation of rental properties to serve targeted populations. Three require new construction.

Taken as a group, the Competitive Loan Pool projects now emerging from underwriting address many of Virginia's highest priority areas of housing need as identified in the Housing Policy Framework and the process for developing the HTF program guidelines. These include very low income individuals and households, veterans, persons with disabilities, the elderly, the chronically homeless and others in need of permanent supportive housing solutions.

## Program Impacts

In the aggregate, the completion of projects and activities resulting from the grant awards and loan products of the HTF promise to have measurable impacts on communities across the state as well as the individuals and families directly benefitting from the provision of affordable housing options. As Table 1 indicates, every HTF dollar leveraged approximately $5.55 in funds from other public and private sources. While the loan programs were responsible for attracting the largest share of leveraged funds, the grant components also contributed to the total.

The potential benefits of the Competitive Loan Pool include the creation or rehabilitation of 295 units that are designated to serve those facing some of the most challenging housing circumstances. The Homeless Reduction Grants could benefit an additional 346 individuals or households that might otherwise face the prospect of extended periods of homelessness. The latter projects can play a significant role in furthering the state's commitment to rapidly-re-housing the homeless or working to prevent individuals and families from falling into homelessness in the first place.

Other indirect impacts of the various HTF projects and activities are also significant. They include short- and long-term job creation, expenditures related to the construction or reconstruction of real properties, and increases in various local revenues. The overall impact of the Competitive Loan Pool projects and other components of the HTF could include increases in local economic activity and modest increases in local revenues resulting from new or upgraded housing. Additional information on the economic and fiscal impacts of the loan and grant products will be developed once these recently funded projects reach completion.

## Implications for the Future

The Housing Trust Fund was created with the support of a range of constituencies, including developers, home builders, realtors, affordable housing providers, homeless service providers, local governments, disability advocates, veterans' advocates and others. All of these constituents recognized that a stable housing environment is essential to a strong Virginia economy and critical to meeting the needs of some of our most vulnerable citizens. The Trust Fund provided the Commonwealth with a flexible tool capable of addressing the a wide array of ongoing housing needs, including several that are difficult to address through conventional financing.

The availability of affordable housing options remains an economic concern in many parts of the state, perhaps most dramatically in Northern Virginia. This high growth area's housing stock has out-priced many of the workers upon which its continued economic vitality depends. With a significant portion of new job growth occurring in the service sector, wages associated with these jobs have not kept pace with housing costs. This means that workers cannot afford to live where they work, posing a significant risk to the labor market. Local governments in Northern Virginia are cognizant of this problem and are seeking ways to address it. Assistance from the Housing Trust Fund offers one source of solutions for this issue.

Although the wave of foreclosures that threatened communities nationwide appears to have subsided, foreclosed properties still have a negative impact on many Virginia neighborhoods. In areas that continue to experience high unemployment and slow economic recovery, such as Martinsville and other Southside communities, foreclosed properties remain a depressing influence. Foreclosure rehabilitation helps move such properties back into useful service and provides sought-after opportunities for first-time home buyers.

Between 2010 and 2013 Virginia's overall rate of homelessness fell by 16 percent. This significant reduction followed a shift in the Commonwealth's approach to the provision of homeless services. By moving away from the traditional reliance on a homeless shelter orientation toward emphasizing the rapid re-housing homeless families and individuals, people move out of homelessness and into permanent housing solutions much more quickly. An adequate supply of affordable housing is critical to the on-going success of this approach to reducing homelessness. One of the major causes of homelessness is the occurrence of an economic crisis in low-income households. Without access to affordable housing, any small economic disruption quickly becomes the crisis that results in homelessness. Providing affordable housing options for low-income families helps prevent homelessness. HTF grants and loans enhance the state's efforts to address chronic homelessness and the special circumstances of diverse populations including persons with disabilities, ex-offenders, veterans and very low income households.

In short, the Trust Fund, as the initial experience from this year's round of loans and grants suggests, can be instrumental in making progress in addressing those critical housing needs that were articulated clearly in the Housing Policy Framework.

## Part II: Financial Status of the Virginia Housing Partnership Revolving Fund

The 1988 General Assembly established the Virginia Housing Partnership Revolving Fund to expand the availability of affordable housing opportunities within the Commonwealth. The Virginia Housing Development Authority (VHDA) administered and managed the Partnership Fund, subject to policies, procedures and programs established by the Department of Housing and Community Development (DHCD). In accordance with a Memorandum of Understanding between the two agencies, the Authority made underwriting recommendations and provided legal and loan servicing assistance for loan and grant applications identified by the Department. Following 1989, moneys from the Partnership Fund were used to make grants and loans to a variety of housing providers and to persons and families of low and moderate income. During its term of existence, the Partnership Fund allocated over $163 million to housing proposals financing 17,626 units.

In 2003, as part of a series of actions taken to close a serious budget gap, the appropriations act directed the sale of the portfolio of outstanding loans and other assets of the Partnership Fund to VHDA. A portion of the proceeds of the sale were paid to the general fund, while another portion was directed to the Commonwealth Priority Housing Fund, which in the near term provided a resource for addressing certain high priority housing needs. Ultimately, following the enactment of additional legislation during 2005, the remaining balance of the Priority Housing Fund was transferred to a community development bank inaugurated by the Commonwealth where it continued to provide a source of mortgage loan funding. A remnant of the Virginia Housing Partnership Revolving Fund remains on the books of the VHDA and is therefore subject to annual financial reporting.

Thus, this portion of the report, in accordance with the provisions of 36-150 of the Code of Virginia, addresses the 2013 financial status of the Virginia Housing Partnership Revolving Fund. The Virginia Housing Development Authority (VHDA), administrator and manager of the Fund, provided the material included in this report. The financial status report on the Fund was included in the VHDA financial statements for the years ended June 30, 2013 and 2012 that have been audited by the public accounting firm KPMG (see the attached copies of the independent auditors' report). The Department of Housing and Community Development has received and reviewed a copy of these financial statements and concluded that they accurately reflect the status of the Fund.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**
(A Component Unit of the Commonwealth of Virginia)

Schedule of Net Position Held on Behalf of
Virginia Housing Partnership Revolving Fund

June 30, 2013

| | | General Operating Accounts |
|---|---|---|
| **Assets** | | |
| Cash | $ | 1,173 |
| Investment | | 265,200 |
| Interest receivable - investments | | 62 |
| | $ | 266,435 |
| **Net Position** | | |
| Net assets | $ | 266,435 |

See accompanying independent auditors' report.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**
(A Component Unit of the Commonwealth of Virginia)

Schedule of Revenues, Expenses, and Changes in Net Positions Information -
Virginia Housing Partnership Revolving Fund

Year ended June 30, 2013

| | General operating accounts |
|---|---|
| **Revenue** | |
| Investment income | $ 610 |
| Fund contributions | --- |
| Total revenues | 610 |
| **Expenses** | |
| Miscellaneous expenses | --- |
| Net revenues over expenses | 610 |
| Fund distributions | --- |
| Net position at beginning of year | 265,825 |
| Net position at end of year | $ 266,435 |

See accompanying independent auditor's report.

KPMG

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## Independent Auditors' Report

The Board of Commissioners
Virginia Housing Development Authority:

### Report on the Financial Statements

We have audited the accompanying basic financial statements of the Virginia Housing Development Authority (the Authority), a component unit of the Commonwealth of Virginia, as of and for the years ended June 30, 2013 and 2012, and the related notes to the basic financial statements, as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the basic financial statements referred to above present fairly, in all material respects, of the financial position of the Virginia Housing Development Authority as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

***Other Matters***

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis and Schedule of Funding Progress by Plan Valuation Dates on pages 1–8 and 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The supplementary information included in schedules 2 through 9 on pages 48 through 57 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information included in schedules 2 through 9 on pages 48 through 57 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

September 12, 2013

KPMG

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**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

The Board of Commissioners
Virginia Housing Development Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the Virginia Housing Development Authority (The Authority), a component unit of the Commonwealth of Virginia, which comprise the statement of net position as of June 30, 2013 and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated September 12, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The

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results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

September 12, 2013