THE CITY OF ASHEVILLE

STAFF REPORT

Council Meeting: December 13, 2022

Subject: Revisions to Housing Trust Fund Policy

Staff Resource(s): Sasha Vrtunski, Affordable Housing Officer
Kevin Lynn, Affordable Housing Specialist

Action Requested: Adoption of a resolution authorizing revisions to the Housing Trust Fund Policy prior to initiating the Fiscal Year 2022-2023 funding cycle.

Background:

- On June 13, 2000, the City Council created the Housing Trust Fund (HTF) with the adoption of a HTF Policy and the approval of a $400,000 allocation to the fund for Fiscal Year 2001.
- For the last several fiscal years, Council has allocated $500,000 from the City's General Fund to the HTF.
- The 2016 Affordable Housing Bond allocated $5 million in General Obligation Bonds to the fund in 2017.
- From 2001 to 2019, the HTF lent out approximately $15 million and produced over 1,300 units of affordable housing.
- On October 25, 2022, City Council voted to allocate one-time bond funding in the amount of $6 million to the HTF, bringing the available total in the HTF to $7.65 million.
- The City is seeking to align its funding application and award timeline with Buncombe County's to assist in decision making and provide more predictability to the development community. To sync up with the County, a request for funding applications is expected to be published in mid-December 2022 with awards announced in late April 2023.
- Staff is pursuing changes to the policy in advance of the upcoming funding cycle to make this alignment possible and to have a successful application process.

Proposed Policy Revisions

- Modify the $1 million cap on requests and use 10% of total estimated project costs as a cap instead.
    - Seven out of eleven total applications approved over the last four years have been over the current $1 million cap.
    - This proposed revision allows the HTF to be more responsive to fluctuating costs in the housing and construction marketplace, while maintaining a consistent and proportionate investment from the City for overall project costs.
    - A 10% per unit subsidy cap is consistent with Buncombe County's policy for non-tax credit projects.
- Remove the existing subsidy cap of $20,000 per unit and instead the per affordable unit subsidy (loan amount divided by the number of affordable units) will be used in assessing applications.
    - Per unit subsidies have varied in recent applications, based on the depth of affordability and funding tools that are leveraged.
- 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
    - This is aligned with North Carolina Housing Finance Agency (NCHFA) criteria for rental projects.
    - Income averaging can help increase the mix of income diversity within a project.

- Adjustment to the scoring rubric (attached) to better align with current policies and community priorities.
    - These adjustments include deleting per unit subsidy and unit bedroom size as scoring criteria (this information will still be included in a summary of project information in order to compare projects during the funding cycle) and adding bonus points for the set-aside of units for those with Housing Choice Vouchers.
- Adjustment to applicant pro forma requirements (including vacancy rates, debt coverage ratio, reserves, project income and expenses increases) to be more aligned with NCHFA requirements.

Policy Revision Process

- AHAC preliminary policy revision discussion -November 3.
- HCD preliminary policy revision discussion -November 15.
- AHAC policy review and recommendation to HCD -December 1.
- HCD policy review and recommendation to Council -December 6.
- City Council policy review and vote to consider approval -December 13.

Committee(s):

Affordable Housing Advisory Committee (AHAC) Discussion

AHAC met on **November 3, 2022** and reviewed the proposed policy revisions.

- AHAC was amenable to the majority of the proposed changes, with discussion and questions on the following items:
    - Staff proposed revisions to reflect the understanding that Housing Trust Funds cannot be expended on affordable housing over 80% Area Median Income. AHAC requested clarification from the City Attorney on the legal limits of City funding and Area Median Incomes.
    - Concerns about the limited flexibility associated with the annual review cycle.
    - Concerns about the policy favoring larger projects through the scoring rubric.
    - AHAC requested that staff bring back some examples of recent projects and how they would score using the rubric.
    - AHAC discussed their role in providing project funding recommendations to HCD. AHAC members expressed differing opinions about what their role should be. AHAC's current by-laws state:

        "The Affordable Housing Advisory Committee will… (3) advise City leadership and staff regarding affordable housing priorities for the investment of City-controlled funds."

- AHAC further reviewed proposed policy revisions and made a recommendation for HCD's consideration at their December 1 annual retreat.
- After the AHAC discussion, staff met with the City Attorney's Office and clarified the existing policy language around income eligibility for homeownership projects. The "area median income" (100% AMI) is allowable for homeownership as there are similar HUD programs for homeownership that use this standard. The limit of 80% AMI for rental projects is limited by state statutes.

AHAC met on **December 1, 2022** to further discuss and vote on the proposed policy revisions.

- AHAC had an in-depth discussion about the proposed changes and the scoring rubric. There were several themes of the discussion:
    - The scoring rubric is complicated and would benefit from a much more comprehensive analysis and community input is needed to make these comprehensive changes.
    - 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 level of subsidy needed is substantial, especially for projects that are serving lower AMIs and that have permanent (or longer) affordability periods.
- AHAC voted on the following motion and it was passed 9-1.

  Motion:
  "AHAC recommends to HCD the approval 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 the proposed Bonus points for Housing Choice Vouchers to "set aside units" instead of accepting vouchers.
  3. We as a committee commit to a more comprehensive review of the scoring rubric with particular attention to the depth of affordability, unit size and seek community input around equitable development/community benefits.
  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 for this round of funding."

Housing and Community Development (HCD) Committee Discussion

HCD provided feedback on the proposed policy revisions on November 15. Several questions and issues were discussed:
- Discussion of vouchers - acceptance versus set-asides.
- Committee members were interested in a second round of funding for newer/small developers
- Discussion of AHAC's role in the application process
- Discussion of different standards for areas that were previously redlined to reach lower AMIs, desire to benefit families affected by Urban Renewal.
- Brief discussion of bedroom mix requirements.

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.

Council Goal(s):
- Quality Affordable Housing
- An Equitable and Diverse Community

Pros:
- The updated funding criteria in the policy is more dynamic and will allow staff and City Council to be more responsive to current project costs.
- Updated pro forma requirements will be more aligned with the NC Housing Finance Agency making the application process smoother for applicants.
- Changes to the underwriting criteria will assist staff in making recommendations to Council about funding decisions.
- Changes to the scoring criteria will allow staff and Council to still review the same information, but not penalize developers for the recent increases in construction and financing costs. Further work on the scoring criteria will be done in 2023.
- An updated policy will enable staff to operationalize a funding cycle in line with Buncombe County's funding cycle.

Cons:

- None noted

Fiscal Impact:

- Recommended policy changes should encourage greater utilization of the Housing Trust Fund.

Staff Recommendation

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

- Modify the $1 million cap on requests and use 10% of total estimated project costs as a cap instead.
- 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 Housing Trust Fund Policy Considerations

- AHAC expressed a commitment to assist staff in a more in-depth analysis of the scoring rubric in 2023.
- The Committee previously expressed interest in using funds for a site readiness program, down payment assistance, funding land acquisition in previously redlined areas, voucher set asides and reaching lower AMIs in previously red-lined areas.
- These suggested policy revisions will be further researched by staff and developed within the context of data (e.g. updated housing needs assessment), stakeholder engagement and public input.
- Staff will bring recommendations for these policy considerations in spring and summer of 2023.

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.

Attachment(s):

- Redlined version of Housing Trust Fund policy
- Draft Scoring Rubric
- Example of Scoring from Previous Projects

RESOLUTION NO. 22- _____

RESOLUTION TO APPROVE AMENDMENTS TO THE CITY'S HOUSING TRUST FUND POLICY

WHEREAS, on September 12, 2000, the City Council of the City of Asheville first appropriated funds and adopted policies and detailed program guidelines for administering a Housing Trust Fund to assist in the development and preservation of affordable housing in the City; and

WHEREAS, the housing market and construction costs have substantially changed over the past three years and updates to the policy will assist in evaluation and underwriting, and alignment with the NC Housing Finance Agency (NCHFA) is optimal, the following changes are being proposed to the policy:

1. Modify the $1 million cap on requests and use 10% of total estimated project costs as a cap instead.
2. Remove the existing subsidy cap of $20,000 per unit and instead use the per affordable unit subsidy to assess applications.
3. Classify rehabilitation of single family homes and duplexes as an allowable use for funds.
4. Add income averaging as an option under the affordability definition and Special Terms sections
5. Adjust to the scoring rubric to better align with current policies and community priorities.
6. 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.

WHEREAS, the City Council's Housing and Community Development Committee has reviewed the proposed policy amendments and has made its recommendation to Council to approve the amendments as proposed;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF ASHEVILLE THAT:

1. The City of Asheville Housing Trust Fund Policy is hereby amended, as published below;
2. The amended policy is effective as of the date of this resolution.

Read, approved and adopted 13th day of December, 2022.

_____ _____

City Clerk Mayor

Approved As To Form:

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City Attorney