

**Virginia Housing Trust Fund
Structure and Use Plan and
Loan and Grant Fund Impacts
FY 2018 Update**

The following report complies with the requirements as specified in: HB 1500 (2017), Budget Item 108.E.2 and §36-142 E of the Code of Virginia.

As part of the plan required by § [36-142 E.](#), Code of Virginia, the department shall also report on the impact of the loans and grants awarded through the fund, including but not limited to: (i) the number of affordable rental housing units repaired or newly constructed, (ii) the number of individuals receiving down payments and/or closing assistance, and (iii) the progress and accomplishments in reducing homelessness achieved by the additional support provided through the fund.

Purpose and Background

The Biennium Budget for 2016-18 allocated \$5,500,000 in the first year and \$5,500,000 in the second year to fund activities through the Virginia Housing Trust Fund (VHTF). This follows the 2014-16 Biennium Budget, which allocated \$8,000,000 over two years to support the activities of the Fund.

At least 80 percent of the Fund is to be used for short, medium, and long-term loans to reduce the cost of homeownership and rental housing. Up to 20 percent of the Fund may be used to provide grants for targeted efforts to reduce homelessness.

The entities charged with administering the VHTF—the Department of Housing and Community Development (DHCD) and the Virginia Housing Development Authority (VHDA)—have extensive experience in implementing the activities needed to carry out the provisions of the Fund. VHDA originates and services loans on a regular basis through its bond and revenue programs. It also services loans made with HOME funds administered by DHCD. Both agencies, which are overseen by boards subject to gubernatorial appointment, have more than two decades of experience in developing housing policy and structuring and implementing programmatic tools to operationalize those policies. DHCD and VHDA worked collaboratively to implement the provisions of the Virginia Housing Partnership Revolving Fund, which was the predecessor to the VHTF. Both DHCD and VHDA are skilled at packaging affordable housing projects that include a range of funding sources in order to leverage their resources. The budget language creating the Housing Trust Fund identified leveraging as an important component of the Fund’s operation.

Input Into the Structure of the Housing Trust Fund

Significant stakeholder input was gathered leading up to the development of the initial VHTF framework. Building on this foundation, DHCD has met with representatives of the Virginia Housing Alliance to discuss proposed changes for the VHTF and listen to input from the Alliance’s membership. Input sessions were held in February 2017 to gather feedback. Invitations were broadly extended to DHCD grantees and partners as well as posted on the Department’s website. A total of 85 individuals (excluding DHCD staff) attended the five sessions held across the state.

| Input Sessions | | |
|-----------------------|-------------------|-----------------------|
| <i>Where</i> | <i>When</i> | <i># of Attendees</i> |
| Roanoke | February 7, 2017 | 14 |
| Abingdon | February 8, 2017 | 9 |
| Richmond | February 9, 2017 | 26 |
| Hampton | February 13, 2017 | 12 |
| Prince William | February 14, 2017 | 24 |

In addition, Virginia Homeless Services input sessions were held in October 2017. Attendees were asked for feedback specific to the Virginia Homeless Reduction Grants (funded with Virginia Housing Trust Funds). A total of 130 attendees attended one of six sessions (two sessions were held in Prince William).

| Virginia Homeless Services: Input Sessions | | |
|---|------------------|-----------------------|
| <i>Where</i> | <i>When</i> | <i># of Attendees</i> |
| Roanoke | October 3, 2017 | 25 |
| Abingdon | October 4, 2017 | 10 |
| Prince William | October 6, 2017 | 51 |
| Newport News | October 12, 2017 | 15 |
| Richmond | October 13, 2017 | 29 |

Parameters of the Housing Trust Fund

The 2012 Budget Bill (Special Session I) included language establishing the basic parameters for the VHTF. These parameters included guidance on the allocation of funds for grants and loans, a statement describing the types of activities eligible for grants or loans, and a list of the types of organizations eligible to receive program funds. The budget direction also stressed the importance of considering opportunities for leveraging and providing flexibility in loan products.

To implement the provisions of the Appropriations Act, DHCD and VHDA are proposing to allocate funds through the broad categories shown on the following table. The intent of the

agencies is to encourage a variety of responses from eligible applicants so funds are deployed in a timely and strategic manner.

| 2017-18 Virginia Housing Trust Fund Allocation | |
|--|--------------------|
| Loans | |
| Competitive Loan Pool | \$3,290,000 |
| Vibrant Community Initiative | \$1,000,000 |
| Grants | |
| Homelessness Reduction Competitive Grant Pool (including Family Housing Stabilization) | \$1,100,000 |
| Administration | \$110,000 |
| Total | \$5,500,000 |

At the time of this report (November 1, 2017), applications for the 2017-18 VHTF programs are being received and will be evaluated in the coming months.

Affordable Housing Loan Program

At least 80 percent of the funds allocated to the VHTF must be used to provide loans that reduce the costs of affordable rental housing and homeownership. Building on their previous experience with the VHTF and the Virginia Housing Partnership Fund, the housing agencies have determined VHDA will assist in providing the underwriting services needed to implement the key provisions of loans made through this program. DHCD, with the participation of VHDA, will structure the design of the loan component with sufficient flexibility to maximize the long-term affordability and sustainability of the housing projects receiving assistance. They will also include provisions that encourage opportunities to include project participation from other public and private funding sources.

The loan program will have two distinct components. A majority of the loans will be offered through a competitive loan pool open to a variety of eligible projects accomplishing the VHTF's purposes. The second component will be dedicated to the Vibrant Communities Initiative.

Competitive Loan Pool

While the competitive loan pool will accommodate a wide array of possible projects, it will acknowledge the direction of a number of gubernatorial initiatives as well as the limited available funds by giving priority to demonstration projects that address articulated state housing policies. Such policies include supporting affordable, community housing options for persons with disabilities (including housing for the seriously mentally ill population and funding that could aid the state response to the DOJ settlement) and expanding permanent housing opportunities for persons experiencing homelessness. New in 2016 was a consolidated application process which allows applicants to apply for three sources of funding with one application. The Affordable and Special Needs Housing Consolidated Application combines VHTF monies with Federal HOME and Federal Housing Trust Fund monies. DHCD conducted How-to-Apply workshops for the Consolidated Application in the summer of 2017 and set proposal due dates for November 30, 2017 and March 31, 2018.

Most of the funds in the Competitive Loan Pool will be used to provide low-interest loans that are structured to meet the financing needs of specific projects. DHCD and VHDA anticipate that a majority of the loan pool will provide financial assistance for specific projects that address the affordable rental housing needs of very low-income citizens, while giving priority to projects that address critical housing needs mentioned in the previous paragraph as well as other areas of need such as returning veterans. To assure the long-term viability of affordable rental projects, the agencies will give priority consideration to projects that have an identified strategy for financial sustainability, such as providing rental assistance to income-qualified tenants. In keeping with the direction that the loans provide flexible financing, the agencies will set repayment rates and terms for each individual loan from the VHTF. In addition, provisions of the loan program will encourage applicants to pursue leveraged funds from other sources such as the Low Income Housing Tax Credit (LIHTC) program, program income derived from the Neighborhood Stabilization Program (NSP 1 and 3), and other federal and local housing programs such as HOME and the Community Development Block Grant (CDBG) program.

As with many of its programs, DHCD will use a competitive process to select projects for funding. The maximum VHTF amount available to a single project will be capped at \$700,000 for affordable housing projects and \$800,000 for projects targeting special needs and extremely low income populations. The criteria used to evaluate projects for funding will include the: (1) direct impact on one or more high priority state housing policies; (2) leveraging; (3) affordability; (4) financial sustainability; (5) impact on local housing needs; (6) feasibility, (7) readiness, (8) coordination of services and (9) the applicant's administrative capacity. DHCD will rank competitive project applications using a standardized review with a 100-point scale. No project will be funded that scores below sixty percent. DHCD will make funding offers to the highest scoring projects in descending order until available funds are exhausted or all projects scoring above sixty percent have been funded. Applicants may be asked to provide additional information to finalize funding offers. Property funded through a VHTF loan will be subject to a lien intended to ensure its continued use as targeted, affordable housing during a specified

period. The outstanding balance on the loan will be due in the event the affordability period is not met.

Vibrant Communities Initiative

In 2015-2016 DHCD initiated a pilot project, the Vibrant Communities Initiative, which combined multiple funding sources in order to fund comprehensive community projects. This effort also consolidated DHCD project management and program compliance requirements where possible.

The Vibrant Community Initiative will continue in 2017-2018 with \$1 million in funding from the VHTF to be combined with approximately \$3.5 million in funding from CDBG, HOME, and the Virginia Housing Development Authority for a total of \$4.5 million to be spent on comprehensive community projects.

The selection of projects will be a two phase process. The first phase is to submit an open letter of intent (pre-application); the second phase requires a full proposal from those projects selected through a review panel. Letters of intent (pre-applications) will be due January 31, 2018 with full proposals tentatively due in May 2018.

Full proposals will be invited for comprehensive projects selected from the letters of intent received. Proposals must clearly describe the overall comprehensive project and all project activities. A comprehensive project is a project that includes a range of activities for example, neighborhood revitalization, downtown redevelopment, homeowner rehabilitation, down payment assistance, rental project development, water/sewer, and/or other infrastructure.

The letters of intent will be reviewed by the DHCD review panel and selected for full proposals based on the following criteria:

- A plan and initial groundwork in place on a comprehensive project that includes at least a housing component;
- Demonstrated success with similar projects;
- Partnerships in place to execute the project; and
- Demonstrated capacity (financial and development team experience).

All invited proposals will be evaluated through a review committee based on the following scoring criteria:

- Alignment
- Need
- Project Readiness
- Capacity

Eligible projects must include a housing component as a key or significant part of the overall project. These projects must be structured to meet identified local needs and help to inform a larger scale application of the combined-resources process.

Homeless Reduction Grant Program

The budget *permits* the use of up to 20 percent of the funds allocated to the VHTF to provide grants for activities to reduce homelessness.

In accordance with budget language, the Homeless Reduction Grant funds may be used for temporary rental assistance, not to exceed one year, housing stabilization services in supportive housing for homeless individuals and families, and predevelopment assistance to support long-term housing opportunities for the homeless. The restriction on the amount of the VHTF available for grants (and the one-year assistance limitation) suggests the VHTF could not serve as a significant, long-term source of rental assistance. However, it could be used to close temporary gaps for individuals, serving as bridge for individuals transitioning into rental arrangements with documented commitments of future rental assistance from other federal, state or local sources.

As with the loan program, projects will be selected for funding through a competitive application process. Applicants may apply for up to \$100,000. The application period occurred in October 2017. As with the loan program, DHCD will rank competitive project applications using a standardized review. DHCD will make funding offers to the highest scoring projects in descending order until available funds are exhausted or all projects scoring above sixty percent have been funded. Applicants may be asked to provide additional information to finalize funding offers.

DHCD will select projects based on the following criteria: direct impact on an established state housing policy, sustainability, impact on local needs, impact on reducing homelessness, feasibility, and capacity. Priority will be given to efforts to reduce the number of homeless youth and families.

Approximately \$100,000 will be used to continue the pilot that was started in 2016 through the 2017/2018 school year. The Family Housing Stabilization Pilot works with 17+ year old high school students in Petersburg High School to provide housing stability and improve overall attendance and educational outcomes.

Organizations Eligible for Virginia Housing Trust Fund Allocations

The 2012 Budget specified several types of organizations as being eligible to receive funding through the VHTF; local governments, local housing and redevelopment authorities, regional or statewide organizations providing affordable housing and homeless assistance/services to Virginia citizens, and holding companies expressly created for owning and operating affordable housing were deemed eligible to apply for VHTF monies. This would not preclude eligible

organizations from contracting with a variety of other parties to assist in providing the housing and other resources required to satisfy the conditions of the grant or loan product.

Virginia Housing Trust Fund Administration and Management

Funding for the VHTF is included in the DHCD's budget. DHCD is to work in collaboration with the VHDA to carry out the provisions of the Fund. The two agencies partnered successfully to launch and implement the first iteration of the VHTF and this model will be followed moving forward.

DHCD and VHDA have a proven record of accomplishment in jointly administering statewide housing initiatives. In the late 1980s, the General Assembly passed legislation creating the Virginia Housing Partnership Fund. It was created to improve the quality and affordability of housing throughout the Commonwealth and was jointly administered by DHCD and VHDA. DHCD set policy, provided technical assistance to its housing development partners in responding to funding opportunities, and selected projects for funding through a competitive application process. VHDA provided underwriting services and originated and serviced loans.

Based on the model of the Partnership Fund, DHCD and VHDA jointly determine the policy parameters of the Housing Trust Fund. Specific aspects of Trust Fund implementation are handled by the individual agencies in accordance with their designated areas of expertise and responsibility.

With respect to the loan offerings, DHCD provides technical assistance during project development. VHDA, drawing on its forty-year experience in mortgage lending as the state's housing finance agency, provides project underwriting for the Affordable Housing Loan Program and performs loan origination, servicing and monitoring for all program loans. DHCD, which has more than thirty years' experience in managing federal and state grant and loan programs for housing and community development, as well as extensive involvement in homeless programs, administers the process to solicit applications for both the Competitive Loan Program and the Homeless Reduction Grant Program. Overall responsibility for the ongoing administration and monitoring of grants made through the Homeless Reduction Grant Program falls to DHCD.

Summary of Changes

The 2017-18 Program Design has some features which have evolved since the initial framework. Notably, the Competitive Loan Pool, beginning with the 2016 – 17 program year, is now a part of the previously described Affordable and Special Needs Housing Consolidated Application Process. This has streamlined the overall application process making three funding sources available through a single application. The 2017-2018 program year will also see the continuation of the previous years' Vibrant Communities Initiative, with \$1,000,000 from the Fund allocated for comprehensive community projects.

Evaluation and Analysis of Outcomes

The 2016-2018 Biennium Budget incorporated the requirement for reporting on the performance of the Virginia Housing Trust Fund. Section 108.E.2 of the Budget requires that the following outcomes are reported:

As part of the plan required by § [36-142 E.](#), Code of Virginia, the department shall also report on the impact of the loans and grants awarded through the fund, including but not limited to: (i) the number of affordable rental housing units repaired or newly constructed, (ii) the number of individuals receiving down payments and/or closing assistance, and (iii) the progress and accomplishments in reducing homelessness achieved by the additional support provided through the fund.

The number of individuals receiving down payment and/or closing assistance is not included in the reporting as it has not been included in the program design for the VHTF. This is consistent with the creation of the Fund as the enabling legislation states the Fund *may* provide funds to be used for down payment and closing cost assistance for homebuyers. The agencies anticipate that additional outcome measures will include housing units provided, with a special focus on units provided to hard-to-serve target populations; services provided to support reducing homelessness; and the degree to which other financial resources can be leveraged for housing.

Both public input and the perspectives of state agencies with concerns about housing for a number of special needs categories expressed the desire to see resources directed toward areas of need addressed through crosscutting state policies. Improved interagency collaboration and communication has clearly indicated a pervasive lack of affordable housing impedes progress on a range of state policies. The evaluation will examine the extent to which the Trust Fund is able to facilitate progress in addressing areas of priority need.

Once all VHTF resources have been allocated, DHCD and VHDA will advise the Senate Finance and House Appropriation Committee chairs of the types of projects, uses of funds and locations associated with the grant or loan awards.

Summary of 2016-17 Utilization

| 2016-2017 Virginia Housing Trust Fund Allocation* | |
|--|--------------------|
| Loans | |
| Competitive Loan Pool | \$3,312,000 |
| Vibrant Communities Initiative | \$1,000,000 |
| Grants | |
| Competitive Grant Pool (Homeless Reduction) | \$850,000 |
| Family Housing Stabilization | \$250,000 |
| Administration | \$88,000 |
| Total | \$5,500,000 |

*Figures represent initial allocation plan; due to the pace of the Family Housing Stabilization project, approximately \$100,000 was reallocated from the Family Housing Stabilization project to the Competitive Grant Pool for 2016-2017; unexpended funds from 2015-2016 were also utilized in the Competitive Grant Pool

2016-2017 Demand Summary

- Nearly \$13.5 million requested for the \$3.3 million in the Competitive Loan Pool funds
 - o 25 applications
 - o 6 awarded
- Nearly \$3 million requested for \$1.05 million in Homeless Reduction Grants (see note above regarding 2016-2017 allocation)
 - o 33 applicants
 - o 12 awards offered

Summary Points

- Overall, approximately \$5.5 million in HTF resources invested in creating or preserving affordable housing
 - o Many projects serving very low and extremely low income populations that are very hard to serve, such as chronically homeless and persons with intellectual and developmental disability
- Creation and Preservation of Affordable Housing units (Competitive Loan pool)
 - o \$3.3 million invested to support \$123 million in total project costs
 - o 359 units (286 affordable housing to low income Virginians) will be created or preserved
- \$1 million awarded through the Vibrant Community Initiative to support comprehensive community projects; includes \$1.25 million in funds leveraged through housing, community, and economic development programs for total development costs in excess of \$48 million
- 200 individuals and families will be assisted through homeless reduction and permanent supportive housing assistance
- Family Housing Stabilization targeted to Petersburg High School pilot to improve housing stability and thus attendance and overall educational outcomes for homeless youth 17+

Appendix A: Code of Virginia – Creation and Management of the Fund & Budget Reporting Requirements

§ 36-142. Creation and management of Fund.

A. There is hereby established in the state treasury a special permanent, nonreverting fund, to be known as the "Virginia Housing Trust Fund." The Fund shall be established on the books of the Comptroller and consist of sums appropriated to the Fund by the General Assembly, all receipts by the Fund from loans made by it to housing sponsors and persons and families of low and moderate income, all income from the investment of moneys held in the Fund, and any other sums designated for deposit to the Fund from any source, public or private. The Fund shall also consist of such other sums as may be made available to it and shall include federal grants solicited and received for the specific purposes of the Fund and all interest and income from investment of the Fund. Any sums remaining in the Fund, including interest thereon, at the end of each fiscal year shall not revert to the general fund but shall remain in the Fund. All moneys designated for the Fund shall be paid into the state treasury and credited to the Fund.

B. The Department shall:

1. Work in collaboration with the HDA to provide loan origination and servicing activities as needed to carry out the purposes of the Fund. The costs of such services shall be considered an eligible use of the Fund; and
2. Use, through HDA, at least 80 percent of the moneys from the Fund to provide flexible financing for low-interest loans through eligible organizations. Such loans shall be structured to maximize leveraging opportunities. All such funds shall be repaid to the credit of the Fund. Loans may be provided for (i) affordable rental housing to include new construction, rehabilitation, repair, or acquisition of housing to assist low or moderate income citizens, including land and land improvements; (ii) down payment and closing cost assistance for homebuyers; and (iii) short-term, medium-term, and long-term loans to reduce the cost of homeownership and rental housing. Moneys required by the HDA to fund such loans and perform loan closing and disbursement services shall be transferred from the Fund to the HDA. The Department may use up to 20 percent of the moneys from the Fund to provide grants through eligible organizations for targeted efforts to reduce homelessness, including (a) temporary rental assistance, not to exceed one year; (b) housing stabilization services in permanent supportive housing for homeless individuals and homeless families; (c) mortgage foreclosure counseling targeted at localities with the highest incidence of foreclosure activity; and (d) predevelopment assistance for permanent supportive housing and other long-term housing options for the homeless.

C. The Fund shall be administered and managed by the Department as prescribed in this chapter. In order to carry out the administration and management of the Fund, the Department is granted the power to contract with or employ officers, employees, agents, advisers and consultants, including, without limitation, attorneys, financial advisers, public accountants,

engineers and other technical advisers and, the provisions of any other law to the contrary notwithstanding, to determine their duties and compensation without the approval of any other agency or instrumentality. The Department may disburse from the Fund its reasonable costs and expenses incurred in the administration and management of the Fund, including reasonable fees and costs of the HDA.

D. For the purposes of this section, eligible organizations include (i) localities, (ii) local government housing authorities, (iii) regional and statewide housing assistance organizations that provide assistance to low and moderate income or low income citizens of Virginia, and (iv) limited liability companies expressly created for the purpose of owning and operating affordable housing.

E. In any year prior to the expenditure of any general funds appropriated for the Fund for the next succeeding fiscal year, the Department, in conjunction with HDA, shall submit a plan outlining the proposed uses of such funds to the General Assembly. The plan shall be provided to the Chairmen of the House Committee on Appropriations and the Senate Committee on Finance no later than November 1 of each year.

HB 1500, Budget Item 108, Housing Assistance Services (Chapter 836 of the 2017 Appropriation Act).

E.1. Out of the amounts in this Item, \$5,500,000 the first year and \$5,500,000 the second year from the general fund shall be deposited to the Virginia Housing Trust Fund, established pursuant to § 36-142 et seq., Code of Virginia. Notwithstanding § 36-142, Code of Virginia, when awarding grants through eligible organizations for targeted efforts to reduce homelessness, priority consideration shall be given to efforts to reduce the number of homeless youth and families.

2. As part of the plan required by § 36-142 E., Code of Virginia, the department shall also report on the impact of the loans and grants awarded through the fund, including but not limited to: (i) the number of affordable rental housing units repaired or newly constructed, (ii) the number of individuals receiving down payments and/or closing assistance, and (iii) the progress and accomplishments in reducing homelessness achieved by the additional support provided through the fund.

Appendix B: Housing Trust Fund Snapshot 2017-2018 Allocation

| Trust Fund Components & Features | Grants | Loan | | Totals |
|----------------------------------|--|---|---|---|
| | Homelessness Reduction | Vibrant Community Initiative | Competitive Loan Pool | |
| Purpose | Provide competitive grants to local/ regional partners providing temporary (<1 year) rental assistance; housing stabilization services in permanent supportive housing; and pre-development for long-term housing opportunities for the homeless. Require coordination with CoC. | Competitive process to combine multiple funding sources in order to fund comprehensive community projects. Trust Fund resources will be directed to activities supporting the creation or preservation of affordable housing opportunities. Will consolidate project management and program compliance requirements where possible. | Through a competitive process, provide 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 demonstrating financial sustainability and leveraging. <i>Prioritize projects serving special needs populations—ID/DD, Severe mental illness, Permanent Supportive Housing</i> | |
| Funding Available | \$1,100,000 | \$1,000,000 | \$3,290,000 | \$5,500,000 (\$110,000 Administration) |
| Project Caps | \$100,000 per project; May include Family Housing Stabilization | \$2,225,000 per project; combined with other sources of funding | \$700,000 per affordable housing project/ \$800,000 for projects focused on special needs and very low income housing | |