

**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**

**Submitted by:
The Department of Housing and Community Development
December 2023**

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

Introduction

During its 2013 regular session, the General Assembly amended provisions of Chapter 9 of Title 36 of the Code of Virginia to provide statutory direction for the administration of the Virginia Housing Trust Fund (VHTF). Item 108 G of the 2012 Appropriations Act established the Trust Fund and provided an initial allocation of \$8 million to become available in FY 2014. The 2013 statutory changes modified certain reporting requirements that originally applied to the former Virginia Housing Partnership Revolving Fund. Effective July 1, 2013, § 36-150 of the Code of Virginia required 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.¹ Part I reviews the current allocation of funds for VHTF activities and the impacts of funds allocated in 2022-2023, as well as changes to the VHTF Program Design for 2023-2024. 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, KPMG, LLP.

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/>

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 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.

Further, 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 during January and February 2023 to gather feedback. Invitations were broadly extended to DHCD grantees, partners, and the public, as well as posted on the department’s website and in statewide news publications. DHCD held virtual input sessions due to COVID-19 restrictions. Sessions were organized by programmatic purview, but open to all. More than 140 individuals participated in these sessions.

Virtual Public Input Sessions	
<i>Focus</i>	<i>When</i>
Affordable Housing	January 30, 2023
Homeless Services	January 31, 2023
Community Development	February 1, 2023

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.

2023-2024 Virginia Housing Trust Fund Allocation	
Loans	
Competitive Loan Pool	\$60,000,000
Grants	
Homelessness Reduction Competitive Grant Pool	\$12,000,000
Administration	\$3,000,000
Total	\$75,000,000

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 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.

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

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. 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 Changes

Since the completion of last year’s VHTF report, DHCD’s Office of Homeless and Special Needs Housing (HSNH) has adjusted its application cycle to synchronize the program year with the calendar year. As such, outcome data for HRG funding administered in FY 2023 is not presently available and will be included in next year’s report. DHCD did not make any other substantive changes to the VHTF program design during FY 2023.

Summary of 2022-23 Utilization

2022-2023 Virginia Housing Trust Fund Allocation	
Loans	
Competitive Loan Pool	\$60,000,000
Grants	
Homeless Reduction Grant Pool	\$12,900,000
Administration	\$2,100,000
Total	\$75,000,000

FY 2023 Summary for Competitive Loan Pool

- Approximately \$59.5 million was requested for the \$60 million VHTF made available in the Competitive Loan Pool; ASNH overall had \$212.8 million requested with \$163 million available across all sources
 - o 88 applications requested VHTF
 - o 80 developments were awarded VHTF
 - 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 \$59.5 million invested to leverage \$2.3 billion in other resources
 - o 5,780 affordable units will be created or preserved

- 42 projects with permanent supportive housing (PSH) units for a total of 608 PSH units created
- VHTF assisted in expanding affordable homeownership with 16 of the 80 awarded projects, creating 195 for-sale units

FY 2023 Summary for Homeless Reduction Grant (HRG) Pool

- Over \$16.8 million requested for \$12.9 million in Homeless Reduction Grants
 - 86 applications
 - 68 awards
- HRG contracts follow the calendar year from January 1 – December 31. Final FY 2023 service numbers will be reported in next year's report
- FY 2022 is the last complete year of HRG implementation. During FY 2022, 46 projects utilized \$8.3 million to serve the following households:
 - 14 Rapid Rehousing (RRH) Projects served 788 households
 - 14 Underserved Population Innovation (UPI) projects served 393 households
 - 18 PSH projects served 705 households
 - A total of 1,886 households experiencing homelessness were served during FY 2022 with HRG funding

Housing Trust Fund Snapshot 2023-2024 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	\$60,000,000	\$75,000,000 (\$3,000,000 Administration)
Project Caps	None – based on need	\$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 June 30, 2023 (pages 13-15 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, 2023. The public accounting firm KPMG audited these statements (pages 16-20 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>

