

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

**The Virginia Housing Trust Fund
and the
Financial Status of the Virginia Housing Partnership Revolving
Fund
Included: Manufactured Home Park Addendum Pursuant to
Budget Item 114 E 3**

**Submitted by:
The Department of Housing and Community Development
December 2022**

The Virginia Housing Trust Fund and the Financial Status of the Virginia Housing Partnership Revolving Fund

Introduction

Section 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 Chairs of the House Appropriations and the Senate Finance and Appropriations Committees.

In accordance with the requirement of § 36-150 of the Code of Virginia, DHCD presents the following document, which includes two sections and an addendum.¹ Part I reviews the current allocation of funds for VHTF activities and the impacts of funds allocated in 2021-2022, as well as changes to the VHTF Program Design for 2022-2023. Part II updates information concerning the financial status of the Virginia Housing Partnership Revolving Fund, presently administered by Virginia Housing. The latter section continues the format used during previous years in accordance with the former statute and incorporates materials provided by Virginia Housing's independent auditor, Clifton Larson Allen. This year's report includes also an addendum related to Budget Item 114 E 3, which requires the following:

As part of its plan for 2022 required by § [36-150](#), Code of Virginia, the department shall include an assessment on the feasibility of using Virginia Housing Trust Fund resources to acquire, stabilize and improve manufactured home parks as a source of affordable housing for Virginians...

The Manufactured Home Park addendum is included at the end of the report.

Part I: The Virginia Housing Trust Fund

Purpose and Background

The Biennium Budget for 2022-2024 (Special Session 1, 2022) allocated \$75,000,000 in the first year and \$75,000,000 in the second year to fund activities through the Virginia Housing Trust Fund (VHTF). This is an increase from the 2020-2022 Biennium Budget, which allocated \$70,700,000 in the first year and \$55,000,000 in the second year to support the activities of the VHTF.

¹ <https://law.lis.virginia.gov/vacode/title36/chapter9/section36-150/>

Per statute, 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.

Pursuant to provisions included in the Biennium Budget related to the COVID 19 pandemic, certain prescribed budget allocation requirements were allowed to be temporarily adjusted to meet the needs of the pandemic. As such, the historic requirement that 80 percent of funds be used for short, medium, and long-term loans to reduce the cost of homeownership and rental housing was adjusted to 60 percent by the Board of Housing and Community Development. The remaining 40 percent of the VHTF was permitted to be used to provide grants for targeted efforts to reduce homelessness. The Board returned the allocation to 80 percent loans and up to 20 percent grants in 2021 because of the need to focus on the production of more affordable housing.

The entities charged with administering the VHTF—the Department of Housing and Community Development (DHCD) and Virginia Housing (previously named Virginia Housing Development Authority)—have extensive experience in implementing the activities needed to carry out the provisions of the VHTF. Virginia Housing 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 Virginia Housing worked collaboratively to implement the provisions of the Virginia Housing Partnership Revolving Fund, which was the predecessor to the VHTF. Both DHCD and Virginia Housing 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 VHTF identified leveraging as an important component of its 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, input sessions were held in March 2022 to gather feedback. Invitations were broadly extended to DHCD grantees, partners, and the public, as well as posted on the department’s website. DHCD held virtual input sessions due to COVID-19 restrictions. Sessions were organized by region, but open to all. More than 200 individuals participated in these sessions.

In addition, Virginia Homeless Services input sessions are held every other year and were held in October 2021. Attendees were asked for feedback specific to the Virginia Homeless Reduction Grants (funded through the VHTF).

Virginia Homeless Services: Input Sessions	
Where	When
Eastern/Hampton Roads	October 13, 2021
Northern/Valley	October 14, 2021
Central/Southside	October 19, 2021
Southwest/West Central	October 20, 2021

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 Virginia Housing encourage a variety of responses from eligible applicants so funds are deployed in a timely and strategic manner and propose to continue to allocate funds through the broad categories shown on the following table.

2022-23 Virginia Housing Trust Fund Allocation	
Loans	
Competitive Loan Pool	\$60,000,000
Grants	
Homelessness Reduction Competitive Grant Pool	\$11,500,000
Permanent Supportive Housing – Predevelopment Grants	\$500,000
Administration	\$3,000,000
Total	\$75,000,000

At the time of this report (December 2022), applications for the 2022-2023 VHTF competitive loan pool and homeless reduction grants are being evaluated. Please note that any funding not utilized under the Permanent Supportive Housing –Predevelopment and the Homeless Reduction Grants will be allocated to the Competitive Loan Pool administered the Affordable and Special Needs Housing (ASNH) program at DHCD.

Affordable Housing Loan Program

Per statute, 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 previous experience with the VHTF and the Virginia Housing Partnership Fund, the housing agencies have determined Virginia Housing will assist in providing the underwriting services needed to implement the key provisions of loans made through this program. DHCD, with the participation of Virginia Housing, 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.

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 and General Assembly initiatives as well as the limited availability of funds by giving priority to demonstration projects that address articulated state housing policies. Such policies include permanent supportive housing options for persons with disabilities (including housing for people with serious mental illness and funding that could aid the state response to the U.S. Department of Justice settlement) and expanding permanent housing opportunities for persons experiencing homelessness. DHCD uses a consolidated application process, which allows applicants to apply for four 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 as well as Housing Innovations in Energy Efficiency investments. DHCD conducted How-to-Apply workshops for the Consolidated Application in the fall of 2022 and set proposal due dates for October 31, 2022 and March 31, 2023.

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 Virginia Housing 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 (household income at or below 50 percent area median income or AMI) 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 and other federal and local housing programs such as HOME and the Community Development Block Grant (CDBG) program.

DHCD will use a competitive process to select projects for funding. The maximum VHTF amount available to a single project is capped at \$700,000 for affordable housing projects and \$900,000 for projects providing permanent supportive housing units. The criteria used to evaluate projects for funding will include the following: (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.

Homeless Reduction Grant Program

Per statute, up to 20 percent of the funds allocated to the VHTF are permitted for the reduction of homelessness. The Homeless Reduction Grant funds may be used for temporary rental assistance, not to exceed one year, housing stabilization services in permanent supportive housing for the chronically homeless, and predevelopment assistance for permanent supportive housing for the chronically homeless. In accordance with budget language, priority consideration will be given to efforts to reduce the number of homeless youth and families.

DHCD will select projects based on need, approach, local coordination, and capacity. As with the loan program, projects will be selected for funding through a competitive application process. Applicants may apply for the amount needed to administer the project, DHCD does not anticipate entering into grant agreements for less than \$25,000. The application period occurs annually in the Fall and this year in December. 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.

Organizations Eligible for Virginia Housing Trust Fund Allocations

Several types of organizations are specified in the Code and guidelines 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 residents, and holding companies expressly created for owning

and operating affordable housing are 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 DHCD’s budget. DHCD is to work in collaboration with Virginia Housing to carry out the provisions of the VHTF. DHCD and Virginia Housing 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 Virginia Housing. 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. Virginia Housing provided underwriting services and originated and serviced loans.

Based on the model of the Partnership Fund, DHCD and Virginia Housing jointly determine the policy parameters of the Housing Trust Fund. Specific aspects of the VHTF 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. Virginia Housing, 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 2021-22 Utilization

2021-2022 Virginia Housing Trust Fund Allocation	
Loans	
Competitive Loan Pool	\$44,000,000
Grants	
Homeless Reduction Grant Pool	\$8,300,800
Permanent Supportive Housing – Predevelopment Grants	\$500,000
Administration	\$2,200,000
Total	\$55,000,000

2021-2022 Demand Summary

- Approximately \$65.1 million requested for the \$44 million in the Competitive Loan Pool funds
 - o 93 applications
 - o 63 awarded
- Over \$6.2 million requested for \$8.3 million in Homeless Reduction Grants
 - o Balance to be awarded through the Competitive Loan Pool
 - o 35 applications
 - o 35 awards
 - o 23 Rapid Rehousing (RRH)/Underserved Population Innovation (UPI) projects and 12 Permanent Supporting Housing (PSH)

Summary Points for FY 2021-22

- More than \$44 million in VHTF resources invested in creating or preserving affordable housing (this included some unused homeless reduction grant funds)
 - 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 disabilities
- Creation and Preservation of Affordable Housing units (Competitive Loan pool)
 - o \$43.4 million invested (includes additional Homeless Reduction Grant unobligated funds) to leverage \$1.1 billion in other resources
 - o 3,874 affordable units will be created or preserved
 - o 32 projects with permanent supportive housing (PSH) units
 - o 243 PSH units
- 1,197 households were assisted through the homeless reduction RHH/UPI grants and PSH assistance
 - o RRH/UPI – 719 households
 - o PSH – 478 households

Housing Trust Fund Snapshot 2022-2023 Allocation

Trust Fund Components & Features	Grants	Loans	Totals
	Homelessness Reduction	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.	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	\$12,000,000 (Includes \$500,000 for PSH Pre-development Grants)	\$60,000,000,000	\$75,000,000 (\$3,000,000 Administration)
Project Caps	None – based on need Predevelopment Grants \$100,000	\$700,000 per affordable housing project/ \$900,000 for projects providing PSH	

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, the partnership fund provided grants and loans to a variety of housing providers and to persons and families of low and moderate-income. While in active operation, 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, Item 111 G of the Appropriations Act directed the sale of the portfolio of outstanding loans and other assets of the Partnership Fund to VHDA.² 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 (CPHF), 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 CPHF 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 remained on the books of VHDA where it was subject to annual financial reporting.

With the passage of legislation establishing the Virginia Housing Trust Fund (VHTF) during the 2013 Session of the Virginia General Assembly, VHDA assumed the role of administrator for VHTF, subject to program guidelines established by DHCD.³ For the purposes of the program and VHDA's financial reporting, the VHTF received the investments previously held in the partnership fund. This effectively eliminated the partnership fund as a separate entry onto the books of the Authority, where the VHTF replaced it.

Thus, this portion of the report, in accordance with the provisions of § 36-150 of the Code of Virginia, addresses the financial status of the Virginia Housing Trust Fund and the former Virginia Housing Partnership Revolving Fund. The unaudited status of the Virginia Housing Trust Fund and the former Virginia Housing Partnership Revolving Fund is reflected as of September 30, 2022 (pages 11-13 attached below). This report addresses the net position, changes in net position, revenues and expenses associated with the Virginia Housing Trust Fund. Virginia Housing, as administrator of a portion of the VHTF, provided the material included in this report. The financial status report on the VHTF was included in the Virginia Housing financial statements for the year ended June 30, 2022. The public accounting firm Clifton Larson Allen audited these statements (pages 14-19 attached below). 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 VHTF.

² <https://leg1.state.va.us/cgi-bin/legp504.exe?031+bud+21-111>

³ Chapter 754, 2013 Acts of Assembly: <https://lis.virginia.gov/cgi-bin/legp604.exe?131+ful+CHAP0754+pdf>

VIRGINIA HOUSING TRUST FUND
Statement of Net Position
As of September 30, 2022
Unaudited

Assets:

Cash	\$	550.17
Investments - Net		1,774,600.00
Mortgage Loans Receivable		24,898,970.22
Interest Receivable - Investments		1,806.30
Interest Receivable - Mortgages		56,175.20
		56,175.20
Total Assets	\$	26,732,101.89
		26,732,101.89

Liabilities and Net Position:

VHTF P&I Liabilities	\$	87,673.90
Due to DHCD		1,646,202.00
Yearly Management Fee Due to VHDA		76,208.00
		76,208.00
Total Liabilities		1,810,083.90
Net Position (previously held by VPRF)		11,230.00
Net Position (held by VHFT)		24,910,787.99
		24,910,787.99
28010 - CPH/VPR Funds		12,064.83
28015 - VHT Funds/NHT Funds		24,906,645.79
28030 - Interest Income - Investments		3,307.37
		3,307.37
Total Net Position		24,922,017.99
		24,922,017.99
Total Liabilities and Net Position	\$	26,732,101.89
		26,732,101.89

VIRGINIA HOUSING TRUST FUND
Statement of Revenues, Expenses, and Changes in Net Position
For the Month Ended September 30, 2022 and Fiscal Year to Date
Unaudited

<u>Revenues:</u>	<u>Month</u>	<u>Year To Date</u>
MF Home Interest	\$ -	\$ -
Interest Income - Investments	2,394.96	3,307.37
Management Fee Contribution from VHDA	-	-
	<hr/>	<hr/>
Total Revenues	2,394.96	3,307.37
	<hr/>	<hr/>
<u>Expenses</u>		
Fund Management Fee	-	-
	<hr/>	<hr/>
Total Expenses	-	-
	<hr/>	<hr/>
Excess of Revenues over Expenses	\$ 2,394.96	\$ 3,307.37
	<hr/>	<hr/>
Beginning Net Position (previously held by VPRF)	-	11,230.00
Beginning Net Position	-	24,301,644.56
VHT Fund Decrease 1	(4,725.24)	(14,163.94)
Fund Contribution (Distribution)	-	620,000.00
	<hr/>	<hr/>
Ending Net Position		\$ 24,922,017.99
		<hr/> <hr/>

¹ Note: The decrease in fund is due to Principal collected on loans for September '22.

VIRGINIA HOUSING TRUST FUND
Change in Net Position
For the Month Ended September 30, 2022 and Fiscal Year to Date
Unaudited

Change in Net Position	Month	Year To Date
Beginning Balance	\$ -	\$ 11,230.00
Beginning Balance VHFT		24,301,644.56
Total Beginning Balance		24,312,874.56
 Fund Increases:		
Interest Income - Investments	2,394.96	3,307.37
Fund Contributions from VHDA - Management Fee	-	-
Fund Contributions	-	620,000.00
	2,394.96	623,307.37
 Fund Decreases:		
VHT Fund Decrease 1	4,725.24	14,163.94
Fund Distributions	-	-
Fund Management Fee	-	-
	4,725.24	14,163.94
 Net Change		
	\$ (2,330.28)	609,143.43
 Ending Net Position		
		\$ 24,922,017.99

¹ Note: The decrease in fund is due to Principal collected on loans for September '22.

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

Notes to Basic Financial Statements

June 30, 2022 and 2021

U.S. Department of Housing and Urban Development – Housing Counseling Assistance Program

The Authority serves as an administrator for HUD-approved Housing Counseling Agencies in the Commonwealth. The Housing Counseling Assistance Program provides counseling to consumers on seeking, financing, maintaining, renting, or owning a home. The Authority did receive pass-through grants of \$643,458 and \$1,124,309 during the years ended June 30, 2022 and 2021, respectively.

U.S. Department of the Treasury – Rent Relief Program

The Authority serves as a sub-recipient of U.S. Department of the Treasury funds from Virginia Department of Housing and Community Development (DHCD) to support the Rental Relief Program. The program provided financial assistance for up to 15 months of rental payments to property owners for the benefit of their tenants. The program was funded by three funding sources, two federal and one state: Coronavirus Relief Fund, Emergency Rental Assistance Program and the Housing Trust Fund.

During the year ended June 30, 2022, the Authority received and disbursed pass-through grants totaling \$49,404 and \$137,447,069 for the Coronavirus Relief Fund and Emergency Rental Assistance Program, respectively. The Authority also received and disbursed state pass-through grants from Housing Trust Fund for \$1,565,614. For its support of the program, the Authority earned \$6,362,340 in administrative fees.

U.S. Department of the Treasury – Homeowner Assistance Fund

The Authority serves as recipient of U.S. Department of the Treasury funds to support the Homeowner Assistance Fund. The program provided financial assistance to mitigate financial hardships associated with the coronavirus pandemic by providing funds to eligible entities for the purpose of preventing homeowner mortgage delinquencies, defaults, foreclosures, loss of utilities or home energy services, and displacements of homeowners experiencing financial hardship after January 21, 2020.

During the year ended June 30, 2022, the Authority received and disbursed Homeowner Assistance Fund grants of \$31,634,971. For its support of the program, the Authority earned \$8,894,118 in administrative fees.

(t) Commonwealth Priority Housing Fund, Housing Trust Fund, & National Housing Trust Fund

The Commonwealth Priority Housing Fund (Fund), established by the 1988 Session of the Virginia General Assembly, uses funds provided by the Commonwealth in that Session to make loans and grants for a wide variety of housing initiatives. The Virginia Department of Housing and Community Development (DHCD) develops the program guidelines and the Authority acts as administrator for the Fund.

The Housing Trust Fund (Trust Fund), established by the 2013 Session of the Virginia General Assembly, uses funds provided by the Commonwealth in that Session to make loans and grants for a wide variety of housing initiatives. DHCD develops the program guidelines and the Authority acts as administrator for the Trust Fund.

The National Housing Trust Fund (National Trust) is a federal fund established through the Housing and Economic Recovery Act of 2008, it exclusively targets to help build, preserve, rehabilitate, and operate housing that is affordable to people with the lowest incomes. DHCD administers the program through the Affordable and Special Needs Housing application process.

In accordance with GASB Statement No. 84, *Fiduciary Activities*, the Commonwealth Priority Housing Fund, Housing Trust Fund and National Housing Trust Fund are now accounted for as

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

Notes to Basic Financial Statements

June 30, 2022 and 2021

fiduciary activities and disclosed on the Authority's Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position.

(u) Cash Equivalents

Cash equivalents consist of highly liquid short-term instruments with original maturities of three months or less from the date of purchase and are recorded at amortized cost. Cash equivalents include commercial paper, repurchase agreements, money-market securities, and other short-term instruments.

(v) Rebatable Arbitrage

Rebatable arbitrage involves the investment of proceeds from the sale of tax-exempt debt in a taxable investment that yields a higher rate than the rate of the debt. This results in investment income in excess of interest costs. Federal law requires such income be rebated to the U.S. government if the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued. Arbitrage must be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. For financial reporting purposes the potential liability is calculated annually.

(w) Statements of Net Position

The assets presented in the Statements of Net Position represent the total of similar accounts of the Authority's various groups (see Note 2). Since the assets of certain of the groups are restricted by the related debt resolutions, the total does not indicate that the combined assets are available in any manner other than that provided for in the resolutions for the separate groups. When both restricted and unrestricted resources are available for use, the Authority's policy is to use restricted resources first and thereafter, unrestricted resources as needed.

(x) Operating and Nonoperating Revenues and Expenses

The Authority's Statements of Revenues, Expenses, and Changes in Net Position distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally arise from financing the acquisition, construction, rehabilitation, and ownership of housing intended for occupancy and ownership, by families of low or moderate income. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(y) Deferred Outflows of Resources and Deferred Inflows of Resources

The Authority reports deferred outflows of resources and deferred inflows of resources on its Statements of Net Position. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense) until the applicable period. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until a future period. See Note 15 for further discussion regarding deferred outflows of resources and deferred inflows of resources associated with the Authority's other postemployment benefits plan.

(z) Deferred Fees and Points on Multifamily Loans

During the rental housing origination process, fees are collected during the loan closing process. Origination type fees are reported as income in the current year collected however, the fees related to loan pricing are treated as points and deferred over the life of the loan.

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

Combining Schedule of Fiduciary Net Position
Fiduciary Funds – Custodial Funds

June 30, 2022

	Escrow Funds (GNMA, FNMA, FHLMC, Habitat)	Commonwealth Priority Housing Fund	Virginia Housing Trust Fund	National Housing Trust Fund	Total Custodial Funds
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 93,736,163	3,642,444	754,128	817,025	98,949,760
Interest receivable - investments	-	2,952	1,279	633	4,864
Interest receivable - mortgage and other loans	-	1,046	53,593	7,469	62,108
Other assets	-	65,149	-	-	65,149
Total current assets	<u>93,736,163</u>	<u>3,711,591</u>	<u>809,000</u>	<u>825,126</u>	<u>99,081,881</u>
Noncurrent assets:					
Mortgage and other loans receivable	-	2,702,870	24,293,135	9,000,847	35,996,852
Investments	-	-	-	-	-
Total noncurrent assets	<u>-</u>	<u>2,702,870</u>	<u>24,293,135</u>	<u>9,000,847</u>	<u>35,996,852</u>
Total assets	<u>93,736,163</u>	<u>6,414,461</u>	<u>25,102,135</u>	<u>9,825,973</u>	<u>135,078,732</u>
LIABILITIES					
Other liabilities	-	1,078,596	789,260	845,447	2,713,304
Total liabilities	<u>-</u>	<u>1,078,596</u>	<u>789,260</u>	<u>845,447</u>	<u>2,713,304</u>
NET POSITION					
Restricted for:					
Other postemployment benefit plan other than pension					
Funds held in escrow	93,736,163	-	-	-	93,736,163
Other governmental agency	-	5,335,865	24,312,875	8,980,526	38,629,266
Total Net Position	<u>\$ 93,736,163</u>	<u>5,335,865</u>	<u>24,312,875</u>	<u>8,980,526</u>	<u>132,365,429</u>

See accompanying independent auditors' report.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
Combining Schedule of Changes in Fiduciary Net Position
Fiduciary Funds – Custodial Funds
Year Ended June 30, 2022

	<u>Escrow Funds (GNMA, FNMA, FHLMC, Habitat)</u>	<u>Commonwealth Priority Housing Fund</u>	<u>Virginia Housing Trust Fund</u>	<u>National Housing Trust Fund</u>	<u>Total Custodial Funds</u>
ADDITIONS					
Contribution:					
Borrower payments	\$ 2,716,640,483	-	-	-	2,716,640,483
Employers	-	22,091	86,619	32,859	141,569
Other governmental agency minus Employers	-	-	5,656,152	3,800,000	9,456,152
Total Contributions	<u>2,716,640,483</u>	<u>22,091</u>	<u>5,742,771</u>	<u>3,832,859</u>	<u>2,726,238,204</u>
Investment earnings:					
Interest, dividends, and other	-	19,308	3,139	1,604	24,051
Total investment earnings	<u>-</u>	<u>19,308</u>	<u>3,139</u>	<u>1,604</u>	<u>24,051</u>
Total additions	<u>2,716,640,483</u>	<u>41,399</u>	<u>5,745,910</u>	<u>3,834,463</u>	<u>2,726,262,255</u>
DEDUCTIONS					
Other governmental agency	-	110,000	56,303	-	166,303
Disbursement of escrow funds	2,763,517,863	-	-	-	2,763,517,863
Administrative expense	-	24,882	76,208	30,687	131,777
Total deductions	<u>2,763,517,863</u>	<u>134,882</u>	<u>132,511</u>	<u>30,687</u>	<u>2,763,815,943</u>
Net increase in fiduciary net position	(46,877,380)	(93,483)	5,613,399	3,803,776	(37,553,688)
Net position - beginning	140,613,543	5,429,348	18,699,476	5,176,750	169,919,117
Net position - ending	<u>\$ 93,736,163</u>	<u>5,335,865</u>	<u>24,312,875</u>	<u>8,980,526</u>	<u>132,365,429</u>

See accompanying independent auditors' report.

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

Combining Schedule of Fiduciary Net Position
Fiduciary Funds – Custodial Funds
June 30, 2021

	<u>Escrow Funds (GNMA, FNMA, FHLMC, Habitat)</u>	<u>Commonwealth Priority Housing Fund</u>	<u>Virginia Housing Trust Fund</u>	<u>National Housing Trust Fund</u>	<u>Total Custodial Funds</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 140,613,543	6,111,059	2,000,179	721,496	149,446,277
Interest receivable - investments	-	124	54	16	194
Interest receivable - mortgage and other loans	-	1,046	44,303	6,375	51,724
Other assets	-	65,267	-	-	65,267
Total current assets	<u>140,613,543</u>	<u>6,177,496</u>	<u>2,044,536</u>	<u>727,887</u>	<u>149,563,462</u>
Noncurrent assets:					
Mortgage and other loans receivable	-	2,254,370	18,693,285	5,200,847	26,148,502
Total noncurrent assets	<u>-</u>	<u>2,254,370</u>	<u>18,693,285</u>	<u>5,200,847</u>	<u>26,148,502</u>
Total assets	<u>140,613,543</u>	<u>8,431,866</u>	<u>20,737,821</u>	<u>5,928,734</u>	<u>175,711,964</u>
LIABILITIES					
Other liabilities	-	3,002,518	2,038,345	751,984	5,792,847
Total liabilities	<u>-</u>	<u>3,002,518</u>	<u>2,038,345</u>	<u>751,984</u>	<u>5,792,847</u>
NET POSITION					
Restricted for:					
Funds held in escrow	140,613,543	-	-	-	140,613,543
Other governmental agency	-	5,429,348	18,699,476	5,176,750	29,305,574
Total Net Position	<u>\$ 140,613,543</u>	<u>5,429,348</u>	<u>18,699,476</u>	<u>5,176,750</u>	<u>169,919,117</u>

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

Combining Schedule of Changes in Fiduciary Net Position
Fiduciary Funds – Custodial Funds
Year Ended June 30, 2021

	Escrow Funds (GNMA, FNMA, FHLMC, Habitat)	Commonwealth Priority Housing Fund	Virginia Housing Trust Fund	National Housing Trust Fund	Total Custodial Funds
ADDITIONS					
Contribution:					
Borrower payments	\$ 3,634,520,105	-	-	-	3,634,520,105
Employers	-	22,320	58,398	18,320	99,038
Other governmental agency	-	-	4,759,150	2,775,000	7,534,150
Total Contributions	<u>3,634,520,105</u>	<u>22,320</u>	<u>4,817,548</u>	<u>2,793,320</u>	<u>3,642,153,293</u>
Investment earnings:					
Interest, dividends, and other	-	16,702	2,160	381	19,243
Total investment earnings	<u>-</u>	<u>16,702</u>	<u>2,160</u>	<u>381</u>	<u>19,243</u>
Total additions	<u>3,634,520,105</u>	<u>39,022</u>	<u>4,819,708</u>	<u>2,793,701</u>	<u>3,642,172,536</u>
DEDUCTIONS					
Other governmental agency	-	1,262,488	55,743	-	1,318,231
Disbursement of escrow funds	3,635,579,901	-	-	-	3,635,579,901
Administrative expense	-	22,091	86,619	32,859	141,569
Total deductions	<u>3,635,579,901</u>	<u>1,284,579</u>	<u>142,362</u>	<u>32,859</u>	<u>3,637,039,701</u>
Net increase in fiduciary net position	(1,059,796)	(1,245,557)	4,677,346	2,760,842	5,132,835
Net position - beginning	141,673,339	6,674,905	14,022,130	2,415,908	164,786,282
Net position - ending	<u>\$ 140,613,543</u>	<u>5,429,348</u>	<u>18,699,476</u>	<u>5,176,750</u>	<u>169,919,117</u>

Feasibility Assessment – Use of the Virginia Housing Trust to support activities related to Manufactured Home Parks Submitted pursuant to Budget Item 114 E 3

Executive Summary

Manufactured home parks have increasingly been identified as a naturally occurring form of affordable and workforce housing. The current enabling legislation for the Virginia Housing Trust Fund permits the use of the Fund to support activities related to acquiring, stabilizing and improving manufactured home parks. While such activities are permitted in the legislation, associated federal funding sources, current program guidelines, and the unique ownership/rental structures of manufactured home parks create an environment where the feasibility of using the Fund for these purposes may be constrained.

Background

In 2022, the Virginia General Assembly passed HB30 Chapter 2 Item 114 E 3 which states:

As part of its plan for 2022 required by § [36-150](#), Code of Virginia, the department shall include an assessment on the feasibility of using Virginia Housing Trust Fund resources to acquire, stabilize and improve manufactured home parks as a source of affordable housing for Virginians.

The Virginia Housing Trust Fund is a nonreverting state general fund resource created under Title 36 of the Code of Virginia to support the creation and preservation of affordable and attainable housing in Virginia. Three key definitions within Title 36 are relevant to determining the feasibility of the Fund to *acquire, stabilize, and improve manufactured home parks*. These definitions are included below:

"Housing development" or "housing project" means any work or undertaking, whether new construction or rehabilitation, which is designed and financed pursuant to the provisions of this chapter for the primary purpose of providing affordable sanitary, decent and safe dwelling accommodations for persons and families of low or moderate income in need of housing; such work or undertaking may include any buildings, land, equipment, facilities, or other real or personal properties which are necessary, convenient, or desirable appurtenances, including but not limited to streets, sewers, utilities, parks, site preparation, landscaping, and such offices, and other nonhousing facilities incidental to such development or project such as administrative, community, health, educational and recreational facilities as the Department of Housing and Community Development determines to be necessary. "Low and moderate income" shall be defined in the program guidelines developed by the Department of Housing and Community Development.

"Housing sponsor" means individuals, joint ventures, partnerships, limited partnerships, public bodies, trusts, firms, associations, or other legal entities or any combination thereof, corporations, cooperatives and condominiums, approved by the Department of Housing and Community Development as qualified either to own, construct, acquire, rehabilitate, operate, manage or maintain a housing development, whether nonprofit or organized for limited profit subject to the regulatory powers of the Department of Housing and Community Development and other terms and conditions set forth in this chapter.

"Residential housing" means a specific work or improvement within this Commonwealth, whether multi-family residential housing or single-family residential housing undertaken primarily to provide dwelling accommodations, including the acquisition, construction, rehabilitation, preservation or improvement of land, buildings and improvements thereto, for residential housing, and such other nonhousing facilities as may be incidental, related, or appurtenant thereto.

Pursuant to Title 36 Section 146, of the Code, the Department of Housing and Community Development is authorized to make low interest loans to housing sponsors to support the development of "residential housing" via defined "housing projects." Collectively, it appears the Code permits using Virginia Housing Trust Fund resources to acquire, stabilize and improve manufactured home parks as a source of affordable housing for Virginians.

Since its creation, the Fund has grown each year from appropriations as low as \$4 million to \$75 million for the current biennium budget (2022-2024). In its initial iterations, the Fund supported foreclosure prevention, low interest loans for affordable single and multifamily housing, and grants to support various homeless reduction efforts. Currently, the Fund is used for low interest loans for single and multifamily housing and grants to support homeless reduction efforts.

The Fund has been utilized according to guidelines developed by the Department. Currently, competitive loans from the Fund are awarded through the Department's Affordable and Special Needs (ASNH) Consolidated Application process. This process assesses projects applying for funding and considers their viability for a number of different funding opportunities. Homeless reductions grants are distributed through guidelines for the Virginia Homeless Solutions Program.

As of the time of this report, the Fund has not provided resources specifically to *acquire, stabilize, and improve manufactured home parks*, however, the Fund has supported larger projects that include manufactured home park components. Current ASNH program guidelines do not permit acquisition-only as an eligible use of any funds administered through the program. The substantial rehabilitation of a newly acquired property is allowed when all units

are under common ownership and the investment of funds can be guaranteed by a restrictive covenant or deed of trust recorded on the property for a required period of affordability.

This difference between what the Fund *permits* and what is *feasible*, i.e. what is a reasonable and practical way to administer funding and guarantee the investment of funds, is detailed further in the report. The unique nature of many manufactured home parks where land and infrastructure such as septic systems and roadways are owned by a single entity but individual homes are owned by independent households create a situation where ensuring long-term affordability is more difficult to execute because enforcement mechanisms are designed for either single-family homeownership or single-owner rental buildings, not a combination of the two under the same housing project. Further, the current maximum investment of Virginia Housing Trust Fund per project is \$700,000, which is relatively low in comparison to the full cost of acquisition of a manufactured home park and substantial renovation of all units of housing therein.

Framework in Virginia

Since the 1970's, manufactured homes have been built as an affordable housing option for many households. The American Housing Survey reports that an average purchase price for a manufactured home in the Central Virginia region is \$26,000, although in the last few years manufactured home park sales have experienced high and varied increases. Although manufactured homes make up more than five percent of the housing stock in Virginia and are located in urban, rural, and suburban areas across the state (there are 66 manufactured home parks solely in Central Virginia), manufactured home parks in urban areas have been in decline for decades. According to a 2016 report "An Assessment of Central Virginia's Manufactured Housing Communities", the median monthly housing cost for manufactured homes is \$602 compared to the average housing cost in the region of \$1,003. Additionally, many manufactured homeowners pay a monthly lot rent (anywhere from \$50-\$400 per month), and the cost of utilities may or may not be included in that rent.

Due to rising land costs, construction costs, and other local factors, new manufactured home parks are not being constructed, and older parks are being replaced. Many of Virginia's park owners are selling because of increased maintenance costs due to aging infrastructure, rising land costs, high sale prices, and generational park owners who are unable to maintain their parks. In 2022, the selling price of manufactured home parks went anywhere from \$100,000 to upwards of \$17 million. The purpose of this study is to assess the existing landscape of manufactured housing and to determine the extent to which it is feasible to use the Virginia Housing Trust to support manufactured home parks as affordable housing in Virginia.

In the past ten years, several manufactured home parks have been acquired and/or maintained by a public or nonprofit entity, rather than the traditional single manufactured home park owner structure. In 2020, project:HOMES, a central Virginia non-profit organization, purchased the Bermuda Estates Manufactured Home Community located in North Chesterfield, which was made possible through several foundational grants. As the owner and operator of the community, project:HOMES has made infrastructure improvements, added amenities, and created more homeownership opportunities. Southwood Mobile Home Park is a 341-unit planned development in Albemarle County; with 1,500 residents, the goal for this development is to provide additional affordable housing units without displacing residents. Southwood's partners include Habitat for Greater Charlottesville, Virginia Housing, and DHCD. Catholics for Housing, Inc. (CFH), a 501c3 non-profit organization, purchased the East End Mobile Home Park in 2018 with the support of Virginia Housing to undergo improvements and establish permanent financing. Increasingly, interested localities have inquired about the state-wide Community Development Block Grant (CDBG) funding available to construct new manufactured homes or renovate aged homes.

Although the US Department of Housing and Urban Development (HUD) regulates safety and construction standards for newly constructed manufactured homes, there is limited federal financing assistance available to homeowners when purchasing manufactured homes. Additionally, land use regulations, property assessments, and taxation structure are generally left up to individual localities, which can cause local variation in the use and feasibility of manufactured home construction.

Challenges and Opportunities

A consensus from assessing the roles of state agencies, non-profit organizations, and private developers operating in the manufactured housing arena is that there is a definite need for the preservation of existing manufactured home parks, and an increase in homeownership opportunities for manufactured homes. Through this study, several avenues were identified as potential opportunities to support and expand affordable housing through manufactured home parks. The need for capital was identified as a high priority need: capital for acquisition, construction and renovation, and financing.

Acquisition

The greatest hindrance to acquisition is the need for capital; funding through private sources is highly competitive and often creates millions of dollars in funding gaps. As recently as 2020 a state authority assisted with acquisition of a manufactured home community in central Virginia. This pilot project allowed the agency to provide technical assistance to the community owner, the manufacturer, and broker a predevelopment loan to the community owner, created

homeownership opportunities for new homeowners, and financed the construction of 17 new units. It was noted that future acquisition of parks by nonprofits or public entities may be extremely challenging due to high costs of park acquisition in the private market.

Construction

The average cost of constructing a new manufactured home is \$55-75 per square foot. The construction of any new manufactured home will need to meet the current housing design standards. In addition to predevelopment project planning and financing, the rising cost of supplies and contractors creates the need for more capital.

One Virginia non-profit is currently in the process of receiving their certification to construct their own manufactured homes. This opportunity could allow the construction and sale of manufactured homes to be more streamlined and efficient.

Manufactured Home and Park Repairs

Another challenge to the preservation of manufactured homes as affordable housing is the lack of financial assistance available to repair or renovate manufactured homes. Most manufactured homes built in the 60's and 70's are creating the need for significant repairs that may be burdensome to park owners. The renovation of an older manufactured home can be anywhere from \$10,000 to \$30,000; bringing new water, sewer, or road improvements to a park can be \$20,000 to \$40,000.

Additional resources may be needed to bring upgrades to an existing home, such as energy-efficient lighting, new heating/cooling systems, better insulation, and replacing failing septic systems with public water and sewer. Resources for repairs would be beneficial to homeowners as well as the community park owners.

Feasibility of Preserving Manufactured Home Parks as Affordable Housing Using the Virginia Housing Trust Fund

While resources from the Virginia Housing Trust Fund *may* be used to acquire, stabilize, or improve manufactured home parks, the program's current guidelines and structure may create some difficulties when implementing these processes. Funds used solely for the purpose of acquisition are outside of the purview of DHCD's programs and would likely consume a large portion of funds available, and that is before any construction, renovation, or preservation of affordable housing is provided as a viable option. Additionally, the Virginia Housing Trust Fund allows for a variety of leverage options (including a mix of local and private sources) to be used

in a project; the federal resources included in the ASNH application process may not allow for such flexibility.

One important area of consideration in DHCD's existing program structure is the requirement of an affordability period (the Affordable and Special Needs Housing Program is up to 15 years for single family homes and a minimum of 30 years for rental properties, CDBG is 10 years). However, the needs of manufactured home parks vary greatly as well as the ownership structure vary by park, so it would be difficult to measure affordability and to ensure those homes remain affordable. The ASNH program also requires a minimum of three major systems to be repaired or renovated in order to qualify for any funding, but the ASNH program guidelines do not currently differentiate the components of a manufactured home park (i.e. infrastructure needs of the park, HVAC, roof repairs, windows, doors, lot rents, etc.). It is important to keep in mind that although the ASNH program provides the most flexibility for the use of funds to support the acquisition, stabilization, and improvement of manufactured home parks, there are limitations to what the Fund can support within each of these categories.

Conclusion

Manufactured home parks have become increasingly discussed as an affordable housing option in Virginia and nationwide, particularly, as an existing option that should be preserved. Manufactured home parks have seen significant interest from investors and many aging parks are encountering significant challenges in raising capital to maintain their existing facilities. With all this in mind discussions are ongoing regarding different ways to maintain existing parks as a safe and affordable option for their residents. In examining the feasibility of *"...using Virginia Housing Trust Fund resources to acquire, stabilize and improve manufactured home parks as a source of affordable housing for Virginians"*, the following conclusions can be made:

- The enabling legislation for the Virginia Housing Trust Fund permits the use of the Fund to support acquisitions, stabilization, and improvement of manufactured home parks
- The Virginia Housing Trust Fund is a flexible financing option which provides unique leveraging benefits for other federal and state resources when constructing single and multifamily housing
- The ASNH program could support the stabilization and improvement of manufactured home parks; only certain acquisition activities can be supported through ASNH
- Current state and federal guidelines and program rules associated with ASNH funding, as well as mechanisms utilized to ensure long-term affordability require a site to have *either* rental or owner-occupied housing. Most manufactured home parks include *both* a rental (lot lease) and ownership (home) structure.

- When examining the feasibility of preserving manufactured home parks as affordable housing, defining the scope of “acquiring, stabilizing, and improving” is necessary in order to determine the best use of resources within DHCD’s programs