Housing Trust Fund Policy Revisions

Asheville City Council
December 13, 2022

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Key Takeaways

- The Housing Trust Fund was established in 2000.
  - As a result of annual allocations and transfers from the Affordable Housing Bond, the current available fund balance is $7.65 million

- Staff is proposing Housing Trust Fund Policy revisions to:
  - Respond to fluctuating market conditions
  - Align with North Carolina Housing Finance Agency requirements
  - Adjust scoring criteria to correspond with community priorities

- Staff is aligning the City's Housing Trust Fund application process with Buncombe County's in Fiscal Year 2022-2023 to assist in decision making and provide more predictability to the development community.

- Staff is recommending City Council approval of proposed Housing Trust Fund Policy revisions.

- Recommendations for future Housing Trust Fund Policy considerations will be brought forward for review in spring and summer 2023.

Housing Trust Fund Background

- Housing Trust Fund (HTF) was established by City Council in June 2000 as a tool to increase the availability of affordable housing in the community.
- The HTF previously had an annual application review cycle, but has since evolved to accept applications on a rolling basis.
- Through the budget process, $500,000 has been approved annually to support the fund.
    - $5 million in Affordable Housing G.O. Bond funds were used from 2017 to 2021
    - City Council approved the transfer of $6 million in additional Affordable Housing Bond funds to the HTF in October 2022
    - The current available balance of the HTF is $7.65 million
- Between 2001 and 2019, the HTF loaned approximately $15 million and produced 1,300 affordable units.
    - This equates to a City subsidy of approximately $11,500 per affordable unit produced.

Current Housing Trust Fund Eligible Uses

- Construction of new housing for sale or rental, including land acquisition and hard costs.
- Conversion or adaptive reuse of existing non-residential structures for housing.
- Purchase and rehabilitation of existing substandard multifamily housing units.
- Purchase and rehabilitation or conversion of market rate multifamily developments to affordable housing.
- Manufactured housing and modular construction.
- Down payment assistance loans, as long as funds are not forgiven.

Current Housing Trust Fund Restrictions

- Housing Trust Funds are not available for individuals seeking to build or renovate their own home.
- A minimum of 20% of the total project units must be affordable for the proposed development.
- Affordable units that have been pledged to the City in exchange for a density bonus, conditional zoning or other special consideration will be ineligible.
- Rehabilitation of single family homes and duplexes.
- Projects must be located within the Asheville City limits to be eligible for assistance.
- Pre-development expenses are not an eligible use.

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Why Policy Revisions Now?

- Current funding caps are not aligned with fluctuating market conditions.
- Additional underwriting criteria is needed to evaluate the proposed project's viability.
- Align policy requirements to be consistent with NC Housing Finance Agency requirements and standards.
- Align City applications with the County cycle, with a call for applications in December 2022.

Proposed Schedule for HTF Applications

- The proposed HTF application and award schedule is operational and is not part of the proposed policy revisions
  - December - Call for Applications
  - February - Applications Deadline
  - March - Initial review by HCD Committee
  - April - Final recommendations from HCD
  - April - Council makes final funding decisions

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Recommended Policy Changes

- Remove the $1 million cap on requests, and use 10% of total estimated project costs as a cap instead.
  - 10% is based on recent applications.
    - Seven out of eleven total applications approved over the last four years have been over the current $1 million cap.
  - Buncombe County uses this standard for non-4% tax credit projects.
  - This change allows the HTF to be more responsive to fluctuating housing and construction market conditions.
- Remove the existing per unit subsidy cap ($20,000 per unit) and instead consider the per unit subsidy amount in the scoring rubric to understand the request and compare applications.
  - Per unit subsidies have varied in recent applications, based on the depth of affordability and funding tools that are leveraged.

Recommended Policy Changes

- Income Requirements: Added income averaging as an option under the affordability definition and Special Terms sections
  - This is aligned with NCHFA criteria for rental projects.
  - Income averaging can help with income diversity within a project.
- Scoring Criteria: Adjustments to align with current policies and community needs.
- Underwriting: Additional underwriting criteria (vacancy rates, debt coverage ratio, reserves, project income, and expense increases) to evaluate the project's viability and align with NCHFA requirements.

Policy Development & Process

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Process for Housing Trust Fund Policy Revisions

- ✓ AHAC Policy Review - November 3
- ✓ HCD Review and Feedback - November 15
- ✓ AHAC Review Final Recommendations - December 1
- ✓ HCD Review and Vote on Final Changes - December 6
- ● City Council Review and Vote - December 13

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December 1 - AHAC Discussion & Recommendation

AHAC had an in-depth discussion about the proposed policy changes and the scoring rubric. Discussion themes included:

- The scoring rubric has room for improvement, but it is understood that it is one factor in decision making and is not the deciding factor on funding decisions.
- The scoring rubric would benefit from a much more comprehensive analysis to help make it reflect current needs, and community input is needed to make these comprehensive changes.
- The level of subsidy needed to support affordable housing is substantial, especially for projects that are serving lower AMIs and that have longer or permanent affordability periods.

Dec 1 - AHAC Recommendation (Approved Motion)

AHAC approves of the text changes to the Housing Trust Fund policy as proposed and supports adopting the highest subsidy cap feasible, to increase the subsidy cap to the highest possible amount (beyond 10% as currently written). The Committee also recommends adopting the scoring rubric changes with the following provisions:

1. Remove the per unit subsidy, but still include it as a point of information.
2. Change Bonus points for Housing Choice Vouchers to “set aside units” instead of accepting vouchers.
3. Commit as a committee to comprehensive review of the scoring rubric to discuss more robust changes.
4. Remove the number of bedrooms from the scoring matrix, but have the bedroom mix and subsidy by bedroom mix as a part of the application analysis.

Scoring Criteria - Proposed Changes

These changes reflect the recommendations made by AHAC at their retreat on December 1

Criterion	Priority Tier	Max. Points	Scale	Score
~~Per-Unit Subsidy~~	~~1~~	~~15~~	~~< $20,000~~10,000 = 15 pts ~~$20,001 - $25,000~~$10,001 ~~$15,000 = 10 pts~~ ~~$25,001 - $30,000~~ ~~$15,001 $20,000 = 5 pts.~~	
~~Number of Bdrms~~	~~3~~	~~5~~	~~> 50% 1-BR & Efficiencies = 5 pts.~~ ~~30-50% 1 BR & Efficiencies = 4 pts.~~ ~~20-30% 1 BR & Efficiencies= 3 pts.~~	
Bonus Points* **		~~20~~ 25	Housing for homeless= 5 pts. Housing for persons with disabilities= 5 pts. Homeownership for households earning 50% AMI or less= 10 pts. Set Aside Units for Housing Choice Vouchers = 5 pts.	
			TOTAL SCORE	

** Applies to subsidized units only, not total project units. Points will be prorated for mixed-use and mixed-income development.

*** To be eligible for bonus points, a minimum of 20% of the subsidized units must serve these populations.

December 6 - HCD Committee Review

- The Housing and Community Development Committee met on December 6, 2022 and reviewed the update and feedback from AHAC.

- The Committee reviewed the policy amendments and voted 3-0 in support of the proposed changes.

Staff Recommendation

Staff recommends the following revisions to the Housing Trust Fund Policy:

- Modify the $1 million cap on requests and instead use 10% of total estimated project costs as a cap.
- Remove the existing subsidy cap of $20,000 per unit and instead use the per affordable unit subsidy to assess applications.
- Classify rehabilitation of single family homes and duplexes as an allowable use for funds.
- Add income averaging as an option under the affordability definition and Special Terms sections.
- Adjust the applicant pro forma requirements (including vacancy rates, debt coverage ratio, reserves, project income and expenses increases) to be more aligned with NCHFA requirements.
- Adjust the scoring rubric to better align with current policies and community priorities and reflect AHAC's recommendations to include:
    - Modify bonus points for Housing Choice Vouchers to "set aside units" instead of accepting vouchers.
    - Remove the number of bedrooms from the rubric, but have the bedroom mix considered as part of the application analysis.
    - Remove the per unit subsidy, but will still consider the information as a part of the overall analysis.

Future Affordable Housing Policy Considerations

- The Committee has expressed interest additional HTF Policy considerations including the potential dedication of funds for:
  - Site readiness program
  - Down payment assistance
  - Land acquisition in previously redlined areas
  - Goals for reaching lower AMIs in previously redlined areas
  - Voucher set-asides (requirements)
- Future policy revisions will be developed using data (e.g. updated housing needs assessment), stakeholder engagement and public input.
- Staff will bring recommendations back to this committee in spring and summer 2023.

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Suggested Motion

Motion to adopt a resolution authorizing recommended revisions to the Housing Trust Fund Policy prior to initiating the Fiscal Year 2022-2023 funding cycle.

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