

# **Report to the House Appropriations Committee, the Senate Finance Committee and Senate Appropriations Committee**

## **The Virginia Housing Trust Fund Loan and Grant Fund Impacts *and the* FY 2025 Structure and Use Plan**

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**Submitted by:  
The Department of Housing and Community Development  
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## **Executive Summary**

The following report complies with the requirements as specified in Item 114 E.2 of Chapter 2 of the 2022 Acts of Assembly Special Session I and §36-142 E of the Code of Virginia.

The Department of Housing and Community Development (DHCD) must submit a plan outlining the proposed uses of funds appropriated to the Virginia Housing Trust Fund (VHTF) required by § 36-142 E., Code of Virginia. DHCD must 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, (iii) the progress and accomplishments in reducing homelessness achieved by the additional support provided through the fund, and (iv) the progress in expanding permanent supportive housing options per Item 114 E.2 of Chapter 2 of the 2022 Acts of Assembly Special Session I.

## **Purpose and Background**

The Biennium Budget for 2022-2024 (Special Session I, 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.

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—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. For more than two decades, Virginia Housing has originated and serviced loans on a regular basis through its bond and revenue programs, developed its own internal housing and lending program policies, and serviced loans made with federal funds administered by DHCD. While Virginia Housing is not a state agency, its board, like DHCD's, is subject to gubernatorial appointments.

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 Virginia Housing Trust Fund

Significant stakeholder input was gathered leading up to the development of the initial VHTF framework. Building on this foundation, DHCD held regional in-person input sessions during November and December 2023 to collect feedback from stakeholders in affordable housing, homeless services, and community development. Attendees were queried about the design and structure of the Affordable and Special Needs Housing (ASNH) and Homeless and Special Needs Housing (HSNH) programs, which administer the VHTF Competitive Loans and Homeless Reduction Grants (HRG), respectively.

<b>Regional Public Input Sessions</b>	
<b><i>Location</i></b>	<b><i>When</i></b>
Roanoke, VA	November 29, 2023
Abingdon, VA	November 30, 2023
Glen Allen, VA	December 4, 2023
Woodbridge, VA	December 6, 2023
Hampton Roads, VA	December 11, 2023

Additional input sessions were held during January and February 2024 to gather feedback on potential changes to the ASNH Competitive Application for FY2025. 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. More than 140 individuals participated in these sessions.

<b>ASNH Public Input Sessions</b>	
<b><i>Location</i></b>	<b><i>When</i></b>
Arlington, VA	January 30, 2024
Newport News, VA	January 31, 2024
Charlottesville, VA	February 1, 2024
Virtual	February 7, 2024

Moreover, DHCD sought input from homeless services stakeholders across Virginia. During the Virginia Governor's Housing Conference in November 2023, DHCD held consultations with individuals representing each of the Commonwealth's 16 Continua of Care. Attendees were asked for feedback specific to the VHTF HRG.

In addition to collecting feedback from stakeholders, DHCD collaborates with peer organizations to assure strategic use of VHTF resources. Over the past several years, DHCD has partnered with Virginia Housing and state agencies within the Health and Human Resources Secretariat; including the Department of Behavioral Health and Developmental Services, Department of Medical Assistance Services, Department for Aging and Rehabilitative Services, Virginia Department of Health, Department of Social Services and the Department of Veterans

Services to coordinate efforts and leverage resources to increase housing options for people with serious mental illness, people with intellectual and other developmental disabilities, and people who are chronically homeless. These efforts focus primarily on the development of additional permanent supportive housing (PSH) units. The VHTF has been used to construct new or rehabilitate existing housing into PSH units. In addition, the VHTF provides funding for pre-development activities of PSH units and to provide supportive services for those experiencing homelessness.

**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 allocate VHTF resources into the categories listed in the table below. For Fiscal Year 2024-2025, the agencies propose to continue to allocate funds between these broad categories.

<b>FY 2025 Virginia Housing Trust Fund Allocation</b>	
<b>Loans</b>	
Competitive Loan Pool	\$70,000,000
<b>Grants</b>	
Homelessness Reduction Competitive Grant Pool	\$14,000,000
Predevelopment Grants (Permanent Supportive Housing)	\$500,000
<b>Administration</b>	\$3,000,000
<b>Total</b>	\$87,500,000

At the time of this report (November 2024), applications for the 2024-2025 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 ASNH program at DHCD.

## **Affordable Housing Loan Program (Competitive Loan Pool)**

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 per § 36-142 Code of Virginia. DHCD makes this portion of the VHTF funding available through the ASNH program which offers developers of rental housing and for-sale homes the opportunity to apply for multiple sources of state and federal funding through a single application round opened twice each year. In FY 2024, application deadlines were October 6, 2023 and April 24, 2024, and How-to-Apply workshops were conducted for each application cycle to provide guidance and technical assistance to prospective applicant teams.

DHCD uses a competitive process to select projects for funding. In addition to VHTF, DHCD administers funding from the federal program HOME Investment Partnerships (HOME) and the National Housing Trust Fund (NHTF). VHTF, HOME, and NHTF award requests are capped at \$700,000 for affordable housing projects without permanent supportive housing units and \$900,000 for projects with 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.

The ASNH program accommodates a wide variety of possible projects, and the program design is updated annually to reflect a changing real estate market and the Commonwealth's housing priorities and initiatives. One such priority is the needed increase in available housing options for Virginians with serious mental illness (SMI) to support the state response to the U.S. Department of Justice Settlement Agreement and the Governor's Right Help, Right Now initiative. Projects with qualified PSH units are eligible to apply for an additional \$200,000, for a total request of \$900,000 per source. In FY 2024, rental housing developments that included supportive housing, such as those with a *first leasing preference*, or a percentage of units offered first to individuals with intellectual or developmental disabilities and rental assistance from the Department of Behavioral Health and Developmental Services (DBHDS), received a scoring preference and were eligible for an increased VHTF award.

The Competitive Loan Pool scores projects from 0 to 100 points in three primary categories:

- The proposed development's ability to impact critical local housing needs (40 points),
- Proposed project readiness and feasibility (30 points), and

- The application team and developer's capacity for completion and compliance (30 points).

Looking forward to FY 2025, DHCD anticipates that most of the funds in the Competitive Loan Pool will continue to be used to provide low-interest loans that are structured to meet the financing needs of rental housing development projects, and DHCD will continue to give scoring preference to projects that address critical housing needs and policy priorities such as the inclusion of permanent supportive housing first leasing preference units.

To assure the long-term viability of affordable rental projects, DHCD will continue to give priority consideration to projects that have an identified strategy for financial sustainability, such as providing project-based rental assistance to income-qualified tenants. In keeping with the direction that the loans provide flexible financing, DHCD sets repayment rates and terms for each individual loan from the VHTF, and for FY 2025 offers as low as 0% interest-only payments. 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 administered by Virginia Housing and other federal and local housing programs such as HOME Investment Partnerships Program (HOME), the National Housing Trust Fund (NHTF), the Home Investment Partnerships American Rescue Plan Program (HOME-ARP), and the Community Development Block Grant (CDBG) program.

### **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. The application period occurs annually during the middle of Summer and applications are reviewed through early Fall. 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 works 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 more than fifty years of 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.

## **Evaluation and Analysis of Outcomes**

The 2020-2022 Biennium Budget incorporated the requirement for reporting on the performance of the Virginia Housing Trust Fund. Section 114.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, (iii) the progress and accomplishments in reducing homelessness achieved by the additional support provided through the fund, and (iv) the progress in expanding permanent supportive housing options.*

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 VHTF as the enabling legislation states the VHTF 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.

**Summary of FY 2024 Utilization**

<b>FY 2024 Virginia Housing Trust Fund Allocation</b>	
<b>Loans</b>	
Competitive Loan Pool	\$60,000,000
<b>Grants</b>	
Homeless Reduction Grant Pool	\$12,900,000
<b>Administration</b>	\$2,100,000
<b>Total</b>	<b>\$75,000,000</b>

*FY 2024 Summary for Competitive Loan Pool*

- Approximately \$71.6 million was requested for the \$60 million VHTF made available in the Competitive Loan Pool; ASNH overall had \$261.2 million requested with \$170.4 million available across all sources.
  - o 100 applications requested VHTF.
  - o 66 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
  - o \$60 million invested to leverage more than \$1.8 billion in other resources.
  - o 4,634 affordable units will be created or preserved.
  - o 22 projects with Permanent Supportive Housing (PSH) units for a total of 159 PSH units created.
- VHTF assisted in expanding affordable homeownership with 16 of the 80 awarded projects, creating 86 for-sale units.

*FY 2023 Summary for Homeless Reduction Grants (HRG)*

- Over \$16.8 million requested for \$12.9 million in Homeless Reduction Grants
  - o 86 applications
  - o 68 awards
- HRG contracts follow the calendar year from January 1 – December 31. Final FY 2024 service numbers will be reported in next year’s report.
- FY 2023 is the last complete year of HRG implementation During FY 2023, the following households were served:
  - o 34 Rapid Rehousing (RRH) projects served 1,193 households.
  - o 9 Underserved Population Innovation (UPI) projects served 395 households.
  - o 25 PSH projects served 942 households.
  - o A total of 2,530 households experiencing homelessness were served during FY 2023 with HRG funding.

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## 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, non-reverting 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 30, Budget Item 114, Housing Assistance Services

E.1. Out of the amounts in this Item, \$75,000,000 the first year and \$75,000,000 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 and to expand permanent supportive housing.

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, (iii) the progress and accomplishments in reducing homelessness achieved by the additional support provided through the fund, and (iv) the progress in expanding permanent supportive housing options.

3. As a 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.

**Appendix B: Housing Trust Fund Snapshot FY 2024 Allocation**

Trust Fund Components & Features	Grants	Loans	Totals
	Homelessness Reduction	Competitive Loan Pool	
<b>Purpose</b>	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. Prioritize projects serving special needs populations— ID/DD, Severe mental illness, Permanent Supportive Housing	
<b>Funding Available</b>	\$12,900,000	\$60,000,000	\$75,000,000 (\$2,100,000 Administration)
<b>Project Caps</b>	None – based on need.	\$700,000 per affordable housing development/ \$900,000 for developments providing PSH	