

Report to the Governor, the Secretary of Commerce and Trade, the House Appropriations Committee, and the Senate Finance 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 2017

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. Item 108 G of the 2012 Appropriations Act had 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 Chairmen of the House Appropriations and the Senate Finance 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 recent activities associated with the operation of the Housing Trust Fund during the period since the close of FY 2017 as well as the impacts of funds allocated in 2016-2017. Part II updates information concerning the financial status of the Virginia Housing Partnership Revolving Fund, presently administered by the Virginia Housing Development Authority (VHDA). The latter section continues the format used during previous years in accordance with the former statute and incorporates materials provided by VHDA's independent auditor, KPMG, LLP.

Part I: The Virginia Housing Trust Fund

Purpose and Background

The Biennium Budget for 2016-2018 allocated \$5,500,000 in the first year and \$5,500,000 in the second year to fund activities through the Virginia Housing Trust Fund. This follows the 2014-16 Biennium Budget which allocated \$8,000,000 to support the activities of the Fund.

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 Virginia Housing Trust Fund—the Department of Housing and Community Development (DHCD) and the Virginia Housing Development Authority (VHDA)—have extensive experience in implementing the activities needed to carry out the provisions of the Fund. VHDA originates and services loans on a regular basis through its bond

¹ <https://law.lis.virginia.gov/vacode/title36/chapter9/section36-150/>

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. DHCD and VHDA worked collaboratively to implement the provisions of the Virginia Housing Partnership Revolving Fund, Code of Virginia, § 36-141 through § 36-151.² Both DHCD and VHDA 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 Housing Trust Fund identifies leveraging as an important component of the Fund's 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 DHCD has met with representatives of the Virginia Housing Alliance to discuss proposed changes for the VHTF and listen to input from the Alliance's membership. Input sessions were held in February 2017 to gather feedback. Invitations were broadly extended to DHCD grantees and partners as well as posted on the Department's website. A total of 85 individuals (excluding DHCD staff) attended the five sessions held across the state.

Input Sessions		
Where	When	# of Attendees
Roanoke	February 7, 2017	14
Abingdon	February 8, 2017	9
Richmond	February 9, 2017	26
Hampton	February 13, 2017	12
Prince William	February 14, 2017	24

In addition, Virginia Homeless Services input sessions where held in October 2017 where attendees were asked for feedback specific to the Virginia Homeless Reduction Grants (funded with Virginia Housing Trust Funds). A total of 130 attendees attended one of six sessions (two sessions were held in Prince William).

Virginia Homeless Services: Input Sessions		
Where	When	# of Attendees
Roanoke	October 3, 2017	25
Abingdon	October 4, 2017	10
Prince William	October 6, 2017	51
Newport News	October 12, 2017	15
Richmond	October 13, 2017	29

² <https://law.lis.virginia.gov/vacode/title36/chapter9/>

Parameters of the Housing Trust Fund

The 2012 Budget Bill (Special Session I) included language establishing the basic parameters for the VHTF. These 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 VHDA are proposing to allocate funds through the broad categories shown on the following table. The intent of the agencies is to encourage a variety of responses from eligible applicants so funds are deployed in a timely and strategic manner.

2017-18 Virginia Housing Trust Fund Allocation	
Loans	
Competitive Loan Pool	\$3,290,000
Vibrant Community Initiative	\$1,000,000
Grants	
Homelessness Reduction Competitive Grant Pool (including Family Housing Stabilization)	\$1,100,000
Administration	\$110,000
Total	\$5,500,000

At the time of this report (November 30, 2017) applications for the 2017-18 VHTF programs are being received and will be evaluated in the coming months.

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 their previous experience with the VHTF and the Virginia Housing Partnership Fund, the housing agencies have determined VHDA will assist in providing the underwriting services needed to implement

the key provisions of loans made through this program. DHCD, with the participation of VHDA, 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. The second component will be dedicated to the Vibrant Communities Initiative.

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 initiatives as well as the limited available funds by giving priority to demonstration projects that address articulated state housing policies. Such policies include supporting affordable, community housing options for persons with disabilities (including housing for the seriously mentally ill population and funding that could aid the state response to the DOJ settlement) and expanding permanent housing opportunities for persons experiencing homelessness. New in 2016 was a consolidated application process which allows applicants to apply for three 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. DHCD conducted How-to-Apply workshops for the Consolidated Application in the summer 2017 and set proposal due dates for November 30, 2017 and March 31, 2018.

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 VHDA 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 citizens, while giving priority to projects that address critical housing needs mentioned in the previous paragraphs 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 Low-Income Housing Tax Credit (LIHTC) program, income derived from the Neighborhood Stabilization Program (NSP 1 and 3), and other federal and local housing programs, such as HOME and the Community Development Block Grant (CDBG) programs.

As with many of its programs, DHCD will use a competitive process to select projects for funding. The maximum VHTF amount available to a single project will be capped at \$700,000 for affordable housing projects and \$800,000 for projects targeting special needs and extremely low income populations. The criteria used to evaluate projects for funding will include the: (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.

Vibrant Communities Initiative

In 2015-2016 DHCD initiated a pilot project, the Vibrant Communities Initiative, which combined multiple funding sources in order to fund comprehensive community projects. This effort also consolidated DHCD project management and program compliance requirements where possible.

The Vibrant Community Initiative will continue in 2017-2018 with \$1 million in funding from the VHTF to be combined with approximately \$3.5 million in funding from CDBG, HOME, and the Virginia Housing Development Authority for a total of \$4.5 million to be spent on comprehensive community projects.

The selection of projects will be a two phase process. The first phase is to submit an open letter of intent (pre-application); the second phase requires a full proposal from those projects selected through a review panel. Letters of intent (pre-applications) will be due January 31, 2018 with full proposals tentatively due in May 2018.

Full proposals will be invited for comprehensive projects selected from the letters of intent received. Proposals must clearly describe the overall comprehensive project and all project activities. A comprehensive project is a project that includes a range of activities for example, neighborhood revitalization, downtown redevelopment, homeowner rehabilitation, down payment assistance, rental project development, water/sewer, and/or other infrastructure.

The letters of intent will be reviewed by the DHCD review panel and selected for full proposals based on the following criteria:

- A plan and initial groundwork in place on a comprehensive project that includes at least a housing component;
- Demonstrated success with similar projects;
- Partnerships in place to execute the project; and
- Demonstrated capacity (financial and development team experience).

All invited proposals will be evaluated through a review committee based on the following scoring criteria:

- Alignment
- Need
- Project Readiness
- Capacity

Eligible projects must include a housing component as a key or significant part of the overall project. These projects must be structured to meet identified local needs and help to inform a larger scale application of the combined-resources process.

Homeless Reduction Grant Program

The budget *permits* the use of up to 20 percent of the funds allocated to the VHTF to provide grants for activities to reduce homelessness.

In accordance with budget language, the Homeless Reduction Grant funds may be used for temporary rental assistance, not to exceed one year, housing stabilization services in supportive housing for homeless individuals and families, and predevelopment assistance to support long-term housing opportunities for the homeless. The restriction on the amount of the VHTF available for grants (and the one-year assistance limitation) suggests the VHTF could not serve as a significant, long-term source of rental assistance. However, it could be used to close temporary gaps for individuals, serving as bridge for individuals transitioning into rental arrangements with documented commitments of future rental assistance from other federal, state or local sources.

As with the loan program, projects will be selected for funding through a competitive application process. Applicants may apply for up to \$100,000. The application period will take place in October 2017. 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.

DHCD will select projects based on the following criteria: direct impact on an established state housing policy, sustainability, impact on local needs, impact on reducing homelessness, feasibility, and capacity. Priority will be given to efforts to reduce the number of homeless youth and families.

Approximately \$100,000 will be used to continue the pilot that was started in 2016 through the 2017/2018 school year. The Family Housing Stabilization Pilot works with 17+ year old high school students in Petersburg High School to provide housing stability and improve overall attendance and educational outcomes.

Organizations Eligible for Virginia Housing Trust Fund Allocations

The 2012 Budget specified several types of organizations 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 citizens and holding companies expressly created for owning and operating affordable housing were 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 the DHCD's budget. DHCD is to work in collaboration with the VHDA to carry out the provisions of the Fund. The two agencies partnered successfully to launch and implement the first iteration of the VHTF and this model will be followed moving forward.

DHCD and VHDA 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 VHDA. 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. VHDA provided underwriting services and originated and serviced loans.

Based on the model of the Partnership Fund, DHCD and VHDA jointly determine the policy parameters of the Housing Trust Fund. Specific aspects of Trust Fund 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. VHDA, 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

The 2017-18 Program Design has some features which have evolved since the initial framework. Notably, the Competitive Loan Pool beginning with the 2016 – 17 program year is now a part of the previously described Affordable and Special Needs Housing Consolidated Application Process. This has streamlined the overall application process making three funding sources available through a single application. The 2017-2018 program year will also see the continuation of the previous years' Vibrant Communities Initiative with \$1,000,000 from the Fund allocated for comprehensive community projects.

Summary of 2016-17 Utilization

2016-2017 Virginia Housing Trust Fund Allocation*	
Loans	
Competitive Loan Pool	\$3,312,000
Vibrant Communities Initiative	\$1,000,000
Grants	
Competitive Grant Pool (Homeless Reduction)	\$850,000
Family Housing Stabilization	\$250,000
Administration	\$88,000
Total	\$5,500,000

*Figures represent initial allocation plan; due to the pace of the Family Housing Stabilization project, approximately \$100,000 was reallocated from the Family Housing Stabilization project to the Competitive Grant Pool for 2016-2017; unexpended funds from 2015-2016 were also utilized in the Competitive Grant Pool

2016-2017 Demand Summary

- Nearly \$13.5 million requested for the \$3.3 million in the Competitive Loan Pool funds
 - o 25 applications
 - o 6 awarded
- Nearly \$3 million requested for \$1.05 million in Homeless Reduction Grants (see note above regarding 2016-2017 allocation)
 - o 33 applicants
 - o 12 awards offered

Summary Points

- Overall approximately \$5.5 million in HTF resources invested in creating or preserving affordable housing
 - 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 disability
- Creation and Preservation of Affordable Housing units (Competitive Loan pool)
 - o \$3.3 million invested to support \$123 million in total project costs

- 359 units (286 affordable housing to low income Virginians) will be created or preserved
- \$1 million awarded through the Vibrant Community Initiative to support comprehensive community projects; includes \$1.25 million in funds leveraged through housing, community, and economic development programs for total development costs in excess of \$48 million
- 200 individuals and families will be assisted through homeless reduction and permanent supportive housing assistance
- Family Housing Stabilization targeted to Petersburg High School pilot to improve housing stability and thus attendance and overall educational outcomes for homeless youth 17+

Housing Trust Fund Snapshot 2017-2018 Allocation

Trust Fund Components & Features	Grants	Loan		Totals
	Homelessness Reduction	Vibrant Community Initiative	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.	Competitive process to combine multiple funding sources in order to fund comprehensive community projects. Trust Fund resources will be directed to activities supporting the creation or preservation of affordable housing opportunities. Will consolidate project management and program compliance requirements where possible.	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	\$1,100,000	\$1,000,000	\$3,290,000	\$5,500,000 (\$110,000 Administration)
Project Caps	\$100,000 per project; May include Family Housing Stabilization	\$2,225,000 per project; combined with other sources of funding	\$700,000 per affordable housing project/ \$800,000 for projects focused on special needs and very low income housing	

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.³ 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, 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 Priority Housing Fund 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 the VHDA where it was subject to annual financial reporting.

With the passage of legislation establishing the Housing Trust Fund during the 2013 Session of the Virginia General Assembly, VHDA assumed the role of administrator for the Fund, subject to program guidelines established by DHCD.⁴ For the purposes of the program and VHDA's financial reporting, the Virginia Housing Trust Fund 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 Housing Trust Fund replaced it.

Thus, this portion of the report, in accordance with the provisions of § 36-150 of the Code of Virginia, nominally addresses the 2017 financial status of the Virginia Housing Trust Fund and the former Virginia Housing Partnership Revolving Fund. The unaudited status of the Virginia Housing Trust and the former Partnership Fund is reflected as of September 30, 2017 (pages 14-20 attached below). Reflecting the altered status of the program, this report now addresses the net position, changes in net position, revenues and expenses associated with the Virginia Housing Trust Fund. The Virginia Housing Development Authority (VHDA), as administrator of a portion of the Fund, provided the material included in this report. The financial status report on the Housing Trust Fund was included in the VHDA financial statements for the year ended June 30, 2017. The public accounting firm KPMG audited these statements (pages 21-28 attached

³ <https://leg1.state.va.us/cgi-bin/legp504.exe?031+bud+21-111>

⁴ Chapter 754, 2013 Acts of Assembly: <https://lis.virginia.gov/cgi-bin/legp604.exe?131+ful+CHAP0754+pdf>

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 Fund.

VIRGINIA HOUSING TRUST FUND
Statement of Net Position - September 30, 2017
Unaudited

Position:

Cash	\$ 53.12
Investments (previously held in Virginia Partnership Revolving Fund)	710,900.00
Investments - Virginia Housing Trust Fund	
Mortgage Loans Receivable	6,310,360.44
Interest Receivable - Investments	449.00
Interest Receivable - Mortgage Loans	<u>7,854.42</u>
 Total Assets	 <u>\$ 7,029,616.98</u>

Liabilities & Net Position:

VHTF P&I Liabilities	\$ 14,294.48
Due to DHCD	431,632.00
Yearly Management Fee Due to VHDA	<u>-</u>
Total Liabilities	<u>445,926.48</u>
 Net Position (previously held by VPRF)	 265,600.00
Net Position (held by VHFT)	<u>6,318,090.50</u>
Total Net Position	<u>6,583,690.50</u>
 Total Liabilities and Net Position	 <u>\$ 7,029,616.98</u>

VIRGINIA HOUSING TRUST FUND
Statement of Revenues, Expenses, and Changes in Net Position
Month Ended September 30, 2017 and FYTD
Unaudited

	<u>MONTH</u>	<u>YEAR TO DATE</u>
<u>Revenues:</u>		
MF Home Interest	\$ -	\$ -
Interest Income - Investments	\$ 641.86	\$ 1,830.83
Management Fee Contribution from VHDA 2	<u>\$ 86,632.00</u>	<u>\$ 86,632.00</u>
Total Revenues	87,273.86	88,462.83
<u>Expenses:</u>		
Miscellaneous Expense	-	-
Fund Management Fee	<u>-</u>	<u>-</u>
Total Expenses	-	-
Excess of Revenues over Expenses	87,273.86	88,462.83
Beginning Net Position (previously held by VPRF)		265,600.00
Beginning Net Position		5,739,576.92
VHT Fund Decrease 1	(3,319.18)	\$ (9,949.25)
Fund Contributions/(Distributions) 3	<u>500,000.00</u>	<u>\$ 500,000.00</u>
Ending Net Position		<u>\$ 6,583,690.50</u>

1 Note: The decrease in fund is due to Principal collected on loans for September '17.

2 Note: Management Fee paid with VHDA Reach Funds.

3 Note: The change equals funds required for Highland Park Senior Apartments closing.

VIRGINIA HOUSING TRUST FUND
Statement of Revenues, Expenses, and Changes in Net Position
Month Ended September 30, 2017 and FYTD
Unaudited

	<u>MONTH</u>	<u>YEAR TO DATE</u>
Revenues:		
MF Home Interest	\$ -	\$ -
Interest Income - Investments	\$ 641.86	\$ 1,830.83
Management Fee Contribution from VHDA 2	<u>\$ 86,632.00</u>	<u>\$ 86,632.00</u>
Total Revenues	87,273.86	88,462.83
Expenses		
Miscellaneous Expense	-	-
Fund Management Fee	<u>-</u>	<u>-</u>
Total Expenses	-	-
Excess of Revenues over Expenses	87,273.86	88,462.83
Beginning Net Position (previously held by VPRF)	265,600.00	265,600.00
Beginning Net Position	5,739,576.92	5,739,576.92
VHT Fund Decrease 1	(3,319.18)	\$ (9,949.25)
Fund Contributions/(Distributions) 3	<u>500,000.00</u>	<u>\$ 500,000.00</u>
Ending Net Position	<u>\$ 6,583,690.50</u>	

1 Note: The decrease in fund is due to Principal collected on loans for September '17.

2 Note: Management Fee paid with VHDA Reach Funds.

3 Note: The change equals funds required for Highland Park Senior Apartments closing.

VIRGINIA HOUSING TRUST FUND
Cumulative Operations Month Ending September 30, 2017
Unaudited

	<u>MONTH</u>	<u>CUMULATIVE</u>
Funds Available to Lend		
Beginning Balance (previously held by VPRF)		\$ 265,600.00
Beginning Balance VHTF		<u>5,739,576.92</u>
Beginning Balance		<u>\$ 6,005,176.92</u>
Fund Increases:		
Interest Income - Investments	641.86	\$ 1,830.83
VHT Fund Increase		
Fund Contributions from VHDA - Management Fee ²	<u>86,632.00</u>	<u>\$ 86,632.00</u>
Total Increases	<u>\$ 87,273.86</u>	<u>\$ 88,462.83</u>
Fund Decreases:		
VHT Fund Decrease ¹	3,319.18	\$ 9,949.25
Fund Distributions (Contributions) ³	<u>(500,000.00)</u>	<u>\$ (500,000.00)</u>
Fund Management Fee		
Total Decreases	<u>\$ (496,680.82)</u>	<u>\$ (490,050.75)</u>
Net Change	<u>\$ 583,954.68</u>	<u>\$ 578,513.58</u>
Net Position		<u>\$ 6,583,690.50</u>

¹ Note: The decrease in fund is due to Principal collected on loans for September '17.

² Note: Management Fee paid with VHDA Reach Funds.

³ Note: The change equals funds required for Highland Park Senior Apartments closing.

COMMONWEALTH PRIORITY HOUSING FUND
Statement of Net Position - September 30, 2017
Unaudited

Assets:

Cash	\$ 2,208.21
Investments - Net	3,238,800.00
Interest Receivable - Investments	2,110.46
Mortgage Loans Receivable	3,376,441.00
Receivable Due from DHCD	-
CPH Interest Receivable - Mortgage Loans	833.37
HOME Program Receivables Single Family	-
HOME Program Interest Receivables Multi-Family	70,810.68
Sales Proceeds Receivable	-
Real Estate Owned	-
 Total Assets	<u>6,691,203.72</u>

Liabilities:

HOME Program Liabilities	134,959.20
CPH Funds Payable for Other Expenses	-
CPH Funds Payable for Loan Closing	-
Fund Management Fee	-
HOME Program Liability Due to VHDA	-
Rebate Liability Due to VHDA	-
 Total Liabilities	<u>134,959.20</u>
 Total Net Assets	<u>6,556,244.52</u>
 Total Liabilities and Net Assets	<u>6,691,203.72</u>

COMMONWEALTH PRIORITY HOUSING FUND
Statement of Revenues, Expenses, and Changes in Net Position
Month Ended September 30, 2017 and FYTD
Unaudited

	<u>MONTH</u>	<u>YEAR TO DATE</u>
Revenues:		
Interest Income - Investments	\$ 833.33	2,500.00
Interest Income - Mortgage Loans	3,124.85	9,044.10
Management Fee Contribution from VHDA 1	<u>23,320.00</u>	<u>23,320.00</u>
Total Revenues	27,278.18	34,864.10
 Expenses		
Grant Expense	-	-
Miscellaneous Expense	-	-
Loss on Sale of Asset	-	-
Fund Management Fee	-	-
Total Expenses	<u>-</u>	<u>-</u>
 Excess of Revenues over Expenses	27,278.18	34,864.10
Beginning Net Position	6,521,380.42	
Fund Contribution (Distribution)	-	
Fund Transfers Receivable	-	
Ending Net Position	<u>6,556,244.52</u>	<u>6,556,244.52</u>

1 Note: Management Fee paid with VHDA Reach Funds.

COMMONWEALTH PRIORITY HOUSING FUND
Cumulative Operations Month Ending September 30, 2017
Unaudited

	MONTH	CUMULATIVE
Funds Available to Lend		
Beginning Balance		<u>6,521,380.42</u>
Fund Increases:		
Interest Income - Investments	\$ 3,124.85	9,044.10
Interest Income & Deferred - Mortgage Loans	833.33	2,500.00
Asset Sales Proceeds	-	-
Fund Contributions from VHDA - Management Fee ¹	<u>23,320.00</u>	<u>23,320.00</u>
	27,278.18	6,556,244.52
Fund Decreases:		
Grant Expense	-	-
Misc Expense	-	-
Loss on Sale of Asset	-	-
Fund Management Fee	-	-
Fund Distribution - per DHCD Request	-	-
Fund Transfer to Virginia Community Capital	<u>-</u>	<u>-</u>
Net Position		<u>6,556,244.52</u>

¹ Note: Management Fee paid with VHDA Reach Funds.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

June 30, 2017 and 2016

(r) Pass-Through Revenues and Expenses

(i) U.S. Department of Housing and Urban Development – Tenant Based Section 8

The Authority serves as an administrator for the U.S. Department of Housing and Urban Development's (HUD) Section 8 Housing Choice Voucher program, consisting of the voucher program as well as other tenant-based assistance programs. The Authority requisitions Section 8 funds, makes disbursements of funds to eligible participants, and recognizes administrative fee income. Program income and program expenses that are recognized as pass-through grants based upon the amount of allowable Housing Assistance Payments (HAP) disbursements, totaled \$68,182,644 and \$65,242,961 during the years ended June 30, 2017 and 2016, respectively.

Excess HAP or administrative funds disbursed to the Authority were also recorded as revenue and unrestricted net position in the Statements of Revenues, Expenses and Changes in Net Position and Statements of Net Position. Cumulative deficits of HAP funds totaled \$158,185 and \$171,202 as of June 30, 2017 and 2016, respectively. Cumulative excess administrative funds totaled \$536,715 and \$622,868 as of June 30, 2017 and 2016, respectively. HUD monitors the utilization of these excess funds and adjusts funding levels prospectively to assure all funds are being used to serve as many families up to the number of vouchers authorized for the program.

(ii) U.S. Department of Housing and Urban Development – Project Based Section 8

As the Commonwealth's administrator for HUD's Section 8 New Construction and Substantial Rehabilitation program, the Authority requisitions Section 8 funds, makes disbursements of HAP funds to landlords of eligible multi-family developments, and recognizes administrative fee income.

The Authority received and disbursed pass-through grants totaling \$47,757,647 and \$49,106,632 during the years ended June 30, 2017 and 2016, respectively. The Authority also received and disbursed Section 236 Interest Reduction Payments from HUD totaling \$923,463 and \$2,055,631 during the years ended June 30, 2017 and 2016, respectively.

(iii) U.S. Department of Housing and Urban Development – Housing Counseling Assistance Program

The Authority serves as an administrator for 36 HUD-approved Housing Counseling Agencies in the Commonwealth. The Housing Counseling Assistance Program provides counseling to consumers on seeking, financing, maintaining, renting, or owning a home. The Authority received and disbursed pass-through grants totaling \$1,078,418 and \$865,555 during the years ended June 30, 2017 and 2016, respectively.

(s) Commonwealth Priority Housing Fund & Housing Trust Fund

The Commonwealth Priority Housing Fund (Fund), established by the 1988 Session of the Virginia General Assembly, uses funds provided by the Commonwealth in that Session to make loans and grants for a wide variety of housing initiatives. The Virginia Department of Housing and Community Development (DHCD) develops the program guidelines and the Authority acts as administrator for the Fund. The balances associated with the Fund are recorded in assets and liabilities in the amounts of \$6,676,053 and \$7,873,354 as of June 30, 2017 and 2016, respectively.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

June 30, 2017 and 2016

The Housing Trust Fund (Trust Fund), established by the 2013 Session of the Virginia General Assembly, uses funds provided by the Commonwealth in that Session to make loans and grants for a wide variety of housing initiatives. DHCD develops the program guidelines and the Authority acts as administrator for the Trust Fund. The balances associated with the Trust Fund are recorded in assets and liabilities in the amounts of \$6,536,114 and \$4,030,344 as of June 30, 2017 and 2016, respectively.

(t) Cash Equivalents

Cash equivalents consist of highly liquid short term instruments with original maturities of three months or less from the date of purchase and are recorded at amortized cost.

(u) Rebatable Arbitrage

Rebatable arbitrage involves the investment of proceeds from the sale of tax-exempt debt in a taxable investment that yields a higher rate than the rate of the debt. This results in investment income in excess of interest costs. Federal law requires such income be rebated to the government if the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued. Arbitrage must be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. For financial reporting purposes the potential liability is calculated annually.

(v) Statements of Net Position

The assets presented in the Statements of Net Position represent the total of similar accounts of the Authority's various groups (see note 2). Since the assets of certain of the groups are restricted by the related debt resolutions, the total does not indicate that the combined assets are available in any manner other than that provided for in the resolutions for the separate groups. When both restricted and unrestricted resources are available for use, the Authority's policy is to use restricted resources first and thereafter, unrestricted resources as needed.

(w) Operating and Nonoperating Revenues and Expenses

The Authority's Statements of Revenues, Expenses, and Changes in Net Position distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally arise from financing the acquisition, construction, rehabilitation, and ownership of housing intended for occupancy and ownership, by families of low or moderate income. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(x) Reclassifications

Certain reclassifications have been made in the June 30, 2016 financial statements to conform to the June 30, 2017 presentation.

Schedule 6

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

**Schedule of Net Position Held on Behalf of
Virginia Housing Trust Fund**

June 30, 2017

	Assets	General operating accounts
Cash	\$ 20	
Investments	709,100	
Mortgage loans Receivable	5,820,310	
Interest receivable – mortgage loans	6,153	
Interest receivable – investments	531	
	<hr/>	<hr/>
	\$ 6,536,114	
	Liabilities and Net Position	
Other liabilities	12,673	
Due to Virginia Housing Development Authority	86,632	
Due to Virginia Department of Housing and Community Development	431,632	
Net position	<hr/>	<hr/>
	\$ 6,005,177	
	<hr/>	<hr/>
	\$ 6,536,114	

See accompanying independent auditors' report.

Schedule 7

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Schedule of Revenues, Expenses, and Changes in Net Position Information –

Virginia Housing Trust Fund

Year ended June 30, 2017

	<u>General operating accounts</u>
Investment income	\$ 4,721
Grants received	<u>51,276</u>
Total revenues	<u>55,997</u>
 Expenses	
Fund management fee	<u>86,632</u>
Net expenses over revenue	<u>(30,635)</u>
 Net fund contributions for the year	 <u>3,251,619</u>
Net position at beginning of year	<u>2,784,193</u>
Net position at end of year	<u>\$ 6,005,177</u>

See accompanying independent auditors' report.

Schedule 8

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Schedule of Net Position Held on Behalf of
Commonwealth Priority Housing Fund

June 30, 2017

	<u>General operating accounts</u>
Assets	
Cash	\$ 2,243
Investments	3,224,700
Interest receivable - investments	2,640
Receivable Due from DHCD	—
Mortgage and other loans receivable, net	3,376,441
Interest receivable - mortgage loans	833
Miscellaneous receivables	<u>69,196</u>
Total assets	<u>\$ 6,676,053</u>
Liabilities and Net Position	
Other liabilities	\$ 131,353
Due to Virginia Housing Development Authority	23,320
Net position	<u>6,521,380</u>
Total liabilities and net position	<u>\$ 6,676,053</u>

See accompanying independent auditors' report.

Schedule 9

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Schedule of Revenues, Expenses, and Changes in Net Position Information –
Commonwealth Priority Housing Fund

Year ended June 30, 2017

	General operating accounts
Revenues	
Mortgage loan income	\$ 10,002
Investment income	24,970
Grants received	<u>24,920</u>
Total revenues	<u>59,892</u>
Expenses	
Fund management fees	23,320
Miscellaneous expenses	<u>525,000</u>
Total expenses	<u>548,320</u>
Net revenues under expenses	(488,428)
Net fund contributions/(distributions) for the year	(710,396)
Net position at beginning of year	7,720,204
Net position at end of year	\$ <u>6,521,380</u>

See accompanying independent auditors' report.



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Richmond, VA 23219-4023

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Commissioners
Virginia Housing Development Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Virginia Housing Development Authority (the Authority), a component unit of the Commonwealth of Virginia, which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 14, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Richmond, Virginia
September 14, 2017