MEMORANDUM

To: Housing and Community Development Committee

From: Judy Daniel, Director, Planning and Development

Prepared By : Randy Stallings, Community Development Analyst

Date: January 28, 2009

Subject: Housing Trust Fund Summary

Background:

Due to the current budget crisis, the staff has been asked to prepare a summary of the Housing Trust Fund status and the anticipated activity for the next fiscal year. The information provided in this report is based on the best information available at the present time. Estimates and assumptions about future loan repayments, interest income, and requests for funding are unscientific at best; but are necessary to make projections about the future value of the fund. Staff has chosen to use conservative estimates when empirical data is unavailable.

Current Status:

Fund Balance

The current balance in the Trust Fund is $611,030. Since its inception, $5,487,174 has been allocated to fourteen (14) different recipients and of that amount $1,246,533 has been repaid, and $4,240,641 is outstanding. Eight (8) loans have been fully repaid, and 28 remain obligated. Final due dates on our existing portfolio range from six (6) months to thirty (30) years.

In the past three years $504,125 has been returned to the fund from loan payments:

- $237,780 in 2006
- $136,632 in 2007
- $129,713 in 2008

Use of the fund dollars is wholly for these loans with the exception of the percentage used for administration as outlined later in this report.

Pending Applications

The staff has traditionally received from four (4) to seven (7) applications per year, requesting cumulatively $400,000 to $1,330,000 dollars annually. Additional applications are discouraged when funds have been depleted. For the current cycle, four (4) applications totaling $1,470,000 (supporting 214 affordable units) have been received for funding since December 8, 2008. Of these four (4) applications, two will also be applying for State tax credits which would guarantee affordability on those 192 units for a minimum of thirty (30) years. These, currently pending HCD review, include:

- $470,000 from Mountain Housing Opportunities (MHO)-72 units
- $500,000 from Related Apartment Preservation, LLC- 120 units
- $250,000 from Kirk Booth- 12 units
- $250,000 from Mike Figura- 10 units

A payoff from Mountain Housing Opportunities (MHO) is expected from a prior HTF project in March, 2009 and is estimated at $480,000. MHO has asked that these funds be reserved for their new application in the amount of $470,000. If this request is approved by HCD, the remaining three (3) applications totaling $1,000,000 would vie for the remaining $611,030.

This presents three options for HCD:

? All projects can be considered for full funding with the strongest projects receiving approval.

? If all four projects are determined to have substantial merit, then partial funding of each request would remain an alternative.

? Withhold funding from all projects, leaving the fund balance intact, which may need to be considered as noted below.

Non-Performing Loans:

There is currently one HTF project in fiscal distress. The staff and City Legal counsel have been working with the developer. A discussion with the City Manager and Finance Director occurred on January 22, to obtain their advice on this situation. A summary of this project will be presented to the Committee following this discussion, as the decision on our recommendation has the potential to impact the use of the current fund balance. All twenty-eight (28) other outstanding loans appear at this time to be performing well.

C. Administration

Funding for the HTF staffing is paid from the HTF (75%) and the CDBG grant (25%). The administrative costs in FY 2009 total $41,839, which includes $40,561 for salary and benefits, $1,000 professional services (as needed appraisals, outside legal consultation, etc.), and $278 for computer expense.

The salary and benefits are anticipated to increase from 1.5% – 3.0% in FY 2010. Professional services are expected to remain the same. A new line item for training and travel is anticipated for FY 2010; however, the amount of that request has not been determined. These expense levels will need to be maintained. Program income could cover these expenses even if no contribution to the fund was made in the next fiscal year, but this would further limit the ability to support any new project applications.

Further, the HCD will need to consider establishing an official policy on the percentage of the HTF used for administration costs, as none currently exists. The current 75/25 split appears to have developed without a policy decision. Initially 100% of administration fees were paid from the CDBG funds.

Future Projections:

Near Term

Five months remain in the current budget cycle. Scheduled amortized monthly payments during this time frame are expected in the amount of $15,302.35. In addition:

- An annual payment from National Church Residences (NCR) of $6,653.16 is anticipated in February. The terms of this loan are tied to cashflow, so the full amount may or may not be received pending an auditors report.

- An interest payment estimated at $1,250 from the 13 Hamilton Street project is expected in May.

- An annual interest payment estimated at $10,000 from the Glen Rock project is also expected in May.

If payments noted above are received as scheduled, the total revenue to the fund for the remainder of this fiscal year will be $33,205.51.

Clingman Lofts- In addition to the payments noted above, the project at Clingman Lofts is in the process of marketing 6 additional affordable units. Two

have previously been sold. It is unknown whether these remaining units will be sold prior to fiscal year end. Total due to the City on these six (6) units will be $187,500 plus interest, less any soft 2nd's provided to borrowers below 80% AMI. If soft seconds up to the $30,000 maximum are made on each of the remaining 6 units, funds returned to the HTF would be only $7,500. If no additional subsidy is provided, the full $187,500 would be available for future projects.

Bostic Place- This project is also expected to begin marketing in this budget cycle; however, it is anticipated that any sales and repayments would not be realized until FY 2010. The total amount due to the City will be $224,798 plus interest, less any soft second mortgages made to qualified buyers.

Long Term

Scheduled monthly payments, loan payoffs, and annual interest payments should consistently continue. Historically, program income has been received as follows:

FY 2004- $191,403.51
FY 2005- $378,531.55
FY 2006- $277,934.00
FY 2007- $ 59,734.34
FY 2008- $152,908.17
FY 2009- $ 89,558.63 (7 months)

Although this return of principal and interest will provide at least some revenue stream, it will be inadequate to meet the typical demand for new projects without an additional cash infusion from the general fund. Total loan requests in FY 2008 totaled $1.9 million dollars. Requests in FY 2009 have already totaled $1.7 million. Based on current revenue projections, only one or two small projects could be supported annually on program income alone until the overall fund balance is considerably larger.

Program Benefits:

- Since the year 2000, a total of 442 rental units and 79 homeownership units have been supported with the Housing Trust Fund. An additional 214 units are under consideration.
- Continued support of the Trust Fund provides an economic as well as a social benefit through the creation of additional tax revenue.
- Since these funds are generally made to locally based organizations, the funds are flowing back into the City's economy and providing jobs for local residents.
- The creation of affordable housing allows those who work in Asheville to find safe, decent, affordable housing near their employment.

- The creation of affordable housing remains a high priority in the City's strategic goals and plans.

Concerns:

- Continued support of the Housing Trust Fund is made difficult by the current budget crisis.
- Fully funding the program at the expense of services may be unpopular with many constituents.
- Conversely, substantial decreases in funding could adversely impact affordable housing development, creating a future housing crisis for low-income families.

Fiscal Impact:

Funding for the Trust Fund was originally established with a 1.00% sales tax increase specifically identified for this purpose in Fiscal Year 2001. This tax was identified as the "initial" source of funds for the program. While the minutes of prior discussions on the HTF seem to indicate intent for the Fund to eventually be self-supporting, there was no "target" level for ultimate contribution set by the City. The City Council funding for the HTF has been consistent since FY 2004.

FY 2001- $400,000
FY 2002- $400,000
FY 2003- $500,000
FY 2004- $600,000
FY 2005- $600,000
FY 2006- $600,000
FY 2007- $600,000
FY 2008- $600,000
FY 2009- $600,000

These annual appropriations represent a substantial investment by the City. The amount of support determined in this time of financial uncertainty will require balancing the benefits of the program against other critical programs and services.

Attachment: 2009 HTF Scheduled Payments

C: Judy Daniel, Director, Planning and Development.
Shannon Tuch, Assistant Director, Planning and Development.